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the business year

PERU
2015



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After a year of declining growth, Peru's market is poised for resurgence. But as the economy scrambles back, impending elections and ongoing reforms warrant a close eye.

Year in Review



IF ECONOMIC CONDITIONS HOLD, Peru may come close to doubling last year's growth rate, after the national economy finally succumbed to a global downturn in 2014 that sent regional economies spinning. Two factors support this assessment—democratic consolidation and strong economic fundamentals. In fact, these same characteristics may well be responsible for Peru's quick recovery and bright outlook. On the economic side, 2014 saw the country strengthen its position in international trade, establishing the right conditions for a strong domestic economy.

President Humala has made social cohesion and reducing poverty the central tenets of his presidential strategy. This means shedding the country's past reputation for rebel insurgency, social stratification, and a string of marginally democratic presidents. The results are in, and in 2014 alone, some 289,000 Peruvians were lifted out of poverty. This figure represents a 22.7% decrease in the number of citizens living below the poverty line.

To combat corruption and nepotism, a constitutional amendment restricted the presidential position to one five-year term. This means that 2014 saw the contenders for the presidential position jockeying for attention, giving observers a chance to evaluate the competition in the run up to the October 5th elections. Two former presidents are likely candidates. Alan Garcia and Alejandro Toledo. Keiko Fujimori leads the pack—after losing by a slim margin to President Humala in 2011—but given her father's poor track record, she is a polarizing figure.

Despite starting out on a strong footing, 5% GDP growth in 1Q2014 according to INEI—lower production, falling prices, and softer demand from China had a significant impact and by 4Q2014, growth was an abysmal 1%. In fact, economic activity was primarily weighed down by falling exports. Decreased global demand and falling prices for commodity exports exerted pressure on the external sector—especially exporters, importers, and sub-sectors of the capital markets. The potential for even more fall off was mitigated by decisive central bank moves to prop up the sol, which kept import prices manageable, and offset a potential slump in consumer activity.

Moving into 2015, exports contracted at an alarming rate, and the country's trade balance hit a record deficit. Meanwhile, business confidence fell into pessimistic territory in March—46.7 points in April, according to the Central Bank's business confidence indicator—that suggests investment growth will remain weak in the near term. The government is boosting growth with countercyclical fiscal spending, while pushing through investment reform. And with last year's doldrums fresh in everyone's minds, economic players were mostly confident that these policies would fuel economic momentum as the year pro-

gresses. President Humala's popularity is closely linked to the economy, and he has limited time in office in which to enact further policies. But if the current situation seems austere relative to the commodity-boom of yester year, Peru remains in better shape than most of its regional peers.

Another development in 2014 was the authorization by the Council of Ministers of the fourth stimulus package, worth 1.6 billion soles (about \$547 million) to boost the Peruvian economy. President Humala's stimulus plan consisted of a multi-pronged agenda—legal reform to promote economic activity, short-term fiscal stimulus measures, streamlining administrative processes and eliminating redundant bureaucracy; and tariff reduction and youth employment programs.

The final dynamic of Peru's aggressive growth measures has also been the most controversial. The backlash from the country's youth outlines a contentious region within the social sphere. As Peru integrates into the international economy, its working class is adamant that the social safety net remain intact, and that the gains of the external sector are equitably distributed.

The law, passed by congress, is designed to reduce the costs of formalization by lowering barriers to entry into the formal sector. While workers in the informal sector are left to fend for themselves, formal sector workers have a service compensation fund, bonuses, family bonus, 30-days of vacation, and a share in profits. Companies are now able to waive many of these rights in an effort to incentivize young hires.

The young, for their part, are not thrilled by the idea of less time off and fewer benefits that their older counterparts. Many have taken to the streets to vocalize this. In January 2015, lawmakers rescinded the unpopular legislation, after heavy backlash from student organizations and labor unions.

The physical outlay of the country is changing rapidly as well. President Humala and China's President Xi Jinping signed a series of agreements in Beijing that will change the way that companies do business in Peru. The agreements finalized a number of projects in the mining and petroleum sectors. However, the most exiting development was a memorandum of understanding to create a Twin Ocean Railroad Connection with Brazil. This new railway will establish rail coast-to-coast transport and drive up trade between Pacific Rim countries and the Atlantic.

In more abstract terms, Peru is bolstering its bridges to the east through visa-free travel to the EU that will be implemented in 2015. The motion, which was promoted by Spain and approved by the European Parliament in May 2014, will allow individuals from Peru to visit Europe without a visa for a maximum time of 90 days. The world is shrinking, and Peru is everywhere. ✖

President Humala has made social cohesion and reducing poverty the central tenets of his strategy. The results are in, and in 2014 alone, some 289,000 Peruvians were lifted out of poverty. This figure represents a 22.7% decrease in the number of citizens living below the poverty line.

COUNTRY BRIEFING

PERU



HEAD OF STATE

President Ollanta Humala Tasso

LEGISLATIVE POWER

Unicameral Congreso de la República del Perú

POLITICAL STRUCTURE

Constitutional Republic

LOCAL GOVERNMENT STRUCTURE

25 regions and 1 province

GDP GROWTH

2.4%

GDP PER CAPITA

6,661 USD

INFLATION RATE

3.37%

UNEMPLOYMENT RATE

3.9%

LIFE EXPECTANCY(F/M)

79/76

TOTAL POPULATION

30.147 million

CURRENCY

Peruvian Nuevo Sol (PEN)

1 USD=

2.9787 PEN



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HE President Ollanta Humala on economic policy, social inclusion, and Peru's role in the regional economy.

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HE Ana María Sánchez de Ríos, Minister of Foreign Relations, on enhancing national capacities and social equality.

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Peru is hosting the IMF and World Bank Annual Meeting in October 2015: the first Latin American country since 1967.

Diplomacy

REVIEW

While inking deals that are increasing its influence in international trade and economics, the real diplomacy is taking place in kitchens across the world and at dining tables where customers can't get enough of Peru's choritos a la chalaca.

SOFT POWER

A country's soft power, according to Joseph Nye who coined the term, lies in its culture, its political values, and its foreign policy, as opposed to hard power, which is contingent on a state's ability to project coercive power into the international sphere. In recent years, Peruvian cuisine, culture, and political influence have garnered international acclaim as its diplomats signed a series of important treaties and trade agreements. And while Peru pushes outwards, countries like China and Korea have expended considerable energy to make sure that their interests—and cultures—have a presence in the country as well. This has engendered a progressively outward looking and cosmopolitan populace where multilingualism is increasingly the norm, and where the leadership embraces its growing role in the international community.

Peru has dealt with its share of political turmoil, faced down an insurgency,



Image: PromPeru

The country's political system has evolved over the last few decades as the legal system has adapted to democratic consolidation and stability.

and has fought a long battle to improve political transparency. From economic stagnation throughout much of the 20th century, to a Maoist insurrection, their defeat by the somewhat less unsavory President Fujimori, and on to democratic consolidation and improvement of human rights under successive presidencies up to the current Humala administration, Peruvians have arrived at a hard fought, and well deserved period of respite and stability.

In a landmark legal case in 2009, former President Fujimori was convicted for "crimes against humanity," and sentenced to 25 years in prison on charges of corruption and human rights abuses. Many Peruvians, and international observers regard the court's decision as a major accomplishment for Peru's judicial system. More than a decade on, his daughter Keiko Fujimori leads the pack of potential candidates for the 2016 presidential elections—her second run after losing to President Ol-

lanta Humala, who won the 2011 elections and was sworn in as Peru's president in for a five-year term.

President Humala has committed his administration to reducing social conflict and reducing poverty in the country—a challenging task by any metric. However, his efforts are paying off. According to the National Institute of Statistics and Informatics (INEI), poverty in Peru declined from 23.9% in 2013 to 22.7% in 2014, meaning that 289,000 Peruvians were lifted out of poverty in the last year alone. According to the World Bank, between 2008 and 2013, seven million Peruvians escaped poverty.

Possible contenders are already eyeing a run in the 2016 presidential elections. Standing presidents are constitutionally barred from running for consecutive terms, so President Humala will not stand for reelection. Among those expected to be on the ballot are two former presidents, Alan Garcia and Alejandro Toledo. President Humala's extremely popular wife, Nadine Heredia, has been active in social development issues, and is influential within her husband's administration, but she too is barred from running. Peru's electoral laws are explicitly strict to preclude the kind of corruption and nepotism that marred earlier elections. Congressional elections will also be held in 2016.

NUTS & BOLTS

Peru is a presidential representative democratic republic. The government is divided into three distinct branches: the executive, the legislative, and the judicial branches. The President is elected by popular vote for a five-year term. The 1993 Peruvian constitution allowed for two terms, but following Fujimori's tenure, a constitutional amendment in 2000 barred re-election. The president is both head of state and head of government.

The Council of Ministers is the country's principal executive body, comprised of 15 ministers, and headed by the prime minister. All these positions are appointed by the president, however all positions must then be ratified by Congress, much like the US presidential cabinet. Executive laws sent to Congress must first be ratified by the Council of Ministers.

The legislative branch is structured as a unicameral Congress with 120 members, who are popularly elected for five-year terms. These congress members represent parties within a multi-party system that precludes any one party from monopolizing the discourse or decision-making process. Congress passes laws, ratifies treaties, approves the government budget, and authorizes government loans.

A 16-member Supreme Court ensconced in Lima heads the judicial branch. 28 superior courts make up the second level, each having jurisdiction over one of 25 judicial districts which roughly correspond to the 25 regions of

Peru. The third level contains 195 trial courts, which are provincial. There are 1,838 of the lowest level of courts, each with jurisdiction over a single district.

INKING DEALS

Under President Humala, Peru has integrated into the world economy through free trade agreements with the US and other key trade partners such as Canada, Chile, China, Japan, Singapore, South Korea, and Thailand with more in the works. Starting in 1998, Peru joined the Asia-Pacific Economic Cooperation (APEC), one of the earlier efforts to promote economic relations between Peru and Asian countries. Peru is an active APEC member, and hosted the organization's summit in 2008. Peru also hosted the third South American-Arab Countries Summit in October 2012. The event drew 21 Middle Eastern and 11 South American countries and concluded with an agreement between the Union of South American Countries (UNASUR) and the Arab League to create an investment bank to fund joint projects. Peru signed another important agreement later on, with the Gulf Cooperation Council (comprising Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates) to increase commercial ties and technical cooperation. Finally on March 1, 2013, after nine years of negotiation, a free trade agreement with the EU went into effect.

Another important agreement on the horizon is the Trans Pacific Partnership, where negotiations are taking place to balance the interests of the 12 potential signatories—Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Vietnam—with their

President Humala has driven through policies aimed at reducing poverty





President Humala meets with the President of Panama in early 2015 to forge deeper economic ties

respective economic differences and stages of development. Matters such as varying ability to enforce environmental protocols and currency manipulations by less developed countries have negotiators working overtime, but with names like Obama and Nieto behind the bill, it looks like Peru will have yet another mechanism to bolster its trading position.

In April 2015, Korean President Park Geun-hye made an official visit to promote a FTA between the two countries. Speaking to a local paper, the Korea's president explained that, "With regard to the Korea-Peru Free Trade Agreement, both countries will be expanding their bilateral cooperation mainly in high-added-value and new industries such as infrastructure, health care and medical treatments, and new and renewable energy."

FOOD

While the attention paid to economic treaties, defense agreements, and political cooperation are great news, nothing about this discourse is uniquely Peruvian. Economic deals of this sort are innately uniform—with all signatories playing by the same rules in the same game. This puts the onus on Peru's cultural ambassadors to proselytize its remarkable culture. And for those lucky enough to have sunk their teeth into a *rocoto relleno* or a *choritos a la chalaca*, they know that the heavy lifting takes place in the kitchen.

Starting in 1998, Peru joined the Asia-Pacific Economic Cooperation (APEC), one of the earlier efforts to promote economic relations between Peru and Asian countries. Peru is an active APEC member, and hosted the organizations summit in 2008.

Backed by Peru's Export and Tourism Promotion Board campaign to promote the country's cuisine, Peruvian chefs conquered the international culinary scene and established their unique cultural stamp from San Francisco to London. Foreign foodies flocked to Peruvian restaurants such as Lima, Coya, and Ceviche in London and Mi Lindo in San Francisco's Mission district. *The Stranger* asked, "is there room in Seattle for more Peruvian Chicken," with its "juicy, fall-off-the-bone-tender meat with salted, crispy skin along with a squeeze bottle of a heavenly garlic-, jalapeño-, and cilantro-spiked green sauce?" After extensive research the magazine's food critic arrived at the verdict that yes, there was room. In fact, there was always room for more. ✖



A MODERN HISTORY OF PERU

November 22nd, 1542

The Viceroyalty of Peru is established by the Spanish conquistadors, who defeated the indigenous Inca empire.

May 18th, 1781

Túpac Amaru II, leader of an unsuccessful indigenous uprising of 1780 against the Spanish, is quartered and beheaded.

June 29th, 1823

José Olaya, Afro-Peruvian anti-colonial martyr utters, "If a thousand lives I had, gladly would I give them for my nation."

December 9th, 1824

The Spanish army is defeated at the Battle of Ayacucho. Peru becomes the last South American country to declare independence.

October 20th, 1883

The War of the Pacific, which broke out in 1879, ends with the cession of Peru's Tarapacá Province to Chile.

1997

NASA Astronaut Carlos Noriega becomes the first Peruvian in space. His role in building the International Space Station received acclamation.

July 2001

Nolberto Solano, the first Premier League Peruvian footballer, scores the goal of his career for Newcastle United, against 1860 Munich.

June 2001

After controversy surrounding Alberto Fujimori's incumbency, Alejandro Toledo becomes Peru's first indigenous president.

August 2003

The Truth and Reconciliation Commission's investigation into the 1980s-1990s Civil War against Shining Path rebels concludes that 69,280 people were killed.

August 2004

The Camisea Gas Project becomes operational, exporting and transporting natural gas near the Urubamba River through two pipelines.



Energy-diversification, infrastructural development, innovation, and conservation have characterized Peru's recent history.

1895

Peruvian scientist Pedro Paulet builds the first liquid-fuel rocket engine. In 1900 he builds the first modern rocket propulsion system.

October 5th, 1905

Peruvian microbiologist Alberto Barton announces the discovery of bartonella, the etiologic agent of Carrion's disease, or Oroya fever.

January 3rd, 1939

Julio César Tello "father of Peruvian archeology" and first indigenous archeologist of the Americas founds the National Museum of Archeology.

January 1st, 1982

Peruvian diplomat Javier Pérez de Cuéllar becomes the fifth Secretary-General of the United Nations until December 31, 1991.

1983

UNESCO inscribes the City of Cuzco and the Historic Sanctuary of Machu Picchu on the World Heritage List.

February 1st, 2009

The Peru-United States Trade Promotion Agreement is implemented.

April 2009

Ex-President Alberto Fujimori is convicted for ordering killings and kidnappings by security forces. He is jailed for 25 years.

October 7th 2010

Peruvian author Mario Vargas Llosa receives the Nobel Prize in Literature, "for his cartography of structures of power."

January 2011

A road connecting Peru's Pacific seaboard with Brazil's Atlantic coast opens amid controversy. Protests against mining and infrastructural projects are perpetuated.

March 9-10th 2015

President Ollanta Humala's administration hosts the Peru Energy Summit. His government plans to diversify energy resources and invest in renewables.

creating A LEGACY

TBY talks to *HE Ollanta Humala*, President of Peru, on economic policy, social and financial inclusion, and Peru's role in the regional economy and geopolitical structure.



Image: José Cruz/ABR Cropped

Peru has seen a decade of strong economic growth and declining inequality. What economic ideology has guided your presidency with regard to balancing foreign investment and domestic policy concerns?

A focus on economic growth with social inclusion rests at the core. In this sense, private investment has been essential to achieving meaningful development outcomes that raise people out of poverty. Private investment has led to a higher level of salaries, household income and consumption, which has allowed an expansion of the middle class and a good performance in poverty reduction. For this reason, investment is actively promoted by the Peruvian government, both domestic and foreign. During 1H2014, 56% of FDI flows came from the reinvestment of profits, reaching high rates in sectors such as services (34.5% of total reinvestment), mining and hydrocarbons (32.7%), and the financial sector (15.5%). On the other hand, Peru has been ranked 35th out of 189 countries in the 2015 Doing Business Report, and second in Latin America. An important factor to highlight is that Peru has comparative advantages that attract investment. For example, industrial electricity rates are below the Latin American average, since 60% of Peru's electricity is generated by hydropower and a further 35% by natural gas. Regarding social inclusion policies, our strategy is based on the Life Cycle approach where the focus is on early childhood, teenagers, and young people. In particular, we pay greater attention to job generation and scholarships for young Peruvians. To avoid the "middle income trap," policies focus on the underpinnings of long-run economic and productivity growth such as education, health, innovation, and productive development.

The Pacific Alliance has emerged as a significant regional economic force. What are your long-term ambitions for Peru's place in the alliance?

Nowadays the Pacific Alliance is in a very good moment. This alliance, as a whole, constitutes

the eighth largest economy in the world, and represents the seventh largest exporting group worldwide. It attracts more than 40% of the FDI that flows into the Latin America and the Caribbean region. This, summed up to the results obtained to date, as well as to the tasks still in agenda, has attracted the interest of 32 observer countries from five continents, which makes us realize that we are doing things right. In the long term, I would like to see that the innovative initiatives that the Pacific Alliance is seeking to implement create positive results and serve as a reference to other countries in Latin America and the Caribbean region. In that sense, I have the expectation that in the future the Alliance will be a stronger economic block, and that it will urge other countries in the region towards the development model that the current four members share. For that reason, I would like to see Peru become a reference for other economies in Latin America and the Caribbean region, as a leading country in the Pacific Alliance sharing its positive experience implementing 21st century economic policies.

In the late 2013 and 2014, mineral prices fell and Peru's rate of GDP growth decreased with them. What are the Peruvian economy's greatest non-mineral strengths, and how is your government encouraging continuing and diverse growth?

The Peruvian economy's greatest non-mineral opportunities are located primarily in the retail sector. Peru has two shopping centers for every million people, while Chile has four shopping centers for the same number of people; secondly, comes the vehicles sales sector: Peru has six vehicles per 1,000 people, whereas Chile and Argentina have around 21 per 1,000 people; the banking sector is also an area of opportunity: credits are at just 30% of Peruvian GDP, while in Colombia they represent around 40%, in Brazil 55% and in Chile over 80%; manufacturing exports are also ready: the 2013 per capita level was at around \$700 while in Chile it was around \$3,000. In all these areas, we have significant

BIO

President Ollanta Humala joined the Army Officer School in 1979, and studied zootechnics at Universidad Nacional Agraria La Molina. In 2001 he earned a Master's at Escuela del Centro de Altos Estudios Nacionales(CAEN) in National Defense and in 2002, successfully completed a Master's in Political Science at the Pontificia Universidad Católica del Peru. He was a military attaché in France, where he began a PhD at the Centro de Altos Estudios para América Latina (the Center of Higher Studies for Latin America). In 2005, along with his wife Nadine Heredia Alarcón, he founded the Peruvian Nationalist Party. In June 2011, he was elected Constitutional President of the Republic, swearing into office on July 28th, 2011.

ground to catch up; developments that will drive growth in the coming decade. Concerning the sustainable development of our natural resource-rich country, the Peruvian government also promotes productive diversification beyond the extractive industries. Manufacturing is growing. Between 2000 and 2014, for example, the number of products in the non-traditional sector increased fourfold; and medicine exports, perfumery, and personal care products increased fivefold. We also recently launched the National Plan for Productive Diversification aimed at promoting new sources of income and growth. The pillars of this plan are: diversification promotion, which aims to diversify our exports' basket; adequacy of regulations, aimed at cutting red tape that prevents productive investment; and reduction of productivity heterogeneity, aimed at closing the productivity gap between the modern and the traditional sectors of the economy.

Economic stability has been a feature of your administration. How will you ensure that consistent economic policy is part of your legacy?

The government has worked hard to ensure Peru's macroeconomic stability against exogenous shocks, and at keeping a more fiscally conservative regime. Also, our macroeconomic buffers are ready to defend the local currency, thanks to the Central Reserve Bank, which has continuously increased its international reserves over the past decade. As a result, Peru has a much higher international reserves to GDP ratio (32%) than its Latin America counterparts (16%). On the other hand, we have an important fiscal stabilization fund with more than 4.4% of GDP, and—according to the IMF—the lowest funding needs in Latin America. Peru's net public debt is at 3.7% of GDP, below its regional peers such as Mexico (42.1%), Brazil (33.7%), and Colombia (23.9%). On the fiscal side, during the current administration, we have been working on a new macro fiscal framework that will help public spending disengage from the more volatile source of fiscal revenues, such as the natural resource sector's revenues in relation to commodity prices. With this new institutional framework, fiscal policy is in line with international best practices for commodity-exporting open economies.

Latin America has a promising future, despite some uncertainties. What is the role of Peru in the upcoming years?

Most Latin American countries have shown their financial and economic strength during this international crisis. Peru has stood out among them thanks to its fiscal and macroeconomic policies. They allowed us to have 16 years of continuous growth and to implement social policies that effectively fight against



A cornerstone of the president's economic policy is empowering traditional sectors of the economy



Social inclusion policies in Peru have been implemented to transfer benefits to the periphery

poverty. Peru will continue as a regional reference on successful economic and social policies. But also, as an attractive country for investors—with an enormous potential in different sectors—Peru will continue to receiving investment from global and regional capitals, and show them the opportunities in our internal markets and as a center for regional activities. Latin America is widely known for the production of commodities, but now the region has to give a step forward and position itself as a region in a process of productive diversification. Peru has already been working on a National Plan of Productive Diversification to generate alternatives that boost economic growth and sophistication. In addition, Peru foresees that the Pacific Alliance is an opportunity to make regional economies more competitive and take advantage of complementary markets. ✖



the wider PICTURE

TBY talks to *HE Ana María Sánchez de Ríos*, Minister of Foreign Relations, on enhancing national capacities and social equality at the heart of policy.

BIO

Born in Lima, Ana María Sánchez de Ríos' extensive academic pedigree has included studying the Arts at Pontificia Universidad Católica del Perú from 1975-76. This was followed, among numerous other endeavors, by reading Law and Political Sciences at Pontificia Universidad Católica del Perú from 1977-79, as well as diverse diplomatic studies at the Diplomatic Academy of Peru in 2008. She registered on the Roster of the Diplomatic Service with the rank of Third Secretary of Chancery, as of January 1st, 1983 and a range of prestigious positions have included promotion to Minister in January 2009, and to Ambassador on January 1st, 2013. In 2013 Ana María Sánchez de Ríos became Ambassador, and Head of Cabinet of the Minister of Foreign Affairs. She holds the Military Order of Ayacucho, in the rank of Commander.

As you begin your term as Minister, what do you see as the key challenges confronting Peru in terms of foreign policy priorities?

During the most recent Summit of the Americas, held last April in Panama, President Humala underlined the two key challenges the region faces. He highlighted the crucial importance of reducing social and economic inequalities. We must address those gaps to strengthen the social fabric of our nations. Our foreign policy must respond by contributing to spur economic growth focused on social inclusion and poverty-reduction. Achieving said goal requires modern partnerships abroad aimed at improving Peru's public services, human capital, job market, and productivity, by increasing trade, foreign investment, and international cooperation.

President Humala also stressed the need to adopt—by consensus—concrete steps to mitigate climate change, a major global challenge that already affects Peru and other Latin-American countries. Peru's firm commitment to this issue was clearly demonstrated while conducting negotiations at the COP20 meeting held in Lima last December, which led to adoption of the Lima Call for Climate Change, a major step forward heading to the 2015 agreement. We hope to sign a comprehensive and effective multilateral agreement this year when we conclude the COP21 meeting at Paris.

What are the next steps in deepening Peru's integration with Pacific Alliance countries, and what economic and political benefits will this bring to Peru?

The benefits brought by the Pacific Alliance are already being enjoyed by our citizens. Nearly

92% of our trade today has tariff-free status. We also have a joint stock-market agreement in place that allows free share trading among its members. And meanwhile, Mexico's recent inclusion to the Integrated Latin American Market (MILA) will make the Pacific Alliance stock exchange market the largest one in Latin America. Likewise, several innovating cooperation projects have been launched, including a scientific web to tackle climate change and an exchange program for voluntary work by youth organizations.

The Alliance aims at deepening integration by increasingly including new actors and fields in the joint effort. We are convinced that integration has to be an ongoing inclusive process. For instance, this year we have held meetings to promote commercial exchange by SMEs, which today only account for 5% of our trade. We intend to continue promoting exports by including suggestions made by the business sector in our policies. The full entry of our trade agreement into force will boost intra-regional trade to integrate production lines and produce more intermediate and final goods by the Alliance as a unit.

Peru will chair the Alliance starting in July. Peru intends to give priority to strengthening our institutional framework, deepening the integration process, and expanding decisively our relations with the Asia-Pacific region. We expect to see the Alliance's framework agreement come into full force under our chairmanship. We will also review the progress of our integration process and establish new goals, and we will work closer with observer states—which amount to 32 today and will soon expand to 39—as well as with international institutions.

At the COP20, President Humala and his Pacific Alliance counterparts presents a Declaration Against Climate Change. What steps can Peru take to ensure that the fight against climate change is integrated into its foreign policy priorities?

Peru remains at the forefront of the multilateral process working closely with France to ensure success for COP21. We are focused now in defining the key elements to be included in the final draft of the text to be approved in Paris. At the regional level, Peru is seeking to find common positions on financing and adaptation measures within the Community of Latin American and Caribbean States (CELAC) and the Pacific Alliance. Bilaterally, Peru is establishing joint programs aimed at conservation and management of its biodiversity, and also at enhancing national capacities to combat climate change.

Peru announced its contribution to the Green Climate Fund last December at the COP20. We are now preparing our national contribution. A national commission is preparing a proposal based on five areas identified as those with larger climate change mitigation potential: forests, agriculture, transport, industrial processes, and solid waste management. Well-funded and scaled-up financing, technology, and capacity building from developed countries and the world's largest economies are vital to enabling the developing world to move ahead in cutting-down greenhouse gas emissions, while building strong economies for the well-being of future generations.

What makes Peru a favorable destination for international investment?

Foreign investment has been a cornerstone of Peru's strong economic performance for over two decades. A combination of stable rules, political stability, fiscal responsibility, and sound policies attracts major foreign investments in diverse fields of Peru's economy, including mining, energy, utilities, retail, and agriculture.

Our regulatory system rests on non-discriminatory treatment for foreign and national investors. Foreign firms can invest in all economic activities and have unrestricted access

to national and international financial sources. Access to international dispute-settling institutions is also guaranteed. This ample set of favorable business conditions remains unchanged and provides a suitable environment to welcome international investment.

Currently, PPPs offer new opportunities for investing in infrastructure, transport, and communications. We believe that working together with transnational enterprises is an effective way to increase the use of scientific and technological knowledge in Peru's economy, and to strengthen our competitiveness.

What are the key foreign policy priorities you plan to pursue during your tenure as Minister?

Persistent efforts to maintain cooperation and integration flows with neighboring countries are of utmost importance to improve the livelihood of our citizens. Likewise, regional integration is an essential foreign policy guideline in playing a significant role in the world economy. Nurturing our strategic associations with the US, the EU, and China, as well as with other international powers, is also a major priority. We underscore the need to focus cooperation with said countries on increasing human capital and the use of science and technology in our production lines.

The Pacific Alliance reflects the high priority we grant both to deepening regional integration and to bolstering relations with the Asia-Pacific region. Peru hosts the 2016 APEC Summit to strengthen ties with the US and Asian-Pacific countries. At the same time, we will work to open new roads by increasing engagement with BRIC countries, as well as with growing economies in Asia and Africa.

Finally, it is also a priority to address global challenges by implementing global responses agreed upon within multilateral institutions. Peru seeks to maintain an active role in multilateral efforts to promote sustainable development with social inclusion and to combat climate change. In this light, next October we will host the annual IMF and IDB meeting, and also the UN Conference on Trade and Development (UNCTAD) in Lima, while in 2018 Peru is due to host the Summit of the Americas. ✖

Two key foreign policy priorities are reducing inequality and combating climate change

Nearly 92% of trade within the Pacific alliance has duty-free status



discreet HEROES

Mariano Rajoy, the Prime Minister of Spain, on the meaningful impact Peruvian immigrants have had on the social, economic, and cultural development of Spain.

The Peruvian Corporal Jorge Arnaldo Hernandez Seminario is a hero from the Paratrooper Brigade of the Spanish Army, which is an elite unit that has participated in most of Spain's peacekeeping operations. He received the Military Merit Cross with a Red Distinctive and a NATO Medal for his participation in the International Force for Security Assistance (ISAF) in Afghanistan.

Jorge Arnaldo was born in Chapica de Campana, a small hamlet of Chulucanas, the so-called capital of mangoes, lemons, and ceramics, in the state of Piura, Peru. He was 26 when he died on July 8th, 2006 on duty in Bakua, Afghanistan. From the Paratrooper Brigade, he sent savings to the village where he was born. He financed meals for one hundred children, and his dream was to build a clinic in his village and rebuild the primary school. Jorge Arnaldo: we will not forget you.

Almost 200,000 Peruvians live in Spain, with 112,000 having been granted Spanish nationality since 2000. This gives proof of their exemplary integration, their commitment and spirit of solidarity: They defend both freedom and our shared values in the most dangerous international missions of our armed forces, and with their special warmth, they take care of our sick and elderly. They are discreet heroes.

As President, I want to recognize and acknowledge the contribution of Peruvians to our development and what is now Spain. On behalf of all Spaniards, I would like to thank you. We owe you a debt of gratitude. Like Jorge Arnaldo, you are an example of commitment and dedication.

Peru's greatest asset is its people, as is evident from its talent pool. In opera, Juan Diego Florez's voice led Pavarotti to consider him his successor. In cinema, we remember Claudia Llosa's Oscar nomination. In haute cuisine, both Gaston Acurio and Rafael Osterling are renowned. In the upper echelons of science, Peruvian scientist Barton Zwiebach, a professor at the Massachusetts Institute of

Technology (MIT), is one of the world's referents regarding the ambitious String Theory, called the "Theory of Everything." This theory unifies the Theory of Relativity and Quantum Mechanics to explain the Universe in a revolutionary way. Zwiebach and his colleagues contend that matter is composed of strands of energy, or "strings" that vibrate, each producing their own tune, as if the Universe were a great symphony.

The dedication of Peruvians to our common language deserves special recognition. The Nobel Prize Mario Vargas Llosa is the beacon of a literature that is regularly updated with new names, some of whom live in Spain, like Santiago Roncagliolo (Alfaguara Novel Prize), Fernando Iwasaki (Don Quixote Journalism Prize), Jorge Eduardo Benavides (Torrente Ballester Prize), José Luis Torres Vitolas (Alfonso the Magnanimous Prize), or Sergio Galarza (Cortes of Cadiz Prize for Stories). In Spain, Peru is read, heard, and felt permanently.

The history of Spain is rich in contributions from Peru. In the sixteenth century, the Inca Garcilaso de la Vega was the first writer from the Americas who lived in Spain, brilliantly assuming his two cultural heritages. We can also highlight Pablo de Olavide, who was the promoter of the first organized and legal emigration in history, when many Europeans (mainly Germans) emigrated to Andalusia in the eighteenth century.

This outstanding human capital explains the development of Peru in recent years and projects the country into the future with huge potential. Spaniards believe in Peru: in 2010, our cumulative investment in the country was almost €2 billion; in only four years, despite the financial crisis, it increased by 100%, now moving around the level of €4 billion. Peru emerges strongly as an economic platform, thanks to its extensive network of Free Trade Agreements with the four cardinal points, including China. Peru takes advantages of its

BIO

Mariano Rajoy was born in 1955, educated in Law at the University of Santiago de Compostela. He was Minister of Public Administration from 1996 to 1999 and Minister of Education from 1999 until 2000. He then served as Deputy Prime Minister from 2000 to 2003. He acted as Leader of the Opposition from 2004 until 2011. He was elected Prime Minister of Spain on December 21st, 2011.



The two countries have deep social and economic ties that go back centuries

Asian heritage: it belongs both to the Pacific Alliance and the Asia-Pacific Economic Cooperation Forum (APEC), and participates in the Trans-Pacific Partnership Agreement (TPP) free trade negotiations. Peru is a clear success of miscegenation, which in a global environment, easily merges with other cultures.

In recognition of Peruvians, my government was able to include Peru and Colombia on the list of countries whose nationals do not need the Schengen visa to enter the European Union. Nobody believed that this initiative could thrive in a time of crisis, but Spain could not allow Peru, along with Colombia, to become the only Latin American country with a visa requirement despite having signed a Free Trade Agreement with the EU, the so-called Multiparty Trade Agreement. Immediately after its entry into force in August 2013, Spain requested the removal of the visa requirement for Peruvians and Colombians. After an intense diplomatic offensive, in Autumn 2015 they will no longer need visas to enter the Schengen area, which is the biggest area of free movement for citizens in the world.

We could not discriminate against exemplary countries, which in the face of globalization have opted for openness rather than protectionism. When facing the adversities of drug trafficking and terrorism, their institutions have prevailed, proving to be sound, by overcoming such conflicts with the rule of law, through justice, negotiations and forgiveness. These processes of national reconciliation are

Spaniards believe in Peru: in 2010, our cumulative investment in the country was almost €2 billion; in only four years, despite the financial crisis, it increased by 100%, now moving around the level of €4 billion. Peru emerges strongly as an economic platform, thanks to its extensive network of Free Trade Agreements with the four cardinal points, including China.

an essential part of the new face of the region: peace and progress.

Spain has shown with facts, not rhetoric, that it never forgets Latin America. Even during a period of crisis, Spain has demonstrated that it defends Latin Americans and makes justice prevail for them, eliminating any existing stigmas. This great diplomatic victory is not ours: it belongs to you, Peruvians, it is yours. Thank you for your efforts and sacrifices, and to your ongoing contribution to our development.

As a Spaniard and Ibero-American, I feel a great satisfaction when standing up for discreet heroes such as Corporal Jorge Arnaldo Hernandez Seminario, and for all of you, Peruvians. I am a Hispanic of Europe, and I believe in Latin Americans. I have proved this, and I will continue to do so. ✖

HIGH WATER MARKS

In October 2015, Peru will become the first Latin American country to host the IMF and World Bank Annual Meeting since Brazil in 1967.

HAVING SHOWN SIGNS OF “economic rebound,” mainly due to the drop in commodity prices which is hurting others on the continent, its economy is set to grow by 3.8% in 2015, according to a recent IMF forecast. However, as it is increasingly becoming apparent, it is also through cooperation with the region—particularly Chile, Colombia and Mexico—that Peru has emerged from the global financial crisis as a thrusting economy.

In early 2011, the leaders of these countries signed the Lima Declaration which would create a framework for “deeper integration” among the so-called Pacific Alliance. However, unlike existing regional scope, free trade organizations such as ALADI or the Andean Community, the Pacific Alliance, and Peru’s integral role within it has risen to global prominence due to its sector-wide and international appeal.

A recent US Congressional Research Service report observed: “the objectives are to build an area of deep economic integration; to move gradually toward the free circulation of goods, services, capital, and persons; to promote economic development, regional competitiveness, and greater social welfare; and to become a platform for trade integration with the rest of the world, with a special emphasis on the Asia-Pacific region.” With a collective population of almost 215 million people and accounting for over 37% of Latin American GDP, “the region of the Pacific Alliance has captured the attention of the global investment community, given the opti-

imum growth of the region and the liberalization of its economy and its market in recent years,” according to a S&P Dow Jones director.

While international interest certainly has been high—with observer states ranging from America to Singapore and Belgium—a number of internal achievements have established the group as the latest emerging trend. Namely, it succeeded in diverting investment interest away from other continental, emerging giants such as Brazil by integrating the Lima Stock Exchange with the Colombian and Santiago bourse to create Mercado Integrado Latinoamericano, known as MILA. By embracing the “spillover effect” of integration, “transactions are performed in their respective local currency without the need to leave the country, and with book-entry through the local broker,” meaning that investors from Chile, for instance, can buy Colombian stock with their local pesos. For Peru’s growing market, this has helped attract the sale of 3.79 million shares of the Lima Stock Exchange to Mexican investors, thus paving the way for Mexico’s integration onto the bourse. Likewise in the financial sector, the Canada-based Bank of Nova Scotia has recently confirmed its acquisition of Citigroup’s operations in Peru, principally in order to further boost its presence in the Alliance.

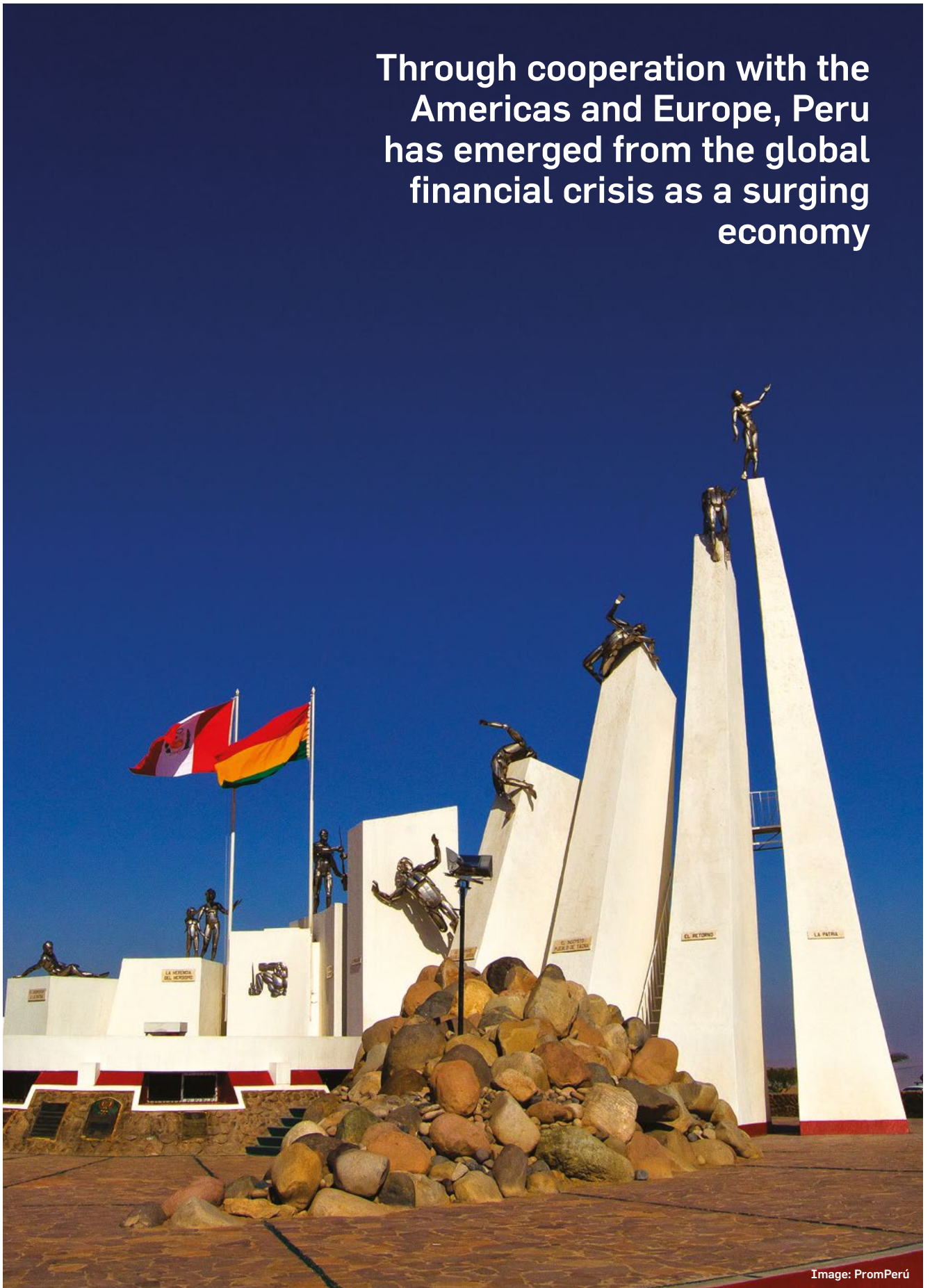
Another key achievement of the Pacific Alliance has been to develop new forms of political dialogue amongst its members. In May 2013, the leaders “reaffirmed the ties of friendship, solidarity and cooperation that exist between their countries” by signing the Cali Declaration which agreed to open shared Embassies in Ghana, Algeria, Morocco, and Vietnam, while urging member states to continue developing joint-diplomatic efforts. For its part, this has helped Peru soothe an internal rift that has emerged with Chile over a drawn-out spy scandal. Instead, in December 2014 the four-member bloc pledged to stand together on climate change and expanding economic cooperation to other sectors.

One industry which Peru is particularly keen on boosting is tourism, where out of the 33 million international visitors to the region in 2014, Peru received just over 3 million. In fact, considering Mexico has enjoyed the lion’s share of tourists within the Pacific Alliance, with over 24 million visitors annually, the remaining members have pooled their efforts by actively promoting their leisure and hospitality potential to each other’s markets. As such, in April 2014, PromPeru, a public entity attached to the country’s Foreign Trade and Tourism Ministry, announced its participation on a joint “Pacific Alliance Workshop” designed to boost the cultural and tourist appeal of the region.

Testament to the success of the Pacific Alliance lies in reports that the organization is on the brink of expansion, with Costa Rica and Panama expected to join imminently. Nonetheless, as set out in the Lima Declaration, what will be crucial for existing members is that the integration process is deepening in addition to widening. ✖



Through cooperation with the Americas and Europe, Peru has emerged from the global financial crisis as a surging economy



the EXCHANGE OF IDEAS



TBY talks to **Michelle Bachelet**, President of Chile, on regional relations and the Pacific Alliance.

What is Chile's position on the convergence of Mercosur and the Pacific Alliance (PA) trading communities? What are the next practical steps for maximizing the process?

In the process of regional integration in Latin America, Chile has emphasized "convergence in diversity." Today's world is more complex, and cooperation and integration are unavoidable if progress is to result by successfully addressing the challenges of the global economy. Therefore, Chile will encourage the exchange of ideas between the PA and Mercosur. A specific step in this proposal of convergence was the realization of the "Dialogue on Regional Integration: Pacific Alliance and Mercosur" seminar, held in Santiago in November 2014. The next step was to prepare a plan of action for the PA and Mercosur around a common agenda.

What is Chile's comparative regional advantage in its relations with the PA?

The PA represents an opportunity to enhance the exchange and economic development of the countries located along the Pacific. In that space, our contribution is manifold. Chile has an extensive network of trade partners, having generated 24 agreements covering 63 markets. This network is enhanced by the PA and in turn serves to boost member countries. The globalization of the Chilean economy is undoubtedly attractive to our

partners. For example, accumulation of origin in the Pacific Alliance will allow Chile to facilitate linkages and productive diversity, improving the position of our region in global value chains. In addition, Chile is an active participant in organizations such as the OECD, where it is recognized for working on good practices and international standards for public policies, and APEC, a regional technical cooperation platform with more than a three-decade relationship with Pacific Rim economies.

The Pacific Alliance has emerged as one of the region's most promising unions. How do you plan to expand Chile's contribution to the Alliance and its ability to work with neighboring Peru to grow the region's exports?

Chile will continue to work on strengthening the Pacific Alliance through the main features of this mechanism of regional integration, which are the high degree of flexibility and pragmatism. From convergences between the four countries, Chile will look to achieve achievements covering issues that go beyond the purely commercial sphere and nonetheless have clear commercial purposes. Likewise, we are working to strengthen technical cooperation with the 32 observer states by developing projects related to the pillars of the PA (free movement of persons, goods, services and investment, and cooperation);

and looking to link these projects to the 18 existing technical groups, including the newly established Education and Mining Development. Regarding working with Peru, longtime we're advancing in the deepening of intraregional trade, first through bilateral trade agreement and then, in the initiatives of the Pacific Alliance and TPP. This will encourage the regional trade and generate greater opportunities for our investors.

TBY recently spoke with Gonzalo Alfonso Gutiérrez Reinel, Peru's minister of Foreign Affairs. He expressed a desire to forge closer ties with Asia. Trade with Asia is one of the Pacific Alliance's major goals; how is Chile working to liberalize trade and open new markets to Chilean and regional exports?

Chile works to strengthen trade and open new markets and regional exports through different areas: FTAs bilateral negotiation; participation in the multilateral system via the World Trade Organization; and our incorporation in plurilateral negotiations such as the Trans-Pacific Partnership Economic Strategic Agreement (TPP) and the Pacific Alliance. Additionally, Chile favors that within the disciplines negotiated in AP and TPP, ones that go beyond those traditionally addressed in trade agreements, such as competitiveness, regulatory coherence, development issues, trade facilitation, cus-

toms cooperation and export window, SME, among others, are included.

Chilean investors have made strong investments throughout the Peruvian economy in 2014, and continue to drive domestic growth. What is the future of Chilean foreign investment in Peru?

The growth projections of the Peruvian economy are auspicious, allowing anticipate new opportunities for our investments in that country. Since 2000, direct Chilean investments in Peru have shown a significant increase. Thus, in December 2014, according to figures in process, it totalizes more than \$15,800 million. Regarding the investment areas, the opportunities that the Peruvian market offers the services sector, in areas such as construction, architecture, engineering, mining, software and information technology can be highlighted. ✖

BIO

Michelle Bachelet has been the President of Chile since March 11th, 2014. This is her second term as President, having served from 2006 to 2010. She was previously the first Under-Secretary-General and Executive Director of UN Women, and is a long-time defender of women's rights. She also holds ministerial portfolios in the Chilean government as Minister of Defense and Minister of Health. Michelle Bachelet has been the President of Chile since March 11th, 2014. This is her second term as President, having served from 2006 to 2010. She was previously the first Under-Secretary-General and Executive Director of UN Women, and is a long-time defender of women's rights. She also holds ministerial portfolios in the Chilean government as Minister of Defense and Minister of Health.



TBY talks to **Luis Guillermo Solís Rivera**, President of Costa Rica, on joining the OECD and how key relationships within the region are helping to shape the country's future.

onwards and UPWARDS

What would be Costa Rica's competitive advantage in its contribution to the Pacific Alliance and how would it benefit from becoming a member?

Regional economic integration is an essential element for our countries to progress towards greater economic and social development and better quality of life. In this framework, the Pacific Alliance should be seen as an alternative to propel growth and development, based on increasing the competitiveness of the economies concerned, and a deep integration that transcends the purely commercial aspect. This initiative offers the opportunity to establish strategic partnerships that favor the development of investments, increase real and effective competition, improve productivity and the competitiveness of goods and services, and facilitate commerce between countries, fostering better integration with other regions. Costa Rica has closely followed the Pacific Alliance as it gradually approached the initiative. As with other member countries of the Pacific Alliance, our country offers a pro-business investment environment that we continue to work on in order to improve

and strengthen. We coincide in our end goal of promoting a deeper regional integration in order to achieve greater growth and to promote greater closeness to other regions, particularly Asia Pacific.

In 2013, the free trade agreement between Peru and Costa Rica came into effect. The treaty reduced and eliminated tariffs on specific products such as precious metals and chocolate. How has this agreement benefited both economies until now?

The treaty with Peru came into effect not that long ago, and so it is early to make a concrete analysis of its results. However, recent commercial and investment figures confirm that there is a growing tendency toward consolidating in regards to commerce with Peru. The commercial exchange between Costa Rica and Peru has maintained a growing tendency for the past decade. It went from \$20.4 million in 2003 to \$60.1 million in 2013, registering an average annual growth of 18.9%. Prepared foods, medicines, paper or cardboard for recycling, caps and plugs, covers for metal containers, tires, rigid tubes of vinyl chloride polymers, homogenized preparations,

joints or gaskets of vulcanized rubber, machinery for cleaning, classifying and grading seeds or other similar products are amongst the main export products from Costa Rica to Peru. The number of Costa Rican companies exporting to Peru rose from 42 in 2009 to 70 in 2014. With regard to direct foreign investment, the period between 2007 and 2013 reached a cumulative amount of \$42.7 million. In 2013, the real estate sector concentrated the total investment coming from Peru, with a sum of \$5.5 million.

What could countries learn from Costa Rica's industrial re-conversion program that would help encourage exports through free trade zones?

Free zones are a great appeal for those who wish to invest in our country. This system offers a series of fiscal benefits and competitive advantages that characterize our country: the talent and value of our workers, political stability and a strategic location. The attraction of direct foreign investment is associated to the promotion and diversification of exports, the search for improving and refining products manufactured in the country. The government offers benefits and incentives to companies and investors that are interested in settling in the country as long as they comply with the requisites and obligations outlined in Law 7210.

Costa Rica will celebrate its third summit of the CELAC at the end of January. How has the organization helped to foster links between countries in the region?

During the year that Costa Rica had the temporary presidency, we managed to agree on 50 declarations during the last semester. We also had a very productive leadership. We established effective mechanisms for dialogue in the region and with the

region's partners, for example our meeting with China. During the summit, the commitment to implement the food security plan was consolidated in order to eradicate famine by 2025 and a plan to end illiteracy in the country was generated. Working together in these processes will be the key to success. The Community of Latin American and Caribbean States (CELAC)'s voice has to be heard and valued in the international arena, contributing new experiences to influence fresh results. What is at stake concerns us all. It is about the development agenda that will guide humanity till 2030. CELAC's value is in its provision of a medium for dialog and the influence that we manage to have in our political integration and in the ability to conciliate positions in diverse and necessary matters such as the environment, human rights and nuclear weapons. In maintaining these scenarios and in working together lies our vision for our continent's future. ✘

BIO

Luis Guillermo Solís Rivera studied History at the University of Costa Rica and completed his Master's in Latin American Studies at Tulane University. He has held various academic positions, both in Costa Rica and the United States, and has worked at the Latin American Faculty of Social Sciences, the Ibero-American Secretariat and the Foundation of External Services for Peace and Democracy.



AT A crossroads

Christine Lagarde, Managing Director of the International Monetary Fund (IMF), on the challenges facing Latin America and how the IMF can help.

Latin America stands at an important crossroads. After a remarkable two decades of economic, political, and social renewal, the region today faces an extended slowdown in a global setting of mediocre growth. The immense potential of this diverse region has become tangible, but so too have the formidable challenges that lie before it, which is why the IMF/World Bank Annual Meetings in Lima later this year occur at an important moment.

The representatives of the IMF's 188 member nations traveling to Lima are well aware of the issues facing Latin America. Among the most pressing is the need to develop new growth drivers now that the boom in global commodity markets has receded. This challenge can and will be met. But selecting the right path to renewed growth and prosperity requires a harnessing of the collective will and creativity of the people, and of the policymakers who serve them.

At this critical juncture, it is therefore more important than ever to foster growth that is inclusive, balanced, and sustainable.

After decades of stagnation, Latin America's middle class has been growing in size and confidence, expanding by about 50% since 2003. Much of this can be attributed to a reduction in income inequality, through, among other means, rising minimum wages.

Unfortunately, despite this progress social indicators remain weaker and inequality

higher than in comparable regions. And so with growth in the region slowing for a fifth consecutive year, there is a risk of losing some of the social gains achieved in recent years.

For example, the rising expectations of Latin America's middle class are bumping up against shortcomings in the provision of public services. While specific concerns may vary across countries, surveys show that many people share a general discontent over corruption and poor government accountability.

This is a loud and clear call for action, and many governments in the region are working hard to improve public services. They have launched initiatives to increase the quality and reach of public education, broaden the system of social protection, and expand equitably the public revenue base. All this and more is needed to create a more inclusive and stronger society.

Moreover, many countries need to significantly improve their infrastructure networks. High logistics and freight costs hinder Latin America's integration into global value chains. This underscores the need for more investment and greater regional collaboration in energy, transportation, and IT, in order to raise the economic prospects of the region.

And given the current challenges, Latin America certainly needs to increase economic and financial integration to lift the potential growth of the entire region.

This would boost regional trade, but there are a host of other issues that could also benefit from a greater willingness to reach across borders and to learn from each other. This is what we hope the October meetings will bring. Policymakers could cooperate more on topics such as labor, security, energy, the environment, and competition, to name a few.

The idea of cooperation and multilateralism is, of course, at the heart of the IMF's work. The fund was set up 70 years ago to help its members prevent economic and financial crises and to provide badly needed financing should they occur. The fund is also helping low-income and transitional countries gain a foothold in the global economy, and is working behind the scenes to build capacity and resilience through technical assistance. And we are always striving to provide timely and well-tailored policy advice and technical assistance to our members in this region.

The Lima Annual Meetings will provide a forum for global policymakers to speak with each other about such critical issues. They provide an opportunity of finding a strong and compelling voice to inspire the people of Latin America, and help unlock the potential of this immensely rich and diverse region. We at the IMF are looking forward to hosting and participating in this discussion. ✖

BIO

Christine Lagarde graduated from law school at University Paris X and obtained a Master's degree from the Political Science Institute in Aix en Provence. After being admitted as a lawyer to the Paris Bar, Lagarde joined the international law firm of Baker & McKenzie as an associate. A member of the Executive Committee of the Firm in 1995, Lagarde became the Chairman of the Global Executive Committee of Baker & McKenzie in 1999, and subsequently Chairman of the Global Strategic Committee in 2004. Lagarde joined the French government in June 2005 as Minister for Foreign Trade and in June 2007 she became the first woman to hold the post of Finance and Economy Minister of a G-7 country. In July 2011, Lagarde became the eleventh Managing Director of the IMF—the first woman to hold that position.

SUM OF ALL PARTS

Peru is showcasing its regional prominence as a center for conferences and trade fairs. The conferences differ in size and scope, but the strategic importance remains the same: Peru has created a foothold for itself as it exerts its regional prowess and geographic significance.

CENTRAL AND LATIN AMERICAN

countries are at a unique place in their prospective histories and journeys. As they are forging their own paths and finding their own niches in the international arena, they are also looking inwards as they figure out how to comfortably coalesce and form partnerships and alliances that help turn them into individual power players and bolstering the region as whole.

Peru is an integral part of this mix, both geographically and politically. The country has worked for the last 25 years to turn a languishing economy into one that is stabilized and strong, and has emerged with a favorable business environment and has made great strides towards establishing and implementing transparent legal and economic frameworks.

A reward for these efforts came when it was announced that Lima would host one of the international development world's most important events: the 2015 Annual Meetings of the Boards of Governors of the World Bank Group (WBG) and the IMF.

TBY recently sat down with Christine Lagarde, Managing Director of the IMF (see interview, opposite), and discussed the significance of Lima hosting an event of such importance and with such a broad range of topics and leaders. "The representatives of the IMF's 188 member nations traveling to Lima are well aware of the issues facing Latin America. Among the most pressing is the need to develop new growth drivers now that the boom in global commodity markets has receded. This challenge can and will be met. But selecting the right path to renewed growth and prosperity requires a harnessing of the collective will and creativity of the people, and of the policymakers who serve them."

Regionally speaking, Peru is also hosting a number of other major conferences that are both internationally and regionally-focused.

Conferences like these delve into issues that are vital to the survival of the individual nations and the health of the region, as many of the issues discussed will play integral parts in their futures. In June, forest experts from both the public and private sectors from 20 other Latin American countries met and discussed criteria and indicators (C&I) for sustainable forest management in the Amazon in Tarapoto, Peru. The event was part of a long series of regional workshops held globally—in Africa, Asia, and Latin America—and

The representatives of the IMF's 188 member nations traveling to Lima are well aware of the issues facing Latin America. Among the most pressing is the need to develop new growth drivers now that the boom in global commodity markets has receded. This challenge can and will be met. But selecting the right path to renewed growth and prosperity requires a harnessing of the collective will and creativity of the people, and of the policymakers who serve them.

was organized by the UN Food and Agriculture Organization (FAO). The recommendations and initiatives that were produced will be the subjects of intense discussion at the 11th World Forestry Congress in South Africa in September.

2016 looks to be another banner year for Lima's event coordinators as well, as the UN Conference on Trade and Development is also heading to the capital. The meeting will be held parallel to the World Investment Forum and will be attracting power brokers from almost every nation and sector, further cementing Lima's growing competence to entertain major global discussion forums. ✖



banding TOGETHER

TBY talks to *Ernesto Samper Pizano*, Secretary General of The Union of South American Nations (UNASUR), on the importance of the Union, its priorities, and Ecuador's vital contributions to its projects.

What are the primary tasks undertaken by UNASUR?

Ours is a young organization that brings together all political players of the region and streamlining the projects taking place. Among the most important projects we handle is the convergence of all regional projects taking place, including Mercosur, the Pacific Alliance, and ALBA countries, among others.

What are the main differences between the construction processes of the EU and UNASUR?

We start off from a different point of view; as a region, we have a common language and history, as well as a similar geography and conditions. We are the fourth largest economy in the world and we started building this on the common regional identity the countries in the region display. We have common regional projects within the infrastructure, connectivity, and institutionalization fields, among others.

The Banco del Sur aims to become the main financial institution in the region. At what stage of development is the bank today?

One of our main objectives is to financially strengthen the region through several tools such as the Andean Development Corporation, the Latin-American Reserve Fund, the Mercosur Infra-

structure Fund, and the Southern Bank. This project has developed at a slow pace, but has already established its directory. I believe it will play a key role in leveraging the resources of the region. We also have several alliances with other international finance organizations. Our aim is to co-finance infrastructure projects in the region. UNASUR has a list of 32 priority infrastructure projects, of which we will co-finance seven. The main feature of these projects is that they involve at least three countries. For example, there is the highway from Caracas to Buenaventura through Bogotá and the railway connection from Southern Chile to the central railway corridor in Bolivia. Our other priority in the social field is inclusion, and in the political sphere it is social participation in political processes, while in the economic arena our priority is to create regional value chains. We are a region sharing the benefits of our land—oil, gas, agriculture, and so forth. To begin adding value to our resources we have several infrastructure and connectivity projects such as a common fiber optic network that will have a submarine connection with Europe. This project will be completed within five years. We also work on competitiveness through the use of cutting edge technologies.

How would you assess the new defense policies that UNASUR is keen to implement in the region through this school?

In April 2015 we established the South-American Defense School, which aims to achieve a higher level of regional security. We work towards common security and defense policies regarding several risks as climate change and in order to promote sustainability, and biodiversity, as while we are a wealthy region, we also stand to suffer considerably from such threats. The curriculum is also concerned with civil security. The school is the best example of the regional commitment to tackle such issues from a common perspective. With the creation of the South-American Defense School the region goes from the conflict hypothesis to the trust hypothesis.

Peru has repeatedly expressed its interest in developing a dispute resolution body within UNASUR that could serve as an alternative to the CIADI. What is the status of this effort and how could it benefit UNASUR countries?

The initiative has already achieved virtually 100% consensus. I would speculate that current dispute resolution mechanisms are obsolete and uniformly result in litigation. We have a completely different approach that instead prioritizes consensus. Naturally, too, we understand the

need to balance national and personal interests where disputes arise.

You recently met with Peru's President Humala. What was the outcome of that meeting and how did it contribute to regional integration?

President Humala has two focuses within UNASUR: social inclusion and the ties between the private sector and UNASUR. Meanwhile, we are due to host the International Energy Forum in Quito in September 2015. The main players of the energy industry in the region will take part in this event to build bridges between the industry and UNASUR. President Humala believes in the strategic importance of such events. ✕

BIO

Ernesto Samper Pizano, the Secretary General of Union of South American Nations, was President of Colombia from 1994 to 1998. He has held various executive positions, including Ambassador to the Assembly of the United Nations in 1983 and Minister of Economic Development from 1990 to 1991. He studied Law at the Javeriana University of Colombia and later obtained a Master's Degree in Economics. Pizano has received several national and international awards, including the Grand Cruz de Boyaca, (Grand Cross of Boyaca) in Colombia, the Orden del Libertador Simon Bolivar, (Order of the Liberator Simon Bolivar) in Venezuela, among others.



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Ionso Segura Vasi, Minister of Economy & Finance, on dealing with fiscal challenges, and economic diversification.

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Paola Bustamante Suárez, Minister of Development of Social Inclusion, on improving the welfare of Peruvians.

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Arequipa was well placed to exploit the commodities super-cycle when minerals mined there commanded record prices.

Economy

REVIEW

In 2015, Peru is looking to reclaim its impressive growth rate of the last decade. Thanks to strong fundamentals and government stimulus, the economy is projected to grow by 4.2%, and shake off last year's slump.

THE SOL ALSO RISES

Is Peru's economy overexposed to its volatile neighbors and trading partners, and what measures and factors might insulate the emerging market from external downward pressures? A recent IMF study found that expectations for Latin American economies are strongly affected by Chinese economic performance. The study found that exchange rates of commodity exporters in countries such as Brazil, Chile and Colombia lurched following the release of key economic indicators. In Peru this tendency was muted, reflecting its frequent exchange rate interventions and the fact that its exports to North America exceed those to China—even if that margin is slim. That said, Peru's top five exports are all commodities, and with other regional economies circling the drain, the public and private sector will need to act in concert to keep the sol shining.

Peru's economy generated its share of press as the



It's not just metals and energy

any more, niche products like quinoa are gaining a rabid following abroad, and Peruvian agricultural exports are rising fast.

regional economic picture turned sour, and the demand for its primary exports—gold, copper, petroleum, and lead—declined, in conjunction with a global downturn. Unlike its regional counterparts however, the outlook was not all doom-and-gloom, and neither were those for countries like Colombia, Mexico, and Chile. When compared to sagging—or even contracting—economies such as Brazil and Argentina two disparities became apparent. First, member of the former group were all part of the Pacific Alliance, a trade group that Peru co-founded and joined in 2012. This alliance promoted free trade, but it was a unifying characteristic of the member states that underpinned their exceptional performance—their commitment to free trade and the rule of law.

In the 1990s, Peru undertook a series of extensive reforms prior to the bulk of its commodity boom that set the stage for diversification, FDI, and transnational inte-



ELMER CUBA
*Partner and Director,
Macroconsult*

In the labor sector, the ability to hire and fire is fundamental, and a lack of flexibility will create new jobs, but informal ones. That is a problem, because those workers have no rights, vacation, retirement plans, insurance, or healthcare security. Congress and the government need to create a flexible labor market. Moving toward a formal economy with regard to labor market reforms will change industrial organization, and interest rates will follow.*

gration with economies that are bucking the current downturn such as the US and Canada. According the Peterson Institute, Pacific Alliance countries have gripped an increasing share of the US FDI to Latin America, garnering 62% of the \$27.4 billion total in 2013, up from 55% of the \$31 billion total from 2010.

Peru is one of the most important economies in Latin America. Its diverse climate, large territory, vast natural resources, and skilled workforce, not to mention high academic standards, make it a solid long-term prospect. This builds on a solid economic and industrial background, including the aforementioned reforms. Peru is one of the world's most followed emerging markets, thanks to a history of economic stability and a 5.6% average annual GDP growth over the past 14 years.

Peruvians are notable for their productivity and entrepreneurship. Carlos Eduardo Polo Parada, the General Manager of Inversiones La Cruz described the Peruvian disposition succinctly when he told *TBY* that, "the Peruvian man is one of the best entrepreneurs of the world. When a Peruvian starts a company, he usually starts as an informal one, and once the company grows, he starts the formalization process, paying taxes, and accruing cred-

Peru is one of the world's most closely watched emerging markets, thanks to a history of economic stability, regional and global potential, and a 5.6% average annual GDP growth over the past 14 years.

*Read the full interview at thebusinessyear.com

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Peru has a diversified manufacturing matrix



Image: PromPerú



ELEONORA SILVA
*Director, Peru CAF –
 Development Bank
 of Latin America*

What is CAF's position on micro finance and what is your involvement?

Peru has a very well structured system of financial institutions that support MSMEs, and we have provided them with equity from the outset, as well as with subordinated capital, credit facilities, and different initiatives geared towards stronger governance. We also have micro programs geared toward people in secluded areas that have no knowledge whatsoever of financial instruments or institutions.

How do you support niche exports, and the agricultural sector and its infrastructure projects?

Many products that are being exported from the region of La Libertad are possible because of the Chavimochic irrigation project financed by CAF. CAF is also involved in Olmos Trans-Andean Project. The first stage was completed last year, and there are already private investors beginning to develop the area. The project has attracted interest from different agro-industrial groups, from Peru itself and abroad, and is a work in progress. We also work with the Peruvian government in the design of the city that will accompany the Olmos Project. This is a sandy and remote area, but with projects of this nature you expect people to move in seeking training and new opportunities. The government sees this as an opportunity to build a new city that will accommodate these individuals and families.*

PATRICK WATSON
*Director, Latin America, I-DEV
 International*

“To be profitable in Peru, you need to achieve economies of scale. There are many densely populated communities in Peru that are not located in the major cities that can provide this.*”

it. These factors make Peru an excellent destination for foreign investment.” Mr. Parada, and others like him are working to get financing to small-time entrepreneurs who make up a significant portion of the national economy. In fact, a large part of Peru’s potential lies in these informal operations. By funding and formalizing them, these firms could well be the catalyst of future innovation and growth.

Of course Peru is not immune to external conditions and expectations are well grounded. At an event in Lima in March 2015, Peru’s Finance Minister Alonso Segura said additional fiscal stimulus measures were

not required to revive growth after the 2015 forecast for economic growth was cut for the second time in two months. During the initial months of 2015, the official forecast was downgraded from 5.0%, to 4.8%, before settling at a pragmatic 4.2%.

But after last year’s battering—an anemic 2.4%—even these numbers were music to the ears of Peruvian businesses looking to return to the halcyon days of the last decade. Plus, there are incentives. Fiscal stimulus in 2015 will be the equivalent of 1.8% of GDP, which will be double the government’s investment in 2014’s economy.

Financial institutions seem to concur with Mr. Segura. Bloomberg Business calculates that the country will grow by an estimated 4.3% in 2015. In February of the same year, US President Obama announced that Peru was the “envy” of the world, thanks to impressive economic growth and poverty reduction.

Peru’s economic fundamentals explain why it has been so successful at attracting foreign investment over the last decade and a half. GDP in 2013 reached \$210 billion, with GDP per capita at \$6,797. At PPP, GDP was \$11,149, comparable to more developed Eastern European markets, and outstanding

*Read the full interview at thebusinessyear.com

considering Peru's recent economic launch. Total public debt for the same year was a manageable 18.1% of GDP with minimum wage a low, but manageable \$268 per month. Economic growth is putting upward pressure on wages, but even at double the rate, Peru's manufacturers are a competitive alternative to Chinese and other Asian producers. As the local and regional markets grow, the country will be at a competitive advantage.

The country's economy is the product of realistic monetary and fiscal policies instituted in the 1990s and onward. Over the last two decades, policy makers have worked to reduce the debt level from 32.3% of the GDP in 2006 to an estimated 17.2% in 2014, and ensured consistent fiscal surpluses—an estimated 0.6% and 0.1% of the GDP in 2013 and 2014, respectively. Meanwhile, the country has promoted the liberalization of the goods and labor markets. Successive administrations have opened up trade through international trade agreements, FDI, and access to the country's rich natural resources. A growing market and domestic consumption, and a developing financial sector are driving this growth. These trends are reflected in a 5.2% increase of private consumption in 2013 over the previous year. Private consumption is expected to rise another 5.4% in 2015.

According to the IMF, Peru is only the world's 52nd largest economy by GDP. Despite its ranking, the country has some standout exports that put it squarely on the map. Peru isn't fishing for compliments, as they have

bigger fish to fry; exporters have fought hard to establish their products in a variety of sectors. According to an EY report, in 2012, Peru was the world's top producer of fishmeal, with \$1.341 billion worth of this fishy stuff exported in 2013. \$408 million worth of fresh asparagus was flown across the globe in the same year. They are also the world's second-largest producer of artichokes, reeling in revenues of \$85 million. New areas of cultivation in Piura, Lambayeque, and La Libertad are also angling for a share of fresh grape exports (\$428 million in 2013 and up 152%). Peruvian farmers have snagged a piece of the coffee market as well (\$1.013 billion in 2012), and avocados (\$137 million in 2012). Quinoa also nets some serious capital, and is flying off the shelves in yuppie supermarkets across the world. In 2013, Peru exported \$72.2 million worth, representing a 132% increase over 2012. Meanwhile, exporters are always trawling for new markets and, as the saying goes, there are plenty more fish in the sea.

According to the U.S. State Department, Peru ranked third in the world in 2012 in the production of silver, copper, tin and zinc, and came in fourth place for mercury and molybdenum, fifth for lead, and sixth for gold. The country can also count on large deposits of iron ore, phosphates, manganese, petroleum, and gas. Peruvian copper mostly makes its way to China and Japan, while its gold is exported to Switzerland and Canada. For zinc and silver, China and South Korea are the largest markets. ✕

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LOOKING *up*

TBY talks to *Alonso Segura Vasi*, Minister of Economy & Finance, on dealing with fiscal challenges, economic diversification, and the use of PPPs to offset the infrastructure gap.

Peru's GDP growth slowed to 2.4% in 2014, the lowest since the financial crisis. What fiscal measures can the government use to stimulate growth over the coming year?

The current market and multilateral agency forecasts predict that Peru will lead growth among the LA6 economies (Brazil, Chile, Colombia, Mexico, Peru, and Uruguay) in 2015, amid challenging international headwinds. According to the April 2015 survey by Consensus Forecasts, Peru accelerated from 2.4% in 2014 to 3.7%, followed by Chile (from 1.8% in 2014 to 2.8%), and Mexico (from 2.1% in 2014 to 2.9%). Colombia decelerated from 4.6% in 2014 to 3.4%. We expect that primary GDP will contribute with 1.2 percentage points to economic growth in 2015, while fiscal policy will contribute 1 percentage point. Peru is using various tools to stimulate aggregate demand, such as an expansionary 2015 Public Budget, tax reduction for firms and households of 0.7% of GDP, Public Financial Management (PFM) measures to flatten the learning curve of incoming subnational authorities in order to accelerate public spending at a subnational level, and easing the pass-through from international oil price reduction to domestic prices. The country will also increase the amount of resources allocated for public infrastructure maintenance in subnational governments to 0.2% of GDP, and issue sovereign bonds to finance prioritized public investment projects and other additional measures to increase public spending. The government has recently proposed measures to boost private consumption with a potential economic impact of 0.7% of GDP, and

temporary exemption on social security and pension contributions for salaries. The temporary availability of a fraction of the Unemployment Insurance Deposits Surplus (CTS) extension of measures on fuel price stabilization frameworks will also help, in addition to a price range system for selected agricultural imports, which has already been approved by Supreme Decree.

What steps is the government taking to encourage economic diversification and reduce dependence on commodities?

The IMF has cut its GDP growth forecast for 2015 for the world and much harder for EM, with the biggest revisions made for Latin America and the Caribbean from 2.2% in October 2014 to 0.9% in April 2015. Peru has considerable mineral reserves and commodity potential, and is one of the leading countries for mining in the world. In Latin America, it is the number one gold producer and the second copper producer. The sector accounts for 12% of GDP and represents 55% of total exports. Despite the current metal price shock, the mining sector will remain one of the key engines of the Peruvian economy, while the introduction of new projects such as Toromocho, Constancia, and Las Bambas, as well as extensions such as Cerro Verde will bring more production and new investment opportunities. To reduce the dependence on mining for fiscal revenue, the Peruvian Government has been working to broaden the tax base and increase the number of taxpayers and offset the fall in metal prices since 2011. In addition, the new macro fiscal framework

BIO

Alonso Segura Vasi studied Economics at Pontificia Universidad Católica del Peru, and has a master's degree and doctoral studies in economics from the University of Pennsylvania in the US. Even before taking office, he served as Chief of Cabinet of Advisors of the Ministry of Economy and Finance, as Chairman of the Special Committee of Public Investment Projects of the Agency for Promotion of Private Investment – ProInversión, and Director of the Development Finance Corporation (Cofide). He had previously served at the Economic Research and Investment Strategy Credit Bank of Peru, and as advisor to the Executive Director for the Southern Cone Chair and officer in the Fiscal Affairs Department of the International Monetary Fund, among others.

Peru is expected to lead the LA6 economies in GDP growth

is separating public spending from the volatility of commodity prices. The influence of resource-related revenues in the planning of public spending was lowered through this new macro fiscal framework. With this new institutional framework, fiscal policy is in line with international best practices for commodity-exporting open economies. In Peru, the process of industrialization continues beyond the extractive industries. For example, in the non-traditional sector, between 2000 and 2014 the number of products exported at a value of at least \$10 million has increased fourfold from 35 to 144 products. In the same period, the chemical industry recorded a fivefold increase in the export of medicines, perfumery, and personal care products. In addition, between 2002 and 2013 the number of destination countries increased from 145 to 174, and the number of exporting companies increased from 4,513 to 7,782. Finally, over the past decade, the total contribution of productivity to potential GDP growth was 2.4 percentage points.

Peru has been praised in recent years for its pro-business reforms. What do you see as the next steps in this regard, and what longer-term reforms are necessary?

We are aiming to standardize the tax system to OECD averages and reduce excessive tax related costs, streamline procedures and eliminate obstacles and other “transaction costs” for the investor, to boost investment, productivity, and employment, and to increase predictability regarding regulatory costs. Also, Peru’s accession to the OECD will serve as a trigger for structural reforms. Peru is already part of the OECD’s Country Program. The OECD established Country Programs as a new instrument for supporting dynamic, emerging economies in designing their reforms and strengthening public policy. In November 2014, the OECD’s Foreign Affairs Committee unanimously approved Peru’s Country Program 2015-2016. The working areas of the program include barriers to economic growth and development, public governance, and the improvement of the institutional environment, strengthening transparency and fighting corruption, and fostering human capital and higher productivity.

What steps is the government taking to encourage SMEs to integrate into the formal financial system?

Peru recognizes the importance of SMEs in the growth and economic dynamics of the country. In this regard, the various policies aim to minimize the asymmetries and distortions in the market with regard to access to financing and the resolution and mitigation of information problems and transaction costs, among others. The main measures include strengthening of the Alternative Securities Market, the Micro, Small, and Medium Enterprise (MSME) fund.

The Alternative Securities Market has also been strengthened, and in June 2013 the regulatory framework was improved with the passing of a law to promote the entry of new issuers and improved market efficiency, which has enabled companies to access longer and medium term funding at lower costs. It should be noted that this market targets small and medium enterprises with the ability to issue debt or equity capital in the capital market, with lower costs and fewer requirements than larger companies.

Peru is cited as having an infrastructure gap of between \$30-80 billion. What role can fiscal policy play in accelerating infrastructure development?

Peru is actually working to boost investment to reduce the infrastructure gap through the increased use of Public Private Partnerships (PPPs) to finance infrastructure projects, subject to an ex-ante evaluation of underlying fiscal risks, the strengthening of inter-institutional governance for investment, and unlocking of infrastructure projects delayed by red tape and permits. The Ministry of Economy and Finance together with Proinversión have established mechanisms for technical assistance to public entities. The Ministry has control over the fiscal implications of every PPP contract. Additionally, the definition of PPPs has been expanded to other services related to public services and infrastructure, as well as to projects in the field of applied research and technological innovation. There is also a better definition of the term “cofinancing,” which today refers to any use of public resources and involves the operation phase of the project. Today, investors have the opportunity to submit what we call “Co-financed Unsolicited Proposals” during the first 45 days of each calendar year. ✖

SOMETHING *for everyone*

What were the core factors behind the establishment of the Ministry of Development and Social Inclusion?

