

# Peru



## Global Investor's Guide 2013

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- |  |  |   |
|--|--|---|
| <b>ADEX:</b> Association of Peruvian Exporters             | <b>INEI:</b> National Institute of Statistics and Information Technology | <b>ONP:</b> Office of Pension Normalization   |
| <b>APESEG:</b> Peruvian Association of Insurance Companies | <b>MEC:</b> Ministry of Education  | <b>PISA:</b> Programme for International Student Assessment                                       |
| <b>BCRP:</b> Central Reserve Bank of Peru                  | <b>MEF:</b> Ministry of Economy and Finance                              | <b>PROMPEX:</b> Commission for Export Promotion   |
| <b>ASOCEM:</b> Association of Cement Producers             | <b>MEM:</b> Ministry of Energy and Mines                                 | <b>SBS:</b> Superintendency of Banking, Insurance and Private Pension Fund Administrators of Peru |
| <b>BVL:</b> Lima Stock Exchange                            | <b>MINAG:</b> Ministry of Agriculture                                    | <b>SIICEX:</b> Integrated System for Foreign Commerce Information                                 |
| <b>CAPECO:</b> Peruvian Chamber of Construction            | <b>MINCETUR:</b> Ministry of Foreign Commerce and Tourism                | <b>SIICEX:</b> Integrated System for Foreign Commerce Information                                 |
| <b>COFIDE:</b> Financial Corporation for Development       | <b>MProd:</b> Ministry of Production                                     | <b>SUNAT:</b> National Superintendency of Customs and Tributary Administration                    |
| <b>FCR:</b> Pension Reserve Consolidated Fund              | <b>MTC:</b> Ministry of Transport and Communication                      |   |
| <b>IDB:</b> Inter-American Development Bank                | <b>MTPE:</b> Ministry of Labour and Employment Promotion                 |   |

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## Álvaro Henzler Vernal

Co-Founder & Executive President of Enseña Perú

Mr Henzler has worked as Economic and Trade Advisor, and Assistant to the Ambassador at the Embassy of Peru in the United States. He served as a member of the Executive Committee of the Dean's office, and as a Research Associate and Program Coordinator of Trade Capacity Building in the Research Centre at Peru's Universidad del Pacifico. He also taught at that university, as well as at Georgetown University, where he earned a scholarship to the Global Leadership Programme for Competitiveness. He has been recognized as a rising Global Shaper by the World Economic Forum (2012) and a Leading Fellow by Fundación Carolina, Spain (2005).



## Richard Inurritegui Bazan

President of Peru's National Fisheries Society (SNP)

Mr Inurritegui served as the SNP's General Manager for 10 years, is currently its Chairman, and, as such, is a Board Member of the National Confederation of Private Business (CONFIEP) as well as the Compensation Fund for Fisheries Management (FONCOPEPES), and various committees in both the private and the public sectors. He was Secretary-General of the Presidency of the Council of Ministers of Peru, and a member of the Cabinet of Advisors of the Ministry of Fisheries and the Ministry of Justice. He graduated as a lawyer from the Catholic University of Peru, with experience in Administrative, Fisheries, Civil, Commercial and Labour Law.

## Fidel Jaramillo

Representative of the Inter-American Development Bank (IDB) in Peru

Fidel Jaramillo joined the IDB in 2005 as Regional Economic Advisor for the Andean Countries Department and has served as the Bank's representative in Peru since June 2010. He was Chief Economist and Vice-President of Development Strategies at the Development Bank of Latin America (CAF) from 1999 to 2005. He also served as General Manager of the Central Bank of Ecuador (1997-1998) and Minister of Economy and Finance of Ecuador (1998-1999). Mr. Jaramillo earned his PhD. in Economics from Boston University in 1992. He was a consultant to several multilateral institutions and lead the consulting company Multiplica, specializing in macroeconomics, economic development and finance.



## Carlos Lozada Zingoni

Vice-President of the Association of Exporters of Peru (ADEX)

Mr Lozada Zingoni has over 20 years experience as CEO of Corporación Roots, the first Peruvian exporter of fresh flowers. He is Vice-President of the Association of Exporters of Peru (ADEX) and chairman of its Agriculture Committee; Director of CONFIEP (National Confederation of Private Business Institutions) and was president of CONUDFI (National Council of Physical Distribution Users of Goods). He has a degree in Business Administration and Accounting from Universidad del Pacifico and a Master's in Finance from ESAN, Peru.



## Pedro Martínez Carlevarino

President of Peru's National Society of Mining, Petroleum and Energy (SNMPE)

Mr Martínez Carlevarino has led the SNMPE since February 2011. During the periods 2005-2007 and 2007-2009 he was the Society's Vice-President and President of its Hydrocarbons Sector Committee. He is the founder and Chairman of Peruana de Combustibles (PECSA) and since 2005, is the Chairman of Peruana de Gas Natural. He was also Director and General Manager at Grifos Iberia from 1975 to 2005. Mr Martínez has also served as President of the Association of Petrol Stations and Taps of Peru (AGESP), Director of the Peruvian National Confederation of Private Business (CONFIEP) and Director of the Society of Fisheries Shipowners of Peru. He graduated as an Economist from the Pontifical Catholic University of Peru.







## Gonzalo Prialé

President of the Association for the Promotion of National Infrastructure (AFIN)

Gonzalo Prialé is a Peruvian entrepreneur and a civil engineer with specialization in finance, foreign trade and development projects. He has extensive experience in international trade and agricultural issues, and has been developing union activities since 1985. He's a columnist on economy and politics, President of Corporación Algodonera del Perú S.A. and has been President of AFIN since January 2007. AFIN (formerly ADEPSEP) is the business association that brings together the leading private companies within infrastructure sectors such as energy, transport infrastructure, telecommunications and sanitation. AFIN currently has 41 member companies, which are investing more than US\$ 12 billion in Peru.



## Alonso Rey

Partner at law firm Payet, Rey, Cauvi

Alonso Rey specializes in corporate law, privatization and concessions, energy, infrastructure, administrative and tax law. He sits on the Board of Banco Falabella, Saga Falabella, Lima Gas, Minera Chinalco Perú, Gas Natural de Lima y Callao, and COMEX PERU. He has been a member of the Board and Superior Council of Arbitration of the Lima Chamber of Commerce. He has also been an advisor to the Ministry and Vice-Ministry of Industry, Tourism, Integration and International Commercial Negotiations, Member of the Unfair Competition Commission at the National Institute for the Defense of Competition and the Protection of Intellectual Property (INDECOPI), and advisor of the National Foreign Investment and Technologies Commission (CONITE).



## Eric Rey de Castro

Partner & Managing Director of Colliers International Peru

Mr Rey de Castro is an expert in commercial real estate, with over 20 years of professional experience and 15 as CEO within the sector. He has played a crucial role in the development of the next generation of real estate funds in Peru. He is Chairman of the Investment Fund in Real Estate Larrain Vial - Colliers (FIBRA), President of the Peruvian chapter of the Green Building Council (UK GBC), Delegate of the Peruvian chapter of the Urban Land Institute (ULI), local Delegate of RICS (Royal Institution of Chartered Surveyors) and Board Member of Colliers Marketplace, Penta Realty Group, the Golf Park, and several companies in the sector.

## Taleb Rifai

Secretary-General of the United Nation's World Tourism Organization (UNWTO)

Mr Rifai was elected the UNWTO's Secretary-General in October 2009 and began his four-year term on January 1<sup>st</sup>, 2010. He has an extensive background in international and national public service, the private sector and academia. Prior to joining the UNWTO he was the Assistant Director General of the International Labour Organization (ILO). Mr Rifai has also served in several ministerial portfolios in the Government of Jordan: Minister of Planning and International Cooperation, Minister of Information, and Minister of Tourism and Antiquity. Other positions held include Director of the Economic Mission to Washington, DC and Director General of Jordan's Investment Promotion Corporation.



## Héctor René Rodríguez

Director of Investments Promotion at ProInversión

Mr Rodríguez has been the representative of ProInversión in international forums on Public-Private Partnerships held around the world. He also serves as Director at Empresa de Distribución Eléctrica del Sur Oeste - SEAL (Arequipa). He's a Professor at ESAN University where he has also served as Director of Technical Affairs, and as Chief of Operations. He holds an MBA and an International Diploma in Management Concessions from Universidad del Pacífico, as well as a Diploma in Management of Large Infrastructure Projects, a Diploma in Energy, Oil and Gas Law from UPC, and a Diploma in Production Management from Universidad Adolfo Ibañez, Santiago, Chile.



## Daniel M. Schydrowsky

Superintendent at the Superintendency of Banking, Insurance and Private Pension Fund Administrators of Peru (SBS)

Dr Daniel Schydrowsky was appointed Superintendent of the SBS in August 2011. He previously served as President Alejandro Toledo's Counselor on Economic and Financial Affairs (2001-2002), as the President of Peru's Development Finance Corporation (COFIDE) (2002- 2006), Board Member of the Central Reserve Bank of Peru (BCRP) (2002-2006), and of the Andean Development Corporation (CAF). He also served as Vice-President of The Latin American Association of Development Finance Institutions (ALIDE). Dr. Schydrowsky has had a distinguished academic career including positions at Boston University (1972-1990) and at The American University in Washington, D.C. (1990-2001). He has been a consultant to the IDB, World Bank, UNDP and USAID.





L U X U R Y M A R I N E C O N D O M I N I U M



# LIVE PARACAS

I C A • P E R U

**S**hamrock is currently developing a luxury beachfront residential condominium next to the famous Paracas Natural Reserve, on the coast south of Lima: **Shamrock Paracas Lagoon**. Its functional state-of-the-art architectural design is inspired by the Ica desert dunes and seeks to integrate itself in harmony with the natural landscape of the bay. This *World Class Project* has 2 to 7 bedroom apartments and townhouses ranging from 155m<sup>2</sup> to 570m<sup>2</sup>, all surrounding a crystal clear salt-water lagoon.

The main attraction of this great project is the nine-acre lagoon; it has 4 private white-sand beaches surrounded by palm trees. Each owner will be able to enjoy optimal sailing, kayaking, paddleboarding or simply swimming at sun-drenched beaches all year long. They will also be able to enjoy spacious areas for recreational activities and sports such as tennis courts, soccer, squash, clubhouse, spa, restaurant, mini market and meeting rooms.

**Shamrock Paracas Lagoon** is currently in the process of being certified at the highest LEED® level, which would implement energy-saving systems in the project's design, as well as a compact waste water treatment plant, which will allow reusing water to irrigate its parks and gardens.

51-1  
arquitectos

ARCHITECTURAL DESIGN

Crystal Lagoons

LAGOON TECHNOLOGY



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## Peruvian Integration: Government, Investors and the Peruvian People

Foreword by The Hon. Ollanta Humala Tasso, President of Peru

Today Peru is able to count on a fiscally responsible government, low debt and a large number of private investments in both the near and distant future. As our great nation continues to grow, we are charged with the challenge to maintain a path of development that will reach all sectors of society.

So how does a nation turn this economic growth into a lasting improvement in the standards of living and quality of life in Peru? The answer is with smart policy and responsible investment from both the public and the private sectors.

In the last decade, Peru has undergone several fundamental transformations that have been undertaken not only by the government, but also the private entities that have shouldered this economic growth. But more needs to be done.

A poverty gap exists that has set the wealthiest apart from the poor. In order to shrink this gap in inequality we need to create a strong middle class that is self-reliant. What we are therefore attacking as a government is the inequality gap and empowering our citizens with a sense of duty and responsibility. In this regard, we have a number of challenges and opportunities we have to address.

With nearly 30 million Peruvians and a population that has an increasing demand for basic services and regulations, there is an equally urgent need for the government and the private sector to respond. The private sector has been expanding at a swift pace for the last two decades, and the government must keep relevant and dynamic in order to accompany companies' development into the future.

In order to do this we have been dedicated to creating innovative and responsible policy, to fulfill our obligations and commercial agreements, to be a transparent and reliable government, and to establish clear and comprehensive rules and

regulations. In order to achieve these goals we've set specific objectives that must be met.

Among the most important of those objectives is to bridge the gap in infrastructure that exists today in Peru. The economic strengths are more than apparent here. Every day there is news about a successful bond issue or a public stock offering. The Peruvian government just issued bonds for which demand exceeded the offer sevenfold. With such a successful issuance of bonds our challenge is to bring the basic services of the state to all parts of country, but in order to do this successfully we need to work together with the private sector. With public-private partnerships we can create significant and successful investment in several different sectors of the economy. We must work together with the private sector to pave highways and build bridges that are necessary to creating a prosperous economy with a prosperous and integrated population.

We currently have an infrastructure deficit of US\$ 35 billion in everything from roads to ports, airports to hospitals and schools to bridges. We have a large number of infrastructure projects that are needed in order to connect the logistical pathways with all of the potential commercial markets that exist throughout the country.

Another objective is to use technological innovations to our advantage. As Peru becomes more competitive and makes a larger impression on the international panorama, technology and know-how will be a key to our continued competitiveness. Private investment into technology-intensive areas and know-how offers Peruvians a way to add value to our products and shield ourselves from external volatility. Latin American countries, and Peru in particular, have made small inroads into diversifying their respective economies away from raw materials, but we have not yet broken away from these primary sources of commerce. We continue to export raw materials,

such as metals and non-metallic minerals along with agricultural goods, only to import them later at a higher cost from another country that has added value to those original goods. To curb this we are reaching out to both local investors and international investors that can facilitate technological development and technical expertise.

We are in the unique position of being able to use this investment as the leverage we need in order to create jobs and deepen our economic prosperity, while at the same time the investor sees the monetary benefit and high turnover that can be generated from operating within our borders.

In order to continue this symbiotic relationship that we currently have we must strengthen our relationship with investors and serve as a conduit for future investment opportunities. As a government we have a vested interest in the need to translate this growth into development and channeling this development to the most beneficial and strategic areas for Peru, such as the construction sector and infrastructure, the exportation of non-traditional products, and mining exploration, among others.

For example we are developing a petrochemical complex in the south of the country, which represents a powerful investment by State company Petroperú, but at the same time, there has been a strong interest from various companies of various nationalities in participating in this project to move the gas in the region of Cusco to the south of the country where it will be industrialized.

Other interesting projects in the area of infrastructure are in progress as well. In Lima, the capital of Peru, we are working on developing a completely integrated transportation system, with a plan to build an underground metro through Lima. The provinces have not been left behind, however, with the major airports across the country undergoing modernization and expansion. With approximately 3,000 miles of coastline and a geographically favorable position between Brazil and East Asia, the modernization of the port terminals is essential as well.

In addition to strengthening our relationships with investors, we have strengthened our bilateral and multilateral relationships with other nations as well. Peru has made commercial agreements with 17 countries to date, with others to follow soon. Our free trade agreements now include up to 90% of the commerce that is traded on a day-to-day basis, and with new free trade agreements that will come in the future that percentage will increase, and so will the overall trade volume between our countries.

Within the region we are developing other bilateral agreements with several countries, such as Brazil and Bolivia, in order to have freer transportation between our neighboring countries, effectively lowering some of the most debilitating trade barriers that stand in the way of progress.

For over a decade we have been consistently increasing the confidence investors have in our country, while at the same time minimizing the risks that investors face. We respect your voice, we honor our agreements, and we are always seeking amicable and lawful means of settling disputes with companies that infringe our laws and regulations. In Peru there are conflicts, but we place importance on resolving them through dialogue, searching for the underlying problem and trying to solve it. And we plan to continue this practice in the future.

The image of the entrepreneur has also experienced a transformation. The employer is now spearheading, in many cases, socially responsible initiatives, allowing companies to enjoy a prosperous relationship within the community and the local population where they are operating. The Peruvian people ask for no less and their government is interested in companies that conform to this model of social responsibility.

Trust is something you earn, and nobody gives out confidence, so we ask for the opportunity to show you the benefit of doing business in Peru. Therefore, as a government that is friendly toward investment, we receive organizations, both public and private, with our doors open.

We are happy to work with you, and we understand the importance of coming together in the common interests of both the investor and the Peruvian population. We look forward to creating a modern Peru and a Peru that can count on the integration of all areas and regions of the population with your help.

We look forward to receiving you.

Ollanta Humala Tasso  
President  
Government of Peru





## Peru: An Attractive Destination for New Investments

Foreword by Juan Jiménez Mayor, President of the Council of Ministers, Government of Peru

The fundamental purpose of this administration is ensuring that social inclusion accompanies economic growth. When this mandate was announced in 2011, Peru was demonstrating encouraging figures amid a backdrop of successive international financial crises. With prudence and countercyclical policies, we can overcome the turbulence that has seriously affected other countries.

Our economy remains one of the most dynamic in the region, with a 6.9% increase in GDP. Exports exceeded US\$ 46 billion in 2011, the highest figure in our history, and we achieved a trade surplus of around US\$ 9 billion.

