

ProInversión Q&A – Peru resumes sanitation PPPs

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IJGlobal's Americas Senior Reporter **Juliana Ennes** speaks to Karin Granda, special director of Peru's procurement agency ProInversión, about the challenges and opportunities being faced today in the sanitation sector

Peru is in the process of resuming its PPP programme for water and sanitation concessions, with the Covid-19 pandemic providing greater impetus for procurements.

Karin Granda, special director of projects at ProInversión, speaks here with *IJGlobal* about the challenges and opportunities Peru faces. The interview was originally provided in Spanish, translated here for an international audience.

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JE – How did the Covid-19 pandemic change perceptions towards the need to award sanitation projects in Peru?

KG – The current context has brought to light the impact that the lack of adequate social infrastructure – particularly in water and sanitation services – can have on the well-being of the population.

From the public health point of view, the current scenario of the pandemic highlights the still large gaps in coverage in water and sanitation – taken in context of washing of hands, clothes and utensils, as well as the adequate collection and treatment of wastewater – allows a reduction to the exposure of people to various microorganisms that cause diseases. This is not only for the Covid-19 virus, but those associated with acute diarrheal diseases and parasitosis.

In this context, nowadays, sanitation not only takes priority but also ramps up the urgency in the execution of projects to expand the drinking water services and sewage treatment.

On the other hand, from the point of view of private investment, given the uncertainty of the immobilization period, there is a greater attractiveness for projects with low or no risk of demand. And it is precisely those associated with basic services – water, sanitation, electricity, gas, education – that are impacted since the government participates in co-financing as long as the infrastructure is available and providing the service under the required quality standards.

JE – The sanitation sector in Peru is traditionally dominated by state companies. In which cases is the participation of the private sector through PPPs most relevant, in your opinion?

KG – There are 3.4 million Peruvians who live without access to drinking water in the country and 7.4 million without



sewerage. Also, only 44% of the drains enter a wastewater treatment plant.

To close this gap, the development of different types of interventions by the state is necessary. Public provision mechanisms continue to be an alternative in charge of the companies that provide public services.

However, currently the Ministry of Housing, Construction and Sanitation is focused on covering infrastructure gaps with the involvement of the private sector through the mechanism of public-private associations that not only ensure construction of the work but also its sustainability in the long term.

JE – After years without awarding any sanitation projects, Peru in 2019 awarded the wastewater treatment system of Lake Titicaca. Now it has more projects in advanced planning: Puerto Maldonado wastewater, as well as the potable water for Lima Headworks project. Could you talk about these projects, and what is the timescale for the bidding processes?

KG – Our projects go through different phases, from planning and development of technical studies to structuring the project as a PPP and the bidding process. The most advanced projects in our portfolio are these three.

The Puerto Maldonado PTAR Project was launched on 17 September (2020). Inquiries to the terms and conditions and suggestions for the initial version of the contract will be received until 19 October. The fulfilment of the prequalification requirements is scheduled for 30 November and the presentation of technical and economic offers for April 2021, estimating their award and contract signing for May and July 2021, respectively.

The Headworks and transmission project for Lima includes the design, finance, construction and operation of the infrastructure necessary for the collection, transfer, transmission, production and supply of drinking water for the city of Lima. We are currently in the process of adapting the scope of the project and updating its structure, on which we are being advised by the International Finance Corporation. The concession competition is expected to be relaunched towards the end of the year and to be awarded between June and July 2021.

The WWTP Huancayo project was recently declared viable by the Ministry of Housing, Construction and Sanitation and commissioned to ProInversión for its development as a PPP. We are in the process of structuring it and expect to go to market with the declaration of interest in the second quarter of 2021.

In addition to these projects, there is a package of 11 co-financed private initiative projects that the sector has been formulating. We hope that technical studies are completed soon and we are told to start structuring this portfolio. The total value of the PPP portfolio in sanitation prioritized by the sector exceeds \$1.3 billion.

JE – Regarding the two main projects currently under development, how is the government structuring their revenues to ensure that they are attractive to the private sector and that they can be financed by international private banks? How will the payment system be organized?

KG – Both in the Headworks Project and in the Puerto Maldonado Project, we have the support of multilateral organizations for the structuring phase, IFC and the Inter-American Development Bank respectively. With them, we are certainly covering the aspects that ensure the bankability of both projects.

In the case of treatment plant projects, they are co-financed projects. This means that the payment mechanism uses public resources, for which the income risk analysis would focus on the state's ability to pay its commitments to payments derived from PPPs. In this sense, the credit rating of Peru and its history of fulfilling the financial commitments of PPPs generate confidence in the market. We received demonstrations of interest on this type of projects where the Peruvian state is in charge of the income risk.

Additionally, the Headworks project has the rates received by the sanitation provider as a source of repayment, with the support of the national government.

Now, in terms of the payment system, we are introducing an internationally-recognised mechanism, the availability payments. The concessionaire will receive its payments as the works provide the expected service. This scheme

encourages the concessionaire to carry out good quality work and finish on time, since their remuneration depends on their construction and the operational performance, and is subject to deductions for service levels.

However, we are introducing a limit to these deductions, so as not to affect the repayment of debt and to be able to contribute to the bankability of projects.

As part of the tests carried out, the financial market has indicated that they have experience in financing with payment mechanisms subject to availability, which has helped us to improve the proposed mechanism.

JE – What is the objective for the other projects that are planned but will be awarded before the elections next year?

KG – The objective of this government for the package of co-financed private initiatives – which includes nine WWTPs, one desalination plant and an integrated rural sanitation project – that are currently being formulated by the Ministry of Housing, Construction and Sanitation is to start the year 2021 with the structuring phase and go to the market with the declaration of interest throughout 2021.

It is important to point out that the development of these projects require multiple efforts from different entities and constitute a long-term state policy.

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