We focus on five main areas; child nutrition, early child development, integral child and teenager development, economic inclusion, and protection of senior citizens. Effectively, these pillars cover the entire cycle of life. One of the keys of our success resides on the synergies between ministries to make sure we efficiently impact on people's lives, making sure all parties contribute to achieving this nationwide goal. One clear example of this is school meals, which we changed toward a more approachable strategy based on providing improved food to all public schools based on what is currently in the market, rather than what had been determined as the staple for such meals. The program is Qali Warma and reaches more than three million children nationwide. We started from the rural parts of the country, expanding to the main cities. We expect to reach 3.6 million children in the near future, which would mean all public school pupils in Peru. At the same time, our government has managed to reduce extreme poverty; when we took office extreme poverty was at 6.3% of the population, but by 2014 had dropped to 4.3%. According to the World Bank, when a country reaches 3% of extreme poverty, it is considered to be eradicated. We have in place two programs to combat extreme poverty; "Together," based on conditioned monetary

transfers, and "Pension 65," targeting retired people in extreme poverty. We transfer \$61.95 and \$76.82, respectively, every two months. In general terms, in 2011, when we assumed office, poverty rates were at 27.8%, while today it has declined to 22.7%. Furthermore, chronic malnutrition among children was at 19.5% in 2011, whereas it now stands at 14.6% and our goal is to further reduce this figure to 10%. We also consider it essential for all Peruvian households to have the basic amenities of water, drainage, electricity, energy, and telephony. We have improved indicators in these fields, too; the national average access to these services was at 60.5% of Peruvian households, whereas now we are at 66.3%.

What does the Ministry do to make sure people moving out of extreme poverty have economic opportunities beyond social assistance?

Another of the programs we have in place to fight poverty is Haku Wiñay, which is based in the generation of economic opportunities. For example, families in extreme poverty are given a piece of land to enable self-sufficiency. We also provide them with training on farming and irrigation techniques, how to use fertilizer, and more, so they can become efficient at producing agricultural goods, creating a production surplus for sale. This enables families to first have regular income and subsequently, a permanent one. This is a crucial element to ensure that families rise out of poverty sustainably.



TBY talks to **Paola Bustamante Suárez**, Minister of Development and Social Inclusion, on improving the welfare of Peruvians and how the private sector is helping in this regard.

BIO

Paola Bustamante Suárez is a lawyer by profession with a degree from Universidad San Martín de Porres and a MPA from Universidad de Alcalá de Henares, Madrid. She also holds a doctorate in Political Science from Universidad Autónoma de Madrid. She has extensive work experience in advisory and high-level management in the public sector and in international negotiations, as well as in the design and implementation of social programs and projects. As a public servant, she began working as Minister of Women and Human Development in 1997. She has also served as Vice-Minister of Promotion of Employment and Vice-Minister of micro and small enterprises at the Ministry of Work and Employment Promotion.

Founded in 2011 to coordinate the various efforts of Peru's other ministries in terms of development and social welfare

What role does the private sector play in the Ministry's efforts to close social gaps?

All economic sectors play an important role in our efforts to reduce poverty and promote social integration. For example, the private sector plays a key role in the Qali Warma program. We buy food in the market and this program has an annual impact in the national economy equal to \$430 million. We also have the Cuna Mas project, addressing children up to three years of age, which sources food from the private sector. These two programs have a huge impact on the national economy in terms of enabling greater production by local producers for an annual amount of around \$123 million. We have also boosted the purchase of healthy food, opening an entire new market in the country. This is a great opportunity for the private sector, including foreign investment. The private sector and foreign investment also have an opportunity in terms of contributing to closing social gaps in society; sanitation, drinking water, electrical energy, and so on are all areas that can be invested in. We need to highlight this as Peru has a very varied geography and we need to reach rural areas. The private sector also plays a key role in the financial integration process. ✖

INTERVIEW

golden OPPORTUNITY



TBY talks to **Carlos Herrera**, Executive Director of ProInversión, on success in attracting money from abroad, FTAs, and upgrades in the country's credit rating.

Peru is one of South America's top economic performers. How do you attract foreign investment?

Foreign and domestic investment have been some of the main factors behind growth since the early 1990s. The Peruvian economy has been improving since the early 1990s, when economic reforms began to take effect. At that time we embarked on a process to attract foreign investment, outlining the main rules regarding the treatment of foreign investments. Foreign investors are treated in the same way as Peruvian investors, so this attraction of foreign investment began with the privatization process in Peru, when we opened several sectors such as mining, financing, power generation and distribution, and many other sectors that were previously only in the hands of nationals, or even in the hands of the state. This process was improved during the 2000s, when Peru decided to promote the participation of private investment in infrastructure and public services through PPPs. The Peruvian Investment Policy was consolidated by the negotiation of Free Trade Agreements (FTA). The first FTA that Peru concluded was with the US, and with this agreement we just consolidated the open policy for foreign investment

and we turned to a stable and predictable policy for foreign investors. The investment chapter of the US-Peru FTA formed the basis of the subsequent 16 additional FTAs that we have negotiated and which are already being enforced. The main reason behind the expansion of foreign investment in Peru is the stability of economic policy and of our investment laws.

BIO

Prior to his current position, Carlos Herrera served as director of investor services in the same institution. Other positions have included administrative roles in the Ministry of Economy and Finance from 1973-2002, and secretary general of the National Investment and Imported Technology Commission (CONITE) from 1991-2002. He originally studied economics at the Universidad San Martín de Porres.

Over the past two years alone, both Moody's and Dow Jones have upgraded Peru's credit rating. What new investments are on the horizon?

In recent months we have experienced a slowdown in the economy. In the coming year there will be several important mining projects and some significant infrastructure projects that will also begin the construction phase. Regarding infrastructure, there is an irrigation project being undertaken in the North, a second line of the Lima metro, and a gas pipeline in the southern part of Peru. Regional airports around the country will also be renovated and expanded, probably in the third quarter of the coming year. Two thermal power plants in the south of the country will really expand the dynamics of the economy. We expect a GDP growth rate of about 5.5-6.3% over the coming years, partly due to these projects.

Do you think that in the long-term prices need to return to their former levels in order for Peru to continue growing as before? Can infrastructure fill that gap?

Infrastructure is the foundation of the nation's productive potential. In the future, Peru will not depend as much on the price levels of minerals. A major goal is

to diversify the export base and one of the most important areas is agribusiness. The irrigation project of Chavimochic in the northern coastal region of the country will incorporate around 60,000ha of new land for agribusiness. Together with that, in the southern part of the country, there will be a further 35,000ha of land also incorporated through another irrigation project. The gas pipeline being constructed in the southern part of the country will bring gas to two power plant projects that have already been awarded and will provide energy for the development of important mining projects in that zone. In addition, natural gas may also allow for the development of petrochemicals.

Over the coming years Peru is expected to regain its growth rate, at least to some degree. How will Proinversión continue to encourage investors to come to Peru and stay here for the long-term?

We have a particularly stable economic policy that we will continue pursuing. Clear rules allow you for the planning of your business. Something that has helped us hugely is the way we have consolidated all the policies in our FTAs, and have a wide range of investment opportunities, not only in mining, but in food production, tourism, and now petrochemicals. We will probably also talk about forestry in the coming years to promote Peru an export platform, the country is working to be a regional hub to connect the South American region with the Asia Pacific economy. ✖

A dream made reality...



The Asociación Mutualista de Oficiales de la Policía Nacional del Perú, also known as AMOF-PNP, is a private organization of police officers and other personnel working within the Policía Nacional del Perú. Our work program is reflected in strategic directives that promote our institutional mission, which is to **contribute to the wellbeing and improve the quality of life of our associates.**

The management principles of the association are drawn from our corporate values, and have a business focus with the objective of positioning ourselves as one of the best among our competitors. To achieve this, we have a team that actively cooperates for the growth and development of the institution.

We also emphasize the achievement of objectives such as strength, rich entrepreneurial spirit, corporate leadership, economic and financial stability, reliability and trustworthiness, originating from our commitment to our associates, delegates, managers, consultants, and staff.

The recent opening of the new **Centro Empresarial Premium** (CEP), **a dream made reality**, brings together everything we have said. The center was constructed on 1,050 sqm of land with more than 10,000 sqm of area constructed, distributed over 10 floors, three mixed-used spaces, and five basements, with 107 parking spaces.

The building is equipped with CCTV, a modern air conditioning system, and an integrated fire detection and prevention system. The premium offices also have modern spaces, terraces, cafeterias, and more. The center is in a privileged location on the corner of Avenida Jorge Chávez and Calle Berlín, in the heart of Miraflores.

In the near future, this important institution will guarantee benefits for associates, while the profits from our real estate investments will improve the retirement benefits for all.

Our visual corporate identity is evident in the antique totem pole and thematic wall, which artistically express our ancient and multicultural heritage as well as our commitment to our associates.

Currently, we are evaluating the possibility of pursuing a number of new major investment projects of high profitability, using our financial backing, considering that our financial operations based on our trusting relationship with Scotiabank del Perú have been closed successfully and we have also started a new business unit leaving open opportunities to access new lines of credit based on the trust we have achieved in the national financial system.



Av. Jorge Chávez 170, Miraflores - Lima - Perú

727 1002
997 565 068





THIN BLUE LINE

TBY talks to *Adolfo Mattos Vincés*, Administrator of the Mutual Officers Association of the National Police of Peru (AMOF-PNP), on benefits for members, real estate investments, and international partnerships and connections.

BIO

Adolfo Mattos Vincés has spent 35 years in the Peruvian police service, with a doctorate in government and public policy, a master's degree in drug addiction studies, a degree in electric engineering, a diploma in business administration from ESAN, a diploma in international cooperation management strategies for the financing of project development, and a diploma in research and strategic planning. He has managed, with national and international technical assistance and cooperation, the creation and implementation of the Regional School for the Andean Community for Antidrug Intelligence, the School for Research on the Trafficking of Illicit Drugs, the Academy for the Application of the Law with the US government, and the PNP Telematics School. He managed the financing and construction of the Centro Empresarial PREMIUM AMOF-PNP. He also signed an agreement with the regional government of ANCASH for citizen security.

How has the Association transformed itself into an essentially public organization?

The AMOF-PNP was established on November 5th, 1992 as a Mutual Association, a company to provide benefits and services to the officers of the National Police of Peru (PNP), who are civil servants. The Association, however, develops itself in the private sector, i.e. no public entity of the Government is involved in management activities, and we are governed by our own statute and regulations. Today, we are comprised of more than 9,500 Official PNP associates and considering that the police in our country has about 100,000 troops, this means that about 10% are associates. Financially, the Association is based on the monthly contribution of its Associates - equivalent to 3.5% of the salary of Alféreces; so contributions are dynamic, the higher the salary, the higher the contributions. Now the monthly contribution amounts to \$22. Over the past decade, our heritage has grown from about \$4.3 million to about \$25.2 million. At the beginning, income came from the contributions of associates and then we expanded that as we ventured into other business segments within the real estate sector, particularly real estate surpassing significantly the profitability of contributions from associates. This new business unit in the real estate sector (renting of PRIME offices to top companies) has allowed us to capitalize the company, accelerate the growth-development, and strengthen the Associated Pension Fund.

What kind of benefits does the AMOF-PNP offer to its associates?

Among the benefits the association offers, the principal is the Mutual Benefit for Retirement

(BMR) and occurs when the state makes Renewal of Troops and Associated Pensioners move into retirement. AMOF-PNP gives the Mutual Benefit for Retirement plus the profitability generated during the time the officer was on active duty. The responsibility of the government is to make profitable the Contributions Fund during that period. In this sense, we have developed and marketed real estate projects. We also provide Mutual Benefit for Death (BMF) and the Mutual Benefit for Disability (BMI) to officers and/or family, meaning that it works as a family insurance at low cost (deaths of associate, spouse, children, parents and disability of the associate). In addition, we grant associative loans, taking as collateral the amount accumulated by the Associate Contributions.

How has AMOF-PNP involved itself in the real estate sector?

We have developed four real estate projects intended to associates and the general public, what actually enhanced profitability. The fifth project is the Premium AMOF-PNP Business Center, which has an approximate floor area of over 10,000sqm, on a 1,050sqm area. To date we have invested more than \$10.75 million in this building, expected income will allow us to pay the debt acquired with Banco Scotiabank in Peru for construction and increasing and improving benefits and services for our Associates. With the development of real estate projects, we gained knowledge and experience in this sector, and we now have premium office in the heart of the upscale district of Miraflores. This allows us to obtain high rental return of the same, between 15-16%, because the value of land in the area has

Today, we are comprised of more than 9,500 Official PNP Associates and considering that the police in our country has about 100,000 troops, this means that about 10% are associates. Financially, the Association is based on the monthly contribution of its associates.

crime. There will be an exchange of experiences and knowledge, which will strengthen the position of the police not only in Peru but also internationally. For example, a few years ago, the UN proposed a new approach to address insecurity and combat violent crime, called: Human Security. We must train cadres, a “critical mass” that would contribute to enhance, optimize, and maximize this new approach, considering that the most important thing that each company has is its human capital.

10 audited and certified processes since 2009

increased from \$1,800 per sqm when we acquired it to \$5,000 per sqm. We did not have to resort to extraordinary contribution quotas from associates.

Does the Association have international partnerships?

We have created the International Institute for Research and Development against Organized Crime (IRDAOC), an NGO aimed to harness the knowledge and professional experience of the police in several countries. As technology advances, the crime does as well, and this NGO aims to strengthen the powers of the associates through academic events such as courses, seminars, and forums, among others. With our new offices in the Premium AMOF-PNP Business Center, we will go ahead with this project and achieve the goals we set for ourselves four years ago in its creation. Part of the project is to strengthen international cooperation and technical assistance in support of the institutions involved in the fight against organized

What is your vision for the growth of AMOF-PNP over the coming years?

Being the leading institution of its kind, quality standards and excellence in the provision of benefits and services that provide added value, and meeting the needs and expectations of associates and their families. In this context, we face several challenges, and one of these is to consolidate our corporate identity, and to consolidate our projects and generate revenue to work with more financial leverage. We are evaluating opening new business lines such as clinics for PNP Officers. We are also venturing into the stock market with our promissory notes for up to \$3.07 million to transform these into commercial paper notes that can be traded publicly on the stock exchange in order to obtain new credit lines and meet the demand for loans to associates. We also aim to maintain the system certification on quality management ISO 9001: 2008, because since 2009 we have 10 audited and certified processes. Once we start working in our new facility, the goal is to expand the current scope and certify the maximum number of processes possible. ✖



DUCKS *in a row*

TBY talks to *Hebert Tassano Velaochago*, Chairman of the Board of Indecopi, on the company's activities, the Doing Business ranking, and the prospects for the future.

What are the main challenges to INDECOPI realizing its main activity in such varied fields?

In fact, INDECOPI is an institution that is responsible for numerous matters related to the following topics: (i) competition; (ii) protection of intellectual property; and (iii) consumer protection. It has independent and specialized functional bodies that are responsible for the investigation and resolution of cases on matters within its competence. Such as the Commission of Defense of Free Competition for the defense and promotion of competition and the Commission of Consumer Protection for consumer issues; additionally, we have offices responsible for matters related to intellectual property. In that sense, each subject is in charge of a specialized body or office, making the work of INDECOPI more efficient, because it allows progress on each of the issues in a balanced and parallel form. It must not be forgotten that all disciplines in charge of the institution have as common ultimate goal, which is the welfare of consumers; therefore, their relationship and direct relevance is to the functioning of the economic model of social market economy. The challenge is to bring all these activities under a common denominator that is timely, independent and tech-

nical resolution of the matters in charge to give assurance to enterprises.

Peru ranked as the second best place to do business in Latin America in the 2014 Doing Business Report. What factors in recent improvements in Peru's regional position underpin this ranking?

An important factor that Peru is in this position in the ranking has been undoubtedly the performance of INDECOPI in strengthening the country's institutions through the exercise of its powers. Indeed, the work that has been done is important companies and for our institution in eliminating illegal and/or irrational bureaucratic barriers for market access. In this regard, INDECOPI made an estimate for the costs of barriers unapplied in 2013 and concluded that the complainants traders would have had to assume approximately \$44 million. Another important factor has been the promotion and defense of competition, which has been allowed into the Peruvian market to create a more dynamic and efficient place. Indeed, we should punish anti-competitive practices such as abuse of dominant position and agreements so that it allows more operators in the market; thus, they can compete in the quality of their products and services, which

benefits citizens. It is important to note that between 2006 and 2014, INDECOPI solved a total of 79 cases by issues related to competition. In Peru, the investor has the guarantee that INDECOPI is a strong and active competition agency, which actions are technical and independent. That contributes to rank the country as the second best place to do business in Latin America.

What are INDECOPI's plans for the coming years?

In recent years, INDECOPI has implemented a series of improvements that have strengthened the capacity of the institution in the administrative aspect and functionally. For example, we have opened offices in all the regions of the country and have strengthened the capacities of the functional bodies to perform better and more investigations. This is reflected in the results obtained regarding the elimination of bureaucratic barriers and initiating investigations of anticompetitive conducts, it also result from further competition advocacy and the activation of the leniency program as an important key to detecting cartels. However, we aim to further strengthen our capabilities to better serve businesses and citizens in general. To do this, we plan to implement technological tools to improve inter-

nal processes and thus serve users more efficiently. We are also presenting a series of legislative proposals to strengthen the powers of INDECOPI, including the proposal to improve the defense of free competition system, which is looking to enhance research capacity and the time frame to solve cases, as well as improve the bankruptcy system. It is important for companies to exit the market in an orderly manner. In addition, in the field of intellectual property, we are presenting a proposal to strengthen the protection of biodiversity and collective knowledge of indigenous communities of our country, which represents a major source of business. Finally, considering the importance of INDECOPI for the economy, we expect in the coming years propose a series of public policy related to matters of our competitors that can serve as a road for action by our institution and to harmonize the needs and objectives of each of the actors operating in the market: the State, businesses and citizens in general. ✕

BIO

Herbert Tassano Velaochago is the President of the Executive Council of Indecopi. He is a Lawyer by profession with a Law degree from Pontificia Universidad Católica del Perú (PUCP). He has more than 22 years of professional experience in the public sector. He has a Master's degree in Regulation of Public Services from the Universidad Peruana de Ciencias Aplicadas (UPC) and IEDE Business School.

RED-UCING TAPE

Like many Latin American countries, Peru has historically suffered from a complex regulatory environment that has been a challenge to navigate for both international investors and Peruvian businesses.

OPEN A PERUVIAN NEWSPAPER or speak with a Peruvian businessperson and you are likely to hear frequent mention of the words *tramitología* and *permisología*, both “syndromes” that plague the Peruvian state, referring to the often complex and time-consuming processes involved in obtaining permits and paperwork from the government.

For years, as Peru rode the wave of the mid-2000s mineral super-cycle, most foreign investors saw Peru’s complex regulations and red tape as simply part of the cost of doing business in the country’s booming mining sector, and willingly invested the time and money to move forward with investments. However, as mineral prices entered a gradual slowdown towards the beginning of the 2010s, and Peru’s GDP growth has steadied, the government has realized that reducing regulation is a key element to ensuring the continued flow of foreign investment. In November 2014, the government announced that the simplification of bureaucracy and a reduction in the costs of investing and doing business would be a key element in a series of measures it is implementing to reactivate economic growth. One of the main areas that has been the focus of these efforts has

been the Environmental Impact Assessment process, which is required for any mining or energy project. This process has undergone a number of reforms to integrate the approval process through the Ministry of Environment.

Peru’s efforts have not gone unnoticed, and for the past few years, it has repeatedly ranked among the top economies in the World Bank’s Doing Business report. In the 2015 report, Peru was ranked number 35 in the world and number two in Latin America, behind Colombia. The report cited many improvements over the past decade, such as the reduction in time to register a property transfer from 33 days in 2004 to 6.5 days in 2014, which placed Peru ahead of richer countries like the United States and Austria.

A key player in Peru’s efforts to reduce red tape and complex bureaucracy has been INDECOPI (the National Institute for the Defense of Competition and the Protection of Intellectual Property). INDECOPI was created in 1993 to promote competition, protect consumers, and protect intellectual property. As Herbert Tassano Velaochaga, President of the Executive Council of INDECOPI explained to *TBY* in an interview, “...our institution has done crucial work in eliminating illegal and/or irrational bureaucratic barriers to market access.” According to Tassano, a study by INDECOPI found that, in 2013, Peruvian businesses saved \$44 million because of costs and barriers that had been eliminated by INDECOPI over the previous two decades. Today, INDECOPI aims to support local municipalities and other government organizations to conduct studies that better identify which bureaucratic barriers to business are most costly and could be streamlined over the coming years. ✕



Peru, a country
 to bet on

Peru supports and oversees investment under the technical supervision of Indecopi, the official body that defends fair competition and intellectual property.



Peru
 a country

to bet on

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INTERVIEW

TBY talks to **Martín Pérez Monteverde**, President of The National Confederation of Private Business Institutions (CONFIEP), on the state of the economy, the Trans-Pacific Partnership and FTAs, and environmental issues.



GET ON *it*

What values does CONFIEP promote in the Peruvian economy?

We promote the principles of an open and free economy. It is important to differentiate principles from interests. Usually, each union takes care of their own interests, but as an umbrella organization of all industry organizations in Peru, we try to promote more universal principles of democracy, free market economics, respect for the environment, and fair trade.

What does this mean in terms of practical actions?

We strongly support free trade agreement (FTA) negotiations. FTAs are not only a market access issue, but have also helped labor unions obtain much better conditions in Peru, having fostered improved relations between business people, companies, and producers. The private sector, especially CONFIEP and others have played an important role in promoting FTAs and informing citizens what an FTA is and how it benefits the nation. Once public support is in place it becomes easier to proceed with negotiations. Now, 95% of all our exports are under FTAs and we export to around 195 countries.

What are the benefits of the Trans-Pacific Partnership (TPP) for Peru?

Around 95% of our exports are already going duty-free to 195 countries, which confirms our commitment to FTAs, and the TPP is set to become the largest commercial platform in the

world. I am sure that the government is taking care of the situations we may have in the future within TPP because we already have FTAs with Canada, the US, Chile, and many other countries that were part of the TPP; there are many other countries that we were not linked to. It is important to send a message that the whole APEC should benefit from an FTA, with an open economy and open opportunities. There are always people who will oppose free trade agreements, but as I said, the important consideration is not merely market access, but the nature of our interaction with all our partners. We should ideally also move on from open markets to the free movement of people and labor, rather than goods alone. Financial integration is also an interesting issue, guaranteeing the free flow of capital. We also need to harmonize sanitary and phytosanitary standards (SPS).

What efforts does CONFIEP make to improve conditions for SMEs?

In Peru, we face the challenge of shifting from an informal economy to a formal one. Unfortunately, 70% of our labor still works in informal conditions. The major challenge for Peru is to reverse this trend, as formal workers are three times better off than their informal counterparts. If we really want to become a developed country, let's say in 20 or 30 years, then we must develop a better perception of taxation, because 30% of citizens cannot fund the entire 100%.

Combines
the heads of
the nation's
largest industry
and sectoral
organizations

Promotes
the principles of
a free and open
economy

How would you characterize the extent to which environmental issues are integrated into public policy in Peru?

Despite considerable informality and the need for greater institutionalization, it is clear that one of the most pressing issues is to convince the public of broader national concepts. People often have doubts, and while environmental issues are something that developed countries take seriously, developing economies have yet to reach that stage. There are many serious efforts underway; however, people have a tendency only to remember the mistakes of state-owned companies. Some private companies have done the same. I remember when I was young and the government struck oil in the Peruvian jungle, the most published picture in the news that day was people in the middle of the jungle bathing in the jet of oil spouting from the ground. This was just 25-30 years ago. Respect for environmental issues is something that every citizen in the world should have. We still have more to do, not only in Peru, but in general. ✘

BIO

Martín Pérez Monteverde holds a degree from Universidad Pacífico as well as from Universidad de Piura. He has over 20 years' experience in the private sector developing his skills in strategic thinking, creativity, negotiation, analytical skills, and the ability to promote and manage change. In the public sector he has five years of experience as Congressman of the Republic and Minister of State in the portfolio of Foreign Trade and Tourism.



TBY talks to **Paulo Pantigoso**, Managing Partner of Ernst & Young Peru, on energy and commodity costs, infrastructure, and what makes Peru unique as an investment destination.

guiding LIGHT

BIO

Paulo Pantigoso is the Managing Partner of Ernst and Young Peru. He began his career in 1993 at Arthur Andersen, and was named the leading associate of consultancy and a member of the executive committee at Ernst and Young, a position that included responsibilities for the firm's operations in Colombia, Venezuela, Ecuador, and Peru. He is the editor of Ernst and Young's Business and Investment Guide, which is published annually in cooperation with the Peru's Ministry of Foreign Affairs. He has been Managing Partner since 2014.

What's your economic outlook for Peru for 2015?

We will have a better year than 2014, especially in terms of improving Peru's GDP. At the beginning of 2014, we anticipated a 6% GDP growth and we finished the year with 2.4% growth. One of the main reasons was the drop in commodity prices of traditional exports, which represent 75% of Peru's exports. However, I foresee positive trends in 2015, because 2014 was also a tough year for sectors such as mining, manufacturing, and fisheries. In the latter, we expect two peak moments in terms of exports throughout 2015. Peru faces the challenge of becoming more competitive and diversifying its economy and industry, and we also must become more dynamic with our traditional and non-traditional exports. In my opinion, GDP growth for 2015 will register around 4%. It will be difficult to reach that, but tax incentives, public expenditure, and non-traditional exports can help to reach the goal. The speed with which we implement such actions and strategies will drive our growth this year. Overall, I am optimistic for 2015 and 2016 and I anticipate rapid growth in the second half of the year, despite 2016 being an electoral year. We also need to put this in context, because 2015 is a difficult year for Latin America in general, with Brazil experiencing slow growth rates and many other countries are being hit by scandals or low oil and commodity prices. Latin America has an expected 1.3% growth for 2015. Oil and mineral prices will have an impact on the region's economy and their development. In this

context, Peru is a leading regional copper exporter and in two years time, it will become a more powerful international exporter. We are a country with vast reserves of tin, silver, zinc, and gold. Each of these metals has particular behavioral trends and that has an impact on our economy. In the past couple of years, Peru has seen high levels of investment in the mining industry and this trend will continue with projects such as Tia Maria. We will soon start seeing the results of such investments already. We expect the US to have a strong economy through 2015-16, and that should drive up demand again, especially for Peruvian copper. Our challenge here is to provide the volumes needed, as well to better control the cash costs. On the other hand, energy costs in Peru are 50% lower than in Chile for example, and labor costs are 20-40% less expensive. These are two of Peru's competitive advantages. Nevertheless, our rugged geography makes transport costs higher. Overall, we have certain efficiencies and advantages, but at the same time inefficiencies based on infrastructure and transport, which need to be tackled and improved in the next two years.

In terms of infrastructure, how would you assess the overall development of the economy?

The Association for the Promotion of National Infrastructure has calculated the infrastructure gap in the country to be approximately \$87 billion. This includes all types of infrastructure, but the main problem has to do with road infrastructure. This sector has

a lot of potential and it has been labeled as a strategic sector. However, we have to be more dynamic and provide investors with more advantageous conditions. Peru should be completing infrastructure projects every year at a rate of \$15 billion in order to close this gap faster. However, we need to assess the capabilities of the government and the industry, and assess the kind of bureaucracy investors will have to deal with. We need to evolve to meet our potential. For example, we need to build bridges between the public and private sectors. The development of this sector will boost other strategic sectors for the country.

What are the competitive advantages of Peru as an investment destination?

The country offers macroeconomic and political stability, and it has a very favorable business environment for foreign investors. There are some things that need to be addressed such as bureaucracy and the licensing process. We need more outreach towards foreign investors too, because many only get to find out about our culture and our particularities once they are here.

What is the potential to boost exports in Peru?

Agriculture has huge potential. In fact, agricultural exports increased by 19% from 2013-14, reaching \$5 billion. For 2015, we expect them to reach \$7 billion, which is on par with Chile's 2014 output. Agriculture is attractive for foreign investors as well. Peru has vast amounts of prime agricultural land, all over the country that have the capacity to boost agribusiness. However, investors need to know how to choose. Retail and poultry are two sectors with huge potential for investment and export. Tourism also has great potential. I think we need to boost cooperation between the public and the private sectors, as the state and the private sectors should

develop the national agenda and main projects for the country in collaboration with one another.

How will the Peruvian sol perform in the coming years?

It is not easy to make a solid prediction, but I would say that the sol would continue to devalue because the US economy is growing and the dollar is getting stronger. The challenge is to strike a balance between these currencies in a way that benefits both importers and exporters. I am talking about US dollars, which play a very important role in our economy. In 2008, Peru had 52% of its economy dollarized. Today, this figure has decreased to 38% and the government wants to further reduce it to 33%. This makes our economy more attractive in the international arena. In general terms, I think the country will become stronger with the further de-dollarization of our economy, especially if we do it gradually. In my opinion, the secret for success is that changes are gradual and sensitive to economic realities.

What are your expectations for 2015 for Ernest & Young?

We are the leading business services company in Peru, and we are thankful for the trust of our clients. Our challenge is to continue growing and to develop knowledge in the areas in which we operate, including auditing, consultancy, taxes, and corporate finance. We develop business guides that provide technical knowledge for those who need it. We also have teaching tools and initiatives in place with workshops, round tables, and university courses. Our aim is to be close to businessmen at that moment when they need us the most. Our growth in the last few years has been three to four times the rate of growth of the Peruvian economy, which is our economic segment standard. In 2015 growth will continue at this level. ✕

EY growth
4x GDP growth
for 2015



LISTEN TO THIS



XAVIER URIOS HUIGENS
General Manager, Cámara de Comercio de España (COCEP)

Like many of its neighbors, Peru is looking at different ways to attract FDI to the country to help promote and develop its economy.



JORGE VON WEDEMEYER
President, Cámara de Comercio de Lima (CCL)

My job is to attract Spanish companies, businesses, and businessmen to Peru. I consistently focus on our potential in terms of technology innovation capacity in infrastructure and construction. We have more than 25 years of experience in developing technology companies, there are certain advantages available to Spanish companies. A Spanish company today can offer cutting edge technology at a lower price than many Peruvian companies. There have been some huge proj-

ects undertaken by Spanish companies as a result, such as the Line 2 of the Lima Metro, the contract signed last year between the state and Técnicas Reunidas for the modernization of Talara refinery, and Repsol's modernization of the La Pandilla refinery. All in all, Spanish companies are involved in 15 of Peru's largest projects in innovation and technology. For example, all of the Peruvian solar energy programs and half of the wind energy programs are being undertaken by Spanish companies.

The Chamber of Commerce is a representative institution of businesses. We have well-developed infrastructure and strategies to foster ideas and concepts, whereby we effectively operate as a think tank. That is not the classic role of a Chamber of Commerce. Normally, organizations such as ours establish business contacts and enable networking between businesspeople. However, we have a special interest in comprehensively improving

the commercial environment to facilitate business opportunities; these are the mainstay of national development. As long as business is possible, people are employed. This means they have a steady income and can enjoy a certain standard of living. Ultimately, many factors are beyond our control. Other actors such as politicians play an important role in this. Our job is to present the right ideas, and influence other actors. This is the daily function of every member of this institution.

GASTÓN PACHECO ZERGA
President, Asociación de Exportadores (ADEX)



Adex has been active in promoting free trade agreements (FTAs) with other markets and also in ensuring the smooth implementation of these treaties. Sometimes countries sign treaties, but then enter into non-tariff areas. We essentially facilitate trade, in which Peru has been highly active. Recently, there were news from the Commerce Ministry that Peru would sign another FTA, this time with Turkey, which should be good news for exporters. Peru is entering new markets, and, thus, opening

new destinations for its products. We are enthusiastic about this, and we are involved in ensuring that these trade agreements work to the advantage of exporters here. For us, that is one side of the coin. The other aspect has to be internal policies, where we need to support those policies that add value to production in Peru. Unfortunately, the law in general in Peru is not as comprehensively applied as it should be, which has been a chronic problem with implications not only in economic, but also in social and political terms.

ERUPTION OF ACTIVITY

Long an economic center of Peru, Arequipa was well placed to exploit the commodities super-cycle where minerals mined in the region commanded record prices.

ALTHOUGH AREQUIPA is Peru's second-largest city by both population and economic scale, it is traditionally better known as a scenic mountain retreat. However, ten years of record-breaking growth fueled by a booming mining sector, as well as recent government efforts to encourage innovation, improve the business environment, and invest in infrastructure have brought the city new recognition as one of Latin America's up-and-coming investment destinations.

Arequipa has always been an important economic hub for Peru. However, the highly centralized nature of the Peruvian economy has meant that most industrial development has taken place in Lima, leaving the provinces far behind. Over time, Arequipa, located in an Andean valley, established its economy as a key trading hub for small-scale mining and traditional agricultural and textile products such as milk, quinoa, and alpaca wool.

The late 20th century saw the development of industrial-scale mining projects in Arequipa, catapulting the economy forward and positioning it to take advantage of the early-2000s commodities super-cycle, which saw record prices for a number of minerals mined in the Arequipa region. In the first half of the 2000s, Arequipa became the fastest-growing city in Latin America, and between 2002 and 2012, the city doubled its GDP.

In recent years, as commodity prices began to fall once again, the city has made significant strides in promoting a more diversified economy through reforms, tax incentives, and investments in infrastructure. Efforts to make the city a more attractive place to do business have paid off with a wave of new capital inflow to both traditional and non-traditional industries, including software and telecommunications. As a result, the city has begun to receive international recognition as a solid address for business. In 2014, it placed 30th on the América Economía ranking of the most attractive places to do business in Latin America, and 36th on the Índice de Atractividad de Inversiones (INAI) compiled by Colombia's Universidad Rosario.

One significant development for the city has been the growth of the software and technology sectors, with policy-makers coining the term "Silicon Arequipa" to describe the new wave of software start-ups in the city. A large part of these efforts has involved a push by the government to fund new computer science postgraduate programs to ensure that the region has the human capital to develop a technology industry. Currently, Arequipa has the highest concentration in Peru of people with postgraduate degrees in computer science from foreign universities. In order to further leverage this strength, the gov-

ernment has funded two new computer science programs, one at Universidad Nacional de San Agustín and the other at Universidad Católica San Pablo, recently named the best computer science program in the country.

The city now has around 50 active software companies and over the past decade, the Arequipean software industry has grown from generating \$132 million annually to around \$310 million. Over the same period, software exports grew from \$9 million to \$38 million. A major step forward for the software sector in Arequipa was the decision by BCP, Peru's largest bank, to locate its software development centre in the city, creating 300 jobs in the software segment. The city also garnered additional attention in 2013 when a former Google programmer decided to move to Arequipa to found Zuriel Corporation, a company that develops web and mobile apps. According to Carlos San Roman of Adecco, a major driver of growth for the city's software industry over the coming years will be business process outsourcing (BPO), which will allow Lima-based companies to subcontract software services to specialists in Arequipa.

Apart from technology, the regional government of Arequipa is looking to promote further development in industries such as tourism and agriculture, which have been the traditional mainstays of the city. A large part of this effort includes working to improve the environment for doing business through regulatory changes and infrastructure investments. In an interview with *TBY*, the mayor of Arequipa, Alfredo Zegarra Tejada, explained that; "We need to foster a greater sense of confidence among investors in the city and its public institutions." The mayor highlighted that the city has improved the speed at which it issues business permits, but that work remains to be done.

One of the major challenges identified is the lack of sufficient transport and telecommunications infrastructure. However, this looks set to change, with a recent government announcement of around \$1 billion to be invested in road and telecommunications infrastructure in the city, including the renovation of the airport.

The mayor also highlighted efforts to promote the development of the tourism sector. Arequipa has long been known for its strength in tourism. The city is known as "the White City" for the unique, volcanic, sillar stone from which the majority of its buildings are constructed. It has also been recognized as a UNESCO World Heritage site. The government is now investing a further \$16.4 million in restoring tourist sites. These efforts are already bearing fruit, with the mayor recently announcing that two international hotel chains will be investing around \$10 million to develop hotels in the historic centre of the city. ✖

KEY SECTORS



Software & ICT



Agriculture



Mining



Tourism

INDUSTRIAL MINING PROJECTS EARNED AREQUIPA ITS POSITION AS THE FASTEST GROWING CITY IN LATIN AMERICA IN THE EARLY 2000s. TODAY THE CITY IS DIVERSIFYING ITS ECONOMY.



AREQUIPA ON THE RISE

X2

Doubled the size of its GDP between 2002 and 2012

\$1

billion to be invested in roads, ICT infrastructure and airport renovation

\$16.4

million to be invested in restoring tourist sites

\$10

million to be invested to develop hotels in the historic city center

SILICON AREQUIPA

Software industry generates

\$310

million annually

300

software jobs created by BCP's software development center

Software exports

\$38

million annually

50

active software companies



Highest concentration of **postgraduates in computer science** from foreign universities in Peru



Computer science program at **Universidad Católica San Pablo** named **best** in the country

STEPPING UP THE PRESSURE

Peru's third most populous metropolitan center is making sure that the private and public sector are working in tandem to attract investment and development.



MARCO CASTRO
MANRIQUE
*General Manager,
Ceticos Matarani*



JOSÉ VLADIMIR
MÁLAGA
*President of the Board of
Directors, Caja Arequipa*



ALFREDO ZEGARRA
TEJADA
Mayor, Arequipa

Currently, 17 companies are in place, of which six are in the process of starting operations. By law, we provide the lots on which they operate and for which they have a period of up to two years to start operations and fulfil their investment commitment. Before this deadline is up, we also give the facilities, but the administration defines whether the company has met the stipulated conditions. We expect to triple our growth to 50%. The investment conditions are highly favorable in the area where Ceticos Matarani is located, which is in a strategic geographical location. We are located at a point of access near major mining projects in the south. Currently, we are finishing work aimed at creating a mining cluster, where the investing companies are Chilean. This stimulates other companies to develop similar activities. We are working to update regulations to broaden the range of development possibilities. The considerations of companies operating in Ceticos will remain the same, with tax exemptions continuing. We offer lots of 1,000, 1,500, 2,500 to 10,000 sqm, with 14 hectares available for development. We have 350 hectares at our disposal for companies with special requirements of higher volume. We will be able to accommodate such firms with requisite land related services that they may require.

Nowadays, 85% of Peru's GDP is driven by SMEs. As of 2008, all banking institutions have shifted attention to this customer base. Municipal banking institutions are largely active in micro finance. Caja Arequipa currently represents 22% of the municipal banking institutions system, being the largest such entity. Over the years, we have developed solid know-how. All these elements have made us the 12th ranked banking institution in Peru. Our client base is mainly located in the South, Center-Eastern and Eastern parts of Peru. Today, we have operations and activities in the micro finance, commercial, agriculture and consumer segments. However, 70% of our current portfolio comprises micro and small-scale enterprises—these operate across all economic sectors. We expect to close the year with \$24.58 millions net profit (net income). At the moment, are revising our business model, as we understand the old model is no longer suitable for the current economic context. There was a turning point with new banking regulations in 2008, which opened the market to all players across the country. We have to keep in mind the considerable expansion of retail in Peru in the last few years, something that changed the banking scenario and all banks started to pay much more attention to the micro finance segment.

The success of Arequipa in achieving growth rates in excess of the national average has been based on commerce. For example, we have seen several large shopping malls open in the city, and we plan to continue boosting private investment to foster swifter growth in the city. We have also seen a high level of development in the mining industry, especially in the copper segment, where export figures have been impressive; additionally, we have a strong agriculture industry. Prices in the mining industry have decreased over the past couple of years, although copper demand is predicted to outpace supply, which will raise prices again and put to an end to the current recession in the sector. Our current efforts are directed towards boosting the role of other sectors of our economy: for example, agribusiness and agricultural exports. In this context, we need to increase production and add value to our products. This will result in new employment opportunities for the city. I believe this will also contribute to boosting the industrialization of the city and as long as industry remains buoyant, we will be less dependent on the mining sector. As I previously mentioned, private investment will continue to flow into the city for the further development of this sector. I would also draw attention to the services industry, which contributes hugely to our economy; services for the mining and industrial sectors in particular.



WISE *investment*

TBY talks to *Andrés von Wedemeyer*, CEO of Cervesur Corporation, on investing in Peru, volatility in mineral prices, and the future role of agriculture.

What has motivated Cervesur as it has invested and grown in Peru?

After long doing business in Peru, we had to develop the skill of growing several businesses, while addressing a variety of risks. When risks are presented that are unrelated to your business, it is a sign you should be more diversified, which is one of the characteristics of Cervesur as a holding company. We have invested and diversified in cotton textiles—the entire production of the garment—which is seldom seen in the world today. This gives us strength to cope with the variations in the market. We are in several businesses that are dedicated to services. We invest in the main importer of machinery in Peru and in the main steel plant. Our policy is to try to be present in the businesses and the activities where Peru has a comparable advantage, to ultimately develop into a competitive advantage.

Have you been concerned about the fall in mineral prices and its effect on the Peruvian economy?

In the last decade, China has become a country that demands goods and services in foreign markets. Now, after decades, China's growth is slowing, bringing prices comparatively lower than what they were 1½ years ago. That diminishes the possibilities of growth in Peru and there is also the challenge of producing out of the advantage of having this base of growth in mineral exports. So we should excel in other products that we can produce, not only for the national market, but specifically for exports. Peru is a country that has a small national market and to attain considerable growth, it needs to export. That is what we should do in the coming years, although it will not bring us to the growth rate we achieved in the last ten years. Now, we will focus on developing the market for goods where we can be competitive.

- Founded in 1898 in Arequipa
- The largest and oldest holding in the Peruvian economy

What role do you see for agriculture as a larger part of the Peruvian economy in the future?

With the necessary framework, it should be one of the legs on which Peru's growth can be developed. Economies grow steadily if they have different bases of growth. The base of growth for Peru has been mineral goods and raw material, and based on that, there are some developing industries. 17% of Peru's GDP is dependent on industry and it should be 25%, but there is no industry today without technology. Investment in technology is necessary to drive any industrial venture.

What is your assessment of the textile industry, now that international companies have moved away from Peru and are now sourcing in Central America and Asia?

We have to differentiate the textile businesses across the entire textile business. One segment is weaving, which is something that has to do with high standards of production technology. Production of cloth, on the other hand, is the other end of the business. More sophisticated production processes with higher value are things in which Peru has skill. Our raw material is also better than other alternatives. Peru has a relatively high gross export value of cloth, whereby we pro-

duce expensive garments. We cannot compete with China on high volume, low-priced goods.

What potential do you see for the Pacific Alliance to play a transformative role in the Peruvian economy?

That is beginning to be seen as an alternative, specifically to arrangements like Mercosur, or any other alliances in the region. One of the advantages of this alliance is that the partners have a clear idea of a free market economy. The markets, ventures, and companies that develop in each country can compete for better conditions in a free economy setting. ✕

BIO

Andrés von Wedemeyer obtained his Master's in Business Administration at the University of Hamburg, Germany, and also completed a Program for Management Development at Harvard University. He is the Executive Chairman and CEO of Corporación Cervesur S.A.A. He is President of Euromotors SA, Altos Andes SA, Euro Camiones SA, Euroinmuebles SA and Renting SAC; as well as President of several companies that make up the Cervesur Corporation. He previously served as Chairman of the Board of Profuturo; President of the Association of AFPs; CONFIEP Director, President of the Chamber of Commerce and Industria de Arequipa, member of the Board of TECSUP, Director and General Manager of the company Cervecería del Sur del Perú, among others.

THE PLACE TO BE

As the economy continues to grow, Peru will offer more and more opportunities for foreign investors to take advantage of.



CELSO HAMER
*General Manager,
Netafim Peru*



JORGE BARATA
*Executive Director,
Odebrecht Latininvest*



ARIEH ROHRSTOCK
*General Manager, Gilat
Perú*

Peru has a lot of potential. We are participating in at least two or three national irrigation projects here. For these projects, the government brings water to develop a region with irrigation. Another factor to consider is the climate of Peru; the country is among the best places in the world for agriculture, mainly on the coast as we do not have much precipitation and can control 100% of the crop with irrigation. In places where there is a lot of rain, it is harder to control the crop. With our system, farmers can introduce the water through what we call “fertirrigation,” which is a combination of fertilizer and irrigation. With the old technology, fertilizers and pesticides were applied manually, or with sprinklers. When fertilizers are in sprinklers, they seep into the air. With our system, fertilizer is delivered directly to the roots. Farmers can save both money and fertilizer as a result, while the plant gets exactly what it needs. In Peru, more than 90% of agriculture is by flood irrigation. It is now time to upgrade. Drip irrigation makes up about 6-8% of all the irrigation in Peru. Our clients have started to realize that with the same water used to flood fields, they can irrigate far more with drip irrigation. Many people have land but no water. With our technology, they can grow more with fewer resources in terms of energy, water, fertilizers, and people.

Peru has undergone important changes over the past 25 years. More specifically, the country attracted significant investment over the past decade and has worked to diversify its economy. At the same time, many private companies have entered the market, especially in the mining industry. In these last 10 years, many great opportunities have appeared in the infrastructure sector as the government invested in key projects for national development. For example, investment in roads linking Peru with Brazil has been a defining feature of this strategy. The size of these projects has also increased dramatically, and the involvement of international private funding institutions has promoted this. This environment boosted competition in the country and many companies saw the opportunity to come here and reduce the massive infrastructure gap in Peru. In addition, the country has taken important steps in the energy industry and its regulatory framework, and today Peru boasts the lowest energy costs in Latin America. This in turn has attracted more investors. Moreover, the privatization process of key infrastructure in the country such as ports has created an unbeatable environment for companies like Odebrecht Latininvest. We have been here for quite a long time now and through the years we have increased our participation in key sectors and projects for the country.

The Peru operation is one of the most important for Gilat worldwide, not only because of the size of our business here but also because we are pioneering through our use of new technology and entering new markets. In 2015, we won three out of the four regional fiber-optic projects and we have just started the implementation of those networks, which consist of bringing fiber optic to the district capital and then providing telecom services to municipalities, schools, health centers, police stations, and others. Technically speaking, the biggest challenge is working in the rural areas. We have had a presence for many years in basically all rural regions of the country. One of the barriers that we encounter is finding qualified human resources. So much investment goes into fiber-optic implementation with these projects, particularly the National Fiber Optic Backbone, and there are not enough qualified human resources. Since we are just starting implementation, something we definitely expect is to obtain licensing and permits to purchase land in the country, as we have to implement nodes in many villages.



JUAN DEL CASTRO
*General Manager,
Xerox Perú*



MARÍA ADRIÁN
*Country Manager, Visa
Peru*



EDWIN CHÁVEZ
CEO, Siemens Peru

Xerox Peru is one of the most important markets for Xerox Corporation. Peru reports to a larger region known as Xerox LA that encompasses Argentina, Chile, Ecuador, and Peru. We have been growing and seeing good results ever since we started in Peru and the dependability of the country is reflected in our regional strategy. Over the past 10-15 years, the economy in Peru has been especially strong. It has posted some of the best growth worldwide. Peru has a scale and dimension that allows us to balance the business. Not only does Xerox operate in the printing side of the business here, but we also operate in business process outsourcing (BPO). Xerox has contact centers where such services ensure we have a robust portfolio. Xerox has been in Peru since 1965; this year is our 50th anniversary. Over the past 50 years much has happened in this market. I can say that along with IBM, we are the only other technology company to have been here this long. In this time, we have delivered technology and services and the company has evolved as well. Xerox, by delivering equipment and technology has rendered companies more profitable by allowing them to concentrate on their core businesses.

We have been present in Peru since 1979, when Banco Continental became the first Visa issuer, followed by Banco de Crédito de Perú in 1981. At that time, the total card volume in Peru did not exceed 100,000. During these decades, Visa has leveraged the opportunity to support economic growth by providing individuals, businesses and governments with a better way to pay and be paid. Today, the growth of the card and payment business has been incredible, and over the past seven to eight years the electronic payment business has seen exponential expansion. Peru has over 30 million active cards, including credit, debit, and prepaid cards, and not exclusively from Visa. As a global payment company, we accelerate financial inclusion in partnership with governments, our clients and other key stakeholders. In Peru, we do this by working with all financial institutions, the banks in Peru that are our clients, and the microfinance companies, like Cajas Municipales and Rurales, that help the ecosystem to promote financial inclusion. Our electronic payment system includes not only the traditional segments, but also the new ones, that assist financial institutions in penetrating new segments, notably the nascent middle class.

At the moment we are finalizing tender processes in certain regions of Peru, and I think those projects will further consolidate our leading position in the country. One of the main ongoing projects today—thermo project—is the Southern Energetic Node, of 500 MW installed capacity that will use gas from Peru. A second 500 MW plant is also part of this project, but has been tendered to another company. Siemens is also highly interested in the gas pipeline that will link the project with the gas fields. We have compression equipment that is perfectly suited to the requirements and characteristics of the project. Siemens is also about to close another project; the combined cycle of the Termochicla Plant. We have already provided equipment for this plant and its expansion; this will be a flagship project for us in Peru. Regarding mining projects, we are about to finalize the Constancia Project, a green field scheme we undertook with a Canadian company.



UNDER THE RADAR

The informal economy is a drain on state coffers, but requires a multi-dimensional approach to incentivize employers and employees alike to join the system.

PERU HAS BEEN ONE OF THE fastest expanding countries in the world over the past 10 years, and one of the front line economies in Latin American. Consumption and private investment have been the reliable engines of this progress. With this in mind, the Peruvian government has tried to sustain this brilliant performance, by improving the conditions for foreign investors, turning the investment climate into one of the most attractive in Latin America.

This has created different challenges in the labor landscape, since policies drafted by the government to improve investment have directly impacted it. The recent Youth Labor Regimen of Peru, which aimed to reduce the informal economy by improving the attractiveness of the employability of workers aged between 18 and 24, has reduced the cost of employing young workers.

One of the main tasks of the Ministry of Work and Employment Promotion is to reduce the rigidity that is characteristic in the Peruvian labor market. At the moment, the cost overrun in Peru is the highest in Latin America. In Peru, due to the inflexibility of existing labor laws, companies assume an

estimated 60% of this cost overrun, considerably higher than Colombia, Mexico and Chile, where the cost overrun is assumed at 54%, 36% and 31%, respectively. The company assumes costs such as the two supplementary payments that makes annually to workers, contributions to health insurance, the deposit for the Compensation for Time of Service (CTS), and where the worker has a family, the assignment of an extra 10% of the minimum salary.

The current labor law has made labor more expensive, and there have been changes in the outsourcing and subcontracting restrictions. As a result of the inability for a large amount of companies to meet these requirements, the informal economy and unofficial employment has risen to a remarkable 56% (according to estimates by the Ministry of Labor). These measures, which aim to protect the worker, decrease the rate at which employees are dismissed during recession times, but also give companies fewer incentives to expand their workforce during expansion periods.

The Lima Declaration, adopted by the 18th American Regional meeting in Lima, organized by the International Labor Organization, addresses these challenges, such as the formalization of the informal economy, and the sustainable development of regional employment. International standard labor law is well defined, although the government hasn't successfully enforced it in all areas. This document urges the country to adopt several laws to promote an attractive climate for the creation, development and sustainability of companies, both national and foreign, in accordance with the resolution adopted by the International Labor Conference in 2007. Peru also aims to increase the region's competitiveness by improving infrastructure and adopting regional integration policies, which will promote wider trade markets, and enforce investment.

In order to improve the desirability of national and foreign investment and reduce the informal economy, the current government is implementing a series of policies that aim to reduce the cost overrun. Some of these policies include a reduction of the bureaucratic processes and an increase in private investment. The cost overrun will therefore be reduced, particularly for larger companies either by reducing employee benefits, improving the effectiveness of those that have to be assumed, or reducing the tributary weight that burdens the small and medium sized companies (SMEs). As a result, the labor landscape will improve not only for the companies and national and foreign investors, which will see their costs considerably reduced, but also for the workers, since their real salary will be increased. ✖



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Julio Velarde, Governor of the Central Bank of Peru, on inflation, and the challenge of falling mineral prices.

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Major international and domestic firms are exploring niche segments in Peru's banking sector.

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Buoyed by a stable economy Peru's capital markets have continued to appeal, and are polishing up their offering.

Finance

REVIEW BANKING

Peru's financial sector has survived the economic woes of yesterday by sticking to its guns on tight fiscal policy.

CONCENTRATED JUICE

Peru's financial sector, in general, is a concentrated affair, and where the banks are concerned, just 17 vie for business in a nation where banking penetration remains below regional averages. Industry research reveals cumulative deposits in the system of 218 billion soles by mid 2013, while increased YoY by 12.5%, accounted for just one-third of GDP. The ratio for total loans was the same, on a total print of 212 billion soles, and matching that of Mexico. By comparison, Peru's southern neighbor Chile's loans-to-GDP ratio was at roughly 75%. Local giant Banco de Crédito del Perú (BCP) alone accounts for close to 35% of loans according to financial services watchdog, the SBS. And with Banco Continental, Scotiabank Perú and Interbank the top-four together account for over 80% of loans and deposits. Elsewhere, in banking's financial cousin, the insurance sector two players sit on 60% of total premiums. This concentration dates back to Peru's painful recovery from



Image: PromPerú

Foreign interest in Peru's banking sector has been inspired by its sound regulation and prospects arising the trajectory of the broader economy.

economic crisis in 1998, when the number of banks all but halved from 27 in 1997 to 15 by 2006. A perceived absence of M&A regulation has down the years left the giant banks a free hand to acquire smaller players, further concentrating the field, also curbing the arrival of foreign entrants. According to BNAmericas, a prime example of this was HSBC, which expanded its footprint to Peru in 2006, only to sell its local business—with a 1.6% share of loans and 1.8% stake in deposits—to Colombian group GNB.

CREDIT WHERE CREDIT'S DUE

On May 27th, 2014, Fitch Ratings completed an encouraging peer review of the four main Peruvian banks, whose business volumes stood at between \$35 billion and \$10.6 billion at YE13. The agency was encouraged by strong credit metrics and competitive positions, despite the concentrated environment. Welcomed, too, were the rises in retail and SME lending, confirming longer-term con-

fidence among citizen and business alike. “Peruvian banks have been very active in local and international capital markets and have greatly improved their funding base with low-cost, medium-term funding,” the agency reported. And among its rating actions, Banco de Credito del Peru’s (BCP) Long-term foreign currency Issuer Default Rating (IDR) was upgraded to ‘A-’ from ‘BBB+’ with a ‘Stable Outlook.’ Yet in December of 2014, the agency calculated that excepting Colombia, asset growth among, “...Andean banks is expected to decelerate in 2015 due in part to lower economic growth compared with the three-year period ending in 2013 and tighter credit conditions in some markets.”

Financial regulatory reforms are likely also to follow, and it appears that Peru’s economy and finance ministry (MEF) is pondering amendments to the supervision of banks and cooperatives. Investment banks today supervised by the financial services regulator (SBS) may find themselves under the scrutiny of the securities regulator (SMV).

Recently, Peru’s largest and oldest bank BCP saw Moody’s and Fitch upgrade its rating.

CEO Walter Bayly told *TBY* that; “We have always been proud of our ratings, and of the fact that BCP has survived for over 145 years, despite the volatilities the country has undergone. This only reaffirms the importance of the bank in the broader economy.” Noting the bank’s conservative stance toward the quality of credit risks, “...but also in the level of capital decisions that we would like to work with, the level of liquidity we would like to handle, and the risks we take in general” he concluded that “...the continuous upgrade is a recognition of the way we manage the bank.”

FISCAL PRUDENCE

Since the early 1990s, administrations have favored the tight fiscal policies and monetary policy that have turned Peru’s frown upside down. Dynamic economic growth has been fueled by increasing by mineral exports, while consumer spending, too, has reflected encouragingly in bank’s financial results. So much so that by 2013, regardless of a rather sluggish economy, total direct loans had grown by 14.8%, deposits by 18.4% and equity by 11.2%. Then in July of 2014, Moody’s Investors Service elevated Peru’s sovereign rating to A3 from Baa2, again, with a friendly nod to a healthy balance sheet and fiscal framework. And meanwhile, official data confirms that Peru’s middle class has soared from 26% of the population in 2005 to 50% today. According to Asbanc, Óscar Rivera, the head of Peru’s Banking Association the local banking sector is likely to experience loan growth of around 12 to 13% in should the economy expand by the expected 3.8 to 4%. BN Americas reported him predicting that economic recovery would be determined to an extent by the willingness of Peru’s regional governments to spend their budgets fully in 2015. This would entail the familiar large-scale

infrastructure commitments that create work and foster a better transportation matrix; all good for the broader economy. Yet it cannot be overlooked that Peru, one of the strongest performing Latin America economies for some years, saw a steep dip in GDP growth to 2.4% in 2014 from a robust 5.8% in 2013.

Peru’s growth potential is clear, and has not been lost on foreign banks either; including Santander, Banco Falabella, Banco Azteca, Deutsche Bank, GNB Sudameris, Banco Ripley, Banco Cencosud and the Industrial and Commercial Bank of China (ICBC). Meanwhile, two banks from China, a European bank and another from Latin America have been scoping the landscape according to the banking association. Brazilian investment bank BTG Pactual, too, revealed plans earlier this year to launch a commercial bank in Peru.

CENTRAL BANK VISION

Peru’s Central Bank (BCRP), keen to spur economic activity credit—the benchmark interest rate is at 3.25%—has put its money where its mouth is. In March 2015 the Bank reduced marginal reserve requirements for financial institutions from 8% to 7.5%. It also lowered its minimum requirement of current account deposits to be deposited at the Bank from 1% to 0.75%. With this move, the BCRP seeks to make available more local currency liquidity to further stimulate local economic activity. Indeed, since June 2013, the BCRP’s reduction in marginal reserve requirement in soles from 30% to the 7.5% has opened the floodgates to more than 13 billion soles of liquidity into the system. As Julio Velarde, Governor BCRP explained; “Since lower reserve requirements increase the amount of loanable funds for banks, the sequence of cuts implemented by the BCRP are helping the banks to expand loans in domestic currency. In addition, lower reserve requirements contribute to reduce the cost of credit too.” Importantly, too, the ratio of credit to GDP in Peru has sustained its growth, “...and in consequence, there has been a dramatic increase in financing access for consumers, financing for small firms, and so forth. He points out that sector research indicates that Peru boasts the world’s most sophisticated micro finance system. Indeed, “If grow accelerates, we may have to adopt a more restrictive monetary policy in order to guarantee low inflation.”

DE-DOLLARIZATION

Banks are obliged to meet specific de-dollarization benchmarks, as mandated by the BCRP. Peru is one of the most dollarized economies in its region. With the recent depreciation of the sol, which lost 9% of its value in 2014, the authorities have been particularly attuned to the need to reduce the level of dollarization in the system. Specifically, they reduced their loan portfolios in dollars by 5% as of June 2015 (versus December 2013 balances) and will have done so by 10% by December 2015. This rep-

Since the early 1990s, administrations have favored the tight fiscal policies and monetary policy that have turned Peru’s frown upside down.



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resents a \$2 billion shift in their balances from dollar denominated loans to soles loans. The Central Bank hopes to reduce total dollarization of the system's loan portfolio from 37% last year to 30% by the end of 2015.

MORTGAGE LANDSCAPE

According to the latest data, as of February, loan growth in soles was 17.6% from a year earlier, while in dollars, there was a 1.7% contraction over the past year. Overall credit growth is at 10% YoY, denoting the most tardy expansion observed since 2010. Regarding the housing market, there has been a clear move toward issuing mortgages in soles, again a welcome move for the would-be homeowner, given problematic currency depreciation. The average mortgage rate in soles as of February 2015 was at around 8.6%, vs. 7.5% in US dollars, according to banking regulator SBS. Mortgage issuance in soles was up 23% YoY, while in dollars, there was a 5% decline; making for an overall mortgage growth of 15%. Official data for February indicates that 34% of total mortgages were denominated in dollars, down notably from the 52% of 2011.

There has been an increase in non-performing mortgages, natural enough in a period of depreciating sol and retarded economic growth. Delinquent mortgages were at 1.5% of total mortgages outstanding, up from 0.8% in January 2013 and 1.1% in January 2014. Yet this remains acceptably low for an emerging market.

ALTERNATIVE ROUTES

While relatively low, at 25% in 2014, Peru's mobile penetration is set to rise, making for an alternative medium for the delivery of financial services. Peru's finance minister, erstwhile economist Alonso Segura in April 2015 is determined to deliver banking into the mobile area. Indeed, in 2012 Peru's congress had approved a bill that would underpin the nation's mobile banking regulatory framework. Banking in Peru, and indeed the broader financial markets, will definitely be paying attention to alternative distribution modes in the years ahead.

The banking sector, then, is neatly nestled amid the Central Bank's prudent fiscal policy. Credit remains healthy, and while highly concentrated, foreign players seem set to dilute the pond in the years ahead. ✖



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LIMA *calling*

TBY talks to **Julio Velarde**, Governor of the Central Bank of Peru, on inflation, the challenge of falling mineral prices, and quantitative easing.

BIO

Julio Velarde studied economics at the Universidad del Pacífico in Lima, Peru, in 1974, and went on to obtain an MA and a PhD at Brown University in the US in 1978. He has been Governor of the Central Bank of Peru since 2006, and prior to that he served as Executive President of the Fondo Latinoamericano de Reservas from 2004 to 2006. Before this he was Director of the Banco Central de Reserva del Perú from 1990-92 and from 2001-03. He has held senior academic positions in the department of economics at the Universidad del Pacífico, and been awarded as Governor of the Year 2010 by Emerging Market – Euromoney Institutional Investor, and BRAVO Award for Outstanding Services in Latin America 2012 by Latin Trade.

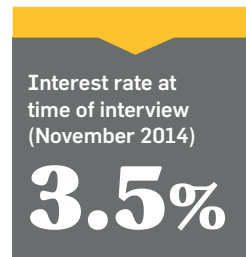
Peru is one of South America's top economic performers, but before this decade, it had experienced monetary woes. However, during your tenure the sol has seen stability and growth against the dollar. What role have the Central Bank's policies had in this transformation?

We have a highly turbulent monetary history. Back in the 1980s, both monetary and fiscal policies in Peru were very poor. Since 2001, when we adopted an inflation target regime to conduct monetary policy, we became the first country to adopt this regime with negative inflation rates. The credibility in the new regime allowed the central bank to adopt a more expansionary monetary policy, without affecting inflationary expectations. The second country to apply inflation targeting under negative inflation was Japan, in 2014. Since introducing inflation targeting, core inflation in Peru has been at 2%, and headline inflation at 2.6%, on average. That is the lowest in Latin America, which is consistent with fact that we have the lowest target of inflation in the region.

How is the bank acting to stimulate growth in the context of lower mineral prices, and what has led you to keep the rate constant over the past two months? Inflation has been high, that is the main reason why we have been reluctant to cut rates. Instead, we reduced reserve requirements so that financial institutions can increase their lending at a faster pace. The Central Bank has adopted an expansionary policy stance since May 2013 when it started cutting reserve requirements. Since that time, we have also cut the policy rate three times up to 3%, which implies a real interest rate of less than 1%.

For many emerging economies the rise in the dollar, coupled with a fall in commodities, may come as a shock. How do you

IN NUMBERS Central Bank of Peru



plan to insulate Peru from that trend?

In 2008, the emerging markets recovered quickly, because China was growing rapidly in 2009, which pushed commodity prices up. In addition, the Fed extended sub-lines to certain important emerging market economies like Brazil, Mexico, Korea, and Singapore. This allowed them to limit exchange rate pressures, whereby credit resumed flowing to emerging markets. Those conditions are not going to exist this time around, as commodity prices are falling, and the US is set to tighten its monetary policy. Expansionary policies will remain in place in Japan and Europe, which will partially compensate the impact of the FEDs tightening in emerging market economies. Last year Peru was the only country in the region with a fiscal surplus. Peru saved during good times and now we can use those savings to pursue a more aggressive counter-cyclical fiscal policy. We have a large level of international reserves, so if there is pressure on the currency, we can use a good chunk of those reserves to limit the risks of

an abrupt depreciation of the sol. This gives us some leeway. The third important factor is that many important projects, particularly in the mining sector, will enter production in 2015-17, which will nearly double copper production over the next three years.

Do you have any thoughts about Peruvian debt markets and on the effects of quantitative easing?

We are the emerging economy with the largest participation of non-residents in the domestic-currency government bond market. This participation reached 58% in the past, nowadays is less than 40%. Besides this reduction, the yields of government bonds have not increased, reflecting the high demand for these bonds of domestic agents. Private Peruvian pension funds that had increased its investments abroad are moving it back to Peru. In the case of corporate bonds, the issuance in emerging markets have increased substantially recently, particularly in the last three years. Last year for example, we accounted for almost a fifth of total bonds issued in South America, Brazil, and Chile each one for 31%, and Colombia for the 14% of the total issuance during 2013. Those bonds have been typically issued in dollars at a historically low interest rates. They are bullet bonds, typically issued with a maturity between seven and 10 years, therefore the rollover risk is relatively low. As part of policy to smooth the credit cycle in Peru, during the period of QE, we increased the reserve requirement in dollars, in the case of deposits up to 50%. This policy increases dollar lending rates, particularly for small and medium-sized firms (SMEs) and households, as corporates have access to international capital markets, this type of reserve requirement affects them less. ✖

Major international and domestic firms are exploring niche segments in Peru's banking sector.

TAP INTO TOMORROW



WALTER BAYLY
CEO, Banco de Crédito del Perú (BCP)

We have focused on bringing more people into the banking system and enlarging the pie itself, as penetration levels were relatively low. Growth has been substantial over the past couple of years because of the combination of two factors. We started at a low level of penetration, and the country has grown considerably. Thus, the banking system grew by multiples of GDP growth. GDP was growing at 7%, and the banking system grew at three and a half times that rate. The problem was that our branch network was not located where people wanted it because we did not have the right distribution channels, prices, or products, prompting us to address these issues. During that process, one of the lessons learned was that a segment of the customers is better served by specific business models, rather than by a universal, large bank, such as BCP. We bought a microfinance company called Edificar and subsequently expanded into buying MiBanco. Today, we have BCP as well as microfinance companies with different business models that are more appealing to certain groups of customers.



JULIO FIGUEROA
Country Manager, Citibank

We made a decision to focus on the areas where we add value, where we can compete well, and to focus on businesses where we are highly profitable, where we have the returns we need, where we have scale, and where our global presence makes a difference. It had nothing to do with Peru as a country. The bank intends to focus on large markets of substantial scale, and Peru was not one of them. Citi is basically simplifying its model. From a technology perspective it is in the process of implementing global platforms. Strategically, it was decided that—not only for Peru, but also for other countries—it was in the best interest of all stakeholders—shareholders, employees, and clients—to divest those businesses. Peru was the first of eleven countries to close following the announcement. We announced the transaction in December 2014 and it closed in May 2015. Peru is a strategic country in which we want to grow. Proceeds that came from selling that business are going to be invested in corporate businesses in Peru. Citi Peru represents around 5% of Latin America in revenue terms.



CARLOS GONZÁLEZ-TABOADA
CEO, Scotiabank Peru

Scotiabank's first stage of activity in Peru was as a shareholder of a small bank. However, as the bank grew it developed a new strategy of maintaining a balance between the sustainable growth of our business operations, and the acquisition of complementary lines of business that can benefit the company. In fact, Scotiabank in Peru was born out of the merger of two banking institutions, and we subsequently acquired a third company, which we transformed into a financial institution focused on credit lines to small companies and low- and middle-income consumers. Later we expanded operations into wealth management by buying a private pension fund administrator. We incorporated the consumer portfolio of Citibank, because we believed it complemented our existing portfolio and put us in a very strong position to develop a platform of premium banking in Peru. In our long-term vision, it provides us a solid growth expectation in this country, which has had a stable growth rate for the past decade, and invested regularly in the country. We see plenty of opportunities in the lending segment, as well as savings.



JORGE
MOGROVEJO
*President, Fondo de
Seguro de Depósitos*



DANIEL
SCHYDROWSKY
Superintendent, SBS

in the DETAILS

Confidence in the national financial system has allowed the private sector to invest and spend with confidence, thanks to strong regulation and pro-business policies.

Can you talk about the importance of a well-regulated financial system in the context of your activities?

JORGE MOGROVEJO The FSD is a deposit insurer, which means that every deposit in our system, including 48 financial companies and banks are covered by the FSD. Basically, the coverage is per person rather than by account. Therefore every account a person has within a financial institution is covered (up to a limit). The moment the financial institution is closed the customer just has to wait 48 hours for the first list of covered depositors, to get their money back. Having the banking system function this way gives the customer confidence in the banking and financial system. It started with the FDIC in the US during the crisis in the 1930s, and this formula has been very successful all over the world. The institution can be public or private, which gives the depositors the assurance that they can recover their money no matter what happens. This is the key feature giving confidence to people in their banking system.

DANIEL SCHYDROWSKY Peru saw a new insurance contract law legislated in 2012. Before then, the insurance industry was regulated under the commercial code of 1902, so the law was 110 years overdue for reform. When I took office and attended my first meeting of insurance regulators I met with insurance companies

that kept saying they didn't know how to enter Peru because the legislation seemed rather unusual. That was a nice way of saying it was outdated. So we changed that and we got some good new legislation. We had three to four companies entering the market over the last year. Today the market is more competitive, and offers better products, but is still not fully formed, and will have become more mature within a year or two. The same is true for micro-insurance; that is also going to grow. It is all going to change if we can continue growing at 5-6%, then the insurance market will be unrecognizable five years from now. There is no question of its future growth.

What are the benefits of that system rather than having deposits paid from the Central Bank directly?

JM Extended deposit insurance coverage or a blanket guarantee is by no means a magic bullet, and comes at a cost. It may lead to moral hazard, and possibly large fiscal contingent liabilities. With limited coverage, the moral hazard is reduced to some extent and the benefit to the public is that they are not required to bet on the quality of the institution, or its management. It is fair to protect small depositors, but not the big ones as you can see with our \$30,000 limit. We are giving protection to a high percentage of depositors, mainly working people with low level of depos-

its. The amount of protection we can give is to provide confidence in the system. The license to put up a bank and take deposits is a very important thing for both the government and the financial institution.

How will you address the lack of competition in the private pension system (AFP), in light of the lack of participation in the previous tender?

DS We have had good participation on the bidding itself. Prices have come back down again, which is how you actually want to measure success. It does not really matter how many participate. In this matter the goal of the reform was fulfilled in every bidding we have had. In the first bidding there was a new entrant in the market, which made a market of five pension managers. Unfortunately, one of the institutions got sold during this period (due to a global corporate decision) but that did not generate the amount of concentration that it could have generated because it got split into two parts. Despite that, there is probably going to be room for a new entrant in the following rounds. Another issue has to do with the insurance premiums, which are not part of the same bidding process but are a part of the cost. The competitive nature of the insurance component has gone sky high through their bidings with many companies entering to the market. ✖



HERE, THERE, EVERYWHERE

Many see Peru's microfinance sector as a perfect model that can be replicated around the world. Domestically, microfinance companies are now looking for new ways to reach the underserved in rural areas.

PERU'S MICROFINANCE SECTOR has deep roots dating back to the 1950s and 1960s. Today, as the sector continues to grow, many analysts have identified Peru as a model for microfinance development that could be replicated around the world. Over the past few years, Peru has garnered increasing international attention for its positive business and policy framework for microfinance development. In 2010, the Financial Times called Peru "the world's best climate for microfinance." In 2013, Global Microscope, a global ranking of financial inclusion and microfinance sectors praised Peru for ranking number one for its microfinance business environment five years' in a row.

According to responsibility, a social investment consultancy firm, between 2001 and 2011, Peru's microfinance loan portfolio grew fifteenfold. The key to this growth has been the business and regulatory environment that Peru has developed for the sector. In particular, what has made Peru's microfinance regulations unique has been a combination of extensive supervision, strict regulation, and a lack of market intervention by the state. While many developing countries have attempted to provide government subsidized or "zero-cost" microfinance as a tool for poverty reduction, Peru has relied on a private sector model. The result has been a more efficient, more robust, and lower cost sector. Interest rates in Peru's microfinance sector have consistently fallen over the past decade, dropping from an average of 44% in 2003 to 29% in 2013 according to MIX.

Looking more specifically, there are a few key principles that have made Peru's microfinance regulations so successful. First, there is extensive supervision of the operations and portfolios of microfinance institutions (MFIs); second,

there is no discrimination between foreign and domestic capital in the sector; third, apart from limited exceptions, there has been no subsidized public sector competition for private sector MFIs; fourth, MFIs are allowed freedom in terms of capital allocation; fifth, MFIs are given freedom to determine their own interest rates and commissions; and finally, the market allows a range of types of financial services providers to take deposits, from large banks, to credit unions, and regional savings banks.

Another important element has been the role of credit bureaus. One of the main challenges for the microfinance sector globally is attempting to assess creditworthiness for a segment of the economy that often lives informally. Peru has made remarkable strides in developing credit monitoring systems that include MFI clients. Since 1997, Peru's banking and insurance regulator, the SBS, which runs a public credit bureau, has required that MFIs share their clients' information, including total debt and default history. At the same time, international private sector credit agencies, such as Equifax also began covering MFIs in Peru. As a result, Peru now has one of the most effective and complete credit information systems of any developing country.

As the sector moves forward, one major challenge is access in rural areas. Peru has experienced rapid urbanization over the past few decades, with around 70% of the population now living in urban areas. As a result, many MFIs have focused their growth efforts on Lima and provincial capitals. However, according to the IFC, this leaves around 8 million people in underserved areas for microfinance. More than half of rural households in Peru live below the poverty line, so access to finance can play a significant developmental role in coming years. ✖

MAKING MONEY WORK



TBY talks to **Carlos Eduardo Polo Parada**, General Manager of Inversiones La Cruz, on the importance of small loans, reaching unbanked Peruvians, and the future of micro-loans within the financial sector.

What is the role of Inversiones La Cruz in the financial sector of Peru?

We are specialists in offering microcredits with collateral ranging from \$100 to \$2,000 that are repaid within between one and four months. We offer these credits nationwide and concentrate our services in Lima and Peru's provinces. Inversiones La Cruz has grown both geographically and in volume terms, and today has more than 75 agencies and with a future projection of 90 by the end of 2015. We are the first financial entity in the Alternative Stock Exchange (MAV), which has more flexible procedures than the Bolsa de Valores de Lima (BVL) and allowed us to do our first issuance just six months after embarking on this project.

Are you focused mostly on individual clients or do you also provide credits to SMEs?

Today, 100% of our customers are individuals. Throughout the years, we have been able to 'bank' many customers who relied on informal channels. One should bear in mind that we have been working in Peru for 20 years, in Bolivia for 15, as well as in four other countries in Central America.

Why has Inversiones La Cruz been so successful given heavy competition?

Ours is a niche business model, and has been successful precisely because we have satisfied a clear demand. Around half of our clients are unbanked, and when seeking credit, they lack a credit

- Entered MAV with an \$8 million program of short-term financial instruments, the highest in MAV's history
- Due to issue a \$16 million 3-year bond program

Some critics have said that this type of short-term lending is "predatory" because of its high interest rates when compared to standard bank loans. What would you say in response?