Imports reached record levels when it came to the purchase of capital goods, appliances, cars, furniture and household equipment, reflecting the growth in investment and consumer income. Inflation is controlled and managed within the limits set by the Central Reserve Bank and credit grew about 20% with less than 2% delinquency. The international rating agencies Standard and Poor's and Fitch raised Peru's credit ratings, signaling trust and recognition of the progress that Peru has made in recent years. The Peruvian financial system is sound.

Peru is expected to continue on the path of progress and social inclusion. In the social sphere, employment has continued to grow throughout the country and it is estimated that poverty has been reduced to 27%; chronic child malnutrition declined over the first semester of 2011. We have also set important milestones in terms of social inclusion, with specific programs in education, health, chronic malnutrition reduction and other targeted social programs.

In other words, Peru is in a strong position to face the unwanted effects of a further deterioration of the global economy, a condition that allows us to implement appropriate countercyclical policies based on our strengths, including a budget surplus of 2% of GDP, a Fiscal Stabilization Fund of around US\$ 6 billion,

net international reserves worth more than US\$ 50 billion and low levels of public debt. In 2011, our economy closed at a level close to 20% of GDP in gross debt and 9% in net debt.

The government instated a preventative fiscal stimulus able to face a potential further deterioration of the international economy. The goal was to provide resources, mainly for infrastructure projects and maintenance, focusing on regional and local governments.

Similarly, we have established a credit guarantee fund for exporters and created temporary employment programs linked to infrastructure projects in small towns.

It is essential to make this model of growth with social inclusion a sustainable one in order to have permanent government revenue. On top of this, we have the additional revenues from the new tax on the mining sector that this administration has introduced. We need the private sector to create quality permanent jobs with decent wages that include pensions and social security.

In order to expand social programs and guarantee sustainability, we need to have sustained economic growth. To support this growth, public investment will grow about 30% and the federal government will continue to work with regional and local governments to speed up the process of project approval and implementation.

It is also essential to maintain the dynamism of private investment, especially when the world economy slows down. Thus, the government aims to reduce social conflict and make the communities aware of the number of major investment projects mainly in the mining sector.

To this end we have been working on a comprehensive policy scheme, which includes, among others, an environmental gua-

rantee fund; social inclusion funds; formal water access rights for rural and urban populations; technical and operational capacity building for the regulatory agencies; monitoring and control of water resources; and environmental monitoring.

Peru is able to keep growing thanks to the investment opportunities offered in all sectors, such as mining and hydrocarbons.

We still have an infrastructure deficit to overcome, of around US\$ 35 billion, where roads, bridges, ports, airports and telecommunications networks need to be financed and built.

In the agriculture sector, projects like Majes-Siguas II, Chavimochic II, Puyango-Tumbes and Chincas, which will allow the inclusion of 180,000 new hectares for agricultural activities, will also require new investments.

In 2012, we have been promoting a stronger image of Peru abroad, presenting it as an attractive country for investment. At the end of this administration, in 2016, we would like to leave the country with a high level of growth and with benefits for all, including the most vulnerable populations. We aim to finish our time in administration with a per capita income level of over US\$ 7,500.

We will promote the introduction of scientific development and technological innovation in order to expand the production of higher value-added goods and services, which will enable us to successfully participate in an increasingly competitive world.

Our country has immense possibilities for further progress in the coming years as a result of having a clear vision and the joint efforts of the public and private sectors. The new administration, headed by President Ollanta Humala Tasso, has guaranteed a scenario of political stability and clear and permanent rules to play by. Our economic growth and reduction of the social inequality gaps will allow us to be leaders in the region.

The favorable conditions in Peru make it an attractive country for foreign investors who want to place their capital in a safe and stable place with great potential in all production and services sectors.

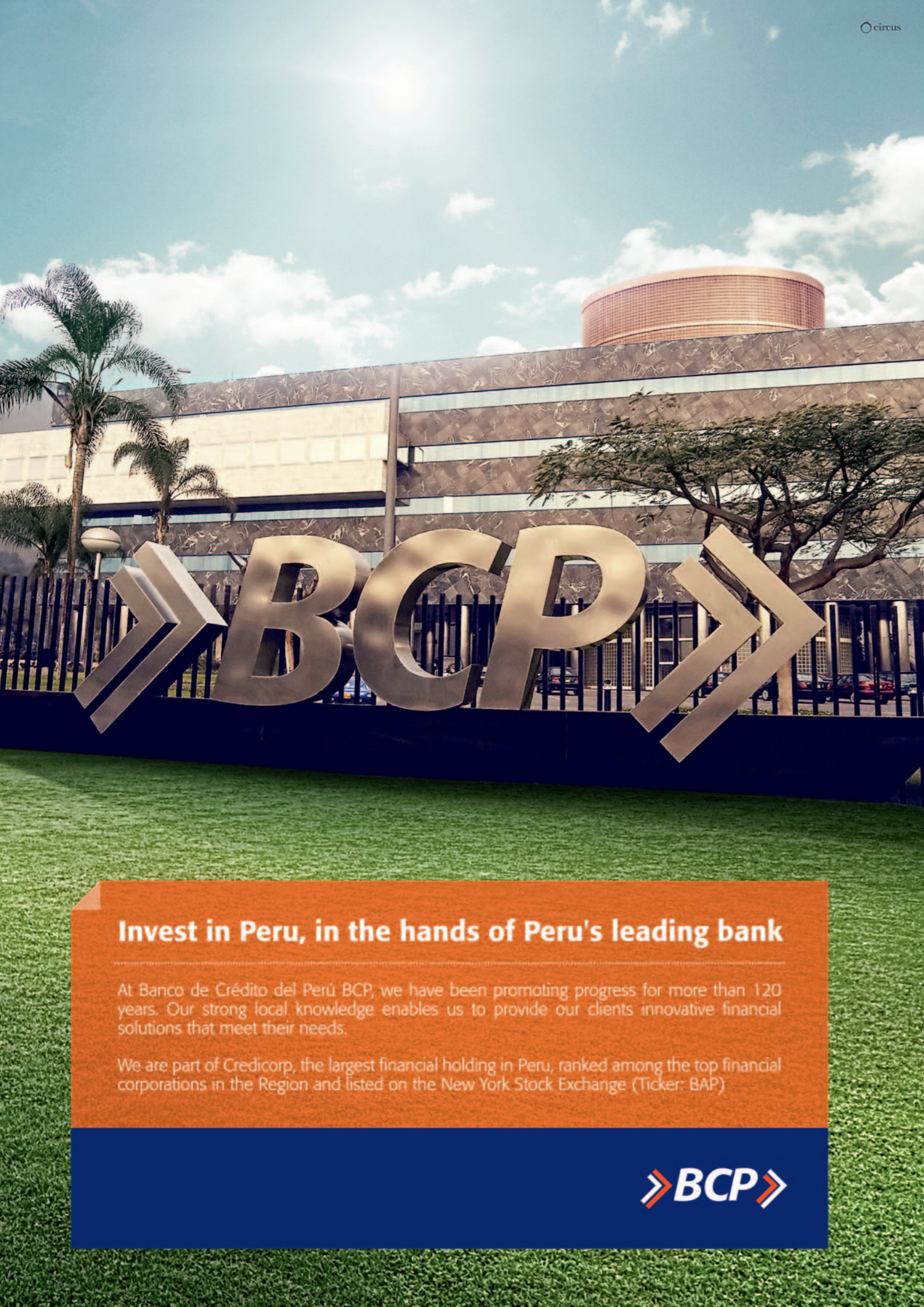
The doors of our ancient country rich in history, natural resources and biodiversity are open to new investment. Welcome.

Juan Jiménez Mayor  
President of the Council of Ministers  
Government of Peru



Downtown Lima





## Invest in Peru, in the hands of Peru's leading bank

At Banco de Crédito del Perú BCP, we have been promoting progress for more than 120 years. Our strong local knowledge enables us to provide our clients innovative financial solutions that meet their needs.

We are part of Credicorp, the largest financial holding in Peru, ranked among the top financial corporations in the Region and listed on the New York Stock Exchange (Ticker: BAP)



## The CGDC and Peru: Social Development through Economic Growth

Foreword by Petar Stoyanov, Founder and President of the Center for Global Dialogue and Cooperation - CGDC



The Center for Global Dialogue and Cooperation - CGDC is a relatively young organization that promotes democratic ideas and a democratic business environment by encouraging communication between political and entrepreneurial leaders both on a global and regional level. We regard ethical values in business and politics as decisive for sustainable and stable development, and are convinced that creating transparency and responsibility in terms of the legal, political and economic standards in emerging countries is essential for global welfare. Through encouragement of international annual meetings we provoke lively debates around contemporary challenges engaging heads of state, international business leaders, members of civil society and opinion leaders from around the world, including our ardent supporter President Bill Clinton, who all actively share our vision and mission to ensure sustainable development.

With cooperation at its core, the CGDC brings a lasting and positive change in emerging countries through the implementation of a number of programs in various fields. Ranging from education to health care sector investments, such as providing scholarship to sixty-five students engaged in the MBA Program in a private university in Vienna, Austria as a part of the Clinton Global Initiative, or fighting the HIV/AIDS epidemic by supporting affected pregnant women in Botswana, Africa we steadily move towards a better future. Various measures are being undertaken to achieve these goals and we are fully aware that the challenges involved are immense. However, through the ongoing faith and trust in our mission and vision as well as the reciprocal confidence, firm commitment, and full dedication of the CGDC community, our partners and supporters, we succeed in overcoming societal, political, business and other challenges on the way to achieving the results we crave.

The CGDC is strongly committed to action and never stops until the goal is reached, and here I see parallels between our organization and Peru, one of the fastest-growing economies in the world. In the last decade, Peru has seen consistent economic growth and broad support for democracy. Peru has yielded unprecedented economic expansion, low inflation and registered a dramatic drop in poverty rates. It is especially gratifying to see how Peru is striving to extend the benefits of its strong economic growth to all Peruvians.

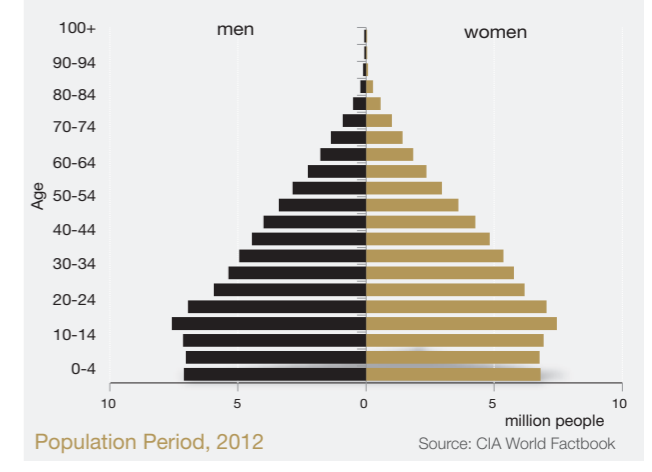
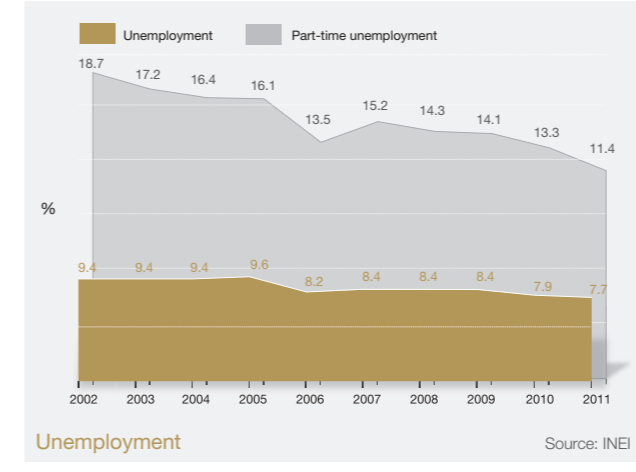
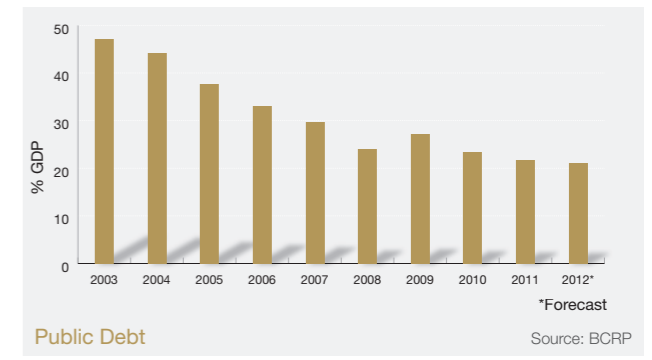
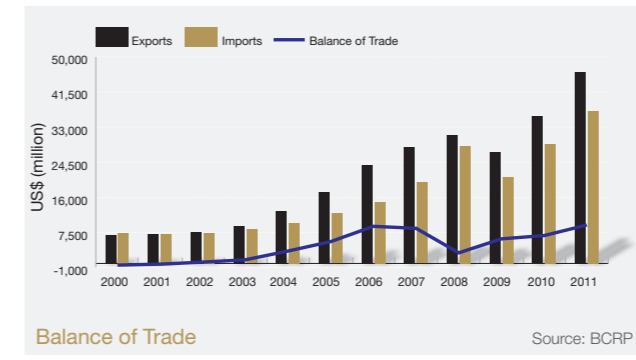
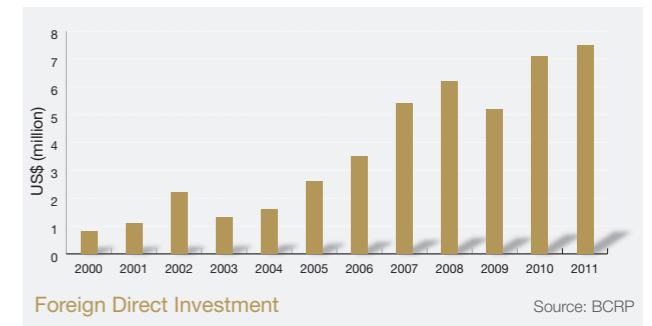
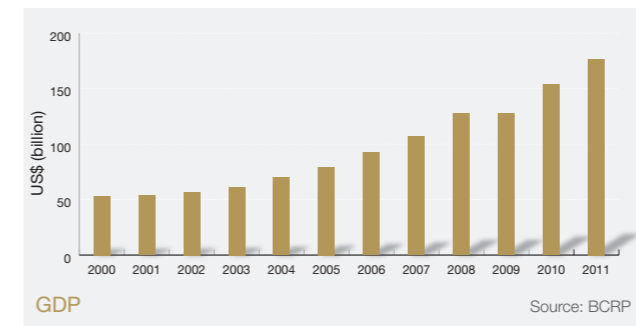
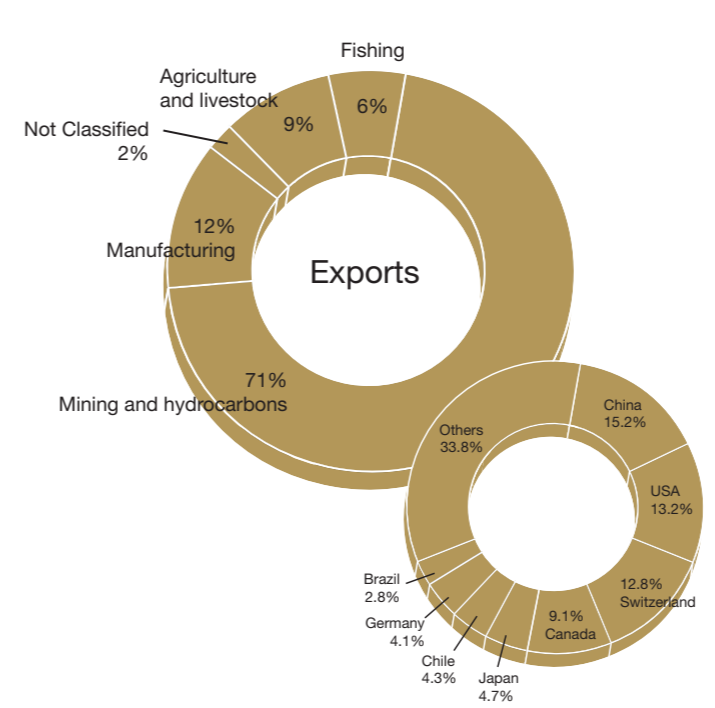
Being home to several cultures and a mix of landscapes, climates and ecosystems, manifested in a variety of ways, Peru is an extremely interesting destination for both tourists and international investors. Located on the western coast of South America, this country effectively bridges the markets of South America, Asia and the United States and has already established an attractive legal framework for private national and foreign investment to promote socially inclusive market-based economic growth.

It is in the interest of the CGDC to assist development efforts in Peru. I therefore strongly support our partner's publication, the Milestone GRP Global Investor's Guide on Peru. Within the scope of information and guideline duties, the Milestone GRP Global Investor's Guide is a unique top-quality publication that presents a thorough investment picture of Peru. Such an in-depth analysis of the growth potential of the country provides Peru with an opportunity to preserve its cultural heritage, remain attractive to tourists, access broader markets, and increase the trend among South American neighbors to invest in Peru. This publication is a powerful marketing and nation branding tool capable of attracting international interest and contributing to the country's effort in further strengthening its democracy and economic growth.

