

# PPK's Proinversión reform

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Peru boasts one of the most successful project finance markets in Latin America, but the sector has lost momentum in the last couple of years.

Faced with several stagnant landmark projects which have failed to achieve financial close, new president Pedro Pablo Kuczynski (PPK) has pledged to reform the procurement of infrastructure assets. A transformation of private investment promotion agency, Proinversión, will be at the core of this initiative.

Sponsors of Peruvian infrastructure concessions have closed some sophisticated deal structures to support projects. The structure of the milestone-based payment schemes have lent themselves well to bond financings in particular and Peru has become somewhat of a project bond pioneer in the Andean region. Neighbouring countries, such as Colombia, have begun to replicate Peru's success with bonds in support of its landmark 4G toll road programme.

Notable, multi-faceted deals to close in Peru include Odebrecht's Rutas de Lima toll road financing and Abengoa's ATS transmission financing in 2014 and the Lima metro line 1 and first tranches of line 2 in 2015.

The pace, though, of both deal-flow and procurement tailed off towards the end of Ollanta Humala's administration. Yet a study commissioned by Peru's association for the promotion for infrastructure (Afin) estimated the country's infrastructure investment deficit at about \$159 billion (as at October 2015).

## **Unblocking bottlenecks**

According to the *IJGlobal* database, around \$5 billion worth of infrastructure finance deals closed in Peru in 2014, compared to a little over \$3 billion in 2015 and around \$1.6 billion in 2016 (year to date).

A number of large deals were due to close in 2015, but are still yet to finalise financing agreements. These include the landmark \$4.1 billion mini-perm loan backing the GSP natural gas pipeline, around \$700 million in facilities for the new Chinchero airport in Cusco, as well as a \$300 million revolving credit facility for the Lima metro line 2.

"Everyone will tell you that it's not an issue of liquidity, there's plenty of that" explains a developer with a number of assets in construction and operation in Peru. Rather, the delay in some of the closings are related to problems with land expropriations, contract terms or in some cases financial addendums.

"Expropriation works for the expansion of the Jorge Chavez international airport in Lima have been held up because there are pipelines and power lines in the way of the proposed works" they add, "and studies for the metro were not performed well in advance of the bidding".

PPK's government is understood to be very focused on "unlocking" these projects, which sources active in the market describe as "stuck".

In a major new development, the government has announced it will restructure Proinversión in an attempt to fiscalise the procurement for future initiatives, to make the process more efficient and remove red tape so that projects can progress more rapidly. Crucially, the government is understood to be in favour of entrusting more power and autonomy to the agency.

Richard Cabello, the manager of the International Finance Corporation's PPP advisory services for Latin America and the Caribbean, is expected to replace Carlos Herrera as executive director of Proinversión imminently.

### **Rebooting the pipeline**

A source with direct knowledge of the restructuring process told *IJGlobal* that the new Proinversión is expected to have three teams. One will be dedicated to the fast tracking of around 17 priority projects, which have already been approved by government, such as the Longitudinal tramo 4 road project, among others.

A second team will be responsible for the redesign of the entity and will build new templates to work from over the next one and a half years, they say.

Critics of the previous regime suggest that there was not sufficient support from Proinversión offered to concessionaires following the award of the contracts, and that the agency would not typically help to navigate obstacles in the development of projects.

"The new Proinversión will stay with the concessionaire once the project is awarded for the next two years, to help with expropriations, etc." says the source.

Initially the relevant ministries are tasked with preparing plans for projects, which will then be sent to the agency for review. Proinversión would rank these projects and decide which are to be procured as PPPs and which will be developed as Obras Publicas (public works). Proinversión would continue to control the development of the PPP portfolio. If there were delays in the presentation of plans, then the agency would have the power to step in and assume control of the process.

A third team would be focused on pushing through the procurement of up to 70 or 80 new projects in order to create a pipeline worth between \$25 and \$30 billion for Peru's infrastructure market. PPK has indicated that social PPPs in the water and sanitation sectors will have a particular emphasis within the new portfolio.

There is also understood to be significant backlog to deal with in terms of private initiatives or unsolicited proposals. Developers have complained that ministries have historically been slow to respond to proposals for new projects, or in some cases were not given an answer at all.

### **Changing market composition**

The Peruvian infrastructure market is undergoing significant change. A number of troubled Brazilian sponsors, such as Odebrecht and OAS, who have historically held significant market shares but who have been caught up in the lava jato investigation and are now being forced to sell assets and exit the market.

By creating an attractive pipeline, sources say the government hopes to attract new investors from Europe and North America. "They want to have a portfolio of projects with at least four that could be termed 'mega projects' to attract attention from new players".

There has already been a demonstrable interest from abroad in M&A opportunities in Peru for Duke Energy's assets and Odebrecht's GSP stake. Sempra, Techint, Brookfield and Cintra all compete for the majority stake in GSP.

After a disappointing couple of years, 2017 is expected to be a transition period, with the market hopeful for a rebound in growth in infrastructure investment during 2018.

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