Standard bank loans are much higher than ours and are long term. Ours is a short-term loan that averages \$400 per loan, and is mainly used for emergencies. Moreover, our clients cannot resort to a standard bank. Over the years, we have been able to help more than 100,000 people overcome inconveniences, or secure a small loan for necessary purchases.

How do you explain the positive impact of this sector on Peruvian society?

To the general public, this credit is an opportunity to step forward. However, having so many entities it is possible that the client will start working with many of them, and eventually not fulfill their promises. For the client it provides an opportunity to do business. Every business must look forward, but in our business, we have to cover our backs as well. A bank will know when to decline a client, but if there are too many entities, eventually one will say yes.

What trends do you predict for the sector?

There will be a consolidation process of microcredit companies because there are a great variety of them. This is because actual and potential clients prefer such credits from businesses that have better support, provide security and inspire trust. ✖

BIO

Carlos Eduardo Polo Parada is Founder and CEO of Inversiones La Cruz. Inversiones La Cruz has been in the Peruvian market for about 20 years. Eduardo Polo is an accountant by profession. He earned a Master of Business Administration (MBA) from the INCAE Business School and the University Adolfo Ibáñez. He is also Partner-Director of the chain secured loans Credimás of Honduras, Nicaragua, El Salvador and Prendamás in Bolivia.

record, which is where we come in. We have succeeded through specializing in credits with collateral such as gold jewelry, vehicles and diverse articles such as electronic devices, kitchen appliances, and mobile phones.

Peru's economy suffers from a high level of informality. Does competition from informal lenders present a significant growth challenge?

On the contrary, the informal channel and moneylenders are a great opportunity, since potential and regular clients prefer an institution that offers them better terms and conditions, transparent operations, and the security we offer for their possessions, jewels or vehicles. We see this opportunity growing on the outskirts of modern Lima and in many provinces of Peru.

GET IN HERE

Banking has a relatively low penetration rate in Peru, meaning banks and credit agencies are looking at ways to reach the population through new services and products.



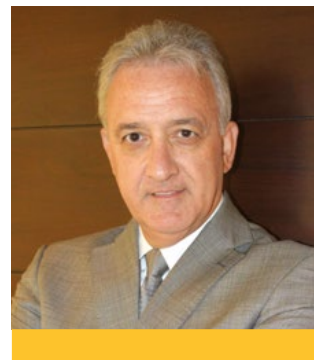
LUIGI A. LINDLEY
*General Manager,
Experian*

Peru is well regulated. The indicators in its financial sector are also healthy, even if the country is not growing as fast as it was in the past. The non-performing loan rate is not as aggressive, and there are even indicators that it has decreased in recently. Those are consequences of the health and strictness of the regulation regarding the financial institutions and their development. We focus on six specific sectors of the economy, and in each one of those, informality has some kind of effect. Our goal is to understand the information we collect from each sector to determine how it interacts, and how it impacts our clients. For example, today the banking sector has a penetration of approximately 6-7 million people out of a population of 30 million. Telecommunications on the other hand has a penetration of nearly 100%. We are looking at ways we can use information from the telecommunications sector to connect clients to the banking system. We have conducted analyses to develop formulas using information of the telecommunications sector, and with this we can facilitate the process of formalization in other sectors such as banking or microfinance. These models are developed in the region but they conform to business development paradigms that stretch back more than 100 years. Experian has developed the concept of knowledge management. We combine our global grasp of these rules, and use them in countries like Peru.



BAILEY KLINGER
*Co-founder & CEO,
Entrepreneurial
Finance Lab (EFL)*

Peru is an interesting case, because there is so much competition in the microfinance segment and a lot of data available for risk evaluation. It has actually resulted in a paradox, where there are the simultaneous problems of over-indebtedness and financial exclusion. Credit bureau scores are used extensively by all lenders in Peru and they based on the same information. To meet sales and growth targets in this highly competitive market, lenders have been aggressively pushing more and more loans onto those individuals that can be evaluated with the bureau, creating problems of over-indebtedness and declining credit quality. At the same time, the more than 50% of the country that does not have adequate credit history for risk evaluation is shut out of the financial system, harming inclusion and economic growth. To reach them in a large-scale, sustainable, and profitable manner, new approaches are required, and that is precisely what EFL provides. This not only solves the financial inclusion problem, but can also solve the over-indebtedness problem as it gives lenders new and more sustainable market segments in which to grow. They can reach rural areas and the interior of the country, instead of chasing growth by forcing a tenth loan onto a merchant in Gamarra. Job and GDP growth can be generated by putting capital into the hands of entrepreneurs and small businesses that are in need of support.



AMILCAR RAMOS
*General Manager, Peru
and Ecuador, Equifax*

In Europe and the US, concerns over credit ratings are more culturally embedded and developed in comparison to Latin America. In Peru, 60% of the total population is unbanked, whereby they have no credit history, and it becomes difficult to increase financial system participation. There are many people who could be included in the middle class for example, who are earning good incomes while running informal businesses. In this context, our role is to help the financial entities attract more people. To achieve this, we have developed several platforms and solutions that make it possible for the banks to evaluate citizens with no credit history. In all of Latin America, Peru has among the highest potential for growth, due to the presence of local and global banking within a robust micro-finance sector that is growing rapidly and by high rates. In partnership with EFL we are implementing solutions for the top five banks in Peru, and in micro-finance, we are delivering results for the top 10 municipalities. Non-regulated financial entities, not only banks, are facilitating the entry of more people into the banking system. People feel less intimidated working with small financial entities rather than professional services automation (PSA) agencies, where personal treatment can be lacking. New entities are using an individual approach to attract more of the population into the financial system.



Buoyed by a stable economy Peru's capital markets have continued to appeal, and are busily polishing up their offering, technical prowess and investor environment.

Review CAPITAL MARKETS

PERUVIAN BEAR, AND BULL

Today's Lima Stock Exchange, Bolsa de Valores de Lima (BVL), dates back to a 19th century need to conduct commercial transactions from a single address. Fast forward to the 1990s, where Peruvian economy underwent a period of reform that subsumed some of the informal economy, while also pursuing the privatization of key Peruvian sectors such as mining, electricity and telecommunications. Essential to this strategy was the development of functioning, and well-regulated capital markets capable of enticing local participation and foreign attention.

HOW IT'S DONE

The aforementioned strategy is being achieved through internal mechanisms, and in broader brush strokes, through the cooperative platform of (MILA)—the collected bourse of Peru, Colombia and Chile—expanded in late 2014 by the arrival of Mexico. This mechanism boosts liquidity—when established it created the third largest liquidity lake in Central and South America besides the Brazilian and Mexican markets. As of December 2014 MILA's MCap approached the \$1 trillion-mark, at \$945 billion. It also underpins standardization and best practice in an integrated Latin American market.

The Peruvian securities regulator is the SMV, established in 1968 to both champion and supervise the capital markets. As SMV Superintendent Lilian Rocca Carbajal explained to *TBY*; "The SMV through its three fundamental roles of regulation, supervision and promotion has pursued actions to facilitate the incorporation of new issuers through more intensive use of capital markets as a source of financing, promoting the access to new investors, and especially strengthening investor protection."

Another benchmark for getting it right is the MSCI Global Market Accessibility Review. It serves two key purposes, the first of which is to enable international institutional investors to trace the evolution of accessibility in individual markets of interest. Secondly, it highlights perceived shortfalls that respective regulators ideally then address. The resulting dialog in turn shores up any lags to ensure uniform standards conducive to investor confidence. One identified shortfall in Peru is the only partial availability of stock market information disclosed in English. Another is limited competition among brokers that spells to relatively higher trading costs.

With Peru as a signatory, The UN co-organized Sustainable Stock Exchanges (SSE) initiative of the UN Conference on Trade and Development (UNCTAD), the UN Global Compact, the UN Environment Programme Finance Initiative (UNEP-FI) and the UN supported Principles for Responsible Investment (PRI), is a learning platform, again, enabling stock exchanges, investors, regulators, and companies to keep pace with international best practices to promote corporate and capital market sustainability.

SPREADING THE JOY

The 2013 Securities Market Promotion Act was a move to reduce transaction costs to broaden the investor base and generate excitement in capital markets participation (IPOs) among small and medium-sized issuers. Accordingly, the alternative market it spawned facilitates the IPOs of smaller enterprises generating revenue of below PEN200 million (about \$66 million). Such entities today are required to hold just one risk rating to become eligible, rather than the two required of their larger counterparts. And of course, the platform fosters greater



RAFAEL ALCÁZAR
Chairman of the Board of Directors, Procapitales

A growing number of Peruvian corporations has had access to global capital markets, by issuing both debt instruments under the SEC's 144-A Rule and equity instruments (ADR) in NYSE, which have allowed the involved corporations to take advantage of historically low interest rates and reduced financing costs. While the prospects of these kinds of deals depend heavily on the future scenario of international financial markets, we foresee there will still be significant opportunities in the near future provided that associated risks are managed properly, particularly with exchange-rate risks.*

Buoyed by a stable economy, Peru's capital markets have continued to appeal, and are busily polishing up their offering, technical prowess, and investor environment.

accountability and corporate transparency as the nation at large works to shrink its informal economy. Essentially, then, the Act anticipated stimulating the capital market to spur competitiveness and create a juicier market for institutional investors.

CAPITAL LOSSES?

In relation to the above ambitions, the Lima Stock Exchange had been lobbying the government to terminate the 5% capital-gain tax on equities, which it blames for curbing investment. Indeed, some argue that the tax has, among other consequences, enabled Chile to become a regional financial hub. It is no coincidence that elsewhere in the financial markets Chilean entities have been making inroads.

THE LANDSCAPE

Most investors at the BVL are individuals, tempted by the promise of higher returns—when assuming higher risk—than may be found in the banking system. And by volume, the Peru's private pension funds top the investor totem pole at the capital markets, being flush with liquidity to park in long term positions in step with their pension and retirement plans.

As at end-2014 there were 275 companies registered at the BVL, of which, 32 were trading; these comprise the benchmark index. According to official data, over the past decade equity trading has outpaced the debt market on the strength of macroeconomic performance and raised confidence perception regarding Peru. That being said, in 2012, in a high watermark moment for the Lima exchange, the volume of overall bond issuance flows comprised 7% of GDP, predominantly from private external debt.

For 2013 liquid equity-trading volume was at around \$4 billion, thus more than fourfold that of the fixed income print of \$872 million. And as of December 2014, equity traded volumes, moderately down, were at \$3.8 billion, while bond trading had risen to \$1 billion. According to Latin Lawyer, one curb on capital market liquidity has been the fact that banks provide financing at lower rates—for low-to-medium sized amounts—than the cost of listing on the bourse. Unsurprisingly, IPOs have been limited to the largest entities from sectors like

energy and mining, in need of massive capital injections for infrastructure investments that banks are more reluctant to extend. IPOs in 2014 registered at \$1.17 billion, according to official data, albeit 33% down YoY. The Lima Stock Exchange does not trade derivatives.

SELECTED FUNDAMENTALS

The Lima General Index shed a leaden 24% in 2013, yet in terms of market capitalization it exceeded \$120 billion in 2014. And while the bourse recoiled from external shocks including oil deflation and decelerated global growth mutual funds impressed in 2014, ratcheting up 6.5% YoY on a net asset value (NAV) of over \$6.2 billion. The capital markets watchdog puts the participant number for that year at a historic high of 352,000.

The Peru Stock Market benchmark index (IGBVL) increased to 13769.06 Index points in May from 13366.86 Index points in April of 2015. Stock Market in Peru averaged 7071 Index points from 1991 until 2015, reaching an all time high of 24051.62 Index points in April of 2012 and a record low of 22.92 Index points in January of 1991. The index' 52-week range as of May 15 was 17,121.79 to 24,569.78.

For 2014, total traded value was \$5.8 billion, down YoY from \$6 billion. The daily average, too, was down YoY from \$23.8 million to \$23 million. Equities amounted to \$3.8 billion down from \$4,100.5 in 2013. Meanwhile, debt instruments overall printed at \$1.1 billion, up from the 2013 figure of \$872.6 million.

AS FOR THE FUTURE...

...Let's return to Lilian Rocca Carbajal, who alights firstly on additional regulatory normalization during 2015. She harks back also to 2011, where Peru's reform to spur IPOs inspired regional markets to follow suit. In 2015 work will be undertaken to create new mutual funds, where; "...structural reforms will make [them] more agile, cheaper, and allow better access for citizens. [...] We also plan to modernize the regulations regarding risk; we will standardize these measures with the International Organization of Securities Commissions (IOSCO guidelines)." This October 9-11, further international prestige arrives when Lima hosts the Annual Meetings of the World Bank Group and the IMF. And then in 2016, Peru is also the venue of the annual meeting of the International Organization of Securities Commissions (IOSCO). Small wonder perhaps that the bourse in May adopted the leading edge MillenniumIT platform supported by London Stock Exchange Group to expedite interconnection with regional markets such as MILA. In short, *ceteris paribus*, the BVL is destined to remain a live wire. ✕



LILIAN ROCCA
CARBAJAL
*Superintendent,
Mercado de
Valores (SMV)*

How have recent macroeconomic trends affected Peruvian capital markets? What will be the regulatory response?

Throughout the past decade, the GDP of Peru has experienced 6.7% annual growth. Moreover, investment has risen from 18-28% of Peru's GDP, amounting to more than \$57 billion, and the external public debt represents just 8.6% of Peru's GDP. Peru was recognized in 2014 as one of 20 countries in the world with the best internal macroeconomic condition according to the World Ranking of Macroeconomic Environment Global Competitiveness Report. The macroeconomic prudence of the country and the existence of a favorable legal, economic, and regulatory framework for foreign and local investors have led to successive improvements in the rating of sovereign foreign currency debt by major rating agencies.

What changes do you envision in the regulatory regime of Peru over the coming years?

For 2015, we plan to normalize many regulations and also bring in certain new ones. In 2011, we saw a reform that encouraged IPOs, and that was successful enough to prompt surrounding countries such as Ecuador, to work on implementing some of the same reforms. In 2015 we have planned structural reforms that will facilitate the process of holding IPOs and will also help to create new mutual funds. These structural reforms will make those funds more agile, cheaper, and allow better access for citizens.*

SHARE *and* SHARE *alike*



TBY talks to **Christian Laub**, General Manager of Credicorp Capital and President of the Lima Stock Exchange, on the trend toward expanding business abroad and the ease of doing business in Peru.

What is the core focus of Credicorp Capital?

Peru has been growing significantly over the past decade. Most of our Peruvian clients were well served inside Peru, registering domestic market growth followed gradually by a regional presence in such markets as Chile or Colombia. While we could serve them well in Peru, we lacked the necessary resources to help them enter regional markets. That is when we thought there would be a space for what is going on in the Mercado Integrado Latinoamericano (MILA), or this part of the Pacific Alliance. Every day numerous Colom-

bian, Chilean, and Peruvian companies are investing in the other markets. What is happening in the real sector in terms of investment is that we have built this investment banking platform to support not only companies, but also individuals and institutional investors that are starting to invest all over our region. That is why we first created BCP Capital, an investment banking group, in Peru, as a spin-off of assets out of BCP. Later, we acquired a majority stake in Correal in Colombia and IM Trust in Chile. These acquisitions plus BCP Capital became Credicorp Capital. If you look at South America, you have Brazil on one side, which is huge but has its own dynamics, and then Colombia, Peru, and Chile, all having similar economic and political models. Individually, we are quite small, but if you add up the three nations' populations, there is a total of 90 million inhabitants with a GDP of \$800 billion.

The Bolsa de Valores (Lima Stock Exchange) is heavy on mining currently and some predict negative effects from the recent drop in commodity prices. What do you think?

The Lima Stock Exchange (LSE) has always been a mining exchange. About 50% of the market capitalization or more has been weighted on mining companies. I would like to have other sectors get into the market and weigh in, but the situation is that we have been a mining country and we will continue to be a mining country. A lot of what happens at the LSE will depend heavily on what mining companies do. Last year was a particularly hard one amid declining commodity prices, and you saw this reflected in the prices of equities traded on the LSE. The mining companies' prices lost around 40% of their value, which given their value at the bourse, affected the index overall. There has been a slender rebound this year as prices have stabilized and some of them have even gone up. Nonetheless, the performance of those companies often depends more on external factors more than on the plight of Peru.

What is the climate in Peru for international investors?

The LSE recently reduced trading costs by 70%, which is significant. But, with this 70% we are not as competitive as we should be. Actual volumes haven't increased substantially as a result of this price reduction, as on top of these costs, brokerage costs are also incurred. In the past, infrastructure cost was 20 basis points (including SMV and Cavali). That came down to 10 basis points, but if you add 50 basis points on top of that from brokers, the reduction is much smaller... the second thing is that Peru is the only one of the Pacific Alliance to levy a 5% capital gains tax, which renders us less competitive than the other two countries. Liquidity simply moves to a more efficient market. On a typical day at the LSE, the average traded volume will be around

Institutional investors in Colombia, Peru, and Chile, have more than **\$500 billion** in resources

50% of the market capital on the Lima Stock Exchange is weighted toward mining companies

\$15 million. But for Peruvian companies trading in New York, it is going to probably be \$150-200 million.

What role do you expect the bolsa to play in the broader development of the country over the coming years?

The main advantages that the stock exchange brings are transparency, liquidity, and good pricing. This said, transparency in particular is key. If we are going to have investors, both internal and from abroad, we need to make sure that companies, be they listed on the LSE or not, are complying with the highest standards of governance. Something we should be focusing on, and indeed, something we are still working on as a market and as a nation is corporate governance and transparency. As long as we are seen as a highly competitive, transparent, and well-governed exchange, more companies will be keen to come and list on it, and that culture will permeate throughout the country. ✖

BIO

Christian Laub is Chairman of the Board of the Lima Stock Exchange and General Manager (CEO) of Capital Credicorp, Credicorp's Investment Banking Group. Previously he was responsible for the Corporate Banking Division of Banco de Crédito del Peru.

STEP THIS WAY



DULIO COSTA
*CEO & Managing
Partner,
Macrocapitales*



**FELIPE BARCLAY
PIAZZA**
*President, LarrainVial
Perú*



**JOSÉ ANTONIO
BLANCO**
*General Manager, BTG
Pactual Perú*



DANIEL DANCOURT
*CEO HMC Asset
Management, HMC
Capital*

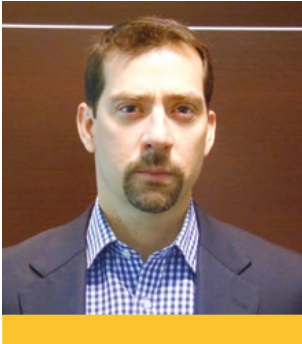
In Peru, the mid- or large-cap opportunities are scarce. New entrepreneurs are easier to find in Peru. That means that price-wise, it is easier to be a partner than to buy out. One of the challenges is that companies sometimes fail to understand the full extent of obligations that come with signing a contract. It can be difficult when your counter-party is not thinking at the same level. In the regular process, the communication code is exactly the same such that everyone knows about EBITDA, working capital, what happens if the working capital in the closing capital is different, and what is being signed. That doesn't happen as often when working with mid-sized companies. Most of our companies are too small to reach the stock market. To be in the stock market in Peru, or at least to be a success at the IPO stage, you have to reach at least \$100 million in value. We find value in the Alternative Investment Market (MAF). For our companies, the MAF would be the first step within two or three years.

Two areas are vital for Peru—education and health. Peru also has a lack of infrastructure that we need to face up to. There are projects underway, but we need to pick up the pace. This becomes apparent when one drives beyond the city, and the roads quickly disintegrate. The country needs more and better highways, bridges and road connections. Peru has been steadily opening its economy. The economy has been growing an average of 7% for the last years. There has been a slow down, but it is still growing. We had 15 years of non-stop growth, even in 2009. Peru is an open economy. In addition, there is convenient interchangeability between the new sol and the dollar, and many retail outlets accept both. We work with pension funds, to which we provide hard-to-get buys. Pension funds, for example, are prohibited by law from investing in real estate, and we provide an investment instrument in the form of a fund that enables them to be invested in the real estate market. We also provide other investment strategies, such as for funds invested in Latin American debt that wish to diversify.

As assets and capital market products become a more common sight in Peru, more companies will look to take advantage and provide services and products to companies.

As the main player in the capital markets in Peru, we need to find a way to foster and grow our capital markets to make them more attractive in Peru. On one hand, we have the pension funds with assets under management which continue growing significantly, month after month. They need to find investment opportunities, not only in equities, but also fixed-income investments. On the other hand, as a country, we do not have the level of size and liquidity that those investors are looking for. Many pension funds will eventually try to shift their investment opportunities outside of Peru, so we need to create the proper regulations to reduce costs and expenses and keep their investments here. We must also find a way to provide liquidity to the market. We should try to lower costs, as there is also the capital gains tax which is making us less competitive against countries such as Chile and Colombia. We need that to incentivize capital markets in a more active and effective way.

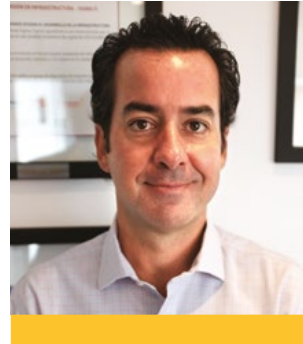
We have a broad spectrum of ratings we can invest in, and the required yields are dependent on the risks being taken, in order to compensate investors in a risk-adjusted fashion. Credit ratings are a consequence of factors such as business risk, sector, financials, and qualitative factors, which help to assess the capacity of payment of the companies. It is important to consider the opportunity cost for investors, to adequately compensate them relative to other investment alternatives of comparable risk. In this sense, we have to monitor movements in both the local fixed income market as well as international high yield markets. We consider there is a significant area where issuing bonds through the capital markets makes sense for companies in terms of rates and optimization of their capital structure, while offering attractive returns for investors on a risk-adjusted basis. In the future, we will certainly monitor other growth opportunities, but our current focus is in the fund we have raised in Peru. We believe the investment thesis is highly scalable, but first it is all about delivery of what we have promised our investors.



MARCO PESCHIERA
*Managing Director,
The Carlyle Group*



CARLOS A. GARCÍA
*Founder & CEO,
Summa*



GONZALO DE LAS
CASAS
*General Manager,
Sigma Capital*



HÉCTOR MARTÍNEZ
*Managing Director,
The Abraaj Group,
Peru*

A slowdown allows people to fix the efficiencies in their businesses, rethink their strategies to get the right product, and to clean house from every perspective. Hence, if this slowdown makes owners and corporations think more about such considerations, consolidate, and clean up their act, in the next cycle of growth, we can pick up companies of a much higher quality that are going to be much more attractive for international investors. The due diligence processes are going to be a lot simpler as a result, and you are going to have a lot more confidence in those companies. In terms of commercial cycles, the point is not to go down too far, before picking up again as soon as possible in order to have the best growth we can in the future for the next peak of the cycle. We do not expect an excessively deep cycle in Peru. This kind of slowdown is not bad for private equity either because you adjust expectations. The expectation of many owners is for huge growth and multiples, as if risk and cycles do not exist.

While AFPs eagerly participated initially, their presence is far slighter these days, and their current focus is on investment diversification. That means reducing their financial footprint in Peru by diversifying overseas, for better exposure to the global economy. Amid economic deceleration, AFPs seem less likely to support new private equity funds. When they started there were limited options on the stock market, and the alternative was to invest in private equities with exposure to new areas of the national economy. Their new focus is on foreign investments abroad and new economies. And while they are still investing here, they are becoming more selective. There is a growing awareness among family-owned businesses, particularly over the past few years that independent directors and corporate governance are critical in the prevailing economic climate. There have been many success stories in recent years, and a growing number of these firms have been seeking such assistance. Summa Asesores Financieros brings more than money to the table. We try to participate in the decisions being made that have future consequences.

The two main risks are social issues and what we like to call “permissology” here in Peru, which refers to excessive bureaucracy where you spend excessive amounts of time obtaining permissions for various operations. The problem is getting worse because as we move forward it becomes less and less predictable. There is no way to know what permissions you will need or how long it will take to obtain them. You know, it will materialize at some point, but if it takes you six or eight months more, that means losing that many months’ revenues and facing construction costs. We are local. It is easier for a local team to have a wider network to reach more projects. On the other hand, locals tend to be more used to local risk than foreign counterparts. Our partners were looking for a local partner with local contacts, and we helped them where any problem arises. We are keen to enter the mining sector, which nowadays has been hit by lower commodity prices, but we see an opportunity to help mining companies reduce their capital expenditure by allowing us to invest in peripheral assets such as power lines or water-treatment plants.

When we invest in a company, we are closely aligned with the management team that is already in place. Prior to making the investment, we identify those areas where we believe the company needs to be strengthened, be it operationally, strategically, or financially, and we develop a Value Creation Plan where we agree on the actions that should be taken in the short, medium, and long term. We also put tremendous emphasis in integrating Environmental, Social and Governance (ESG) issues into the business and this is a business principle that has been integrated all our companies, from the time of pre-investment to the time of exit. Moving forward, the strategy will not change as we will continue to focus on the Pacific Alliance countries, including Peru. The key drivers in these countries rest in the expansion of middle-class consumption, the demographic dividend, and the significant growth of urban centers. As a confluence of these factors, we see tremendous opportunity in the consumer sector and as such are targeting our investments in that space.

an **EQUITABLE** *idea*

Peru has an emerging private equity movement that has the potential to be a transformative force within the national economy.

ALTHOUGH PERU'S PRIVATE EQUITY market is composed of both international and domestic players, thus far locals have made the vital contributions. The biggest players were interviewed in preparation for *The Business Year: Peru 2015*, while others have done so anonymously, as private equity firms around the world sometimes do.

Underdeveloped capital markets and expensive bank financing across many emerging markets means that private equity occupies an especially interesting space in EMs generally, and in Peru specifically. The SME financing gap in EMs was estimated at \$1 trillion by a recent Oliver Wyman report, and a Credit Suisse report found that while in developed markets banks provided a quarter of corporate loans, in EMs they provided half. The reliance on banks is indicative of the tenuous position many growing companies find themselves in, especially when they reach critical growth points of \$50 million to one \$100 million in annual revenue.

In Peru several factors are behind a shortage of capital at high-growth firms. Pervasive informality, an illiquid exchange with a high barrier to entry, and a local bond market that saw a drop in activity in 2014 where issuances is typically only by established firms and banks. The dénouement is hungry mid-sized companies. And while in many cases informality and poor governance preempt opportunity cost as reasons for exclusion from capital markets, private equity firms have found niches in the Peruvian market through several distinct strategies.

First, there are industry focused local funds that derive most of their funding from the nation's private pension funds. Then there are international PE firms who bring a mix of external capital and local investment, usually also from the pension funds. Then there is Nexus, which is an outlier, which operates as an investment vehicle for Intercorp, and uses little if any external capital.

Starting from the early 2000s, Peru's private pension funds or AFPs began to systematically invest in Private Equity (PE) funds. There are strict limits on the amount of investment that can be channeled to 'special funds' due to the risks inherent in PE structures, but the capital available from the three largest AFPs, Prima, Profuturo, and Integra is adequate to create a PE market.

Renzo Ricci Cocchella, the Managing Director of AFP Prima, was bullish about recent pension

fund reforms in Peru that raised investment percentage limits on an 'Alternative Funds' category that included private equity. Regarding increased limits, he explained that, "...this third pillar was the best outcome of the reforms."

Pedro Grados Smith, the CEO of Profuturo, commented on the PE industry's ability to fuel the expansion of capital markets. "It is important to develop the liquidity of the stock exchange. Nexus Group is a company that has generated retail business and then IPOed, thereby boosting the liquidity of the stock market."

Nexus, the local fund that Mr. Grados mentioned, is the project of Carlos Rodriguez Pastor, one of Peru's richest citizens, and the Chairman and CEO of the Peruvian giant Intercorp. It is somewhat of an outlier in terms of strategy and structure, but it is probably Peru's most successful Private Equity firm. Nexus brought the first PE facilitated IPO when it launched InRetail on the Bolsa de Valores de Lima in 2012 and raised \$400 million in what was at the time the largest IPO in five years.

InRetail debuted at the tail end of the high side of a commodities cycle, but its instant success points towards Peru's retail-happy middle class and growing access to credit. The IPO also powered Nexus to a string of other high-profile acquisitions, all targeted at middle-class needs and demographic driven growth, such as Innova Schools, a private education firm with progressive methods, NG Restaurants, which owns a basket of international and domestic restaurant brands, and Salud Total, which provides services to the Health Sector.

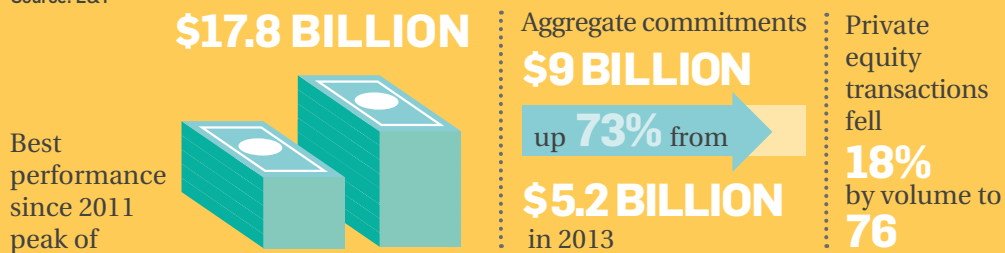
Other local funds include Enfoca, Sigma, Summa Capital Partners, and Altra Investments. All receive the majority of their funds from AFPs, and are mostly focused on a specific industry. Altra has invested heavily in logistics, while Sigma is focused on infrastructure, while Enfoca has participated in important retail transactions, most notably the sale of Maestro, a home supplies store, to the Chilean giant Falabella for \$492 million. Notably, AFPs who invested with Enfoca received a profit of \$231 million as a result of this sale, a sum that will pay the pensions of thousands of Peruvians.

International firms active in Peru include Carlyle Group and Abraaj, two firms with divergent approaches to the market. Carlyle Group has continued the leveraged buyout strategy that earned it a reputation in the US. Carlyle acquired JV Resguardo, which owned two prominent security firms in Peru, for an undisclosed sum in



Latin American fundraising in 2014

Source: E&Y



2014. Negotiations to acquire a second security firm, Hermes, are reported to have collapsed in early 2015, but Carlyle still has a large amount of capital to work with of its \$300 million.

Abraaj, an international player based in Dubai with significant investment in many of the world's high-growth markets, has invested in Condor Travel, one of Peru's major tourism firms, and in Acurio Restaurants, the rapidly growing firm owned by Peru's most famous chef, Gaston Acurio. Both of these deals were made on privileged access but for minority stakes, a strategy that has served Abraaj well in other markets. Both Condor and Acurio are top players in their field, with international reach.

All of the sectors where Private Equity has become a force, with the exception of mining-linked transport companies invested in by Altra, are not directly connected to the nation's mineral wealth. The fastest growing and most

reliable sectors of the economy as identified by *TBY*'s interviewees in 2015, were in infrastructure and retail. The trend of non-mining investments by PE firms highlights Peru's strong middle class and its continuing diversification.

Private equity activity has made progress towards filling the financing gap in the Peruvian market by snapping up companies with excellent potential at an early stage. It has also changed the standard of organization and corporate governance in Peru, as many medium-sized business owners explained in interviews with *TBY* that they understood their businesses needed to be professionally and transparently managed to be acquired. Overall, Private Equity remains small fry in Peru's financial sector, but nonetheless has been involved with some of the nation's most notable deals over the past five years. When the next round of exits materializes, more recognition will likely follow. ✕



Peru's insurance sector presents both familiar pitfalls and springboards, and its stable economy and rising middle class should reduce the former, by taking advantage of the latter.

Review INSURANCE

A MARKET WORTH PERU(SING)

A LITTLE CONTEXT...

The Latin American market is experiencing accelerated insurance activity, as respective populations improve their standing, enter the workforce and swell the middle class. Beyond that, Peruvian insurers are increasingly clued up as to industry shortfalls. These include a deficit of skilled underwriting professionals, one source of external talent being the region's sizable reliance on the bancassurance model; albeit with a concomitant rise in costs incurred. Other familiar pitfalls are limited product awareness and public confidence. Meanwhile, the opportunities are there, and for one, Latin American nations are poke-happy consumers of social media, ideal for promotional online communities. Floating on the raft of aforementioned factors, total insurance premium growth in Peru was at 16% in 2013, thereby exceeding the nation's overall economic performance; again a common picture throughout Latin America.

THE PERUVIAN SCENE...

In July 2012 the *Wall Street Journal* labeled Peru the New South American Tiger in the wake of 7.1% growth for that month alone. And according to Ernest & Young (EY), a highly competitive environment has resulted in a fine balancing act where Peruvian insurers are obliged to present multiple product offerings and leverage alternative distribution channels, while keeping the cost to the consumer affordable.

The Solvency II Directive harmonizing EU insurance regulation, and set to be effective on 1 January 2016, essentially determines the amount of capital that insurance companies must hold to mitigate the risk of insolvency. According to Gonzalo Basadre Brazzini, General Manager of Interseguro; "The superintendency has been reviewing Solvency II, and we have been working with them, conducting sensitivity analyses to understand the impact on our industry."

The foreign insurer, too, is not missing out on local opportunities in the Peruvian market, thanks to regulations attached to the national strategy of spurring growth through a smooth investor environment. Peruvians, then, may take out insurance and reinsurance policies from foreign entities.

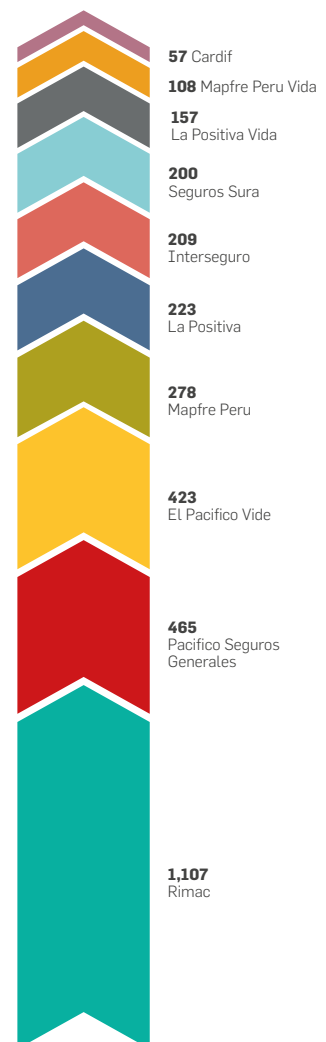
According to World Finance, Peru's growth is fueled by the solid financial markets it has swiftly developed, vital among which is the insurance industry. The 2012 insurance law that overhauled the system for growth and foreign investment anticipated the large demand for coverage from flourishing corporate and individual segments whereby, "...creative risk management becomes indispensable; it is for this reason that Peru has streamlined its insurance system."

A LIFE LESS TAXING

In Peru financial businesses, including insurance, are monitored by the Banking and Insurance Law and related regulations. The Superintendence of Banking and Insurance (SBS) is mandated with regulating financial entities, insurance companies, and pension funds. New legislation is set to improve the tax landscape in the 2015 to 2019 period, reducing corporate income tax and raising the dividend tax rate; further motive for entry. And as EY points out, "Peruvian life insurance companies are exempt from income tax where income is derived from assets linked to technical reserves

TOP 10 DIRECT INSURERS IN PERU GWP IN USD MN (2013)

SOURCE: SBS



The 2012 insurance law that overhauled the system for growth and foreign investment anticipated the large demand for coverage from flourishing corporate and individual segments.

for payment of retirement, disability and survivor pensions within the private pension fund administration system.” And meanwhile, Peruvians are exempt regarding allowances derived from life or health insurance contracts.

This also holds where income stems from endowment insurance contracts, and for life insurance contracts; these exemptions will likely be in place in perpetuity to foster insurance market maturity.

And at the corporate end of the spectrum—again, to foster investment—Peru has simplified the taxations of premiums payable to foreign insurance and reinsurance entities. Income tax law features a ‘presumption of income’, where, according to Finance World, “7% of the insurance premium value is deemed to come from a Peruvian source, taxable at 3%, which is applied only to the seven percent of presumed income.”

As SBS Superintendent Daniel Schydrowsky explained in a *TBY* interview, despite the entry of several players in recent years, the market, “... is still not fully formed, and will have become more mature within a year or two. The same is true for micro-insurance.”

EXTENDED (MOBILE) COVERAGE

Schydrowsky points out, while; “There are 30 million cell phones in Peru [...] only 2% of Peruvian people use [them] to do financial transactions.” Taking this to task is Peru’s landmark Modelo Peru, a part of the government’s social inclusion efforts. The platform stands to ensure that all citizens access the same mobile financial system, regardless of the type of financial institution they turn to.

REINSURANCE

The writing of reinsurance business in Peru is open to by qualified non-admitted reinsurers (NARs), which need not be registered with the SBS, if possessed of the requisite credit rating (BBB - S&P or similar) and minimum net assets of \$10 million. Peruvian law thus, does not curb or prohibit the payment by a reinsurer of reinsurance proceeds directly to the original insured party.

...AND SOME NUMBERS

As at December 2014, Peru’s insurance housed 18 constituent players. Five operate in the general and life branches, six solely in the general branch, and seven exclusively in life insurance. For 4Q2014, premium generation was led by general insurance at 38.6 %, followed SPP (mandatory individual insurance system) on 27.0%, life insurance on 21.6% and accident and sickness insurance on 12.9%.

Peru’s insurance penetration rate is approximately 1-2%, and by law certain insurance segments are mandatory (auto insurance for personal injuries, life and health insurance for employees in high-risk activities). One of the least penetrated insurance industries in Latin America, Peru’s GPWs are at just 1.6% of GDP, compared to the LATAM average of 2.6%. The sector grew 11.6% for 2014, on GPW of \$3.4 billion on annual average growth of 14.6% over the past 5 years. A dissection of GPW conforms to the Latin America pattern of non-life segments (51.5%), life insurance (29.4%) and annuities (19.1%).

In December 2014, sectoral return on equity (ROE) as an average of the previous 12 months

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was at 18.3%, YoY up from 15.2%. Meanwhile, the return on Assets (ROA) climbed YoY to 2.9% from 2.6%. Administrative management, too, calculated as annualized costs over premiums retained, modestly impressed, declining YoY from 19.6% to 19.4%. The current liquidity ratio, at 1.29x, had slipped YoY from 1.26x. Yet in terms of the system's long-term health, insurance sector solvency ratio had risen from 1.23x to 1.32x between November 2013 and November 2014. Total production of net insurance premiums had reached \$3.2 billion in December 2014, nominally up by 12.0 % YoY. The key contributor was growth of general and life insurance premiums, respectively up YoY by 7.0% and 13.7 %. In the general insurance segment, vehicle insurance grew 6.4 % on premiums of \$285.8 million. Net premiums posted for general insurance climbed 7.0 % YoY as at December 2014 to \$1.2 billion, accounting to 38.6% of total net premiums. And reflecting the real and present risk of natural disaster, earthquake and fire premiums also climbed to \$247.8 million and \$12.8 million, respectively. Additionally, the industry segments most susceptible to catastrophe (property) are adequately protected, according to official data, having a catastrophic reserve-to-probable maximum loss ratio of 1.73x for the entire industry as of June 2014.

On a more prosaic level, for 2014, coverage against accidents and illnesses rose 6.8%, where most business was generated by health care and mandatory motor insurance (SOAT).

Between December 2013 and December 2014, the rate of direct claims declined from 45.9% to 42.6%.

THE OUTLOOK

Fitch Ratings Rating maintains a 'Stable' outlook for the Peruvian insurance sector, based in short, on the adequate capital positions and robust profitability in evidence, despite volatile financial income; in short, prudent management. It also voices its confidence in sustained economic performance. Fitch anticipates gross written premium (GWP) growth of 11% to 12% (non-life 9% to 10% and life 12% to 13%) for 2015.

Confirming the concentrated nature of the beast, currently just two providers Rimac and Pacifico account for 55% of total gross premiums written (GPW) and 58% of the market's total net income. Meanwhile, the top four firms hold 78% of GPW. Yet given the convenient legal framework, Fitch foresees a less concentrated industry going forward. Indeed, since 2013, five foreign insurers have entered the market, four of which are Chilean.

And as EY concludes, the wise insurer in the Peruvian market in 2015 will be paying attention to alternative promotional channels, with product design shaped by local realities. And meanwhile, the government, taking the wider view regarding the financial industry, is working to homogenize access to information and product as the average Peruvian's lot improves and the concept of wealth management takes root. ✖

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GET *in* GEAR

TBY talks to **Nobuyuki Fukushima**, President of the Board of Mitsui Auto Finance (MAF) Peru, on starting out in the Peruvian market, working with dealerships, and the role of technology in operations.

What strategy shaped your initial entry into the Peruvian market, and what was unique about your approach?

Our goal for implementing new financing here was to help middle-income people buy new cars in a difficult environment. A line of credit is hard to come by, due to conservative banking policies. We are conservative, but we do extend credit to suitable customers in a workable manner. For example, we have a product called “Renueve” which allows our customers to enjoy a new car every two or three years, letting them take advantage of the best part of the useful life of the car with the lowest down payment and the most convenient monthly payment on the market. This represents a 45% saving in monthly payments when compared to conventional credit. The benefits of this product with MAF are innumerable. Those who have thought about buying their first vehicle at a lower price will be able to opt for a much more expensive vehicle with a more convenient payment. More importantly, when it comes time to replacing the car, the client doesn’t pay the cost of the depreciation of the vehicle because the remaining value of the vehicle is turned into the down payment for the next car. Finally, our clients pay only for what they use and not for all the additional costs that can be generated through the use of a car over the years, such as depreciation and maintenance costs, for example. Products like this are possible because we know first-hand what the residual value of that car will be in the future. The way that banks evaluate the credit-worthiness of customers is totally dependent on their credit history and record, as well as their revenue profiles. Our focus on middle-income people is entirely new

to Peru. I saw the potential in this market early on, and we transformed a former Mitsui’s leasing company into a new finance company obtaining the license from the SBS (Banking Superintendency) in 2010 after a three-year period, which has given us a substantial head start against our competitors.

How did the market respond to your model?

In 2011 we placed relatively few loans, as was the case in 2012. However, 2013 was our first year of real operations, and we had \$100 million worth of loans on our portfolio. In 2014, too, we placed more than \$100 million worth of loans. Indeed, MAF closed 2014 as the second largest auto loan provider in the country.

What other flexibility does your form of finance represent beyond the facility of a large down payment? What due diligence do you perform on clients?

We have a presence in the dealership. As you know, the car dealers identify the opportunities and establish relationships with customers. We establish a close relationship with them because it is a key part of our business. That is why we have a presence in every Toyota dealership in Peru. We make a quick assessment of the client, taking less than an hour. If customers go to a Toyota dealership and are introduced to our loan executive, they leave the dealership knowing whether the car and financing will work out. That is vital because ultimately buying a car involves an emotional decision.

How do you make that credit decision?

We take available credit information and essentially interview the client about their income, and make a decision based on the data on hand.

Customers must support their data with documentation, but once cleared, the credit is approved, and we deliver the loan. What makes MAF different is our ability to respond quickly, delivering both the loan decision, and where the outcome is positive, the loan itself.

How does technology support your business?

We brought our technology from Chile where we developed our systems and our entire web-based capabilities. We deliver the application approval quickly because all systems are linked. MAF also supports its business through an efficient collections process and quick repossession of cars to repay the outstanding amounts. At the end of 2013, our group consolidated an Auto Loans portfolio exceeding \$400 million in Peru and Chile. In 2014, even after a difficult foreign exchange rate climate in South America, we further increased our portfolio. ✖

BIO

Nobuyuki Fukushima was born in October 1965 in Japan, and studied mechanical engineering at the University in Japan. He has worked for Mitsui Japan, and likes golf, fishing, and tennis. In 1985 he went to Keio University to the School of Machinery and Sciences and graduated in 1989 having specialized in fluid mechanics. His career with Mitsui led to his spending extended periods working in France, Algeria, Venezuela, Colombia, and Chile.

WORKING POLICY

Regulatory reform and consistent policy from financial authorities has created strong potential in the Peruvian insurance sector.



JOSÉ ERNESTO
BAZO FEBRES
*General Manager,
Vida Cámara*

The first step is to take advantage of our knowledge and experience from the Chilean market in medical and technical evaluation for different types of disabilities. This will allow us to build our disability and survivor insurance business here. Once that is established, the second step is to explore all branches of insurance in order to penetrate into the low and middle segments of the Peruvian market. For that, our strategy is to explore channels for the commercialization of these products. Important people in the Peru do not carry out their transactions

directly through banks, at least in the informal sectors. We need to develop creative channels to get these people involved in the insurance market. We want to figure out how to distribute insurance to this sector, as banking may not suffice. In Peru we have cajas competitivas, which is a separate financial segment. For these, we need to first define the sectors to which we need to provide insurance. We also have to understand our clients. They have particular forms of transactions in their particular financial system, so we need to provide bespoke solutions for these people.

ALFREDO JOCHAMOWITZ STAFFORD
Chairman of the Board, Protecta



Peru has the lowest penetration in South America, at around 1.5% of GDP. In non-life, it is the lowest penetration in South America. Overall, Peru has the lowest penetration rate in the region, which is rather odd as Peru has long enjoyed a completely open economy, and has seen good growth through the years. I believe that this low

Over the past 15 years, a new Peruvian middle class has emerged with a greater disposable income for many new purchases, one of them being insurance, the sales of which have risen considerably. Yet while insurance premiums are growing at a rate of two to three times the growth of the economy as a whole, Peru remains highly under penetrated. Insurance premiums account for just 1.8% of GDP, which is low compared to our regional neighbors. The way to accelerate this growth is for the insurance companies to reach customers through alternative distribution channels that can connect with new segments of the population in a cheaper manner. We also need to develop new products that are simpler to use, not least to mitigate the significant mistrust many people have for insurance in general. Many find it complicated, or else suspect some sleight of hand, and that filing a claim would be difficult. Insurance products must therefore become simpler to buy and use, with people being readily able to collect their payouts.



GONZALO BASADRE
BRAZZINI
*General Manager,
Interseguro*

rate reflects an excess of regulation, and that the sector is concentrated in the hands of few companies. This strict regulation has done little to promote entry into the industry, which has exacerbated its concentration, which in turn makes it more difficult for newcomers to start ventures here. This situation will not change any time soon, and regulations are not

set to soften. Some might say loose regulations lead to too many companies and overall low profitability. It is hard to say what the ideal regulatory framework is, and I can but consider the evidence, where in Peru, we have the lowest insurance penetration in South America. The market is growing at an above 10% annual rate and will continue to do so.



TBY talks to **Luis Imedio Serrano**, General Manager & Country Manager Secrex CESCE, on the role of Secrex, the development of the market, and Peru's potential for growth within the industry.

Part of CESCE, a Spanish government-owned multinational credit insurance company

credit CHECK

How would you characterize the role of Secrex in trade and credit insurance in Peru?

We are an affiliate of the Spanish state-owned company CESCE, which historically served as the Export-Import Bank of Spain, but which has since become more of a credit insurance company. We have guarantees in construction and public works for our customers and clients who deal with government and companies in the public sector in segments such as mining, construction, and transportation.

What is the importance of Peru in comparison to neighboring markets?

Peru is one of our most interesting markets where we play a competitive role. The share of incomes of CESCE Latin America comes from Peru where, after the banks themselves, we are the leading company for bond trading. Peru is important for us and we are performing well predominantly offering bond services.

Why is the market for this so underdeveloped right now?

Credit insurance was seen only as an instrument for export, and was not taken into consideration at the beginning because the first thing that governments wanted was to develop export and trade.

Ultimately it has become an instrument for covering domestic sales in which credit is involved. There is a risk of non-payment, and we are seeing that it is being used for internal and domestic cases, but only between companies and end-users. We must be able to analyze and access information on companies to include balance sheets and figures. It is quite complicated in these countries and it rather difficult to obtain a frank picture of what an individual does or does not have.

What do you see as the biggest potential source of growth for credit insurance in Peru?

The French and Germans are prominent players in credit insurance. In this part of the world we are one of the big players. We are the second or third group in Latin America to engage in this segment, but other countries are also interested and are doing well. Developing credit insurance is our biggest goal for the future.

Do you see potential for bonds to become a larger part of your business?

There has been a boom in public works, which is helping to develop this area. It is important to say that the public offerings have been scarce in the first part of the year because of the change in administration and the overlap of

new officers. They have been unable to draft the budget in a timely fashion. Bonds are mainly used for guaranteeing the feasibility of a contract, so people can place a bond to guarantee that this work will be finished in time and successfully. We organize and assess their expertise and growth potential. We then go ahead and write down these risks and place the bond. Our loss ratio is quite good in these areas, at about 30%, which is manageable considering these markets.

What steps are you taking to refocus the business on these areas?

We want to become more competitive with our closest customers, those we consider our core and portfolio customers. We have decided to be competitive in the way we work on this. We are growing very fast in the fields of technology, databases, and sharing among the companies in the group. We are setting up decision-making offices in broader Latin America, which are important in that we are geared at being local and global at the same time. The only way to do this is to have a regional office for different purposes in several countries where we have the most know-how.

What is your vision for the company's growth in Peru over the short term?

We have developed staff teams and technological tools that work effectively. These are not yet normalized because we are just starting the network. We are earning and are well placed in the market share and profitability rankings. We will try to enlarge the share of the company in the insurance market in step with the pace of overall market growth. It is still a small market, but we will try to grow it and take whatever market share we can in the bond industry, as we want to be seen as the main player and leader, improving services and accountability. ✖

BIO

Luis Imedio Serrano received his law degree from the Complutense University of Madrid, Spain and an MBA from the Instituto de Empresa, Madrid. He has 27 years of experience in banking and international insurance, working at organizations throughout Europe and the US. At the Cesce Group, he was Executive Vice President and Director at La Mundial Venezolana de Seguros de Crédito. In January 2013, he was appointed General Manager of Secrex in Lima, Peru.

PLAYING THE LONG GAME

Saving for the twilight years is becoming a more common activity as the middle-class continues to expand.



JORGE RAMOS
CEO, SURA Peru



LUIS VALDIVIESO
MONTANO
President, Asociación de AFP



PEDRO GRADOS
SMITH
CEO, Profuturo

Investing in private equity is something we do because we are convinced that this is an asset class where we should be present. There is an important component of risk associated with this asset class. It also demands more work in terms of following through on the investment, whereas it would be much simpler to purchase a bond or stock. Private equity investments require intensive due diligence and follow through on the investment, and this is an active class that did not exist in Peru 10 years ago, whereas today we have many initiatives. It is our responsibility as the major institutional investor in the country, to keep an eye on the future when making such investments. Our mandate is to achieve high returns for our affiliates (clients), the citizens of Peru, but if through our investments we also support national growth overall, that will translate in better returns for the domestic investments. It is important for us that the local market grows, and that we cultivate investment alternatives for the future. We are invested in creating a framework that will ultimately benefit clients. SURA is, without a doubt, the pension fund with the largest investments in private equity at almost double that of other Private Pension Managers. We have recently launched our second fiduciary fund with a mandate of \$1 billion where we can make direct infrastructure investments.

According to two studies wherein we analyzed the system, somewhere between 5-10% of long-term potential growth can be explained by the contribution of the long-term savings channeled through the private pension system. This is significant because in Chile, Mexico, and Colombia, which are the countries we normally compare Peru to, they have contributions worth about 15% of potential growth. These are new savings that did not exist before: compulsory and long-term savings. When those savings are invested well, a tangible contribution is made to growth. It all depends how you channel those savings through the financial system and through the labor market. Therefore, the contribution has been significant in the sense it has generated a basis for sustained growth. Peru has grown by 5% per annum on a sustained basis since 1990. Over the past seven years, it has grown at 7%, of which 10% of that is explained by the long-term private savings channeled through this system rather than through the banks, insurance companies, mutual funds, or rural savings institutions. It is directly through the pension system. As a vehicle for promoting savings and investment, this system is an efficient one.

We are a relatively small market with only a few competitors. The government tried to introduce new competition into the market, but did not completely succeed. The idea was to award all new clients for a period of two years to the Pension Fund administrator that offers the lowest fee in an open auction process, whereas at the same time the regulator changed the salary based fee to an AUM based fee. In practical terms, the regulatory changes contributed to an important reduction in management fee across the industry of approximately 20%. At the same time, the reform had also other positive effects such as the deregulation of the strict investment regulatory framework and a significant increase in the international portfolio limit. At present, we can invest up to 42% of our total portfolio in international markets and hope this limit will be increased to 50% in the short to medium term. The main objective of pension fund reform is to maximize the total return of our clients. To help with that we have contributed to the growth of the Peruvian capital market and development of a long-term interest rate curve, but the size of our portfolios creates the necessity of international diversification. On the local side, we still see some opportunities in funding large infrastructure projects such as the Lima Metro line, highways, and gas pipelines, for example.



RENZO RICCI
COCHELLA
CEO, Prima AFP



CARLOS PUGA
POMAREDA
*General Manager,
Oficina de Normalización
Previsional (ONP)*



MARIANO ALVAREZ
DE LA TORRE JARA
*General Manager, AFP
Habitat*

The Private Pension System faces three important challenges. First is the need to expand the pension systems' coverage. Our country's informality rates are high. This is a challenge for the Peruvian state, which must formalize the economy through policies, incentives and benefits that motivate workers and companies to increase formal employment. This will give more Peruvians access to a pension upon retirement. Second, the need for education about the Private Pension System is real. There are still many doubts about the roles and benefits of the AFPs. As a point of self-criticism, I would have to say that in the last 22 years the Private Pension System has not communicated the system's benefits effectively. We need to be more creative and proactive to build trust and satisfaction in our customer base. Third, improve replacement rates, which is the ratio of the pension obtained by the affiliate at the time of retirement divided by the average salary of the last few years of his or her working life. Although this rate is increasing, efforts need to be made to ensure that this ratio follows an upward trend to eventually reach 70% of the average salary.

There are numerous pension system models in different countries. In some places, it is either public or private. In our country, we have a hybrid system in which public and private pensions co-exist, which is a policy choice adopted by every government. It is evident that it is necessary to continue reforming the pension system, and I believe sooner or later there will be a reform providing the same opportunities to both systems, such that a person joining the labor system can choose between both, without worrying about having a minimum guaranteed pension. That guarantee sometimes makes people go to the public system instead of the private one, while people of low income are favored by the conditions of the public system. People with the possibility of improving their incomes are obviously favored by the private model. This is a difference that should be eliminated. We need systemic reform to resolve issues of limited coverage and the regularity of contributions. On the other hand, in recent years, you see that capital from both the ONP and private pension funds have played an important role as a source of funding for national growth.

We know that members must receive three things: good service, high profitability, and a fair price. Price wise, we have the lowest commission. We can offer lower commission because we are efficient in our process. We live and are born with far more advanced technology because we are new and take advantage of this technology for internal processes in order to translate a lower commission for the affiliate. We have a team with experience in domestic and foreign markets, which has helped our profitability greatly. This has led us to be the AFP with the highest return for the affiliate. The key to service is to give the information to an affiliate in a clear and direct way. With this in mind, we developed a multi-channel strategy. We are active in social networks such as Twitter, Facebook, and YouTube, in which we promote the pension system. We have a website that acts like a virtual agency. The young affiliate prefers to be educated in a shorter, more engaging way and that is the goal of this page. We also have innovative agencies. The client is engaging in a virtual way via social networking, web pages or email, though there are people who want to be physically attended.



Image: Minas Buenaventura



Image: Petroperu

Infrastructure projects across the sectors are helping to improve equity market stocks



Image: Distriluz



80

Rosa María Ortiz, Minister of Energy and Mines, on the importance of diversifying Peru's energy portfolio.

85

Peru is reforming its energy sector to open up new possibilities, both at home and in the region.

90

Even though reserves remain largely unexplored and untapped, Peru is still a force in the mining world.

Energy & Mining

REVIEW ENERGY

Late last year, the government laid out an ambitious plan to diversify its energy mix: by 2025, it hopes to draw 60% of its power from renewable resources.

POWERING THROUGH

Since the turn of the millennium, Peru has been rapidly transforming its energy mix to meet its evolving reserves, domestic consumption and regional export demands. As the first Latin American country to begin hydrocarbon production, Peru has been at the forefront of the continent's energy debate, and is today pioneering efforts to reform the sector to a more renewable future.

Throughout most of the 20th century, Peru has overwhelmingly pinned its energy security on sizable crude oil discoveries located along its north coast. With global commodity prices on the rise and mass exploration spreading to the east-most Amazonian region, the country's reserves were proving invaluable in both meeting domestic consumption demands and generating revenues through exports to neighboring markets. However, while oil production peaked in the early 1980s, with output exceeding 200,000 barrels per day (bpd), these numbers have gradually dwindled since 2000.

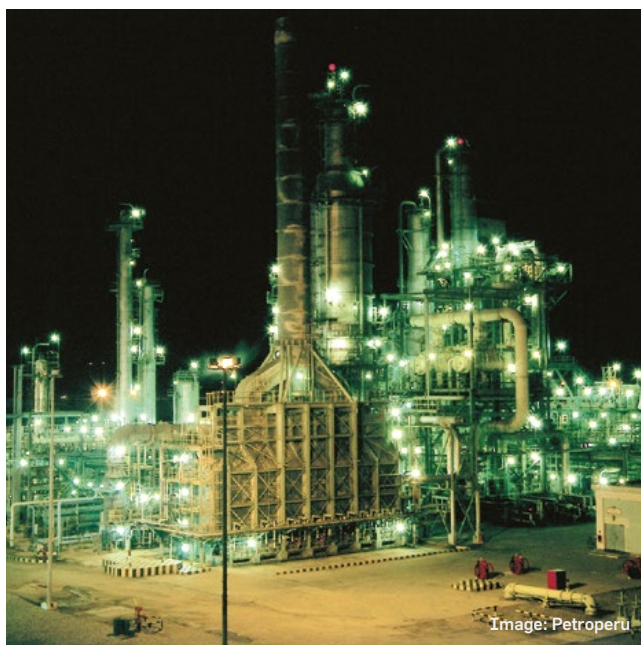


Image: Petroperu

As energy commodities continue to fluctuate throughout international markets, Peru is turning inward to harness its natural reserves in an effort to secure its future as a major player internationally while simultaneously overhauling its domestic portfolio.

Compared to regional heavyweights Venezuela (2.3 million bpd) and Brazil (2.1 million bpd), production in Peru averaged at less than 70,000 bpd throughout 2013, making the country a net importer. Making matters worse, the fall in crude prices from June 2014 has significantly reduced investment in the industry around the world, with Peru being no exception. In 2015, investment in Peru's exploration and production (E&P) of oil is set to fall below \$1 billion, which according to PeruPetro—the state-owned petroleum company—means that it will only be able to undertake 10-12 exploration drills a year, rather than a desirable 20-30.

Nonetheless, a discovery three decades ago by Royal Dutch Shell found natural gas reserves in Peru's Ucayali basin, paving the way for a revolution in the way the country understands and utilizes its energy potential. And while commercial production in what would be known as the Camisea Gas Project would not commence until 2004, it has rapidly altered Peru's energy



**LUIS ORTIGAS
CÚNEO**
*Chairman,
Perupetro*

Given Peru's natural gas resources, do you see potential for Peru to become a major LNG exporter?

We are already exporting about 600 million cubic feet per day, and producing about 1.2 billion cubic feet per day of natural gas. There are large reserves in Peru, and the possibilities of finding more natural gas are very high. There is a block in the jungle of Madre de Dios basin, where we expect to have reserves close to Camisea project. Natural gas is one of our strengths, and can often be used as a substitute for oil. For example, 50% of power generation in Peru is with natural gas, and the other 50% is hydroelectric. Before the use of natural gas, we used to generate with diesel, which was costly.

What are your goals for E&P in Peru?

We are planning to have between 20-30 exploration drills per year soon and reach between 50 and 60 exploration drills per year in the medium and long term, instead of the current 10-12. That is the only way for us to discover new reserves, and it will mean that we are going to have more production. Our demand is about 200,000 barrels of oil per day, and we produce only 70,000 barrels right now. Natural gas will help in this effort, but is not enough to meet demand. We need to increase the oil production.*

composition ever since. Two years before output at Camisea commenced, natural gas accounted for 7% of Peru's total energy mix. Over the next 10 years, this figure would rise to 41%, thereby significantly supporting domestic power needs. For instance, the use of natural gas for electricity boomed by 132% from 2005-2012, and as of early 2014 accounts for almost half of all electric power generated in the country. More importantly, as of 2004, Lima has been cashing in on its new-found treasure by exporting LNG to international markets, with Spain, South Korea, Japan and Mexico tapping up the lion's share. Additionally, plans to construct a pipeline from the Peruvian port of Pisco to neighboring Chile have been under consideration since 2006, although progress on this development has been somewhat stagnant in recent years. Nonetheless, as one of only three countries in the Americas (alongside Trinidad and Tobago and the United States) to boast an LNG export terminal, Peru's recent discovery of natural gas is estimated to generate over \$320 million annually from export revenues; a number which is surging year-on-year, in line with the increased output. When operations in the Camisea field began in 2004, Peru was producing around 83 million cubic feet per day (mcf/d). Over the next nine years, this figure has been increasing each year, hitting almost 1.2 billion cubic feet per day (bcfd) by 2013, with further exploration and infrastructure projects in the pipeline.

However, recent concerns over the exact volume of reserves within Peru have sparked a national debate on whether the government should be exporting its prized asset at all, rather than utilizing it for domestic power purposes. Originally, it was estimated that the Camisea fields hold over 14.6 trillion cubic feet of natural gas reserves, giving the country its much-needed energy security (at a time when oil production was in decline), while also offering ample supplies for export. Over the past decade, however, domestic energy consumption has soared by around 5% annually, as a result of widespread economic growth and, in particular, the government's initiative to provide secure electricity access in the rural, north-east part of the country. Oil consumption alone had hit 220,000 bpd by 2014—over a triple of Peru's crude output—and it has become clear, therefore, that natural gas will have a crucial domestic role to play if the country is to remain on its trajectory of 7% average year-on-year growth over the past 8 years.

The Lima government's response thus far has been one of defiance. Rather than folding into internal pressures to refrain from selling-off its energy security, it is actively exploring new renewable sources to deal with increased consumption. Speaking exclusively to *TBY*, Peru's former Minister of Energy and Mining, Eleodoro Mayorga Alba, argued: "We have proven gas reserves of more than 20 tcf, and the potential to discover more... Considering the sizes of the reserves and the prospects for new discoveries, Peru has the chance of having natural gas, hydro, solar, and wind together in the same energy matrix." In fact, the government, led by its pre-

vious energy minister, announced an ambitious plan late last year to diversify its energy supply, whereby 60% of internal power use will be generated from renewable sources by 2025—with an aim raise this further to 100% in decades to come. Currently, 54% of Peru's electricity mix is served by natural gas, with the remainder coming from hydropower. However, recent investments in both solar and wind energy suggest that the government is serious about committing to a greener, more sustainable future, while crucially freeing-up its natural gas reserves for export revenues. Namely, Energia Eolica—Peru's largest wind operator—completed the \$250 million Cupisnique and Talara farms in August 2014, following a report by the National Meteorological and Hydrological Service (SENAMHI) that wind energy has the potential to provide up 70% of the country's electricity needs. Similarly, in January 2015, the government committed to the \$200 million National Photovoltaic Household Electrification Program to install 500,000 solar arrays in the rural North. According to estimates, this will boost access to electricity from its current 92% of the population, to 99% by 2019, putting Peru some way ahead of the South American average of 94.6%.

CAMISEA GAS PROJECT

The Camisea Gas Project has become synonymous with the discussion on Peru's natural gas potential. Located in the San Martin reservoir in the Amazon rain forest, the fields—which are made up of Block 88 and Block 56—account for 90% of all natural gas produced in the country. Nonetheless, Camisea's early years, from discovery in 1986 to commercialization in 2004, were hampered by controversy and legal dispute.

Namely, an original consortium made up of Shell and US-based Mobil (today ExxonMobil) began developing the field, however faced stiff political opposition from Lima over how best to utilize its findings. Throughout the 1990s, the government had enforced a policy whereby Camisea gas would be prioritized for domestic purposes. However, as exploration in the fields intensified and it became apparent that Camisea held at least 20-30% more than originally estimated, Lima made a U-turn on its domestic prioritization, and issued a tender for the production, transportation and distribution of natural gas in 1999.

In 2000, the government awarded a 40-year license for the operation and ownership of Camisea to Argentina's Pluspetrol (27.2%), Hunt Oil Company (25.2%), SK Corporation (17.6%), Tecpetrol (10%), Repsol (10%) and Sonatrach (10%). Anticipating royalties of over \$34 billion for the duration of the project, the consortium set into motion two phases of the Camisea Gas Project; firstly exploring and extracting the resources and secondly liquefying the natural gas and preparing it for export. In total, Camisea I and Peru LNG have attracted almost \$3.9 billion in foreign direct investments, making the project the most lucrative in Peru's history.

Peru's former Minister of Energy and Mining, Eleodoro Mayorga Alba: "Considering the sizes of the reserves and the prospects for new discoveries, Peru has the chance of having natural gas, hydro, solar, and wind together in the same energy matrix."

FUTURE'S IN THE PIPELINE

Going forward, the challenge for Peru's authorities as well as the international parties invested in Camisea will be twofold. Primarily, it will involve continuing to explore some of the 400 prospective field sites which the Ministry of Energy and Mining believe may still be untapped. According to Luis Ortigas, President of PeruPetro, "the possibilities of finding more natural gas are very high. There is a block in the jungle of Madre de Dios basin, where we expect to have reserves close to Camisea project." Likewise, a part of these exploration efforts will be to maximize the potential within Camisea itself. Namely, in August 2014, Pluspetrol announced that the operating consortium will invest a further \$500 million over the next two years to boost exploration and drilling activities in Block 88—which alone has proven and probable reserves of 11 tcf.

Equally, however, in order to satisfy growing domestic demand and maximize export opportunities, the Lima government will also be working tirelessly on boosting its gas infrastructure. In addition to the proposed, albeit stalling, gas stream to Chile, plans to build a second pipeline, connecting to Camisea to the south of Peru, are well under way. The Southern Peru Gas Pipeline (SPGP) is expected to be completed by 2018 and have an overall construction cost of \$3.5 billion. Once developed, it will double Peru's capacity to distribute its newfound treasure.



BARBARA BRUCE
*President & General Manager,
Hunt Oil*

Gas is a non-renewable resource that in the long-term will require alternatives. Ultimately power generation should be diversified and incorporate renewable resources such as hydroelectricity. Peru has abundant natural resources. Wind, thermal, and solar energy should be part of the energy mix. My expectation is that in 20 years from now, the mix will be 40%-50% hydro with the remainder being non-renewables and unconventional renewables.*

*Read the full interview at thebusinessyear.com

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TBY talks to **Rosa María Ortiz**, Minister of Energy and Mines, on the importance of diversifying Peru's energy portfolio to provide universal power coverage to the entire population, and developing sustainable mining practices.

on the GRID

As you begin your term, what are the challenges facing Peru in regards to energy and mining policy?

We must diversify our energy portfolio and generate sufficient amounts of power to meet our growing needs while simultaneously ensuring that we have a robust and dependable energy transmission and distribution infrastructure, which can sustain the development of our country in the medium- and long-term. This way we can provide a secure and dependable power distribution network that can sustain a variety of different industrial and economic needs, and also solidify Peru's long-term growth as a competitive player in the region.

At the same time, we must work toward providing universal access to electricity and power for our entire population, and have set a goal of 95.6% coverage by 2016 to this end. We must reach every corner of the country, no matter how remote, and we have to overcome some serious geographical challenges. We already have projects underway, one of which is the provision of 150,000 solar panels for homes in remote regions that don't yet have access to the national grid.

When it comes to mining, it's crucial to support and attract greater investment in the sector, while at the same time guaranteeing that these investments are socially and environmentally sustainable. It is important to ensure that mining operations are socially responsible as they can integrate business interests in the communities in which they operate. This will help counter the negative image mining has had in the country, based on past experiences

in which mining companies failed to respect the rights of communities and the environment. The current dynamism we see in Peru's mining exploration and production activities is important, especially in copper, as projections for 2016 rank Peru as second worldwide in terms of annual copper production.

Peru is currently highly dependent on hydroelectric energy and natural gas. Is Peru planning on expanding its renewable energy sources like solar and wind power?

We have a legal framework in place to promote and develop renewable energy sources like solar, wind, and biomass. But as we see in most markets in the region, these technologies are still in the development and maturing phase, and we have to go step by step and use our own and neighboring countries' experiences to chart the best course possible in terms of integrating renewable technologies into the Peruvian energy grid—technologies that are economically viable, environmentally responsible, and of benefit to each and every final consumer. Our goal is to supply 5% of national energy generation from non-conventional and renewable sources. For this purpose, we hold tenders every two years to attain electricity fees that can help us reach that 5% target. We received three tenders for renewable energy contracts, with a fourth due in August. The tender in August covers 1,300 GWh of renewable non-conventional power and 450 GWh of hydroelectric power, with each hydroelectric power station to produce less than 20 MW.

BIO

Rosa María Ortiz is a lawyer, and graduated from Pontificia Universidad Católica del Perú (PUCP). She has professional experience in a range of public institutions, with solid legal experience in Administrative, Civil, Commercial, Fisheries, Maritime, and Hydrocarbons law. She has consulted for public sector organizations, particularly on issues related to contracting, concessions, privatization, administrative law, and hydrocarbons.

How does Peru find a way to develop its abundant mineral resources while at the same time respecting the rights and well-being of local communities where mining operations are located?

The sector is operating under a new set of guidelines, ensuring that companies promote concepts like early intervention, transparency, decentralized attention to unrest, and articulated multicultural intervention, in extraction operations. The role that mining has played in the reduction of poverty and the promotion of economic and social development in the country is undeniable, and it's clear that mining must continue to be one of the driving economic motors of Peru, especially in terms of achieving our goal of true social inclusion.

We now have a legal framework that is in the interests of both the investor and the Peruvian state and people. It is a new policy and approach to mining that ensures respect for the environment and promotes social inclusion through a trinomial Investor-Community-State model in which the state accompanies the investment process from the beginning of the project to guarantee sustainable development. As such, mining continues to be a motor of the national economy.

What is it that makes Peru such an attractive destination for foreign investment in the mining sector?

Besides the huge mining potential that Peru holds in terms of proven reserves and production levels, Peru is also a safe country for investments, offering excellent opportunities in mining and energy on a global level. Peru is among the world's biggest producers of silver, copper, gold, lead, zinc, and tin.

The consistency, stability, and clarity of our judicial and regulatory framework is fundamental to attracting investment in the mining sector, considering that mining is a capital-intensive industry that requires extensive resources which mature in the medium to long term. Peru has carried out extensive reforms to mining legislation, which has led to a legal framework that promotes both national and foreign investment in the mining sector,

guaranteeing equality of rights, top facilities, and security. This is what has sustained a vibrant and dynamic Peruvian mining sector that is also one of the most competitive and attractive in Latin America.

The Peruvian mining sector isn't just committed to the responsible use of natural resources, but it also seeks to create real and palpable gains for local populations and communities through their efforts to develop socially and economically sustainable growth. Modern mining pays special attention to environmental conservation, utilizing the most modern technologies, with clearly defined and planned operational frameworks for this purpose.

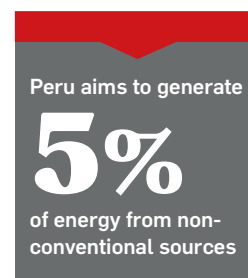
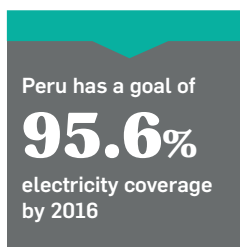
What are your main policy priorities for your term as Minister?

The priorities of the mining sector are to promote the new concepts with greater efficiency and efficacy, with the aim of contributing to Peru's long-term sustainable growth while focusing on issues of social inclusion, security, and professional safety and health standards. We are also working diligently to regulate informal mining operations, and create high and sustainable quality standards throughout the industry.

At the same time, we are working to ease the bureaucratic regulatory process so as to facilitate a growth in investments and attract more investors. We've been simplifying procedures, reducing terms, creating uniformity in application processes, introducing more flexible criteria for the authorization and licensing of construction and functioning in all stages of mining operations in a sector that is now worth \$64 billion.

We also have certain priorities in the energy sector. These include diversifying the energy portfolio; ensuring sufficient power generation to meet the country's needs in the medium and long-term; improving the quality of the national power distribution grid; extending access to the national grid in rural and remote areas; guaranteeing a dependable power network for the people and industry; and advancing further reforms in the distribution of electricity. ✖

IN NUMBERS *Ministry of Energy and Mines*





public GAS

TBY talks to *Germán Velásquez Salazar*, Chairman of the Board of Petroperu, on the company's main targets, its concessions, and the possible future tenders.

BIO

Germán Velásquez Salazar is a Senior Executive with strong experience in management and areas of finance, logistics, human resources, accounting, budgeting, treasury, and security in electric utilities (ELECTROPERÚ) and companies in both the private and public sectors. He has a Master's in Business Administration from ESAN. He was the Director of Empresa de Administración de la Infraestructura (ADINELSA), and a consultant in the area of supply chain management, negotiations, and contracts and research, while he specialized in the evaluation and restructuring of companies. He has an MBA and has been a Professor at ESAN University since 2004 as well as professor of at Pontificia Universidad Católica since 2008 in operations, logistics, and research.

Having recently assumed your position, what do you see as the main challenges confronting Petroperu today?

I officially took over as Chairman of the Board on March 30th, 2015 and a month later I also became the company's General Manager. This was a decision made by the shareholders to expedite the implementation and effectiveness of strategies, decisions, and actions within the company. Nowadays, the organization faces three main challenges. First is to efficiently bring forward the Talara Refinery project within the stipulated time frame. This project has an investment of \$3.5 billion and should be finished in June 2019. One of its main challenges is the economic reality of the town in which this large project is located. We also aim to consolidate Petroperu's economic and operative activities; in fact, we hold the concession for Lot 64, and we are looking at the possibilities of entering to lot 192, which is already in operation and will allow us to double current volumes (10,000/bpd). We also aim to modernize our corporate structure, as Petroperu needs an institutional boost to improve profitability. We are currently in the process of developing the modernization plan for the government's approval and its implementation by the end of this year.

Some analysts have predicted that the current trend of low oil prices will continue for the next few years. In this context, does the large investment required to replace the Talara refinery make sense for Petroperu?

The oil industry is an economic sector that requires a long-term vision and an efficient

operation, taking into account the volumes we move. We expect oil prices to rise in the near future; however, our objective is to have a modern refinery that will work with oil that has high viscosity levels, which are the most common ones in the Amazonian area of Peru. Petroperu produces fuels with high sulfur levels; therefore, the modernization of the Talara refinery is something required by law. In conclusion, we need this type of project to be more efficient from the operative and environmental points of view.

Why did Petroperu decide not to participate in the tender of Lots III and IV?

The main reason was that the documentation did not comply with the requirements of the previous directory of the company. They foresaw the participation in operations of these two lots as long as we reached an agreement with the operating company of each lot and the analyses of contingent liabilities. These were not ready within the time frame initially expected, despite organizing several emergency directories—regardless of the additional information provided by the other parties—we decided not to take part in these projects. From a business point of view, we did not have all the analyses and information we required to make a positive decision. We prioritize things well and such decisions must comply with the company's standards. We are extremely rigorous in this context; therefore, we always require analyses of contingencies, socio-environmental issues, and market research, among other stipulations. The list of requirements is strict; however, it is an assurance for us for doing things well.