Harnessing the country's natural resources and competitive advantages are essential for broadening its economic opportunities and it is my strong conviction that by joining our efforts we can achieve socially inclusive and environmentally responsible growth and successfully invest in building a peaceful, competitive and prosperous future.

Petar Stoyanov  
Founder and President of the CGDC  
Former President of Bulgaria (1997-2002)







# Government, Foreign Relations & Business Environment







## Ministry of Foreign Affairs

### “FTAs: Accessing the Most Important Markets Around the World”

Interview with Rafael Roncagliolo, Minister of Foreign Affairs

**Rafael Roncagliolo** is a sociologist, journalist and university professor. Before becoming Peru's Minister of Foreign Affairs in 2011, he held different positions at the International Institute for Democracy and Electoral Assistance (IDEA) in Peru (2005-2011), where he was the Head of Mission (2009-2011). Before that, he was Technical Secretary of the National Agreement (2002-2004); Director of Peru's Program for IDEA (2003); Secretary General of Transparency Civic Movement of Peru (1994-2002); President of the Institute for Latin America (IPAL) (1982-1994); and Director of the Communication Studies Division at the Latin American Institute of Transnational Studies (1976-1982), among others. He received a BS and Masters from the Pontificia Universidad Católica de Peru.

**The Ministry of Foreign Relations of Peru** is the state entity in charge of preparing and executing the foreign policy objectives of the Peruvian State. The Ministry works in coordination with Peruvian ambassadors throughout the world in order to develop and strengthen both bilateral and multilateral ties with other nations for the benefit of the Peruvian State.

Milestone GRP met with Minister Roncagliolo to discuss the Ministry's approach to the country's foreign relations and its role in promoting investment in Peru.

**Milestone GRP - What would you say is the role of the Ministry of Foreign Affairs in international trade and the growth of the economy?**

**Minister Rafael Roncagliolo** - The Ministry of Foreign Affairs of Peru has a pivotal role in fostering confidence in the Peruvian economy and spurring the growth of its international trade links. Through its significant network of 56 embassies and 68 consulates abroad, which are located in countries that are key partners for Peru, the Ministry is able to promote our country's economic interests within its broader foreign policy objectives, which includes other significant aspects of international relationships, such as political and cultural ones.

Furthermore, Peru has permanent diplomatic representations to important multilateral and regional organizations that underpin the international system of economic and trade integration, including the United Nations, the WTO, the IMF, the World Bank and its International Center for the Settlement of

Investment Disputes (ICSID), the Union of South American Nations (UNASUR), the Latin American Integration Association (ALADI), and the Andean Community of Nations (CAN), among others.

The highest representatives of the Peruvian government abroad are the ambassadors and they are tasked with nurturing high-level links with decision makers and business representatives, promoting Peru abroad as a stable and attractive destination for foreign investment and as a reliable platform for sourcing Peruvian products. At a grassroots level, our embassies are manned with economic officers who are able to provide guidance to those seeking to discover the multiple business opportunities our country offers, without disregarding the importance of building on private sector international linkages. As such, the Ministry is able to project Peru's achievements abroad such as strong and sustained economic growth, macroeconomic stability and business reliability. The Ministry has also played an important role in integrating the country into the global economy through an extensive

network of free trade agreements, which are an important tool for achieving socially-inclusive growth. Over 90% of our international trade is already part of free trade arrangements. Peru is a very open economy and we especially seek to extend the benefits of free trade and economic growth to micro, small and medium enterprises, which significantly contribute to job creation and to diversify the economy, enhancing Peru's overall welfare.

“Over 90% of our international trade is already part of free trade arrangements.”

**Milestone GRP - What do you think makes Peru so attractive for investors?**

**Minister Roncagliolo** - Peru's dynamic economic growth has certainly been an important element in attracting investors. Peru has been the fastest growing economy in the region for several years. In 2011 it grew at 6.9% and for 2012, in spite of economic crisis in Europe and slower growth in the United States and China, we expect economic growth to top 6%. Sustained economic growth in the last 10 years allowed us to more than triple our GDP to US\$ 177 billion by the end of 2011, and according to projections, GDP per capita could reach US\$ 10,000 before 2021 when Peru will celebrate its bicentenary. HSBC, in its report “The World in 2050,” places us as the 26<sup>th</sup> largest economy in the world by mid-century. This reflects the optimism that the business community and leading economists share regarding Peru's great economic potential.

Among key drivers of economic growth, we can mention strong private sector investment in dynamic sectors such as construction, which has grown by two digit figures for several years. Private investment today represents 19.6% of GDP compared to 2000 when it represented 16.3% of GDP. This trend is expected to be maintained in the near term with approximately US\$ 52 billion in private investment commitments for the next three years. Given its strong focus on social inclusion and in the context of the current global economic deceleration, the Peruvian government is also accelerating its expenditure on public works and social programs. Public investment grew significantly between January and September 2012 by 30%.

Peru has made strides in making itself more competitive, offering foreign investors a stable and attractive tax and legal framework as well as a friendly business environment. As a

Peru's Free Trade Agreements	
<b>In Effect</b>	
World Trade Organization	Andean Community Mercosur APEC
Canada Chile China Cuba EFTA Japan Mexico	
Panama Singapore South Korea Thailand USA Venezuela	
<b>Coming into Effect</b>	
Costa Rica	European Union & Colombia Guatemala
<b>In Negotiation</b>	
Trans-Pacific Partnership	Doha Development Agenda
Pacific Alliance	El Salvador Honduras

result, Peru is ranked 13<sup>th</sup> in the world for protecting investors by the World Bank and it has also attained investment grade from all major rating agencies. Furthermore, it offers macroeconomic stability through fiscally responsible policies, low public debt, low inflation and substantial net international reserves which reached US\$ 60.5 billion by September 2012.

Because of this investment-friendly climate, Peru is expected to continue attracting foreign investment in sectors such as mining, energy, finance, communications, and infrastructure – which is a critical sector in which we still have a substantial deficit of approximately US\$ 40 billion. Aiming to cut this deficit in half by 2016, the government has announced a major investment program of US\$ 20 billion in infrastructure projects, including public-private partnerships, which represent an attractive opportunity for foreign investment in these sectors.

More importantly, Peru's strong economic growth is driven not only by its exports, which reached a historic US\$ 46.3 billion in 2011, but substantially by Peru's bullish internal demand, which grew 10% in the last trimester and is having a very positive effect in bringing more Peruvians into the formal economy and in enhancing their welfare. Furthermore, Peruvians are seeing their wages rise and gaining greater access to banking credit, which in turn, is driving the growth of housing and greater consumption of goods such as family vehicles.

We are pleased by this trend but we also remember that one in three Peruvians is still affected by poverty and this is the main area to which this government has set its attention, through major programs aimed at greater social inclusion such as conditional cash transfer schemes (JUNTOS), which promote the health and education of families and their children, pensions programs for the elderly (Pension65), scholarships to bring higher education opportunities to youths (Beca18), as well as a strong focus on creating adequate opportunities to bring these citizens out of poverty altogether.

“Approximately US\$ 52 billion in private investment commitments for the next three years.”

**Milestone GRP - Why is Peru the second country, after Chile, with the most free trade agreements? How did you achieve that?**

**Minister Roncagliolo** - Peru is a medium-sized economy of 30 million people and, as such, requires access to markets in order to continue to grow. It has committed itself to integrating with global markets through an extensive network of trade and integration agreements.

A first priority is regional integration. Peru was one of the founding partners of the Andean Community in 1969, an integration process which in 1993 established a Free Trade Area among its members and which, for Peru, is the cornerstone



of its regional integration. Peru is building on this process as an associate member of MERCOSUR and is currently committed to the integration of South America as part of the Union of South American Nations (UNASUR). Furthermore, it has played a leading role in forging the Pacific Alliance (Peru, Chile, Colombia and Mexico) and is also undertaking trade negotiations with key Central American partners.

Of course, Peru has made its most significant effort so far in gaining access to major industrialized markets, which have consumer bases that enjoy a high purchasing power. In particular, the negotiation, signing and ratification of the FTA with the United States, in force since February 2009, was a major achievement that boosted Peru's exports.

We have now focused our attention on strengthening the ties within Latin America and in the Asia-Pacific region. Peru is also very active in multilateral negotiations and is committed to the WTO's Doha Development Round. Through these negotiations we seek to enhance our existing trade network.

**Milestone GRP - What trade agreements have been ratified so far?**

**Minister Roncagliolo** - Peru has 14 bilateral and regional FTAs in force that provide access to the most important markets around the world and to millions of consumers with high purchasing power. It has another four FTAs that will soon enter into force and is actively participating in further trade negotiations. In the Americas we have trade agreements with

(FTAAP). As such, it will be open for other APEC economies to join in. There are also the Pacific Alliance trade negotiations that involve Peru, Chile, Colombia and Mexico, which have gathered the attention of other interested parties on both sides of the Pacific. Through both of these, Peru seeks to strengthen its strategic position in the Asia-Pacific region. In addition, it is also negotiating bilateral FTAs with Honduras and El Salvador.

These agreements will allow more than 95% of our international trade to be tariff-free.

**Milestone GRP - How were you able to retain your position when the Prime Minister and 10 other ministers were replaced in 2012? How do you perceive the working relationship between ministers going forward?**

**Minister Roncagliolo** - Foreign policy is led by the President of the Republic. He also makes the decisions regarding his Cabinet. We will keep working together in harmony. I've known some ministers for four months and some of the new ministers for 48 years. We'll continue with the government's aims, which are social inclusion, economic growth and a foreign policy designed to defend and promote Peru's interests abroad.

**Milestone GRP - How do you collaborate with the Ministry of Economy to make Peru more attractive to foreign investment?**

**Minister Roncagliolo** - The Ministry of Foreign Affairs is involved in all aspects of economic promotion abroad and coordinates with national sectors involved in promoting Peru as an attractive investment destination, such as the Ministry of Economy and Finance, and ProInversión, Peru's private investment promotion agency. The Ministry's network of embassies and consulates are key in investment promotion because they build relationships with decision makers and business representatives, carry out promotional activities such as presentations, and, in general, generate specific interest in Peru's attractive portfolio of investment opportunities.

The Ministry also contributes to investment policy formulation by providing critical information regarding important political and economic developments in those countries in which it has diplomatic representations.

**Milestone GRP - What would you say to those who are considering Peru for foreign investment?**

**Minister Roncagliolo** - I would encourage them to explore the multiple opportunities available in Peru for business, as one of the most dynamic economies in the region, offering a stable and investment friendly business environment. I also reiterate our commitment to providing any relevant guidance and information that may facilitate their business decisions and ventures with our country.

We consider investors as important partners in fostering greater economic growth and thus, enhanced social inclusion and welfare for all Peruvians. We look forward to welcoming you to Peru.

**Peru is ranked 13<sup>th</sup> in the world for protecting investors by the World Bank and it has also attained investment grade from all major rating agencies.**

the United States, Canada, Mexico, Chile, Cuba, Panama, and, regional agreements such as the Andean Community and MERCOSUR. In Europe we have an FTA in force with the Member States of EFTA. In Asia, we have FTAs with China, Japan, South Korea, Singapore and we are expanding our trade agreement already in force with Thailand.

In addition, there are four FTAs (Venezuela, Guatemala, Costa Rica, and the European Union) that have not yet entered into force, but will soon. For example, our joint Peru-Colombia FTA with the EU could enter into force in the beginning of 2013.

Peru is also in the process of negotiating important regional FTAs such as the Trans-Pacific Partnership, also known as TPP, which is considered the largest regional trade agreement as well as the most ambitious worldwide. The TPP involves 11 major economies of the Pacific Basin and seeks to establish the basis for the Free Trade Area of the Asia-Pacific

Announced Main Investment Projects: 2012-2014		
Sector	Company	Project Name
Mining	Xstrata Copper	Las Bambas
	Sociedad Minera Cerro Verde S.A.	Expansion: Cerro Verde
	Jinzhao Mining Perú S.A.	Pampa del Pongo
	Anglo American Plc.	Quellaveco
	China Minmetals Corporation y Jiangxi Copper Company	El Galeno
	HudBay Minerals Inc.	Constancia
	Southern Perú Copper Corp.Sucursal del Perú	Los Chancas
	Antares Minerals Inc.	Haquira
	Aluminium Corp of China Ltd. (Chinalco)	Toromocho
	Candente Copper Corp.	Cañariaco Norte
	Gold Fields Ltd.	Chucapaca
	Southern Perú Copper Corp. Sucursal del Perú	Expansion: Toquepala
	Marcobre S.A.C.	Mina Justa
	Bear Creek Mining Corporation	Corani
	Apurimac Ferrum	Hierro Apurimac
	Compañía Minera Milpo S.A.	Expansion: Cerro Lindo and El Porvenir
	Shougang Corporation	Expansion: Marcona
	Compañía Minera Antamina S.A.	Expansion: Antamina
	Anglo American Plc.	Michiquillay
	Río Tinto Plc.	La Granja
Hydrocarbons	Conduit Capital Partners - Odebrecht	Andino del Sur pipeline
	Pluspetrol Perú Corp. S.A.	Expansion of Pisco and Malvinas plants
	Savia Perú S.A.	Lot Z-2B: Perforation, exploration and others
	Petrobras	Lot 58 and Lot X
	Transportadora de Gas del Perú S.A. (TgP)	Expansion of gas (capacity of transportation)
	Cáldida Gas Natural del Perú	Expansion of main grid
	Perenco	Exploration Lot 67 and pipeline
	Pluspetrol Perú Corp. S.A.	Exploration Lots 88 and 56
	SK Energy	Exploration Lot Z 46
	Repsol YPF	Lot 39
Electricity	Odebrecht S.A.	Hydroelectric plant of Cerro de Chaglla
	Kallpa Generación S.A.	Hydroelectric plant of Cerro del Águila
	Norwind	Wind energy park Cerro Chocan
	SN Power Perú S.A.	Hydroelectric plant Cheves
	Fénix Power Perú S.A.	Thermal power plant
	Energía Azul S.R.L.	Hydroelectric plant Santa María
	Inkia Energy	Kallpa IV
	GDF Suez	Hydroelectric plant Quitaracsá I
Inevarante	Hydroelectric plant Acco Pucará	
GDF Suez	Cold reserve stations - Ilo	
Industry	Grupo Celepsa	Expansion of lamination plant (N° 2)
	SAB Miller	Investment plan 2012-2014
	Cementos Pacasmayo	Phospates plants
	Repsol YPF	Expansion of La Pampilla plant
	Corporación JR Lindley	Expansion and new plants
	Cementos Interoceánicos	Expansion of plant in Puno
	Grupo de Pilkington Limited	Manufacture plant of glasses
	Cementos Lima	Expansion of installed capacity
Infrastructure	OAS S.R.L.	Parque Rimac express way
	Consorcio APM Terminals Callao	Modernization of North Pier
	Covisol	Trujillo-Sullana Sol Highway
	Grupo Ronmero	Expansion of Port of Matarani
	Consorcio Transportadora Callao	Minerals Pier
	Autopista del Norte SAC	Pativilca - Port of Salaverry Road Network No. 4
	Terminales Portuarios Euroandinos	Expansion of Port Paita
Covi Peru	Pucusana - Cerro Azul - Ica Road Network No. 6	
Other sectors	El Consorcio Aeropuertos Andinos del Perú	Regional airports (second tranche)
	Telefónica del Perú S.A.	Optical fiber project at Los Andes
	América Móvil Perú S.A.C.	Expansion of infrastructure, capacity and technological innovation
	Graña y Montero Vivienda (GMV)	Housing projects
	Grupo Falabella	Mall Aventura Plaza: new malls
	Holding Banmédica	Health centers
	Maestro Perú	Investment projects and expansión 2012-2014
	Inmobiliari S.A.	Real state
	Besalco S.A.	Real state
	Grupo Fierro	Real state
Cencosud	New supermarkets and malls	
Grupo Interbank	Expansion and modernizations of new malls	

Source: BCRP





## Ministry of Economy and Finance “Bringing Peru to the International Forefront”

Interview with Luis Miguel Castilla, Minister of Economy and Finance

**Luis Miguel Castilla** is Peru’s Minister of Economy and Finance. He holds a Masters and Ph.D. in Economics from Johns Hopkins University, and has taken courses in the Global Crisis and Financial Reform Program of Harvard University. He has held the positions of consultant to the World Bank Vice-President for North Africa and the Middle East, adviser to the executive chair of the Andean Development Corporation (CAF), and director of the Banco de la Nación of Peru. Minister Castilla served as deputy minister of Finance from January 2010 to July 2011.

**The Ministry of Economy and Finance of Peru** is the entity in charge of the planning and execution of the economic policies of the Peruvian Government, with the goal of optimizing the economic and financial activities of the nation, monitoring macroeconomic activity and achieving sustainable growth of the nation’s economy. The Ministry also has the responsibility of efficiently managing the Government’s financial resources.

Milestone GRP met with Minister Castilla to discuss what the Ministry of Economy and Finance is doing domestically to maintain the stability of the Peruvian economy, how it is increasing Peru’s attractiveness as a destination for investment and how it is promoting Peru abroad.

**Milestone GRP - Peru has been particularly active in promoting itself internationally with events like Peru Day in New York, Invertir en Peru in Spain, and lately with inPeru in London, Germany and Asia. What importance are you placing on these events, and what kind of reception have you been receiving?**

**Minister Luis Miguel Castilla** - It is very important to promote Peru and showcase the country as a place that offers ample investment opportunities, is growing at a fast rate, provides a friendly investment environment and has the right framework to attract foreign investors. This is a macroeconomically stable country that is intent on promoting both domestic and foreign investments here. This country, which has a booming and emerging economy, can be of interest to both financial and non-financial investors. For inPeru events, a team of governmental authorities accompanies business leaders to do road shows. inPeru goes to the most important international venues in New York, London, Germany and

Asia. From there we will go to the US to promote opportunities and to sell our country brand.

**Milestone GRP - What levels of investment does the Peruvian economy require in order to continue on the growth path the country is now on? What aspects of the Peruvian economy enable you to achieve these rates of investment?**

**Minister Castilla** - We need US\$ 30 billion in private investment to have an investment rate of at least 25% of GDP and to be able to grow at rates above 6% annually. Part of this investment is domestic and another part is foreign, and, given that we are a country that still has ample opportunities to offer investors in many sectors, private investment is very diversified. So far I think the reaction has been quite positive. Some investors knew of our country, others didn’t, and they were very surprised by the progress in Peru. We are one of the most dynamic economies in the world – stable, with the lowest inflation rate in Latin America, and tackling our

structural problems. We are resilient to external conditions, though we are not immune as the last crisis proved. We have had the instruments to be able to mitigate the shocks from abroad, especially in terms of trade or capital flows being reverted.

Our strategy is to keep on growing at our potential growth rate of 6-6.5%. We need this growth and investment in order to have enough tax revenues to finance the social inclusion policies that this administration has been focused on, so we are working hard to promote Peru overseas more actively now than ever before.

**Milestone GRP - While a stronger currency might not be the ideal situation for a nation that counts on its exports, how are the diverse sectors of the economy coping with the increasingly strong Nuevo Sol?**

**Minister Castilla** - There has been a de-dollarization process and our economy is developing a very strong internal market capable of generating the resources to respond to new challenges. For example, Lima is the place where your money can get the highest return in the real estate market. And a big part of new investment is related to sectors other than mining.

**Milestone GRP - The inflation rate in Peru is the lowest in Latin America. What has been the key to keeping this once problematic figure within a healthy range?**

**Minister Castilla** - It’s based on the sound criteria used by the Central Bank authorities and the level of independence the Central Bank has to decide on its monetary policy.

**Milestone GRP - Recently, there has been very strong macroeconomic data coming out of Peru, including high levels of reserves, solid economic growth, and an increase in the credit rating by Fitch Ratings to BBB. To what extent is this government taking a proactive role in managing the economy?**

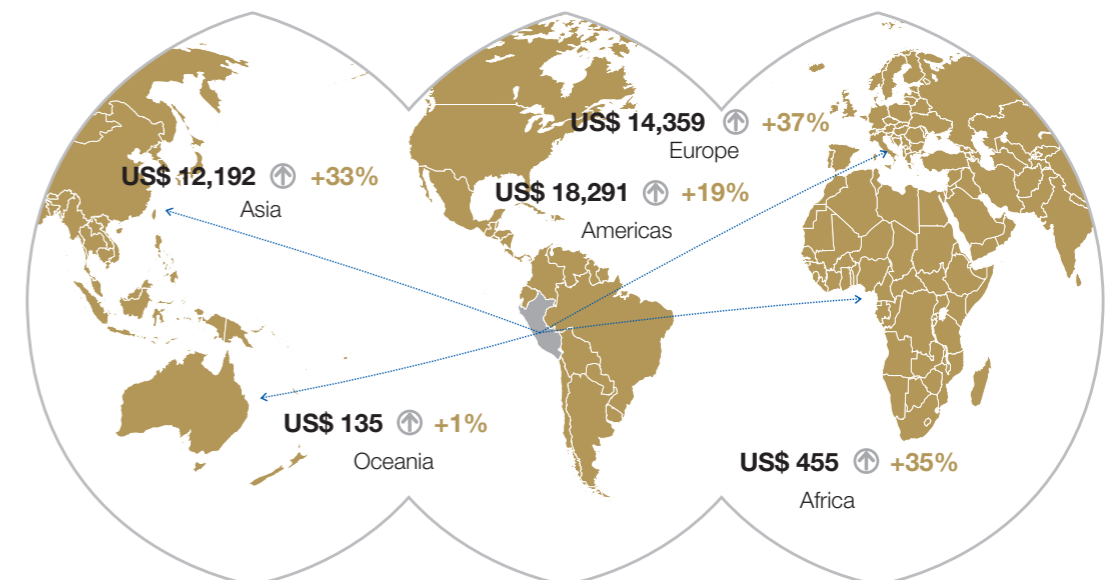
**Minister Castilla** - The first step was the successful negotiation with Congress and the mining sector for the new mining tax plan, that will provide extra resources for social inclusion programs. We also accelerated the process for public investment for 2011 and 2012 at the right time when the world was decelerating and several risks were on the horizon. The Ministry is very alert and carefully monitors minute-by-minute developments but also looks at long-term continued and sustainable growth.

**Milestone GRP - What is your ministry doing to strengthen public institutions and stabilize the economy in order to attract foreign direct investment?**

**Minister Castilla** - First and foremost, we are building a first-class umbrella for our economy by helping Peru to become one of the top-ranked countries with the lowest public debt. Today, Peru’s public debt is around 21% of GDP, among the lowest in Latin America and the world. We have also maintained a fiscal surplus of 1% for upcoming years.

“We are a country that still has ample opportunities to offer investors in many sectors so private investment is very diversified.”

It has been a decade of work to do the right thing and we are seeing results with our investment grade. Also, we invest in our FEF, or Fiscal Stabilization Fund, that is to be used only if an external crisis or natural catastrophe occurs. Today this fund contains over US\$ 7 billion.



Peruvian Exports to Foreign Regions – 2011 (US\$ million)

Source: PromPeru



Balance of Payments						
	US\$ (million)			% of GDP		
	2009	2010	2011	2009	2010	2011
<b>I. CURRENT ACCOUNT BALANCE</b>	<b>- 723</b>	<b>- 3,782</b>	<b>- 3,341</b>	<b>- 0.6</b>	<b>- 2.5</b>	<b>- 1.9</b>
<b>1. Trade Balance</b>	5,951	6,750	9,302	4.7	4.4	5.3
<b>a. FOB Exports</b>	26,962	35,565	46,268	21.2	23.1	26.2
<b>b. FOB Imports</b>	- 21,011	- 28,815	- 36,967	- 16.5	- 18.7	- 20.9
<b>2. Services</b>	- 1,176	- 2,345	- 2,132	- 0.9	- 1.5	- 1.2
<b>a. Exports</b>	3,636	3,693	4,364	2.9	2.4	2.5
<b>b. Imports</b>	- 4,812	- 6,038	- 6,497	- 3.8	- 3.9	- 3.7
<b>3. Investment Income</b>	- 8,385	- 11,212	- 13,710	- 6.6	- 7.3	- 7.8
<b>a. Private</b>	- 8,450	- 10,982	- 13,173	- 6.6	- 7.1	- 7.5
<b>b. Public 65</b>	- 230	- 537	0.1	- 0.1	- 0.3	
<b>4. Current transfers</b>	2,887	3,026	3,200	2.3	2.0	1.8
<b>of which: Remittances</b>	2,409	2,534	2,697	1.9	1.6	1.5
<b>II. FINANCIAL ACCOUNT</b>	<b>2,406</b>	<b>13,606</b>	<b>9,161</b>	<b>1.9</b>	<b>8.8</b>	<b>5.2</b>
<b>1. Private Sector</b>	4,200	11,396	9,620	3.3	7.4	5.4
<b>a. Assets</b>	- 3,586	- 1,375	- 1,298	- 2.8	- 0.9	- 0.7
<b>b. Liabilities</b>	7,786	12,771	10,918	6.1	8.3	6.2
<b>2. Public Sector</b>	291	2,468	848	0.2	1.6	0.5
<b>a. Assets</b>	- 320	- 37	- 273	- 0.3	0.0	- 0.2
<b>b. Liabilities</b>	1/ 610	2,505	1,121	0.5	1.6	0.6
<b>3. Short term capital</b>	- 2,085	- 258	- 1,307	- 1.6	- 0.2	- 0.7
<b>a. Assets</b>	- 601	- 1,844	- 1,319	- 0.5	- 1.2	- 0.7
<b>b. Liabilities</b>	- 1,484	1,587	12	- 1.2	1.0	0.0
<b>III. EXCEPTIONAL FINANCING</b>	<b>36</b>	<b>19</b>	<b>33</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>IV. NET ERRORS AND OMISSIONS</b>	<b>- 675</b>	<b>1,348</b>	<b>- 1,129</b>	<b>- 0.5</b>	<b>0.9</b>	<b>- 0.6</b>
<b>V. BALANCE OF PAYMENT RESULT</b>	<b>1,043</b>	<b>11,192</b>	<b>4,724</b>	<b>0.8</b>	<b>7.3</b>	<b>2.7</b>
<b>(V = I + II + III + IV) = (1-2)</b>						
<b>1. Change in the balance of NIRs</b>	1,939	10,970	4,711	1.5	7.1	2.7
<b>2. Valuation effect.</b>	896	- 222	- 13	0.7	- 0.1	0.0

Source: BCRP, MEF, SBS, SUNAT, MINCETUR, COFIDE, ONP, FCR, Tacna Free Trade Zone, Banco de la Nación, Cavalli S.A. ICLV, Proinversión, Bank for International Settlements (BIS), and businesses.

“Peru has learned from the past that raising protection barriers leads to inefficient companies that do not survive in the long-term. Countries that are more open tend to recover from a shock more quickly.”

We are also closing the gaps in infrastructure with regional development and reaching more remote areas to increase the ease of doing business throughout the country.

**Milestone GRP - What particular sectors need investment most at the moment? What makes them attractive?**

**Minister Castilla** - I think the investment potential we have is very broad and spans all sectors. The strategy that we have is two-fold. Firstly, we must try to ensure the basic fundamentals for growth: infrastructure. We have close to a US\$ 40 billion gap in infrastructure spending. We recently announced projects that will amount to US\$ 10 billion in many sectors ranging from transportation, energy and telecom. These, among other projects, will be bid on from now until the end of 2013. All of these will be open to private investors and PPP arrangements.

Our economy is currently concentrated on commodities – more than 60% of our exports are commodity-related products, primarily minerals. So, our second priority is to entice investors to invest in areas where we are trying to diversify our economy. We think that our free trade agreements will help us do that. For example, we have to add value to our natural gas reserves by building a downstream sector. The idea is to triple our gas reserves through investments in the next few years, building a second pipeline towards the south of the country and addressing energy needs in that region as well. In order to export this gas we need to have enough to be able to develop a petrochemical complex. I think those are key areas where there is vast potential.

Peru's economy, meaning its GDP, has been growing. Therefore its GDP per-capita has been growing as well, and we are seeing the beginnings of a thriving middle-class that we did not have before. Average incomes have increased at a very fast rate, which gives us an opportunity to address the growing segment of the population with a capacity to spend, either in services or retail. In addition, our population growth rate is decelerating to more optimum levels.

There are vast opportunities in the financial sector as well. If compared to the overall economy, the banking sector is 30% of GDP, but it is a third of what it is in Chile. So there is ample room for growth in several sectors and a population whose income is increasing. We have to take advantage of the free trade agreements that we have signed, which make up more than 90% of our trade. We are hoping to have the European Union agreement ratified by the European Parliament by the summer of 2012. We are also finalizing negotiations toward a TPP (Trans-Pacific Partnership) with the US and several Asian countries. The result would be the largest free trade area in the world in terms of size and commercial trade. Peru has been able to sign many trade agreements successfully. We would like to become a gateway for other countries interested in investing here to be able to gain access to markets such as China, Europe, East Asia, Canada, US and other countries using the preferential access we have with those countries. This is one of the many advantages that we offer to investors.

“We would like to become a gateway for other countries interested in investing here to gain access to markets [...] using the preferential access we have with those countries.”

The extractive industry is also very important for Peru. Only 10% of its potential has been explored, so there is plenty of room for foreign investment in mining. We are a poly-metallic country, so we have a vast scale of minerals that we can offer investors. Half of our FDI portfolio is concentrated in mining and hydrocarbons, so this sector still offers growth potential. The next stage would be to have investments that add value to this sector and develop a service sector around the mining industry.

We are now seeing a fairly new trend: Peruvian firms investing and buying companies elsewhere in Latin America and beyond. There are a few cases of multinational Peruvian firms opening branches in China, while others are trying to tap into other East Asian markets. This was a trend in North America a while back, but this is something new for Peruvian companies. We are now seeing outward FDI from Peruvian companies.

**Milestone GRP - What challenges do you see ahead and what are your priorities for 2013?**

**Minister Castilla** - The main challenges are coming from abroad. We face the risk of China's slower growth rate, the risk of a global financial crisis due to problems in Greece and Spain, and the volatility of commodity prices that can become a risk for our fiscal revenues. However, Peru has solid tools to face an economic meltdown such as a high level of international reserve, a healthy stabilization fund, and low levels of public debt.

Our priority is to continue our economic growth with social inclusion, closing the gaps in basic needs between rural Peru and urban Peru, and making it so that more and more Peruvians can become part of the national market every day.

**Milestone GRP - The European Parliament has approved the multi-party free trade agreement between Peru, Colombia and the European Union, which is likely to come into effect in February 2013. What specific advantages do you see coming out of this treaty?**

**Minister Castilla** - This treaty is good not only for trade purposes but also for investment reasons. Two of our main investors are Spain and the United Kingdom. Among our top 10 trading partners, four are European countries, the two most important being Switzerland and Germany. There is definitely potential for further investments once we sign this treaty, and there are benefits that come along with the treaty as well: taxation agreements, bilateral investment protection schemes and other things that give reassurance to investors that wish to invest in Peru.

The FTA's main advantage is that we could present a bigger market than we could on our own. Colombia has a population of 45 million and Peru has 30 million. It sounds more interesting to promote a market of 75 million people than just 30 million. The other advantage is that today we have similar GDP per capita measured by purchasing power parity. We are promoting a common stock market with Chile called MILA (Latin American Integrated Market). Even though MILA is in its first year, it is already negotiating equity securities, and has plans to start negotiating fixed income. MILA's potential is huge. Today MILA has a capitalization of US\$ 714 billion, second only to Brazil (US\$ 1,304 billion) and above Mexico (US\$ 459 billion). MILA is beneficial for investors because it provides access to a more liquid market, and allows Peruvian investors to enter into a more diversified market.

**Milestone GRP - There has been a period of renegotiation of the Russian and Indian Free Trade Agreements. Why do you believe that these agreements have not progressed further with such important countries and large markets?**

**Minister Castilla** - More than a question of caution, I think it's a question of timing. Certain conditions have to be set in order for these treaties to be negotiated. There have been difficult negotiations because countries have certain sensitive areas.

If we look at the Indian market, which has huge potential, we think that eventually it will be a very important market for our products. It is the same with Russia. It is just a question of working out our issues. Once we have the Russian and the Indian Free Trade Agreements, along with a few other minor ones, basically all of our trade will be under free trade agree-



ments. From these agreements come benefits. This is part of the solution to the investment we need in infrastructure that I mentioned before.

**Milestone GRP** - When we examine other economies in the region, such as Argentina, Brazil or Venezuela, they are much more closed to other economies. What advantage does an economy such as Peru's draw from keeping its doors open?

**Minister Castilla** - There are two advantages. One of the main advantages is that countries usually tend to close off when there is an external crisis. When you create artificial protection, it doesn't induce the best response from international firms. Peru has learned from the past that raising protection barriers leads to inefficient companies that do not survive in the long-term. Countries that are more open tend to recover from a shock more quickly. If you look at the East Asian economies that have pursued open policies towards trade, they tend to recover after being subject to an external shock.

Undoing some of these barriers is very complicated. It is easier to raise an entry barrier or some protection measure than to undo it. Businesses become used to getting favorable support from their government. For us it simply makes more and more sense to be able to adjust our economy and become more efficient so that the recovery is faster. Companies may suffer from lower external demand, but then they recover

faster as well. We can see evidence of that with sectors that export. So free trade carries its cost, but the benefits far outweigh the costs.

**Milestone GRP** - Peru has just become the host of the World Economic Forum for Latin America in 2013, what are your main objectives for an event as important as this one?