The modernization of the Talara refinery will increase operational and environmental efficiency

This refinery will also enable us to diversify our activities and products, enabling the company to provide finished goods to the retail market.

What role does a public company like Petroperu play in the oil sector of the country?

A company is always a company, regardless of it being public or private. The main difference has to do with who the owner is. All companies have the same goals: to achieve their own objectives and to be profitable. Our vision and objectives for the company are very clear. In spite of the fact that Petroperu is currently a consolidated and reputable brand in the country, our goal is to make it a beloved brand. At the same time, we want to expand our international horizons.

Why has the decision to take the company public on the Lima Stock Exchange been postponed?

Peru's Law 30130 points out that Petroperu can sell up to 49% of its shares; hence, the state will always remain the main shareholder.

er. This is a way to obtain capital to finance projects and sustain growth, and has to be done when a company is most attractive to investors. Therefore, when the company achieves solidness and requires money for a key project, the directive body of the same will make the decision to sell the shares.

How does development of Peru's gas resources fit into Petroperu's strategic plans for the upcoming years?

This is not one of our top priorities because the company is not yet ready to take this step. There are other projects that are more important for the future development of the company such as the refinery.

How do you see the company in five to ten years?

We should achieve higher levels of integration at all levels. This refinery will also enable us to diversify our activities and products, enabling the company to provide finished goods to the retail market. We need to create more synergy within all departments of the company, to become more efficient. Finally, we will increase our international presence. ✖

IN NUMBERS
Petroperu



B2B DOWNSTREAM



PEDRO MARTINEZ
CARLEVARINO
President, PECSA



GENARO VARGAS F.
*General Manager, ECO
Petroleum*

OIL'S *well*

TBY talks to two senior managers of downstream companies on increasing market share and how the companies have expanded since being established.

What is your strategy for increasing your market share and brand?

PEDRO MARTINEZ We identified a niche in the vehicle lubricants segment and created a place for the company in that area. We distribute Lubrimax not only at our gas stations, but also in local businesses specialized in lubricants, which we have labeled Lubricentros. That is an important part of this business. In the past, we have created branding for the lubricant, but the specifications and the services were not satisfactory from our perspective. Then, we signed a contract with a Mexican company in Monterrey, and we are bringing a different portfolio of lubricants in from Mexico with the ultimate services and homologations of the recognized brands of motor builders. We are now in our best position ever with all the certificates from the plant for all portfolio products. We have an advantage right now, and we are on par with our competitors. Next, we have to work on better distribution, not only at our stores, but also at the Lubricentros and other stores in this niche. We firmly believe that the gasoline and diesel business goes hand in hand with lubricants. That is one of the reasons why we are focusing on this business.

GENARO VARGAS F. We are thinking about this for 2H2016. Our current business handles fu-

els from the terminal, and since we are going to start importing gasoline as well, there is potential because we have already started in the downstream part of this business, and the logical thing to do is open gas stations. We also have knowledge of the business through our partners, so we are working on that as a long-term strategy. We need at least 100 gas stations in order to be economically viable with our plan. And it is not about having gas stations that supply our brands, we are looking at 100 gas stations across the country, but we are mainly thinking about the capital cities, and near the terminals that we are planning to open in the coming months in the north and south.

How has your business model developed in Peru since your company was established?

PM We started exactly 20 years ago as a wholesale distributor of liquids. In 2005, we began providing natural gas for vehicles (NGV), in association with a Colombian firm, Promigas, and we were the first company to do this in the Peruvian market. The pipeline comes from the Camisea Gas Project to Lima, and nowhere else in the country. The first gas market in Peru was Lima, which is why we built the first gas station with NGV there. In 2005, we bought Chevron-Texaco's assets because it was leaving the country. From that point on, the company began to expand as that operation brought more gas stations and industrial clients, taking us to the next level. Since then, we have been consolidating our volumes, margins, and our market presence. Today, we have 340 gas stations across Peru,

with a presence in 176 cities. Of those 340 gas stations, 80 are the property of the company, while we also have 260 affiliates. At those gas stations, we build facilities for LPG and NGV, as well as convenience stores. Currently, we have 110 facilities for LPG in those 340 gas stations. We have 40 stations with NGV, and close to 40 convenience stores bearing the Viva brand, which is more upmarket than a convenience store or market. We are now working to put the Viva brand on a stand-alone platform, rather than merely being part of the gas station business.

GVF ECO Petroleum is an importer of fuels. We are licensed as a wholesaler, which allows us to import products. At this stage, we are only working with diesel; however, in the future we are also going to start importing gasoline, but only liquid fuels such as diesel and gasoline mainly, as well as turbo jet fuel for aircraft. With this license, ECO Petroleum is importing this diesel and storing it in Callao. We are distributing the fuel to the north, the center, and the south of the country from Callao Terminal here. Our plan is to start opening other operational terminals in the north and south of the country, because that way we reduce our costs. Doing so also allows us to work regionally, because Peru is like a hub. We can also export to countries like Bolivia, Brazil, and Chile, and provide the fuel in a better, more effective manner to the mining industry in both the north and the south of the country. That is basically our mission in this country, to import high-quality products and to deliver it in our projection to other regions and countries. ✖

STRONGER CURRENTS

With substantial reserves of natural gas and huge hydroelectric potential, Peru is reforming its energy sector to open up new possibilities, both at home and in the region.

SINCE 2001, energy production in Peru has doubled to cope with the soaring demand that has gone hand in hand with widespread economic growth. However, the country's ability to produce energy with natural gas and hydroelectric power has been so overwhelming, that alternative, renewable sources of energy have been widely ignored. In spite of efforts to include renewable energy in a legislative degree in 2008, this source has had a less-than-significant impact on Peru's energy supply. As a result, but also due to weak gas infrastructure in the north-east, around 10% of Peruvians lack secure access to electricity; a figure which is, predictably, much higher in rural parts of the country (over 30%).

To offset this, the government in Lima, headed by the Minister of Energy and Mines, Eleodoro Mayorga, is working on an ambitious plan to diversify the country's energy mix by 2025, at which point 60% of supply will come from renewables. According to a recent estimate by the National Meteorological and Hydrological Service (SENAMHI), the total potential of wind power in Peru is near 19 GWh/year, or 70% of current electricity consumption. As such, in August 2014, Energia Eolica the largest wind operator in Peru completed the \$250 million Cupisnique and Talara farms which now provide wind energy to the north of the country, for the first time.

Similarly, in early January 2015, the government announced plans to provide half a million households with solar energy through the National Photovoltaic Household Electrification Program. Costing in excess of \$200 million, the program will aim to ensure that over 95% of Peruvians will have access to electricity by the end of 2016, just ahead of the current South American average of 94.6%. Speaking at the launch, the former energy minister, Jorge Merino explained that "this program is aimed at the poorest people, those who lack access to electric lighting and still use oil lamps, spend-

ing their own resources to pay for fuels that harm their health."

Moreover, the program has pledged to export, or "auction off", any unused power that the solar grids will produce; a move that will be groundbreaking considering Peru's until-recent renewable deficiency. In fact, through the Pacific Alliance, Lima may have found an ideal export market to accommodate its impending energy increase. According to the ex-economy minister Luis Miguel Castilla, energy interconnection in the alliance is the next logical move, "pushing us beyond just trade and financial integration to physical integration".

Peru is the only country on the South-American Pacific coast with the facilities to both produce and export natural gas. Using LNG for electricity generation would free-up vast gas reserves for export. And Mexico's struggling electricity sector appears to be the preferred market as LNG Peru, currently operated by Texas-based Hunt Oil, has already agreed to sell almost 70% of output to its Central American partners. Similarly, neighboring Chile is experiencing a clear energy deficit, prompting a source to quip that "so it is eminently reasonable and commercially intelligent." Nonetheless, despite the clear political will, poor transmission lines and a lack of power plants mean that these projects still lack adequate infrastructure. It is estimated that the Peruvian government will need to pump \$32 billion by the end of the decade in order to see these ambitions materialize. ✘



JAVIER GARCIA-BURGOS
CEO, IC Power

Peru's energy mix is split 50:50 between natural gas and hydropower, with 2% to 3% derived from other sources. This makes for a combination of two manageable, cheap, and clean energy sources. The project we are building is one of the last cheaper hydro plants that are less than \$2,000 per kW. It is a 510MW project costing \$910 million and scheduled for completion by 1H2016.*



fearsome ENGINE

TBY talks to *Ernesto Córdova*, General Manager of Fenix Power on establishing cutting edge power generation, mitigating political risk, and coping with market distortions.

BIO

Ernesto Córdova is the general manager of Fenix Power. He was a consultant for the World Bank and has held directorial positions in various Energy Development Projects in Latin America: General Manager for El Salvador, Regional Manager for Central America in Coastal Power, Executive Director of Constellation Power, and general manager of Ecoeléctrica Puerto Rico. He has been with Ashmore Energy International (AEI) since 2007, Fenix Power's majority shareholder, when he arrived in Peru to assume the role of general manager of Calidda, the company in charge of natural gas distribution. Cordova studied Business Engineering at the University of Texas. He earned a Master's degree in Energy Economics at the University of New York and a PhD in Energy Policy and Management at the University of Pennsylvania.

Fenix Power recently commenced commercial operations. What lay behind your entry into the Peruvian market, and what makes the market an attractive one?

In 2008 AEI acquired Fenix, which was called Egechilca at the time, and was developed by Panamanian investors, Grupo Lakas. They started the project in 2004, purchasing the gas turbines and securing the requisite permits. The financial crisis of 2007 prevented their strategic investors from completing the project. Under those circumstances, AEI reached an agreement with Grupo Lakas to purchase these assets, and AEI completed the project development, although it took a while to start construction due to a gas and gas-transportation crisis in 2009. The government stepped in with a competitive bid for their gas supply company, which we won. We had already acquired the turbines and related permits, and winning this bid took care of the gas supply. Construction started in 2011, and was completed in early 2014. Commercial operations began in May 2014, but at 50% capacity utilization. From May to December 2014, we were operating at 280 MW capacity, and 2H2014, we received COES approval for a Commercial Operation Date (COD) with full capacity of 570 MW registered on December 24th. With full capacity at our plant, we are now contributing 10% of electricity consumed by Peru. This will push prices in the right direction, reducing consumer prices with the huge capacity we add to the system. Fenix Power is proud of the major contribution it is making to the Peruvian economy by reducing electricity prices, while increasing supply. We also feel proud of our social impact in Chilca, a community of 17,000 where we operate. Fenix Power has built a potable water system at the power plant, of which only 20% is used for our own purposes, including desalinization and potabilization. The remaining 80% is dis-

tributed to the local community in Las Salinas, Chilca. This water supply can only gain in importance over time.

Assessing political risk is a crucial factor for companies seeking to invest in foreign markets. How did you carry out that assessment and what challenges did you face?

The political scene has been highly encouraging overall. At the executive level, the government has delivered on all its pledges. In the broader arena, local politics and political associations now and then oppose infrastructure in their regions. Taking these organizations into consideration, we have faced certain problems, especially in the early years when such groups masqueraded as environmentalists to conceal their political agenda. Fenix Power does what it commits to doing, and stakeholders notice and respect our commitment. This is despite the changes seen at the energy ministry over the past few years. Every administration has supported our project, and we have been unhindered in that regard. This is because what we are doing on both the social and economic front is of too much national significance for any official or government to oppose. All in all, I believe that what differentiates Fenix Power from other companies that produce thermal energy using gas-combined cycles is our social commitments and what we give to the local population.

How are you able to provide low prices to the market, and how does your plant compare to other power sources in Peru at the moment?

Fenix Power was not the first energy company to use a combined-cycle power plant, although we were the first to announce that we would build one. When others began putting their power plants into operation, they were open-cycle, simple-cycle plants that came into operation in 2006-2007. But the threat of

the new power plants being combined-cycle facilities forced many simple-cycle plants to convert to combined-cycle facilities. Today we have about 2,500 MW in combined cycle plants using natural gas. Various companies converted their simple-cycle plants to these combined-cycle plants, but we did it quicker, since we started out by building combined-cycle plants, whereas others had to undertake the whole conversion process from scratch. The entry of these combined-cycle units is certainly having a major impact by reducing the price of electricity in Peru, although it must be said that the drop in oil prices is also a major factor. That being said, thanks to the combined-cycle power plant, we can generate 40% more electricity without requiring additional fuel. That has led to a huge increase in supply over the past three or four years, which has reduced prices significantly, especially in light of the fact that demand has not grown as expected, with Peru registering GDP growth of less than 3%. In a nutshell, lower demand, higher supply through the introduction of combined-cycle

plants, and lower oil prices, have all brought electricity prices down in Peru. We now see spot prices of below \$20 per MWH.

What is your outlook for the Peruvian electricity sector, and are you worried that the current economic climate and recent government policies will make it more difficult to pursue new projects?

In the government's efforts to increase gas power-generation they have supported the development of gas infrastructure. The government has also artificially maintained prices at what it calls "ideal" levels. Its model assumes there are no restrictions, and that energy in any amount can be supplied at ideal rates. Although these policies served a purpose a few years ago when the government was keen to diversify electricity supply, setting these artificial price levels with no time limits can create prices that fail to represent the true cost of generation. While this works for short periods of time, extended periods of artificial pricing send a distorted message to the market. ✘

IN NUMBERS *Fenix Power*

Generates

570MW

in combined cycle



Progreso para Chilca, energía para el Perú

**We generate 10%
of the energy currently
consumed in Peru**

B2B CAPACITY BUILDING



LUIS VELASCO
*General Manager,
 Red Eléctrica del Sur
 (Redesur)*

How would you describe the progress made in new infrastructure for the electricity sector?

LUIS VELASCO New power plants mean that there will be much more energy in the south, which is excellent. This also means that we will need more transmission grids to merge the electrical supply with the electrical demand. The energy produced from the gas generators has to be transmitted after all; therefore, you have to have the grid in place, not just for the south of Peru, but also for other regions or to export to other countries. Exporting energy is part of the government's plans. Once you have the transmission lines in place you can export and import on the same lines. That is what the Inter-American Development Bank (IDB)-financed Andean Electrical Interconnection System (SINEA) Project aims to do; namely establish connections with neighboring countries, such as Ecuador and Chile, and eventually expand those connections to countries including Brazil, Colombia, and Bolivia. These are long-term investments that will do much to improve the electricity transmission and generation grid throughout the continent. It will also reduce the cost of energy, and lead to more efficient usage.



HUMBERTO MONTES CHÁVEZ
*President of the Board,
 Distriluz*

If you have a surplus of energy you can sell it down the line to other countries, while during times of shortage you can import it. You can also avoid the use of expensive reserve energy generation and use. Red Eléctrica de España already has excellent experience in this field in Europe, where we have connected Spain, Portugal, Morocco, and France, including the use of submarine cables.

HUMBERTO MONTES CHÁVEZ

The electricity business comprises generation, transmission, and distribution. The lack of infrastructure in Peru is obvious, and in companies like ours it is a challenge to maintain quality services since state-run companies like ours are forbidden by law to take on debt with a maturity of over one year. If we want to, for example, improve a main substation such that it remains operational for between 15 to 20 years, we are required to repay the loan within a year. That cannot be done with short-term loans, which is all we have access to. We receive loans from FONAFE, which is the holding company for all the state-owned Peruvian companies. It issues medium- and long-term loans. We need to invest more to be able to bring our service up to 21st century standards, but we cannot do so under such credit

WE NEED *more power,* SCOTTY!

TBY talks to two industry leaders on the state of the country's infrastructure and how it might progress.

limitations. We can only hope for a legislative amendment that enables us to reinvest the revenues that we generate.

Some players in the power industry have expressed concerns about the government directed tender process for new power plants, particularly in that the market has not determined the pace of development. What are your views on this issue?

LV It is a transparent process that is open to many players. The tenders have been determined based on the demand for power in the south, where there were diesel reserve power plants being used to generate, and which are being converted to gas turbine power plants. Therefore, the government is determining the process based on energy demand now and for the future. These are long-term investments, both for the generators and the transmission lines. They take six or seven years to build, and are used for many more than that. The government, accordingly, has a long term plan under which it determines what investments to undertake and what tenders to

present to the market. In Peru, per capita energy consumption is 15 times below that of Spain. But the population is expected to increase their consumption, and industrial facilities are also planned. Peru is essentially a primary resource economy, but in the future the manufacturing industry and services sectors are expected to expand, and these result in higher energy needs.

Do you believe that privatization could solve some of Peru's energy challenges?

HMC We need to improve the quality of the power supply. This is difficult, as regulations impede requisite investments. I am not saying that if the laws change the problem will be solved overnight, but at the very least a major impediment would be removed and the way forward cleared. State-owned companies have a bad reputation in Peru, and generally seen as poorly managed. We are now managing companies well considering the means at our disposal. We invest what resources we have, and are growing at a reasonable rate, in some places between 10-12% annually. ✕

IN THE PIPELINE

The Southern Gas Pipeline looks set to put Peru firmly on the international energy map.

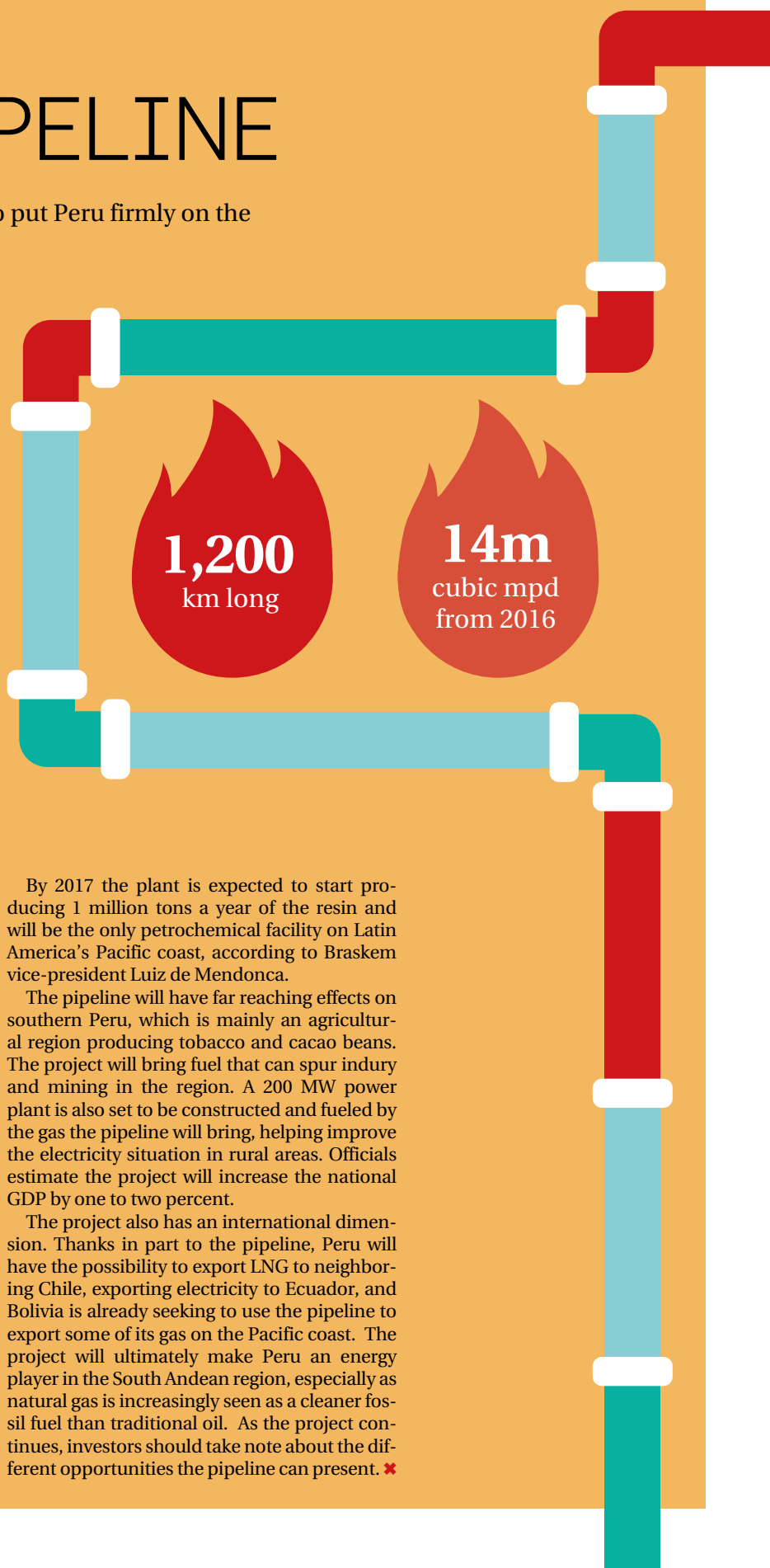
PERU IS SET TO BE a regional player with the Southern Gas Pipeline project. The Southern Gas Pipeline aims to bring natural gas from the Camisea gas fields in central Peru to southern parts of the country and enjoys widespread support from the government of President Ollanta Humala's administration. The project has already received billions of dollars of investment and parts of the project will see the light by 2016.

The pipeline will traverse 1,200 km and will bring natural gas to the southern cities of Cusco, Apurímac, Puno, Arequipa, Moquegua and Tacna. The first phase of the project will bring LNG from the jungle to the highland city of Anta, and is set to be completed in December 2016, while the second phase of the project, extending the pipeline to the southern port city of Ilo, is due to be completed in 2017.

The pipeline will initially pump 14 million cubic meters per day from Block 88 in the Camisea gas fields, but officials are betting on more reserves to be found and are now currently exploring possible new fields. Two other pipelines already carry gas to the capital Lima and its surrounding territories and suburbs.

In 2014, the Peruvian government granted a 34-year concession to Gasoducto Sur Peruano, run by Brazilian construction company Odebrecht and Spanish natural-gas transportation company, Enagás. The project has already raised an estimated \$4 billion in investments, although according to government Peruvian government agency ProInversión—who granted the concession—estimates costs for the project may each up to \$7.3 billion due to Peru's diverse ecosystem and topography which will hinder construction efforts.

The pipeline is actually only one component of a greater project in developing the energy sector in Peru. Along with the new pipeline, a petrochemical plant is also part of the project. Braskem, one of the leading thermoplastic resin producers in the region, and Petroleos Del Peru (PetroPeru), a state-owned company that oversees the transportation, refining and sale of fuels and oil derivatives, signed a Memorandum of Understanding in 2012 to build an integrated petrochemical plant in the southern town of Quillabamba. Braskem aims to invest over \$3.5 billion in the plant, which will produce a plethora of petrochemicals and explosives.



By 2017 the plant is expected to start producing 1 million tons a year of the resin and will be the only petrochemical facility on Latin America's Pacific coast, according to Braskem vice-president Luiz de Mendonca.

The pipeline will have far reaching effects on southern Peru, which is mainly an agricultural region producing tobacco and cacao beans. The project will bring fuel that can spur industry and mining in the region. A 200 MW power plant is also set to be constructed and fueled by the gas the pipeline will bring, helping improve the electricity situation in rural areas. Officials estimate the project will increase the national GDP by one to two percent.

The project also has an international dimension. Thanks in part to the pipeline, Peru will have the possibility to export LNG to neighboring Chile, exporting electricity to Ecuador, and Bolivia is already seeking to use the pipeline to export some of its gas on the Pacific coast. The project will ultimately make Peru an energy player in the South Andean region, especially as natural gas is increasingly seen as a cleaner fossil fuel than traditional oil. As the project continues, investors should take note about the different opportunities the pipeline can present. ✖



Even though the country's reserves remain largely unexplored and untapped, Peru is still a dominant force in the mining world, ranking highly in copper, gold, silver, and base metal production.

Review MINING

INCA GOLD

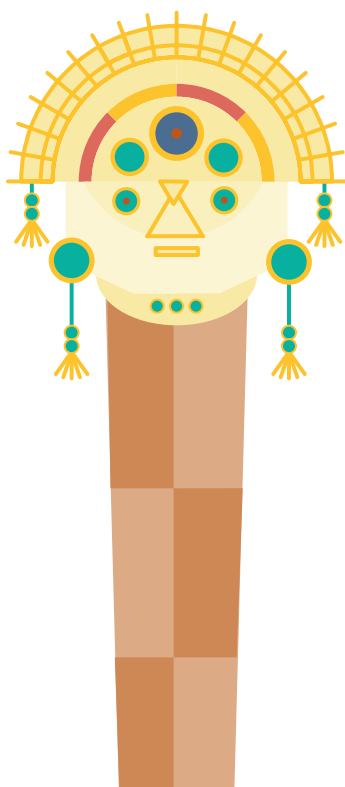
Both in Latin America and globally, Peru is a dominant force in the mining sector. The country has large reserves of silver, zinc, tin, lead, gold, iron, copper, and molybdenum. Investor confidence in Peru's mining sector is high; however, falling global mineral prices could cast a cloud over the country's flagship sector. The government also realizes that it must develop the transport infrastructure to increase access to markets for mines and help reduce costs with efficient and effective roads and rail links to ports.

INVESTMENTS & EXPORTS

In terms of mining investment, Peru ranked seventh globally in 2014 and fourth in Latin America. Between 2013 and 2015, according to the Ministry of Energy of Mines (MINEM) \$15 billion worth of mining projects were underway to develop the country's production capacity, with the amount of ongoing investments in Peru at over \$8.7 billion in 2014; however, this number rises to an estimated \$14 billion when including hydrocarbons, electricity, and infrastructure according to MINEM. This accounts for 13% of all FDI entering the country. In 2013, the sector, including oil and gas, represented 4.8% of GDP. In terms of exports, mineral is king. The sector currently represents 55.2% of Peru's overall exports in 2013, worth an estimated \$41.2 billion, with mining contributing \$22.5 billion according to the latest statistics from the Peruvian Foreign Trade Association (ComexPeru). Exports were down 11% in 2013 compared to 2012, which was attributed to weak demand from China and lower global mineral prices. Still, exports are expected return to strength over the next two years and in 2015 should hit just shy of \$50 billion according to BCRP. This is largely due to increased production, with copper predicted to increase from 1.57 millions tons per year to 2.8 million by 2016. Copper is one of the country's main exports, along with gold, zinc, textiles, and fishmeal. Peru's main export partners are China, the US, Germany, Chile, and Japan. Peru has long maintained an aggressive trading policy and has established a number of free trade agreements (FTAs) with major economic powers of the world. The sector is aware that low mineral prices are a factor impacting exports; however,

JAVIER DEL RIO
*Executive Director,
Business Development,
South America,
Hudbay Minerals*

“We are trying to develop local expertise, not necessarily all related to mining, but to all of the downstream production that will continue even after the mine closes. What we are trying to do is to bring sustainable development not only to the mine, but also to the local economy.*”



it knows what can kill a country's export revenue is stronger competition. Peru's southern neighbor, Chile, is a major competitor when it comes to mining and has also built an economy with mines making up its backbone. With Peru entering various FTAs and joining regional and global trade organizations, it is able to maintain a competitive product with minimal effects from tariffs and taxes.

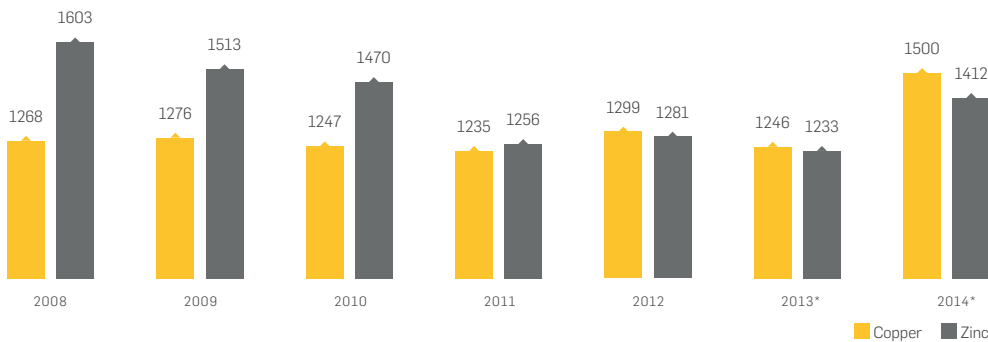
RESERVES & PRODUCTION

In terms of reserves, Peru ranks highly globally. When it comes to copper, Peru ranked third in 2014 with 68 million tons—which represents 13% of the world's reserves—and was behind Chile and Australia with 209 million and 93 million, respectively. While this puts the country somewhat behind its neighbor, it has almost double that of fourth place, Mexico. In 2013, Peru ranked third in terms of copper production; however, with the planned production increase to 2.8 million tons, this would push it to second place and above China, which produces 1.65 million tons of copper, but still behind Chile, which produced 5.7 million tons of copper in 2013.

In regard to gold, Peru is the sixth largest producing country, in 2014 mining 5,141 fine ounces. This was a drop on 2013 production of 5,504 fine ounces, which was attributed to aging mines producing less and a nationwide government crack down on illegal operations. There are an estimated 200,000 informal gold miners that need to register and become regulated. Because of this, gold production is likely to drop until around 2016, while the informal/formal imbalance is addressed. Peru is thought to have around 2.2 billion fine ounces of gold, representing 4% of the world's total. However, when it comes to silver, Peru is somewhat of a hoarder and holds 22% of the world's known reserves at 120 billion fine ounces. These large deposits clearly make the country a dominant force globally and in 2014 it was the third largest producer behind China and Mexico. While it sits in third place today, the huge reserves the country possesses will likely allow it to move higher up the ladder as other countries' reserves dry up. The largest silver mine is the Antamina Mine in Northern Peru. This mine produces the bulk of the country's 3,700 metric tons a year. The total is only slightly behind China at 4,200 metric tons and Mexico at 4,700 metric tons per year. Antamina Mine is a joint venture between BHP Bil-

ORE PRODUCTION (THOUSAND TONS)

SOURCE: MINEM

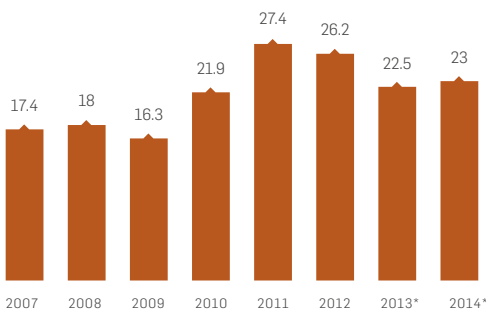


CARLOS MENDEZ
General Manager, Partequipos del Perú

The mineral price decrease will have implications for most sectors of the Peruvian economy. The commercial sector has been most negatively affected by the price decline. The exchange rate has also declined in conjunction with mineral prices. Fortunately, the lower exchange rate is favorable for the construction sector, wherein a large proportion of our business lies.*

MINING EXPORTS (USD BILLIONS)

SOURCE: COMEXPERU



*Read the full interview at thebusinessyear.com

lition, Teck Resources, and Mitsubishi. While it is the largest silver producing mine in the country, it is actually a copper mine, with silver being a byproduct. Two areas where Peru is strong in Latin American production terms are in the mining of tin and zinc, where the nation ranks first in both categories and third globally. The country produced 1.23 million tons of zinc in 2013 and 21,572 tons of tin. Peru has 18 billion tons of zinc in reserves and 310 million tons of tin.

EXPLORATION & INFRASTRUCTURE

Peru is endowed with vast reserves of minerals, but unbelievably in 2013 only 0.32% of the country's territory was being explored properly. It was also estimated that only 0.9% of the minerals in the country were being exploited. This means that in regard to the country's mineral potential, its current production rates are minimal. Compared to other Latin American countries, Peru has the greatest untapped potential in the form of its deposits and the potential to make new discoveries. Industry experts believe that Peru could double or even triple its current production output with the right investment, especially in base metals. However, one of major obstacles to exploration is the country's rugged landscape and lack of extensive infrastructure. When heading into the Andes or the Amazon, roads and power often need to be built along the way. Funding shortfalls in provincial budgets has hampered regional infrastructure expansions, meaning that it is looking more likely that the private sector may have to step forward if it wishes to develop certain assets. This would require a fundamental change in the way infrastructure development has traditionally been funded in Peru. Recently, the government has been creating incentives to help instigate private sector investment in infrastructure in the form of a grant of credit against income taxes to allow third-party investors to recover related capital investments. Early signs show that mining companies have begun to invest in social infrastructure and become more involved in the surrounding communities. And given that the environmental impact of mining continues to anger local communities near the mines, this development can only help to relieve some of the tension. ✕



EVA ARIAS DE SOLOGUREN
President, National Society of Mining, Oil and Energy of Peru (SNMPE)

How would you assess the evolution of government policies in the mining and energy sectors?

Peru has had a favorable business climate for the past two decades. Economic and political stability has been passed down from government to government. This is an essential condition for long-term investments such as mining and energy projects. With free market policies and regulation where needed, Peru has managed to become a competitive country, especially in terms of its electricity tariffs, which are among the lowest in Latin America. We are also competitive in human capital, but sourcing a larger number of qualified technicians and operators, specifically in the mining sector, is an area that requires more attention.

How would you assess the role of the Agency for Assessment and Environmental Control (OEFA) in terms of regulating the energy and mining sectors in Peru?

We are aware of the importance of environmental assessment and control, and our member firms are always willing to be monitored in a technical and reasonable way. Our firms are committed to safeguarding the environment and cultural diversity, complying with the prevailing laws and making their best efforts to reach the highest international standards in environmental management.*

INTERVIEW



DIG deeper

TBY talks to **Roque Benavides**, President of Minas Buenaventura, on quality control, political and economic risk, and production.

BIO

Roque Benavides is a member of the Executive Committee of Yanacocha and Cerro Verde board of directors. He has served as a Director of the Sociedad Nacional de Minería, Petróleo y Energía since 1988 and as Chairman of the Board from 1993 to 1995. Benavides was Chairman of the Confederación Nacional de Instituciones Empresariales Privadas (CONFIEP) from 1999 to March 2001. He is a board member of the World Gold Council and Silver Institute. Benavides received a BS in Engineering from Pontificia Universidad Católica del Perú in Lima, Peru in 1977 and an MBA from Henley. He is a board member of Banco de Crédito and UNACEM, both Peruvian listed companies.

In the region and around the world there is a question of declining quality. What have you seen here in the mining sector in terms of the decline in copper?

Peru is currently producing 1.2 million tons of copper per annum. With the expansion of Cerro Verde and the construction of Las Bambas and Constancias, we will be producing 2.5 million tons within two years, which means more than a doubling of production. This still lags far behind Chile, which produces 5 million tons of copper.

There has been much talk about infrastructure investment this year and a lot will be implemented in 2015, while the new mineral port has also opened in Trafigura Beheer. How do those developments affect you?

Peru is a country that still lacks infrastructure, and from a geographical standpoint it is a difficult one when you have low-population coastal areas and the high Andes. Then, there is the Amazon jungle to contend with. In order to generate the necessary infrastructure to connect the country, you need economic activity that justifies it. Mining is part of this justification, and obviously Peru had been doing well to improve its infrastructure with roads, electricity, and communications, although the country still has a long way to go. In the case of the port specifically, through our subsidiary, Sociedad Minera El Brocal, we are also part of this process, and it is set to become an important facility that will reduce the costs of shipping, while the vessels

themselves will arrive and depart faster than at present, all of which vitally reduces costs.

Earlier in 2105, The National Academy of Sciences Journal published a study on mining and hydrocarbon projects across the world misjudging the inherent political risks of large projects. Buenaventura has had problems with Yanacocha and Conga. How would you judge the political risk of Peruvian projects?

A country like Peru that is regarded as a star generates expectations. The rural population naturally has expectations of sharing in the benefits of national growth rates. The problem is how to deal with those expectations, especially when they have to do with the distribution of wealth. The mining sector, as part of the private sector, generates wealth, taxes, and production, and the resulting wealth and taxes have to be redistributed by the authorities. The problem in countries like Peru is that the state is absent in some rural areas and mining companies have to assume the role of the state, which is almost impossible. That generates conflict, which we have to address. Expectations need to be met through additional infrastructure, and by providing opportunities, services, education, and healthcare.

For the next three years, how do you plan to increase production during a time of falling mineral prices, and how do you plan to keep costs low in that environment?

Many believe that the mining

Peru currently produces 1.2 million tons of copper per annum. With the expansion of Cerro Verde and the construction of Las Bambas and Constancias, it will produce 2.5 million tons within two years

industry develops in times of high prices, and that is indeed part of the story, although overall mining essentially develops with political and economic stability. Mining develops when there is security for the people and when there is infrastructure. Peru is on the right track, and we are improving infrastructure. The fact is that Peru has signed free trade agreements with two thirds of total global GDP—55 nations worldwide—we have an investment grade rating, and we are part of the Pacific Alliance, which makes us part of a group of successful companies in Latin America. Meanwhile, we have finalized all sea border disputes with Chile, which means that Peru is stable, economically and politically. ✘



ISAAC RIOS
*Honorary Chairman,
Centro Tecnológico
Minero (CETEMIN)*



ARMANDO
GALLEGOS
Chairman, GERENS

FUTURE PROSPECTS

Peru's burgeoning mining industry has created growing demand for academic, vocational, and research programs in engineering, management, and maintenance of the country's mining activities.

How has demand for academic programs geared toward the mining sector evolved since your institution was established?

ISAAC RIOS CETEMIN was founded in 2003. We began with 16 students and have increased in size each year, despite negative economic climates; we had up to 500 students last year. We originally specialized in mining exploitation, though we soon expanded in to other areas such as mining processing, heavy equipment maintenance, electrical maintenance, environmental control, and mining geology. These six specialties are a comprehensive list of employment opportunities within mining operations.

ARMANDO GALLEGOS In the last ten years, the industry has experienced a super cycle in mining, which has increased the demand and needs of human resources in the sector. We have experienced both excess demand, and currently, a lack of it. Mining is a cycle industry. During the boom, the issue was the lack of trained personnel. The study that we conducted was about identifying the gaps. We worked with different variables to formulate scenarios. Some were quite dramatic. During the peak, the gaps were very acute. At present, we still

have a lack of preparation for key positions, but the demand has decreased. In the long term, we are still in deficit in regards to high quality human resources. Peru also exports much of this talent to Latin America, Australia, Canada and Africa. A significant number of our graduates are working overseas. Peruvian mining engineers are very appreciated in the global mining industry.

What is the profile of your students and the human capital the institution aims to introduce into the economy?

IR We currently have 20 universities that specialize in mining engineering in Peru and each year about 500–600 students graduate as mining engineers. But out of these graduates, only about 100 actually work in mining; the rest work in other areas, such as professional staff training. We noticed the need for more operators and technical workers—and that is why we founded CETEMIN.

AG We are currently accommodating our fourth cohort of students, who work at the leading mines in Peru. These individuals consist of mining engineers, geologists, metallurgic, civil engineers. We offer a two-year MBA in Mining, and six to ten month part-time diploma

programs in areas such as sustainable development, project management, finance, value creation, and stakeholder management. We have programs to train managers for large projects in mining development such as Las Bambas and Antapaccay. A second area of interest is water management. Currently we work with the Peruvian national water authority, ANA, and the World Bank on a program being offered in three locations: Arequipa, Lima and Chiclayo in a consortium with Fundación Chile and Colorado State University. Another line of activity is applied research. We conduct and publish long-term studies on the profitability of Peruvian companies, ongoing studies in exploration activities, and we are working with the Instituto de Ingenieros de Minas de Peru (Institute for Mining Engineers of Peru) in studying the educational needs, as well as the supply and demand of labor force for the mining sector.

What is your outlook for the mining sector within Peru's economy?

IR Mining is a complex sector in itself, and comparing it to one like agriculture provides differences of varying size and scope. Agriculture is a staple in our economy. The area occupied by agriculture is around 30%,

while mining is only 1.2%. The water resources used by agriculture are around 80%; mining uses 2%. The agriculture sector employs much more people than mining does: 3.8 million compared to 200,000. Mining does not occupy as much space and does not use a lot of resources. Agricultural GDP is 6% and mining is 12%. We export 9% of our agriculture, but we export 58% for mining. While agriculture is vital to our country, mining has advantages over it.

AG The country is growing. Companies and the government are increasing their expertise and dexterity in handling these issues. Our success stories could not have happened if these companies would not have worked with the regional, national and local governments and communities. We have increased capabilities in this country in regards to handling win-win relationships between mining companies, the government and the communities. In the case of Tia María, there were some particular and clear problems from the various parties, the government, the company and the political activity in the area. I am optimistic about the development of capabilities for handling the mining industry in Peru in a sustainable manner. ✘

GREAT MINES

MINING NOW ACCOUNTS for 55.2% of Peru's exports, or around 11.2% of its GDP, although the economy has diversified over the past two decades. The range of metals that Peru exports has also diversified, and the country is now a significant exporter of copper, zinc, tin, lead, molybdenum, bismuth, and other minerals. Peru is currently the world's third largest producer of copper and zinc, and contains 13% of world's known copper reserves and 22% of its silver.

Because of the nation's history and the size of the industry, mining is inexorably linked to the economic wellbeing of Peru. For example in 2013, 24% of total FDI went to mining projects, and that same year, tax revenues from mining accounted for 9.44% of the total take, far less than 2006, when mining revenues accounted for nearly 21% of total taxation.

In late 2012 and early 2013, global demand for minerals fell and prices for key metals declined to their lowest levels since 2008. In 2014, GDP growth slowed to 2.4%, although investment in the mining sector remained robust in 2013 at \$10 billion, and may have reached as high as \$14 billion in 2014.

Many small miners backed away from projects, or else were forced to shutter in 2013 and 2014, although the story for the major players is notably different. Chinalco, Hudbay Minerals, Buenaventura, Southern Copper, and Freeport McMoRan have persevered with plans throughout the country, mostly in copper. Nearly \$13 billion in copper production investment is still on track for 2016 despite the volatile copper index.

This refusal to blink is partly due to long term copper price forecasts, which predict a rise in the medium term, in tandem with resurgent global demand. Although China, the world's largest copper consumer, may have entered a "new normal phase of growth, copper remains a crucial element in manufacturing and construction, the backbones of global growth. According to industry groups, in the first 11 months of 2014 copper demand grew by 10%. US and emerging market demand,

combined with declining ore quality at some of the world's largest mines, may even lead to shortages down the road, according to some analysts.

Crucially, there is also the question of volume and production cost. Peru is currently the world's 3rd largest copper producer, but after the large mines currently under construction reach full capacity in less than five years, Peru will surpass Chile to become the world's second largest producer. With volume come increased revenues and decreased costs per ton of concentrate.

Peru has significantly lower costs than its southern neighbor Chile due to abundant hydroelectric and gas resources, lower labor costs, and fresher mines that require less investment in order to extract ore. Those facts are generally true for all of Peru's mining operations, although investment metals and base metals are expected to stay low in a high-interest rate atmosphere and a sluggish global economy. Copper will likely play a much larger role in Peru's economy in five years, and in the meantime, billions of dollars in mining investment will drive construction and services in the Peruvian economy.

The role of minerals in the Peruvian economy was complicated, and ultimately weakened by 2014's sustained low mineral prices. Government intervention in the form of a raft of infrastructural projects was swift but only came after the economy had already slowed significantly. The political pain of this transitional period has caused a large-scale reevaluation of the nation's economic structure and engendered the political will for infrastructure projects, although not broader reforms.

Growth in 2015 and beyond will depend on mining projects and mineral prices, but other developments have the potential to win many additional billions in investment. As long as mineral prices are low other sectors will find themselves playing a growing role in the national economy. As 2014 proved, that shift is positive in the long term, painful as it may be now. ✖



**ENGINEERING SERVICES IN THE AREAS OF ENERGY,
MINING, TRANSPORT, IRRIGATION AND ENVIRONMENT.**





the BRASS TAX

TBY talks to **Christopher Varas Obando**, General Manager of Grupo Vivargo, on the company's portfolio, changing mineral prices, and a possible international expansion.

What prompted the company to diversify its portfolio?

We have recognized the need of the market and clients to establish a total service solution for the development of a project. We needed to provide such solutions, and we did, which aids us to perform nationally. This development opens the doors to foreign investment and strengthens Peru's competitiveness as a mining country. However, more can be done, and we have not yet reached our full potential. We saw great opportunities within the mining industry and the several projects the industry had lined up. We wanted to meet its demand for equipment and machinery. That pushed us to diversify our business operations. We are a pioneering company; we imported technological advanced equipment and machinery into Peru that was previously unavailable in the country.

Has the fluctuation of mineral prices impacted the company?

We have a presence in all the main mining projects in the country and our operations do not depend primarily on market mineral prices. There are several projects that have slowed down over the last year; however, all of these are still in development, and we are proudly part of that. The decision of the company was to expand to other markets, such as energy, oil and gas, and construction, with the same vision of providing the

high quality service we provide in mining sector. Our company has diversified. Today, we also have presence in other countries like Chile, Ecuador, and Bolivia, among others. We aim to diversify our global operations and ensure our fleet is available across these regions.

What role does the mining industry have to play in the Peruvian economy?

Peru is a mining country, being the main venue of money insertion for the country. The government has a strong will to diversify the economy, which is understandable. However, the mining industry is the largest wheel that enables the smaller sectors to also advance and develop. Thanks to the mining industry, the country can invest in road and logistics infrastructure, as well as other sectors as the energy industry, tourism, and agriculture, and others. The mining industry has not yet reached its full potential.

How has the company expanded its international profile?

Foreign markets offer plenty of opportunities and when we decided to move internationally, we first launched operations in Chile. We decided to offer the same services there, based on the idea that the main foreign companies operating here were also there. We took similar steps in Ecuador and Bolivia. Our main advantage is that we have a strong brand, Grupo Vivargo

A family
company founded
in 1948 in
Arequipa

Three divisions
rentals, logistics,
and sales

BIO

Christopher Varas Obando graduated from the Universidad Catolica Santa Maria in Arequipa, Peru, after studying Business Administration, and is a successful entrepreneur in the business of heavy machinery rentals for mining and construction in Lima. He is the General Manager of Grupo Vivargo, leading the top management team of the company as part of the third generation of the family business. Grupo Vivargo started its operations in 1948 with his grandmother, followed by his father and now the children, with Christopher the oldest of the sons. Grupo Vivargo is the leader company that provides the service of renting an extensive pull of specialized machinery. He is passionate about cranes, and has taken a number of training courses at the Crane Institute of America and JLG training center, for the line of all JLG products.

had built a name in the industry and our clients recognized us as a dependable company. This helped us to enter new markets in which international mining costumers are the same in Peru. Additionally, when looking at the possibility of going internationally, we have considered our neighbor countries due to the fact that we manage heavy machinery and equipment, and proximity is an important factor when it comes to transporting our fleet. We see Colombia and Brazil as our next steps.

How would you see the company further developing in the future?

Our main focus is to maintain our brand as strong and dependable as it is now. For that, we are in constant development, learning and growing every day, strengthening the brand with solid structures. We have already achieved very good milestones and reached our yearly goals. I can proudly say that at Vivargo we are a family. ✖



TBY talks to **Manuel Pulgar-Vidal**, Minister of Environment, on hosting the COP 20 conference, introducing regulatory framework to cut emissions, and how the government is working to improve environmental oversight.

BIO

Manuel Pulgar-Vidal is an environmental lawyer and has served as Minister of the Environment for Peru since 2011. He graduated from the Faculty of Law of Pontificia Universidad Católica del Perú in 1986 and later received a Master's degree in business law from Universidad Peruana de Ciencias Aplicadas (UPC) in 2003. He was born in Lima in 1962.

green EXPECTATIONS

What significance did the 2014 COP 20 have for Peru?

This Ministry is fully aware that issues related to the climate and a green economy are a mainstay of the agenda for global development. We knew at that time that it would be good to be part of the global debate by hosting the COP 20 climate change conference in Lima, despite the cost involved. We invested public resources to organize it at a cost of around \$80 billion, but it was crucial for our legacy not only domestically, but also internationally. Moreover, the event was a vehicle with which to lay the foundation for a more responsible climate policy with growth focused on this global topic. The COP 20 showed different governments have confidence in Peru and also showcased the ability of Peruvians to deal with a very complex debate. We are 10 months ahead of the Paris COP 21, for which we are still discussing one of the core topics of this climate agenda. We have developed two or three key things in this debate; first was the participation of non-state actors. For the first time here in Peru, there was a high-level session on climate action in which the government and non-state actors worked together. Secondly, what Peru did in terms of working with indigenous people was a very important step towards increasing their participation in civil society. In terms of our domestic legacy, we are just finishing with what we call the “Perú Com-

promiso Climático.” It is our domestic agenda for the next two years. That will be part of our commitments at COP 21. It includes not only the different actions that we are seeking to show our climate responsibility, but one of the core activities is our national contribution.

What amendments do you envisage for the regulatory environment in Peru in order to reduce carbon emissions?

For a country like Peru, our main source of carbon emission is deforestation; it is very difficult to deal with the problem because much deforestation is not related to formal economic activity. Deforestation is more a result of the poverty and the immigration of the people from the Andes to the Amazon. That is why we need to work with the private sector, but indirectly because it is not responsible for deforestation. We need to create better conditions, opportunities, and wealth for people living in the Andes to avoid that kind of harmful immigration. We have already advanced a lot because we are part of the forestry investment program, working with the IDB and the World Bank, as a pilot project with different countries. Secondly, we are working to establish our reference level, as the only way to maintain the forest as an asset is by recognizing what opportunities it provides. Thirdly, we are going to deal with some of the major threats, like illegal mining.

Ministry of the Environment created SENACE to oversee environmental impact studies for mining and energy projects

What is the government doing to improve environmental oversight of mining and petroleum projects?

We have created new agencies to process permits and to create more confidence among the people about gas licensing or environmental studies. That is why we created the public agency Servicio Nacional de Certificación Ambiental para las Inversiones Sostenibles (SENACE). I hope that by the end of this year, the faculties to approve the environmental impact studies in Peru will be completed.

How can environmental policy ease social conflict in areas with these projects?

We are working through different dialogues in trying to deal with different conflicts and also clarify what the environmental situation is in different parts of our territory. We want to promote sustainable investment in a sustainable manner, which will do much to foster confidence in the government. ✕

“It is a balancing act, because we add our own quality standards in addition to those of our clients. At the same time, we look to local suppliers as much as we can. In each location we operate, we work to develop relationships with local suppliers and bring them up to standard.”

CARL ROTH
General Manager, Aramark Peru

CHALLENGES FOR MINING

“When we intervene in any setting we use a conflict transformation approach. This uses the energy of conflict constructively, and starts by understanding the root causes of conflict. You have to always take into consideration the personal level, and be aware of how people feel and think.”

IVÁN ORMACHEA CHOQUE
President, Prodiálogo

HALF OF THE CHALLENGE IS LOGISTICS, AND THE OTHER HALF SERVICE. TO SERVICE CLIENTS IN THE JUNGLE, WE OFTEN HAVE TO SPEND A COUPLE DAYS IN A BOAT ON THE RIVER JUST TO MOVE PEOPLE AND SUPPLIES. IN THE ANDES, THE LOCATION OF THE SITES MIGHT BE ONLY 100 KILOMETERS AWAY, BUT IT MIGHT TAKE EIGHT OR NINE HOURS TO GET THERE, DEPENDING ON THE TIME OF THE YEAR, OR THE WEATHER.

BARTOLOMÉ PUIGGROS
General Manager, APC Corporation

“Peru has learned a lot over the past ten years. Fifteen or twenty years ago, many international companies were arriving. Opportunities exist all over the world, in both developed and less-developed markets. It’s essentially a matter of investigating beyond one’s comfort zone.”

JORGE AGUIRRE
Managing Director, AAC Mining Executors LTD

“The success of the mining industry today is due to the work of contracting companies. They are all related to production, and it is impossible to separate mining companies from contracting entities.”

CARLOS BERNAL POZO
General Manager, Association of Mining Contracting Companies of Peru

“We have been involved in the largest projects in Peru and have played a role in the two trans Andean pipelines currently operated. We have helped new investments develop and have helped the economy obtain the resources required for a more robust performance and the benefit of local population.”

GONZALO MORANTE COELLO
General Manager, Walsh Peru S.A.

IT WOULD BE WRONG TO DEVELOP MORE GAS POWER WHEN THE COUNTRY HAS PLENTY OF HYDROPOWER POTENTIAL. WE HAVE ABOUT 60GW OF HYDROELECTRIC POWER POTENTIAL TO DEVELOP. CURRENT USAGE IS ONLY AT 5%, SO THE REMAINING 95% HAS YET TO BE EXPLOITED.

PABLO FERRADAS LUNA
Managing Director, Lahmeyer Agua y Energía S.A.

INTERVIEW

TBY talks to **Miguel De La Torre**, General Manager of Geoservice Ingeniería, on the Peruvian market, mineral prices, and the company's competitive advantages.



What made Peru an interesting market for Geoservice Ingeniería?

We have been providing engineering services for two decades, and our clients include mining firms such as Volcan, and Antamina, and energy industry players like Electroperu. We design the hydraulic systems in dams, canals, tunnels, and similar structures. Meanwhile, a sister company exclusively handles environmental projects for mining operations. We developed an environmental impact project for Tia María, which was approved by the Ministry of Mining. Furthermore, we supervise the construction and realization of our designs, working closely with the companies involved in this, but do not pursue our own construction activities.

BIO

Miguel De La Torre is a dam and hydraulic engineering consultant. He is the General Manager of Geoservice Group, which is compounded by Geoservice Ingeniería, Geoservice Energía, and Geoservice Ambiental. He is also former President of the International Geosynthetics Society affiliate in Peru and the Peruvian Geotechnical Society.

Has the drop in mineral prices impacted your business activity?

We work with certain mines that have been significantly impacted by the drop, and have been obliged to discontinue operations. Some projects have been completely paralyzed by these developments. Fortunately, this has not impacted our activities and we remain actively engaged in large-scale projects, such as the ones developed for Consorcio Minero Horizonte.

Does the company plan to expand activities in the construction management segment by taking advantage of the foreseen rise in infrastructure investment?

We are trying to expand our activities in this segment in order to diversify our business portfolio. There is interesting potential in the transport and energy industries. For example, we have major studies underway for hydroelectric power projects and national development will bring many opportunities for us as an engineering company. Our strategic planning for 2015 will focus on servicing the needs of large mining operations, while diversifying our business portfolio. We have created a sister company that specializes in the studies of hydroelectric facilities to meet the domestic energy demand. Peru is set to become a leading constructor of hydroelectric energy and gas terminals. We are currently working on four hydroelectric

IN *it* to WIN *it*

Environmental reports, design and engineering, and hydroelectric projects

8-10% average annual growth rate

plant studies that are currently at the design stage.

What are the company's competitive advantages?

Our competitive advantage is our detailed knowledge of the geography and topography of Peru, and our employment of state-of-the-art hydraulic technology. This allows us to offer our clients competitively priced solutions, and puts us at an advantage against foreign firms, which generally have higher costs. We have seen an average annual growth rate of 8-10% as a result.

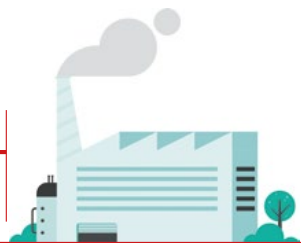
What are the highlights of the company's social program?

Not only are we actively in-

involved in running our own social programs, but we also encourage our clients to invest in programs that will benefit the communities and people in the areas in which we jointly operate. We also provide detailed and comprehensive studies on environmental impact and propose the most efficient and environmentally friendly alternatives for our partners. One of the main social challenges we face in the sector is the lack of effective communication between communities and the public and private sectors, resulting in the former having little knowledge of ongoing projects. This engenders higher levels of opposition from marginalized, or isolated communities, especially in the Andean regions. In these cases, we offer awareness programs to local communities so they are convinced of the benefits that would mean the implementation of a project.

What are some of your key projects of 2015?

In our strategic plan for 2015, we will continue working with large and medium-sized mines, as we see such companies propelling the development of the industry here in the near future. There are many potential projects to be pursued with such companies. In fact, we fully expect the mining and energy industries to drive the broader economic growth of Peru over the coming years. Peru has energy projects that will contribute to economic growth as they come online. We are set to play an important role in this context. I expect Peru to exhibit impressive levels of growth over the coming decade, but we first need to solve particular social problems in order to meet the real potential of the country. ✖



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Piero Ghezzi Solís, Minister of Production, on how the private sector is contributing to growth.

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Luis Fernando Martínez, General Manager of Peru BASF, on the strength of Peru's market.

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The National Productive Diversification Plan is a comprehensive step to broadening the industrial mix.

Industry

REVIEW

With a tricky 2014 now behind it, local manufacturers and the government are looking to transform the local manufacturing base and grow, with R&D rising in prominence.

BEYOND THE BASICS

As a country more associated with mineral and metals exports, Peru's manufacturing sector can somewhat be lost in the crowd. However, while times have been tough for manufacturers competing with cheap imports from Asia, Peru's National Society of Industries (SNI) is predicting 4% growth for the sector over 2015, much as a result of higher commodities exports and an improved outlook for the fishing sector. Early indicators of industrial sector growth in 1Q2015 appear to reflect this, much as a result of the measures taken by the government under its National Productive Diversification Plan (NPDP) announced in 2014 and through a steady course of bureaucratic streamlining to reduce the red tape manufacturers face.

Over 2014, the manufacturing segment's share in GDP contracted by 3.3%, falling from around 15% of national output to 14.2% by year-end 2014. Much of the contraction happened in 4Q2015, with the Central Reserve Bank of Peru (BCRP) reporting a quarterly fall of 9.9% for manufacturing activity in GDP terms, though



Image: Creditex

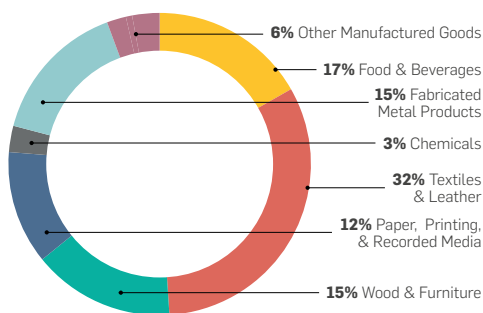
In a year in which GDP growth slowed to just 2.4%, the cool down in manufacturing was also played out in the mining sector, a critical part of Peru's export base.

the beginnings of the slow down had already started to be felt in 2Q2014, when a drop of 3% was reported. Equally worrying was the shrinking size of capital goods being imported into the country, down 5.4% from \$13.65 billion in 2013 to \$12.91 billion by the end of 2014. While capital goods imports are not a perfect indicator of the health of the manufacturing sector in Peru, a certain level of correlation can be noted. The sharp drop in manufacturing activity was even more pronounced in the manufacturing based on raw materials subset, with annual activity falling some 9.7% for 2014, while in 4Q2014 the rate was an even more concerning 30.7%. The fall appears to be mirrored in the fishing segment of the economy, which fell some 27.9% over the year, and an even more concerning 60.8% in 4Q2014 in YoY terms.

A poor fishing season, with warm water temperatures reportedly depleting anchovy stocks, seems to have not only knocked the wind out of the primary industry side of the economy, but also affected the manufacturing sector, where transformative value-adding for fish by-products was sub-

STRUCTURE OF PERU'S MANUFACTURING SECTOR 2013, %

SOURCE: INEI



sequently affected. In comparison, the annual fall in manufacturing output for industries not dependent on primary inputs was a more modest 1%. In a year in which GDP growth slowed to just 2.4%, the cool down in manufacturing also played out in the mining sector, a critical part of Peru's export base.

By May 2015, the Minister of Production, Piero Eduardo Ghezzi Solís, was more upbeat on the sector's growth potential, predicting annual growth of 3% to 4% for Peru's manufacturing segment. With the fishing season returning to form, fishmeal producers will likely be able to ramp up their production to more normal levels, thus improving the overall growth outlook for the manufacturing sector. And this appears to be happening, as at end-April 2015, the outlook for the manufacturing sector was on the mend. With GDP growth coming in at 4.3% in YoY terms, manufacturing sector growth was up by 6.1% over the same period. Much of the growth was a knock-on effect, with the fishmeal and fish oil segment getting a boost from the higher anchovy catch. In fact, the fishing sector alone grew by some 154% YoY. According to Peru's national statistics agency INEI, manufacturing supported GDP growth by 0.66 percentage points in the period until end-April 2015.

STRUCTURE

Economic diversification, especially for micro enterprises and SMEs, has risen to the top of the government's agenda under the NDPD. And for good reason. According to INEI, some 93.91% of all manufacturing companies were micro enterprises in 2013, while small companies accounted for another 5%, and medium and large-scale enterprises made up another 1.08%. The remaining 0.1% accounted for by public administration agencies. However, when looking in terms of employment, large-scale industrial enterprises represented 69.5% of all workers, or 313,457 employees, with small-sized companies coming in next at 119,818 (26.6%) of the total, and medium-sized businesses at just 17,674 (3.9%). However, these totals may be the subject of considerable underreporting, especially at the small to medium enterprise level, due to the ongoing presence of informal employment in the country. In a report released in 2014, the International

Labour Organization (ILO) estimated that by end-2012 some 68.6% of the non-agricultural labor force was in the informal sector, thus escaping the standard statistical net. Although the rate of informal employment was estimated at 30% for enterprises with more than 10 workers, in workplaces of one to 10 employees this rate was a more significant 80.7%. Though these numbers are reflective of the entire non-agricultural workforce, including the service and mining sectors, they are indicative of the potential level of informality in the industrial segment as well.

In terms of structure, INEI estimated that the textiles and leather goods sector was the leading manufacturing segment in 2013, representing 32.22% of industrial activity, followed by food and beverages at 16.75%, metal fabrication 15.27%, and the wood and furniture industry at 15.17%, with paper, printing, and media rounding off the top five at 12.13%. It should be noted that unlike the BCRP, INEI tends to place transformative fishing activities and chemicals output under separate categories, reflecting a different methodological approach.

EXPORTS

According to EY's Business and Investment Guide 2014-15, some 95% of all Peruvian exports are covered under the preferential terms of its trade agreements, especially the free trade agreements, that it has with 53 countries. While this bodes well for its traditional exports, which are mostly of a primary industry nature, this means that local manufacturers have to work that much harder to not only strive to add value to Peru's exports, but also compete in the local marketplace. The upcoming Trans Pacific Partnership agreement, which is still being rolled out, may offer a more diverse marketplace for Peruvian manufacturers. With the 12-member alliance, Peruvian exporters will have greater access to some 40% of global GDP.

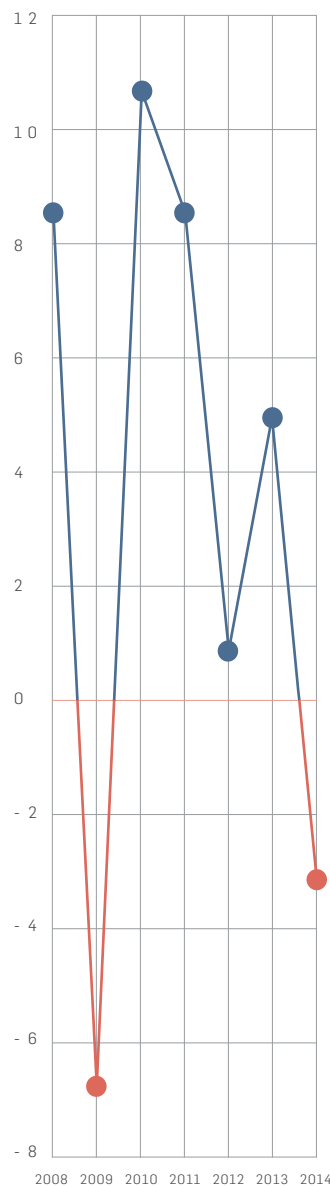
INEI's initial estimates for 2014 for industrial exports indicate that the textiles sector recorded \$1.05 billion in exports, down some 9% in YoY terms. The chemicals sector had a better run, improving its export levels by 1% to \$979.55 million, while the metallurgy and mechanical category saw stronger 7% growth to \$545.78 million in export sales. Iron and steel exports were equally down some 7.1% over 2014 to \$361.39 million. One of Peru's main free zones, Zona Franca de Tacna located in the south of the country, recorded \$349.33 million in exports over 2014. After excluding the "other" category, which technically came in as the fourth largest export category, heading the top five was the footwear segment at \$119 million, and this figure represented around one-third of all exports from the free zone. Next was alcohol production, at \$49.78 million (14%), followed by clothing and textiles at \$37.27 million (10.7%), automotive vehicles at \$27.30 million (7.8%), and plastics and rubber at \$15.66 million (4.5%).

REFORMS

In July 2015, the government launched the NPDP amid a sluggish economy. In many respects, the

ANNUAL GROWTH RATE FOR MANUFACTURING SECTOR, %

SOURCE: CENTRAL RESERVE BANK OF PERU



timing could not have been better as it arrived at a time when those involved in manufacturing were more mindful of the need to diversify their activities and shift Peru away from its traditional export mainstays of mining and agriculture. Also, it saw the need for Peru to end its reliance on low value-added, primary-sector-led manufacturing and encourage locals to move up the chain to create products both for the domestic and export market that could reduce the country's import bill. At the core of the plan is recognition of the valuable role that micro and small enterprises play as both employers and business generators, but also express the understanding that if such enterprises do not make best use of modern production techniques and technologies they may easily fall by the wayside. As part of the NPDP, technology centers that will target micro and small enterprises will be rolled out nationwide. In an interview with *TBY*, Minister of Production Piero Eduardo Ghezzi Solís explained, "we have created the Centers for Technological Innovation (CITE), which aims to support in technology transfer to SMEs. Currently, Peru has five centers, however, our goal is to reach at least 30 in 2015 and 47 in 2016."

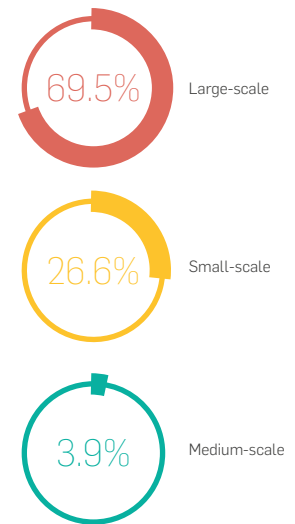
While the government has also tasked itself with reducing bureaucratic red tape, it has also sought to improve the ability of smaller enterprises to better use their receivables as working capital. In July 2014 the Peruvian Congress passed legislation that would finally allow small enterprises to utilize factoring channels in ad-

ressing their receivables, especially ones of a more difficult-to-collect nature. The effect of this legislation is still too early to be seen, but it in theory would allow enterprises to improve revenue and working capital levels by making receivables collection more efficient and effective.

To address the other issues at hand, the government is creating a framework of funds and incentives to encourage larger enterprises to increase their investments in research and development (R&D). With R&D representing just 0.1% of GDP in 2014, the need to boost this rate to even meet the 0.4% average for Latin America, according to the OECD, will be quite a task. KPMG estimates that the government has channeled some \$400 million in R&D spending and incentives in recent times, with \$100 million of that streaming through the Financiamiento de Proyectos de Innovación (Fincyt) program. Other means to encourage local industry are also being refined. The government is looking to increase local procurement levels by state agencies. "If a government institution requires something that the local industry can provide, it should do so," as the Minister of Production told *TBY*. At the same time, increases in public infrastructure spending since the start of 2014 have been designed to improve the overall transport and utilities matrix for enterprises. Some 6% of government outlines have targeted infrastructure spending in recent years. While these short-term measures may see long-term results, reforming manufacturing will take time. ❌

MANUFACTURING EMPLOYMENT BY COMPANY TYPE (2013, %)

SOURCE: INEI



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INTERVIEW



production PATTERNS

TBY talks to **Piero Ghezzi Solís**, Minister of Production, on how the private sector is contributing to growth, how the industrial sector is contributing to economic expansion, and the importance of the fisheries industry.

The year 2014 was marked by several challenges and opportunities. How is the Ministry responding to the new conditions in Peru?

The government is responding proactively to the economic slowdown, and is implementing a series of measures that will drive economic growth in 2015. In July, we launched the National Productive Diversification Plan (PNPD). Peru's growth has been driven mainly by the mining sector, though we have other potential sectors such as agricultural exports. Fundamentally, our diversification strategy needs to stimulate other sectors. In that sense, we have begun work on technical committees with representatives of private associations to collect their proposals in terms of public assets.

What are some of the tools and initiatives implemented to improve productivity?

We have a group of formal, modern, highly-productive enterprises and a larger group of SMEs (Small and Medium Enterprises) that are characterized by informality and low productivity. We look forward to working with both companies because we need to increase the average productivity of the whole economy. In order to achieve this we have created the Centers for Technological Innovation (CITE), which aims to support technology transfer to SMEs. Currently, Peru has five centers, however, our goal is to reach at least 30 in 2015 and 47 in

2016. This model has already yielded results, but we are extending it to make it viable on a macroeconomic scale.

What is the importance of the availability and expansion of credit to SMEs?

The economy as a whole has high liquidity, but the cost of funding for some SMEs is very high. We are addressing this situation from at least two fronts: in July, the Congress approved the law that allows us to improve the financial market for SMEs through factoring. We need to ensure that when an SME will go to a large company, you can use your bill in a bank or similar institution for liquidity at a lower rate. What we are doing is to ensure that, in accordance with the law, it is clear and established that the invoice can be used as a guarantee statement. This will significantly reduce the cost of working capital of SMEs that provide goods or services to larger companies.

How have improvements in infrastructure investments helped to increase economic growth, particularly in the industrial sector?

Peru has a huge gap in infrastructure as there is about 6% of GDP spent on public infrastructure, and this will continue. We have a plan to increase productivity and public procurement for SMEs. If a government institution requires something that the local industry can provide, it should do so. Better infrastructure

and better business conditions will reduce business costs further and make the country more competitive.

The fishery sector has experienced a costly slowdown this year. What is the future of this sector in Peru?

We need to encourage aquaculture, since currently only 1% of Peruvian production belongs to this segment compared to almost 50% in the rest of the world. There is high potential in this sector, as we know that fish stocks in the oceans are not growing and there is a limited amount that can be drawn if we maintain sustainable levels. Further growth needs to come from aquaculture, and the Ministry is establishing an innovation center and a technical committee to find new ways to work with the private sector. Besides anchovy, Peru has other options that can increase fishing significantly.

What is the importance of diversified industrial and fishing sectors for the economy?

Diversification is extremely important because we want to reduce our exposure to volatile commodity prices. Peru has the right macroeconomic conditions such as low and stable inflation and a strong financial sector. We still have several industries that have not taken off yet, and to consolidate growth, we need to ensure that these industries emerge and contribute to the economic growth of the country. ✖

- Peru aims to return to a growth rate close to 5% in 2015
- Objective is to move from the current five Centers for Technological Innovation to 30 in 2015 and 47 in 2016, in order to assist in technology transfer to SMEs

BIO

Piero Ghezzi Solís is an economist with broad experience in the financial sector and academia. From 2007 to 2013, he served as Head of Research for Emerging Markets for the financial services firm Barclays Capital in London. From 2008, he also assumed the role of Chief Economist in the same institution. From 1999 to 2007, he worked for Deutsche Bank. He has a bachelor's degree in economics from Universidad del Pacifico in Peru and a PhD in Economics from University of California at Berkeley.

Why is Peru a strong market for BASF?

We have been in Peru for 59 years. It is an economy with strong growth opportunities. We are involved in pigments, homecare, cosmetics, mining, water treatment, construction, automotive coatings, and agrochemicals. We are involved in many different segments, but our main business is agricultural and construction chemicals, as it generates most of our sales.



TBY talks to **Luis Fernando Martínez**, General Manager of Peru BASF, on the strength of Peru's market, the size and importance of the agro-export business, and the company's development strategy for Latin America.

tion costs, with a much lower break-even point. I think investments will start up again next year, and once those projects are in full production in a few years, there will be a lot of opportunities there too.

What is your outlook for 2015 and what projects will you be undertaking next year?

This year we want to concentrate on our distribution channels, focus on developing a new generation of talent, and to work more closely with growers. We will grow around 10% in agrochemical products next year. We will also launch three or four innovative products in the Peruvian market, and most of our new products are fungicides and herbicides. In homecare, we are introducing a new technology, which is an innovative new way to reduce energy costs as well in the cosmetics sector. We want to lead by example, encouraging countries and companies to reduce pollutants and contaminants, and to reduce energy and water use. This year we celebrate BASF's 150th anniversary worldwide with a new slogan, "We create chemistry." These are exciting times for BASF, and 2015 will be an important year in Peru and all over the world for us. ✕

This year has seen a slowdown for the Peruvian economy. How has this affected your business in Peru, particularly the fall in commodity prices?

Mineral and commodity prices have been falling internationally, and domestically, national elections and corruption issues have played a part in this slowdown. We are very optimistic about 2015, however, as sales are growing in our main businesses, and next year, especially in mining and in the economy overall, there will be likely be a rise in consumption. BASF expects to grow about two percentage points above Peruvian GDP growth forecasts for next year, so around 8%.

Agrobusiness is a new sector in Peru, and the government plans to diversify into niche products like avocado, cacao, and coffee. What products do you supply to the agricultural sector, and what do you expect to see in terms of growth there in 2015 and the coming years?

We provide agrochemicals, including fungicides, herbicides, and insecticides, as well as biological products, but we do not provide fertilizers. Today, the agro-export business is not more than 30% to 35% of the agrochemicals market, but it will become the most important business in the next two or three years due to new irrigation plans in Arequipa, Lambayeque, and Jequetepeque. We work very closely with traditional crops as well, because those account for a significant part of

FARMING futures

the economy and a large part of the work force. The traditional sector is very important for us. We work to efficiently and effectively transmit innovations in the production of traditional crops, and we work closely with the government and agro-export companies to promote the traditional crops, which are potato, quinoa, rice, and corn, mainly. What we can offer are the agrochemicals that can defend and protect these crops and keep yields high.

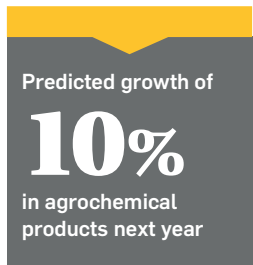
How does Peru figure in BASF's regional Latin American strategy?

Peru is a healthy and growing economy in South America, and we have a lot of opportunities here. The social structure is changing. As the economy and society develop and as living standards rise, people spend more on detergents, for example, and we can provide the right chemicals to make detergents more efficient, clean, and green. There are a lot of opportunities in homecare. On the construction side, major infrastructure projects are in progress in roads and transport, seaports and airports, logistics, and energy. In mining, Peru has the advantage of lower produc-

BIO

Luis Fernando Martínez graduated from the Universidad de La Salle in Bogotá in 1990 with a degree in veterinary medicine. He began working for BASF in 2006 as Manager of Fine Chemicals for Colombia, Ecuador, and Venezuela. In 2010, he moved to BASF Argentina to lead the Department of Performance Products. He later became manager of the Department of Crop Protection for Chile and Peru in 2013.

IN NUMBERS
Peru BASF



NOT ALL IN ONE BASKET

The government's National Productive Diversification Plan is a comprehensive step to provide the commercial environment conducive to broadening the industrial mix.

OVER THE PAST DECADE, Peru's economy has experienced remarkable economic growth, riding the wave of high commodity prices and demand from China, and outpacing most of its Latin American neighbors in terms of GDP growth, poverty reduction, low inflation, and low public debt. From 2004 to 2013, Peru's average growth rate was 6.6%, the second highest in the region. In the same period, average inflation was just 2.9%, the lowest among its neighbors. Between 2004 and 2012, the country achieved a 32.9% reduction in poverty rates—again, the highest in the region.