**Minister Castilla** - There is a desire to be among the most attractive economies in Latin America. More than just an event, it really showcases our country for investors all over the world. Doing road shows is one thing, but having investors come to visit the country, for such a high profile event, is another thing and it has clear advantages. Also, this is more than an event; it pushes us to be more aggressive in our competitiveness agenda and to show off the progress we've made. This event is going to be organized by the Ministry of Foreign Affairs. There is a certain standard we will have to meet and we have to keep on doing our homework in order to make Peru attractive to investors. This is not a Peruvian event, but we can certainly benefit from being the host.

**Milestone GRP** - How would you describe Peru to foreign readers?

**Minister Castilla** - I can give you three simple phrases: It is a country on the move, a country that does not stay in its comfort zone, and a country that is tackling its challenges.

Overall Balance of the Non-Financial Public Sector						
	Nuevos Soles (million)			% of GDP		
	2009	2010	2011	2009	2010	2011
<b>I. Primary Balance</b>	<b>133,730</b>	<b>14,801</b>	<b>0.0</b>	<b>0.9</b>	<b>3.0</b>	
<b>1. Of the General Government</b>	<b>- 784</b>	<b>4,320</b>	<b>14,554</b>	<b>-0.2</b>	<b>1.0</b>	<b>3.0</b>
<b>a. Current revenue</b>	72,201	86,948	102,089	18.9	20.0	21.0
<b>i. Tax revenue</b>	53,842	65,919	77,201	14.1	15.2	15.9
<b>ii. Non-tax revenue</b>	18,359	21,029	24,888	4.8	4.8	5.1
<b>b. Non-financial expenditure</b>	73,433	83,372	87,826	19.2	19.2	18.1
<b>i. Current</b>	51,938	57,141	63,322	13.6	13.1	13.0
<b>ii. Capital</b>	21,496	26,231	24,503	5.6	6.0	5.0
<b>c. Capital revenue</b>	448	744	290	0.1	0.2	0.1
<b>2. Of State Enterprises</b>	<b>797</b>	<b>- 590</b>	<b>247</b>	<b>0.2</b>	<b>-0.1</b>	<b>0.1</b>
<b>II. Interests</b>	<b>5,011</b>	<b>5,085</b>	<b>5,724</b>	<b>1.3</b>	<b>1.2</b>	<b>1.2</b>
<b>1. External debt</b>	3,101	2,927	2,834	0.8	0.7	0.6
<b>2. Domestic debt</b>	1,910	2,158	2,889	0.5	0.5	0.6
<b>III. Overall Balance (I-II)</b>	<b>-4,998</b>	<b>-1,354</b>	<b>9,077</b>	<b>-1.3</b>	<b>-0.3</b>	<b>1.9</b>
<b>1. Net external financing</b>	4,069	-2,077	746	1.1	-0.5	0.2
<b>(US\$ million)</b>	\$1,317	-\$728	\$277	1.1	-0.5	0.2
<b>a. Disbursements</b>	\$3,225	\$4,261	\$ 990	2.6	2.8	0.6
<b>b. Amortization</b>	\$1,843	\$5,184	\$ 831	1.4	3.4	0.5
<b>c. Others</b>	-\$ 65	\$ 195	\$ 118	-0.1	0.1	0.1
<b>2. Net domestic financing</b>	827	3,013	-9,959	0.2	0.7	-2.0
<b>3. Privatization</b>	102	419	135	0.0	0.1	0.0

Source: MEF, Banco de la Nación, BCRP, SUNAT, EsSalud, local governments, state enterprises and public institutions.



## Ministry of Foreign Affairs "Positioning Peru"

Interview with Jaime Antonio Pomareda Montenegro, Director of Economic Promotion, Ministry of Foreign Affairs

**Ambassador Jaime Antonio Pomareda Montenegro** is the Director General of Economic Promotion in Peru's Ministry of Foreign Affairs. Prior to his time at his current post, he was the Director of International Economic Negotiations, and before that he was Ambassador and Consul General of Peru in Hong Kong until 2009. He has worked in several different foreign missions for the Peruvian state, including the United States, Canada, and the Philippines. He has a degree in International Relations from the Diplomatic Academy of Peru.

**The Ministry of Foreign Affairs of Peru** is the state entity in charge of preparing and executing the foreign policy objectives of the Peruvian State. The ministry works in coordination with Peruvian ambassadors throughout the world in order to develop and strengthen both bilateral and multilateral ties with other nations for the benefit of the Peruvian State.

Milestone GRP met with Jaime Pomareda to discuss the effect Peru's growing economy and increasing trade are having on their key international partnerships and alliances.

**Milestone GRP** - How have you been able to raise the Peruvian flag a bit higher when you are promoting commerce abroad, considering that neighboring countries like Brazil and Chile also have a very strong brand?

**Mr Jaime Pomareda** - The Ministry of Foreign Affairs has been appointed as the first public entity to use the National Brand because we broadcast and enhance the message through our foreign service bodies, such as the embassies.

Countries, like companies, compete on the global stage and indeed every country seeks an identity that is characterized by its strengths. The national brand is an important tool in this positioning strategy. But this first requires that Peruvians adopt it at home before pushing it abroad.

**Milestone GRP** - So you believe that it all starts with Peruvians?

**Mr Pomareda** - Yes, let's say the conceptual support for projecting the brand has to get consent from inside the country first.

**Milestone GRP** - What events have you been promoting in 2012, in terms of increasing the profile of Peruvian commerce?

**Mr Pomareda** - The main one is the Third Summit of Heads of State and Government of South American and Arab Countries (ASPA). The Davos summit is another example of an event that is focused on investment and commerce. Planned visits are also important for the President and they went to the Davos summit with a Peruvian delegation to promote investment.

Of course one of the foreign policy priorities is to engage with the countries of the region. So there will be a lot of activity in the South American region this year. The exchange of commercial visions and presidential visits will be very important for strengthening integration. This is especially important during this time of international crisis in which Latin America is presented as one of the regions that, in theory, will be less affected than others, as is the case of Peru, which has favorable macroeconomic conditions.



**Milestone GRP - Are you trying to convince investors that the Peruvian economy is stable and promising?**

**Mr Pomareda** - No. I do not have to convince anyone of anything. Policies are clearly established in Peru. What we are doing is trying to position the country so that we can create opportunities for the country – trying to sell what you have.

The economic and diplomatic activity with neighboring countries and the world at large is very active because there is a large growth in economic activity in Peru. There are many needs and so there are many opportunities. We must not squander the momentum that we have been given.

goods, in spite of the crisis that is expected to continue in Europe for some time.

We have taken advantage of sound macroeconomic conditions to advance trade agreements with key partners in a timely manner. It is important to be the first movers. We have now dealt with Mexico, the United States, Canada and the European Union. In Asia, we have agreements with China, Japan, South Korea, Singapore and Thailand.

Over 95% of our exports will be within the context of trade agreements by the end of 2012. Furthermore, the Minister of Foreign Trade and Tourism, José Luis Silva Martinot, has announced that they will begin studies to reach trade agreements with two major economic areas that are pending: India and Russia.

A free trade agreement will also facilitate travel entrepreneurs who are interested in participating in fairs and other events. Our relationship with China is very good in all aspects and free trade is a springboard for other activities to also benefit.

**Milestone GRP - From your experience, how do you compare China and Peru?**

**Mr Pomareda** - One of the first conclusions that can be drawn from my experience is that, in reality, we are not so different. Asia is seen as an unknown and mysterious place to people in Peru but there are commonalities to be found.

**Milestone GRP - What kind of partnership would you like to develop with India and Russia?**

**Mr Pomareda** - India and Russia are very large economies and both countries have large populations. In regard to markets, the products they consume are very different.

India has technology that Peru could adapt very well. In the case of Russia, there are key technologies to develop our industry and it is a market that has different levels of consumption,



Port of Callao

**We have taken advantage of sound macroeconomic conditions to advance trade agreements with key partners in a timely manner.**

**Milestone GRP - Part of this plan has been to increase the amount of commercial support in your foreign service bodies abroad.**

**Mr Pomareda** - The Ministry of Foreign Trade and Tourism is beginning to open offices in 20 key destinations. This will supplement the work that the Ministry of Foreign Affairs does throughout the embassies and consulates abroad. To carry out this model, we work closely with PromPeru, ProInversión and private associations.

**Milestone GRP - Have you already started to see the results?**

**Mr Pomareda** - Yes, both commercial offices and diplomatic and consular missions of Peru have staff dedicated to promoting trade. This has contributed to the rising export figures that we see today.

Given the best conditions in the country, with the best relationships through free trade agreements, we want to take advantage of new economic opportunities for interaction. The free trade agreements are the beginning, but you need strong commercial offices and embassies to follow up these agreements.

**Milestone GRP - What has been the main advantage of having these free trade agreements with countries like China and the United States?**

**Mr Pomareda** - We could be here for a long time if we wanted to measure the benefits of trade agreements. However, with China we have had a significant increase in commerce in the first year. Perhaps the increase in US exports has not had a major jump because it coincided with a time of crisis. But despite that, the benefits are there. In the case of the European Union we have signed multiparty agreement in 2012. We are confident that the results will increase exports of Peruvian

tion, from high-value luxury products to mass-produced products.

Peruvian products are quality products; we specialize in high-end products such as jewelry. Actually, to speak of Russia, China and India is to talk about several very different markets. They are markets with high purchasing power and a growing, massive middle-class. In regards to our export of grapes, for example, we have seen that in China our exports have been very successful. It is a product that is bought by the middle- and upper-classes.

**Milestone GRP - How can you encourage exporters to add value to the products they are currently exporting?**

**Mr Pomareda** - That is what we want to do. We will continue to export commodities and minerals, which are very important to our economy, but also we aim to give more added-value to our products, especially taking into account the social impact that it has by increasing the participation of all different Peruvians. I get the impression that there is now a much more resolute policy to give added-value to the products that are exported.

**Milestone GRP - Which sector do you think will play a key role on the international markets?**

**Mr Pomareda** - Garments and agribusiness, but there are others that are not well known and they are growing very significantly, such as metal and mechanical services.

**Milestone GRP - What about tourism?**

**Mr Pomareda** - This is also becoming increasingly important. Infrastructure for tourism is one of our investment priorities. Not only is the promotion of tourist attractions important, but also factors such as having the facilities to comply with environmental sustainability. In both cases controlled management is required to preserve natural or cultural resources.

**Milestone GRP - What is the vision for Peru in five or ten years?**

**Mr Pomareda** - I think five years is a short period to assess any difference. I would like to see the Peruvian economy in 25 or 30 years as a developed, industrialized country without poverty.

Trade by Main Countries and Regions <sup>1/</sup> (% structure)									
	Exports <sup>2/</sup>			Imports <sup>3/</sup>			X + M		
	2009	2010	2011	2009	2010	2011	2009	2010	2011
United States of America	17.4	16.9	13.2	19.1	19.2	19.3	18.4	18.0	15.9
China	15.3	15.4	15.2	15.5	15.6	16.4	15.2	16.0	15.7
Switzerland	14.8	10.9	12.8	0.5	0.3	0.4	8.6	6.2	7.3
Canada	8.6	9.4	9.1	1.8	1.4	1.5	5.7	6.0	5.7
Brazil	1.9	2.7	2.8	7.6	6.5	6.4	4.4	4.7	4.3
Japan	5.1	5.1	4.7	4.7	2.8	3.3	4.7	4.8	4.1
Chile	2.8	3.9	4.3	4.0	4.1	3.8	3.6	3.9	4.1
South Korea	2.8	2.5	3.7	3.6	4.1	3.8	2.8	2.9	3.8
Germany	3.9	4.3	4.1	3.4	3.1	3.0	3.6	3.7	3.6
Ecuador	2.2	2.3	1.8	4.1	5.4	5.1	3.3	3.5	3.3
Colombia	2.4	2.2	2.3	4.6	3.9	3.9	3.3	3.2	3.0
Spain	2.8	3.4	3.7	1.4	1.5	1.5	2.2	2.5	2.7
Argentina	0.3	0.4	0.4	3.6	5.2	5.0	2.0	1.9	2.4
Mexico	0.9	0.8	1.0	4.0	4.0	3.9	2.0	2.1	2.3
Others	18.8	19.8	21.9	22.2	22.9	22.8	20.3	20.5	21.7
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Memo:</b>									
Asia	26.0	25.9	26.4	27.9	30.9	31.5	26.8	28.1	28.8
North America	27.1	27.2	23.6	25.0	24.8	24.7	26.2	26.1	24.1
European Union	15.9	18.4	17.6	11.3	10.6	10.4	13.9	15.0	14.3
Andean Countries <sup>4/</sup>	10.9	11.0	11.3	16.3	14.9	14.6	13.2	12.7	12.9
Mercosur <sup>5/</sup>	2.3	3.1	3.3	12.9	12.1	12.2	6.9	7.2	7.5
Others	17.8	14.3	18.6	6.7	6.6	6.6	13.0	10.9	12.5

X: Exports. M: Imports.  
 1/ Imports were grouped by country of origin.  
 2/ Exports exclude goods sold and repairs of foreign ships and aircrafts.  
 3/ Imports exclude defense material, other purchased goods, and ships and aircrafts abroad.  
 4/ Bolivia, Chile, Colombia, Ecuador and Venezuela.  
 5/ Brazil, Argentina, Uruguay and Paraguay.

Source: BCRP, SUNAT and Bank of International Settlements (BIS), and businesses.





## Advisor to the President

### “Reforms to Modernize and Consolidate Peru”

Interview with Mr Alberto Otárola, Advisor to the President for Political Affairs and State Reform, & Former Minister of Defense

**Alberto Otárola** has been Advisor to the President since August 2012. Prior to that, he was Minister of Defense. He has also served as Deputy Minister of Internal Order and Deputy Minister of Economic and Administrative Affairs within the Ministry of the Interior. He completed his law degree at the University of San Martín de Porres in Lima and has taught Constitutional Law, Labor Law and Political Science, Conflict Resolution and Fundamental Rights lecturing at various universities in Peru and abroad. He has also represented Peru before the Inter-American Court of Human Rights.

Milestone GRP sat down with Mr Otárola to discuss the importance of Peru's state reform, the Peruvian military's growing role in civic action, and Peru's role in regional and global contexts.

**Milestone GRP - State reform is being enacted to generate the best conditions for Peru's sustainable development. What is the Humala administration doing to promote this transformation?**

**Mr Alberto Otárola** - President Humala has undertaken a series of reforms to modernize and consolidate Peru as the leader in growth and investment. I can mention in particular two reforms. The first relates to the enhancement of mechanisms to ensure social inclusion programs. Today inequality is substantially less, and the state is seriously investing in social programs especially aimed at the most vulnerable groups: women, the poor and young. The second reform that has recently been announced by the Minister of Economy aims to significantly reduce bureaucracy in the public sector, and the private sector has been called in to work on the study and implementation of new procedures for investment projects.

**Milestone GRP - The risk of creating a "bottleneck" slowing private investments in the infrastructure sector has been identified. How is the government streamlining processes for approvals of infrastructure projects?**

**Mr Otárola** - The infrastructure sector is one of the fastest growing sectors in Peru. It is very important in order to facilitate po-

verty reduction. Let's not forget that during the last decade, Peru has maintained the highest rate of economic growth in the region. The government, therefore, has developed a comprehensive plan that provides massive access to basic infrastructure, i.e. water, sewerage, electricity and telecommunications. The aim is that by the end of the government the impact of infrastructure development on poverty reduction is of such a magnitude that economic welfare is possible across the entire population; looking ahead at the coming decades, we want it to have begun an irreversible process. The vision is very positive.

**Milestone GRP - Health and education in Peru need to become competitive at a regional level in order to fuel future economic growth. What are the current administration's plans to increase the presence of schools and hospitals outside of Lima?**

**Mr Otárola** - Health infrastructure is still one of the bottlenecks. Much of the political decision to accelerate investment projects is aimed at creating hospitals and health centers. The government is therefore preparing a broad health reform that addresses human capital issues and then trains an important quota of people capable of expanding the accessibility of health services. In regards to education, the reform has already begun and is expected to yield changes soon. Rather than building

large education units we are thinking of a massive construction of schools, giving priority to poverty-stricken areas. A new law ensures this.

**Milestone GRP - The Ministry of Defense is playing a growing role in the country's socio-economic development. As former Minister of Defense, which elements of its mandate do you see as highlighting this role?**

**Mr Otárola** - One of the missions entrusted to the Ministry of Defense by President Ollanta Humala is that the Armed Forces (FFAA) take part in the tasks aimed at supporting the country's socio-economic development. These tasks are in line with the government's social inclusion policy and ensuring democratic security. Broadly, they provide an operative support plan for the less favored and the most isolated villages. An example of this are the agreements that the Army Engineering Branch has signed with different local governments and district municipalities for the construction of small roads, bridges, street paving, amongst other essential services. There are areas in Peru that cannot be reached by any of the small, medium or large companies. As a result, they are far from the modernization process that the country is undergoing and the Armed Forces agreements are a way of enabling this process in these areas.

“The first reform is that the State is seriously investing in social programs especially aimed at the most vulnerable groups: women, the poor and young.”

The Peruvian Air Force (PAF) is also taking part in the inclusion process with civic action flights. Through these flights, PAF planes connect villages that lack road infrastructure to exchange goods. In 2011 we increased our fleet by adding 12 Twin Otter planes for transportation, surveillance and for the support of social services. That is essential in the rain forest, where there are many geographic obstacles and unnavigable rivers are very dangerous.

In the rain forest, on the other hand, the Navy contributes to this civic action with its vessels. There are Navy vessels that take doctors, dentists, and gynecologists, among other specialists, to the villages. More specifically, the Navy carries out humanitarian missions with the Fluvial Force of the Amazon, along the rivers Amazon, Marañón, Ucayali, Morona, Tigre, Pastaza, Putumayo, Corrientes, Napo, Yavarí, Tapiche, Pacaya, Curaray and Huallaga.

**Milestone GRP - How is this civic action going to be strengthened?**

**Mr Otárola** - One of the main aims of the new government is strengthening the military's civic action. The President has a military background, therefore he is fully aware of the pro-

blems, needs and impulse that the Armed Forces face in taking part in the nation's development.

For example, we have 21 Army engineer battalions equipped with caterpillars that are working with the regional governments to rebuild the areas affected by the earthquake in Ica. This reconstruction task gives a good example of how we are strengthening the civic action. Following the earthquake in 2007, the area south of Lima, the epicenter of the earthquake with a magnitude of 8.0 on the Richter scale, commissioned private companies and state institutions to clear debris, provide food and rebuild public institutions. In six months the Army had been four times more operative in Ica with the current government than in four years with the previous one. This is a typical situation in the case of natural disasters and the policies adopted by the new government are being more and more efficient and timely in these cases.

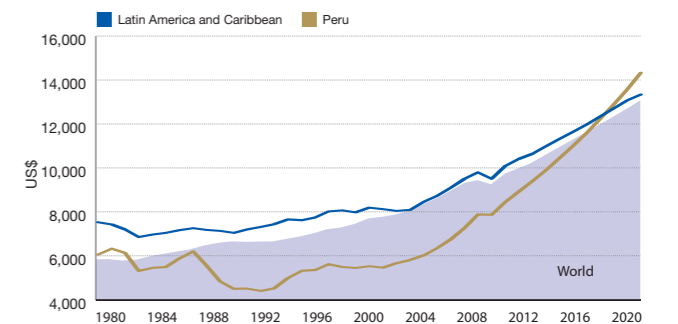
**Milestone GRP - The VRAE (Valley of the Apurímac and Ene Rivers) region is a conflict area. What is the government's strategy to solve this problem?**

**Mr Otárola** - The President made a promise to free those conflict zones that are havens for terrorists and we have already kept the first promise, which was to capture the criminal Artemio, who was leading the group operating in that area. So we are having success and we are going to replicate this success in the VRAE region. We are working towards the absolute security of zones like VRAE that, after so many years of conflict, deserve peace, just as has been done in Huallaga after the capture of Artemio.

Artemio was captured wounded on the 11<sup>th</sup> of February in Cashiyacu, which is part of the Tocache province within the region of San Martín, after having escaped a conflict with the military on the 9<sup>th</sup> of February. This wanted terrorist and drug trafficker has been turned over to the corresponding judicial authorities and we are hoping for the most severe and strict sentence, but of course within the democratic system and with respect to due process of law.

We also ensure that the fight against narco-terrorism will not end with the capture of Artemio, and the next step to be taken by the security forces will involve the dismantling of the clan of “Comrade José”, a member of the narco-traffickers operating in the VRAE.

There's perfect complementarity between the National Police and the Army Forces which has been demonstrated in the successful operations put into place in the Huallaga area that



GDP per capita

Source: IMF and World Bank



led to this capture. And this will be demonstrated again in the VRAE region.

**Milestone GRP - The Conga Mine is the biggest foreign investment in Peru, valued at US\$ 4.8 billion, and has attracted considerable popular opposition. How do you see the resolution of the conflict taking place, so as to avoid a situation such as that which occurred in Bagua in 2009 where 29 people died opposing oil drilling in the area?**

**Mr Otárola** - People are concerned about their natural resources and ecosystem. According to the President, there is a strong need to both preserve natural resources and guarantee the agreements signed by the state. What happened in Bagua caused a social conflict that is being solved through dialogue with the populations that are directly affected. I strongly doubt that we could see the same thing happening in Conga as we have hired three international experts to carry out environmental impact assessments. The state is going to continue with this investment as long as our natural resources are not affected.

**Milestone GRP - The Armed Forces operative capacity will be increased by 20%. What has made this necessary and what kind of investments is this going to require?**

**Mr Otárola** - The Armed Forces must guarantee Peru's territorial sovereignty. They also must have an active role in social development, domestic security and civil defense tasks. The Armed Forces capacity is designed to pursue national development and continental peace to which Peru, as a country, has always been committed. Moreover, its logistics unit is an asset of the country that has been acquired with great effort. We are therefore conducting a policy for the protection of these assets and building connections with various countries for the development of the military industry.

Military development is one of our main focuses at the moment. In recent years, SIMA (Industrial Marine Services) has become a company involved in international tenders, serving countries and companies. It has just won 2 tenders in the Panama Canal and is building barges and large mechanical structures to allow a part of the current Panama Canal to continue to be operative.

Our aim is to add value to the Peruvian defense industry investments and sign development agreements with countries that share our perspective, such as those we have signed with Brazil, Colombia and Korea.

**Milestone GRP - As well as those signed with Brazil and Panama, you have signed agreements with Colombia to jointly develop the military industry in both countries, which include the possibility of constructing vessels for the surveillance of the fluvial border. What other regional strategic agreements do you plan to establish in the future?**

**Mr Otárola** - We are developing an active approach to our defense diplomacy. We believe that in South America we have to be careful of new types of threats that do not have anything to do with the typical conflicts between neighboring countries. We are trying to establish a new defense policy

that takes into account the protection of the Amazon, water, villages and levels of multiculturalism that will guarantee our nation's preservation. This is a new type of continental security policy in Latin America. Now there is an overall vision on our common problems.

**“The second reform announced by the Minister of Economy aims to significantly reduce bureaucracy in the public sector.”**

The Amazon represents 60% of Peru. We need a defense policy against drug trafficking, money laundering and illegal logging. We also need to deal with illegal mining, the new cancer of the Amazon, which is the illicit exploitation of mercury, which leads to land degradation and prevents new vegetation from growing. We need to take joint action as we share the Amazon with Brazil, Colombia and Venezuela. It is just one part of a common perspective. Indeed, we have signed agreements in relation to defense matters with Brazil. We have also signed a treaty with Colombia to develop joint action against drug trafficking and illegal mining along our border.

Peru may take over the leadership of UNASUR, the Union of South American Nations, in Venezuela. It is very important for us because the UNASUR Security Council has been the most active unit in recent years in the promotion of a joint vision for the region on matters such as security and defense.

**Milestone GRP - Peru has been involved in numerous international peacekeeping operations in recent years, such as in Cyprus and Haiti. Do you think that Peru, as a nation, feels an obligation to support these missions?**

**Mr Otárola** - Peru has a long history of peacekeeping operations within the United Nations framework. We have taken our commitment to the UN very seriously. Recently we have been involved in many peacekeeping missions. In particular, we had a big presence in Haiti where our Army Forces provided the UN with more than 200 soldiers

**Milestone GRP - How do you think Peru should be seen in a global context?**

**Mr Otárola** - We want to present Peru to the world as a country that has reduced extreme poverty and illiteracy rates. There are diseases that have been completely eradicated. Our economy is growing an average of 5-7% per year. We are a country that has developed investment policies, and since the establishment of President Ollanta Humala's government, we have also had a focus on social inclusion policies. We are a country of opportunities, where all social classes can simultaneously benefit from progress. We want to affirm our vision of economic stability, continue with our investments and from this point of view, call upon a proactive defense policy to convey the new perception that Peru has of its defense policies as serving national and regional well being.

Main Investment Projects of the National Government (Nuevos Soles million)			
Economic Sector	2010	2011	Flows
<b>TRANSPORT</b>	<b>4,936</b>	<b>5,845</b>	<b>908</b>
Road Concessions - IIRSA Sur and Norte	2,136	1,831	-306
Special Project Tren Eléctrico	794	1,110	316
Airport Concessions	472	884	412
Rehabilitation and improvement of the Chongoyape-Cochabamba-Cajamarca highway	121	442	321
Rehabilitation and improvement of the Ayacucho-Abancay highway	330	248	-82
Rehabilitation and improvement of the Quinua-San Francisco highway	1	180	179
Improvement and expansion of the entrance to Callao port terminal	32	124	91
Construction and improvement of the Camaná-Matarani-Ilo-Tacna highway	85	98	13
Rehabilitation of the rural road network	26	96	70
Construction and improvement of the Cusco-Quillabamba highway	75	91	16
Rehabilitation and improvement of the Casma-Yaután-Huaraz highway	113	69	-44
Rehabilitation and improvement of the Churín-Oyón highway	43	63	20
Rehabilitation of the Chanchamayo-Villa Rica highway	7	59	52
Rehabilitation and improvement of the Tingo Maria-Aguaytía-Pucallpa highway	120	45	-75
Rehabilitation and improvement of the Patahuasi-Yauri-Sicuaní highway	16	45	29
Rehabilitation and improvement of the Trujillo-Shiran-Huamachuco highway	34	34	0
Construction of by-pass in Ramiro Priale - Avenida Las Torres and Carretera Central	44	31	-13
Rehabilitation and improvement of the Sullana-El Alamo Eje Vial # 2 highway	34	26	-8
Rehabilitation and improvement of the Cusco airport pavements	42	20	-22
Rehabilitation and improvement of the road - Tocache Tocache	43	8	-34
Port concessions	14	3	-12
Others	352	336	-16
<b>HEALTH</b>	<b>384</b>	<b>433</b>	<b>48</b>
Improvement and equipment of hospitals emergency services	366	404	38
Support to Health Sector Reform PAR-Salud	8	9	1
Others	11	20	9
<b>ELECTRICITY</b>	<b>518</b>	<b>354</b>	<b>-164</b>
Installation of small power systems in several towns	512	347	-165
Others	6	8	1
<b>AGRICULTURE AND LIVESTOCK</b>	<b>415</b>	<b>312</b>	<b>-103</b>
Support agriculture	120	105	-15
Irrigation infrastructure	115	94	-21
Eradication of fruit fly <i>Ceratitis capitata</i> from the coast of Peru	41	32	-9
Others	139	81	-58
<b>HOUSING</b>	<b>183</b>	<b>169</b>	<b>-14</b>
Housing sector support	4	26	22
National Rural Water Supply and Sanitation project	105	105	-1
Rights of real property	25	22	-4
Others	48	17	-32
<b>ECONOMY</b>	<b>133</b>	<b>111</b>	<b>-21</b>
Support for government reform and improving the customs system	54	61	7
Promotion of private investment and management improvement	65	43	-22
Others	14	8	-6
<b>JUSTICE</b>	<b>120</b>	<b>93</b>	<b>-27</b>
Improvement of administration of justice	88	54	-34
Others	32	39	7
<b>EDUCATION</b>	<b>911</b>	<b>1,050</b>	<b>139</b>
Improvement of education infrastructure	744	879	135
Others	167	171	4
<b>OTHERS</b>	<b>1,463</b>	<b>1,321</b>	<b>-141</b>
<b>TOTAL</b>	<b>9,064</b>	<b>9,689</b>	<b>625</b>

Source: MEF





## Ministry of Development and Social Inclusion “Coordinating and Producing Comprehensive Social Policy”

Interview with Carolina Trivelli Avila, Minister of Development and Social Inclusion

**Carolina Trivelli Avila**, Minister of Development and Social Inclusion, has a masters degree in Agrarian Economics from Pennsylvania State University and a Bachelor in Social Sciences with a minor in Economy from the Pontificia Universidad Católica in Peru. For over 20 years, Minister Trivelli worked at the Institute of Peruvian Studies (IPE), where she eventually became Director of the Institute. In her current position Minister Trivelli is the highest ranked political appointee in development in the social inclusion sector.

**The Ministry of Development and Social inclusion**, Peru’s newest ministry, was created on 18 August, 2011, during the presidency of Ollanta Humala. This newly created ministry heads the effort for comprehensive social policy on a national level. Many of the ministry’s responsibilities were formerly managed by either the Ministry of Women’s Affairs, the Office of the Prime Minister, or the Ministry of Economy and Finance.

Milestone GRP met with Minister Trivelli Avila to discuss how she sees the ministry and business in Peru working together to achieve positive social change.

**Milestone GRP - As the youngest ministry where did the need for a separate institution dedicated to social policy stem from and what are your objectives?**

**Minister Carolina Trivelli** - The establishment of this ministry was intended to fill a gap in our society. The Peruvian public sector has always been centered around social policy that would address specific issues rather than having a more integrated vision, and that would lead to two results. Firstly, there was a big effort in terms of coordinating social programs, and big public investments were aimed at increasing the levels of welfare, especially in those segments of society that weren’t receiving the benefits of our economic growth. Secondly, all these different social programs were isolated from each other and had no comprehensive direction, mainly because they were scattered among different ministries. They also never addressed some of the important issues, such as creating pre-school learning for children living in rural areas. This is why there was the need for an institution that could manage and address all of the issues related to

social policy. Therefore, the main role of this new ministry is to coordinate and produce comprehensive social policy.

In terms of the social policy framework, the ministry follows two strict guidelines. It doesn’t, however, follow the traditional concept of social policy that aims to simply provide assistance to the poor. While we do address short-term issues, we provide low-income families with the tools to invest in their future over the long term and develop a skill set that will allow them to gain more autonomy in order to not be reliant on these programs in the long run. The main focus is to include these segments into a society, culture and economy that accepts them and makes them more autonomous. The second basic concept we use in this ministry is that it is not a ministry of universal public services. It is a ministry of temporary and focused attention addressing specific groups that have gone off track, and the main objective is to push them back on track. So our aim is not that of improving the quality of the education system for example, our aim is to ensure that all children, even the least privileged ones, can

have access to the system. Social inclusion not only allows under-privileged people to enjoy their fundamental rights but also allows them to actively reenter society and contribute to the socioeconomic growth of our country. The groups that we target still do not have access to even the most basic services and infrastructure. The children that live in rural areas, from families that have low levels of education, must have the same right to access these services as children that live in urban areas.

**Milestone GRP - What programs will you work on in 2012 and in the near future?**

**Minister Trivelli** - We need to work on two levels. First, at the government level, we need to have all national, regional and local governments come together to set our social priorities. Our priorities should reflect the priorities set by the ministry, which is to provide children with basic quality services that reduce, and hopefully eliminate, child illiteracy. So our first target is education; our second target involves a wider participation among different sectors that targets local development issues. The best social policy is about employment generation, giving tools for a better income management, providing increased access to infrastructure, and better work capacity. We are starting a pilot coordination program in 20 provinces this year.

**Milestone GRP - In the last 20 years, Peru has experienced considerable economic growth. Nonetheless, this growth has not reached all parts of Peruvian society. How is the government supporting each individual to improve the economy for all segments of the population?**

**Minister Trivelli** - Poverty rates have decreased by 20 points over the last few years, but the gap between the rural poor and the urban poor has increased. For these individuals of the general population we are designing focused policy in terms of gap reduction, and our main focus at the moment is in the rural areas. These areas are dispersed throughout the country, so we have to define who represents this population – people that, for reasons beyond their control, are faced with major social exclusion. That’s our target population, and we want to ensure that these people can develop quickly in order to catch up with the rest of the Peruvian society. This segment represents 16% of the Peruvian population, so we have defined some representative indicators for this group in order to see whether we can accomplish a faster development for this segment of the population. If we do not close the gap, inequality will continue to be a part of the problem that we face and eventually prevent the development of Peru as a nation.

**Milestone GRP - Do you think you will be able to bridge this gap?**

**Minister Trivelli** - If we manage to coordinate the initiatives well, I absolutely believe so. This is not a population that faces a specific problem; it faces a lack of many different things. Therefore, the big objective of the ministry is to provide them with a comprehensive range of services and infrastructure.

**Milestone GRP - How can multinational companies that invest in Peru be part of the solution?**

“Social inclusion not only allows under-privileged people to enjoy their fundamental rights but also allows them to actively reenter society and contribute to the socioeconomic growth of our country.”

**Minister Trivelli** - One of the main objectives is to have these companies reinvest in the population they work with, especially the extractive companies that are in the areas where the populations we target live in. There must be indications coming from the public sector on how these companies can take part in a joint effort with the public sector to support these populations. As long as the private sector is in line with the public sector in this regard, we are all going to benefit. This is a ministry that is financed with citizens’ revenues and with these companies’ revenues, so we need to ensure that they know how these resources are being allocated.