In 2011, however, the end of a decade-long boom in global commodity prices led to a rapid deceleration in Peruvian growth rates, from 8.5% in 2010 to a projected 4% in 2015. This in turn has brought about re-evaluation of the structural challenges facing the Peruvian economy in terms of productivity, diversification, and informality. Compared to other countries in the region, Peru suffers from high levels of heterogeneity in its economy; much of the country's economic activity is concentrated in a few wealthy regions and large companies. The country also has high levels of informality in the economy, with around 70% of urban workers employed informally. Finally, the country's export basket has changed very little since the 1970s, remaining highly concentrated on commodities, of which 75% comprise exports. As a result, the IMF has said that Peru is likely to be the most affected country in the region by the current trend towards falling commodity prices.

In order to overcome these challenges and promote long-term sustainable growth, the government in 2014 launched the Plan Nacional de Diversificación Productiva (PNDP - National Productive Diversification Plan), which aims to develop "new engines of growth," according to Minister of Production Piero Ghezzi. Specifically, the plan aims to: achieve long-term sustainable growth rates, reduce economic dependence on natural resources extraction, reduce regional productivity gaps, and increase the level of quality formal employment.

The program is divided into three axes: diversification of the country's export basket, improvement of the regulatory environment for doing business, and increasing domestic productivity and reducing gaps between regions, segments, and sectors.

The program is divided into three axes: diversification of the country's export basket, improvement of the regulatory environment for doing business, and increasing domestic productivity.

The first axis of the plan, diversifying the country's export basket, focuses on correcting market failures in sectors where the country has significant export potential, particularly those where innovation and technology can help the country take advantage of global value chains. In order to achieve this, the country is taking steps to promote innovation and entrepreneurship. One major step will be the program Start-Up Perú, set to finance 268 entrepreneurs and 20 small-business incubators. The country also plans to improve the regulatory environment to facilitate angel investors, and create a program to assist small businesses in obtaining patents more easily. In addition, in 2016, the government will create the Instituto Nacional de Calidad (INCAL - National Quality Institute), which will facilitate the accreditation of laboratories and business processes.

The second axis of the plan, improving the regulatory environment, focuses on reviewing simplifying regulations to ensure that they do not unnecessarily prevent investors from having profitable businesses in Peru. The Ministry of Production will play a leading role in this axis of the plan, reviewing existing regulations and monitoring the production of new regulations to look for ways of improving them. The Ministry will also commit to simplifying its own systems, and has already committed to reducing by 50% the time it will take to evaluate environmental impact studies (EIAs). The plan also aims to make it easier for Peruvians to pay taxes and request information from the government.

The third axis of the plan, the expansion of domestic productivity, aims to reduce the gaps in productivity rates between different regions of the country, sectors of the economy, and between small and large businesses. In order to support the growth of small businesses, the government will launch a number of programs to provide access to technology, consulting services, service providers, and financing. ✖

THE PRODUCTION LINE

Peru has a robust industrial sector that has weathered numerous economic storms in the past. It is now looking to expand on this and develop the sector into the backbone of the economy.



OLIVER STARK
*General Manager,
COMESA*

COMESA has of course been adversely affected by economic conditions. The slump was like a perfect storm for our company. Moreover, our founder passed away, having been the director, general manager, and human resources director for the entire company. He was engaged in virtually every department, which is typical for first generation family companies. We were hit by the recession in the mining sector, with falling mineral prices, as was the whole mining sector. Companies invested less, downsized their personnel,

and bought less equipment and spare parts. Therefore, these last two years have been tough for everyone. However, now small and medium-sized mining companies have decided to stop saving and to get their wheels turning again. Essentially, they have realized that they do not have the luxury of not producing, and that they need to invest in spare parts and equipment to get their production back on track. Small and medium sized miners have decided to invest in small scale expansions so as to dilute costs and that is where we plan to be ready to supply equipment. As a result, we have already improved sales over recent months, and I expect 2015 to be a year of consolidating those new gains.



JAVIER UGARTE
Gerente General, Indurama

We invested \$20 million to set up our manufacturing facilities and are producing between 12,000 and 14,000 stoves per month, depending on demand, which can be seasonal. Today, all stoves sold to the domestic market are locally produced. In the beginning, we started with producing two or three models, but we have signifi-

We were founded 45 years ago by my father. He first imported \$500 of copper wire from Germany. That was the start of everything. At that time, the motor repair business was large because electrical motors were repaired rather than replaced. In addition, all of these motor replacements required the use of copper wire for almost everything. It was a good business. We started with copper wire, then moved to paper insulation, tapes, varnishes, and everything that went into the repairing business. Little by little, we started delving into new products. Eventually copper wire manufacturing moved to Peru, and our wire-import business became less profitable. Therefore, we looked for other new products, which is what we have always done. The market and industries grew, major companies came to Peru, they brought new products, and as these products encroached on our markets, we went out to look for new products. That has always been the key to growing our business.



ING. MÁXIM ALI
MALLQUI NAUPAY
*President of the Board,
Promelsa*

We use this portfolio to see which model is good for which market. We plan to export to Chile, Bolivia, and Uruguay. However, we need to get approval on technical regulations for each country before we can finalize the process. Each country has technical regulations that we need to comply with in order to sell any products in their markets.

NICELY DRESSED

State-of-the-art factories have replaced more traditional methods of textile production in Peru across the last decade.

ACCORDING TO THE IMF, Peru's textile and clothing exports have grown by an average of 11% per year in the last ten years, thanks in large part to sector-specific investments focused on output growth and modernization, an increased global demand due to the quality of the goods and speed of delivery; and, perhaps most significantly, increased trade preferences granted by the United States through the United States-Peru Trade Promotion Agreement (USPTPA) and the Andean Trade Promotion and Drug Education Act. Sales of Peru's garments to foreign markets are greater than \$2 billion per year, and the country plans to double this amount by 2017. Domestically, the country benefits from the vertical nature of the textile sector, which employs around 150,000 people for the entirety of the manufacturing process from raw fiber acquisition to finished garments. Furthermore, due to the growing success of the sector, the market has been primed for firms focusing specifically on textile exports, of which there are now around 1,700, according to the IMF.

Peru's most important bilateral trade agreement with the USA, the USPTPA, was implemented in 2009. Unlike the Andean Trade Promotion and Drug Education Act, which was a unilateral agreement that expired in 2010 and removed tariffs on certain goods coming from Peru and other South America countries in order to promote industry rather than drug trafficking, the USPTPA is innately bilateral and allows qualifying US yarns and fabrics to enter Peru duty-free, increasing export opportunities for American clothing manufacturers while securing continual investment in Peru's textile and clothing sector. This agreement has no expiration date and is expected to promote long-term increases in trade and investment with and within Peru. The quality of the products manufactured in Peru has caught the attention of many big-name brands in the United States, including Aeropostale, American Eagle, Anthropologie, A Pea in the Pod, Ashworth, Banana Republic, Armani Exchange, GAP, Express, Hugo Boss, Guess, Under Armour, JC Penney,

Old Navy, Sears, Ralph Lauren, Vans, Lacoste, and several others. While Peru is known for its high quality cotton, it has also seen over 300% growth in the production of elastomeric yarn in the last year due to U.S. interest in the material.

Besides the United States, which receives up to 45% of Peru's textile exports, the largest importers of Peru's textiles and clothing products is Venezuela, which imports 35%, followed by Brazil, Mexico and Colombia at 15%. With 114 export markets, Peru is aiming to dominate the Latin American market before moving on to China and Japan within the next two years, according to Luis Torres Paz, promotion director at PromPeru. It faces obstacles, however. Two of the biggest issues impeding competitiveness in Peru's textile and clothing sector are structural inefficiencies and a shortage of skilled laborers. While Peru has the advantage of locally sourcing its cotton, the IMF states that production is inefficient and measures need to be taken to maximize profits and turnaround. Regarding the workforce, a survey conducted by the IMF of 440 textile companies found that 47% reported difficulty in finding qualified workers, particularly mechanics skilled in operating the machinery and seamstresses. Increasing the quality and availability of skill-focused education would remedy this.

Beyond the issues with manufacturing and labor, there are also debilitating infrastructural inefficiencies in transport and shipping that serve to nullify the geographical proximity advantage that Peru has with the United States and other nearby markets. Long, bureaucratic shipping delays are par for the course and increase costs and reduce efficiency when goods must be kept longer in warehouses or shipped via more expensive methods to compensate for lost time. State investment in new roads, ports, and airports, as well as simplified customs procedures, would potentially pay dividends in this regard. It is acknowledged that Peru must not depend entirely on favorable trade promotion agreements and rather improve its infrastructure and policies internally to maximize the potential of its textile and clothing sector. ✖



JOSE IGNACIO
LLOSA
*General Manager,
Creditex*

Peru has a long history of traditions in textiles. In Peru, we have excellent raw materials, with high quality cotton and animal hair, including alpaca and vicuña. Textiles have grown over the past 15 years, and the corporation decided it was an appropriate sector for investment. Textile exports have been growing consistently since the early 2000s. There have been investments made not only by our company, but also by numerous textiles groups. We have modern textile infrastructure, and the country offers products that are well accepted in the market.*



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Sandra Doig Diaz, Deputy Minister for MSEs and Industry, on research funding and successful projects.

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Marcelo Mendoza Acourt, General Manager of TISmart, on app design, and the talent in Peru's technology sector.

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The government is making major investments to ensure that residents of rural areas have access to high-speed internet.

Telecoms, IT & Media

REVIEW

In cooperation with government entities, Peru's ICT sector is fostering mobile and internet coverage expansion, narrowing the economic urban versus rural divide.

A GREATER INVESTMENT

As Peru's telecommunications industry grows slowly but steadily, the economic divide between urban and rural areas has become all the more apparent when considering phone and internet access. In the early 1990s the Peruvian government started reforms in the sector, establishing Peru's decentralized state telecoms regulator OSIPTEL (the Supervisory Agency for Private Investment in Telecommunications) in 1992, to oversee private telecoms companies and duly protect the rights of users. In 1993 OSIPTEL created the Fund for Investments in Telecommunications (FITEL), which began collecting a 1% levy on telecom companies' gross operating revenues in order to fund telecom service expansion in rural areas. According to the OECD, between 2001 and 2004, FITEL provided at least one public payphone to 6,509 villages in rural Peru that had no phone services (fixed line or cellular) previously.



Image: Sas

Through increased competition in the market and the need to meet higher standards, ICT operators are expanding infrastructure to bring mobile and internet access to rural villages.

URBAN Vs RURAL ACCESS

Peru uses a nationwide microwave radio relay system and domestic satellite systems supported by 12 earth stations to power its telephone system. Domestic fixed-line teledensity is at 12 per 100 persons, while mobile-cellular teledensity exceeded 100 telephones per 100 persons. Peru's National Institute for Statistics and Information (INEI) reports that the total percentage of households with access to fixed line telephone service was 28.6% in 2013, and 37.2% of residents in urban residential areas had access, compared with only 2.3% in rural areas.

Households with at least one member who accesses a mobile phone was at 82% in 2013. According to the World Fact Book, 83.8% of households had access to mobile phone service by end of June 2014, a 2.8% increase from 2013's second quarter reports. As of June 2014, 90% of Lima's population had one mobile phone, compared to 66.1% in rural areas, up 4 percentage points from last year's figures.

In 2014, the GSMA intelligence report stated that there were 15.8 million unique mobile subscribers in Peru and 32.1 million connections (92% active and 70% prepaid), though growth in unique mobile subscribers averages around 7% per year—a rate below the level of most other Latin American countries. Voice is the largest part of mobile revenue, at 79% for mobile operator Movistar as of 2013, though mobile data usage is starting to climb. Telefónica, trading as Movistar, holds half the Peruvian market, and the greatest market share in rural areas and big cities, with América Móvil, operating as Claro, following close behind. The third largest operator is Entel Perú, the brand that replaced Nextel Perú in 2014. Vietnamese military-run telecom operator Viettel became Peru's fourth mobile operator in late 2014, which provides 3G-only services under the brand Bitel.

The mobile industry represents 3-4% of Peru's GDP, a figure estimated to increase over the period to 2020, according to GSMA figures. According to La Republica reports, Peru's Transport and Communications Ministry (MTC) plans to invest \$77.1 million in 2015 in telecommunications projects in the Arequipa region, which will benefit a total of 901,000 people.

In addition to over 2,000 radio stations, a large number of which operate in indigenous languages, there are at least 10 major television networks in Peru, including the state-owned Television Nacional de Peru. Eric Jurgensen, CEO of América Televisión—Peru's oldest channel and sole private network—says that despite setbacks in the early 2000s, Peruvian television is gaining ground. As Jurgensen told *TBY*, "From 2002 to the present, television has recovered notably. The advertising market has grown from \$76 million to almost \$400 million in 2014. The cost per rating has also increased, as have advertising costs and local production. Many networks have been posting solid financial results."

Peru's National Institute of Statistics and Information's (INEI) 2013 data shows that 32% of Peruvian households had at least one computer, and 22.1% of households had access to internet service. In urban areas, internet access is notably more attainable; 41.4% of households in Lima had access in 2013, compared to 13.2% in the rest of country, and only 0.9% in areas considered rural. According to the INEI, as reported by *Peruthisweek*, the number of Peruvians using the internet daily increased 2.5% in 2014, totaling 50.9%, though this percentage is dramatically higher for people living in urban areas with higher levels of education.

In 2014, the GSMA intelligence report stated that there were 15.8 million unique mobile subscribers in Peru and 32.1 million connections (92% active and 70% prepaid), though growth in unique mobile subscribers averages around 7% per year—a rate below the level of most other Latin American countries.

Analytics

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MOBILE DATA PENETRATION

One significant opportunity for operators and mobile-led services lies in mobile data penetration. Mobile broadband connections are increasing exponentially; at the end of 2013 they accounted for 25% of total connections, an increase of over 20% over less than five years. Smart phone penetration doubled in 2013 from the previous year, hitting 10%, though it remains lower than the regional average of 20%.

To meet the traffic demand, Peruvian mobile networks are evolving. In 2013 3G service was accessed by 26% of customers. Movistar launched the country's first 4G LTE service in January 2014. Entel launched 4G LTE services in late 2014, followed by Claro. Mobile messaging application use is increasing, as is social network usage. According to GSMA Intelligence reports, Peru ranks among the top 10 countries for time spent on such networking sites as Twitter, LinkedIn, and Facebook.

Peru has one of the most neutral and unrestricted web spaces globally. In an interview with *TBY*, Chairman of the Board of OSIPTEL Gonzalo Martín Ruiz Diaz explains that, "In 2012, Peru's broadband law was approved, establishing net neutrality and delegating the regulation of this matter to the Ministry of Transport and Communications [MTC] and OSIPTEL. Net neutrality is part of our future agenda. Last year, we approved a rule that es-

tablished the principle of net neutrality and forbade the restriction of access to specific applications on the mobile or fixed device for consumers." One of the MTC's key targets is to expand telecom infrastructure to be able to offer universal internet access throughout Peru. In order to do so, OSIPTEL, acting as regulator, has established standards on coverage and quality of service; as such, operators are expanding their networks' infrastructure to meet requirements. Peru, however, has a relatively low density of base stations compared to the region. Revenues for mobile operators have been negatively impacted due to Mobile Termination Rate (MTR) cuts, the fees mobile operators can charge carriers using their networks to terminate calls, which has made network expansion difficult.

FILLING SOCIOECONOMIC GAPS

Peru's ICT sector has the potential to fill numerous socioeconomic gaps in the country, most notably through the expansion of mobile-enabled services. Taking into account the percentage of mobile phone owners in Peru (approximately 70%) alongside the percentage of the un- or under-banked (approximately 80% compared to the regional average of 39%), mobile banking offers an opportunity to connect people to their finances. The government has taken steps to support the financial inclusion of unbanked rural inhabitants, as



Peru's ICT sector has the potential to fill numerous socioeconomic gaps in the country, most notably through the expansion of mobile-enabled services.

Peru became the first in Latin America to have e-money legislation passed through parliament in 2013.

In 2011, Lima-based PROMUC (Advancement of Women and the Community), in partnership with the Dutch consortium Connect4Change and Text to Change (TTC), launched a digital skills building program for rural business women. The program, which reached 21,000 women in 2013, includes trainings on business management and insurance, as well as offers a banking program that uses mobile phones to send information on credit and interest rates and advertises new financial products.

Education is another area in which the utilization of ICT can continue to contribute to advancement. Though Peru's national literacy rate is high, at 90%, in the 2012 OECD PISA tests the country placed last out of 65 countries in all three subjects; mathematics, science, and reading. The controversial One Laptop per Child (OLPC) program provided 800,000 laptops to schoolchildren in 2012, although most laptops remained unused due to internet connectivity problems and a lack of teacher training.

Another key factor to note is the language divide. Peru's national curriculum is taught mainly in Spanish, though nearly 5 million

Peruvians, namely in the rural Andean region, speak Chechua. The International Institute for Communication and Development (IICD), a Dutch non-profit providing ICT solutions in Latin American and Africa, initiated a program to turn OLPC's unused laptops in rural schools into offline digital libraries in the Chechua language. Through the use of the Raspberry Pi, a computer the size of a credit card that can function as a local server, educational content can be downloaded off of Wi-Fi and accessed through the XO laptops. As reported by IICD in 2014, the program is currently serving 20 schools in partnership with local charity organization CESIP (Center for Social Studies and Publications). IICD plans to implement the program in over 200 schools in the Cusco, Huancavelica, and Junin regions.

In March 2015, Movistar provided 100 internet connections to 54 public schools across seven regions. In addition to its commitment to invest over \$1 billion in rural coverage expansion upon securing its mobile license renewal with the government in 2013, the telco agreed to "halve rates for pensioners and state workers in rural areas, provide coverage in 1,842 villages and give free internet service for rural state schools," according to Transport and Communications Minister Carlos Paredes. ✖

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TBY talks to **Sandra Doig Diaz**, Deputy Minister for MSEs and Industry and President of the Innovation for Competitiveness Project – FINCyT, on research funding and successful projects.



What actions have been implemented to spread the culture of research and innovation among society?

The current government has put a special emphasis on the promotion of science, technology and innovation (STI), not only by increasing funding for existing funds, but also through the implementation of new funds for research and development, STI and innovation and innovative entrepreneurship. In all, the resources allocated to these funds add up

to over \$360 million, and several public entities are involved in their implementation and execution. Also, in a complementary effort, the government has also focused on strengthening human capital through scholarship programs for higher education and technical training.

What role does innovation and science play in the country's growth strategy?

In July 2014, the National Plan for Productive Diversification was approved. This plan aims to create new engines for sustainable economic growth, leading to productive diversification and sophistication and an increase in productivity. Innovation is a key element of the plan, which recognizes that without innovation it is not possible to diversify and grow. This is a lesson learned from the experience of more developed countries, where innovation explains much of their medium-term sustainable growth.

How have research and innovation funds evolved over time?

The Innovation for Competitiveness Project (FINCyT) was established in 2007 through a loan agreement between the government of Peru and the Inter-American Development Bank (IADB). Overall, \$36 million was allocated to the fund, with \$25 million coming from IADB and \$11 million from the state. That was the first step we took in Peru to finance STI activities. In 2009, the government established the Fund of Research and Development

HELPING *hand*

for Competitiveness (FIDE-COM) with almost \$70 million to finance innovation projects for SMEs. In 2012, FINCyT was increased from \$36 million to \$100 million (\$35 million from IADB and \$65 million from the government), including funding lines for innovation and innovative entrepreneurship. In all, today there is funding available from the Peruvian government for up to \$360 million for science, technology, and innovation funding lines, of which \$151 million is assigned to innovation funds.

Could you talk us through some of the successful projects supported by the innovation program in recent years?

In terms of commercial success, an outstanding case is that of an agro industrial company in Piura which adopted several technologies from abroad and made their grape production much more efficient and able to yield at seasons in which the product is not available from regular providers. The company had commercial success as a result of this, and paid taxes worth up to 12 times the amount invested by the public fund. It was estimated that in the period 2013-17 this project will have contributed almost \$50 million to the country's GDP. There was also a successful project related to seaweed in Arequipa where a new farming area was developed. The company extracts algae for commercial purposes, creating a product which is high in protein and exported to Chile. There is also a poultry project with a company called San Fernando and the Cayetano Heredia University in which they utilize waste to produce fertilizer and organic antibiotics.

IN NUMBERS *MSE*



What are your main goals for the future?

We are working toward identifying which sectors of the Peruvian economy have the greatest potential for growth or could be considered potential economic drivers, and which can lead our country to sustainable economic growth. This will allow the government to focus on and align innovation efforts from different actors, both private and public. In this way, these sectors should become the engines that will lead the Peruvian economy to growth in the medium-term. Results of our current innovation funds show that for every dollar invested in an innovation project, there is a return of \$7 through the generation of employment or taxes. For the next five years FINCyT has a budget of \$151 million, with \$114 million for innovation and \$24 million for entrepreneurship, and a further \$13 million for complementary services, such as quality infrastructure and technology diffusion. The success of the program, and the contribution of innovation to achieving sustainable economic growth in the medium term, has to be ensured through appropriate funding, calls for projects, and dissemination nationwide. ✖

BIO

Sandra Doig Diaz studied law at the Pontificia Universidad Católica of Peru, and holds a Master's degree in Public Policy from University College London in the UK, and a Master's in International Cooperation and Project Management from the Instituto Universitario Ortega y Gasset in Spain. With over ten years of experience in public administration she has worked as executive director of the National Competitiveness Council and has provided consultancy services for the Inter-American Development Bank (IADB) and the United States Agency for International Development (USAID). Recently, she was in charge of the design of instruments for financing innovation and entrepreneurship for the Innovation, Science and Technology Fund (FINCyT).

free to SURF

With important conditions such as net neutrality in place, providers in Peru are forced to compete based on competitiveness of offerings and quality of customer experience.



HOANG QUOC
QUYEN
*General Manager, Bitel
Peru*

The Peruvian market is difficult because Peru has over 30 million people and pre-paid services from Claro and Movistar are all over the country, so the market is already full. However, Bitel is prepared to face the challenge with a mobile phone service of great quality, economic plans with more data, and good customer care. We also have added value services such as music platform and instant message applications that we are using to reach our target. Our opening strategy is to focus on the provinces, as Lima is already saturated. Bitel focuses only on 3G technology and we are planning on having 4G technology in the future. The Peruvian market is full of young people and data is very popular, but in general it is very expensive; for this reason, Bitel is looking to improve this by reducing costs and expanding availability. Our license is valid for 20 years. Bitel always tries to think differently, this is why we manage our customers very efficiently, supporting them one by one. Bitel is also constantly working on providing more benefits to its customers and we believe in doing, rather than talking. It is worth noting that our company has a huge national infrastructure with more than 16,000 km of optic fiber in Peru, which is an important achievement.



IGOR PILIUGIN
*General Manager, OLO
del Peru*

The Peruvian market is of considerable interest, and its low internet penetration persuaded our investors to enter it two years ago, in September 2012. Subsequently we have registered pronounced growth in our subscriber base, and are mostly concentrated in Lima. By December 2014, we finished the first phase of our \$100 million investment, as were approved by the Minister of Communications. We started the second phase of the investment with a price tag of \$88 million, and have the opportunity to change the technological offering in the country. We started as a WiMAX operator and in the second phase of investment, we will change from WiMAX to LTE. We need LTE because we have the 2.6-GHz frequency band, which will allow us to expand to other regions. According to the official report from the local regulator OSIPTEL, as of December 2013, we had a 7% market share. We accomplished this in just five quarters after commercial launch. This involves the mobile internet with USB and routers. This was a challenging undertaking, and both ourselves, and OLO's shareholders are happy with the results. At this point, we cover 2 million people



GONZALO MARTÍN
RUIZ DÍAZ
*Chairman of the Board,
Ospitel*

In 2012, Peru's broadband law was approved, establishing net neutrality and delegating the regulation of this matter to the Ministry of Transport and Communications and Ospitel. Net neutrality is part of our future agenda. Last year, we approved a rule that established the principle of net neutrality and forbade the restriction of access to specific applications on the mobile or fixed device for consumers. The main objective was to ensure the freedom of choice by the consumer. We are directing our attention towards user issues. In addition to regulating quality, we pursued two other important regulations last year. One was a regulation that deals with customer service. This regulation was approved in 2013 and deals with a problem faced by many users. Ospitel received numerous claims about a lack of attention from providers. We established some specific regulations mandating maximum response times that consumers can wait to incentivize better service in the sector. Ospitel has also created claimant regulations. The existing regulation dated back to 1999, and required significant updating. These are some of the innovations we are introducing to the regulations. We think that an important priority for a regulator in Peru is reducing the gap between the expectations of users and the service provided. While there will always be shortcomings, the idea is to establish procedures and incentive mechanisms in order to continually improve the quality of services.

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INTERVIEW



APP, UP, *and away*

TBY talks to **Marcelo Mendoza Acourt**, General Manager of TISmart, on app design, Tismart's growing client portfolio, and the talent in Peru's technology sector.

How was the company founded and how has it grown to date?

Tismart started eight years ago when I was working at another company in the systems area. I had a startup idea and started to build the company. Tismart began serving three large enterprises; those formed the first target. After that Tismart started looking for additional customers, and we decided to start a portfolio. In the third year of Tismart, more clients established a relationship with the company. By the end of the third year, we had 15 clients, and by the fifth year our portfolio had grown to 50 clients. From the fifth year, we saw that there were major opportunities and started planning to expand beyond our country and open an office in Bolivia. When we started there, we went directly into the financial network. Our clients were banks that were requesting mobile apps and web applications to manage their system and for the users to manage their accounts. In Bolivia, we currently have 32

clients and 60 people working there. After Bolivia, we started operations in Panama with a commercial office to sell the product we develop here in Peru and in Bolivia. We entered Bolivia in 2013, and in 2015 we entered Panama. We have already set up a company in the US and are opening a commercial office there, too.

What is the formula for a good app?

The user experience area is formed of a team of designers and illustrators and they have the experience and knowledge to achieve exactly what the user needs. It is important that they produce a unique design for the application and make each product user friendly. We are careful with the development of the application because it not only needs to look good, it has to work well and be useful for the client. It is not only going to be a public application, but also a critical application in client decisions; therefore, we are especially careful.

How would you describe the level of human talent in Peru's technology sector?

It was hard in the beginning to find talent familiar with new technologies; however, we started looking for developers that have the basic skills and technological know-how. Our team has enough experience in the market, and we coach all new employees. Within time, they were able to program in the new technologies according to our development process. When we hire people, it is important for them to be passionate about what they do as without passion they are not going to achieve great things. It is important to create a good working environment.

Do you think the government should do more to cultivate technology education in Peru to build a base of technology expertise?

At this time, the government has empowered the technology sector for the enterprise. However it would be great for us if the government empowered more in the education of new technologies, because there is a lot of talent on the street that cannot afford a career. They have no financial resources so they have to work to survive instead of studying. They cannot achieve their dreams because they have not been given the opportunity. We are sure there is untapped talent here in the country. The Peruvian people are resourceful because they know how to do things even when they do not have enough resources, or when something is missing in their jobs. ✖

Present in Peru, Bolivia, Panama, and the US

Focused on developing apps for corporate clients

BIO

Marcelo Mendoza Acourt graduated in Peru with a specialization in Systems Engineering. He has over 20 years of experience working in the software development industry. Before becoming General Manager at TISmart Peru, he worked for many years in senior positions for different multinational companies.



analyze THIS

TBY talks to **Marcelo Sukni**, General Manager of Chile & Peru for SAS, on the health of the Peruvian market, and the benefits analytics data has to offer businesses.

What motivated SAS to expand its presence in the Peruvian market?

Currently, Peru is an attractive market to do business. We are also very comfortable operating in the national IT sector, which is a growing steadily. The industries of telecommunications, banking, insurance, mining, IT, and manufacturing are very important and in SAS we know that business analytics can make a difference in every one of them. Peru, in cooperation with the rest of the countries in the region, has a lot of potential, due to its stable economy; therefore, it is an excellent market to invest.

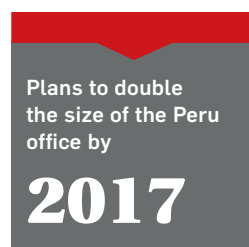
What is the significance of the Peruvian market for SAS?

Latin America is an important market for us. And while SAS has offices in many of the countries in the region, Peru will become an important place to invest in over the coming years. Our idea is growth in the next 10 years, and to position ourselves in the market. This is the reason why SAS establishes an office in Peru.

How can business analytics change the way Peruvian companies do business?

Business analytics change the way that people make decisions. It covers the way

IN NUMBERS SAS



individuals and firms analyze and distribute data. In this way, they can make the right decision in real time or near real-time. Based on that recommendation, companies adopt business analytic strategies that help them generate information based on the data and allow them to be more efficient in the market. Doing so differentiates companies from their competitors. These advances work brilliantly in telecom, mining, retail, and banking. For example, in the retail sector, we have solutions oriented to price optimization. The idea is to define the best price and

best margin for the product. This means that the market contribution for the company is better and increases. Firms can increase the margin when you implement these kinds of solutions. They can generate the best price for their final customer. In the Marketing area we have solutions that we allow marketers to design and execute contextual customer interactions based on insights gleaned from big data and analytics. Measure and optimize the customer experience in both the digital and physical worlds. And link customer-driven strategies to your business goals. Our Customer Intelligence solutions solve the most critical challenges that modern marketers face. In the banking sector, there are different solutions related to risk, fraud, and anti-money laundering. We can provide them solutions to increase real time fraud detection and decrease risk exposure.

How would you assess the level of technology integration in businesses in Peru?

We have excellent technology and integration here; however, the level of data analytics is not appropriate for a market of this size. For example, in the financial sector, banks have massive quantities of data and

technology; however, they lack a high level of analysis. We have an opportunity to provide them with more information, and assist them in making better decisions. For the average company, 80% of the data is not used, and this is a huge loss. The analysis would decide which parts of the data are important and unimportant, and which data can be used to make a better decision. There are cases where the company tries to analyze all the data and make a decision with all of it, which is impossible. Part of our solution is to take the information and separate it into categories that are important to make decisions. ✘

BIO

Marcelo Sukni is a senior executive with over 20 years' experience in adding value to highly relational businesses in mass markets through the use of analytics and information management. He has worked with PeopleSoft and Oracle, and has developed his career in the BI and Business Analytics industry to help clients to make better decisions.

MEET THE MARKET

Software developers for mobile devices are at the forefront of Peru's technological frontier, as the low cost of such devices make them far more prevalent than PCs.



DANIEL PUGA
CEO, *Beyond Mobile*

We developed a product for small stores that needed a cost-efficient point of sale software based on an Android Tablet with cloud reports and marketing tools. That is our main product focus this year. Next year, we hope to expand into 1000 stores. We charge a license per month that has no initial fees, no setup fees, no contract—\$70 a month to get the software. The cash register has a tablet with a card reader.

They are extremely popular in the US and Europe, but in Latin America, most stores have a PC with Windows software, which is old and difficult to use. Peru needs to develop infrastructure, retailing, agriculture and other traditional industries. People are more interested in deploying more traditional POS than deploying mobile POS. If you go to the app store and search for apps in Peru for large companies, it emerges that few such companies are deploying apps.

Software development is a mix because today around only 30% of devices are smartphones and tablets. We receive many smartphones from China, and this momentum propels the evolution of software. Some companies do not embrace the idea of the user-friendly phone, which in part accounts for the delay in the development of software. We need an increase of 20% in the device market over the next two years, and will be developing a wide range of applications to cover the second level of the company. However, there is a vast number of companies to cater to and we will be producing solutions that better integrate their offering in people's phones. Price, too, will remain a key consideration. You need to conduct extensive research to understand the different markets. For example, we make products for companies with

stock options. We have strong sales for this app because in the US stock options form a large market, and the app allows you to see at any moment what component of a package it is necessary to sell to allow alternative purchases.



PATRICIA NUÑEZ
CEO & CFO, *Online Studio Productions*



GUILLERMO PACHECO MARTÍNEZ
General Manager, *Novatronic*

The main role of Novatronic is innovation on service of the banking and telecommunications companies in Peru, both public and private sectors. The end-users need effective access to new technologies and services. For example, the banking sector is working on internet and mobile banking; however, in reality

only 40% of the population has access to the smartphones required for data. We contribute by providing solutions and services through which 95% of the population might have access to banking services. We work with telecommunication companies in order to use USSD technology to offer banking solutions to the entire population and

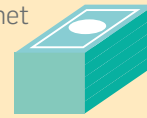
all economic segments. USSD technology is a technology that is incorporated in 3G and 4G technologies, which dominate data plans. You can access information even if you do not have a data plan, or credit on your phone. In Peru, 95% of the population now has access to the internet through mobile phones using USSD technology.

INTERNET PENETRATION FOCUS

To be completed in June
2016

\$323
million
investment

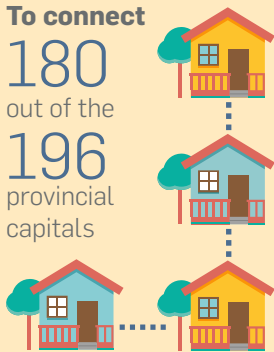
To reduce the cost of internet
access in rural areas by
80%



from
\$200 to
\$27 a month

To connect

180
out of the
196
provincial
capitals

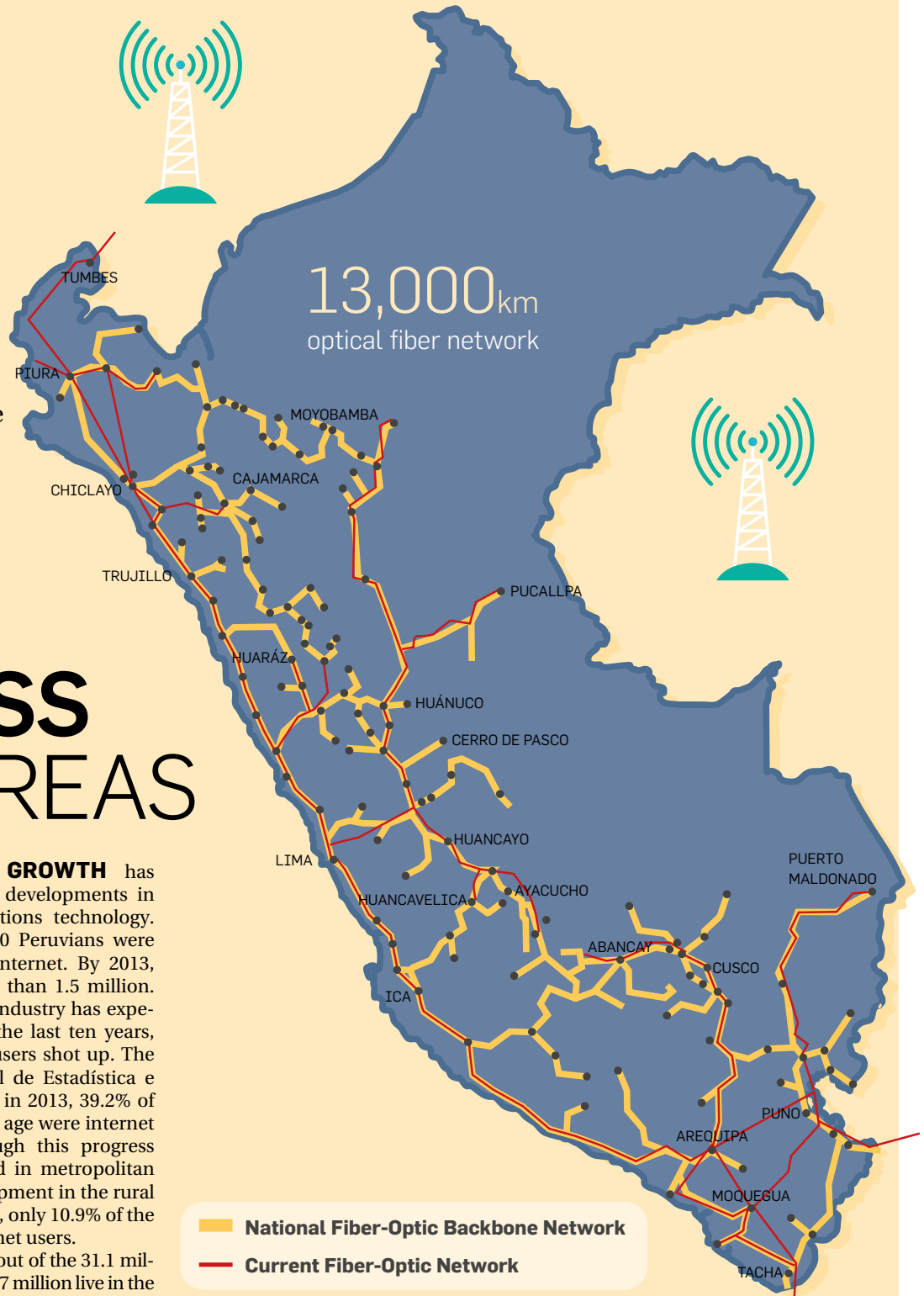


The government is making major investments to ensure that residents of rural areas have access to high-speed internet. While access is ubiquitous in urban areas, more needs to be done.

ACCESS ALL AREAS

PERU'S ECONOMIC GROWTH has brought with it significant developments in the use of telecommunications technology. In 2005, fewer than 353,000 Peruvians were subscribed to broadband internet. By 2013, that number reached more than 1.5 million. Peru's telecommunication industry has experienced a rapid growth in the last ten years, as the number of internet users shot up. The Peruvian Instituto Nacional de Estadística e Informática calculates that, in 2013, 39.2% of people older than 6 years of age were internet users. Nevertheless, although this progress has been most pronounced in metropolitan and urban areas, the development in the rural areas has been slow. In 2013, only 10.9% of the rural inhabitants were internet users.

Peru is highly centralized; out of the 31.1 million inhabitants, more than 9.7 million live in the metropolitan area of Lima. Due to the difficulties presented by Peru's geography and the central-



Source: Peruvian Instituto Nacional de Estadística e Informática

ization of services in Lima, the infrastructure gap between the provinces and Lima has grown in the last years, particularly in the telecommunications sector.

The government has acknowledged this problem and has started a series of programs that aim to reduce the technology gap between the urban and rural zones. One of the most important programs is the Programa de Implementación de Telecomunicación Rural (Rural Telecommunication Implementation Program), organized by the Ministry of Transport and Communications. The intention of this program is to amplify the coverage of telecommunication services throughout rural areas, with the aim of supporting rural economic development. This program aims to improve communications infrastructure and promote the use of internet in the most remote parts of the country. Through the program, the government will build more than 1,000 centers in rural locations where local people have free access to computers with high-speed internet. The program targets settlements of at least 300 local inhabitants that have at least 1,800 people living in their zones of influence. The settlements must also have permanent access to electricity and must not have any other form of continuous public internet access.

However, the most important project right now is the Red Dorsal Nacional Fibra Óptica (National Fiber-optic Backbone – RDFO), which will connect 180 out of the 196 provincial capitals as well as 22 regional capitals with a 13,000km of optical fiber network. The estimated investment stands at \$323 million. The program intends to improve the quality of life for Peruvian people by providing a high-quality internet connection, as well as reducing the cost of internet access in rural areas by around 80%. Monthly internet subscriptions in rural areas currently can reach more than \$200, but are expected to drop to around \$27. This will help not only households but also commercial and industrial sectors by improving the speed and quality of their communications.

As a result, the Peruvian State plans to have more than 40,000km of fiber-optic cable laid by 2017. The ultimate target of the Ministry of Transport and Communications is to provide universal coverage for telecommunications services in Peru. The project is being developed through a concession to the Mexican consortium TV Azteca-Tendai, although it will ultimately belong to the state. The government will provide the resources for the construction and operation through a concession of 20 years. ✖



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COME *together*

TBY talks to **Jorge León Benavides**, Chairman & CEO of Grupo Digamma, on connecting the mining industry, building a client base, and the outlook for the coming years.

What are Grupo Digamma's main areas of activity?

We have a 10-year history starting with our magazine *Rumbo Minero*, which is now the leading publication in the Latin American mining industry. It comes out every 45 days and is over 400 pages in length. We also stage targeted events within the mining industry to boost networking and cooperation. For example, we have a boutique membership event to bring the mining companies and suppliers closer together. We also launched *Expomina*, the largest mining fair in the country with over 1,000 stands and more than 18 participating countries. Meanwhile, we have moved into the construction sector, having launched the magazine *Perú Construye*, and are set to organize *Expo Arcon*, the most complete construction business event in the country. In addition, we issue newsletters, hold promotions, and operate web pages and social media related to our mining activities. For example, we have two television shows for en-

trepreneurs—*Rumbo Minero* and *Perú Construye* that are aired on one of the main TV channels in Peru. These shows have enabled us to offer the entire package of editorial, broadcast, and advertisement services to our clients in these two sectors.

What are the competitive advantages of Grupo Digamma?

Today, we have around 1,500 clients and are the main business tool, on which they rely. This is because there is no other company in the country, and probably in the region, offering a complete editorial and broadcasting packaging with such a high level of specialization that addresses whatever the client wants to achieve.

Can you tell us more about *Expo Arcon*?

This is an event that will be held for the third time in early July 2015 from 9 to 11, and will develop simultaneously three fairs. We have leading entrepreneurs and businesspeople on our advisory board, including former ministers and cur-

rent presidents of the sector associations in the country. We also have our working committee, which includes the main presidents of national and international chambers of commerce and construction. The event will include a section for heavy machinery, consultancy firms, and developers. Over 10 countries are taking part in the event. We will also be organizing the International Infrastructure Forum, the International Technology Forum, the International Real Estate & Construction Forum, the International Architecture Forum, the International Construction Projects Forum, and the International Purchase Management Forum. Moreover, we will be organizing a series of national awards for the most important infrastructure and construction projects. We also have strategic partnerships with the main professional associations in Peru.

What is your medium term outlook for the industry?

I think Peru will grow at a faster pace in 2015; we have 10 key mining projects underway and the government is committed to significant infrastructure investment. I believe that the economic slowdown of 2014 has been due to the fall in foreign investment and certain inactivity on the part of the authorities. This has now changed and we foresee a positive 2015, all ahead of the presidential elections in 2016. In this context, if the mining and construction sectors grow, we also grow as a company because these are the two main sectors for us. We decided to focus our business activities on them because we knew they underpinned the future of Peru. In 2014 we sent the message to our clients that in times of crisis it was important to diversify your portfolio, and we focused our events on that goal. It proved to be a great success, and we became a useful tool for clients in a time of crisis. ✖

IN NUMBERS *Grupo Digamma*

1,500
clients

Average annual
growth

20%

Participants in largest
conference

1,000
clients

BIO

Jorge León Benavides, the founder of Grupo Digamma, is currently its CEO. His knowledge in marketing and a specialization in Marketing Administration in the Development Center of the Universidad del Pacífico of Perú have provided him with the tools to achieve a long term vision for Grupo Digamma customers. He has been appointed director of the Lima Conventions's Burea, a nonprofit private association, whose main activity is the promotion of Lima as a place for first class meetings and events.

RIGHT NOW

Getting the right software to the market is challenging in a market where competition for talent and clients must account for changing demands and rapid change.

“THE SINGLE, BIGGEST CHALLENGE FOR PERUVIAN PROVIDERS IS THE DEVELOPMENT AND MANAGEMENT OF THEIR OWN BUSINESS TECHNOLOGIES AND SOFTWARE. INSTEAD OF EMPLOYING SERVICES FROM OUTSIDE, BUSINESSES NEED TO MAINTAIN THEIR OWN TECHNOLOGIES AND INVEST IN INNOVATION.”

FRANJO KURTOVIC
General Manager, CERTICOM

“We came here to hire their best students and put them to work on projects that are going to be interesting to them from a technological perspective, and these graduates will be working with leading companies in North America.”

MARIO CHAVES
CEO, Avantica Technologies

“Most of the large companies here are quickly adopting new technology, which makes sense from a practical standpoint. The time to market is faster than with tradition deployment techniques.”

JOSE A. DEL RÍO ARAMBURÚ
Country Manager Peru, SAP

“I see many Peruvian professionals in the field of technology occupying regional or global positions, which clearly attests to the level of local talent.”

RICARDO FERNÁNDEZ
RIBBECK
General Manager, IBM Peru & Bolivia

“THE LABOR MARKET IS HOT, AND FINDING GOOD PEOPLE WITH THE RIGHT SKILLS IS TOUGH. THERE IS CONSIDERABLE TURNOVER; MANY PREFER NOT TO BE IN THE SAME JOB FOR MORE THAN TWO OR THREE YEARS, ESPECIALLY AMONG THE YOUNGER WORKFORCE.”

HUMBERTO BALLESTEROS
Sales Director Peru & Ecuador, CA Technologies

“The software developed in Peru must be in line with the needs of the sectors in which it will be applied.”

BEN SCHNEIDER SHPILBERG
Executive President, Indra in Peru

“Large companies like banks, insurance companies, or retailers always have numerous hardware platforms, databases, or ARPs catering to different business cores. All of those have to communicate and run smoothly, which requires excellent systems engineers.”

GRIMALDO DEL SOLAR
General Manager, Grupo Sypsa

STAY INFORMED



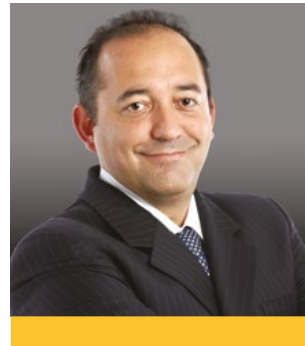
ORLANDO PARODI
*Gerente General,
DirecTV*

We deliver our content via our satellite, which covers all of South America from the Caribbean to Chile and Argentina. DirecTV has been growing rapidly in Peru because we enjoy nationwide coverage without the constraint of cable that might have made coverage of smaller towns unprofitable. The Peruvian economy is performing well, where the lowest financial bracket has been improving its financial standing, while the middle class is moving into a higher class, the lower class is moving to the middle class and more people emerge from poverty. We are proud of changing the way TV is being viewed. In Latin America we already have 19 million subscribers. We are facing a convergence between internet and television. We now have intelligent televisions connected to the internet. One simply cannot avoid entering the internet business, like our partners in other countries. We are working with 4G LTE and within the terms of our concession, are committed to covering Lima. Yet while we are not obligated to extend our services to other provinces we could one day pursue this idea if considered viable.



ERIC JURGENSEN
*CEO, América
Televisión*

Ours is the oldest channel in the country, launched on December 15, 1958, as the first private TV network in Peru. Our channel has been the ratings leader for the past 11 consecutive years, and for each month of those years. We have therefore spent 134 months at the head of the field, and we have a 38% viewership share. The second-placed channel has around 25-26%, with the third at around 22-24%. In terms of commercial share, we probably reach 40% of the commercial revenue advertising market. The advertising market has grown from \$76 million to almost \$400 million in 2014. The cost per rating has also increased, as have advertising costs and local production. Many networks have been posting solid financial results. Around 67% to 70% of our programming structure at América TV is locally produced. And of that 70%, around 35% comprises news programs and the other 35% entertainment-fiction, reality shows, game shows, and so on. People's tastes are changing. For the past 10 years, one of the biggest changes has been the loss of the children's audience.



DANIEL CÓRDOVA
*Managing Partner,
Newlink Peru &
Invertir Group*

We think that in today's world the consumer industry must engage emotionally with people. It is increasingly the case that companies have to be politically correct and environmentally friendly. This is the kind of project we work on. We foster a good relationship with the authorities and stakeholders in general, including workers and employees, through internal communications. Essentially, we maintain companies' reputations, which stretch far beyond the products they sell in terms of cost or quality. We talk about four new factors, and transparency is essential. Social networks mean that a person who in the past had no access to a newspaper can today publish themselves. There is more participation, and a greater social consciousness of health, the environment, and social issues. Things happen swiftly these days, and so one has to be prepared for anything and have the capacity to react quickly. I have had cases with companies that did not know how to behave in front of the press, finding themselves unprepared. In our case, our goal is to have a few clients that are served by senior consultants.



ADOLFO DAMMERT
*CEO, Latin Brands
Carat*

We are indeed still a traditional market, where, I think, internal and digital media only accounts for about 6% of advertising investment. Nevertheless, in less than five years, I am sure that 25% of the advertising budget will go on digital. Everything we have is new, for example with telephones we went directly to the smart phone, while in automotive the latest Mercedes-Benz, the AMG GT, has already appeared at an exhibition in Peru. As Carat we need global standards to compete; being in Peru is no excuse. Clients who come to us can compare us with any other international office. I think we have excellent clients that successfully help because the advertising business is not just about producing beautiful images, but ultimately contributing to economic growth. There are a number of areas where nothing has been done yet, for example, mobile advertising remains negligible in Peru. Developments are slow at present because sometimes clients shun risk. For example, while banks should have long been promoting the use of smart phones, the habit of visiting a branch prevails.



ready TO SELL

TBY talks to **José Antonio Blanco**, Chairman of inPERÚ, on past successes, promoting Peru abroad, and the importance of Asia as source of investment.

What was the initial motivation for founding inPERÚ, and how would you characterize the organization's progress so far in "exporting Peru to the world"?

The initial motivation was and still is to promote investment in our country. It is common knowledge that the fastest growing economies in the world have achieved such results due to years of significant investments—investments that have represented more than 25% of their GDP each year. inPERÚ has reached more than 6,000 investors with eight roadshows around the globe thus far and has visited almost 20 of the most important cities in the world.

The recent decline in mineral prices has led to a slowdown in the Peruvian economy. Has this led to a decline in international interest in Peru as an attractive investment destination?

The decline of mineral prices has affected our economy, and the mining industry in particular as it has seen a decrease in investments. Fortunately, our economy is not solely dependent on mining; it only constitutes one-third of our total exports and of these exports, 50% are mining products. Our mineral exports are diversified which provides a natural advantage in varying environments. We are ranked among the world's top five as an exporter of minerals such as gold, silver, copper, zinc, and lead. In the context of the global economy, we are still an attractive market to investors.

IN NUMBERS inPERÚ



most interest from international investors at recent inPERÚ events?

inPERÚ's approach is inclusive, meaning we present every possible business opportunity in our country without an emphasis on a specific industry. It is hard to deny that our lack of infrastructure is the most attractive opportunity for investors. Asia has a special interest because they have built everything over the last decade and now need to find new places to invest.

What makes Peru a good destination for international investors?

We present many attractive conditions for investors because our economy continues to grow, we have sound fiscal and monetary policies and constitutionally-protected investments. We are conveniently located and rich in natural resources. We also have a young population, and our middle class is expanding.

What are your goals for inPERÚ over the next year?

We need to keep revisiting the most important cities in the world while bringing large delegations comprised of both private and public representatives. We also need to ensure our association grows so that we can guarantee the necessary resources to remain sustainable over time, which will allow us to assist governments in the future, despite their political or economic status. ✖

BIO

José Antonio Blanco is a graduate of Architecture and Urbanism at the Universidad Ricardo Palma in Lima, Peru. He has worked in several construction and real estate companies since 1998. He participated in the execution of more than 15 real estate projects. He is currently CEO of Actual Peru, a regional firm with presence in Chile, Colombia and Peru. He is responsible for developing five simultaneous housing estate projects in neighborhoods like Chorrillos, Surco, San Miguel, and San Isidro in Lima, Peru.

In 2015, inPERÚ's Road Show is focused on Asia (particularly China, Japan, and Korea). Why did inPERÚ choose Asia for this year and what is the importance of these markets for the Peruvian economy?

Our business model operates on the belief that we need to return to the regions we visit every one to two years. We were last in Asia two years ago, so now is a perfect time to revisit. Asia remains the fastest growing region, as countries like China have been very aggressive in acquiring companies around the world as part of its strategy to ensure enough resources for its growing population. Peru's largest mining, fishing and oil and gas companies are Chinese.

Which sectors of the Peruvian economy have attracted the



127

Cargo logistics companies in Peru use a deft mix of local talent and state-of-the-art technology to keep the country moving.

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Industry leaders in air transport discuss the country's unique challenges and opportunities for the sector.

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Automotive retailers in Peru are rising to the challenge through innovation, expansion, and developing new segments.

Transport

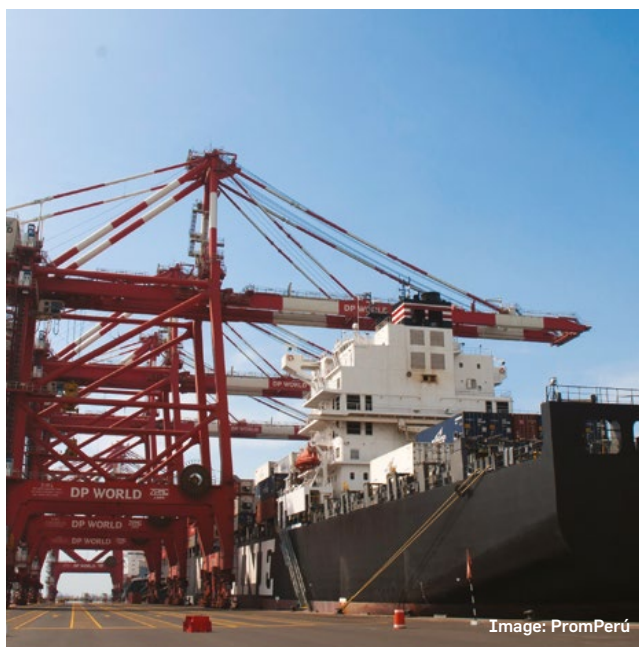
REVIEW

The transportation sector is preparing itself for a massive overhaul, as increasing interconnectivity between rural and populated areas becomes key in advancing the country's ambitious policies.

THE RUNAWAY TRAIN

There is an increasingly vital need to develop Peru's transport sector in order to keep up with the country's burgeoning economy. Specifically, road and railway construction is needed to increase connectivity between inland industries and export centers on the coast. Peru's economy is largely reliant on exports, with main exports being copper ore and crude oil.

As the OECD reports, one of the priorities of the transport sector is to pave 85% of the national road network—only 18,698km of the country's 140,672km of roads are paved, according to the most recent World Fact Book figures. It also aims to increase interconnectivity in rural areas, specifically through improvements to public transportation. As the use of private cars increases yearly, congestion grows worse, upping the need for reliable and more readily available public transportation alternatives, such as the expansion of the Lima Metro.



According to the latest World Fact Book figures (2014), Peru has 191 airports (up from 135 in 2012 according to the Ministry of Transport), 1,907km of railways, 140,672km of roads (only 18,698km of which are paved), and 8,808km of waterways.

In the 2014 and 2015 World Bank Group's "Doing Business" reports Peru ranked 55 out of 189 countries in terms of its ability to facilitate trade across borders. Despite a fall in rank—six positions lower than its 2013 ranking of 49—costs to export and import remain relatively competitive in the region.

Over the years Peru has made efforts to improve infrastructure and ease the import/export business. In 2010, cranes were added at Callao port, which sped up handling activities, and in 2011 the country introduced a web-based electronic data interchange system, which facilitated greater exchange and information-sharing on risk-based inspections and payment deferrals, for example.

According to 2015 numbers, time to export a standard container in Peru takes an average of 12 days and costs \$890, compared to the Latin American and Caribbean average of 16.8 days and \$1,299. To import the same container to Peru would take 17 days and cost \$1,010 per



While 60% of journeys take place on public transport, private vehicle use is rapidly increasing

Image: PromPerú

container, compared with the regional average of 18.7 days at a cost of \$1,691.

In 2015, Ernst & Young published a report detailing Peru's ambitious transportation overhaul, as it plans to invest over \$20 billion in transport infrastructure with the aim to increase competitiveness and become a logistics hub.

This money will fund the Peruvian urban transport NAMA, called T-NAMA, an ambitious package of infrastructure investment, new climate-friendly regulations and institutional reforms that will reduce Peruvian greenhouse gas emissions from the transport sector by four million tons of carbon dioxide-equivalent over the next decade. This is equivalent to the emissions reductions from taking 760,000 cars off the road for a year. Peru's T-NAMA has been jointly developed by the Peruvian Ministries of Environment and Transport, with support from GIZ-Transfer, the World Resources Institute (WRI), the Low Emissions Development Strategies Global Partnership (LEDS-GP), Pontifical Catholic University of Peru (PUC), Transitemos, and other local partners.

Urban transport plans also figure in Peru's broad GHG mitigation efforts. Peru's total GHG emissions are only a small fraction of the global total, though the country's emissions are expected to rise rapidly as its population and economy grow. While 40.9% of emissions come from the forestry sector, transport represents the largest share of overall energy-related emissions at 40%.

The average Peruvian vehicle fleet is 14 years old, resulting in high specific emission levels, and the number of vehicles has nearly doubled between 2000 and 2014. As a result, transport-related emissions increased by almost 50% in the last decade.

While 60% of trips in Peru still take place on public transport, private vehicle use has been rapidly increasing, causing severe road congestion—traffic moves at a sluggish 14 km

per hour (8.6 mph) on average—as well as air pollution and traffic crashes. The social cost of congestion in Lima alone is \$7 billion per year. Current problems will be aggravated if the trend towards car-dominated cities and metropolitan areas continues.

Peru's NAMA aims to reverse this trend by providing high-quality public transport and optimizing the country's vehicle fleet. The impact of these actions will be broadened by explicitly targeting selected medium-sized cities adjacent to the Lima metropolitan area and the national level.

To deal with the challenge of rising vehicle ownership, Peru plans a multi-billion dollar effort to encourage sustainable transport by expanding bike lanes and Lima's metro system, strengthening transport regulation such as fuel economy standards, and advancing institutional reforms to ensure comprehensive governance over urban transport. While the NAMA grant will supply only a small part of funding needed, it will significantly improve Peru's ability to attract public and private financing. On December 4th, 2014, the Inter-American Development Bank announced plans to provide at least \$1 billion in loans for Lima's metro. Most of the planned improvements will be concentrated in Lima and Callao, home to about 30% of the Peruvian population and the country's economic hub. Some 60% of Lima's residents use public transport, and an expanded metro line will help maintain this share.

In addition to reducing GHG emissions, the Peruvian Climate Action Plan shows that more sustainable transport can save an estimated 18 million hours of travel time, reduce air pollution, improve public health, give better access to public transport, enhance social equity and cut down on traffic accidents.

This award reflects Peru's leadership in addressing climate change through the transport sector. As national leaders at COP20 look for



ALFREDO
GARCÍA
PROAÑO
General Manager,
PROSEGUR

What are your plans for PROSEGUR for the coming year?

We see ourselves trending toward technological integration: the internet, cash machines, and electronic transactions. As the market evolves, we recognize our company must do the same. While the use of cash may not be as prevalent as it once was, we know our business is healthy and will continue to be so as long as we look for new opportunities. In 2016, we need to attract more customers to our new products, and we also need to focus on penetrating as many markets and customers as we can with those solutions.

How has PROSEGUR innovated in the way that it does businesses in Peru?

We use technology to ensure efficiency in our routes as we have a time commitment to our customers. We manage 250 trucks nationwide and we must guarantee that they get to the customer as promised, regardless of traffic or other external factors. This requires more than just Excel sheets and experience—it also requires technology. As an example, we predict how much cash each ATM needs and the denomination of bills for over 8,000 ATMs throughout the country. Banks are investing heavily for this channel to be efficient, and we fulfill our clients needs with this service and other services we provide.*

According to 2015 numbers, time to export a standard container in Peru takes an average of 12 days and costs \$890, compared to the Latin American and Caribbean average of 16.8 days and \$1,299. To import the same container to Peru would take 17 days and cost \$1,010 per container, compared with the regional average of 18.7 days at a cost of \$1,691.

ways to reduce greenhouse gas emissions, Peru's efforts highlight the role of sustainable, integrated urban transport in curbing emissions at the country and city-level and demonstrate the potential for NAMAs and climate finance in general to complement large-scale investments in low-carbon infrastructure.

T-NAMAs present a unique opportunity for developing countries to receive recognition and support for efforts to curb GHG emissions from transport. T-NAMAs get away from the traditional project-based approach to embrace a policy or sector approach. This new tool can rely on the globally recognized Avoid-Shift-Improve framework. More cities are using T-NAMAs to pursue sustainable, low-carbon transport. Though most are concentrated in Latin America, stakeholders from cities worldwide are increasingly engaged in T-NAMA preparation.

Peru's NAMA award comes at an opportune time, as national leaders from around the world look for an agreement on long-term climate action in Lima. Global transport emissions are increasing faster than any other sector, and nearly 90% of the growth in carbon dioxide emissions from transport is expected to occur in non-OECD countries, making it increasingly important for national officials to learn from Peru's leadership in combating climate change through sustainable transport. ✖



JAVIER PULGAR SILMAN
*General Manager, ESPAC
Aviation Academy*

Domestic flights are leading the growth of the aviation industry. It is currently difficult to travel between regions, and it can take up to 10 days to travel between the coast and the mountains. The distance is covered in 1.5 hours by plane. There is huge potential for development of domestic flights, but we need more pilots. Research shows that South America will require 50,000 new pilots by 2021.*

*Read the full interview at thebusinessyear.com

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VICTOR SAM
*General Manager,
Transportadora Callao*

Operations in the port of Callao were rather chaotic before TCSA stepped in. From that point onwards, the handling of the material would occur at a pace of 300 tons per hour. For an average of 20,000 tons per ship it would take up to five days, creating intense traffic. Mining exporters were upset by high transportation costs, although these were mitigated by high mineral prices. Were that the case today in an environment of lower mineral prices, it would be hugely problematic for many companies. In 2009, Transportadora Callao presented a public initiative to ProInversión, which was accepted. Transportadora Callao comprises a group of companies that in turn make up 80% of cargo traffic at the port. The government gave us a 20-year concession, confident that in 2020 there would be a major redevelopment of the port, and that we would have no physical space to occupy. We do not agree with this and will apply for a further 10-year lease.

EDGARDO LLOSA BARRIOS
Managing Director, Saturno

Infrastructure in Peru is not well developed in spite of recent large investments. We are still lagging behind the national requirements. In Lima, the arterial road to the center of Peru, Carretera Central, is the only one of its kind. It is the only major road to go to the center of the country, to the mountains, and to the other side of Peru. That road was designed to handle 5,000 vehicles per day, and no more. Today it handles 25,000 per day. Imagine 25,000 vehicles on a road made for 5,000. At this point, the government should build three or four more such roads. There are efforts under way, but they may be too little too late. Infrastructure investment effectively needs to be at least doubled from what it is today.

from POINT A to POINT B

Decades of underinvestment have national transportation companies scrambling to meet demand, with many insisting that yet more investment is required to capitalize on growth potential.

The recently constructed mineral concentrates port in Callao is a vital project for the country. It has galvanized all the competitive companies as a private scheme developed by five companies, one of them being Impala Logistics. This \$163 million project boosts productivity, and a second stage of construction includes the development of 120,000sqm of industrial park, all under the same roof. It will be a single administrative unit focused on increasing storage and loading capacities. This second stage of the project foresees an investment of \$45 million by our company, and overall we have planned an investment of around \$120 million. Meanwhile, the total project investment will be around \$400 million. The core objective of the project is to develop the concentrates sector, raising capabilities to international standards. It will also make the mining sector in central Peru more efficient, developing infrastructure projects from the public sector, which is currently lacking.



RICARDO
TROVELLI
VECCHIO
*President,
Impala Logistics
Peru*

GONZALO ANDRADE NICOLI
Trafigura Peru

As always it is difficult to make predictions on commodity prices and lately most of the talk has been around China's growth, as they are the main consumer of raw materials, and their economy is slowing down. As traders, we have to operate in all scenarios, both in high and low prices, and each context has its own advantages and disadvantages. Customer needs are a volatile variable in each scenario. In a low-price environment for instance, there are more risks but at the same time likely more opportunities. I personally do not consider today's pricing environment to be a bad one, and forecast no further notable declines. I certainly do not expect a decline in base metal prices to anywhere near the crisis lows of 1999, 2000, and 2001. That said, although we have higher prices today, mine production costs have risen considerably.



EDUARDO CÁCERES
CABRERA
*Managing Director,
Acoinsa*

Peru has an extensive coastline, vast jungle areas, the Andes Mountains running the length of the country, and deserts. It only takes a few hours to travel from the coast into the mountains, which are very difficult with high altitudes, and then find oneself in the heart of the jungle or crossing a desert. The challenge in Peru is to move massive loads along difficult roads. These conditions are compounded by social problems that we have to negotiate, and we also have to help our clients reduce their exposure to these risks. For the last four or five years the economy has depended on the mining sector, however with the collapse of commodity prices, a shift in focus to the construction sector is under way. One sign is large investments in infrastructure such as new roads, the Lima Metro, and hydroelectric and thermoelectric projects and the upgrade of Talara Refinery by Repsol in the energy sector.



CINTHIA BUCH
*General Manager,
Cargo Master*



CARLOS HINOJOSA
MARIN
*General Manager, Pits
Logistica Integral*

carry that WEIGHT

Cargo logistics companies in Peru use a deft mix of carefully trained local talent and state-of-the-art technology to keep the country moving.

How have you adapted your operations to remain competitive?

CINTHIA BUCH When we started out, there were only three players on the market, for less-than-container load (LCL) cargo. The market started to grow, so many people needed to bring samples or things that did not require entire containers. Together with the other two competitors in the market we introduced this service to Peru. We formerly worked exclusively with freight forwarders, but today we also work with end customers, whom we charge more for our service. In 1999, our clients needed to also move air cargo. We started a company under another name and have a company that works with air and full-container load (FCL) cargo. Today Cargo Master also sells air cargo and FCL cargo through a sales network.

CARLOS HINOJOSA Pits Logistica first started as a document courier and evolved into package courier. The company went on to handle large volumes of documents and packages, which led to expansion and new facilities. We then opened our own warehouses

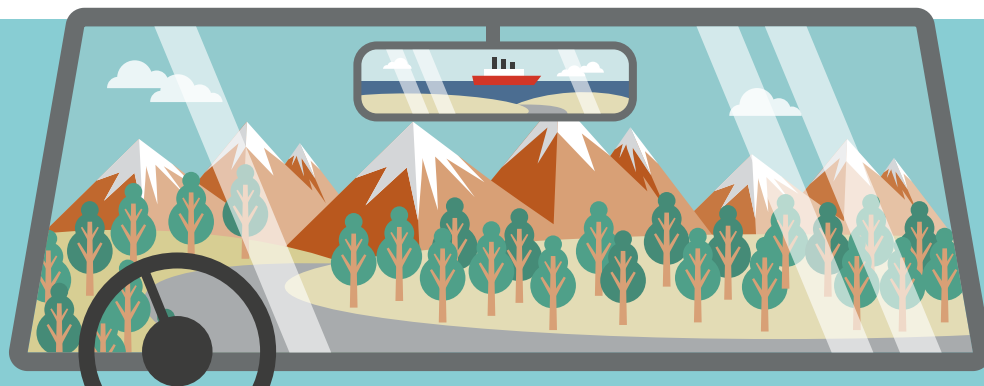
to store packages and provide a fully integrated service. When we opened our warehouse facilities, we also expanded our transport services. Nowadays, our operations are largely in messaging, courier services, storage, and the transportation of products. This latter segment includes machinery, products, and other bulk deliveries. Over the years, we have actively worked on digitalizing our operations and process, and enabling our customers to track their products and documents. This move opened new business opportunities for us: digitalization of documents and their archiving. Our evolution has been closely linked to the development and expansion of the Peruvian economy and its larger companies. For example, as banks reached out to a wider audience in the country—through branches and advertisement campaigns—we expanded our services alongside them (distribution, digitization, and so forth). Pits Logistica has long-term agreements with banks, which have helped us grow as a company. Currently, corporate clients represent a bulk of our operations—about 90%, which provides us with long-term stability.

What is your approach towards human capital?

CB When we started up, there was no training available, and some of our staff learned by experience. About five years ago, universities started to offer courses in international commerce. However, even if staff are graduates, they still need to learn the processes in the business arena. We hire people and we teach them how to work. As soon as they are ready, the competitors came to take them. We were known as the cargo school. We are formal, but there are now thousands of informal companies competing with us, which makes keeping costs low difficult.

What are your expectations regarding the document digitalization segment?

CH In the past, document warehouses were almost exclusively located in Lima. Therefore, we proposed decentralization of the market by region. This requires warehouses that can cover the main regions in Peru—the coastal and mountain regions. This enables us to have a better and more coordinated reaction to avoid any loss of information and data. The digitization of documents also includes, by law, their physical storage for a set number of years. We closely work with banks in this segment and encourage them to take these documents beyond Lima. Banks are institutions with some of the largest volumes of documents to be stored, which we make possible. However, we offer services outside the corporate sector, we also work with public administrations, especially the Peruvian Tax Authority (PTA), to optimize the payment of taxes. We have already received highly positive feedback from the PTA; the level of tax collection has risen. ✖



GOING ALL THE WAY

A lack of interconnectivity has isolated South American markets from each other. Yet over recent decades, a series of road and water links have been created to overcome this obstacle, and trade is ready to take off.

SOUTH AMERICAN regional integration efforts have a long and varied history, tracing back to the end of European colonial rule on the continent, and continuing on through the creation of modern-day organizations such as the Andean Community of Nations (CAN), the Union of South American Nations (UNASUR), and Mercosur (the South American common market). However, one of the main challenges to effective integration in South America has been a lack of physical infrastructure connecting the continent's major markets. Much of this challenge has been the result of geography. The majority of South America's population and economic activity is concentrated in urban centers along the eastern and western coasts, while the more sparsely populated interior of the continent is dominated by the Andes mountain range to the west and the Amazon rainforest in the center and east. These geographical obstacles have made it difficult to develop overland trade links between the major economies of the region.

Peru exemplifies this challenge. The bulk of the country's population and economic activity is to be found along the coast, with only limited road and rail links connecting the country to its nearest trading partners. As a result, the US, China, and Europe account for more than half of Peru's foreign trade, buying nearly 52% of Peruvian exports, and selling Peru 51% of its imports. Brazil, the world's seventh-largest economy, on the other hand accounts for just 5.4% of Peru's imports, and only 4.1% of exports. Meanwhile, Colombia, the second-largest economy on the continent, barely makes it onto the list of Peru's top 10 trading partners.

Over the past decade and a half, in conjunction with other political and economic integration efforts, South American governments have worked to overcome this infrastructure challenge through the Initiative for the Integration of Regional Infrastructure in South America (IIRSA), created at a summit in Brasilia in 2000. The IIRSA brings together a series of plans to develop transportation, energy, and telecommunications links between South American countries, and is being funded in part by the

Development Bank of Latin America (CAF) and the Inter-American Development Bank (IDB).

These include a number of projects to improve connections by road and river between Peru and Brazil, Bolivia, Chile, Ecuador, and Colombia. One of the most significant elements of the IIRSA is a series of east-west Interoceanic roads and river links that will connect Peru and Brazil from coast to coast. The first of these links, IIRSA South, was completed in 2011 and is more commonly known as the Carretera Interoceánica Sur or the Southern Interoceanic Highway. The road, which links the Southern Peruvian port city of San Juan de Marcona to São Paulo in Brazil and on to the Brazilian port of Santos, was the first paved, two-lane road with year-round access to cross the centre of the continent.

The second IIRSA route in Peru is the Northern Interoceanic Route, which combines road and river links to provide Northern Peru with access to Atlantic Ocean via the Amazon River. The project includes a road connection from the Peruvian port of Paita on the Pacific coast, over the Andes, and into the Amazon basin, to the port of Yurimaguas on the Huallaga River in the Peruvian Amazon. At Yurimaguas, a new port is being built to facilitate increased traffic with the Peruvian Amazon and Brazil. The road portion of the project was completed in 2014, and the new port is currently in the works, with completion targeted for end-2016.

The third east-west link, the Central Interoceanic Route, functions in conjunction with the Northern and Southern Links. The central link first connects Lima's port, Callao, to the city of Pullacapa on the banks of the Ucayali River in the Peruvian Amazon. From there, cargo can either travel north along the river to merge with the northern IIRSA link, or else along a newly built road crossing the border into Brazil and heading south from Cruzeiro do Sul to Rio Branco where it meets up with the Interoceanic Highway. In addition to the east-west connections, IIRSA projects in Peru also include improved road connections to the north and south connecting Peru to Chile and Ecuador. ✖





CARLOS CUEVA
General Manager, ATSA

The oil and mining industry has backtracked on its investments and companies are cutting costs, such as in air transportation, and reducing the compensation of workers. The global financial crisis has led to a drop in oil prices and the fall in the price of mineral commodities. Mining companies are losing confidence in the market. Initially 90% of our profits were derived from the oil industry's charter trips, however, ATSA is re-designing its business model to accommodate the fall in demand from that client group. We are developing new business lines, such as fully integrated air. The corporate charter for mining and oil executives is now re-oriented to tourism. Tourism has not been affected by the political and economic problems of the country, which is a relief to the transport industry. However, corporate business has been affected. This has led us to diversify our services to incorporate more luxury tourism and build brand-loyalty amongst passengers.

ALBERTO LÓPEZ
BUSTILLO
*General Manager,
Peruvian Airlines*

Peru needs and wants to develop its own airline. The country's growing middle class—expected to grow by as much as 40% by 2023—will certainly expand our operations. Peruvian fliers are relying less on buses and more on flying, in no small part due to Peru's difficult terrain. To reach Cajamarca—400km from Lima—takes over 20 hours by bus and less than one hour by plane. While we have many contracts with US and Europe, over recent years we have been focused on the local market and have seen excellent results. Our strategic plan is to grow at least parallel with the market, while passenger growth in Peru is 30% per year. More than 150 million passengers travel by bus and 10 million by plane. If we could convert those land passengers, we would need three times the fleet. Within four or five years we have the potential to double our passenger number.

FLYING TOGETHER

Industry leaders in air transport discuss the country's unique challenges and opportunities for the sector, in light of a growing middle class, falling oil prices, and need for heightened security.

S muggling is a challenge for Peru. Smuggled items include drugs, endangered flora and fauna, and cultural heritage, such as Incan artifacts. So, to face those challenges and threats, we at Talma have to invest in a very advanced security system—we recently invested \$1 million in our new system. The security system is not only cameras but also screening equipment, x-ray machines, trained dogs, sterilized areas, and trained personnel. Although the responsibility to contain drug dealing is in the hands of the government, we have to support them and collaborate with them. Talma has had an important role in the industry because we have been growing with the country—air operations have been growing at 8% every year. Talma has invested in warehouses, equipment, technology, and trained personnel in order to fulfill new standards and challenges. We see our international growth as an opportunity to export security, safety, technology, and quality standards to other markets.



ARTURO
CASSINELLI S.
*Chief Executive
Officer, Talma*



ESTHER COPA DEL
OLMO
*General Manager,
Iberia*

Peru is growing. With so many companies entering Peru's market, the challenge has become offering our clients the best benefits at the best price according to their needs. Being present in the market and becoming familiar with the country while providing good service and a good schedule is certainly a challenge. It's also great that European governments worked together to eliminate barriers for Peruvians with the visa waiver for Peruvians traveling to the Schengen zone. Spain especially worked to promote the waiver. It's a significant step to developing the business. We are looking forward to it, and I think that we are prepared to support the increase of the market. We are here; we are a connecting company. Whatever the market needs, we will do what's necessary in order to satisfy it.