**Milestone GRP - What can be done about the social issues in the communities surrounding mines like “Mina Conga” where there is a conflict between the mine and the surrounding community?**

**Minister Trivelli** - The Conga mine presents a socio-environmental conflict, but at the same time reflects a real situation. The population of the Cajamarca Region, where this mine is situated, faces very high poverty and exclusion rates. Cajamarca is the area with the highest concentration of rural population in Peru and has a huge lack of infrastructure. It has

Incidence of Total Poverty by Geographic Areas (%)									
	2004	2005	2006	2007	2008	2009	2010	Difference 2009-2010 (% points)	Difference 2004-2010 (% points)
<b>National</b>	58.7	55.6	49.1	42.4	37.3	33.5	30.8	-2.7	-27.9
<b>Urban areas</b>	48.2	44.5	37.0	30.1	25.4	21.3	20.0	-1.3	-28.2
<b>Rural areas</b>	83.4	82.5	79.3	74.0	68.8	66.7	61.0	-5.7	-22.4

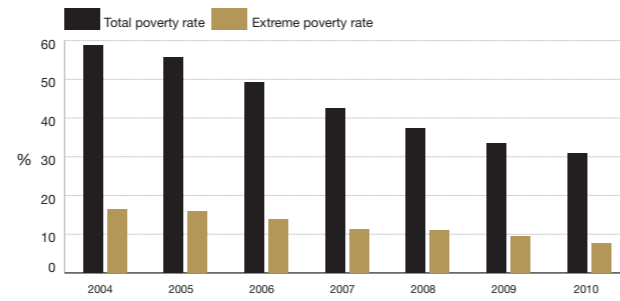
Source: INEI, March 2012.



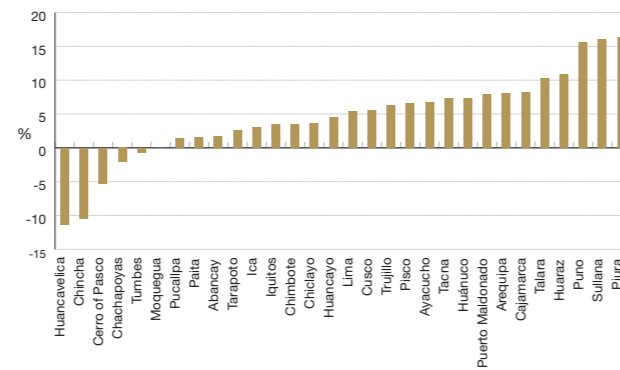
not been able to design a proper development plan because the region is a geographically disjointed area and its economy reflects that. The solution to this conflict, beside the political and environmental issues involved, is a question of social development and opportunities. These people lack the basic infrastructure for proper development and the mine is not going to provide it. So this is a matter of a more sophisticated developmental strategy. We need to reduce that gap, and do anything possible to ensure that the Cajamarca population can enjoy the same rights as the rest of the population.

**Milestone GRP - As someone who has worked on social development for many years what personal goals would you like to achieve during your time as minister?**

**Minister Trivelli** - Thousands of things. What we need is to set an objective for the government during this period of the administration, because the ministry alone cannot make a difference. The ministry will be successful as long as there will be a joint effort to create successful social policy, with everybody walking on the same path and assisting the same target populations in order to push growth in these areas and reduce that gap. My objective is to set all these mechanisms into place that will allow us to reduce the gap and bring these less fortunate groups closer to the income levels of the average population.



Evolution of Total and Extreme Poverty Source: INEI, May 2011.



Unemployment and Part-Time Unemployment Source: MTPE



## Peruvian Ambassador to the US

“The Strongest and Most Cooperative Bilateral Relations in our History”

Interview with Harold Forsyth, Peruvian Ambassador to the United States

**Ambassador Harold W. Forsyth** assumed the role of Peru’s ambassador to Washington on August 3, 2011. In 1994 he co-founded the Civil Transparency Association, which engages in parallel civilian verification of election results. He served as an International Observer for elections in Colombia, Mexico, Guatemala and Nicaragua. Returning to Peru, Ambassador Forsyth served as Vice-Minister of Foreign Affairs from March to July 2006, and Advisor of the Ministry until June 2009, when he was appointed Ambassador to China until August 2011, one of Peru’s most senior diplomatic posts.

**The Embassy of Peru to the United States** is the largest and most important Peruvian diplomatic mission abroad. Its goal is to deepen ties of cooperation and understanding between the two nations through the strengthening of bilateral relations, the promotion of commercial exchange, and through economic and cultural activities.

Milestone GRP met with Ambassador Forsyth to get his perspective on the state of Peru-US relations, the key areas of mutual interest in which both nations are cooperating and the evolution of their important trade relationship.

**Milestone GRP - Formal bilateral relations between Peru and the US began in 1826. After nearly two centuries, how do you see the health of this relationship?**

**Mr Harold Forsyth** - Peru and the United States are currently enjoying the strongest and most cooperative bilateral relations in their history. Our countries share common values such as democracy, human rights and the rule of law. Together we look for the pursuit of economic growth and social inclusion through trade and investment. The Peru-US Free Trade Agreement (FTA) has created a very positive environment to further increase our bilateral ties. Both countries have also engaged in other initiatives such as APEC (Asia-Pacific Economic Cooperation) and the TPP (Trans-Pacific Partnership) that will address the new realities of trade in the 21<sup>st</sup> century.

Four basic pillars currently guide the relationship between the US and Peru: the expansion of trade and investment within the FTA; the strengthening of our efforts to fight drug trafficking and international crime; the incorporation of social inclusion as part of the bilateral cooperation agenda; and the promotion

and protection of the Peruvian community in the United States. Within the security and defense field Peru and the US are currently negotiating a new consultation mechanism on political and military talks and a new Defense Cooperation Agreement. All these steps are oriented to consolidate Peru and the US as close and trustworthy “strategic partners” in the region.

Science and technology, education, renewable energy, judicial issues, labor and immigration are other aspects that are being developed to identify cooperation opportunities not only at the government level, but also to promote exchanges and collaboration among the private sector, NGOs, academia and other representatives from the civil society of Peru and the US.

**Milestone GRP - In 2012 the United States committed financial resources to the fight against drug trafficking in Peru’s VRAE Region. How are these two nations working together to advance on this and other multilateral issues?**

**Mr Forsyth** - President Humala is carrying out a comprehensive counter-narcotics strategy that, while maintaining core

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commitments to eradication, interdiction and alternative development, also seeks to address important associated issues like organized crime, control of precursor chemicals, money laundering and the administration of justice.

In 2011, Peru eradicated 10,290 hectares of illicit coca, exceeding its 10,000 hectare goal, and destroyed 147 macerati on pits. Moreover, Peru is devoting more financial and human resources to the fight against drug trafficking. The Peruvian government has assumed responsibility for purchasing and transporting jet fuel for the helicopters provided by the US. This trend will continue. The US shares this strategy and has committed itself to continue supporting Peru in this fight.

In the multilateral field, presidents Humala and Obama are currently developing a diversified agenda to cooperate more actively on emerging global issues. Peru is willing to advance in areas such as nonproliferation, terrorism, climate change, sustainable development, trafficking in persons, child labor, the protection of women and other vulnerable populations, WTO negotiations and global financial governance.

**The level of imports into the US from Peru experienced significant growth from US\$ 5,173 million in 2010 to US\$ 6,153 in 2011, representing a 19% increase.**

**Milestone GRP - On the 28<sup>th</sup> of March, 2012 you signed an MOU with the US for further political and military cooperation. How is this going to deepen ties between the two nations and strengthen security for both Peru and the United States?**

**Mr Forsyth** - The signature of this non-binding Political-Military Memorandum of Understanding reflects our common political will to move forward our bilateral cooperation and take it to a more advanced level. The MOU institutionalizes a biennial dialogue between the United States and Peru, that broadens and strengthens our strategic partnership by engaging in discussions on a whole range of issues; not only drug trafficking and organized international crime, but also nuclear proliferation, humanitarian relief, arms trafficking, information exchange, military training, military industries, capacity building in human rights, and other concerns. This would definitely help achieve the two countries' shared security-related objectives. The MOU reflects the diversity and strength of the bilateral relationship, and underlines the role that Peru can play as a serious and reliable regional partner of the United States in the South Pacific.

**Milestone GRP - Commerce between the United States and Peru increased in 2011. Where did the majority of that growth come from and what sectors continue to perform strongly?**

**Mr Forsyth** - According to US International Trade Commission figures, the level of imports into the US from Peru experienced significant growth from US\$ 5,173 million in 2010 to US\$ 6,153 in 2011, representing a 19% increase. These figures are mainly due to the good performance of almost all the commodity exports from the mining and agricultural sectors, and other products from the fishery and textile sectors.

The exceptions to this increase were refined copper cathodes and sections of cathodes, as well as zinc ores and concentrate, which experienced a significant fall of 30% and 40%, respectively. These exports basically went to China, Italy and Brazil.

**Milestone GRP - Traditionally the United States has been Peru's largest trading partner, but in 2011 China and Switzerland both surpassed the US. As someone who has been both the Peruvian ambassador to China and to the United States, what economic and investment differences can you identify between these two nations, and how do you see each relationship benefiting the interests of Peru going forward?**

**Mr Forsyth** - I would like to underline that the United States, China and Switzerland have been our top trade partners for the last five years, and are also important sources of foreign investment. But there are significant differences in the composition of our bilateral trade and investment. For example, in the case of the United States, our nontraditional exports have been steadily growing in the last few years. In 2011, the increase reached 19%. In our trade with China our exports have mainly been focused on traditional commodities. US investments in Peru are currently diversified across energy, petrochemical, industrial and services while Chinese foreign direct investment is mainly oriented to the mining industry.

In the case of Switzerland the main export commodity is gold. This situation creates a strong distortion in the figures as it depends on the volatile context of international prices.

The situation with China and Switzerland could change in the near future due to the fact that the Peru-China and the Peru-EFTA (European Free Trade Association) Free Trade Agreements, already in force, set the basis for increasing market access for our agro-industrial products and other non-traditional exports. But in general terms, I envision that the three countries will continue to take advantage of the opportunities generated by their respective FTAs with Peru. In times of economic and financial instability this geographic diversification means being less vulnerable to external shocks.

**Milestone GRP - During its ratification in 2009, there were questions as to whether the US-Peru Trade Promotion Agreement would be favorable to Peru. Between 2010 and 2011 Peruvian exports to the United States rose by 25%, and total bilateral trade reached US\$ 12 billion. Is it now safe to say that this agreement has been a fruitful endeavor?**

**Mr Forsyth** - The US-Peru FTA has definitely been a fruitful agreement, especially if you take into account that it has not only brought benefits for Peru from a strict commercial perspective but also because it has provided a stable framework that regulates our economic bilateral relations. Before the entry into force of this agreement, Peru depended on the re-

newal of the Andean Preferences that granted duty-free access to some of our products. With the FTA we have a permanent framework that also covers a bigger scope of products that benefit from duty-free access.

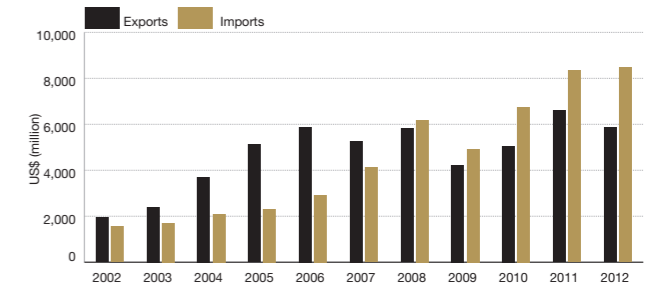
**Milestone GRP - 90% of Peruvian exports to the US enter the United States without any type of tariff. Will we see further integration in the future?**

**Mr Forsyth** - With the entry into force of the Peru-US FTA in 2009, more than 10,400 tariffs were liberalized, which represent 98% of total goods exported from Peru to the United States. The remaining tariffs will be liberalized within five, seven, ten, fifteen, and seventeen years. While these last two terms may seem a bit extensive, it is noteworthy to mention that less than 0.5% of Peruvian exports will have to wait that period to enter duty free into the United States.

The most important aspects of the Trade Promotion Agreement between Peru and the United States are the mechanisms for cooperation and coordination that have been established, as well as the creation of various working groups and bilateral councils that will further facilitate bilateral economic exchange. Additionally, thanks to the FTA, an Animal and Plant Health Inspection Service (APHIS) regional office is scheduled to open in Lima in 2012 to further encourage agricultural trade.

**Milestone GRP - As a diplomat who has traveled the world and worked in a multitude of countries, such as Chile, Bulgaria, Italy, Venezuela, Germany, Colombia, China and the United States, how do you think Peru is perceived around the world, and how would Peru like to be perceived?**

**Mr Forsyth** - My country has changed a lot since the days I joined the Peruvian Foreign Service. Peru has become one of the most solid and prestigious emerging economies in Latin America with strong macroeconomic performance and open-



Peruvian Trade with US

Source: U.S. Department of Commerce

ness to trade and foreign investment. Politically, it is a young and stable democracy.

President Humala has realized that social inclusion is a pending issue and, in this sense, he is now implementing strong and proactive social policies aimed at integrating into the market one third of the population, basically in the rural areas, in order to take advantage of the benefits of this continuous economic growth. We are working to be recognized as a country that can simultaneously address sound macroeconomic policies and social cohesion to satisfy the needs of its entire population. Our country has an interesting present and a bright future.

**Milestone GRP - Where do you see Peru in 10 years time?**

**Mr Forsyth** - I see Peru as a hub between Latin America and the Asia-Pacific region. Peru will also become a leader and a role model in the Latin American region, as a democracy with excellent levels of sustained economic growth, greater social inclusion, improved political and social stability, and totally integrated with the world based on our more than 20 FTAs. Growth is important but equality will be the key to our success and ultimately, the happiness of the Peruvian population should be our common goal. I sincerely believe that we are already beginning to touch that.







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## Embassy of the People's Republic of China to the Republic of Peru "Bilateral Ties in a Shifting World Order"

Interview with Chen Luning, Political Counselor at the Embassy of the People's Republic of China in Peru

**Chen Luning** is the Political Counselor at the Embassy of the People's Republic of China in Peru. Before his current posting in Peru, he was part of the Chinese Embassies in Brazil from 1997 to 2000, Peru from 2000 to 2001 and Colombia from 2003 to 2007. From 2007 to 2011, he was Deputy Director and Director for the Division of the Directorate General for Latin America and the Caribbean at the Ministry of Foreign Affairs of China. He graduated from the University of Foreign Studies in Beijing in 1996.

**The Embassy of the People's Republic of China in Peru** is a permanent diplomatic mission in Peru. In the last two years, China has become Peru's largest commercial partner and plays an ever-increasing diplomatic and commercial role in the country.

Milestone GRP met with Chen Luning to discuss how the alliance between Peru and China is a constantly changing and ever more important relationship for both nations.

**Milestone GRP - China is investing US\$ 1 billion in Latin America at the moment, and it is estimated that it will be investing US\$ 10 billion by 2016. What does the region mean for China and what does China mean for the region?**

**Mr Chen Luning** - For China, Latin America plays a very strategic role in international politics, because both China and Latin America are developing countries, sharing points of view and with many interests in common, not only in the economic field but also in political terms. China and the Latin American countries always agree on issues of international importance. What most stands out is the trading aspect; in the first decade of the 21<sup>st</sup> century, trading between China and Latin America reached very high levels. In 2000, trading between China and Latin America amounted to US\$ 10 billion, while in 2011 that figure exceeded US\$ 200 billion. Latin America complements China very well; Latin America counts on its abundant natural resources, while the Latin American market is a very important export market for China. Moreover,

along with the more traditional sectors, we have seen an important increase in the non-traditional sectors, such as construction, high technology, automotive, medical, among others. More recently, within the financial sector, many Chinese commercial banks have opened branches in Brazil, Panama and now they will be in Peru as well.

Chinese investments in Latin America are growing year on year. Up until now, Chinese investments in Peru have amounted to US\$ 3 billion and there are very positive projections, especially in the mining sector and that will require much higher investments. China and Latin America have also developed strong cultural and social relationships. In many countries in Latin America, there are a lot of Chinese language schools, where people go to learn not only the language but also our culture. Similarly, in China, there are more than 30 universities that offer Spanish language courses. Young people in China are showing a great interest in Latin America for both cultural and work-related reasons.



In terms of tourism cooperation, China has promoted almost all Latin American countries as tourist destinations for Chinese people. Indeed, every year more and more Chinese tourists are visiting the region. During the early years of the economic reform in China, people started to travel to either neighboring Asian countries or sometimes to Europe, but today, more and more Chinese tourists are visiting the Latin American region, as it is rich in historical and cultural attractions.