LIMA'S PUBLIC TRANSPORT FOCUS



I GET AROUND

Needless death on the roads and public outcry against endless traffic has prompted the authorities to take Lima's transportation shortfall to task.

AMONG LATIN AMERICAN CITIES, Lima is famous on many levels: its unique fusion cuisine, its perpetual grey skies, and the surfers that daily swarm the city's beaches. However, Lima is perhaps best known, even when compared with its South American neighbors, for its chaotic and congested roads and urban transport network. Lima's traffic and congestion problems are a hot topic of debate for Limeños. Nearly every year citywide opinion polls rate transportation as the number one concern for the city's residents, with nearly 73% of residents complaining about traffic congestion in 2014 according to Lima Cómo Vamos an independent polling and ranking organization for the city.

One of the main challenges is the uncoordinated nature of Lima's roads and traffic rules, which vary among each of the city's 43 municipalities. However another challenge is the sheer number of vehicles on the road. According to the Ministry of Transport, there are around 1.5 million private vehicles on Lima's roads. In terms of other transport, Lima's bus and taxi networks are highly unregulated, with the majority of services run by private, or informal operators. In 2014, Lima had around 32,500 buses circulating and 230,000 taxis operating, compared to just 5,700 buses and 13,000 taxis in New York City. The high number of buses and taxis, and lack of regulation of the system often means that each route will have an excess of low-quality operators competing ag-

gressively for clients. Aggressive and unregulated driving takes its toll in Lima, which averages 2.7 road deaths for every 100 vehicles according to a recent study by the Discovery Channel.

The situation is particularly difficult for Limeños without private vehicles. Seven out of every 10 people killed in a traffic accidents in Lima are pedestrians. However, according to Lima Cómo Vamos, fewer than 8% of Limeños have private vehicles and more than 80% of Limeños say they rely on public transport to travel around the city.

Lima's city government is taking a number of steps to try to improve the transport situation. First, to remedy the chaotic situation with taxis and buses, the city is trying to bring in new regulations and increase the number of publicly-run bus services with the goal of halving the number of taxis and buses by 2021. The government has also begun implementing a program to remove obsolete and inefficient vehicles from the roads.

An key element in improving transport is investing in a more modern public transport network. The government has major plans to expand Lima's metro network from the one existing line to a potential total of six lines. The city recently completed the extension of Line 1 of the Metro; a project carried out by a consortium of Graña y Montero and Odebrecht. The line now connects San Juan de Lurigancho in the north of the city with Villa El Salvador in the south in around 50 minutes. Now, work is set to begin on Line 2 of the Metro, which will be the city's first subway line. The line will be constructed by a consortium of Salini Impregilo, Ansaldo, Finnmeccanica, ACS Dragados, FCC, and Cosapi. The project includes five years for construction and 35 years of operations as a concessionary. As both FCC and Salini Impregilo explained to *TBY*, one of the attractions of being part of the Line 2 project is the potential of participating in the next series of metro lines as ProInversión puts them up for tender. ✖

COMPETE TO WIN

Automotive retailers in Peru are feeling the effects of the recent downturn in mineral prices and growing competition from Chinese brands, but are rising to the challenge through innovation, expansion, and developing new segments.



MARCUS HÖRBERG
*Managing Director,
Volvo Peru*

There is a strong correlation between the downturn in mineral prices and the heavy-duty industry in Peru, and we are affected as most other companies have been. That is why we have expanded our presence in segments less sensitive like long haul and tourist transportation. So we are still very satisfied with the Peruvian market and believe that there is still untapped potential. We are very satisfied with the competence level of our employees,

but it will be a challenge to continue to source competent people as we are growing. There is a need to improve the educational system in the country in order to improve the competitiveness in relation to other countries. There are also other important areas for the Peruvian government to improve upon if Peru wants to continue attracting foreign companies and direct investments, such as infrastructure and reducing corruption and criminality.



JORGE GONZALEZ CALLE
General Manager, Mitsubishi Motors Del Perú

The automotive industry has been contracting in 2014, and our sales, too, have decreased by 10%. The hardest hit segment is pickups, which are selling 25% less than in 2013. Yet although Mitsubishi is active in this segment, our pickups in contrast are having a relatively good year. We have increased our sales this

Despite the 4.5% downturn in auto industry sales, Nissan sales rose by 6%. There are several reasons for this. The first one is Maquinarias' backing. Maquinarias has an established name in the market, and we are leaders in customer service satisfaction. The second reason was our sales force complete reorganization. Another important fact for Nissan's results was the implementation of a new marketing strategy with innovation as its main pillar. Finally, the launch of three new SUV models: Qashqai, X-Trail and the Pathfinder all of which boosted our sales and contributed to increase Nissan's market share from 6.7% in 2013 to 7.7% in 2014. We also specialize in low-range mining machinery, providing the construction equipment for water and sewage infrastructure. We started leasing construction equipment in 2014, and our rented equipment demand is growing. The

people who are in charge of renting are expecting about 75% growth this year. We have around 40 machines available for rent, but expect that to rise to 85-95 machines this year.



CARLOS CHIAPORRI SAMENGO
*General Manager,
Maquinarias*

year, in part by expanding our buyer base beyond the mining sector. Depreciation of the Yen allows us to purchase vehicles at greatly competitive prices, which means we can undercut the competition by passing these savings on to our customers. And although Chinese cars are flooding the market in Peru, issues of poor quality are creating

image problems for their brands among Peruvian customers. But Chinese cars are very cheap, and people still chose them over more reputable—and expensive—brands. Chinese brands are the new Korean that hit the market here 15 years ago, they are moving volumes, but earning a bad reputation, which is clearly not helping the market.



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Milton von Hesse La Serna, Minister of Housing, Construction, and Sanitation, on Peru's new leasing and property law.

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For international firms, having locally based partners on board makes all the difference.

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Enrique Marijuán Castro, Director Peru of FCC Construction, on the building of the Lima Metro.

Real Estate & Construction

REVIEW REAL ESTATE

While the chances of a property bubble seem to be waning, the yawning gap of 2 million new housing units should provide a fillip for the real estate sector over the long term.

A CALMER TIME

While first-time buyers are driving sales in the residential segment, the potential economic benefits of improved metals exports and access to fisheries could provide a useful bump to GDP growth, with the flow-on effects set to be seen in different segments of the real estate industry. On the back of 2.4% GDP growth in 2014, the market has been given the opportunity to stabilize, with the government also seeking to improve mortgage access. The pre-election year of 2015 should see GDP growth of a slightly healthier 3.1%, though many investors involved in the luxury residential, office, and retail segments will likely remain on the sidelines until a new congress and president are elected in 2016.

RESIDENTIAL

With a housing gap of some 2 million units in both qualitative and quantitative terms, Peru certainly has potential to grow in the residential real estate sector. One of the prime government efforts to close



Peru's premier real estate market,

Lima, is shaking off the effects of double-digit rises in residential prices seen in the pre-2014 period, and is now rationalizing on the basis of unmet demand in the low-to middle-income bracket.

the gap is the Bono del Buen Pagador, or Good Payer Bond, (BBP) program, which is attempting to stimulate the construction of 120,000 homes a year for low to middle income earners over the coming 5 years. As well, with the mortgage market remaining tight, and house prices in main centers still comparably high for many income earners, a lease to buy law was issued in 2Q2015 to help to address this issue, and soak up some of the supply coming online from the construction backlog.

Based on 18 months pricing data and converted at end-1H2015 rates, nuomo.com estimated house prices in the center of Lima in the \$1,587-\$2,380 per sqm range, while those in the outside suburbs ranged from \$950 to 1,715 per sqm. In terms of rentals, 1-bedroom apartments ranged from \$254-\$762 per month in the central areas of Lima, while 3-bedroom apartments were being offered in the \$952-\$1,111 range in the same areas. For areas outside of the city center, 3-bedroom rental prices started at \$467



Prime residential space in Lima is still falling short of demand. Yet better supply is easing prices

Image: PromPerú

per month and ranged up to \$952. A Central Reserve Bank of Peru (BCRP) Working Paper released in May 2014 indicated that over the 2006-2013 period residential prices in Lima had risen at a compound annual growth rate (CAGR) of over 20%, reaching an average of \$1,838 per sqm at end-2013, indicating a 252% rise on the 2006 figure of \$521 per sqm. While prices have certainly been heady, a cooling off of the residential market over the 2014-2015 period is likely to bring improved stability to the market, especially with the oncoming rush of mining money that may soon enter the economy.

According to BCRP statistics from the end of 2013, some 1,087 houses and 21,133 apartments were sold in the greater Lima area over the year. In house sale terms, there was a significant 19% decline in house sales when compared to 2012 figures, though there was a modest 2.3% rise in apartment sales. In terms of apartment size, there was a significant decline in the average space sold, with the 99.2 sqm seen in 2012 declining to 93.6 sqm in 2013, perhaps indicating that rising residential prices are leading buyers to reduce their living space expectations. From early comments, it appears that the price appreciation seen in previous years has slowed down in 2014, with the head of the Peruvian Chamber of Construction (Capeco), Juan Carlos Tassara, quoted in *El Comercio* as saying, "It already hit bottom in 2014, we cannot sell less than 12,000 homes in Lima." In the same interview from June 2015, he stressed the need to

improve access to mortgages for buyers, which only represents 5.8% of Peru's national GDP.

In order to facilitate housing for those on low to middle incomes, the Mivivienda Fund under the Ministry of Housing, Construction, and Sanitation plays an active role as a finance provider. In 2011 the fund financed some 8,614 homes under construction, increasing to a more substantial 19,966 properties in 2012, before falling back to 10,758 dwellings in 2013, the last year of reported statistics according to the National Institute for Statistics and Information (INEI). In terms of finished housing, the Fund provided financing for just 491 units in 2013, underling its role in stimulating the construction industry. In 2013, Lima represented 63% of all residences constructed with financing from Mivivienda. At the end of 2013, the Mivivienda Fund had distributed some \$496 million in credits to home buyers, making it a major player in the local mortgage market. With the BBP program announced in 2014, that will be conducted with the assistance of the Mivivienda Fund, another 120,000 homes are set to be constructed nationwide annually. Although the target is high, the ingenious use of a repayment model that rewards those who pay on time or even more than the minimum monthly repayment with discounts down the road may help boost residential sales. However, with the subsidy to assist people in getting on the housing ladder fixed at PEN12,500, roughly \$4,000, Capeco has noted that this barely represents a 4% down-

As the Peruvian economy boomed in the post-2000 period, the amount of office space created to meet demand in the capital Lima also shot up, though not enough to meet demand. Low vacancy rates have supported rental prices in the office segment, though the oncoming pipeline of another 800,000 sqm, according to JLL estimates, should see prices stabilize, or perhaps encourage developers to better pace out their roll out of space.

payment on a house in the capital, rather than the 10% that the government initially targeted. Getting the balance between the right level of subsidy and keeping a lid on residential prices for those at the lower end of the market is something that will need to be addressed.

OFFICE

As the Peruvian economy boomed in the post-2000 period, the amount of office space created to meet demand in the capital Lima also shot up, though not enough to meet demand. Low vacancy rates have supported rental prices in the office segment, though the oncoming pipeline of another 800,000 sqm, according to JLL estimates, should see prices stabilize, or perhaps encourage developers to better pace out their roll out of space. At end-2014, Lima contained some 1.2 million sqm of Class A and AB office space, with 150,000 sqm being delivered over the year, as estimated by JLL. Colliers had a different take on the market in 1Q2015, reporting some 617,500 sqm of what it terms Class A+ and A stock, while Class B+ office buildings provided a further 333,000 sqm. JLL estimated that the vacancy rate according to its own metrics was at 4.2% by end-2014, though the oncoming opening of over 300,000 sqm of space over 2015 could see that shoot up to 12% by the end of the year. Colliers saw the vacancy rate at more like 7.8% in 1Q2015 for Class A and A+ stock, down on the 8.1% it saw at end-2014.

According to JLL, there are four prime areas for the location of office space. The largest, at 33% of all stock, is the San Isidro CBD, which acts as the country's financial hub, with the Este region contributing a further 24% of all stock. San Isidro West comes in third with 21% of all stock, and is considered a fashionable location. The Miraflores area rounds off the top four with 15% of prime office space in the capital Lima. In terms of rental prices, JLL suggested a monthly range of \$22-\$30 per sqm for Class A space in the city, with a \$4 service charge typically added on top of that to cover public areas and parking. Class AB space across the city was assessed in the monthly range of \$19-\$27, while in both categories JLL saw a flat market going forward, especially in consideration of the new space coming down the development pipeline. Via its own metrics, Colliers determined an average monthly rental rate of \$20.31 per sqm for Class A+ and A space, while for the Class B category the monthly rental rate was at \$19.20 per sqm. In terms of sales prices for office space, JLL estimated a range of \$2,600-\$3,400 per sqm for Class A space, and \$2,100-\$2,800 for Class AB office stock. For projects currently being marketed in the Lima area, Colliers estimated Class A+ as selling for an average of \$2,356 per sqm, Class A for \$1,997 per sqm, and Class B+ for \$2,084 per sqm.

RETAIL

In the formal retail sector, the greater Lima area had 40 malls of varying types operational by end-2014, with another two set to step into the

market over 2015. At super regional malls, Colliers found an average monthly rent of \$61.25 per sqm, with another average fee of \$9.33 per sqm added on for maintenance and publicity. Rents in the super regional mall division ranged from a low of \$40 per sqm to \$120 per sqm in select locations. So-called lifestyle stores were the next highest in terms of monthly averages, with a rental level of \$60 per sqm plus another \$7.50 per sqm for maintenance. Regional malls were the next category in terms of monthly rent, at \$48.90 per sqm plus another \$9.50 per sqm for extras, the latter category being on average higher than the super regional mall category. Meanwhile, for smaller community centers, average monthly rents averaged out at \$38.67 per sqm, while extras were priced at a more considerate \$5.67 per sqm.

INDUSTRIAL

On the industrial side, Colliers saw that prices for zoned lands were still high when compared with the rest of South America, even going so far as to say they are triple the rates of some other countries in the region. In the north of Lima it reported average sales prices ranging from \$180 to \$540 per sqm, with the monthly rental rates ranging from \$1.35 to \$4.50 per sqm. As for the Center/West Zone it estimated sales prices of \$320-\$580 per sqm, while monthly rental prices ranged from \$2 to \$6.50 per sqm, making it one of the more expensive industrial markets in the city. In the Southern Zone of Lima, industrial land rentals were at \$2-\$6 per sqm on a monthly basis, while sales prices ranged wildly from \$30 to \$255 per sqm. As for the Eastern Zone of the capital, monthly rental prices ranged from \$1 to \$8 per sqm, while sale prices varied from \$145 to \$700 per sqm. Naturally, said prices will be determined heavily on access to infrastructure and utilities. ✖



ALFONSO J. PANIZO
*President, Engineering
Services (ESSAC)*

When fire safety regulations were made more stringent in 2000, it changed the market, and suddenly companies were claiming they knew about safety and fire protection. There was a dearth of professional competency. People didn't really understand the value of proper protection; they just wanted to comply with the law. The legal change had much more of an effect for companies that simply perform installations or sell pumps. Now, the country has about 35 companies engaged in safety and fire protection.*

BURSTING the bubble

TBY talks to **Milton von Hesse La Serna**, Minister of Housing, Construction, and Sanitation, on Peru's new leasing and property law, demand and supply in the housing market, and making the channels to credit more accessible.

What kind of impact has the new leasing and property law had on the country?

It is not just a leasing law, but also one that encompasses renting, selling, and the financial leasing of properties. The aim of the law is to add depth to the leasing market in Peru. For a country of Peru's level of development, leasing and renting should account for approximately 20% of total savings. In Peru, the leasing market is somewhat distorted. Until this new leasing law came into effect, a tenant had certain rights that could actually override the rights of the landlord. So, for example, even if a tenant failed to pay rent over an extended period, the owner still could not have them evicted. Now with the new leasing law, the landlord has a right to evict tenants that are in arrears. This law also adds dynamism to

the construction sector and enables a larger part of the population to have access to good, dignified housing. Furthermore, there is a large informal economy in Peru, and this new law will help address it. By far the largest source of income for lower and lower middle class people in Peru is in the informal economy, be it working as taxi drivers or street vendors. These people earn money, however little, but they are off the grid as far as banks are concerned. They have no access to credit, and certainly no access to mortgages or housing credit. The new law enables these people to start by renting with monthly payments, which can then lead to buying once they have a credit history for the banks, or in more complex processes, a certain quota is put aside from each month's rent, which then goes into a fund that can be used to buy the property one is renting at a future date.

The demand for housing has exceeded the amount of housing available in Peru. What is the government doing to address this situation?

Firstly, the sector has developed new and innovative mechanisms to provide more people with easier access to financial instruments, with the poorest urban segments and rural areas receiving considerable subsidies when it comes to



acquiring housing. In fact, subsidies are virtually 100% in rural areas, and 80% in the poorest urban areas. For example, in the Fondo MIVIVIENDA, we have two types of subsidies: the first is "Techo Proprio." In this case, if the house is worth up to \$25,000, the state gives a bond worth PEN 18,000-19,000, which is about \$6,000. This bond is basically a subsidy, which the buyer does not have to repay. If they opt for a cheaper home, this bond could be a much higher percentage of the price. For a house right at the limit, the bond is a smaller percentage of the price. The other type of subsidy is for those who can make slightly bigger investments, people from the lower middle class. These people are eligible for the "Nuevo Credito MIVIVIENDA," by which families have access to easier and cheaper lines of credit than they would normally. This type of credit also includes an important subsidy, and is designed for houses priced between \$25,000 and \$50,000. If the house is cheap, the bond is more expensive, at around \$6,000. However, if the house is more expensive, the bond is smaller, at \$4,000. ✖

Peru's new Leasing Law will make it easier for Peruvians in informal employment to rent and own property

The government aims to increase the portion of rented homes from 7% to 20%

BIO

Milton Von Hesse La Serna is an economist educated at Universidad del Pacifico, with a master's degree in economics from Georgetown University. He was Minister of Agriculture of Peru from 2012 to 2014. Previously, from 2009 to 2012, he served as professor and researcher at Universidad del Pacifico, as well as Director of the MPA of Universidad del Pacifico. He worked in the Minister of Economy and Finance for a decade, forming part of the team that designed and implemented the National System for Public Investment.



MARTHA FERREYROS PAREDES
Executive Director, COFOPRI



LUIS ÁNGEL PIAZZON GALLO
Chairman of the Board, Fondo MiVivienda

i'm coming HOME

Providing housing to low-income Peruvians has brought together government ministries and the private sector, with remarkable results.

How would you characterize the problem of informal housing in Peru's economy?

MARTHA FERREYROS PAREDES The countries in Latin America have problems with informality in different economic and social areas. In Peru, the problem of informality began in the 1940s, as the result of large migration from rural to urban areas. In those times, around 30% of the population lived in urban areas, with the remaining 70% in rural areas. Starting from the 1940s to the current day, that proportion has been reversed, and the country is now 70% urbanized. So, the largest cities in the country have attracted the majority of this migration, with people coming to look for work and better living conditions. This occurred especially in Lima, which accounts for around 30% of Peru's population. People moved to the outskirts of the cities by taking over vacant land in these areas. Over time, these areas have become districts of cities, which were usually formalized into municipalities. However, since the state, in those times, was not able to provide facilities for new housing within the cities, the second generation of these migrants also needed places to

live, and so they would also occupy vacant public and private lands. These migrants quickly discovered that, while private landowners would usually defend their lands, the state did not, and they realized that if they occupied public lands, the state would eventually need to recognize their claims to those lands. The homes and communities in these areas have not been designed in an organized way, and this has led to many inefficiencies because, at the end of the day, these are people who have invested much effort into their homes and families, but who still lack ownership rights. So, at that point, the municipalities started entering these communities to provide services like paved roads, sanitation, water, and electricity.

What is the importance of Fondo MiVivienda for real estate and social housing in Peru?

LUIS ÁNGEL PIAZZON GALLO Our mandate is to provide first home buying opportunities to emerging middle class families in the B- or C tier through programs such as Nuevo Credito MiVivienda. We also administer the government housing subsidy program known as "Techo Propio" (Spanish for

"My Own Roof"), through the Ministry of Housing. We act as a second floor bank that uses the financial system in order to intermediate funds to end-borrowers. We have an approximately 90% market share in the sector. Without our presence, the sector would be unattended to, because it is not the primary market target for the regular commercial banking system. We have a sound product of high value that makes a huge difference in the quality of living of the families we serve. We view our role as social, in that we help raise the future expectations of families as active participants in a growing economy. We have an almost zero financial margin, as our goal is to be a reliable and inexpensive channel for funds, in order to be able to support families. This year our target is to have 60,000 basic modules in the subsidy side, and almost 30,000 new mortgages for the B- and C tier.

How did Peru first begin to address the problem of informal homes?

MP The first efforts to do this were taken by individual municipalities, which began providing people with titles to their land. However, the pro-

cess was very slow. In 1996, we created a process for rapid formalization of occupied lands to provide people with titles to their land. From that point, we changed the authority to provide titles to individual land from local municipalities to the central government, and we authorized around two million homes. The law currently states that any informal land occupied before 2004 can be formalized for free.

What challenges create an undersupply of housing for people in the B- and C tier?

LG Basically, I would identify the lack of a competitive mortgage sector. If we were not present, commercial banks would probably not participate in this segment of the market. We have given commercial banks the assurance that the model works, and that people appreciate the model. To understand the undersupply of housing, you have to understand that housing is the last link in a long chain. In the past, challenges for the housing sector have been the lack of available land in Lima and the lack of infrastructure (water, sewage, transportation) to encourage new buildings. ✘

Over the past few decades, urbanization in Peru has created challenges in providing adequate housing. In recent years, the government has increased its efforts to fill the growing housing gap facing the country.

A PLACE TO CALL HOME

FIFTY YEARS AGO, just 30% of the Peruvian population lived in urban areas. Yet the past few decades have seen a vast migration to urban areas, and now around 70% of Peruvians live in cities or urban areas according to Martha Ferreyros of COFOPRI, the Peruvian government organization responsible for formalizing rights to informal housing. Global trends indicate that this urbanization is likely to continue as economic opportunities are increasingly centered in urban areas. The result of this urban migration has been a lack of adequate housing for lower-income Peruvians and a massive growth in the construction of informal housing, particularly on the outskirts of Peru's largest cities. Despite the economic slowdown over the last few years following the end of the mineral supercycle, demand for new housing in Peru continues to outstrip supply.

In order to increase the supply of housing for low-income Peruvians and improve flexibility in the property market, Peru's Ministry of Housing, Construction, and Sanitation has introduced a number of innovative programs and legal reforms to promote private investment in housing for lower-middle income Peruvians, increase subsidized housing for the poorest Peruvians, and make it easier for Peruvians not in formal employment to rent and buy new housing.

The majority of Peru's social housing efforts are coordinated by Fondo MiVivienda, which runs two programs of note: Nuevo Crédito MiVivienda and Techo Propio, which means "my own roof" in Spanish. The first program, Nuevo Crédito MiVivienda is designed to increase the supply of housing to Peru's B- and C income segments by supporting access to mortgages for qualifying Peruvians. As Luis Ángel Piazzon, Chairman of Fondo MiVivienda explained to *TBY*, the lack of depth in Peru's

mortgage market means that "If [MiVivienda] were not present, commercial banks would probably not participate in this segment of the market." One of the important and unique elements of the Nuevo Crédito MiVivienda program is that, rather than directly funding housing projects, the Fund relies on private developers to build and sell qualifying projects, removing both the financial risk for the government and the potential for housing to become too politicized. As Piazzon explained, "if a developer builds something that won't sell, it is his own risk." Piazzon also highlighted that, with the economic slowdown "demand for A+, A and B+ apartments and houses has diminished" meaning that developers "are more interested in our market sector."

The other program administered through Fondo MiVivienda is "Techo Propio", which is targeted at extremely low-income Peruvians. Techo Propio builds simple and highly subsidized homes for the lowest income Peruvians, often replacing informal housing with formal concrete structures with electricity and indoor plumbing. Piazzon explained to *TBY* that the goal for 2015 is to build 60,000 homes through Techo Propio and subsidize 30,000 new mortgages.

In addition to these programs, the government has recently enacted a new 'Leasing Law' which will make it easier for Peruvians not in formal employment to obtain mortgages and buy homes. Previously, Peruvians not in formal employment were required to make a series of regular deposits into a savings account over the course of one to two years in order to prove their income. This law now allows Peruvians to obtain rent-to-own properties, with their initial rental payments counting as the down-payment quota they would have made under the old system. ✕

REDEVELOPERS

“The sector has been affected by the economic woes. All companies are trying to find new products with more efficiency, such as shorter-range shopping malls or offices for rent in the corporate segment. We are attempting to diversify our business without decreasing investment in our specialist areas.”

VICTOR WILLIAM TICONA
CUADROS
Manager, Grupo T&C

“The economy relies on the mining sector, and we currently have a large amount of land being developed. And while supply is on a rapid increase, the economy is decelerating. Prices will continue to decline over the next two years as a result of this oversupply. We are a long-term player and experience tells us that this scenario passes in time.”

RICARDO DELGADO
General Manager, Cúbica

“THE REGULATORY SYSTEM FOR REAL ESTATE PROJECTS IS HIGHLY COMPLICATED. THIS RAISES COSTS AND IS AN OBSTACLE TO DEVELOPMENT IN THE HOUSING MARKET. IN GENERAL, THE MUNICIPAL APPROVAL AND LICENSING ARE PROBLEMATIC, TOO, INVOLVING A LENGTHY PROCESS.”

MANUEL COELLO
General Manager, Britania Inmobiliaria

“When Peru started growing, we saw many opportunities. We conducted an analysis of the market to find out what the people in this area needed, and then began looking for partners that can help on the retail and finance side, as well as partners for the building.”

AUGUSTO CLAUX
President, Lander Group

“There has been some regulatory progress concerning mortgage collection, although it has yet to fully prove its efficacy. Moreover, the fundamental issue of land scarcity has not been solved. In the meantime, we prefer to remain focused on a market of less fluctuation, and where people still have fewer problems with non-performing loans.”

MARTÍN BEDOYA BENAVIDES
Executive Director, Edifica

“Constructors are aware of the importance of maintaining high quality in their construction processes, as well as providing a quality product. We also have to focus more on the commercial side, because in the beginning we focused on the construction quality.”

AUGUST CUBA
General Manager, INGECO

“Every year we were catching up with demand, though now we are arriving at a situation where high growth is stabilizing. Growth persists, but is becoming more stable and realistic.”

GUSTAVO EHNI
General Manager, Actual Perú

LIMA HAS HEAVY TRAFFIC, BUT HAS NOT DEVELOPED A ROAD INFRASTRUCTURE CAPABLE OF DEALING WITH THE EXCESS TRAFFIC THAT CAME WITH THE CITY'S GROWTH, AND THAT OF THE COUNTRY OVERALL. THIS REALITY MAKES THE NEW INDUSTRIAL ZONE WE ARE DEVELOPING IN THE SOUTH ALL THE MORE ATTRACTIVE A PROPOSITION.

GISELA FLORES
General Manager, Inmobiliaria Triana

knowledge *is power*

For international firms, real estate markets like Lima are chaotic, and having locally based firms on board makes all the difference.



AISSA LAVALLE
BAYRO
*Head of Office Peru,
Cushman & Wakefield*



CARLOS CORNEJO
HEINRICH
*Executive President,
CV Project*



ERIC REY DE
CASTRO
*General Manager,
Colliers International*

Bogotá is our best comparison for Lima because that office opened only one year before us. Both operations have about the same structure and number of employees, but they've grown in different ways. Whenever C&W opens a subsidiary in a new country, we experience diverse market conditions so we need to adapt our approach depending on the reality for each service line. For example, in property management, both cities faced a similar situation—competitors were already established in the market, making it very difficult to get this kind of business. We always depend on the market dynamics for each city. In the case of Lima, to get a client has been hard because you need to conquer the trust of large construction companies and investors, and get them to work with you, and there are not that many. In Lima, we have a list of new buildings projects that are going to be delivered in coming years. It is not something you can produce in just a year. We know whom we need to contact and, if we succeed, we are looking at executing as many projects as possible. On the other hand, in Bogotá, it has been easier to get facilities management clients because the offices are bigger and they know more about the benefits of this service.

Major companies have talented people, but the problem with small and medium companies lies in dealing with the bank, which is where we help. For example, San José is a Spanish company, and its first project was for more than 1,500 apartments in San Luis. It received a second project for 3,200 apartments in La Marina avenue, where the Pacific Fairs were once held. The project was approved by Interbank. We went to the bank on a Friday and their \$120 million loan was approved by Monday afternoon. We divide the project in to different phases and structure the entire concept in order to make it feasible for the bank to become involved at a lower level of risk. We restructure our operations based on what the company wants and what the bank will purchase, which is a tough mix. Not every project manager understands the inner workings of a bank. If you want to be on the safe side and within your comfort zone, you will remain in Lima. The city definitely represents the biggest market for the real estate business, although not in the A or B segments. Rather, you need to enter the C or D segments to find a significant supply deficit.

Real estate is an industry that has to be viewed with a long-term perspective. It is a cyclical business, and though I expect prices to go much higher over the coming decade, this will not be a steady increase. Rather, there will be highs and lows, and at the moment we are in one of the latter periods. There is deceleration in the growth of the economy at present, from over 6% GDP growth to the 2.5% registered in 2014. We are planning for around 4% GDP growth again in 2015. In addition to projected GDP growth, demographics are a key indicator of the future of an economy. Peru is a young country, and as a result will see growing demand for housing and real estate as its economy expands. The average age in Germany is between 45 and 47, and in the US it is between 40 and 41. In Peru, in stark contrast, it is 27. The current population of Germany stands at 80 million, but in the year 2050 it will be 70 million. Meanwhile, Peru we will have grown from 29 million today to 40 million by that year. In our case we look at these demographics as a major opportunity, and we are prepared to grow and develop our businesses. We believe in the long-term growth prospects of the country



MAXIMILIANO
BAUSE
*Regional Director Peru,
REMAX*



NELLA PONCE
ODRÍA
*CEO, Peru Sotheby's
International Realty*

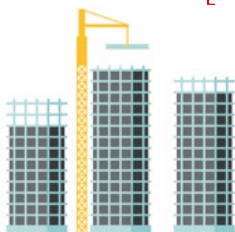


GIAN CARLO
MALATESTA MUNCHER
*Director General,
Biswanger Peru*

We have seen the largest growth so far among commercial and foreign buyers. Many of our buyers are looking for offices in industrial fields. Companies on the market for offices and land generate considerable supplementary business for us. Prices for Lima office space are set to remain stable for the short term, and in 2H2015 we anticipate offers exceeding demand for offices. The market is not a particularly formal one, although our large clients will continue to present new opportunities. Buyers in search of buildings tend to require apartment buildings. There is currently considerable supply, as 2014 was not a strong year, with many units remaining unsold. The compromise developers opt for is to build flats in the lower-value B and C sectors, where the greatest demand is being seen. Beyond Lima, Peru is growing quickly on a number of levels and, for example, while it once had few malls or supermarkets, such developments today are being realized across the country. Today REMAX has more branches than any other player in Lima. We have around 500 agents in Peru, and the largest deal count in the market. Sales in Lima constitute around 80% of our bottom line, with the remaining 20% made in other parts of the country. That being said, our non-Lima operations are scaling up.

There have been several changes in the last ten years. The boom in real estate is exceptional. New constructions in residential and commercial areas are noteworthy. Therefore, our business has had extraordinary growth in accordance with Peru's economic growth. Overall, there has been a huge boom in construction and prices, which is not due to a real estate bubble. The purchasing power has increased and this fact has driven property price growth. At Peru Sotheby's International Realty we focus on high value properties; however, due to our experience in real estate and client portfolios, we work all market segments: residential, commercial, hotel industry, agricultural, industrial, etc. Activity has decelerated a bit last year. Fortunately, we were able to foresee this dynamic and, thanks to our experience and knowledge, we have managed to minimize the impact on our activities. At the end of 2014 we have seen a slight recovery in terms of rents and sales, but not prices. We hope 2015 will be more aggressive, and will continue in the years to come. Peru has a very large population, at 30 million, and is one of the more stable countries in the region. Peru's most important growth is now in the provinces, where there is great property demand.

Peru is in a very critical moment in its history, where 50% of the population is under the age of 25. When that happens there is an incredible potential for social and economic progress. A country can either engage this demographic through economic growth, or have a revolution. The British industrial revolution took place when Britain had a similar population breakdown. The Chinese case is similar as well. The middle class here has grown, and it is only just beginning to use credit, formalize property rights, and get mortgages. There is a strong trend toward diversification. In the past, when we used to develop smaller office buildings, most of these spaces were occupied by foreign companies. Nowadays, there are pharmaceutical companies, financial services, tech and insurance companies, and many are domestic. Mining companies are now only occupying 15% of office space. We used to focus a lot on our relationships with mining companies, to ensure that they relied on us for all of their real estate needs. However, now we cater to every kind of business. At the same time, there are low rates of return abroad, so more people are investing locally. There used to be three or four players developing office buildings in the past, but in the last 10 years we have seen 20 or 30 new players in the market.



Peru's construction sector seems to be shaking off January's -2.98% slump and is on course to exceed 8% growth for the year, with some forecasting up to 9%.

Review CONSTRUCTION

THEN BUILD IT UP!

WHILE OTHER SECTORS are struggling to recover from a series of financial shocks that played out towards the end of 2014, following poor postings, low commodity prices, and loss of confidence, the Peruvian economy is complex and construction may surpass national GDP by 4% by the close of the year. This performance is in part due to tax breaks and \$33 billion in public-private infrastructure projects that will be rolled out through 2017. Moreover, a serious infrastructure gap, which the government plans to close in the next two years, a rising middle class, and demographic growth mean that Peru will require more housing, roads, and other facilities well into the future.

Data from Peru's Ministry of Housing, Construction, and Sanitation underscores just how important state spending is in counterbalancing sluggish economic conditions. The most recent data shows construction sector GDP well below its strong start in 2014. This can partly be explained by a strong showing in early 2014, however these numbers also reflect a period prior to the launch of some important projects by the government. As of April 2015, GDP growth was 8.57% less than a year prior. But with Moody's and other analysts remaining sanguine, it looks like a healthy dose of intervention will do the trick.

The outlook is less grim than the preceding statistic makes it seem. For example, rents have risen throughout 1Q2015 and into the 2Q. Secondly, megaprojects such as the Southern Gas Pipeline and the Talara refinery will generate enough economic activity on their own to push construction into the black. The National Economic Outlook for April 2015 also showed a rise in construction employment of 3.73% in May, and 2.25% overall for the year. Equipment spending was also up through May, by 2.27%. While cement production is down, these increases elsewhere indicate that the sector is looking at longer-term projects,

ones that are often bankrolled through bond issuances.

In early 2015, the government announced 22 plans worth \$7.6 billion through its development and private investment arm, ProInversion. This agency has grabbed headlines for consecutive months throughout 2015, most recently with its invitation to prequalify for a concession to "comprehensively rehabilitate" the 128.7km Huancayo-Huancavelica line in the Andes, which is popularly known as Tren Macho. This rehabilitation will be conducted on one of the world's highest railways, which runs at almost 5km above sea level in some places. ProInversion also unveiled plans and bidding options to turn Peru into a major energy hub, starting with the awarding of Interconexion Electrica S.A., the first stage of the Carapongo Substation and Conexion Links to Associated Line. The substation is expected to see over \$42 million of investment in the coming years.

In road construction, OHL was awarded a €30.6 million contract, along with its Peruvian subsidiary Constructora TP SAC on a 70% to 30% basis. The deal highlighted how the Peruvian government is bringing in international expertise to work in conjunction with local firms through PPPs. The contract entails the renovation and improvement of 20.4 km along the Andahuaylas-Huancabamba section of the Andahuaylas-Pampachiri-Negromayo road. The new addition will link Andahuaylas and Huancabamba to the local airport, providing the region with intermodal transportation, and shortening the traveling time by 30% between these cities and the airport.

According to OHL, the project will create 1,000 direct jobs during the one-year execution period, and 2,000 indirect jobs. Much of the labor for the project will be brought in from the local communities of the area of influence, contributing to the economic development of the region. The new road will also

Changes in Peru's tax system are also playing out in the construction market. The "Works for Taxes Law" (Ley de Obras por Impuestos) seeks to accelerate priority public infrastructure projects across the country by allowing private companies to fund and carry out public projects. This is a move away from the massive state directed investments of the past. Later, these participating firms can recover the total amount of their investment from a portion of their income taxes.

facilitate development of the agricultural sector by allowing farmers to move products, machinery and equipment, rapidly and safely to and from markets. This project is an example of many similar plans being deployed across the country to connect peripheral areas with the national economy.

Through PPPs, ProInversion is financing construction and operation of large transport, utility, and social infrastructure like schools and hospitals. In these cases, the PPPs provide for the issuance of government-issued payment certificates (GIPCs) when predetermined milestones are met. This in turn allows firms to securitize these certificates through bonds, which finance these expensive undertakings. Domestic pension funds, with their long-term outlooks and sizable reserves have stepped into this market as the largest investors. This then leaves ProInversion with the task of attracting the right construction companies to the projects, which they are doing through an international campaign. Over the last two years, the organization has held road shows across the world at construction exhibits.

Peru's road network is lacking from investment, and a rising awareness of the importance of mobility and a willingness to invest

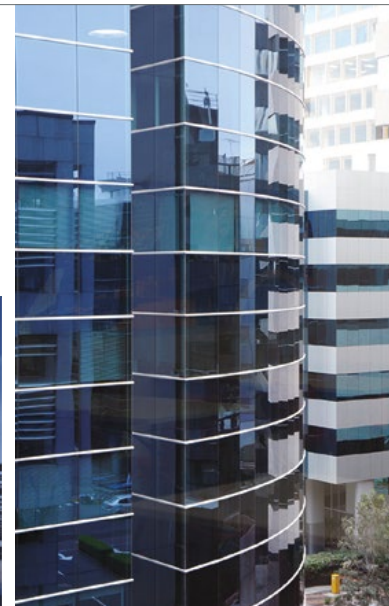
in this public good is drawing attention from both construction and transport sector players. President Ollanta Humala has announced plans to pave 85% of Peru's roads by 2016, with \$20 billion invested in road projects between 2011 and 2016. According to the Association for the Promotion of the National Infrastructure (AFIN), only 12,445km of Peru's 78,000km road network is paved. In order to reduce these infrastructure bottlenecks, the country must build three longitudinal highways. Existing plans map out the 3,500km Andean highway—which should be fully paved by mid-2016—the 2,600km Pan-American Highway and the 1,800km jungle highway. A further series of road networks will be built to connect these highways.

Changes in Peru's tax system are also playing out in the construction market. The "Works for Taxes Law" (Ley de Obras por Impuestos) seeks to accelerate priority public infrastructure projects across the country by allowing private companies to fund and carry out public projects. This is a move away from the massive state directed investments of the past. Later, these participating firms can recover the total amount of their investment from a portion of their income taxes. Tax reforms passed in 2014 also expanded the conditions under which

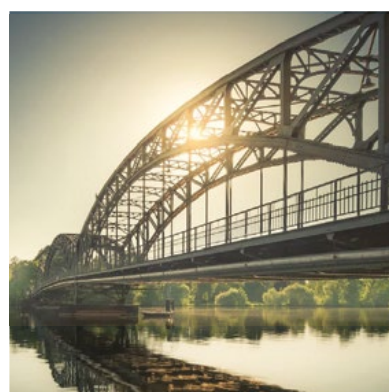


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Cementos Yura plans to spend an additional \$50 million on machinery and equipment



Image: Abengoa

buildings may depreciate, raising the maximum from 5% to 20%. This change has implications for construction because it reduces the tax burden on investments, and gives builders more leeway in terms of how and where they build. The government is also reducing income and corporate taxes in a bid to attract capital to the country, as well as to incentivize reinvestment of corporate profits and promote private sector investments.

While 2015 got off to a slow start, which was reflected in lower numbers in the cement industry, impending megaprojects and external investment are boosting confidence in the sub-sector. In early 2015, China's Jidong Development Group confirmed its plans to take over Cementos Interocéanicos, although the plan has yet to be finalized.

The Chinese company first proposed acquiring a cement plant with mineral rights in 2008. The original budget for the 1.6Mt per-year plant was \$250 million, with construction set to start in 2009 and production in early 2011. However, as the project is still in development, the deal has not moved forward as fast as initially anticipated.

In the meantime, local cement producers are strengthening their positions. In December 2014 Union Andina de Cementos (Unacem) completed its purchase of Lafarge's cement assets in Ecuador. The \$517 million deal included a 1.4Mt/yr cement plant in Otavalo. This followed Holding Cementero del Peru, a subsidiary of Gloria, which operates Cementos Yura, which paid \$300 million to buy up to 98.4% of Sociedad Boliviana de Cemento

(Soboce), Bolivia's largest cement producer. Industry analysts have predicted that Cementos Pacasmayo is also likely to expand internationally once it has finished its local projects.

Internally, each of the major Peruvian cement producers has their own projects. Unacem is investing \$374 million into its Atocongo and Condorcocha plants through 2018. Three major upgrades are underway, the cement mill, the development of the Carpapata III hydroelectricity project, and construction of new bagging facilities in Condorcocha. Cementos Yura plans to spend an additional \$50 million on machinery and equipment upgrades for its Yura plant, near Arequipa. Meanwhile, Cementos Pacasmayo's new \$385 million Pura cement plant is due to start operation in 2H2015. Located in the north-west of Peru, the plant will have a production capacity of 1.6Mt/yr of cement and 1Mt/yr of clinker.

Because demand for cement is cyclical and highly correlated with economic growth cycles, the aforementioned industry developments are signs of potential increases in cement orders. And since the state has already signaled a willingness to invest heavily in infrastructure development, the question remains to what extent privately funded construction (see homes and business) will accommodate new output.

In 2012, country production rose by 16% YoY to 9.85MT, although production has slowed markedly since then. Production rose by 6% to 10.5MT in 2013. For 2014, figures from the Association of Cement Manufacturers in Peru (Asocem) through November suggested that growth fell to 1.5% YoY.

According to Cemnet, independent forecasts point towards a recovery in Peruvian infrastructure spending in the second half of 2015. The cement review pointed out that local government spending had picked up slightly later in the quarter than anticipated, but that this trend would continue through the second half of the year. A less publicized but important market that has stayed buoyant has been the self-construction market, and Cemnet expects it to remain at or near its current level. Under these circumstances, full-year cement volumes for 2015 are expected to be close to those of 2014.

Home sales might be just the catalyst required. After falling 24% in 2014 YoY, construction and real estate analysts are predicting a spike in home sales in 2015. According to the Real Estate Association of Peru (Asei), homes available for sale were at 22.6% of total inventory as of 1Q2015. Sales in general have plenty of room for growth in Peru, where sales are a fraction of its neighbor's. In 2014, only 24,000 homes were sold, compared to Chile and Colombia, which sold 140,000 and 130,000, respectively. ✕



MARCO VARGAS
General Manager,
Sedapal

The most difficult areas to access lack infrastructure, and doing so is expensive. To get to higher areas elevations requires more expensive infrastructure. It also requires creative construction techniques. Streets are not always well defined because these areas were settlements that were only formalized later on. But once the municipality recognizes the area, we have an obligation to provide potable water and sewage system.*

TBY talks to **Enrique Marijuán Castro**, Director, Peru, of FCC Construction, on the construction of the Lima Metro, partnering with local firms, and the challenges of introducing new technology and practices.



DIVIDE *and* CONQUER

How has the company grown in Latin America, and what are some important ongoing projects?

We initiated our activities in Mexico and Panama 15 years ago, and since then our company has had continuous growth in this area. Recently we extended our presence into South America, specifically in Chile, Peru, Colombia, and Brazil. Getting established is a slow process that requires adaptation to the laws of each country and the setting up of your operational framework. The main work at the beginning has to do with commercial activities and liaison with private sector companies. In parallel, we also establish relations with the public sector, which we often first work with in a market. Given our structure, the public tender process is more suitable for an international company. In this context, we hired a local workforce, and have trained them according to the culture of FCC Construction. Luckily, we have had a successful adventure so far in Peru, having developed several projects. For example, in Trujillo we recently finished a project involving the upgrade and improvement of a sports complex, and we are currently working on the expansion of the Northern port of Callao. This project has a budget of \$165 million

and is 50% completed. One of the competitive advantages of our company when entering new markets is that we do so with a local partner for a better understanding of the market. This puts us in a better position to access key projects for Peru in the future, such as the Lima Metro. For this project, we formed a consortium of companies to be in a position to provide more comprehensive solutions and submit competitive bids. FCC has the power to attract some of the best professionals across a diversity of fields. Also, we have a certain degree of experience in Peru, which was a factor when bidding. We were awarded the metro project, and are now in the process of finishing the design and commencing the construction phase.

What are the main challenges regarding the construction of the Lima underground project?

The challenge has to do with the implementation of new construction technologies and processes. The training we provided to our workforce and that we will provide in the near future is a key element of project success. Cooperation between all companies that submitted the bid is vital, too. This project involves a concession contract, where financing, construction, and maintenance are all included.

IN NUMBERS
FCC Construction

North port of Callao project budget

\$165
million

How would you assess the business environment for foreign investors in Peru?

The Peruvian market has been opened to foreign investors over the past few years. The country has a clear vision of the need to attract foreign investment to boost economic and social development. Companies like ours see Peru as an attractive market, and we feel welcome to be a part of its development. The regulatory framework is well established, and we are treated as any other local company.

How will the new transport infrastructure project impact national development?

Lima needed an underground transport system to ease traffic congestion, and our 35-kilometer underground line will improve transport mobility issues in Lima, a city of close to 10 million inhabitants. The underground also has a huge positive impact on the environment. I believe that Lima is at the right moment to develop such large-scale projects. As Peru grows the country is positively implementing key transport infrastructure projects that will leverage its potential and growth. ✖

BIO

Enrique Marijuán Castro has a Civil Engineering Degree from Universidad Politécnica de Madrid (Madrid, Spain). He joined FCC in 2006 as the Construction Manager for Central America in charge of Costa Rica concessions. His position today within the company is Country Manager of Chile and Peru. He is in charge of business development and supervises Construction Projects.

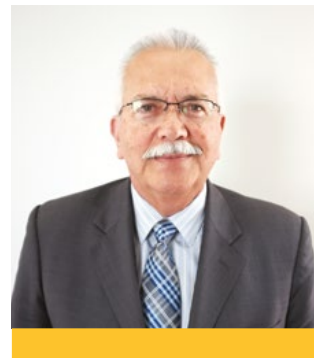
BRIDGES TO THE FUTURE



RICARDO VEGA
LLONA
President, OHL Peru



ALFONSO DE SAS
*Country Manager,
Isolux Corsán*



RUBEN LORA
*Chairman,
Mota-Engil Peru*

Competition in Peru is tough, although it is a thoroughly open market, which is encouraging. The free market won out in the end, and we have an open economy, while the country has been opened to foreign capital and investment. Today Peru has no restrictions other than a somewhat slow-working bureaucracy. Peru is an attractive investment prospect for multinationals, and in terms of transparency, I see little evidence of wrongdoing in private initiatives. The difficult projects set us apart; we specialize in them, and realize them effectively. We compete in public tenders, and invest our own money in the projects. Our profits are then reinvested in company growth. Our engineers add value to our construction projects by providing effective solutions for every eventuality. When mineral prices are low, clients make expenditure cuts, and we often have to match those cuts, but there is a point past which we cannot go. Many companies think that making cuts is the solution, but they fail to realize that cutting costs can be more costly in the long run.

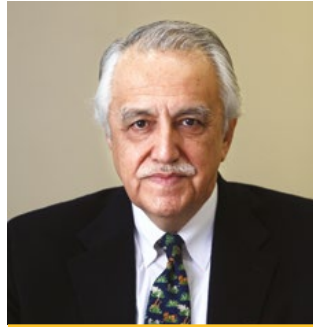
The government wants to increase the hydropower share to 60%, while some say even 70%, which is a lofty goal. However, the reality is that demand has fallen in 2014 because national growth fell from 5.5% to 2.5%, and it is not known yet how this factor will affect the supply/demand balance. The government is committed to boosting the economy to promote the rebooting of investment in infrastructure. However, coming back to the energy matrix, renewable and gas-fired thermal power plants are easy to install, while hydro plants are more complicated, especially in Peru, which is home to many archaeological sites, native communities, and strict environmental requirements. A balance between both extremes must necessarily be achieved in order to reach the goals of the National Energy Plan presented by the Government in late 2014. Within this scenario, non conventional renewables such as wind and solar have to be competitive in order to be dispatched, but the government has committed itself to reach the 5% goal set up in the 1002 Law, so we are following closely the new auction to be called in 2015.

There is considerable interest in water, and waste disposal works, in which we are not participating at the moment. In terms of roads and infrastructure, Lima and other large cities require considerable improvement to keep traffic flowing and avoid resource mismanagement. Concessions are a part of our development strategy, but we are not focused on the concession alone, but on the entire project by following a construction scheme. Meanwhile, concessions are a source of secure jobs, but we also work with private initiatives, because the government schemes provide the advantage of participation in a co-financing project. Looking ahead, we are all expecting the country to experience sustainable improvement. 2014 was a complicated year with a number of difficulties, and yet 2015 needs to be a year of development, where growth should not register at less than 5%.

From energy to transportation, an infrastructure deficit is impeding social and economic growth; however, ambitious projects are underway to address the disparity.



IGNACIO BAENA
BLÁZQUEZ
*Executive Chairman,
Abengoa*



GONZALO PRIALÉ,
*President, Asociación
para el Fomento de la
Infraestructura Nacional
(AFIN)*



ANTONIO MARIA
ZAFFARONI
*Executive Director for
the Americas, Salini
Impregilo*

Perú has great conditions for both wind and solar energy, but there are two main challenges. One of them is the legal framework for the concession process and the other is the difficulty regarding social and environmental permits. There are two general worries regarding the economic conditions of these projects. One of them is related to the price and how new energy sources will affect it. The second one is related to the lack of redundancy interconnections. I think the major driver to promote renewable energy is the impact on the price. The system is not very big. It is around 8,700MW in gas, hydroelectric power, and other technologies. This is the major concern. In the future, Peru has high potential for all kind of energy sources and it should be the regional provider of energy to Chile, Ecuador, and Brazil. Ultimately, Peru is still a developing country. There is much room for growth and there are many opportunities for investors. Peru is making an important effort to set the politic, economic and social bases to become a developed country.

Many Peruvians remain in poverty and narrowing the wealth gap is an essential step. For that purpose, we are proposing a five to six year program of infrastructure tenders. It is important to differentiate tenders from execution of the awarded projects, which may take many years, but to begin with, a five-six year tender program in all infrastructure sectors is badly needed. We have proposed a program for about \$80 billion, where energy accounts for 36% of the total. This also includes transportation, such as metro lines in Lima for about 24% of the total, and transport projects like roads, ports, and airports in parts of Peru other than Lima for about 22% of the program. The rest is in water, sewage, and so on. Lately, the government has been implementing a policy of PPPs in health and education, which is positive for the country. We also have a social infrastructure gap. The gap of \$80 billion mentioned earlier does not include social infrastructure. Including it would bring the total to around \$120 billion. If we assume five years to execute each project, then in about 10 years, the gap should be closed. But, for that purpose, we need to be able to finance these efforts.

Perú has a huge gap in infrastructure and it is growing. Investors are realizing that the gap needs to be closed in the fastest possible way, because if you want to generate wealth, you have to close gaps and remove bottlenecks. There are still many bottlenecks and gaps that need to be closed, including transportation, power generation, and communications. Peru has a stable legal system that has given us guarantees to invest—we have stayed 35 years because of the stability and stringent regulations, which is definitely one of the most important things to think about when investing in a country. Another important part is to listen and observe the country you work in, and then evaluate your contribution so that the people and the company in that country perform better. This is a general approach wherever we go. In many of our projects, we pride ourselves on having local staff at all levels, including management. Considering how things have changed over the years, the Pacific Coast from north to south has become one of the most booming regions in the world. We have been highly successful in our local operations, and the conditions are favorable to continue developing infrastructure along with the local authorities.

BIGGER & BETTER

The estimated investment that is required to upgrade Peru's infrastructure to meet the needs of the economy is around \$80 billion—a “gap” that the government is looking to close, with big opportunities for investors.

PERU HAS EXPERIENCED impressive development in the past decade. According to the IMF, GDP growth rate has been one of the fastest in Latin America, registering an average of 6% in the last years, compared to 3% in the region. Unfortunately, infrastructure did not grow at the same rapid pace and, nowadays, it turns out to be insufficient and could slow down Peru's development. In order to avoid this, the government aims to reduce the infrastructure gap, which ballooned to \$121 billion in March 2015, with 2,083 projects. According to a report titled “Infrastructure Projects in Peru 2015-17” published by the agency Peru Top Publications, the country “is on the way to close most of the infrastructure gap with a \$113 billion portfolio of projects financed jointly by the central government and local governments, in partnership with the private sector.” Of all these projects, 392 will fall into the Public-Private-Partnership scheme worth \$107 billion and will be developed respectively in the provinces (60%) and Lima (40%). Furthermore, 1,527 projects are to be executed under the “Work for Taxes” mechanism summing up an investment amount of \$2.14 billion, 92% of which will be concentrated in the provinces. The Work for Taxes scheme, available

to any typology of company, consists of “paying” the income tax through the execution of a public work. It's worth mentioning that only 10% of the 2,083 projects have been awarded. This means that the country is offering plenty of opportunities to international investors.

To promote the government's intention of reducing the infrastructural gap and attracting foreign investors, Peru's federal procurement agency ProInversión visited several countries around the world, completing roadshows in the US, Australia, New Zealand, France, China, South Korea, Japan, Spain, and the UK.

Peru has historically a strong ability to attract capital and develop investments. According to the consulting company EY (Ernst & Young), Peru is the country in all Latin America with the highest proportion of FDI on the GDP, with a level of 4.6%, being equivalent of US\$9,000 millions. On the second and third steps of the podium are Chile (3.4%) and Brazil (3%). Moreover, EY forecasted that private investments will exceed the \$41,890 million registered in 2014 and would reach \$42.7 million this year.

Alicia Bárcena, Executive Secretary at the Economic Commission for Latin America and the Caribbean (ECLAC), highlighted that “Foreign direct investment (FDI) is more cost effective in countries that concentrate natural resources. Last year, Peru was the second country in the region with more FDI as it posted a return of over 25% between 2006 and 2011 and over 15% between the period 2012 and 2013.” Also in terms of transparency and financing, Peru is preferred over other countries in the region. Investors appear unfazed by the outlook of rising interest rates and they particularly like Peru's investment plans because of the flexible financing structures and the guarantees offered by the State. In the World Bank's “Ease of doing business” ranking, Peru is at 35th position, which is the highest position among all Latin American countries, after only Colombia at 34th.

Regarding international relationships, Peru had been lethargic for many years, signing only four Free Trade Agreements before 2010, specifically with Chile, Canada, Brazil and The Andean Community of Nations (Spanish, CAN). With the aim of turning Peru into an appealing destination for investments, the Ministry of Foreign Affairs signed last year four Free Trade Agreements (Portugal, Switzerland, Korea and Mexico). Peru's government is aware of the lack of infrastructure and put in place an ambitious plan for which an enormous amount of investment is needed. The situation is already improving. The World Economic Forum puts Peru in 88th place in its infrastructure ranking (it ranked 91st in 2013). Christine Lagard, Managing Director of the International Monetary Fund, said last year: “Peru's future looks promising.” Lima will host the IMF and World Bank Annual Meetings in October. This will be a tremendous opportunity for Peru to broadcast investment opportunities to investors from all around the world. ✖





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Juan Manuel Benítez Ramos, Minister of Agriculture, on the importance of environmental protection.

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The increasing interest of NGOs in the region's potential has helped smallholder farmers increase their access to credit.

158

Despite Peru's immense forest resources, the forestry industry remains comparatively underdeveloped.

Agriculture

REVIEW

From semi-tropical coastal forests to high-altitude rugged sierras, Peru's varied ecological niches have been a prime ground for a diverse agricultural cultivation for thousands of years.

ANDEAN OASIS

The Andean agricultural sector has been in business for about 9,000 years, taking advantage of its rich biodiversity, prehistorically home to crops including potatoes, maize, lima beans, peppers, yucca, cotton, squash, pineapples, avocado, and coca. After the Spanish arrived in the 16th century, they brought with them grains such as wheat, barley, rice, and carrots, sugarcane, tea, coffee, grapes, oranges, and olives. In terms of livestock, the old world introduced cattle, swine, sheep, goats, fowls, and draught animals, whereas llamas and alpacas are the only large domesticated animals native to the Andean region, according to FAO. Peru ranked as the world's top producer of fishmeal in 2012, exporting \$1.341 billion as of December 2013, and also of fresh asparagus, exporting \$408 million, and paprika and organic bananas. They were the world's second-largest producer of artichokes (\$85 million exported as of December 2013), the second-largest

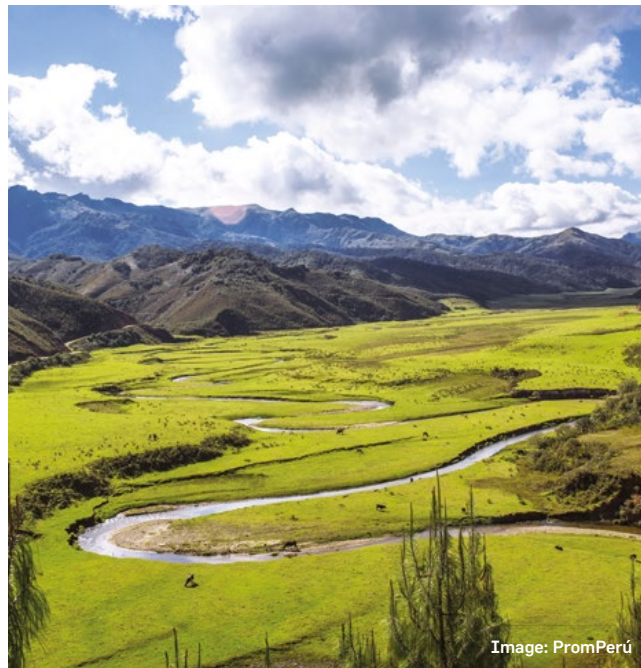


Image: PromPerú

producer of fresh grapes (\$428 million as of December 2013), the sixth-largest producer in the world of coffee (\$1.013 billion exported in 2012), and the seventh-largest producer of avocado (\$137 million exported in 2012), according to Ernst & Young. In 2013, Mango exports grew by 8.0% YoY totaling \$127 million, avocado exports totaled \$158 million, and exports of quinoa and its byproducts totaled \$72.2 million, representing a 132% YoY increase.

IN NUMBERS

At 1.28 million sqm, Peru is the fourth largest Latin American country, the largest of the Andean countries, and the only Andean country to share borders with each of the others—Colombia and Ecuador to the north, Brazil and Bolivia to the east, and Chile to the south. The agricultural industry represents comparatively less of the country's GDP than other Latin American economies; according to the National Institute of Statistics and Information (INED), Agriculture and livestock rep-

Limited by lack of adequate infrastructure, deforestation, and disadvantageous farmland distribution, the sector faces complex challenges to correct the imbalance between production and population growth.

The agriculture and livestock sector is expected to increase its share of GDP by 4.2% in 2015



represented 6.5% of the country's GDP—though the WTO pegs the sector's contribution at 7.2%—compared to Bolivia with 13.3%, Honduras with 13.4%, Nicaragua with 16.9%, and Paraguay with 21.6%. Even still, agriculture is one of Peru's main economic activities along with fisheries, mining, oil and gas exploration, and the manufacturing sector. The agriculture and livestock sector is expected to increase its share of GDP by 4.2% in 2015, was estimated to have increased its share by 3% in 2014, and did increase by 1.9% in the 2013, according to the Central reserve Bank of Peru and Ernst & Young. The sector saw investments totaling \$659 million in 2013, according to Agency for the Promotion of Private Investment. In 2012, Agriculture and Livestock were among the economic activities that generated the highest monthly incomes from employment.

PRODUCTION AND TRADE

Between January and October in 2013, preliminary estimates from the Ministry of Agriculture and Irrigation show that agriculture garnered a gross production value of \$11.5 billion, with livestock at \$7.86 billion, and farming at \$19.36 billion. Agriculture and livestock production grew by 5.7% in 2013, and is expected to have reason by 1.85% YoY to date for August 2013 figures. In 2013, Peru produced 1.245 million tons of yellow maize, 1.072 million tons of cassava, 2.814 million tons of paddy rice, 9.957 million tons of sugar cane, and 6.401 million tons of alfalfa, being the major agricultural products in terms of production. In terms of production growth, mangoes were the top product of 2013 with a 171.6% increase in production, followed by tomatoes, which increased in production by 16.6%. For livestock, in 2013 1.332 million tons of poultry was produced, 321,000 tons of eggs, 156,000 tons of pork, 1.665 million tons of milk, 85,000 tons of beef, and 4,000 tons of alpaca wool.

Peru is a net exporter of agricultural products—in 2012, agriculture export represented 17% of total merchandise exports, with the sector's share of total merchandise exports growing from 14.9% to 16.8% between 2007 and 2012, according to the WTO. While exports in livestock grew by 9.12% in 2013 YoY, agriculture sector exports dropped by 29.44%, and fisheries showed a 27.41% decrease. In the same period, imports in livestock grew by 2.32%, in the fisheries sector by 286.75%, declining in the agricultural sector by 39.48%, according to the Peruvian Foreign Trade Association. Between 2007 and 2012, agriculture products accounted for about 11-12% of total imports—essentially as inputs for feeding poultry and cattle—led by wheat, maize, oilseed cake, and soya oil, according to WTO. Non-traditional agricultural exports totaled \$3.353 billion between January and December in 2013, with traditional agricultural exports reach \$769 million. According to the Peruvian Foreign Trade Association, unroasted coffee accounted for \$687 million of agriculture exports, fresh grapes \$428 million, fresh asparagus \$408 million, cooked asparagus \$145 million, avocados \$185 million, mangoes \$127 million, artichokes \$85 million, and animal feed representing \$112 million. Avocados and cinchona were the strongest products in terms of export growth in 2014, with exports growing by 70% and 200% YoY.

The agriculture sector is also a main draw for foreign investment and free trade agreements, specifically with its FTAs with China and the European Union. The Peru-China FTA is in line with Peru's strategy to become the hub of Asian operation in South America. The Peru- EU FTA removed custom duties for 99.3% of Peru's exports, benefiting 95% of custom duty lines for agricultural products—significant because the EU is among the main destinations for Peruvian exports, representing a 15.9% share in 2012. Asparagus, avocados, coffee, paprika, chili

The ministry is actively promoting the private sector in the development of agriculture, by introducing the Law on Agricultural Promotion that increases flexibility of export and labor regulations, and investments in irrigations and PPPs.



ENRIQUE
BENJAMÍN DÍAZ
ORTEGA
*President,
Agrobanco*

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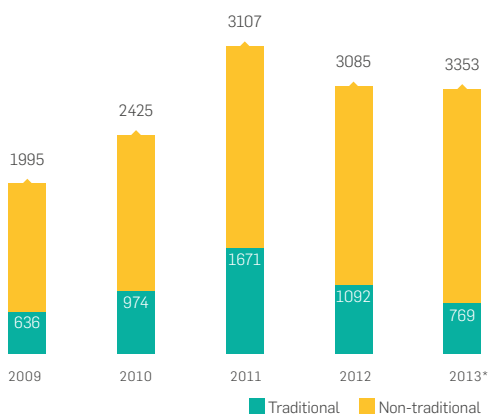
150 years

 **BASF**

We create chemistry

TRADITIONAL AND NON-TRADITIONAL AGRICULTURAL EXPORTS IN \$ MILLIONS (JANUARY- DECEMBER)

SOURCE: MINISTRY OF AGRICULTURE AND IRRIGATION



peppers, and artichokes are some of the main products of export interest to the European bloc. Agricultural exports also reap the most benefit from the 2011 Peru-South Korea FTA, which will reach a market of 50 million people with a per capita GDP of \$22,590. In 2013, South Korea was the ninth destination of Peruvian exports, where fisheries products and minerals combined represented 94.4% of the total \$1.524 billion exports.

FISHERIES

The fisheries sector grew by 8.3% YoY in 2013, and is estimated to rise 6.6% in 2014. The top export products in the sector, according to Ernst & Young include frozen, dried, salted, or brine cuttlefish, bobtail, giant squid, and scallops. The estimated fishmeal production in 2013 was 867,000 metric tons, at a YoY increase of 11.4%. Fish oil production in 2013 was 138,000 metric tons, showing a decrease of 29.23% YoY. The export value of fishmeal showed steady growth from 2005 when it was worth \$1.148 billion until 2011 at \$1.78 billion, and has slightly dropped to \$1.341 billion in 2013, according to the Peruvian Foreign Trade Association. Between January and December 2013, China received the most fishmeal exports from Peru with 63%, followed by Germany who received 10.5%, Chile with 6.9%, Japan with 6.1%, and Vietnam with 2.2%. For fish oil, Denmark received the most exports with 36.6% of the total, Belgium at 20.5%, Chile at 13.4%, Norway at 9.2%, Australia at 4.7%, China with 4.2%, Netherlands at 2.3%, and Japan at 2.1%, according to the Ministry of Fisheries and Industry.

MARKET CHALLENGES AND CURRENT PROJECTS

While Peru enjoys a relatively large and diversified agricultural sector, it suffers from various problems related to lack of rural infrastructure. Peru is deficient in roads—offering access to only 30% of the population, reservoirs, irriga-

tion canals, drainage, telecommunications, energy, and breeding laboratories, and as a result, agriculture has low competitiveness and profitability compared to other countries in the region. Furthermore, an agricultural unit averages at 3.1 ha, which is then distributed among an average of 3.3 plots. This limited capacity excludes the market from the advantages of economies of scale to minimize costs, also limiting access to credit, investment, new technologies, and the accumulation of capital.

The sector is divided into four segments depending on the technological level and accessibility of services and markets: family-run subsistence farming that are linked to local markets, family-run small rural businesses linked to regional markets, small and medium-sized commercial farming enterprises that are linked to regional and export markets, and corporate agro-exports that are linked with new international markets. Because of the challenges facing the agricultural industry, production has not been able to keep up with population growth. While total output of agriculture and fishing increased by 63% between 1965 and 1988, output per capita fell by 11%.

The Ministry of Agriculture's strategic sector plan for 2012-16 is targeting 5% annual growth for the sector and 20% growth for exports, reductions in rural poverty from 54% to 35%, and poverty among agricultural producers from 57% to 40%. To achieve these goals, the ministry has aimed to double financing for the sector, incorporating new technologies, controlling pests and diseases, reducing the deforestation rate by 10%, improving water use efficiency for irrigation purposes by 50%, increasing food availability by 5% a year, and incorporating 735,000 producers in the market. According to the Minister of Agriculture Juan Manuel Benítez Ramos, positive signs point to a fast recovery from slow growth in 2014, and expects 3-3.5% growth for this year. The ministry is also actively promoting the private sector in the development of agriculture, by introducing the Law on Agricultural Promotion that increases flexibility of export and labor regulations, and investments in irrigations and PPPs. The ministry has also set up a credit line to renew production areas, increased investments to \$1 billion in the current government term boost small and medium-sized producers.

Among the ministry's current projects are 200,000 ha of wood production with a business plan for the next 10 years, an irrigation plan focusing on mountainous regions, technical support for SMEs, the promotion and development of alpaca meat for the international livestock market, and the reforestation of areas affected by wood production. In regard to the vision for the agriculture sector in the next five years, according to Ramos, "Agriculture, including forestry, is set to become the second most dynamic sector of the Peruvian economy after mining. It also driving the diversification of the national economy, which is a current government objective." ✖



JORGE
BARRENECHEA
CABRERA
*National Head,
National Agrarian
Health Service
(SENASA)*

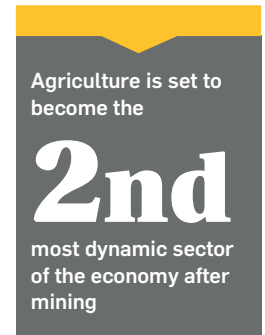
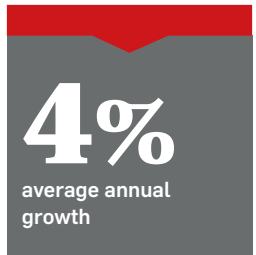
Around 70% of Peru's territory consists of jungle, with a further 25% being mountainous, and the remaining part desert. We are a diverse country in terms of geography. We have 300 offices across the country and provide diverse training for farmers. This has been one of our main efforts, but we also understand that much needs to be done in formal education, which is why we have built agricultural health into the education curriculum at schools in several provinces of Peru.*



ON FERTILE ground

TBY talks to **Juan Manuel Benítez Ramos**, Minister of Agriculture, on the evolution of the sector, the importance of environmental protection, and the future of the industry.

IN NUMBERS
Ministry of Agriculture



What role has the Ministry played in the development of the agricultural sector over recent years?

The agricultural sector has become one of the less volatile economic sectors, growing at an average of 4% annually over the past few years. The non-traditional agricultural exports, as well as the poultry industry are two of the most dynamic segments within the sector. The private sector has played an important role in

the development of the agricultural sector over the past decade, and the Ministry of Agriculture focused its activities on being a promoter. We introduced the Law on Agricultural Promotion to make exports and labor regulations more flexible, and in doing so, boosted development of the agricultural sector in different regions of the country. This also meant investments in irrigation and Public-Private-Partnerships (PPPs). The Ministry has also invested significantly in health and Free Trade Agreements (FTAs)—our goal has been to eradicate several diseases affecting livestock and fruits. In this context, the coffee segment has been one of our priorities, and coffee exports currently total \$1 billion. We also have increased investment to boost small and medium-sized producers' activities and help them with irrigation issues.

What are some of the other near future priorities for the ministry?

The ministry provides technical support to small and medium-sized producers, as well as support in terms of cooperation such that small producers can combine efforts to make their activities more profitable. We have as a main focus the promotion and development of alpaca, a type of meat the world has yet to fully discover. We also have plans to reforest some areas of the country for different purposes—wood production and simple reforestation of affected areas. All in all, our

priorities and investment target infrastructure, credit lines, disease eradication, and the simplification of administrative and bureaucratic processes. In addition, boosting exports is one of our top priorities, and we closely work with the Ministry of Foreign Trade.

What are some of the highlights of the Ministry's activities regarding the protection of the environment?

The country is in the process of adapting itself to climate change, especially in the agricultural industry, and we are investing heavily in related activities and policies. We are investing in large water reservoirs, especially at river headwaters. We also attend to vulnerable communities in the mountains who are affected by extreme weather conditions. Reforestations and agroforestry processes are another aspect of this drive, especially for coffee plantations; but this also includes rice plantations along the coast, and promoting a change in cultivation and irrigation to foster greater efficiency.

What is your opinion on the ban on transgenic products?

We are keeping a close eye on transgenic products and evaluating their implications the country. At this time, they do not seem to be something that would affect the country in terms of export volumes, because we have a wide variety of export products and show great potential for growth in the near future. We have several specific projects based on

these products that have great potential, and development will boost R&D and generate added value. This research is also aimed at reducing the usage of pesticides, and related costs. We have done a great job already with plantations of asparagus, for example, where the usage of high technologies has enabled us to reduce pesticides, optimize production, and become a world leader in this segment.

Where do you see the Peruvian agricultural industry in five years time?

Agriculture, including forestry, is set to become the second most dynamic sector of the economy after mining. We will continue improving as long as we are introducing modern agricultural techniques. Our strategy is to boost cooperation between small and medium-sized producers, and link them to exporting companies. We have a wide range of products and activities, which puts us in a highly favorable position to target foreign markets. We have great agricultural potential, and businesses here enjoy a stable economic and political community. ✕

BIO

Juan Manuel Benítez Ramos studied Economics at the Universidad del Pacífico, and completed his studies at the Pontificia Universidad Católica de Chile. He is an expert on the topics of public and private investment and rural development, with 25 years of experience in these fields. He has held important positions in the ministries of economy and finance and agriculture, including the roles of specialist in investment in the agriculture sector and general director of agrarian planning. He has also served as consultant for the Interamerican Development bank, the World Bank, and other international institutions, and has held several prominent academic positions in addition.

INTERVIEW



NO beans about IT

BIO

Anthony J. Kozuch is an Executive Director of United Cacao Limited SEZC. He was born and raised in Mexico City and graduated Georgetown University's Edmund A. Walsh School of Foreign Service in Washington, D.C. Over the past 14 years, he has been the Chief Financial Officer of Communiqué Conferencing, Inc., an international conferencing services company he co-founded in 2001. Previously, he served in various marketing and business development roles with telecommunications providers in the US and Latin America.

TBY talks to **Anthony J. Kozuch**, Executive Director of United Cacao Limited SEZC, on how Peru is on the verge of being a leader in global cacao production, the importance of partnering with small farmers, and the future of the industry.

How does Peru fit into the global cacao industry?

The country, alongside Ecuador, is the only growth markets for cacao production in the world due to the CCN 51 clonal material available for planting and ideal growing conditions. As a sector, cacao is facing a structural deficit. This deficit has been a long time in the making and is not easily solvable given the long lead-time to production for the cacao tree. The only areas of growth in cacao production are in Latin America; specifically, in Ecuador and Peru, and that is in large part due to optimal soil, sufficient and evenly-dispersed rainfall with no dry season and our genetic material. The availability of deforested land and a zero export tax policy also benefits us.

Why is Latin America not currently the leader in cacao production?

Brazil is the world's 4th largest producer of cacao (however internal demand has exceeded their internal production recently) and Ecuador is the 6th largest globally. Peru is the world's 9th largest player. So collectively the Latin origin markets are already meaningful producers. Within the next five years however, we expect Ecuador to overtake Nigeria, Brazil and Indonesia and become the world's 3rd largest producer. Peru is a lower cost cacao producer than Ecuador but the industry is younger here and doesn't have the government's backing and support like in Ecuador.

What is the current status of the project?

We expect to have 2,000 hectares planted by the end of the

year making United Cacao Limited SEZC the largest cacao plantation in the country. We currently own over 3,500 hectares and employ over 500 people on-site, making us the largest cacao plantation in Peru and in the Americas. When we reach our goal of 3,250 hectares we expect to be the largest cacao plantation in the world.

Is this move from a smallholding model to a large plantation model something that will transform the cacao industry?

Large-scale cacao cultivation on estates is more efficient and results in higher productivity making a smaller environmental footprint. Many tropical crops are cultivated on large estates such as palm oil, rubber, banana and sugar so cacao is really the outlier. 99% of the cacao industry is small farmer and they are not able to meet the growing demand worldwide so there is a clear market role for larger estates such as United Cacao's.

What do you say to criticism that you should be supporting small farmers rather than establishing larger plantations?

It is important to do both as the small farmers benefit from the skill-set, resources and experience of a larger corporate estate. Supporting small farmers, through our PAPEC program, is the right thing to do and will double the revenues of United Cacao over time. Part of our role to encourage the development of the cacao sector in the country is to not only develop the corporate plantation, but also stimulate small farmer planting of cacao. To achieve this goal, we have recently announced the launch of a small

Currently owns
over **3,500**
hectares and
employ over **500**
people

farmer program for the nearby communities called PAPEC (Programa Alianza de de Produccion Estratégica de Cacao). It is a microfinance program in which we will offer credits to small farmers in the form of seedlings, materials, fertilization and proper training. The farmers then sell the wet cacao beans to the company, which, in turn, will process the beans. This program is set up to help hundreds of people in the poorest areas of Perú get out of poverty once and for all through a sustainable, environmentally-friendly development of their own land.

Where do you expect to see the future of United Cacao in 10 years' time?

In 10 years, the project will be fully planted and yielding the crop volume that we have projected to the market. We also see a vibrant small farmer program that will contribute to overall production volume. We recently announced the goal to expand the PAPEC program to up to 3,250 hectares of small farmer land which will double the production volume in the region.

What makes Peru a solid destination for investment?

Thanks to its recent history of stability, freehold land titles, and its favorable demographic trends, the country is an attractive place in which to do business. When you consider the age profile of the workforce and the steady track record of sensible macroeconomic policies that the Central Bank has followed, the outlook for the country is extremely positive. ✖



Image: PromPerú

HARVEST TIME

The increasing interest of NGOs in the region's potential has helped pave the way for smallholder farmers to increase their access to credit, a problem that has been plaguing development in the sector for many years.

PERU HAS A DIVERSE agricultural economy, split into three distinct regions: the Costa, where production is dependent on irrigation, the Sierra, where the closed off topography has resulted in a reliance on old fashioned cultivation methods, and the Montana, which has the potential to produce tropical fruits, but lacks sufficient transport facilities and labor force.

Regardless, increased domestic consumption, exports and investment has resulted in consistent overall growth in Peru's agriculture sector, averaging 4.2% per year in GDP terms from 2003-12. The developing consumer market and expanding middle class still relies on agricultural imports, especially as a highly urbanized population increasingly turn to convenience food. The majority of Peruvians live in cities, with a third of the total population residing in Lima.

Therefore, it is exports that have been the driving force behind Peru's agricultural growth, Peru has a history of producing niche products that cannot be cultivated elsewhere and cornering markets. Promoting food for export was a key part of the World Bank's policy for developing countries. Peru was no exception with multi-million dollar investments in the Ica region from the late 1990s. Over the past 15 years, Peru has added nearly 400 unique crops to its list of exports. Recently investment in irrigation and education in production techniques have helped support growth and, with the help of a rising number of FTAs, the future looks promising.

One example of Peru's power to rock world markets came in the shape of a small pungent root vegetable. It made headlines internationally as official figures showed that Peru's maca exports increased steadily from around \$5m to \$14m between 2009 and 2013. Data from Peru's agriculture ministry showed that nearly 44,000 tons of maca was harvested in 2014, selling at up to \$25 per kg. The coveted black variety was reportedly worth more than \$120 per kg, a 25-fold rise.

Under Peruvian law, it is illegal to export unprocessed maca, but authorities say that the rocketing prices incentivized smuggling, in particular to Chinese markets. The existence of a strong black market for this product, which is only produced in the Maca region, raised fears of bio piracy. Andres Valladolid, president of Peru's National Commission Against Biopiracy, talked to international press, saying it had proof that China is growing maca in Yunnan province.

Another example of Peru's capacity to cater to Western diets was the boom in quinoa exports. The healthy qualities of quinoa, a former obscure Peruvian grain, propelled it into western markets after being lauded by dieticians who applauded its low-fat, high-protein and quantities of amino acids. It was seen as a healthy alternative to artificial food supplements often used by vegetarians and vegans. Overseas demand for what was considered a staple part of the Peruvian diet had a large effect on domestic prices, with news stories of quinoa costing more than chicken in the capital city.

Peru also cornered the market with asparagus, 95% of which was grown in the arid Ica region in 2010, generating over \$450 m a year through exports and generating around 10,000 new jobs and contributing significantly to Peru's growth. However, asparagus has a high water footprint and water management became an issue for the region.

Increasingly, research and development projects in Peru have been campaigning for more sustainable solutions to maintaining agriculture's levels of growth. The rise of fears over bio piracy has incentivized prioritizing biodiversity as well as encouraging a rethink of cultivation practices.

The Peruvian market, as a whole, remains relatively unsophisticated. The nation's farmers unions report that there is a need for machinery that can be adapted or designed to meet the requirements of the regions so that niche products can be produced on a more sustainable level. ✖

FOOD

MMM, THAT'S GOOD FOOD!

Peruvians are fiercely proud of their cuisine, and farmers form the backbone of an evolving food industry.

“PERUVIAN BEER BELONGS TO THE WIDER CONCEPT OF PERUVIAN GASTRONOMY. THE REVENUE GROWTH WE WERE ABLE TO DELIVER, COMBINED WITH COST EFFICIENCY INITIATIVES SUCH AS EXPANDING THE SCOPE OF GOODS AND SERVICES PURCHASED BY OUR PROCUREMENT ORGANIZATION, HELPED US DELIVER NET PROFIT GROWTH OF JUST OVER 4%.”

FERNANDO ZAVALA LOMBARDI
CEO, *Unión de Cervecerías Peruanas Backus y Johnston S.A.A.*

“Peru historically shares the cocoa region with Ecuador and Colombia, where the plant evolved in the Amazon into what it is today. We have the genetics here, as well as the climate, and the soil. Peru is a leader in the biodiversity of cacao worldwide.”

JOSE ITURRIOS
Director General, *Peru Cocoa Alliance*

“We are not as large a cacao processor as Cargill or Barry, but Ecom is in second position as a cacao trader. Peru is definitely an attractive market; it is the fourth or fifth biggest producer of Arabica coffee beans in the world.”

JOSÉ LUIS IBARROLA
Country Manager, *Ecom Trading*

“Our company initially had a small market share, but was operating in other food segments such as vegetable oil or canned food. We changed the strategy, and narrowed our focus to participate in candy, confectionery, and chocolate. We play an important role in the confectionery industry, we are among the top three companies in the market.”

GABRIEL PORCIANI
General Manager, *ARCOR*

“Our agency works to promote new fruits and foods, such as blueberry, avocado, and tuna. We are also involved in trout fisheries. We also have a program for mature cheese production, which an important part of the production sector here in Peru.”

ALFONSO VELAZQUEZ
Executive President, *Sierra Exportadora*

“OURS IS A LOGISTICS BUSINESS, AND NOT JUST A GRAIN TRADING ENTERPRISE. YOU NEED TO BE IN THE RIGHT PLACE AT THE RIGHT TIME BECAUSE YOU MIGHT HAVE 20,000 TONS OF CORN AND LOSE MONEY, AND HAVE THAT SAME PRODUCT AND PRICE 15 DAYS LATER AND TURN A PROFIT. A SIGNIFICANT PART OF OUR STRATEGY IS TO SELL IN WHATEVER WAY THE CUSTOMER WANTS US TO DO SO, WHICH IMPLIES A NEED FOR LOGISTICS.”

MIGUEL ANGEL VIACAVA BAHAMONDE
General Manager, *Contilatin*

FOR FISHING AND FISH OIL OUR MAIN BRAND IS HAYDUK. WE ARE VERY INTERESTED IN INCREASING SALES OF SEVERAL TYPES OF FISH IN PERU. ALTHOUGH DIRECT HUMAN CONSUMPTION IS AN INTERESTING AREA, WE ARE COMMITTED TO OUR CORE PRODUCT, WHICH IS AND HAS ALWAYS BEEN FISHMEAL.

WALETER MARTÍNEZ MORENO
Chairman of the Board, Hayduk Corporation

“All our cultivations of asparagus are in sand, and we have water from wells and irrigation. We have Israeli technicians who are some of the best at sand-based agriculture, and we are now able to grow blueberries in sand, on an area of around 6,000ha.”

JORGE ARANGURI CARRANZA
Director, Danper

“We face difficulties in exporting our goods, and with getting our products out of the country. Quinoa is no longer unique to Peru and Bolivia, as other countries such as the US are beginning to produce it. For this reason our quinoa exports are destined to decline.”

TEODORO ORTIZ
Director and Founder, Incasur

“Pisco has been grown in Peru for the past 10 to 12 years. The boom in the wine world happened 30 or 40 years before we entered the market. We arrived late to the market, and Peru traditionally looked to international suppliers.”

PEDRO OLAECHEA
Director, Tacama

“Chicken is sold here live to dealers and then taken to slaughterhouses, which in turn are sold to the markets. This accounts for 80% of my business with 20% going to our own slaughterhouse. From there we distribute to supermarkets and restaurants.”

JULIO FAVRE ARNILLAS
General Manager, Redondos Alimentos



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THE TREES FOR THE WOOD

Although coastal deserts and Andean plateaus are often the first landscapes that come to mind when many people think of Peru, the majority of the country's land area, around 60%, is actually in the Amazon rainforest, giving Peru the second-largest portion of the Amazon after Brazil.



IN TOTAL AROUND 53% of Peru, or 68 million hectares, is covered in forests, giving Peru the tenth-largest forest resource in the world, and the second-largest in South America after Brazil. The country was previously in ninth place globally, but fell to tenth after losing 2 million ha to deforestation since 1990. Around 92% of Peru's forest resources are located in the Amazon basin in the northeast, near the borders with Colombia, Brazil, and Ecuador.

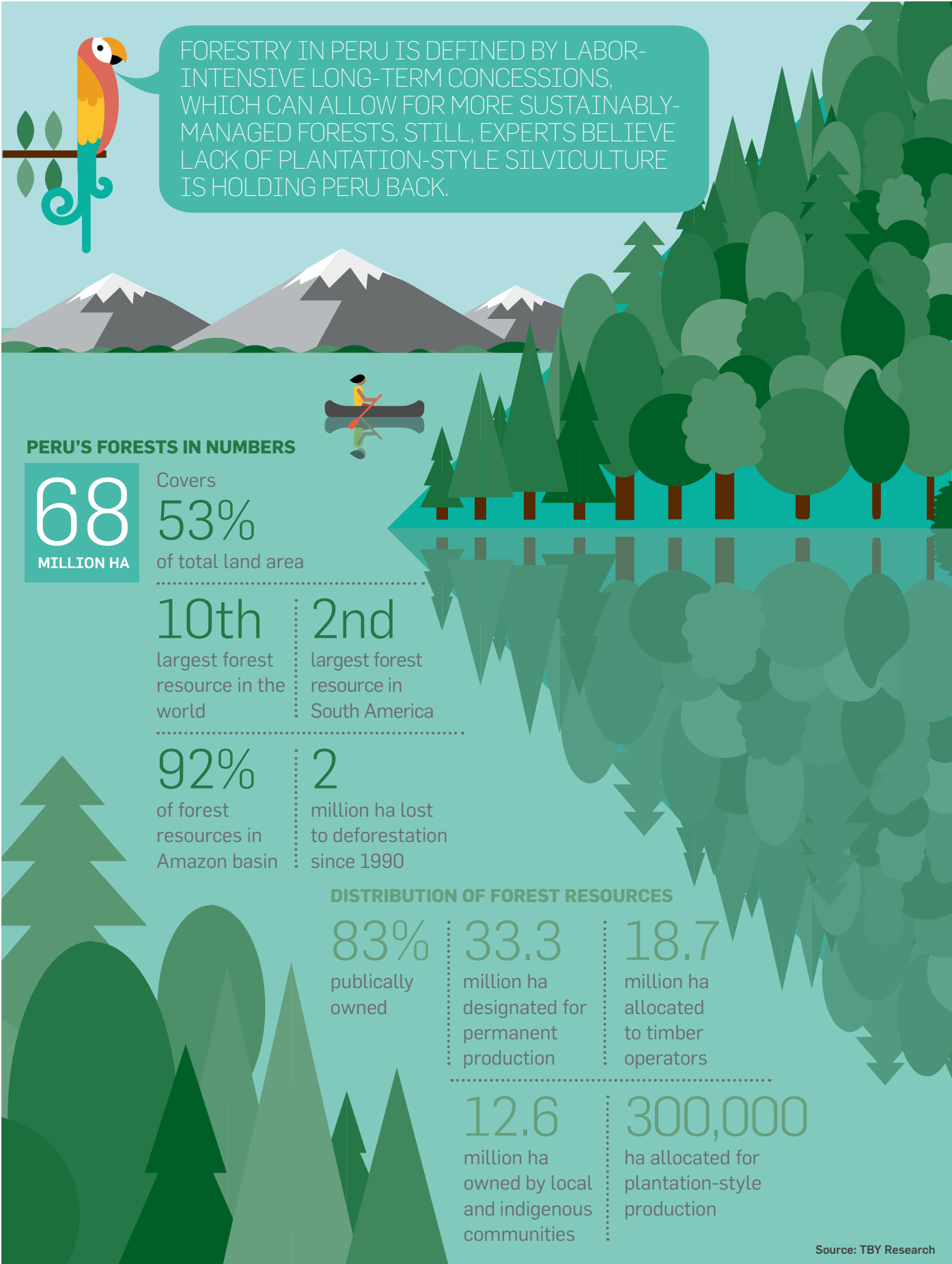
Around 83% of Peru's forested lands are publicly owned, with the rest divided between private and communal ownership. Of the 68 million hectares of resources, around 33.3 million have been designated for permanent production, and of that total, a little more than half, or around 18.7 million, have actually been allocated to timber operators. Concessions have been granted to around

500 operators, with concessions averaging around 12,900 hectares each. An additional 12.6 million hectares belong to local and indigenous communities, and around 1200 indigenous communities have land rights to portions of the Peruvian Amazon. Plantation style production still makes up a very small portion of the forestry industry, accounting for less than 300,000 hectares.

Despite Peru's immense forest resources, the forestry industry remains comparatively underdeveloped. Forestry accounts for just under 1% of Peru's GDP, compared to Chile, which has only 16.2 million hectares of forests, but where forestry accounts for more than 3% of GDP. One of the major differences between the two countries is that the Chilean forestry sector relies much more heavily on plantation-style silviculture, while the majority of forestry in Peru is through long-term concessions, which is more labor intensive, but can yield higher-quality types of wood and allow for more sustainably managed natural forests.

For Susana Albengrin of Santa Rosa & Madereras, the lack of plantation-style silviculture is holding Peru back from being a global leader in the forestry sector. In an interview with *TBY* she explained "we could be at the level of Finland, Brazil and Chile, all of which exceed [Peru's] exports. They have replanted forests." Albengrin added that Peru should "follow the example of Chile" and "develop its reforestation capacity" suggesting that "universities should be incentivized to invest in reforestation research".

However, others in the sector feel that, rather than trying to emulate its neighbors, Peru should forge its own path by taking advantage of the higher-quality and less common species of wood in its natural rainforests, which can often fetch a higher price. Drago Bozovich, CEO of Maderera Bozovich explained to *TBY* that "comparing us to Chile is rather misleading as you cannot compare a pine plantation to long-term agriculture." Bozovich added that "Peru will never produce GDP-wise billions of dollars of exports like Chile" and that instead the country should specialize in higher-quality wood products. ✖



FORESTRY IN PERU IS DEFINED BY LABOR-INTENSIVE LONG-TERM CONCESSIONS, WHICH CAN ALLOW FOR MORE SUSTAINABLY-MANAGED FORESTS. STILL, EXPERTS BELIEVE LACK OF PLANTATION-STYLE SILVICULTURE IS HOLDING PERU BACK.

PERU'S FORESTS IN NUMBERS

68
MILLION HA

Covers **53%**
of total land area

10th
largest forest resource in the world

2nd
largest forest resource in South America

92%
of forest resources in Amazon basin

2
million ha lost to deforestation since 1990

DISTRIBUTION OF FOREST RESOURCES

83%
publically owned

33.3
million ha designated for permanent production

18.7
million ha allocated to timber operators

12.6
million ha owned by local and indigenous communities

300,000
ha allocated for plantation-style production

HE'S A LUMBERJACK, AND HE'S OK

Peru is blessed with seemingly endless forests. But while deforestation once threatened the delicate ecosystem, today reforestation is also a top priority for the industry.



ISABEL
FRANCHINI
*General Manager,
Maderas Peruanas*



DRAGO BOZOVICH
*CEO, Maderera
Bozovich*



SUSANA
ALBENGRIN RUBIO
*Manager, Santa Rosa
& Madereras*



HENRY BALARÍN
MAÚRTUA
*General Manager,
Grupo Forestal
Vulcano*

Penetrating the Italian market was not easy; we had to meet international standards. Representatives of Italian industry came to Peru to decide which companies they were going to partner with. The challenge was to meet all their demands, which we achieved, after which our partnership was formed. Between 1981 and 2008 we exported to Italy. However, the financial crisis impacted our business. We had formerly exported 20 million wood blocks per container to Europe, every 40 days. The financial crisis left us with massive oversupply, whereupon we took the decision to diversify and develop new products for both the national and international markets. The products that most helped us weather the financial crisis were prefabricated flooring units that can be snapped together instantly. We now export these to Belgium and Italy.

Here in Lima, at the factory, we employ 300 people per shift, 50 being administrative staff. In the Amazon region where our sawmills and forest, concessions are located, we employ, depending on the time of year, up to 1,000 people. You basically have three months in season in which to harvest that year's production. At that time, you need many people to perform the reduced-impact harvest. We usually employ approximately 500, which declines to 100 when the rains arrive. Some, though not all, then have the opportunity to work the same forest with us collecting Brazil nuts.

Our company is focused on reforestation in terms of our work of social and environmental responsibility. In the past, we thought only to deforest for profit. Today we take the initiative to reforest, as this is prerequisite of sustainably remaining in the market. Reforestation also involves working with communities. The government should develop its reforestation capacity not least in terms of its knowledge base, given its potential to contribute to the wider economy. There is no knowledge today of reforesting with native species, which would be ideal for companies like ours. The research is costly, and I believe that universities should be incentivized to invest in reforestation research. Peru has a large land area, but forestry represents a small proportion of GDP. We should follow the example of Chile, which has successfully invested in reforesting.

The sector needs investment in infrastructure as well as incentives. I think Chile represents a good example of investment in reforestation. That country currently exports forestry goods valued at over \$6 billion every year on an investment of just \$500 million. In terms of investment in infrastructure, the cost of taking a tree from forest to production site is higher than the production cost itself—60% of the total cost of taking a tree from the forest to a finished product is accounted for by transportation. This is greatly excessive, and the government needs to invest in infrastructure, which would in turn boost investment. Peru represents the second largest Amazonian area in the region and in terms of forestry surface ranks among the top 10 in the world. We currently export \$380 million of wood and wood products. At the same time, we import \$1 billion of wood, mainly from Canada and Chile. This is clearly an issue to reverse.



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Aníbal Velásquez Valdivia, Minister of Health, on goals to achieve universal healthcare coverage.

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One of the major goals of Peru's current government is to achieve universal healthcare coverage for all Peruvians by 2021.

173

Jaime Saavedra, Minister of Education, on education reform, increasing public expenditure in education, and teacher training.

Health & Education

REVIEW HEALTH

After years of upheaval spurred by an inequitable medical services sector, fresh public investments and reforms to the healthcare and pharmaceutical industries are invigorating market development.

FINDING THE CURE

Despite some long-term statistical progress over years, the sector has been afflicted by nationwide clashes spanning the past two years, as public sector workers such as doctors—but also teachers, court employees, and the national police—protest social inequality and inadequate government spending on social services. One strike that occurred in February last year—over the Ministry of Health's failure to pay bonuses agreed to at the end of the previous strike—was supported by the Peruvian Medical Federation, 24 regional federations, the 45 medical corps of Lima, the Federation of Nurses, and the Union of Pharmaceutical and Chemical Workers, and lasted over 100 days. Among the grievances expressed by the Peruvian Medical Federation was the increase of deaths due to pneumonia in public hospitals, as well as an increase of cases of Malaria, Hepatitis B, whooping cough, Leptospirosis, and other diseases over the last two years.



Image: Group Auna

The country's healthcare sector has come along way in recent decades since its collapse in the 1980s and 1990s, with promising increases in government spending and utilization of services, particularly in rural areas.

TOWARDS REFORM

Tensions came to a head in November 2014 when Aníbal Velásquez Valdivia replaced Midori de Habich as Minister of Health. According to Telesur, parliament had largely blamed Habich for the deterioration of the health sector. The Ministry's new budget for 2015 is structured to assist regional governments and in April 2015, the Finance Ministry authorized the transfer of funds up to \$49 million to finance public investment health projects, cosigned by the new health minister, finance minister, and President Humala. The Ministry of Health also pledged to allocate \$4.3 billion this year to continue reducing chronic malnutrition in children. As part of Valdivia's plan to re-centralize power in the health system regional governments are being directed to better manage healthcare spending, through expanding water and sanitation services in poor rural and urban zones, and promoting healthy eating habits, breastfeeding, counseling, and newborn care. According

to Andina news agency, the national average of malnutrition is approximately 14.6%, having dropped 5% over recent years. According to Flor De María Philipps, the Superintendent of Susalud—the public organization under the Ministry of Health responsible for registering, authorizing, regulating and supervising the functioning of the institutions that finance health services—reform initiatives currently being set into motion focus on providing universal financial protection to the population to eliminate financial risks of seeking treatment; improving services, specifically in regards to a study that identified 748 strategic hospitals throughout the country that need to be remodeled or constructed, with the aim of creating PPPs to undertake upgrading, building, and maintenance projects; and finally to protect citizens' rights in regards to receiving equitable healthcare. The Ministry estimates they will construct 11 new national hospitals, 23 regional hospitals, and 170 provincial hospitals, which will require an investment of more than \$3 billion. The Ministry of Health expects to achieve universal coverage by 2021.

SYSTEM OVERVIEW

Despite current efforts to the contrary, as it stands now, Peru's healthcare system is decentralized between various public and private entities in terms of both insurance coverage and services offered. Healthcare sector workers often work several jobs in multiple sub-sectors, and overlap between entities is not uncommon, in the absence of a centralized coordinating system. According to the WHO, the Ministry of Health provides health services for 60% of the population, EsSalud—Peru's equivalent of a social security program—for 30%, while the Armed Forces, National Police, and the private sector combined provide services for the remaining 10%. According to Maximiliano Ventura, the General Manager of Clinica Internacional, only 5% of Peru's population has access to private healthcare—or 1.5 million patients out of 32 million Peruvians—which “represents a serious differential in the quality of the services between these two sectors.” Private healthcare services are growing at an annual rate of 12%.

Within the public sector, there are two types of insurance, Seguro Integral de Salud (SIS) that is mandated by the Ministry of Health, and EsSalud, which is coverage given through employment for working families and individuals. Recently, as a part of the reform process in the Ministry of Health, Valdivia announced that it is now possible for SIS patients to be treated by facilities and services reserved for EsSalud and vice versa. According to the Ministry of Health, 78% of people in extreme poverty have health insurance, up from 35% in 2002, while 70% people not in extreme poverty now have insurance,

compared to only 7% in 2002. There are three types of healthcare facilities in Peru, comprehensive hospitals; specialized health institutes; health centers; and health posts, which include polyclinics, and are attended by health technicians and trained assistants. As of May 2013, there were a total of 511 hospitals, 15 specialized health institutes, 2,096 health centers, and 7,124 health posts, according to the Ministry of Health. Valdivia told *TBY* the ministry's aim is to “transform the health posts into health centers, which will improve the operative capacity.” These health centers are being planned to enable main hospitals to direct their resources towards specialized patient treatment, while also making healthcare available to people in remote areas without having to travel, President Ollanta Humala announced in April 2015 at the opening of a new maternal and infant health center in Lima. Humala affirmed the health investments in 2015 will exceed the already planned \$500 million goal to address the issues faced by Peru's healthcare sector.

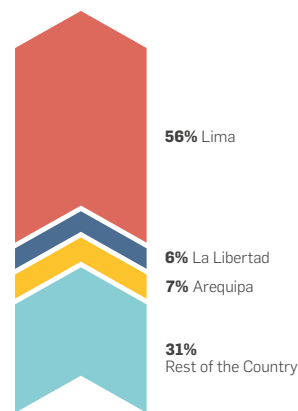
HEALTHCARE FOR ALL

Unsurprisingly, healthcare facilities are concentrated in cities; 32% of hospitals are in Lima, followed by La Libertad where 8% are located, and 6% in Lambayeque; 16% of health centers are in Lima, 7% are in Cajamarca, and 6% are located in Lambayeque; health posts, being most numerous are also the most evenly distributed throughout the country, with 11% located in Lima, 10% in Cajamarca, 6% in Junín, with another 6% located in the Amazon region. Nine of Peru's 15 specialized health institutes are located in Lima, with one in Arequipa, one in Callao, two in La Libertad, one in Lambayeque, and one in Piura. The distribution of doctors reflects that of hospitals in the country, with a slightly larger concentration in Lima, where 56% of doctors are located compared to 32% of

Since the implementation of the rural and marginalized urban health service (Serums) plan, the country has begun to overcome its inequitable geographic distribution of health workers.

DISTRIBUTION OF DOCTORS BY REGION (2013)

SOURCE: MINISTRY OF HEALTH, GENERAL OFFICE OF STATISTICS AND INFORMATION



**GUILLERMO
GARRIDO LECCA**
*General Manager,
Pacifico Salud EPS*

Peruvians are now part of a push to make insurance coverage universal, although this has been done for the most part through the government's Seguro Integral de Salud (SIS) program. This has worked well, and the number of Peruvians with health insurance will continue to grow.*



Clínica Delgado is reborn to establish a new healthcare standard.

Our main focus is the patient's well-being by providing excellent medical care.



We have the most advanced medical technology together with a state of the art facility.



We have outstanding multidisciplinary health professionals.



auna | Clínica
Delgado



HEIKO MUSSMANN
General Manager, Bayer Peru

We need to educate wholesalers and farmers, because they need to know how to apply a product properly, when to apply it, in what doses, how to perform soil testing, how deep to seed and in general to learn about good agricultural practices. Wholesalers also need to be educated on the same points, because many of them have their own sales force. Training is important, not only in terms of crops, but also in terms of our healthcare segment.*

hospitals. The number of total doctors in the country has grown steadily, from just 37,619 in 2002 to 65,110 in 2013, a 26.64% increase YoY from 2012. The number of patients per doctor has also shown positive rates of decline, which was 711 patients per doctor in 2002 and was 468 patients per doctor in 2013, a 20% reduction in ratio from 2012.

Since the implementation of the rural and marginalized urban health service (Serums) plan—a health human resources retention plan aimed at distributing and retaining workers in rural and remote areas—the country has begun to overcome its inequitable geographic distribution of health workers. According to *El Peruano* newspaper, as of April 2015 Serum workers cover 96% of the country's poorest districts, focusing on working with pregnant women and children with anemia to lower malnutrition rates. Areas covered by Serum typically have no water or sewage services, so much of the doctors' work is focused on basic prevention topics such as cleaning food, and working against cultural misconceptions about the origins of disease. A twelve-month

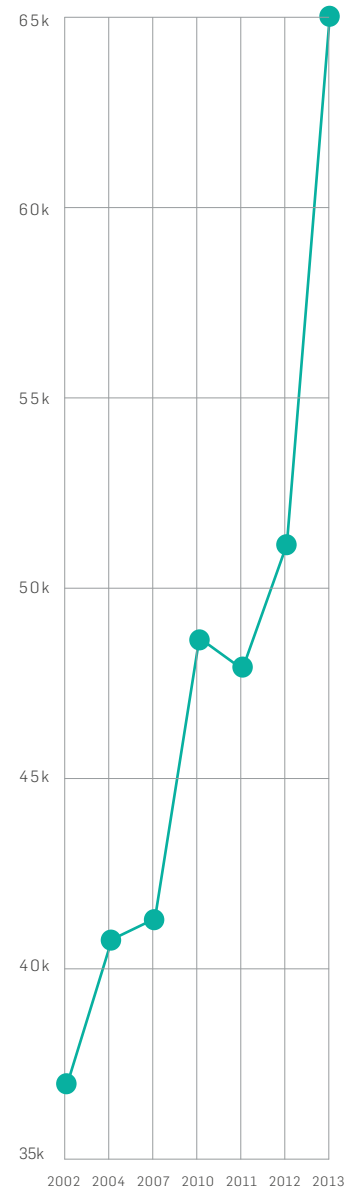
service in Serum is mandatory for doctors in Peru. Fresh graduates from medical school, Serum doctors undergo further training organized by the Regional Council of Lima at the Medical College of Peru (CMP). Despite the additional training, for doctors, the Serums program has not come without its risks; due to the inaccessibility of the regions in which they work and its challenging nature, over 10 doctors have died in the line of duty. According to Andina new agency, the mortality rate for Serums doctors was 2.42 per thousand seats allocated, with deaths being attributed to complications occurring during transporting patients to remote communities.

IN NUMBERS

Peru ranks 165th in comparison to the world in term of death rate, which was 5.99 deaths per 1,000 population in 2014, and according to the CIA World Factbook, the country's infant mortality rate is 20.21 per 1,000 live births, ranking them 90th in comparison to world. The country has decidedly begun to reduce this figure over the years, a significant reduction from 38.78 in 2011, according to the United Nations. Maternal mortality in Peru dropped by 10% between 2010 and 2014, and in the same period, institutional delivery increased from 81.3% to 89.2%, and from 57.6% to 72% in rural areas, according to the Ministry of Health. The mortality rate among children under five years old fell from 26 per thousand live births in 2009 to 20 per thousand births in 2014. In 2012 Peru only spent 5.1% of GDP on health expenditures, though the budget allocated for maternal and neonatal healthcare increased by 67% between 2011 and 2014. In spite of the challenges, other positive indicators show a promising future for the country's health sector. The World Bank identifies Peru as one of the best performing economies in Latin America, highlighting the World Bank's new Country Partnership Strategy with Peru, which focuses on supporting national priorities and improving equity through social services, infrastructure, and competitiveness. This partnership and new investments into the sector ensure that healthcare will have ample resources to meet the demands of the health workers, as well as all other public sector employees. By shifting the healthcare sector away from unchecked regional spending and management, reforms and improvements to the Health Ministry's accountability seem to be increasing the country's appeal as a destination for foreign investment in medical services and pharmaceuticals. According to Global Health Intelligence, only three or four large players control 75% of pharmacy retailing in Peru, Chile, and Colombia, and as a result, "As these markets consolidate around a handful of dominant chains, foreign giants are likely to take note and show interest to enter the region." ❌

TOTAL NUMBER OF DOCTORS

SOURCE: MINISTRY OF HEALTH, GENERAL OFFICE OF STATISTICS AND INFORMATION





WEALTH IS HEALTH

TBY talks to *Aníbal Velásquez Valdivia*, Minister of Health, on goals to achieve universal healthcare coverage, the role of private insurance in Peru's health sector, and improving the healthcare infrastructure.

BIO

Aníbal Velásquez Valdivia is an epidemiologist with vast experience in health sciences research, in the design and implementation of public health policy, as well as the evaluation of social programs and projects and national and international health. He has occupied high-level management roles in public, private, and international institutions. He is a member of the Committee of Experts advising on the Plan for the Reduction of Chronic Malnutrition and Anemia for the Ministry. He is also a lecturer in postgraduate studies at a number of universities.

How much progress has Peru made in achieving its goal of reaching universal healthcare coverage?

We expect to achieve universal coverage in 2021. Right now we are seeing an increase in insurance coverage. The biggest advance so far is that every child born without any other insurance will be affiliated with the SIS, which is the government insurance program that covers low-income children up to five years old.

What are the main challenges that the country is facing in order to reach universal coverage?

First, we must increase the insurance affiliation. It is important to modify the law that created the SIS. The SIS was created to help poor people, but we have to broaden the target population to reach other vulnerable populations. Nowadays, the SIS helps more than 15 million affiliates. We have to make the SIS available

to the most vulnerable people; that is the main challenge. The reality is that better, universal healthcare provides net benefits on a national level.

What role do you see for private insurance in Peru's health insurance mix?

People will have the opportunity to choose. As the economic formality rate increases, the amount of people with access to insurance will grow. That path depends on the country's economy, but it should not restrict insurance access. As long as there are people with informal jobs, public insurance will be needed. We want to promote and support private insurance. The important matter is that citizens have the opportunity to choose, depending on their conditions. The private sector still has many advantages, but the gap between the public and private systems is shrinking.

What efforts is the government making to improve healthcare infrastructure?

Instead of constructing more hospitals, we have tried to upgrade then to improve the quality of service. One of the first things we tried to do was improve the personnel and the equipment quality. We want to specialize at the regional hospitals, and create intermediate facilities. The Ministry wants to transform the health posts into health centers, which will improve the operative capacity. We estimate that the construction of 11 new national hospitals, 23 regional and 170 provincial ones will require an investment of more than \$3 billion. We want to make more specialized centers because high complexity hospitals are already overcrowded with ordinary emergencies that could be handled elsewhere. Peru also lacks specialists. We are now working on a system that allows specialists to work more hours, or in other locations. Our system also

IN NUMBERS Ministry of Health

SIS helps more than

15

million affiliates

Expects to achieve universal coverage in

2021

includes a team of 15-20 specialists that visit hard to access locations every 15 days, where they undertake complex procedures. If we do not have the ability to solve a problem, the SIS will find a solution in the private system. It is very difficult to construct and offer services in the most remote areas, so we have developed alternate solutions. One of our strategies is to invest in transport infrastructure. We are working with the Ministry of Defense and Interior to develop a system of air transport to extract critical cases from the least accessible areas in the case of an emergency.

What are your objectives for the future?

The Ministry wants to improve the quality of our services across the board. We have created the National Superintendence of Health, which will supervise the quality of the services, and protect the rights of the citizens. People were not protected before, and their only means of defending themselves was through the courts. Now, complaints are also handled by the superintendence, which has personal dedicated to attend those demands. ✖



FLOR DE MARÍA
PHILIPPS
*Superintendent,
SUSALUD*



PEDRO FIDEL
GRILLO ROJAS
*Head, Seguro Integral
de Salud (SIS)*

What challenges does the healthcare sector face in Peru?

FLOR DE MARÍA PHILIPPS

Health challenges in Peru are divided between public and individual health. In public health, we still have problems with emerging and re-emerging diseases. We see cases of malaria, HIV, tuberculosis, and others, and we experience a process of epidemiological transition with patients with chronic diseases such as hypertension, diabetes, and cancer. Health management is insufficient because the budget allocation should be ideally around 7% of GDP. Today it is currently at 5.3% and the government is making significant efforts to increase this figure.

PEDRO FIDEL GRILLO ROJAS

The first challenge is having access to the most remote populations; they were not usually included in the health programs, never receiving any free coverage. Secondly, we are working within a public health infrastructure that has been around for over 50 years.

In your opinion, what are the opportunities for health companies to invest in Peru?

FDMP Our country's healthcare sector is growing. There is a very large space to develop value propositions for health. For for-

eigners who want to come here and invest, and also for local investors, these devices are associated with the PPP framework. I just mentioned that there is a proposal for 745 strategic facilities and most of them have to be renovated or built, and/or equipped. This means investment. Investment in health means investing in a sector that has strong social returns. We need more human resources to face the growth challenges ahead. Peru will continue to grow. Peruvians have become more demanding about the services they expect. The government is to meet its commitments to bring quality healthcare to its citizens, but can not do it alone. You need to create a favorable climate for investment and search for suitable partners. There are clear rules and legal stability in Peru.

Is working with the private sector a part of SIS's long-term plan for expanding coverage?

PFGR International experience shows that health needs always demand more than what the state can offer. Even the most developed countries have difficulty in fulfilling the demand. We are promoting investment in infrastructure and health through three models: private-public partnerships (PPPs) and construction by taxes, which are both long-term models, and through the direct hiring of health services. The state has aimed to acquire the participation of private investment in the development of health infrastructure in Peru. Nevertheless, the current and future ownership of those establishments are public. Another challenge we have faced is obtaining bigger financing. In 2012, our budget was a mere \$181 million. In

include ALL

Two industry executives discuss the challenges and opportunities in the Peruvian healthcare sector.

2015 our budget is close to \$549 million, and we aim to reach \$953 million by 2016. We have tripled our budget in the last three years, and we plan to keep growing. This is an achievement, since the Peruvian government has made the decision of generating coverage through the insurance of the poor and informal population. We need to back universal coverage with proper financing.

What do you think about the opportunities for companies in the sector or peripheral to the health sector and for those who want to invest in the local sector?

FDMP Investment in health means investing in a sector that has strong social profitability. We need to be more prepared to face the challenges of growing human resources. Peru will continue to grow. Peruvians have become more demanding in terms of the services they expect. The government is to meet its commitments to bring quality healthcare to citizens, but can not do it alone. You need to create a favorable investment climate in finding suitable partners. There are rules and legal stability.

PFGR After Panama, Peru is the second country in Latin America to have sustained a constant growth pattern. Indeed, we even maintained a solid performance during the economic crisis. The policies put into place demonstrate that there are openings for private investment. In the mid to long term, there is an environment of confidence that will generate profit. In this light, the Ministry of Health is implementing the necessary actions to appeal to investors. ✖

ON THE MEND

One of the major goals of Peru's current government is to achieve universal healthcare coverage for all Peruvians by 2021.

OVER THE PAST DECADE, the country has made great strides in improving healthcare coverage, particularly through the expansion of government insurance programs. According to SIS, in 2005, around 70% of Peruvians had no insurance coverage. As of 1H2015, according to the Ministry of Health, that number has now fallen to around 20% of Peruvians, and the government is confident that it can close the gap completely and reach 100% insurance coverage by 2021. For Peruvians in poverty, the change has been even more drastic. In 2002, 35% of Peruvians in extreme poverty and 7% of Peruvians in non-extreme poverty had access to insurance. Those figures have now risen to 78% and 70% as of 1H2015.

Aside from insurance affiliation, however, one of the major challenges to achieving universal healthcare coverage in Peru is improving public health infrastructure. According to the Ministry of Health, nearly 98% of Peruvians with health insurance are covered through one of the government-run public health insurance systems, which each rely on a network of public hospitals and clinics. As a number of representatives of Peru's public healthcare system explained in interviews with *TBY*, the system has suffered from a historical lack of investment, particularly in rural infrastructure. As Pedro Fidel Grillo, head of Peru's largest public health insurance program Seguro Integral de Salud (SIS), explained to *TBY*, "The first challenge is having access to remote populations. [...] We are working with public health infrastructure that has been around for over 50 years." Minister of Health Aníbal Velásquez expressed a similar sentiment, telling *TBY* that "In the past, investment in the public sector was limited. Most of the main establishments were regional and national hospitals and health posts. Medical care was too primary."

In order to overcome this challenge, the government has launched an ambitious multi-year investment plan to invest around \$3 billion in hospitals and clinics in under-served areas. In total, according to the Minister of Health, Peru plans to build 11 new national-level hospitals, 23 new regional-level hospitals, and 170 new provincial-level hospitals. An important element of Peru's plans to expand health coverage and infrastructure has been a new willingness to work in partnership with the private

On the private sector side, lack of infrastructure also presents a challenge for growth. Currently, only around 2% of Peruvians have private health insurance.

sector. According to both Minister Velásquez and Mr. Grillo of SIS, public-private partnerships (PPPs), both through concessions and build-operate-transfer style projects, will play an important role in increasing coverage of health services in rural areas. In addition, SIS has become increasingly open to paying directly for private healthcare services when necessary to fill gaps in coverage. As Mr. Grillo explained to *TBY* "International experience shows that health needs always demand more than what the state can offer. Even the most developed countries have difficulty in fulfilling the demand."

On the private sector side, lack of infrastructure also presents a challenge for growth. Currently, only around 2% of Peruvians have private health insurance. As Guillermo Garrido Lecca of Pacifico Salud explained to *TBY*, only a small portion of Peruvians, around 5%, realistically have a possibility of purchasing private health insurance. Still, the majority of private hospitals are clustered in a few areas of Lima, making it impractical for many potential private health insurance clients to actually participate in the system. Grupo San Pablo is one example of a private healthcare provider that is moving into areas of the city without private coverage. The network of clinics has grown exponentially over the past 30 years by providing low-cost clinics targeted at lower-middle income Peruvians, a model that has a great deal of growth potential in coming years. ✕

INTERVIEW



serve the MANY

TBY talks to *Alvaro Campos Crosby*, CEO of Group Auna, on how to better serve the population's healthcare needs.

Peru's healthcare sector has been underserved for many years. Clinica Delgado, your most recent project, is unique as it includes funding from several investors. What does Group Auna represent for the sector in Peru?

At Auna, there are more than 2,000 people who are really inspired and committed to work in a different way to make our vision a reality and transform the healthcare experience in Peru. We are proud to have Delgado Clinic as our flagship, not only because it is our most important project, but also because it represents the essence of thought and philosophy of our founders and shareholders who aspire to deliver higher quality healthcare services to Peruvian citizens. This means offering Peruvians the highest possible level of patient security, integrated processes, medical technology, and professionalism of medical doctors and clinical staff, and all of this in a world-class healthcare facility. These offerings exceed the standards we have seen in the country until now. For us, Delgado Clinic is a tipping point in the evolution of private healthcare services in Peru and it should stimulate competition and that is very good for Peruvian families.

We have noticed that this is already happening, and some of our competitors have already invested in improving their facilities and are now claim to offer better services. We believe we have started a chain reaction in healthcare here in Peru. This in turn is leading to a transformation in relationships between hospitals and medical doctors, the interactions between insurance companies and healthcare providers, and the way in which the general population is being introduced to medical services.

Group Auna has a very successful oncology program, Oncosalud. What impact has that business had on the sector in Peru since it started and the quality of cancer care available?

Oncosalud has 720,000 members in its pre-paid cancer program. We are the largest provider in the prepaid cancer service sector. This scale allows us to invest in scientific research, prevention centers, and clinics specializing in cancer treatment, as well as being a center to attract the best doctors and nurses in the country. Over these last 25 years, Oncosalud has developed vast expertise in cancer protection, not just in terms of financial security,

but also in medical coverage. We offer our affiliates early prevention programs and opportunistic treatment. We can proudly say that two out of three patients at Oncosalud go into remission or are cured after five years. Over time, Oncosalud has set the benchmarks for quality and level of cancer prevention and private treatment in the country. We remain the market leader in cancer protection. Our strategy is to expand our coverage and services in the provinces, where there is still much work to be done.

Only around 30% of the country's population lives in Lima. What are your plans to expand outside the capital?

Auna's challenge is to develop an offer providing value healthcare to as many people as possible. Certainly some provincial cities are growing rapidly, driven by mining, agriculture, retail, and tourism. We are convinced this is an opportunity so we have developed clinics in Piura, Chiclayo, Trujillo, Arequipa, and Callao. We are evaluating several, but I can say that there are cities near Lima that are demanding our services. These are areas that have seen impressive growth, and where people from around the coun-

try have been migrating for generations to find work in Lima's rapidly growing service industry. These new facilities will be modern but different from Clinica Delgado, where we offer a one-stop shopping experience. These other clinics will meet a demand for primary outpatient services. Our facilities network will focus on the mainstream sector, while internationally accredited Clinica Delgado targets a different high income and international patient sector. However, Auna intends to have province facilities services such as radiology, linked and informed centrally from Clinica Delgado in Lima. This telemedicine will help to provide second opinions and maximize the use of our professional resources. This integration comes also via the shared Electronic Medical Record, another first in the country. ✕

BIO

Alvaro Campos Crosby was appointed CEO of Group Auna in 2013. His previous management experience includes Vice President at Alicorp, developing LATAM markets for CPG and industrial products. He holds a Bachelor's degree in Business Administration from Universidad de Lima and an MBA from ESAN.



JAIME PLANAS
*General Manager,
Clínica Delgado*

The private healthcare market in the country has only 1,500 beds including Lima and the other cities. We estimate that a city the size of Lima needs at least 2,000 more beds. Our introduction of 170 new beds is a step in offsetting this deficit. To date there are no new beds in construction in our market. We estimate that demand will remain steady for the next three to four years. Our network of AUNA facilities differs from the rest of the market in

REMAIN STEADY

Clinics work to provide crucial healthcare services across a country that has suffered from access issues.

Only 5% of Peru's population has access to private healthcare and 95% have access to public healthcare. This represents a serious differential in the quality of the services between these two sectors but the gap between Peru and Chile and Colombia is even bigger. This is in the sense that you cannot find more complex procedures in Peru, but is also related to the professionals carrying out these procedures. We are constantly working to close this gap. As part of this effort, we are expanding our services to Piura, Arequipa, and Trujillo. We have a project that will be in the construction phase in March 2016, which features a clinic with around 300 beds and all specialty services available. In 2016 we will have a huge new facility at our disposal. This facility will inte-

grate our current outpatient and hospital centers in San Borja with a new clinic we will be constructing.



DR. MAXIMILIANO VENTURA
*Corporate Medical
Director, Clínica
Internacional*

the standardization of processes, policies, and procedures, to the practice medicine. We perform patient care the same way at all of our facilities. We have similar strategies for recruitment retention and development of our doctors and nurses. The objective is to attract the best professionals. Our integrated national medical records allow us to share valuable medical information between the different AUNA facilities in different cities across the country.



DR. JOSÉ ALVAREZ BLAS
General Manager, Grupo San Pablo

There have been three crucial stages of growth in Peruvian private healthcare. Roughly six years ago, there was a strong wave of investment. Many companies bought clinics, laboratories, and pharmacies. This growth was not only in Lima, but also in the provinc-

es. Clinics began operating in Cusco, Arequipa, Trujillo, and Piura in all segments. Strong growth abruptly stopped one year ago. The sector stagnated. This was seen across the economy over all sectors, and was related to the governmental transition. We expect growth to pick up in 2016 or

2017. There is demand to meet in class B and C. The competition of Grupo San Pablo is in this sector. We are prepared and we have learned to live in difficult times with strong competition. Accreditation is a strong differentiation factor that will aid us in weathering fluctuations.

QUALITY EDUCATION TO TRANSFORM PERU



UPC
Universidad Peruana
de Ciencias Aplicadas

UNIVERSIDAD PERUANA DE CIENCIAS APLICADAS (UPC)

EDUCATION WITH INTERNATIONAL STANDARDS

WASC SENIOR COLLEGE AND UNIVERSITY COMMISSION (WSCUC) INSTITUTIONAL ACCREDITATION PROCESS

Universidad Peruana de Ciencias Aplicadas (UPC) has applied for Eligibility from the WASC Senior College and University Commission (WSCUC). WSCUC has reviewed the application and determined that UPC is eligible to proceed with an application for accreditation.

A determination of Eligibility is not a formal status with the WASC Senior College and University Commission, nor does it ensure eventual accreditation. It is a preliminary finding that the institution is potentially accreditable and can proceed within five years of its Eligibility determination to be reviewed for Initial Accreditation status with the Commission. Questions about Eligibility may be directed to the institution or to WSCUC at wascsr@wascsenior.org or (510) 748-9001.

QS STARS UNIVERSITY RATING 2015

UPC WAS AWARDED 5 STARS IN QS UNIVERSITY RATINGS FOR ITS TEACHING, EMPLOYABILITY, SOCIAL RESPONSIBILITY AND INCLUSIVENESS
Overall UPC received a 3 stars institutional rating.

SCIMAGO INSTITUTIONAL RESEARCH RANKING 2015

UPC IS RANKED 3RD AMONG ALL PRIVATE UNIVERSITIES IN PERU
In the past three years we have doubled the number of articles published in peer – reviewed journals.

SUCCESSFUL GRADUATES



88% EMPLOYABILITY

According to Ipsos Perú (1), UPC's three years moving average employability index is 88%. Additionally, 9 out of every 10 graduates are working in the discipline they studied.

(1) Ipsos Peru Study: UPC Graduates Employability (2014).



THE MOST INTERNATIONAL UNIVERSITY IN PERU

UPC is considered by the America Economia University Ranking, Peru 2014, as the most international university in the country.



LEADER IN INFRASTRUCTURE IN PERU

UPC is recognized as the top university in infrastructure and commitment to technological investment (America Economia University Ranking, Peru 2014).

excel innovate



The government has charted a new course that is progressively increasing enrollment and improving educational conditions in the country. These reforms extended free and compulsory school education to all students aged between 5 and 16, known as Educación Básica.

Review EDUCATION

COULD DO BETTER

The educational sector was a casualty of decades of economic volatility and political instability that characterized the 1980s and early 1990s in particular. When the economy started to recover, educators found themselves with little to work with in terms of infrastructure and material resources. Almost two decades later, this paucity of investment still hampers educational attainment but starting in 1996, the government has charted a new course that is progressively increasing enrollment and improving educational conditions in the country. These reforms extended free and compulsory school education to all students aged between 5 and 16, known as Educación Básica (general education) y Técnico Productiva (technical education).

The decade ahead holds challenges of a different nature. The secondary period of compulsory education is still somewhat aspirational. According to UNESCO, one quarter of the relevant age group does not currently enroll in upper secondary education. This is especially the case in remote parts of the Andean Highlands, and the Amazonian rainforest in the country's interior. The government is addressing these disparities in coverage by building more schools, and installing teachers that speak indigenous languages.

In May 2015, the Ministry of Education (MINEDU) announced that 15,000 teachers will be hired to provide better Intercultural Bilingual Education (EIB) in 53 indigenous Peruvian communities, where more than one million students reside. Weeks later, the Finance Ministry authorized a lump sum of \$82.71 million to finance public investment in 73 educational infrastructure projects throughout the country. Several infrastructure investments have also been unveiled. In addition to this one-off investment, MINEDU allocated \$768 million of its \$6.4 billion 2015 budget on infrastructure. Another \$58.4 million is slated for improvement of public school libraries across the country. After already investing \$17.6m on classroom upgrades for schools in Lima, the government has turned its attention to the periphery. In April, the government announced that it was spending \$21 million to build new schools and larger classrooms across the Amazon, Loreto, San Martín and Ucayali regions, which are among the poorest in the country. In the southern part of the country,

\$635 million in education infrastructure projects are going to benefit more than 1,000 educational centers, which serve around 94,000 students.

Another sign that education is at the forefront of state-level policy was Peru's recent commitment to invest at minimum 6% of the national GDP in education by 2021. While speaking at the 2015 World Education Forum (WEF), Peru's Education Minister Jaime Saavedra also spoke in favor of raising education's share of the government budget to 20% (it currently stands at 17%, while state contributions account for 3.5% of GDP).

In fact, most of these educational aspirations were central to President Ollanta Humala's 2011 campaign, and his promises resonated with the national electorate. Education spending is up to to 3.5% of GDP for 2015 from around 3% last year. 21,000 new scholarships were added to the 30,000 given out last year. Overall, the education budget was increased by 23% between 2014 and 2015, although the economy expanded by only 2.4% last year due to the regional economic slowdown.

HOW IT WORKS

All didactic policy, regulation, and curriculum guidelines are set by the MINEDU, which is the overarching authority at all levels of education in the country. Administration and implementation of policies for primary and secondary level education is enacted by localized authorities in 25 regiones (states).

The National System of Evaluation, Accreditation and Certification of Higher Education (SINEACE) regulates accreditation. The law mandates the option of institutional and program accreditation as well as certification in professional fields. The process is still voluntary except for teacher training programs and programs in health sciences. In addition, accreditation efforts are focused on programs, rather than the institutions themselves. Evaluation happens through self-study followed by external audits.

Starting in 2015, the National Superintendency of University Higher Education (SUNEDU) replaced the National Assembly of Rectors (ANR) under a new higher education law, as part of an effort to improve quality standards within the sector. SUNEDU oversees quality assurance procedures and approves university operating

Another sign that education is at the forefront of state-level policy was Peru's recent commitment to invest at minimum 6% of the national GDP in education by 2021. While speaking at the 2015 World Education Forum (WEF), Peru's Education Minister Jaime Saavedra Chanduvi also spoke in favor of raising education's share of the government budget to 20% (it currently stands at 17%, while state contributions account for 3.5% of GDP).

licenses. This new body is broadly tasked with setting higher education policies by the MIN-EDU, but its precise roles are still somewhat unclear. In the organizations bylaws, it role includes defining and implementing the processes of documentation and information collection, and registration of college degrees and titles.

Students are optimistic about these changes, as well as their general prospects upon graduation. In years past, lax regulations opened the market to diploma mills, and even at better schools, professors were often only slightly better educated than their pupils. This threatened the value of Peruvian college diplomas, and many students found themselves with little more than a depleted bank account when the time came to look for a job. The new regime has imposed new standards for professors, and students are responding enthusiastically. Over 83% of students surveyed by Ipsos approved of the new regime and regulations. A few months later in June 2015, Zogby Analytics found that nearly three quarters of students in Peru believe that institutions now offer career-oriented skills and proper training to students so they can better serve future employers. In terms of their individual prospects, 61% of students in Peru expressed optimism about education—the same percentage as in the US.

President Humala is still pushing for further legislation to raise standards which as of June 2015, was still pending in Congress. His reforms have their detractors as well, and some students are unhappy about their loss of influence and benefits. The government is also changing how it pays for tertiary education. Citing economic slowdown, parts of the budget were cut, however other investment went up. Since 2011, the Beca 18 program has offered funding for studies in Peru and abroad to low income, academically outstanding public school students. The program had awarded more than 11,000 grants as of 2014, and aims to benefit 50,000 by 2016, making it an essential tool for poverty reduction and fighting inequality in Peru.

There are 51 public universities, where students do not pay tuition, and 89 private ones which charge a variety of rates for instruction. University-level institutions also include specialized art, music and religious institutions that roughly correspond to the conservatory model. While many of the country's best universities are private, a recent influx of newcomers seeking to cash in on the growing middle class has raised concerns over quality, prompting the 2014-2015 reforms. Private universities must now meet minimum standards, and are subject to inspection. Total undergraduate enrollments reached just over one million in 2013, with 331,593 students enrolled in private universities and 697,518 in public universities. These numbers are projected to rise for the next decade at least, as access to higher education has been historically tenuous.

PRIMARY AND SECONDARY EDUCATION

While private enterprise can be relied on to meet the growing demand for higher education

among Peru's middle class, teaching primary aged students in the country's more remote, and poorer regions presents a challenge. It is often hard for rural students, especially girls, to make the daily trips to schools, as they come from isolated areas.

Since 2005, enrollment has increased to 72% for ages 3 to 5 years old, the 6 to 11-year-old age group is at 97% and the 12 to 16-year-old age group is at 91% enrollment. However, these numbers do not tell the whole story, and are higher than the actual percentage in classrooms. Some 34% of children between the ages 5 to 17 are in the labor force. In other words, enrollment rates do not equate attendance, and many pupils are prevented from attending my economic necessity. Under such circumstances, economic conditions among Peru's poorest are a better indication of attendance.

Educating the country's indigenous population is another challenge, as bilingual education has been poorly funded in years past. According to a 2014 Boren publication, almost 46% of indigenous students were not provided education in their native language. In Peru, 12% of school-age children speak an indigenous language at home, and in some provinces, this rate rises to well above 50%. In 2013, the country was spending just over 1% of its educational budget on intercultural and bilingual education. This artifact of decades of inattention to indigenous peoples was identified as a critical part of the nation's economic development.

The announcement in May 2015 that 15,000 more bilingual educators were to be added to the payroll was warmly welcomed. Peru has around 20,000 bilingual education schools that serve 1.08 million students according to the Ministry of Education. These efforts will also require the country to bolster its teacher training capacity. Currently, there are 39 pedagogical and nine universities offering career training in this field, but with plans to enroll 4,300 teachers in 2016, these facilities will be hard pressed to accommodate them. And with at least three years at this rate, these schools have a busy future.

THE ROAD AHEAD

In addition to funding choices, educators are debating the purpose of education in the country. Historically, students have opted for liberal arts related studies along the line of social sciences, over hard sciences. Under President Humala, this emphasis has shifted, and private corporations are getting in on the action. Many students complete their studies abroad, and firms often struggle to find properly trained employees. Other universities are emulating the success of the Lima-based not-for-profit Universidad de Ingeniería y Tecnología, (UTEC), which opened in 2010 and offers a range of engineering courses.

UTEC is funded by five Peruvian companies (or those with significant interest in the country). The majority of investment came from Hochschild Mining, a Peru-focused (but UK headquartered) silver and gold producer. By 2022, UTEC plans to increase enrollment tenfold. ✖

TALKING HEADS

The Peruvian government plans to make Peru a bilingual country by 2021. In order to achieve that goal, the country is working with the British government to improve the quality of English-language education in Peru. In November of 2014, Peruvian Minister of Education Jaime Saavedra signed a Memorandum of Understanding with British Minister of State for School Reform Nick Gibb, outlining technical assistance and support that the British government will provide to improve English language education.

The program started training 200 new Peruvian English teachers in the UK in early 2015, and will later establish a series of teacher development summer schools in Peru, run by British education organizations. These summer schools in Peru will train around 1,000 Peruvian teachers each summer. In addition, the British government has committed to sending 500 British teachers to Peru to support local Peruvian teachers. The costs of the program will be borne by both the British and Peruvian governments.

The Peruvian Ministry of Education calculates that the program will cost 100 million sol in 2015 alone. Schools in Peru will increase instructional hours for English language skills from two hours to five per week. The program will be supported by the national program for scholarships and educational loans of Peru (PRONABEC).



ACTS OF *cognition*

TBY talks to **Jaime Saavedra**, Minister of Education, on education reform, increasing public expenditure in education, and teacher training.

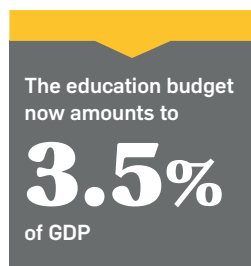
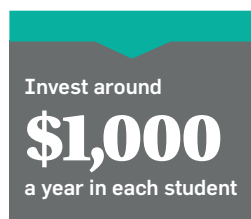
Peru committed itself to increase public expenditure in education, from 3% to 6% of GDP. How will this enable opportunities for future generations?

The Peruvian government took the decision to increase its budget by Soles 4 billion for the education sector by 2015. With this, the education budget now amounts to 3.5% of GDP. This increase is significant but still insufficient. By the year 2021, the year in which we will commemorate the bicentenary of the independence of Peru, spending per student must increase significantly. International evidence shows that there is a positive relationship between higher spending per pupil and performance in learning tests. This relationship occurs in an investment of up to \$5,000 per student per year, after which there is no clear relationship. In our country we invest around \$1,000 a year in each student.

What are the main guidelines of the education reform Peru currently implements?

The education reform is composed of four lines of action: 1) Evaluation of the teaching profession; 2) Improvement of the quality of learning for all; 3) Modernization of educational management; and 4) Closing the gap in educa-

IN NUMBERS *Ministry of Education*



tional infrastructure. We are building the teaching profession based on meritocracy, mechanisms of attraction, selection, and promotion and career development. The aim is to double teachers' salaries by 2021, linked to performance. In early childhood, we have expanded the coverage and we have developed new educational materials according to the needs of children. In primary education, we are working on a comprehensive intervention that (i) distributes sample lesson

plans for teachers to guide and facilitate their work, (ii) accompany the teachers with more experienced teachers, (iii) provides tutoring for students with learning difficulties (iv) carries out close work with families. Also, in secondary education we are implementing a new pedagogical model with more hours of study and greater assistance from tutors, psychologists, social workers, better infrastructure, job training, English, and the use of information technology for learning. Weekly teaching hours will expand from 35 hours to 45 hours. These interventions are already underway in a large group of schools; but the challenge is to universalize them. The director is the leader who manages the school as a safe and inclusive space. Therefore, 15,000 principals and assistant principals have been selected based on their capabilities. They are receiving training in management and will be better able to decide on resources and staff. All students, teachers and principals should have ideal environments for learning. In the last three years we have invested nearly Soles 10 billion, an all time record, for the construction or strengthening of more than three thousand school buildings. The challenge is immense; the gap

in educational infrastructure totals Soles 60 billion (more than 10% of GDP). As far as the higher education segment goes, recently, we created the National Superintendency of Higher Education (SUNEDU) that allows us to verify compliance with basic standards of quality in all universities. Also, we are encouraging advance accreditation of universities to adopt processes to constantly improve quality and academic excellence. We are about to launch the observatory "Put yourself in the Race" which will provide information to help young people to make better decisions about where and what to study. As part of these reforms, we are also making some preliminary changes in technical education. ✖

BIO

Jaime Saavedra holds a Doctorate in Economics from Columbia University in New York and has a degree in Economics from the Pontificia Universidad Católica del Perú. In the last ten years he has held various management positions at the World Bank. He has been Acting Vice President for the Economic and Poverty Reduction Department and Director of Global Poverty Reduction and Equity Management. He has also served as president of the Board of Poverty Reduction in the BM.



TAKING *the initiative*

TBY talks to **Óscar Quezada**, Rector of Universidad de Lima, on the main achievements of the institution over recent years.

What have been the university's main achievements since its foundation in 1962?

This university is an academic, independent, non-profit institution, comprising teachers, students, and graduates and managed by a civil association, which is a private legal entity. We develop professionals to reputable standards. Our origins date back to the 1960s, being founded as a result of the industrial sector taking the initiative to develop alternative academic options to those of the time. Public universities had been highly politicized up until that point, and the decision to create the university was made in the 1962 by a group of university professors along with important commerce and industry representatives. This has given our institution an entrepreneurial character from its first day, and we should highlight the leading role of our first rector, Antonio Pini-lla Sanchez-Concha, whose vision was essential to the character of the university today. Along with the Universidad del Pacifico, Universidad Cayetano Heredia, and Universidad Católica, we are part of a consortium of the top four private universities in Peru. When these institutions came into being they represented a new vision of the country, one which was more pragmatic, forward-looking, coherent, and transparent. Fortunately, Peru has taken these values into its overall political and

economic development, and these four universities have become key elements of the country's growth. They have set the standards by which the nation governs itself.

What programs does the university currently offer?

We offer 11 Bachelor's degree programs and we are looking into increasing this by offering both civil engineering and industrial design. The most demanded courses at our university are industrial engineering and communications. Engineering is one program that we are particularly proud of, and many engineers building the new generation of national infrastructure have been trained here. We are also the oldest university offering communications studies in Peru. As with industrial engineering, we have been the most innovative university in this area, and have become the most reputable higher education institution for this course. We offer a curriculum that is focused on business, and our work has helped Peru to develop the extremely strong independent print and broadcast media that it has today. Our curriculum has evolved to deal the demands of new media, which is mediated by the internet, and we are investing heavily in new equipment and new real estate to house our programs. Overall, we have become a leading university thanks to the fact that we respect freedom of opinion and

strive to uphold a high standard of media.

How has the university incorporated technology into its curriculum?

New technologies change rapidly, and therefore it is a key element in our strategy and in our courses. We invest a lot in new technologies, especially in courses such as communication studies, which is one of our main fields. We have invested in equipment and facilities, with a cinema room, TV studios, and editing areas, among other amenities. We invested \$5.8 million in new technologies in the 2013 and 2014 academic years. We also have plans to develop a digital production center as part of a Master's degree program in creation and management of content.

What kind of infrastructure plans does the university have for the future?

We have finally got the green light to build two new towers in our campus. We have plans to expand facilities, and we have land on the current campus designated for this. We also have plans to build a dormitory in order to host the many international students who come here every year. This project is a key undertaking for us in terms of sustained growing for the future and offers other advantages to our students and professors. We have a 10-year plan to develop new facilities such as this. ✖

IN NUMBERS *Universidad de Lima*

2

new faculties to house classrooms

\$5.8

million invested over past year

BIO

Óscar Quezada was elected rector of the Universidad de Lima for the 2014-2019 period. He holds a PhD and Master's in Philosophy from the Universidad Nacional Mayor de San Marcos (UNMSM) and a degree in Communication from the Universidad de Lima. He was also dean of Communication from 2002 to 2014. He chairs the Peruvian Association of Semiotics and was President of the Peruvian Association of Schools of Communication.

TBY talks to **Brunela Baca Sánchez**, Director of Peru for Tecnológico de Monterrey, on how the institution has transformed the education landscape in Peru.



What has Tecnológico de Monterrey's role been in the education sector in Peru?

Tecnológico de Monterrey has been in Peru since 1998, and we came to Peru after having started off in Ecuador in 1996. Our operations in Peru were solely virtual and online until 2003, with our first program being a business degree, and we started with just five students. That number has risen through the years and now we have 90 students. Growth continues apace, which shows that there's a lot of potential in the market here in Peru and demand is very strong. Not all applicants are accepted onto the program, because the requirements are quite high. Whether its our undergraduate or postgraduate courses, certificates, and diplomas, our objective is one and the same; to transform lives. We have many graduates who are in important places in the Peruvian economy today, because people actively seek and want Tecnológico de Monterrey graduates. So I think we're doing things right.

Tecnológico de Monterrey seemed to fill a gap in the Peruvian education sector. What was the situation like before Tecnológico de Monterrey's arrival in Peru?

Before we came along, there was no international dimension when it came to education, no options for studying abroad; the only options were

local programs and degrees. Tecnológico de Monterrey offers courses that are internationally recognized, and to complete one of our postgraduate courses you are required to study abroad, be it in Chile, Costa Rica, the US, or in Europe. So we filled a certain need and demand in the country for an international scope to higher education in Peru. Tecnológico de Monterrey changed the higher education landscape, and since then more foreign schools have come to Peru offering similar programs, universities like Adolfo Ibanez from Chile along with INCAE of Costa Rica. They offer an executive MBA that is direct competition for us. In the last three years, various European and US universities have also arrived, albeit more in a virtual sense. In Peru, Colombia, and Ecuador, Tecnológico de Monterrey has positioned itself excellently. In fact, in Colombia and Ecuador, the Tec is seen as the Harvard of Latin America. That's why we came to Peru as well, because of the local potential, and because we're able to leverage our international name and prestige here.

Does being a Latin American-based school uniquely position Tecnológico de Monterrey when compared to North American and European institutions?

Yes. On the one hand, we have all the accreditations for Tecnológico de Monter-

gap FILLED

rey EGADE Business School, all of which are recognized in North and Latin America and Europe. On the other hand, we have partnerships with some of the world's top universities, so if you wanted to do a Master's in China or Europe or the US, you could do it through us. This international dimension is what puts Tecnológico de Monterrey at the top of most Latin American university rankings. Every student already has a certain number of foreign exchanges during the course of their undergraduate studies at Tec. We have, for example, a one-week study trip to the US, and also one to Mexico City. But apart from that, students can also take optional summer courses during Global Network Week, with 500 universities to choose from, and they can take specialized courses in any one of those universities all over the world. An international dimension is very important, especially when it comes to business. Most of our alumni and postgraduate students work in multinational or "multilatin" companies. Therefore, it's important to adopt a global perspective and the have ability to work and live anywhere in the world. This is also true for our academic staff. Our staff is required to at least hold a PhD to give classes, but we also require them to have experience from the business world. Indeed, many have been business consultants or directors at various levels.

How important is Peru for Tecnológico de Monterrey?

Our EGADE Business School is second in Mexico in terms

of number of students. To give you some context, the Tecnológico de Monterrey has 26 campuses in Mexico, as well as campuses in Panama, Colombia, Peru, and Ecuador, as well as partnerships with universities in Asia, Europe, and North America. EGADE only has campuses in Mexico, Peru, and Panama. So there are just six EGADEs in the whole of Latin America. Right now we have 175 active students in Peru, and the level of our students is very high, since we have a very rigorous admittance procedure. ✖

IN NUMBERS *Tecnológico de Monterrey*

Tecnológico de Monterrey has been present in Peru since

1998

Has around 70 students per year in Peru (MBA) and

250

executives attended courses

A MATTER OF DEGREES

After the liberalization of the university system in 1996, Peru's higher education sector grew fast—perhaps even too fast. Now, the country is working to strike a balance between regulatory standards and academic independence in higher education.

SINCE THE LIBERALIZATION of the Peruvian university system in 1996, Peru has seen two decades of rapid growth in higher education, with a proliferation of private universities across the country. From 2000, to 2012, the number of students in higher education doubled from 426,000 to 865,000, with more than 60% of those students attending private universities. As of 2014, 80 of the country's 139 universities are private.

With this growth, the country has faced challenges in regulating the quality of the newer private universities, and an increasing number of small private for-profit institutions, colloquially called “universidades chichi,” or “worthless universities” have sprung up to take advantage of tax incentives for investing in the education sector. These universities have made headlines in Peru for their poor facilities, and low educational standards, and a number have even faced student strikes or protests.

A recently passed reform, called the Ley Universitaria or University Law, is aiming to rectify the situation by implementing new standards and exercising increased oversight for all universities, public and private. The greatest change being implemented by the law is the creation of the Superintendencia Nacional de Educación Universitaria (SUNEDU – the National Superintendent for University Education) as the new governing body for the Peruvian education system. The SUNEDU will replace the previous governing body, Asamblea Nacional de Rectores (ANR). While the ANR was an independent organization that brought together the rectors of every Peruvian university, the SUNEDU executive committee is appointed in a selection process overseen by the Ministry

of Education. It consists of five academic staff chosen by an ad hoc selection committee and two members who directly represent the Ministry of Education and the Consejo Nacional de Ciencia y Tecnología. The hope is that more direct government involvement in universities will improve quality standards. It aims to recover the government's role of supervising the quality of higher education in Peru, while maintaining universities' independence in their internal regulation.

The new institution will have the ability to approve or deny the accreditation of new universities and investigate and penalize existing universities for poor teaching standards or shoddy infrastructure. Currently, there are 63 private universities operating in Peru with “pending” accreditation, which the SUNEDU has begun investigating.

The law also introduced other reforms, requiring universities to renew their accreditation with SENEDU. First bachelor's degrees are no longer granted “automatically”. In order to obtain a bachelor's degree, students must now pass all the courses, carry out a research project, and learn a foreign language, giving preference to English. Second, universities must employ at least 25% full-time professors and every professor must have a Master's degree in order to teach at an undergraduate level. In order to teach at PhD level, a doctorate degree is required. At this moment, approximately 75% of the professors in Peru hold a Master's degree.

The law has also standardized the rules for electing governing bodies of universities. Every member of the university is able to participate in the elections of the rector. The professors will hold two thirds of the votes, while students hold the remaining third. The law also promotes participation; the elections are not valid unless at least 60% of professors and 40% of students participate.

The reforms have drawn criticism from some, who argue that the creation of the SUNEDU will limit the autonomy of universities, which is an important element of teaching quality. However, others believe that the reforms are necessary to improve Peru's higher education system, which has not been ranked as highly as those of its neighbors. Overall, according to a series of opinion polls, just over half of Peruvians see the reforms as a positive step forward for the education system. ✖



TBY talks to **Dr. Fernando A. D'Alessio**, General Director of AMP Harvard Business School, on CENTRUM Católica Graduate Business School, on the significance of business schools.



it's BUSINESS time

How would you characterize the role that CENTRUM Católica has played in transforming business education in Peru?

CENTRUM Católica changed the sector when it was established in 2000. The first business school in Peru, ESAN, was created in 1963. Until 2000, the business education offering was conservative. At the end of 1999, the directorate of the Pontificia Universidad Católica, the leading university in Peru, decided to create a business school. Doors opened on January 1, 2000, in conjunction with the turn of the century. This implied a disruptive change to the industry; double-degree and bilingual programs that involved travelling to Europe. The campus was built in 2000, within six months. We signed agreements with several universities: Tulane University and Boston College in the US, Maastricht School of Management in the Netherlands, and the EADA and the IE Business School in Spain. We modernized this sector, which benefitted Peru, creating in its wake a new generation of business leaders. Today, we have a campus in Lima and programs in nine cities in Peru. We are present in Bogotá, Medellín, and Quito. We also offer an online program available worldwide. CENTRUM Católica is the only organization in Latin America offering massive open online courses (MOOCs). Our school is creating the leaders that Peru and the region need. Our influence is region wide. We are the

only school holding the Triple Crown in Peru, namely three key accreditations: AACSB international from the US; EQUIS from EFMD, the European Foundation for Management and Development; and AMBA, the Association of MBAs and DBAs of the UK. This is unusual for a business school. There are seven such institutions in Latin America and 57 throughout the world, from which, less than 1% are Triple Crown. This means that we are peer-reviewed and audited. We are the only institution in Latin America to make it into the Financial Times' list of 100 best executive MBAs. CENTRUM Católica ranks number 52.

How did you achieve such high standards so quickly?

We should credit five factors for our rapid success. The first is that we belong to the best university in Peru, which has existed for a century, and we are recognized as part of it. Secondly, all our programs are international. There is no program in which students do not travel abroad as part of their studies, and all programs lead to double diplomas. Thirdly, we have an outstanding faculty. Professors come from different parts of the world, such as India, the US, and Honduras. Fourthly, we have a state-of-the-art campus, and possibly the best to be found in Latin America. Finally is the degree of autonomy that I have at my disposal. I am free of the bureaucracy frequently found in a university system, where de-

Only business school in Peru accredited by the AACSB, the EFMD, and the AMBA

The only institution in Latin America offering massive open online courses (MOOCs)

BIO

Dr. Fernando A. D'Alessio is the General Director and founder of CENTRUM Católica, the Graduate Business School of the Pontificia Universidad Católica del Perú established in 2000. He is also: Vice Admiral, Peruvian Navy; Sword of Honor 1964; graduated from Advanced Management Program at Harvard Business School; has a Bachelor's in Naval Sciences, Escuela Naval del Perú; is a Doctor of Business Administration, University of Phoenix, Arizona; D. Eng., MSc and a BSc in Mechanical Engineering, U.S. Naval Postgraduate School, Monterey, California; M.Sc. in General Management, Salve Regina University, Newport, Rhode Island; Diploma in Strategic Studies, U.S. Naval War College, Newport, Rhode Island; and conducted specialized studies of Executive Education at Babson College, London Business School, and Harvard Business School.

isions must clear the provost, vice rector, and president. We are providing Doctors to Peru and to the region, publishing in the best journals, and moving other universities to do research as well.

Does research play an important role in contributing to teaching?

The idea of research is to actualize classroom learning, to bring in new ideas, new models, and new ways of working. Business Administration is a constantly evolving practice. Research keeps training current. For example, we have spent almost 10 years studying leadership. At the beginning of MBA programs, we deliver a questionnaire about leadership, emotional intelligence, critical thinking, and personality to the students. The same questionnaire is delivered by the end of the program in order to see to what extent has the MBA changed them. ✖

INTERVIEW

TBY talks to **Mariana Rodríguez Risco**, President & CEO of Laureate International Universities, on the role of the institution in the higher education system.



we've
COME
a long
WAY

With its two institutes and two universities, what role does Laureate play in the higher education system here in Peru?

We are now one of the biggest educational groups in Peru with 100,000 students enrolled in our institutions, UPC, UPN, CIBERTEC, and ITN. Yet, when you look at the overall higher education market, we make up less than 10% of private enrolment. There are 1.5 million students at the tertiary level nationwide, albeit the private education systems slightly less than a million. We entered the sector in 1983 with CIBERTEC as pioneers in IT training and education in Peru. To this day, we remain one of the most prestigious institutes specializing in technology, although we have successfully introduced programs in the areas of business and design. Technology, so to speak, remains the common denominator. As a group of higher education institutions, we have always pursued a dynamic academic model characterized by innovation. We were the first to offer an undergraduate focused in the music and in the fashion industries (UPC).

What innovations are you exploring to integrate technology into the educational experience, particularly at UPC?

At UPC, we are developing a new model; the country's first digital university. We aim to find new ways to deliver higher education. We will strive to become a leading university in the use of technology in the classroom. The delivery of education needs to be more accessible to students with different needs. The higher education industry is evolving, and we believe in being bold in our stance. We are currently in the design and pilot phase of the digital model. We have already started by

encouraging our students and faculty to leverage such technology as smartphones and tablets in the learning environment.

What role can the private sector play in increasing access to higher education for people of lower income in Peru?

UPN is keen to make higher education more affordable for a large underserved market that has long lacked access to education. This is vital for the future of a developing country like Peru. In this country, participation in higher education remains low. We have come a long way over the past 15 years; only three out of 10 students leaving school today have access to higher education. We need to push for a 50-60% participation rate. There are those who dismiss the key role of private education in society arguing that education should be free and guided by the state. I myself have been engaged in this debate throughout my professional life of over 30 years. Today, when we look at Peru, we find that private education accounts for 70% of enrolment. Had we not secured private investment in the education system over the past 10 years, we would be in a critical situation, lacking the required pool of professionals that Peru's development requires. And so private education has played a major role in providing higher education to more and more people in Peru.

Do you think the reform of university regulations to improve low-quality private institutions has been positive for Peruvian education?

The issue of quality is a separate issue from whether a school is a public or private institution. There are good and bad quality institutions in the public and private sectors.

Has four institutions in Peru Universidad Peruana de Ciencias Aplicadas (UPC), Universidad Privada del Norte (UPN), CIBERTEC, and Instituto Tecnológico del Norte (ITN)

The students' best interests have to be at the center of the debate. Both public and private institutions need to manage their financial resources effectively and efficiently in order to invest in better infrastructure and academic quality. I can understand why there has been pressure for new laws and regulations regarding higher education in Peru. When you look at this sector, sure, some bad institutions do not focus on the best interests of their students. This is a very asymmetric sector where the student has a limited ability to decide where and what to study. Effective regulation must be built on setting reasonable, minimum, or baseline standards focused on the outcomes (employability) of institutions rather than just the process (percentage fulltime faculty). My concern is that the regulatory body, SUNEDU, may become highly bureaucratic, led by people with traditional paradigms and set in the ways of the past. Too much regulation is the best way to stifle innovation. ✖

BIO

Mariana Rodríguez Risco is the President and CEO of Laureate International Universities. She has an MBA from Boston University. She is the founder of UPC, CIBERTEC, UPN, and ITN.

EDUCATION *for* DEVELOPMENT

Peruvian higher-education is receiving a boost from increasing collaboration between the public and private sector. Globalization, government-incentives, and innovation have set the direction.



JOSÉ AMIEL PEREZ
*Senior Rector,
Universidad Científica
del Sur*



IVÁN RODRÍGUEZ
CHÁVEZ
*Rector, Universidad
Ricardo Palma*



SERGIO BALAREZO
SALDAÑA
*Rector, Universidad de
Piura*



JUAN MANUEL
OSTOJA
*CEO, San Ignacio
de Loyola
Corporation (USIL)*

In the past, universities did not see the need to commercialize their brands and services. However, ties between universities and the private sector are extremely important. We are a private university, and therefore, we make sure we know exactly what the private sector needs. This makes our programs an important link in the productive chain of our economy. The Universidad Científica del Sur also has partnerships with private companies to develop research and infrastructure, for example, in the agricultural sector and the pharmaceutical industry. We are about to develop a research center for the poultry industry in conjunction with a leading private company. We also have agreements in place for our med students to do their practices in the most technologically advanced centers, allowing them to gain experience with the latest trends in medical technology. Our students gain experience at the best hospitals and clinics in the country. We also have many partnerships with international universities that are the basis for student and professor exchanges.

We are incorporating specializations in response to market demands for professionals in global business management and tourism. Careers in tourism are especially important because Peru is a country with culture, history, biodiversity, and multiculturalism. The tourism sector has immense potential here. In the future tourism could emerge as a pillar of the economy. The university also has computer engineering and electronics courses that are important in today's world. Medicine and biology stand to benefit from Peru's biodiversity. Psychology-specialized professionals are in high demand. Likewise we have opened a line for positive psychology and neuropsychology. Architecture is one of the strongest careers we offer. In economics we are promoting a specialization in marketing. Our global business degree has two languages as a requirement for graduation including Mandarin Chinese. The university has translation specialization in English, German, French and Mandarin Chinese. We also offer industrial and civil engineering in order to satisfy the demand for construction that Peru is experiencing.

The effort our Government is doing to empower public universities in our country helps a large segment of low-income population without access to higher education. For example, at our university we promote scholarships and alliances like "Beca 18" to increase the access to high quality education. From my personal point of view, we need to further regulate the quality of higher education in the country. Education must not solely have commercial purposes; it is intended to generate knowledge according to developmental situation in the country. The role of both university and technical higher education must be reassessed establishing quality standards to ensure the right to receive a good education. Globalization has opened many opportunities for the higher education sector. We are now able to take advantage of the development experience of foreign universities, create alliances and agreements with international counterparts, and increase the international exchanges of researchers and students.

Right now, we are considered to be a middle-income country. However, we have the education standards of a poor country. Probably the biggest problem right now that Peru faces is the standard of education. We should aspire as to be considered a country with a great education system. We should increase the public education budget, the current 3.5% is not good enough. But, we also need the private sector. The government can't achieve those targets alone. Our university promotes an innovative approach to education. Ultimately, that is the role of the private sector in education, to improve and innovate. In Peru, for example, we trained our students not only to become good employees, we also taught them how start their own company. We focus on globalization. The problems we have are mostly because of the bad decisions that were made by the government 30 years ago, however, now there is an impetus for change and universities are focused on achieving results.

INTERVIEW



TBY talks to **Aurelio Alberto Rebaza**, President of SENATI, on vocational education, the role of the private sector in improving human resources, and future objectives for the organization.

BIO

Aurelio Alberto Rebaza is the National Service Council President at the National Apprenticeship and Industrial Labor Service (SENATI) in Peru. He has served as Board President in the Lima Stock Market and as the CORPAC S.A. Board Vicepresident; Director of Cobrecom S.A., Compañía Minera Raura S.A., Fundación de Metales Vera S.A., Aeroperú S.A., and Comercial Systral S.A. He has carried out positions such as: Administration and Finance Manager of Indeco S.A., Chief Manager of Indusur S.A., and Chief Manager of Inversiones Cercanta S.A. He is an attorney, and graduated from the Pontificia Universidad Católica del Perú. In addition, he has completed graduate studies at the Academy of American and International Law at Southwestern University, the Legal Foundation in Dallas, Texas, accounting studies at ESAN, and an International MBA in Air Law.

a particular SET OF SKILLS

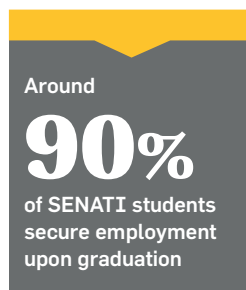
What role does SENATI play in technical and vocational education in Peru?

SENATI was founded under an initiative from the National Society of Industries. At that time, the National Society of Industries analyzed the national economic situation and drew attention to the lack of adequate technicians for the industry. It submitted a bill to congress to help the industry be part of the training in new technicians. The goal of SENATI is to train technicians for employment. It adopted the German dual system, in which the student is better prepared by undertaking work experience. Because of this, SENATI has been able to establish 82 educational centers in Peru, develop 64 three year professional technical training careers, and serve around 75,000 students a year. We also have 450,000 worker enrolments in short-term training programs of one or two months. The secret to our success has been the participation of the private sector in the education process.

What does SENATI do to maintain strong links with the private sector?

The structure of leadership in SENATI is composed of people in the industry. For example, currently we have 14 zone managements at the domestic level. We are located in different areas of the country, such as Arequipa, Chiclayo, and the jungle regions. They have boards of directors that are composed of industry members who are nominated by business chambers. These businessmen provide data to SENATI on their needs in the educational arena, because they are in the market and are best positioned to know it. We use this feedback from the businessmen to create our own academic programs for various courses. Besides the

IN NUMBERS
SENATI



participation of the business community, we have consulting boards for different specialties that are also composed of businessmen, who consult on the selection and design of the programas we are set to teach. Among all our graduates, around 12,000 to 13,000 students a year, that is 90%, are immediately employed. The other 10% usually set up their own companies, or will pursue alternative options. We also conduct industry surveys to assess the degree of satisfaction of our students. Through this, we have learned that there is 95% satisfaction of our graduate's overall performance.

What is the importance of international links for SENATI, and what kind of international programs are you developing?

I recently made a trip to Germany to promote links with different universities there. We are establishing links with those German institutions operating the dual system. I also contacted German companies that have the dual system as well. Universities like

Mannheim and companies like Bosch, Festo, Mercedes Benz, BMW, and others have the purpose of creating student and faculty exchanges as well as work internships. Independently of those international contacts, we have direct contact with companies such as Komatsu-Mitsui, which has donated \$1 million to SENATI to instruct 105 students in the area of heavy machinery. We have also established contacts with other international companies keen to prepare technicians for their domestic operations. In the mining sector, we also have agreements with various companies for heavy machinery maintenance.

Why is having international links important for technical education?

It is important because it updates the field of technology, which is constantly changing. SENATI wants to be the leader of this technological education in Peru precisely by being linked to the international market and education. Generally we have constant contact with all the technical agencies of countries, like GIZ from Germany, French cooperation, JICA from Japan, the Spanish agencies, and also the Brazilian Agencies. We realize constant exchanges to improve our technology in Peru. Annually, an average of 30 foreign experts comes to SENATI to work with our teachers and students.

What are your goals for SENATI?

In the short term, we want to consolidate the investments we have made in infrastructure and equipment. In addition, we want to provide facilities for our students. Most of them come from public schools, and we want them to become first class students and to have all the facilities at their disposal that any other university would provide. On the other hand, we want to boost our Escuela Superior de Tecnología where we aim to position our best students in the development of new technologies. ✖



LUIS ALCÁNTARA
GAVIDIA
*General Academic
Director, IDAT*

IDAT is a higher education institute, not a university. Universities train students to become professionals. We train professionals to be pragmatists. Technological industries have a deficit of talent. Annually, 300,000 technical professionals are required, although there is only a 90,000 annual graduate turnover. This is a deficit that we have to fulfill. Peruvian companies often source professionals from abroad, which incurs high costs. An important example is the automotive sector. An automotive mechatronics career is coveted because there are not many automotive mechatronics in the country, but solely mechanical. It takes two years training to become a mechatronic engineer and this represents a high cost for companies.

FERNANDO ARRUNÁTEGUI MARTÍNEZ
Dean, School of Management, ISIL



Since the 1980s, at the time of the Fernando Belaúnde government, Peru created technical institutions. In fact, ISIL was the first higher institute of technology in Peru, established, in 1983. Now, there are two kinds of higher education: technical and classical. Over the years, the legal framework has become more rigid, reducing space for innovation and reducing possibilities for improvement. For example, within today's framework, introducing a new program as an institute requires authorization, which could

VOCATION *and* LEARNING

Technical institutes are meeting the growing educational needs of both industry and the population. The dynamic training of homegrown professionals is lending Peruvian business a competitive edge.

When the school opened in 1968, there was no technical education for business in the country and that's what made IPAE a pioneer. In 1999, the economic situation of the country was rough, and people turned to self-employment. The institution decided to promote entrepreneurialism by educating Peruvians on how to start their own companies and businesses, or by helping their families professionalize their own businesses. That changed everything, because suddenly we were educating Peruvians who finished their studies and started their companies and had solid knowledge as to how to build companies. In the last five years, other institutions are following this trend increasing the number of programs and places where students can learn about entrepreneurship.



CARLOS
MONTALVÁN
MOSQUERA
*General
Manager, IPAE
Escuela de
Empresarios*

take two years, during which time the design of the program and needs of the industry might change. A law is about to be passed in Congress that will introduce changes in technical higher education to allow more flexibility and shorter times for the authorization process. The rigidity of the legal framework is around the certification of the students. Flexibility is an urgent need. In technical education, we need a legal framework that will introduce innovation, new contents, and new courses according to the needs of the industries.



CLAUDIA LEZAMA
CEO, Cibertec

We officially opened a site in Arequipa in March 2015. Arequipa is the second most important market in Peru for technical education and despite of this 42% of our potential market does not have adequate access to technical education. Our mission is to provide quality education to young people and help them to achieve their dreams of becoming a successful professional. We have maintained a strong relationship with the government, who dictates the regulatory framework. Every new program, infrastructure change, curricula upgrade, or new site project had to be approved by the Ministry before execution. This made our processes complex and slow and reduced investor interest. Fortunately, Minister Saavedra is injecting new energy to the sector.

SHOW ME YOUR SKILLS

Peru boasts a colorful education scene, with many modern styles of teaching on offer.

“The difference between modern and traditional styles of learning is centered on who is in charge, and who is leading the process. Is it the teacher or the student? Children bring their emotions, questions, and curiosity and they want to understand the world through their own interests.”

LEÓN TRAHTEMBERG
Head Teacher, Colegio Áleph

“Currently, English language education beyond the private sector is poor. Even some private schools, the little ones, only offer one hour a week of English language.”

ELENA VIZURRAGA
National Director & Director of Studies, Hiram Bingham School

“WE ARE TRYING TO TEACH PEOPLE SOFT SKILLS FOR ENTREPRENEURSHIP SO THEY CAN GO OUT, ESTABLISH THEIR BUSINESS, THEN EXPAND IT TO EMPLOY MORE PEOPLE.”

GRAHAM GISBY
Headmaster, Casuarinas International College

“Obviously, good infrastructure is necessary but if it does not go hand-in-hand with good teacher training, it is like building the walls and roof of a house without ensuring that the foundations are solid”

ANDREW CINO
Headmaster, Newton College

“Our generation has a duty to consider those that have yet to come. Wealthy children brought up in privilege often lack the capacity to think out of the box. Our science projects, for example, encourage children to think through providing solutions for those less fortunate than themselves.”

PILAR DEZA
Founder, Casuarinas International College

“THERE IS INTEREST IN THE ENGLISH LANGUAGE, BUT THIS IS ALSO CONTINGENT UPON ON THE RESOURCES AT HAND. FOR EXAMPLE, FOR MANY PEOPLE WITH A HIGH LEVEL OF ENGLISH, IT IS NOT BECAUSE OF THEIR INSTRUCTION IN SCHOOL, BUT THANKS TO TIME SPENT IN PRIVATE LANGUAGE INSTITUTES.”

JEREMY PERRIN
Principal, Colegio Euroamericano

“Environmental awareness is growing in all International Baccalaureate schools belonging to an association of schools in South America called the “Latin America Heads Conference.” Teachers from these diverse organizations discuss the latest pedagogic issues regarding teaching methodology.”

TERESA SALAS DE SERTZEN
Director, Colegio Euroamericano



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María Soledad Acosta Torrelly, Director of Tourism Promotion in Promperú, on development strategy.

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Peru's tourism sector represents a significant opportunity for a large number of international hotel chains.

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Peruvian cuisine is seeing a major increase in popularity—and is jumpstarting the tourism industry in the process.

Tourism & Retail

REVIEW

The government has set a target of 5.1 million annual tourists by 2021, and has set about creating numerous strategic partnerships to increase the country's presence around the world.

GOLDEN TOUCH

Like many of its neighbors, in recent years Peru has seen the advantage of developing its tourism industry; however, unlike many of its neighbors Peru hosts Machu Picchu, one of the Wonders of the World. Long one of the top destinations of back packers because of the world famous Inca Trail, the country is now looking to develop its tourism infrastructure to attract tourists with a higher disposable income. To do this, the government is implementing a number of initiatives to diversify the incoming tourist.

VISITORS

The country has set a target of 5.1 million tourists by 2021, something which is attainable as by the end 2015 the country is expected to have attracted 3.43 million visitors according to the World Travel & Tourism Council's (WTTC's) Travel & Tourism Economic Impact 2015, which would represent a 5.6% rise on the year before. According to the latest statistics from the



Image: Condor Travel

Peru is focusing on new markets as it seeks to move beyond its traditional reach. Two countries that have shown massive increases and look to be a potential solid producer for the future are Korea and China, with growth rates of 50.5% and 21.5% in 1Q2015.

Ministry of Foreign Trade and Tourism (MINCETUR), the number of arrivals in 1Q2015 rose by 8.3% compared to the same period the year before to 867,503. Some of Peru's main source markets for tourists also saw impressive increases for the quarter, with visitors from Mexico increasing by 17%, Colombia 14.2%, Ecuador 9.4%, Argentina 9.6%, and Brazil a rise by 6%. In total, these five markets represent 22% of all tourists entering the country. As the government sets out to meet its goal of 5.1 million annual visitors, it has been actively setting up strategic partnerships around the world with this target in mind. An intense promotional campaign by MINCETUR through Promperú and Peruvian Trade Offices Abroad (OCEX) has specially targeted the consumer in various countries around the world in partnership with tour operators and marketing chains. MINCETUR has established 16 strategic partnerships recently, most notably with tour operators in the US, Brazil, Colombia, Mexico, Canada,

and Spain, among others. This sort of tactic has already produced rewards with a 7.5% increase in tourists from Spain in 1Q2015 compared to 1Q2014. This can, in part, be attributed to the “Peru, Country of Hidden Treasures” campaign launched in January 2015 with OCEX Madrid focusing on the gastronomical offering of the country. Peru is not solely focusing on traditional markets for tourists as it looks to diversify its sources. Two countries that have shown massive increases and look to be a potential solid producer for the future is Korea and China, with growth rates of 50.5% and 21.5% in 1Q2015, respectively. Peru’s participation in Expo Korea 2015 in July will only further boost these numbers as it increases its awareness around the world. In China, Peru’s presence is increasing due to a large delegation of Chinese tour operators that recently visited the country. This was ahead of the sectors Peru Travel Mart 2015, which was held in May 2015. The annual event is a meeting place for tour operators around the World and a perfect way for the country to showcase and promote itself to new markets.

Along with increasing visitor numbers, the country is looking to develop its MICE segment. A goal of many countries looking to develop their tourism sector is to also bring in business tourists and conventions. A recent study by THR, a tourism consultant firm, found that currently the country lacks the necessary infrastructure to hold a conference of more than 2,000 people. This makes Peru unsuitable for large-scale conventions and meetings. However, after numerous interviews with industry leaders, the study found Lima, Cusco, and Arequipa were the most financially viable cities to host convention centers. Now, THR and the government are looking to develop an action plan on how to move forward.

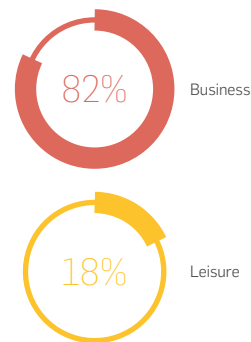
GDP

The economy’s current reliance on extracting non-renewable materials is another reason the government is looking to other sectors to help diversify the economy. Tourists can be a prime source of foreign currencies. In 2014, according to the Ministry of Foreign Trade and Tourism \$3.83 billion came into the country with tourist, which equates to approximately just under \$1,200 per tourist. The sector is performing well in terms of its contribution to GDP as well. In 2013, tourism made a direct contribution of

\$6.72 billion under current prices to the GDP, or 3.6% of the total. This figure is expected to rise in 2015 by 4.9% to \$7.06 billion, and then continue rising by 6.2% per annum for the next decade to \$12.84 billion in 2025 or 4.2% of total GDP according to WTTC. In terms of both direct and indirect contribution, in 2014 the total contribution stood at \$17.86 or 9.7% of total GDP. A rise of 4.5% is expected for 2015 to bring the total contribution to \$18.65 billion. A forecasted rise of 6.1% per annum is expected between 2015 and 2025 to reach \$33.66 billion or 11.1% of total GDP. Compared to its neighbors, Peru is behind its main competitors in Argentina, Venezuela, and Chile, which ranked 23rd, 33rd, and 41st, respectively, while Peru ranked 43rd globally in terms of direct contribution to GDP according to WTTC. However, it did rank higher than its culturally closest competitor Ecuador, which ranked 83rd globally. In terms of total contribution to GDP, Peru ranked slightly lower at 47th, while Argentina, Venezuela, Chile, and Ecuador ranked 24th, 28th, 41st, and 82nd, respectively.

BUSINESS VERSUS LEISURE SPENDING (2014)

SOURCE: WTTC



SAMMY NIEGO
President & CEO, Condor Travel

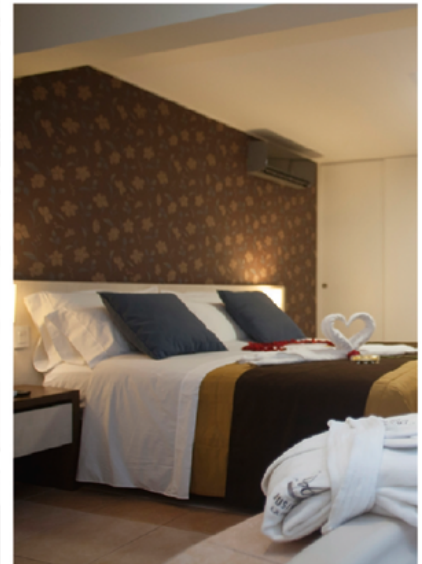
We differentiate ourselves from other competitors by mainly focusing on the global market. We cater to all segments of inbound tourism, from conventional tourism, such as, tourists coming to Peru to visit cultural heritage sites, to a cruise division that realizes large-scale holidays. People want a visual experience, which we can provide whatever their preference. We are present internationally, and we are the only company in Peru that is expanding operations to such an extent. There are few companies operating regionally in the same way.*



PALMETTO

HOTELS BUSINESS

San Borja | San Miguel | La Perla



SAN BORJA

RESERVATIONS
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Annex 105

Av. San Borja Sur 415 - San Borja
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SAN MIGUEL

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Annex 109

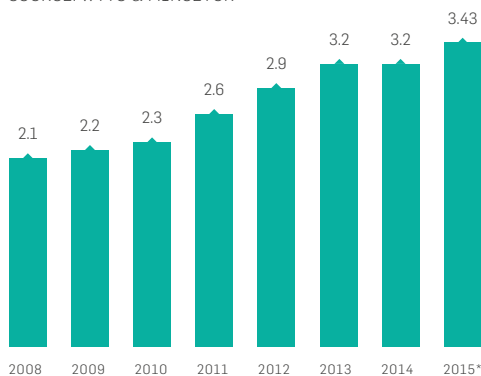
Av. La Marina 1090 - La Perla
reservasla-perla@palmettohoteles.com



www.palmettohoteles.com

NUMBER OF ANNUAL TOURISTS (MILLION)

SOURCE: WTTC & MINCETUR



JOBS

A traditional area of strength for the tourism sector has always been job creation and employment. In 2014, travel and tourism in Peru helped to generate 374,500 direct jobs, which represented 2.4% of total employment. This is forecast to grow by 2.9% in 2015 to 385,000. By 2025, an estimated 550,000 people will be employed in the travel and tourism sector according to the WTTC. If you include both indirect and direct job creation, then the numbers are considerably more impressive. In 2014, 1.25 million jobs were linked to travel and tourism, which represented 7.9% of total employment. In 2015, this is expected to rise by 2.4% to 1.28 million jobs and by 2025 hit 1.78 million jobs or 9.2% of the total job market.

SIGHTS

If you ask anyone to name something about Peru, then it is likely that two words will come mind: Machu Picchu. Located at 2,430 meters above sea level, the Incan citadel is high in the Andes Mountains. The awe inspiring sights still fascinates visitors long after Hiram Bingham rediscovered the ruins in 1911. Machu Picchu was built around 1450 and then abandoned only a century later at the time of the Spanish Conquest. It was largely completely forgotten about, apart from the local farmers who lived nearby. Once it was rediscovered in 1911, people began to flock to the ruins. In 1983 it was announced as a UNESCO World Heritage Site and in 2007 was voted of the New Seven Wonders of the World. Its architecture still puzzles archaeologists today, as the techniques used to shape the rocks have been lost over time. The number of visitors to the site was just shy of 1.2 million in

2013, something which worries the authorities as they cause an increased threat to damaging the site. In 2010, heavy rain and floods destroyed a number of the roads leading to the site increasing fears that irreversible damage could occur. However, in order to prevent this, the authorities are bringing in strict regulations on visitor number to help reduce the risk. The number of daily visitors has been reduced to 2,500, while the amount of people allowed on the famous Inca Trail, a four day hike to Machu Picchu, is restricted to 500 people, of which 300 will be porters and guides. Anyone wishing to use the Trail must do so with a guide in a group of a maximum of 20 people. The days of arriving in Cusco and heading up to Machu Picchu on the spur of the moment are over as the government looks to safeguard the site and the surrounding area for generations to come. Still, with the ruins being so close to the city of Cusco, the old capital of the Incan Empire, they will remain popular for many years to come.

Another world famous site is the Nazca Lines located in the south of the country. Another of the country's UNESCO World Heritage Sites, the ancient geoglyphs have baffled archaeologists for some time as to how they were created with such precision. Between the towns of Nazca and Palpa, there are hundreds of figures drawn into the sand that can only truly be appreciated from the sky. Thought to have been drawn between 500BC and 500AD, the lines include hummingbirds, spiders, fish, sharks, orcas, lizards, and the famous monkeys. While the lines are only shallow, usually around 10cm to 15cm deep, in the ground, the almost complete lack of rain and wind as well as a stable and dry climate, the lines have been completely preserved naturally. While there is a belief by some that the only way to see the lines is from the sky, meaning the people that drew them must have had help from someone or something that could fly, the surrounding foothills do provide a bird's eye view of the line of the majority of the drawings. The area encompassing the Nazca Lines spans for nearly 500sqkm. Some of the largest figures are close to 270m long. The exciting thing about the Nazca Lines is that new ones are still being discovered. In 2011, a Japanese team from the Yamagata University found two new small figures, one of which resembled a human head. In 2012, the university announced that it would be create a new research center at the site that would work on the area and study them for the next 15 years. Since 2006, over 100 new geoglyphs have been discovered. ✖



ALBERTO PANIAGUA

*Executive Director,
Profonnanpe*

Profonnanpe, the Peruvian Trust Fund for National Parks and Protected Areas, is a private institution that has supported protected areas across the country since 1992. Businesses are already behind the idea of protecting the environment in Peru, but we need to create the facilities to develop new technologies to reduce emissions. The top priority in Peru is to reduce deforestation, and we have around three reforestation projects with a total funding of \$8 million and over 20 successful cases of carbon footprint reduction programs.*



WELCOME *wagon*

TBY talks to **María Soledad Acosta Torrelly**, Director of Tourism Promotion in Promperú, about development strategy, the importance of domestic tourism, and the future of the industry.

One of Promperu's major goals is to promote Lima as a destination for international meetings

BIO

Maria Soledad Acosta Torrelly graduated from the Faculty of Communication Sciences, Tourism and Psychology at the Universidad San Martín de Porres. From March 2010 to August 2014, she served as Deputy Director of Domestic Tourism Promotion PROMPERÚ. During her tenure, she developed and executed award-winning campaigns. She was appointed Director of Tourism Promotion of Commission of Promotion of Peru for the Export and Tourism in August 2014.

What role does PromPeru play in promoting Peru internationally and domestically?

Our mandate is essentially the promotion of our country, both domestically and abroad. In recent years, domestic tourism has played an important role for our country and an increasing number of Peruvian operators have turned their attention to the domestic tourist. In the past, it was much less of an interesting market. However, since infrastructure and income has improved, so has the capacity to sell holidays to Peruvians. We don't just promote, we also develop strategies to boost competitive destinations. On the other hand, we are focused on the diversification of Peruvian destinations. In this sense, our responsibility is not only to promote traditional destinations, but also to identify new and less-known alternatives. With regard to promotion abroad, we are focused on the Latin American market and the US. The latter represents 16% of the market.

How important is tourism from neighboring countries to your strategy?

Over the past year we have been working to increase interest among our neighbors Ecuador, Chile, and Bolivia. We have more than 800,000 Chilean tourists crossing the border annually. Most of them visit Peru because of health, commerce, and tourism. Gastronomy is also becoming an important attraction. Our advertising pool is focused on the north of Chile and southern Ecuador.

What are the biggest challenges confronting Peru in terms of tourism promotion?

The challenge is the diversification of our offer. We are well positioned with Cuzco and Machu Picchu as the main cultural attractions. We also have nature, beaches and a varied geography that allows for interesting adventure tourism. At the moment, we are focused on eight regions. In the south, Machu Picchu will always be the star. But we are else promoting aggressively Arequipa and Puno. Arequipa with the deepest canyons in the world, is our second city, and aside from international tourism, attracts the greatest number of domestic tourists after Ica. This city is also gaining attention because it is going to host five important international events, placing it in the International Congress and Convention Association (ICCA) ranking. In Puno, we have rural tourism due to the lake and we are hoping Tacna will become a gastronomy hub.

What efforts have you been making to promote domestic tourism?

Three years ago we were evaluating possible strategies to encourage Peruvians to take their holidays locally and all year round. We wanted to make traveling a habit, and years ago, Peruvians traveled regularly and then the numbers decreased because of internal problems. We want people to reengage with traveling and make it easy and stress-free. We started an online campaign called "¿Y tú qué planes?" in 2012. To-

day, the travel search-engine that we created for "¿Y tú qué planes?" is the second most used among travelers after Google in Peru. We worked with operators in each region to create accessible information. We won an award from the World Tourism Organization for the campaign and domestic travel in Peru grew 4% last year.

What makes Lima a good destination for MICE tourism?

Lima is an international hub in a privileged location. The capital city has great infrastructure and many international brands are attracted to the city. The cuisine is world class, and the city's political environment is generally stable. The quality of services is respected and well known and infrastructure and investments in the city are increasing.

Could private investors play a larger role in developing Peru's tourism industry?

Yes, and not only in infrastructure, but across the board. Spain is one of the most important investors in Peru. The corporate sector is growing and flight connections are increasing. Lima is not the only destination attracting investor interest, as Tacna has done so, too.

What are your key goals for 2016?

We want to attract four million tourists to Peru. We have to consolidate markets such as US and Latin America, and will increase our work in these strategic markets through trade and campaigns. It is important to mention that there has been an increase in competition from regional states. We have to stay attractive in order to sustain growth at the same pace. We will keep working on innovative strategies and new products in relation to nature, adventure and culture depending on the demand of the different markets. ✖

JUST INCAS

Few places in the world—let alone in South America—are as iconic and dramatic as Machu Picchu. And little wonder, as the complex sits a heady 2,400 meters above sea level and is nestled between the Peruvian Andes and the Amazon basin.



The stones of the citadel fit together so well that its cracks are still impossible to penetrate

Image: PromPerú

THOUGH THE INCANS completed construction in the mid-15th century of “La Ciudadela,” (the Citadel), the cultural site has only recently—within the last 100 years or so—become a popular attraction. American historian Hiram Bingham re-discovered the site in 1911, and until then, the site was basically unknown and untouched.

Occupying over 32,500 hectares and about 80 km north-west of Cuzco, Machu Picchu was abandoned just 100 years after its construction as the Spanish were in the midst of colonizing much of the region. Many anthropologists speculate, however, that the Spanish never happened upon the site, as it was spared the destruction that was evident

in many other areas and settlements nearby.

The Citadel is made up of close to 200 buildings and structures, featuring everything from temples, houses and sanctuaries. It also provides a glimpse in to what every-day life might have been like for its inhabitants. Some historians believe that Machu Picchu was built at the peak of the Incan Empire’s strength and ingenuity: according to *National Geographic*, the Citadel was constructed out of cut stone—all made without mortar—that fit together so well that its cracks are still impossible to penetrate by the blade of a knife. Visitors are also able to view its sophisticated irrigation system, intricate stonework and terraced fields.

Undiscovered for hundreds of years, the site today draws visitors from around the world



Image: PromPerú

The purpose of Machu Picchu remains a mystery: a sacred site or a royal estate

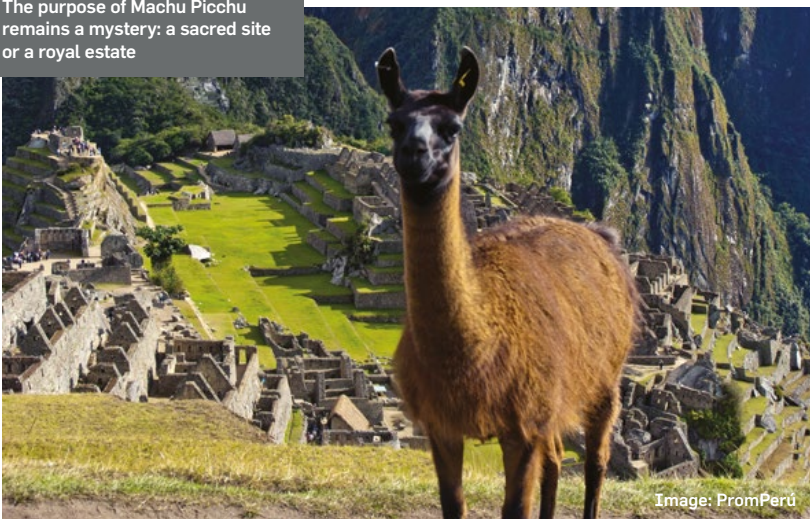


Image: PromPerú

The surrounding mountainsides harbor flora and fauna that are specially adapted to the altitude

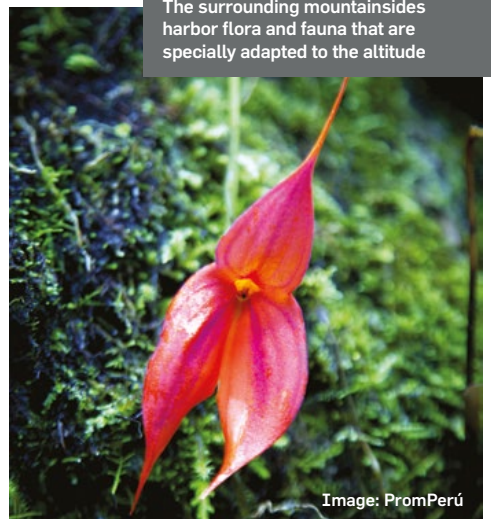


Image: PromPerú

Dramatic scenery only serves to amplify the mysticism and wonder of Machu Picchu



Machu Picchu's original purpose is still something historians and anthropologists are trying to pinpoint. Some believe that the site was actually an estate for Incan royals and emperors; others maintain that Machu Picchu served as a religious site due to its proximity to the mountains and other geographical landmarks that Incans held sacred. Though dozens of theories have been hypothesized, all agree that it was of great importance for the Incan people and a pinnacle of the Empire.

There is little wonder as to why Machu Picchu was designated as one of the New Seven Wonders of the World in 2007, as the climate and topography make for stunning pictures of the historical site. Its dramatic scenery only serves to amplify the mysticism and wonder surrounding Machu Picchu, and will continue to attract visitors from around the world in the years to come. ✖



ALBERTO VALDEZ
*General Manager,
Perurail*

Having a single railway line between Cusco and Machu Picchu is a major challenge. The capacity of the trains is limited. We have to increase the daily frequency of trains, and we will need to invest in more areas to park trains. Concessions and PPPs for infrastructure projects that were promoted by the government helped with the development of the country. We are receiving capital that will help the country grow efficiently with companies that have extensive experience in different sectors.*



JORGE MELERO
*General Manager &
CEO, Intursa*



ALFONSO J.
BRAZZINI
*Chairman of the
Board, Inversiones La
Rioja*

chain GAME

Peru's tourism sector represents a significant opportunity for a large number of international hotel chains.

What is your position in the Peruvian market?

JORGE MELERO Intursa today, with eight hotels, is one of the largest chains in Peru in terms of overall figures and sales. Our eight-hotel chain is comprised of three luxury brands including the Luxury Collection, the Westin Lima, and our own local brand, Libertador. We have over 1,090 rooms in total, and are expecting to grow in Peru and expand our footprint in the region.

ALFONSO J. BRAZZINI During the nation's early years of tourism, no international chains were establishing a local presence. There was no long-term financing available for foreign companies and there were no capital markets or bond trading. Therefore, in 2000 when the economy was beginning to rollover, there were no world-class hotels. That is why we invested a great amount of money and we found a strategic partner for financing, namely ScotiaBank. ScotiaBank is an expert in the industrial and tourism sector. We received a 10-year loan, which was unusual at that time, and our first hotel was built in Lima with a total of 300 rooms. Our competitors, all local brands, except one, had around 800 rooms all together, and by introducing 300 new rooms in the market we

found ourselves in a price war. We have succeeded in the market today, and our hotel is very successful and above with any of the international brands. Although they are newer, we have a year round occupancy of over 80%, which is very high.

Lima has become a destination for business as well as diplomacy. What demands does that place on its hotel infrastructure, and what opportunities does this present for you?

JM Lima is an incredible city with even more opportunities for growth in terms of business, conventions, and incentives in this segment. The city is investing in a convention center set to be completed within the first half of this year. Throughout Latin and South America, urban centers are improving their connectivity with increasing international flights from Europe and the US. I forecast Lima being one of the cities in the region set to benefit the most from investment in tourism.

Has Peru become an important country for Marriott?

AJB Peru has become an important country, and we have as many brands here as in Santiago. Many countries in South America do not even have a single Marriott brand hotel, although many countries are just starting to get there first ones. Bolivia, and Colombia are starting to welcome them, but in Colombia they operate as a franchises.

What are you expecting from the future?

JM It all depends on the investment conditions and potential, but I do see Peru opening up in the business segment with special events in 2016 such as the Olympic committee meetings at the Westin in 2017, and Panamericanos in 2019. That said, much depends on smart and timely government investments. Peru's political and economic environment will be positively impacted by the right investment, because tourism and the economic growth go hand in hand.

AJB What we will see is a step toward an increase in the rate of our development. We issued our first 30-year bonds. The market received them very well, and this new hotel is 100% financed by these bonds. What this particular hotel needs is time for construction, and then ramping up upon completion. It will take five years at least before you can really see how it will do. Therefore, our bond for thirty years is excellent, and we will issue bonds again with our next hotel project plan. Most of the bonds are being bought locally by insurance companies and pension funds. We anticipate things getting better in Peru, and to continue developing the hotel sector with the support of the government. ✖



executive SUITE

TBY talks to *Mario Figueroa*, Director at BTH, on the evolution of the company, the role it plays in the hospitality sector, and the importance of innovation and differentiation in a crowded market.

How has BTH been transformed since your tenure as director?

BTH is a family business that I took over from my parents. For the past eight years, I have been working to develop new hotel concepts that distinguish the company in the market. Before, BTH was a traditional hotel that was not particularly innovative. Traveling in Europe exposed me to different business models, and inspired me to bring this new concept to the Peruvian hotel industry. In Peru, the hotel industry is rigid and pragmatic, and has not evolved significantly over the years. Therefore, the industry needs to understand that the habits and needs of users are constantly changing. Nowadays technology enables consumers to better keep up-to-date on the latest trends be they in fashion, cars, or hotels. This means that consumers are more demanding. It became clear that we needed to reinvent BTH as an avant-garde establishment. And now, after eight years of work, we have developed a hotel concept that has been acknowledged both locally and internationally.

What specific changes needed to be made to the hotel once you took over?

Our hotel had to be completely restructured, and we did

not consider local architects sufficiently innovative for the task. Ultimately we settled on a celebrated Peruvian-Spanish architect for our redesign. The overall project has taken almost 10 years to get to where the hotel is today.

What role do you see for BTH in Lima's hospitality sector?

There are two main types of travelers in Peru: corporate travelers and tourists. Tourists come to Peru with their family, spend days planning, and are perpetually off to visit touristic sites. On the other hand, corporate travelers come for work, and stay in Lima. Their consumption habits are different; they are generally single, without children, and tend to prefer a more businesslike environment, and naturally we want them to feel at home. We offer them a chic, elegant and rewarding stay, where, for example, our restaurant features an open kitchen with 80% of what is served being organic in nature.

What led you to target high-end business travelers?

Eight years ago, BTH was called the Business Tower Hotel. At that time, our hotel was no different from many others in the city. Yet having analyzed and identified consumer habits, it became apparent that BTH was suited to a new

category of guest. We essentially kept an eye on fresh design and offerings that would appeal to both younger guests and more seasoned business visitors. Moreover, in order to be able to cater to even the most exacting of corporate events, we equipped our establishment with six meeting rooms. Additionally, the hotel is located in central Lima, in the San Borja district which is becoming a key part of town.

What are the next steps in the expansion of your brand?

Although we changed our name from Business Tower Hotel to BTH, our customers still know that we are a business hotel because 80% of our market remains corporate. Therefore, our success depends on Peru's economic performance. And because we have successfully grown our business, as substantiated by real numbers, there are considerable expectations on the part of investors. We are confident in leveraging our brand equity for expansion beyond Lima, possibly even abroad as we perfectly reflect the life of the international executive.

What is your vision for 2016?

The elections are close now, and as Peru sustains its growth, so too will BTH. Innovation will continue to underpin everything we do. ✖

BTH

is a fashionably upscale hotel for the business traveler

BIO

Mario Figueroa studied Strategic Planning at Universidad San Ignacio De Loyola, and Market Research and Marketing A & B. At the Universidad Peruana De Ciencias Aplicadas, he received a Masters Degree in Hospitality and Tourism. In 2006, he was named General Gerente of Hotel-FIGTUR BTH SA and became responsible for 130 employees. Since 2012, he has been the Director of BTH Hotel- FIGTUR SA.

FEASTING FAMOUSLY

Peruvian cuisine is seeing a major influx in popularity—and is jumpstarting the tourism industry in the process—as the country looks to attract visitors to more than its ancient ruins.

PERU'S TOURISM INDUSTRY has worked for decades to promote the country's image internationally as the top destination for those travelers looking to see the heights of pre-Columbian civilization in South America. For most, travel to Peru conjures up images of historical Andean ruins like Machu Picchu, or of the traditional indigenous communities living on the shores of Lake Titicaca. While these attractions are indeed lucrative for the country, one downside has traditionally been that most travellers spend little, if any, time in Lima. Considering that it has few points of historical interest in its modest historical center in comparison to the rest of the country, the capital city has invested time and money the last few years as it looks to make a name for itself.

It appears to be working. Over the past decade, Peru has experienced what the Economist recently called a “gastronomic revolution”. Capitalizing on the country's diverse ethnic heritage and geographical variety, chefs, entrepreneurs, and restaurateurs have turned Lima into one of the world's top gastronomic destinations, while simultaneously exporting Peruvian cuisine around the world. According to the Economist, some 75,000 people now visit Lima annually just to experience its cuisine, spending an average of \$1,250 per person. More gen-

erally, restaurants have become an important source of growth in the economy, making up around 3% of GDP and growing at a rate of over 5% in 2014, according to the Instituto Nacional de Estadística e Informática (INEI).

One of the biggest promoters of Peruvian cuisine has been Gastón Acurio, a chef, restaurateur, and TV presenter who famously refused to follow in the footsteps of his politician father and instead went to Paris to study cooking at Le Cordon Bleu. He returned to Peru and has since become one of the key developers of Novoandina cuisine. Acurio now has 44 restaurants in 12 countries and his company, Acurio Restaurants, recently began working with Abraaj Capital in order to accelerate its expansion in London, Dubai, and other major global cities.

TBY spoke with Irzio Pinasco, Acurio's business partner and CEO of Acurio Restaurants, about what makes Peruvian food so unique and the factors that have contributed to its phenomenal growth. Pinasco highlighted two main elements: Peru's incredible biodiversity and its diverse cultural heritage. As Pinasco explained “We have about 85% of the world's microclimates. [...] When the Spanish arrived, they not only found gold and silver, but a wealth of produce and amazing food [...]. The Spanish were followed by the Africans, Chinese, Japanese, and the Italians, and this mixture is what we call 500 years of perfect fusion.” Indeed it is this fusion cuisine for which Peru has gained its notoriety, with most dishes combining elements of European, African, Asian, and indigenous South American cuisine.

In the coming years, the rise of Peruvian food looks set to continue. The American Culinary Association named 2014 the Year of Peruvian Cuisine, and according to many of the schools, institutes, and universities interviewed by *TBY*, many Peruvian students now view gastronomy as a viable and lucrative career path. Lima has responded in kind, as there has been a marked increase in the number of culinary schools in the city, topping out at 52. Many tertiary education institutions have also begun offering courses and even degree programs in restaurant management, cooking, and gastronomy, ensuring that this trend is more than just a flash in the pan. ✕



IRZIO PINASCO
CEO, Acurio
Restaurants

The American Culinary Association named 2014 the Year of Peruvian Cuisine. How do you plan to capitalize on the exposure that your cuisine is receiving?

We have two missions. Our primary driver is our belief that gastronomy can have—and it certainly has had—a strong positive social impact, because the food industry is integrated with so many other sectors of the economy. So as restaurateurs, we do not stop with the dining experience itself. Rather, we make sure that we contact the local producers and fishermen, and we put them in the right place, because we would not be who we are without the producers of traditional crops that are integral to the dining experience. We believe that it is part of our job to help in the preservation of these producers and products and to promote them globally and well as help ensure their sustainability. Fine casual dining is the arena in which we move. There is ample room now for fast casual as we call it. It is never fast food, we are always going to be artisanal, we are always going to have scenic kitchens, but we may come up with a concept where you order and then we take it to the table. These sorts of concepts are developing with other cuisines worldwide, and it is time to think about Peruvian food doing this as well.*

*Read the full interview at thebusinessyear.com



Images: Acurio Restaurants



FRANCISCO DE LA ROZA

*General Manager,
Promart*

Perú is an emerging market with considerable opportunities. DIY Market penetration was almost the lowest in South America just three years ago, but has since grown. Three years ago, we noted that while Chile had 66 sqm of retail space for every 1,000 inhabitants, while Peru had just eight. We therefore perceived considerable possibilities, even though there were two major players in the market, to exploit undeveloped areas. We are engaged in the estab-

lished business of construction, maintenance and home decorations products. The middle class is growing. Clearly another prevailing market condition is the low penetration. This made the market attractive, as there was a lot of possibility to grow. There has been a growth of the middle class of Peru, which is where Intercorp group focuses, as it grows really strong and demands value and better products. They are also demanding better services, and that's where we are positioned to satisfy those needs.

YARINA LANDA DEL CASTILLO
CEO, Jockey Plaza



Due to the size of the market, it is difficult for franchises to bring in certain brands, as volumes only merit limited stores number. For a long time each store—a local enterprise—would sell a variety of international brands. That started to change about nine years ago when we became more brand

selective, which led to the introduction of the flagship store concept; this marked a retail sector turning point. At the beginning, 80% of sales at a mall like this would be generated by the anchors, with just 20% derived from small stores. Today, however, the reverse is the case. Industry research indicated that more



CARLOS NEUHAUS
*Retail Consultant,
Ingeniería Corporativa*

than 70% of our neighbors were high-income population, whereby location becomes a vital consideration. Here we have a higher affluent demographic, whereby assembling brands together is a sound business strategy. The average ticket price has risen, and has been rising for the past nine years.

MALL MADNESS

Since the concept of modern retail was introduced in the country just over two decades ago, the sector has experienced promising growth rates along with the expanding middle class.

Modern retail, as it is known now, started in Peru in 1997 at Jockey Plaza, a centrally controlled scheme where all property is rented. It is like many of the malls you would find anywhere around the world, and has been running successfully for years. In 2001, we opened Mega Plaza to the north of Lima in an area that many people thought little of. In fact, most banks rejected the project, with the exception of Banco de Crédito. However, since opening it has become a major success, and investors have realized that there is money to be made in this area, since that time malls have opened across the country. You can find them in the small towns and in the highlands; for example, in Puno there is a mall at an altitude of 4,000m, and you can even find malls in the jungle cities. And of course malls provide jobs, and create an environment of organized retail subject to taxation and included within the financial system and therefore, the broader economy. The shopping industry has helped considerably to bring order to the economy.



VICTOR HUGO MONTALVO
Founder, Montalvo Group



RODRIGO CONTRERAS
General Director, Belcorp Peru

What is a major trend you identify in the market with how beauty companies do business?

RODRIGO CONTRERAS The markets in general are evolving. At the beginning we determined that the direct selling model would be better for low income countries, and today there are direct selling online and through different communicational channels. We opted for the direct sales route because it is the best way to empower women through remunerative activities and contribute to economic and social growth. Over the years, we saw that the markets were much more competitive, not just in direct selling, but also in the market as a whole. Today, within the last seven years in Latin America, the retail system has grown exponentially, know we are playing in a different competitive environment, not just in retail, but also because to date Latin America is more appealing to investors around the world as a result of the changes in political and economic environments. Lifestyles are changing. Today, people spend more time in their jobs or social settings, and lack the time to shop around, and therefore turn to electronic avenues. Di-

rect selling is evolving with the internet and with a consultant or representative. The main difference is that we have face-to-face people that are going to be in touch with you. That's an important difference in Latin America, which prizes the human approach.

VICTOR HUGO MONTALVO Around 50% of business in the beauty sector in Peru is informal, and we have been successful for having dared to be formal. The majority of businesses in the beauty sector pays no taxes, or do not pay what they actually owe in taxes. When you are a formal business, you have a better chance of becoming a recognized brand. You can also attract the best talent to your business because you can fulfill obligations to your employees that informal businesses cannot. In recent years, we have grown with the backing of both international brands and bank loans. These are things that you cannot get without being a formal business. However, high taxes can make it more challenging. For an emerging country, it makes things difficult. If taxes were more reasonable, more people would be willing and able to formalize their businesses.

strong FOUNDATION

Peru's beauty retail market has experienced exponential growth over the years, and has also been a vital sector for socio-economic growth and the development of human capital.

What is your approach to human to capital?

RC Our purpose, "Promoting Beauty for Self-fulfillment" is what makes this a company a company made by people, for people, and for the benefit of the people. We try to make peoples lives better and empower women in Latin America for a better society. We also have the Belcorp Foundation, which has two programs, "Mujeres Iluminando Mujeres" (Women Illuminating Women) and "Grandes Mujeres" (Great Women). These two programs are specifically focused on educating women. The first one provides scholarships for girls in the best private schools to promote capabilities and leadership skills, while the latter is focused on women that are of professional age, to help them grow personally, emotionally, and economically. In alliance with universities we give them personal and professional skills to be able to be agents of change in their lives, and enable them to start their own businesses through the direct selling business.

VHM For the country, for us, and for any business, human capital is extremely important, which is why we have developed centers for professional training as part of our business. We train 1,100 students through our institutes, which is important for us. Through the brands that we work with, such as L'Oreal, we have agreements for more than 6,000 hours per year of training in their laboratories. It has specific areas in its technical centers that are labeled "Montalvo." Apart from that, we have a coaching team that works with our employees to help them achieve their personal goals and improve their wellbeing. They also provide support in terms of service and sales, for example. In emerging countries, there can be a real lack of investment for training people from low-income backgrounds. There can be a lack of educational culture as well, which is something we are looking to address. ✕

ALL THAT SPARKLES

The jewelry industry is enjoying a resurgence as innovation rebounds, the market for precious stones strengthens, and Peru capitalizes on its position in the region as a hub for the sector.

“AT G&G, WE LOOKED AT THE BIG-PICTURE, NAMELY THE WORLD. WE DID NOT SEE OUR COMPETITION AS THE NEXT STORE JEWELER IN LIMA. OUR VISION WAS THAT EVERY PERUVIAN SHOULD BUY THEIR PRODUCT IN PERU. NOT IN MIAMI, NEW YORK, PARIS, PANAMA, OR IN DUTY FREE.”

JACK GOMBEROFF
General Manager, G&G Joyeros

“Our store has developed a strong connection with local customers, who have consistently patronized us since my grandfather opened the store. The market is a different one. For this reason, we will concentrate on markets where we are already successful.”

HECTOR BANCHERO HERRERA
Owner, Casa Banchemo

“ONE OF THE THINGS I AM MOST PROUD OF IS THE SUCCESS DUE TO THE ARTISANS WHO HAVE NOW BECOME INDEPENDENT BY CREATING THEIR OWN MICROENTERPRISES. THEY ARE NOW INDEPENDENT WORKERS WHO ARE SATISFIED AND COMMITTED AT A BUSINESS LEVEL.”

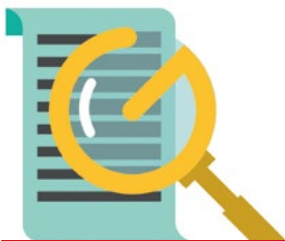
ILARIA BIONDI DE CIABATTI
Owner and Designer, ILARIA

“Our consumers appreciate innovation, and enjoy trying out new trends. They also like the details and particularities that make collections special. I travel the world to enrich my experience and change my perspective on new designs.”

ALDO NORIEGA
President, ALDO & Co.

“As three brothers running one business, we decided to diversify, because the owner factor in this business is rather important. If there is one main store and two smaller ones, and the owners are in the main store, the smaller ones can expect to generate less business. However, if you have three owners in three different stores, you can develop three strong brands. We are proving ourselves in three different markets.”

RAFAEL JIMÉNEZ DEL RÍO
Co-Owner, Murguía Joyería



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Executive Guide

REVIEW DOING BUSINESS



INVEST THIS

From the beginning of the new millennium through 2014, Peru has achieved an impressive cumulative GDP growth of 116% accompanied by a cumulative inflation during the same period of just 52%—the best rates of their kind in Latin America.

In monetary terms, poverty has been reduced by half in recent years, with more Peruvians living in better conditions, with a brighter future. Nowadays, Peru is a true economic miracle nearly 20 years after the end of hyperinflation and terrorism: these circumstances have given way to the best possible conditions of stability, respect, and promotion of investment in the region, making Peru the fifth-largest economy in South America—measured in purchasing power parity—after Brazil, Argentina, Colombia and Chile.

What to expect for Peru in the year 2025?

Today, Peru is considered one of the world's leading emerging markets, with a solid recent history of economic stability based on an uninterrupted average annual growth over the past 15 years of 5.3% of its GDP, as well as a people who are notable for their productivity and entrepreneurship. According to the IIMF, Peru is part of the new wave of leading emerging markets, and today has solid fundamentals, a framework of sensible policies, and a prudent macroeconomic approach, all of which enables it to enjoy sustained growth and reduced vulnerability. This outlook gives great expectations towards the country's environment for doing business in 2025. In the following chart, we present some of the goals the country has to achieve over the period of ten years.

BUSINESS ENVIRONMENT

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 barriers that foreign investors may face. As a result, Peru is considered a country with one of the most open investment systems in the world. According to Doing Business 2015, Peru ranks 35th out of 189 countries in terms of ease of starting a company and doing business, and ranks second in Latin America, as corroborated by Forbes.

Peru has achieved significant progress in its macroeconomic performance in recent years, with very dynamic GDP growth rates, stable currency exchange rates, and low inflation. This dynamism has been driven by the promotion and diversification of exports, the world commodity prices, market policies beneficial to investors, and aggressive free trade strategies. Over the past decade, Peru's GDP has tripled as a result of the country's economic growth, moving increasingly towards a middle and upper-middle income economy.

The development strategy of Peru is based on an economy opened 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 the reduction of poverty. International trade negotiations, which have benefited from rigorous macroeconomic management and consequent stability, have allowed the Peruvian economy to gradually tackle and reduce its external vulnerability in times of crisis such as the current international situation. In recent years, Peru has negotiated Free Trade Agreements (FTA) with large- and medium-sized markets.

There are different types of legal entities which investors can use in order to incorporate businesses in Peru.

PERU'S PRINCIPAL ECONOMIC ACTIVITIES

The Peruvian economy reflects its varied geography. The abundance of resources is found mainly in mineral deposits in the mountainous regions, while its extensive maritime territory has always yielded excellent fishing resources. Despite the fluctuations of the world economy, the administration has resisted pressures for fiscal spending and has used the savings generated by the high prices of commodities between 2006 and 2008, investing from 2011 as of today in infrastructure and in social aid programs, paying off part of the public debt, and increasing assets.

In 2014, the non-traditional productive markets that registered the highest exports were the agricultural (21.2%) and handcraft (61.9%) markets. With regards to the traditional products, the most important were gold, copper, silver, lead, tin, zinc, gas, petroleum oil, coffee, quinoa, and fishmeal. In mining, according to the Mineral Commodity Summaries Publication authored by the US State Department, Peru ranked third in the world in 2014 in the production of silver, copper, tin and zinc, fourth in molybdenum and lead, fifth in mercury, and sixth in gold, besides having large deposits of iron ore, phosphates, manganese, petroleum, and gas.

WHAT INVESTORS SHOULD KNOW (LEGAL STRUCTURE, TAXES, AND PROMOTION MECHANISMS)

There are different types of legal entities which investors can use in order to incorporate businesses in Peru. The following are those most commonly used by foreign investors:

Joint stock companies

A minimum of two shareholders is required. Non-domiciled shareholders must appoint an attorney-in-fact to sign off on the by-laws on their behalf. Funds in local or foreign currency for the initial capital contribution must be deposited in a local bank. There is no minimum amount required by law, but financial institutions generally require a minimum initial capital of approximately \$330.

Closely held corporations

Closely held corporations resemble limited liability companies and must have a minimum of two and a maximum of 20 shareholders. Shares cannot be registered in the Public Registry listed on the Stock Exchange.

Publicly held corporations

Publicly held corporations are intended basically for companies with a large number of shareholders (more than 750) or for which an Initial Public Offering has been made, or which have debts that can be converted into shares, or in which more than 35% of the capital stock belong to 175 or more shareholders. They must be registered in the Public Registry listed on the Stock Exchange.

PERU: FULL MEMBER COUNTRY OF THE OECD

Doing Business and forbes: Peru is ranked within the ten countries in the world where it is easiest to do business

Investment grade AAA risk free

Annual exports of US\$ 150 billion

Peru is a country free of the "middle-income trap"

Consolidation of the Latin American Integrated Market (MILA) as a global reference on the stock market

Free Trade Arrangements signed with all the top 20 economies in the world

Elimination of the necessity of a visa for the first 50 economies in the world

Infrastructure gap closes (today US\$ 87 billion)

Average annual growth of the GDP per capita of US\$20,000 (measured in PPP): fourth in Latin America

Attraction of High Annual Direct Foreign Investment, constant and not less than 6% of the GDP

Consolidated advantage in energy costs on a regional level (utilization of gas, hydro and wind energy)

Global Infrastructure and telecommunications: Indicator of road density reflects the connectivity of domestic markets and dynamism of commercial activity

Boosted production, consumption and investment utilizing the demographic bonus: maintains long-term growth

World leader in the exploration of fruit, vegetables, some grains and niche organic products

General progression of indicators of political stability, corruption control and judicial independence: absence of violence



Building a better
working world

PREPARE YOURSELF FOR A JOURNEY TO SUCCESS

We help entrepreneurs drive their growth strategy to succeed in the Peruvian market.

A new perspective in Advisory, Assurance, Tax and Transactions.

If you want to be a market leader, work with one. Contact us:

- ▶ Paulo Pantigoso - Country Managing Partner
paulo.pantigoso@pe.ey.com
- ▶ Jorge Acosta - Advisory Leader
jorge.acosta@pe.ey.com
- ▶ Juan Paredes - Assurance Leader
juan.paredes@pe.ey.com
- ▶ David de la Torre - Tax Leader
david.de.la.torre@pe.ey.com
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Confidence | Innovation | Entrepreneurship | Sustainable growth



CHANGES BROUGHT IN BY NEW RESOLUTION SMV 028-2014- SMV/01

TAX UNIT UIT (*)	NUEVOS SOLES (**)	PRESENTATION REQUIRED	PERIOD
10,000 - 15,000	38,500,000 - 57,750,000	Audited Financial Statements under PCGA	2014
		Audited Financial Statements under IFRS	2015
5,000 - 10,000	19,250,000 - 38,500,000 (Referential)	Audited Financial Statements under PCGA	2015
		Audited Financial Statements under IFRS	2016
3,000 - 5,000	11,550,000 - 19,250,000 (Referential)	Audited Financial Statements under PCGA	2016
		Audited Financial Statements under IFRS	2017

Limited liability companies

Limited liability companies may be established with a minimum of two and a maximum of 20 partners. This type of company does not issue shares. The incorporation procedures are the same as those for all other corporations. Its capital is divided into ownership interests, which are accumulative and indivisible.

Branches

A parent company agreement is required to incorporate a branch in Peru, and must be certified by the Peruvian Consulate in the country of the home office and authenticated by the Peruvian Ministry of Foreign Affairs (MRE) where applicable, or otherwise have it stamped with the Apostille (Convention of The Hague) in the country of origin before it is put into the form of a notarially recorded instrument and registered in the Public Records Office of this country. A Certificate of Good Standing from the parent company is also required.

1. INVESTMENT PROMOTION CONDITIONS

Peru has adopted a legal framework for investments that requires no previous authorization for foreign investment. In this regard, foreign investments are allowed without restrictions in the large majority of economic activities, and can be freely made in either US dollars or local currency, without heavy foreign exchange controls. Foreign investors may remit abroad the net profits (without any restriction whatsoever) from their registered investments, as well as transferring their shares, ownership interests, or participatory rights, perform capital reductions, and dissolve or wind-up their companies.

The Peruvian government guarantees legal stability to national and foreign investors with regard to the 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 amount of \$10 million in the Mining and/or Hydrocarbons sectors, or \$5 million in any other economic activity.

2. TAXES

In Peru, the main taxes are levied on income, production and consumption, the circulation of money and equity. The corporate income for domiciled companies are subject to a tax rate of 30% (2014 period), 28% (periods 2015 and 2016), 27% (periods 2017 and 2018) and 26% for 2019 onwards) and the dividends distributed by companies incorporated or established in Peru are taxed at 4.1% (2014), 6.8% (2015-2016), 8% (2017-2018), and 9.3% (2019 and beyond).

3. ACCOUNTING STANDARDS

The Peruvian Business Corporation Act (LGS) establishes that the financial statements of companies incorporated in Peru must follow the general accounting principles accepted in Peru and other applicable legal provisions. In 2011, the Peruvian Congress approved a law whereby all companies included in the Business Corporations Act and whose assets or revenues exceed the 3,000 Tax Units (UITs) (approximately \$4 million) are obliged to submit their audited financial statements to the SMV. This entity has published a schedule for the implementation of this law, based on the size of the companies.

4. AUDITING REQUIREMENTS

At present, companies whose assets or annual revenues exceed 10,000 UIT (approximately \$12 million) must submit their audited financial statements of 2015, prepared with the IFRS approved by the International Accounting Standards Board (IASB). ✖

The content of this article is intended to provide a general guide to the subject matter. Specialist advice should be sought about your specific circumstances.

TBY would like to thank Ernst & Young for compiling this analysis.



LABOR POWER

Human resources firms are expanding in Peru. Through honing homegrown talent and meeting the demands of industry for highly skilled professionals, the human resources sector is providing smart solutions to increase labor market efficiency.



MARCO NICOLI
MENDEL
*General Manager,
ManpowerGroup*



CARLOS SAN
ROMAN ORAMS
*Country Manager,
Adecco*



GUILLERMO
WINTER MICKMAN
*Managing Director,
Head Hunters Peru*

At ManpowerGroup, we get the difficult assignments. Usually a company tries to solve a problem by itself, and finds it too difficult. At that point they turn to our pedigree in handling demanding and complicated assignments. Our regional operations are in constant cooperation, including our operations in Argentina and Brazil. We try and help companies find talent, but sometimes it simply does not exist. We take a long-term approach, and promote viable career training at university level. It is not an easy issue to address because it takes time, but it is a matter of urgency. Yet we try to anticipate future problems, and try to solve them today. Technicians and engineers are going to be an issue in the future, and already there is a shortage in some fields. Meanwhile, there are not enough people studying and training to fill these positions.

Throughout the early and mid 2000s the government tightened restrictions on temporary staffing providers in Peru, so we changed our business model to one focusing more heavily on providing outsourcing services. Also, because of the new regulations, a lot of smaller temporary staffing companies -- many of which were informal -- went out of business, giving us the opportunity to grow. Just to give you some figures, up until 2007, about 70% or 80% of our revenue was generated through temporary staffing, and 20% in other services including outsourcing. Now, it's the other way around. Just 20% of our revenue comes from temporary staffing. We have worked to develop specific knowledge of commercial areas that are relevant to our clients. Many other staffing companies simply move people from one area to another regardless of their qualifications. That is a huge mistake. People have to know what the client wants.

Managers must adapt to turning a profit with less resources by making a company more competitive. Now it is increasingly important to be more efficient in the administration of an organization, and to think beyond the norm. For example, while most people complain when the economy stops growing, a good manager will tend to see the opportunities for greater efficiency. For example, last year in our business, a lot more competitors or players entered the market, and now, as the economy has slowed, they are seeking assistance. Yet if you change your business model to adapt to this new economy, you can improve your game. The market in Peru is not large, which only compounds the search for the right staff. Normally, we are generalists by practice and not focused on any one sector. In Peru it is common to see a company start out catering to the mining sector, but subsequently branching out into other fields. Essentially, we try to get the right fit between companies and potential staff.

WHEN IN PERU... WHERE TO STAY

LIMA

01 Hilton Lima Gloria

Avenida La Paz 1099, Lima 18
T +51 1 200 8000
www.hiltonhotels.com

Rooms Rooms are designed with comfort and convenience in mind; providing a place to unwind or to catch up on work. **Guest Services:** Fitness room, pool, room service, safety deposit box, business center, meeting rooms, baggage storage, concierge desk, laundry/valet service **Dining:** Lobby Café, Room Service, Social Restaurant and Bar.

02 BTH Hotel | Boutique Concept

Av. Guardia Civil 727, Córpac, Lima 41
T +51 1 319 5300
www.bth.pe

Rooms 131 rooms (Conceptual and Lofts) **Guest Services** High Speed Wi-Fi 18 MB, Boutique BTH, Tone-Up Fitness, The Beard barber shop (hair salon), hot tub, breakfast buffet. **Dining** Quimera Restaurant and MadBar.

03 QP Hotel Lima

Av. Jorge Chavez 206, Miraflores
T +51 1 319 2929
www.qphotels.com

Rooms 45 rooms **Guest Services** Fitness Center, parking, swimming pool, Jacuzzi, business center, high speed Wi-Fi. **Dining** 828 Restaurant.

04 Casa Andina Private Collection Miraflores

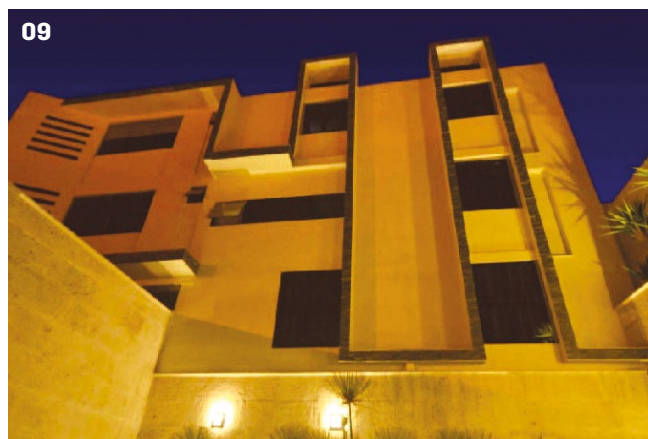
Av. La Paz 463, Miraflores
T +51 1 213 4300
www.casa-andina.com

Rooms 148 modern rooms and Suites **Guest Services** Fitness Center, sauna, swimming pool, event rooms, corporate facilities, internet center, Wi-Fi available, ATM, parking and valet parking **Dining** Restaurant Alma and Sama, The Travelers Café.

05 Palmetto Hoteles Business

T +51 1 225 3898
www.palmettohoteles.com

Rooms 42 guest rooms **Guest Services** High speed Wi-Fi,



Business Center, parking and valet parking, laundry service **Dining** Restaurant D'Gust.

06 Westin Hotels & Resorts

Calle Las Begonias 450, San Isidro Lima 27
T +51 1 201 5000
www.starwoodhotels.com

Rooms 301 spacious guest rooms and suites. **Guest Services** Heated indoor pool, business center, Heavenly Spa by Westin, concierge desk, Westin executive club lounge, Westin Workout Fitness Studio. **Dining** Insitu Bar, Lobby Lounge, Maras, Market 770.

07 JW Marriott Lima

Malecon De La Reserva 615, Miraflores, Lima 18
T +51 1 217 7000
www.marriott.com

Rooms 288 rooms, 12 suites **Guest Services** Full-service spa, fitness center, pool, meeting event space, concierge desk, laundry, room service, safe deposit boxes, dry-cleaning, turndown service **Dining** La Vista Restaurant and JW Sushi Ceviche Lounge.

CUSCO

08 Inkaterra La Casona
 Plaza Las Nazarenas 113
 T +51 1 610 0400
www.inkaterra.com

Rooms 11 Suites. **Guest Services** Yacu Therapy Room, Laundry service, Wi-Fi, Table buffet breakfast. **Dining** A la carte Lunch and Dinner, Lunchbox, Bar.

AREQUIPA

09 QP Hotel Arequipa
 Calle Villalba 305
 T +51 5 461 2000
www.qphotels.com

Rooms 19 rooms **Guest Services** High speed Wi-Fi, business center, laundry, phone service, early check in, late check out. **Dining** 828 Restaurant.

10 Casa Andina Private Collection Arequipa
 Calle Ugarte 403
 T +51 5 422 6907
www.casa-andina.com

Rooms 58 room 40 rooms, 2 Senior Suites, and 1 Imperial Suite. **Guest Services** ATM, coffee kit, internet center, buffet breakfast, high speed Wi-Fi, massage dry sauna. **Dining** Alma Restaurante and Bar.

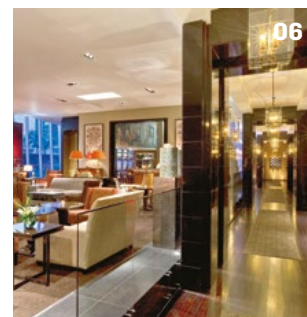
TRUJILLO

11 Casa Andina Private Collection Arequipa
 Av. El Golf 591, Urbanización Las Flores del Golf III
 T +51 4 448 0760
www.casa-andina.com

Rooms 147 fully equipped rooms **Guest Services** Fitness center, pool, sauna, concierge, buffet breakfast, high-speed Wi-Fi. **Dining** Alma Restaurante and Bar.

12 QP Hotel Trujillo
 Av. Guillermo Ganozza Vargas 682
 T +51 1 319 2929
www.qphotels.com

Rooms 43 rooms **Guest Services** Fitness Center, parking, swimming pool, Jacuzzi, business center, high speed Wi-Fi.



q p H O T E L S

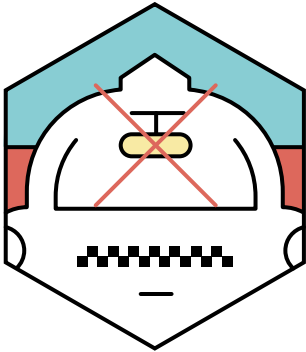
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HELPFUL HINTS



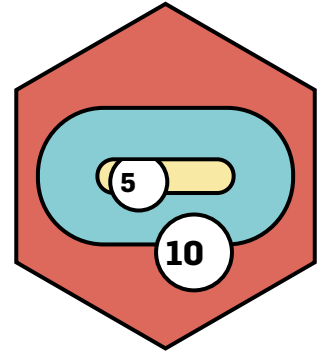
Most taxis don't use meters in Peru. Make sure to negotiate the price in advance. Most trips within Lima should cost around 15-20 soles.



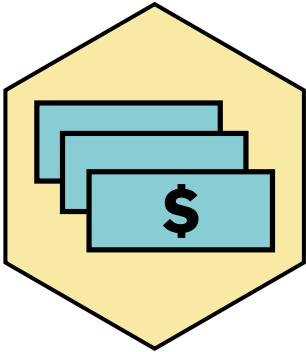
Although Lima's tap water is treated, most locals drink bottled water to avoid any issues with pollution.



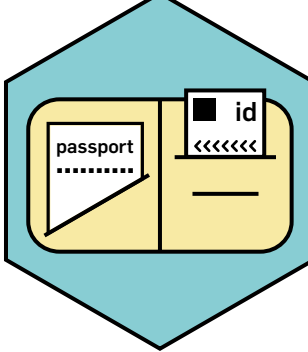
Business relations in Peru are fairly casual. Expect to be greeted in meetings with "¿Que tal?" (Spanish for "What's up?").



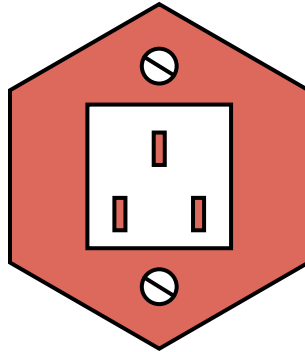
Tipping is common, with 10% being the norm in restaurants. Smaller tasks merit a few soles depending on the service.



Although the local currency soles are ubiquitous, US dollars are widely accepted in many larger establishments and can be obtained from most ATMs.



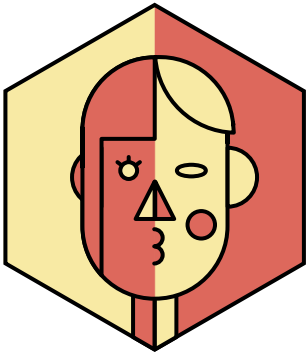
A government issued ID is required to enter most offices. Make sure to carry it with you when going to meetings!



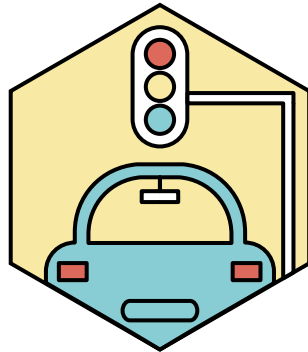
Peru has both European and North American-style electrical outlets, yet only uses 220-volt power. Be careful before plugging in North American appliances!



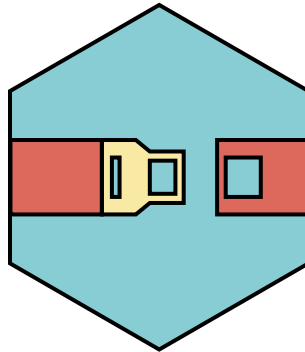
Many regions of the country have their own beer industry. Make sure to ask when on trips outside the capital.



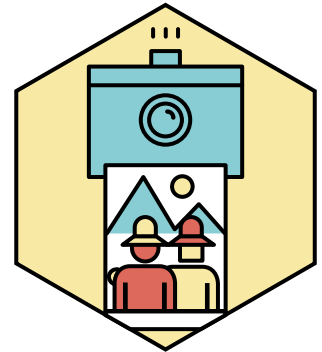
Two women or members of the opposite sex usually greet each other with a single kiss on the cheek (not two as in Europe), even in business meetings.



Lima's drivers have a reputation for being assertive in dealing with the city's chaotic traffic. Look twice before crossing the street.



Seat belts should be worn at all times for safety and to avoid fines. Buckle up.



Most people in the business world in Peru take their holidays from mid-December through the end of January and in mid-July to coincide with school holidays.



invertir

Your best partner to invest in Peru.

Private Public Partnerships
Corporate Communication & Public Affairs
Market & Political Research
Corporate Social Responsibility

A port or an employment opportunity.



Callao Port

In **FCC Construcción** we work for people like **Rosario**.

With expertise accrued over 100 years, FCC Construcción is the Infrastructure branch of the FCC Group; a company with an international benchmark in environmental, water and construction services. Our activities cover all scopes of engineering and the construction of civil works and buildings. FCC has been operating in Peru for three years where it is executing works such as the Mansiche Sports Complex in Trujillo, the Lima Metro and Callao Port; one of the largest ports in South America. The participation of FCC Construcción in the port's expansion and modernisation aims to create a maritime dock, capable of boosting foreign trade. For this, FCC Construcción will increase its docking and storage capacity.