Political exchange has been very intense over the last few years. All the most important Chinese political figures have visited Latin America and all the Latin American political leaders have gone to China to exchange views and ideas on bilateral cooperation and international issues. Many political consultation mechanisms have been developed, such as mixed commissions with Mexico, Brazil and Venezuela. These are very efficient mechanisms that allow for discussions on any field related to bilateral relations. In 2008, following a visit to Peru by the Chinese president, both presidents announced a strategic association between the two countries.

**Milestone GRP - Peru is located in a very strategic position between China and Brazil. How are you using your trade relations with Peru as a bridge between Brazil and China?**

**Mr Luning** - This is a very interesting perspective but pretty new to me. While I understand that geographically Peru is important, I see the bilateral relationship between China and Peru as not related to interests in other countries, such as Brazil. These three countries have always shared some common interests and have promoted the relationship between China and Latin America.

**Milestone GRP - How is the FTA signed between China and Peru affecting your country as well as Peru?**

**Mr Luning** - The first Peruvian commercial ship to reach China was in 1841. During the same decade, in 1849, the first group of Chinese workers arrived in Peru. In 1971, the first diplomatic relationship between the two countries was established. After Chile, Peru is indeed the second country in South America to have established a diplomatic relationship with China. As soon as China opened its doors to the world following the economic reform in the late 19<sup>th</sup> century, the link between Peru and our country became stronger and stronger. In the 1970s, the trade volume between these two countries amounted to US\$ 100 million. In 1991 it had exceeded US\$ 300 million. 10 years later, in 2001, it reached US\$ 764 million. In 2004, US\$ 2.4 billion. Finally, in 2009, Peru and China signed the FTA, which was the first most integrated trade agreement for goods and services that China has signed with a Latin American country.

With this FTA, the trade volume between the two countries increased very significantly. Just before the FTA, trade volume amounted to US\$ 7.5 billion, and in 2010 it reached 10 billion dollars, while in 2011 it reached US\$ 12.5 billion, so trade increased by 29% in just one year. The FTA has played a key role in the growth of trade between our two countries, not only in terms of trade, but also in terms of investments. Chinese companies have already invested US\$ 3 billion in Peru. As for investments, we can divide them in to two periods. In 1992, the Shougang Group invested US\$ 120 million in the acquisition of Hierro Peru.

In 2007, Chinalco, the government-owned aluminum corporation invested US\$ 860 million in the acquisition of Peru Copper.

**Milestone GRP - Along with the investments in the mining sector, do you believe that Chinese investments will start to be directed towards the infrastructure sector?**

**Mr Luning** - More and more Chinese companies are giving more relevance to the Peruvian market, willing to go beyond investments in the mining sector and reaching other sectors as well, such as the fishing industry, telecommunications, the financial sector, and road and port construction. However, to date, they have not developed any infrastructure projects, but there are many companies that would like to take part in these projects. For example, President Humala's government has announced many new projects, such as the petrochemical plant in the south, the gas pipeline, ports and highways. There are many other projects, as well, on the services side.

**“Chinese investments in Peru have amounted to US\$ 3 billion and there are very positive projections.”**

The Chinese investments are not only directed to the mining sector but also in the petroleum sector. During the 1990s, China National Petroleum Company (CNPC) bought some blocks for oil exploration. State-owned and private companies, such as Oneway Technology, have carried out important investments in the telecommunications sector, collaborating with Peru's national operators, such as Movistar. Any Chinese company investing in Peru complies with all the regulations related to environmental impact policies or employment policies. They are also contributing to the overall social development of the country by creating more jobs, in line with the social inclusion policies introduced by President Humala.

With more than 20 years of investment and cooperation experience in Peru, Chinese companies have made an important contribution in the economic and social development of the entire region. However, there is still a lot of development potential. Indeed, at the moment, Chinese companies are looking more at infrastructure, agriculture, petrochemical projects and anything related to technological innovation. They are also looking at ways of improving the trade structure not only for mineral import, but also for non-traditional products, such as grapes and mangos that are very well received by the Chinese market. For example, Peru is among the major providers of table grapes in China.

**Milestone GRP - There are more than 500 Peruvian companies exporting to China at the moment. Which sectors do you think are the most interesting ones for Peruvian exports?**

**Mr Luning** - In the fishing industry, China is the number one export market of Peru's fishmeal, as well as seafood. I see

more export potential in Peruvian agricultural products, as China needs more of a variety of these kinds of products, such as tropical fruits or specific Peruvian varieties. China is such a big country that obviously needs these imports in order to be able to meet the domestic demand. Chinese companies are also looking to export their product varieties to Peru to broaden and improve the range of their investments.

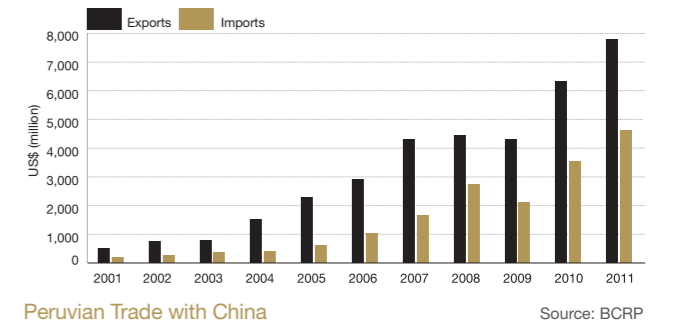
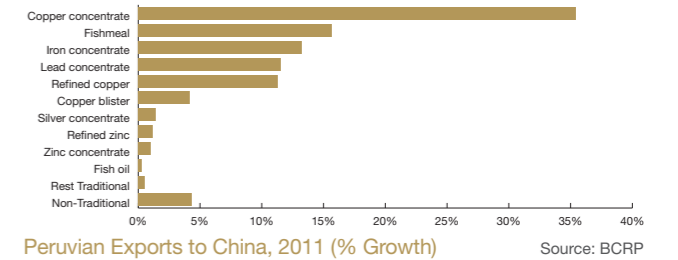
**Milestone GRP - How do you see the relationship between China and Peru developing over the next five years?**

**Mr Luning** - There is a mutual need for establishing and developing this strategic relationship. Peru is very willing to strengthen the link with China, as anyone can see that China has a very dynamic economy, playing a very important role in the international arena. Peru sees China not only as an important market for its products, but also as an important strategic partner. That coincides with the interests of China that looks at Peru as one of its most strategic partners in Latin America. China also plays an important role in Peru's international positioning, because it is a member of the most important international institutions, which raises Peru's standards.

**Milestone GRP - Apart from trading and political links, are you working to reduce the cultural gap that exists between these two countries?**

**Mr Luning** - That is an important point. Over the last few years there has been an increase in the cultural exchange between China and Peru, based on the fact that Peru is the country with

the highest number of Chinese descendants, and that provides a natural advantage in this regard. Indeed the Chinese culture is deep-rooted in Peru, in terms of food and traditions. Moreover, Peru has four Confucius Institutes across the country. Also on the tourism side, China has recognized Peru as a tourist destination, receiving more Chinese visitors every year. Also in terms of the education sector, both governments have been granting many scholarships for Peruvian students to go and study in China. We can say that the cultural cooperation is broadening.







## ADEX – Association of Exporters of Peru

### “Adding Value to the Private Sector”

Interview with Juan Manuel Varilias Velásquez, President of ADEX

**Juan Manuel Varilias Velásquez** is a Certified Public Accountant with postgraduate studies at ESAN specializing in Finance. He is the Co-founder and current CEO of Gandules Inc., which is a leading export company in the agribusiness sector. He served as the Director and Chairman of the Agribusiness, Food and Beverage committee of the Association of Exporters of Peru (ADEX). He has been the President of the association since April 2010. He is also a member of the Executive Committee and Board of CONFIEP, the Board of PromPerú and serves on the National Council of Labor for the Ministry of Labor and Employment

**ADEX** is a nonprofit trade union created in 1973 aimed at providing the necessary support to promote and expand Peruvian exports. ADEX provides its services in a personal manner that quickly achieves a high degree of satisfaction by providing new services according to market demand and members' specializations.

Milestone GRP met with Juan Manuel Varilias Velásquez, to discuss ADEX' role and success in expanding Peru's export markets.

**Milestone GRP - Since 1973 ADEX has been representing the exporters and importers of Peru. What are ADEX' main functions?**

**Mr Juan Manuel Varilias Velásquez** -The functions of ADEX come from a vision at the root of the foundation of this organization. Peru has always been an exporter of minerals and we are trying to turn the country into an exporter of value-added products. In that sense, our main functions are to promote entrepreneurship through a staff of specialized consultants, develop trade experts through our schools, and convince the government and the country of the importance of economic development. We do this because we would like participation in all parts of society in order to build the necessary conditions to become an exporting country.

**Milestone GRP - ADEX supports many local fairs and exhibitions worldwide. What are the most important projects ADEX focuses on?**

**Mr Varilias Velásquez** - There is a new type of trade show that we are currently promoting. The Expoalimentaria Fair is the best

example. It's about bringing buyers and investors to Peru to see all of our exports in the food and beverage sector. The model has been very successful in the food sector and the same can be said about the textile sector now that we are supporting that sector with a fair that has the same concept.

Obviously, we still participate in our share of the largest fairs worldwide. We take our delegation and organize business conferences at these events. We also participate in Expo Peru, which organizes missions to a number of markets that have been prioritized by Promperú - the Peruvian state promotion agency. Our Minister of Foreign Trade and Tourism has led another type of promotion for foreign delegations of companies across multiple industries. This has also had good results.

**Milestone GRP - In 2011 China overtook the US as Peru's largest trading partner. With a shift in focus to Asia what sectors will benefit most by this increased trade?**

**Mr Varilias Velásquez** - It is true that about 97% of our exports to China consist of copper, iron, zinc and other raw ma-

terials, but the advantage of a free trade agreement has to be harnessed in order to change our product portfolio. Recent statistics show that there is new activity in agriculture and in fisheries in Peru. There is no doubt that food is our number one objective. We are aware of the growing need for food and the reduction of agricultural land in China. Two other areas that we are trying to improve are in metalworking and construction. China is making large inroads into exporting products with higher added-value so we want to be strategically placed as a supplier of intermediate products for them. Similarly, with our country's current momentum in the construction sector we have opened up opportunities to export building materials, which is one of the fastest growing new sectors in recent years.

**Milestone GRP - The free trade agreement between Peru and Japan has just come into effect. How is the Peruvian business community going to take advantage of this treaty and consequentially increase the level of exports to Japan?**

**Mr Varilias Velásquez** - Japan is a market with opportunities and challenges. It is a very large market that we reached in the past with our exports of minerals, much like China. But this market also has a more sophisticated consumer. The Japanese consumer's interest in products with nutrition and health opens up so many possibilities for Peru. We must be able to develop an appropriate offer while at the same time meeting the sanitary and phytosanitary (SPS) standards the Japanese require. Mo-

reover, the presence of Chile and Mexico in the Japanese market increases our confidence that we can also do this because we have superior products.

**Milestone GRP - In the last two decades Peru has become the largest exporter of asparagus in the world and now it seems that the avocado is following that same path. What had to change in the agriculture sector for Peru to become competitive both regionally and internationally?**

**Mr Varilias Velásquez** - We could say that our approach to asparagus is the model that paved the way for all of our other products. We knew the potential benefits of our land and the value of our products, but we did not have a reference for understanding the value that our products would have on the international markets. We believe that our agro industry has achieved a level of maturity that allows Peruvian companies to compete on a world stage.

**Milestone GRP - How can ADEX foster the right environment and add value to all sectors of the economy?**

**Mr Varilias Velásquez** - One of the most important factors for sustained export growth is the creation of Public-Private Partnerships. The creation of a competitive environment with favorable conditions for export cannot be achieved without the participation of trade organizations and the public sector. A strong trade organization must articulate the needs of its members and



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propose solutions to the government for the benefit of the country. In this way, we have a very proactive and constructive relationship with public institutions. Good policies and programs that benefit all sectors are the best way to strengthen this alliance.

**Milestone GRP - How are you working to increase integration and participation from the country's outlying provinces?**

**Mr Varilias Velásquez** - No progress is possible without the training and creation of skilled labor. ADEX demonstrated this when it created a technical institute and trade school a few years ago. This is a strategy that we are replicating in the diverse regions throughout Peru. Our goal for this year is to have training programs in foreign trade in 18 major regions. We hope that this knowledge will be a driver for growth in all of the regions in the country.

**Milestone GRP - The Expamazónica Fair in July in the city of Pucallpa is supported by ADEX. What results are you expecting from this event?**

**Mr Varilias Velásquez** - Pucallpa is a good example of what we have been dedicating our efforts toward. The majority of the biological wealth of Peru is in the Amazon rainforest. But business development in this region is still in its infancy. Nevertheless, we can already see some interest from the international markets for these new products. There needs to be initiatives and incentives in order for these products to further develop.

**Milestone GRP - With over 60% of Peruvian territory covered in jungle, what are the industries and products you see making inroads in the region?**

**Mr Varilias Velásquez** - Coffee, cocoa, oil palm and timber all have a great future. There are also many native products, especially fruits and fish that can succeed in international markets. To realize this potential, companies need to transfer skills and technology to the region. For us as an organization it is our responsibility to contribute our know-how and export skills to those companies in the Amazon region that need our services.

**Milestone GRP - Rural areas in Peru often suffer from many problems including poor infrastructure and lack of techno-**

**logy. As Peru takes on a larger role as an international food supplier, do you see rural areas becoming a strategic supplier for the global food market?**

**Mr Varilias Velásquez** - In Peru it is very important to have an export model that is inclusive of all parts of society. The export chain is a model that has demonstrated significant positive effects on agriculture and rural communities. Similarly, these export chains involve these communities and the fight against poverty must be implemented in coordination with regional and local authorities.

**Milestone GRP - You are also the CEO of Gandules Inc., which exports goods to more than 50 countries. How has your experience from Grandulas been able to help you during your 3 years as President of ADEX?**

**Mr Varilias Velásquez** - These three years have definitely been difficult but we have had very satisfying results. Coming from Gandules I have been able to share a larger view of where the markets are heading and a greater rapport with the institutions that form our free trade agreements and other trade agreements. I think I have been able to expand our network, which benefits the export sector in general and specifically with an impact on agricultural exports.

At ADEX, we have achieved a greater degree of importance as a guild specializing in exporting. We are also becoming a major generator of jobs and increasing social inclusion throughout the country. Now we are committed to the decentralization of ADEX and the expansion and renovation of the headquarters for the comfort of our members and students.

**Milestone GRP - What type of growth in exports is expected for 2012?**

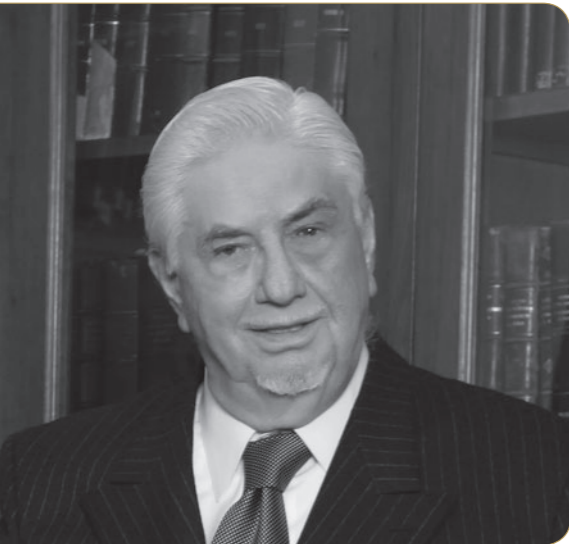
**Mr Varilias Velásquez** - There is still a lot of uncertainty in the international market, which makes us think that we will have lower growth than in 2011. On the other hand, we hope to be able to counter these negative factors so that we can exceed US\$ 52 billion, which is equivalent to a growth rate of 14% in exports.

	Exports (% change compared to the previous year)					
	Volume			Prices		
	2009	2010	2011	2009	2010	2011
<b>EXPORTS</b>	-4.1	1.9	8.5	-10.0	29.9	20.0
<b>Traditional exports</b>	1.6	-1.5	5.2	-13.6	36.8	22.9
<b>Fishmeal</b>	-1.6	-29.7	19.3	6.5	55.4	-8.4
<b>Coffee</b>	-12.2	16.3	27.8	-2.6	27.2	45.1
<b>Copper</b>	0.7	0.5	0.3	-21.4	50.0	20.6
<b>Gold</b>	8.9	-9.2	1.1	11.6	25.8	28.1
<b>Zinc</b>	-5.2	-3.0	-18.9	-17.6	48.1	10.4
<b>Crude oil and derivatives</b>	11.2	12.7	-8.8	-36.4	33.0	33.7
<b>Non-traditional</b>	-14.8	15.3	20.2	-4.0	6.9	10.4
<b>Agricultural exports</b>	5.0	17.4	25.7	-9.1	2.1	2.5
<b>Fisheries</b>	-14.6	-6.5	37.9	-2.2	32.6	17.1
<b>Textiles</b>	-29.9	2.5	3.1	5.3	1.4	23.2
<b>Chemicals</b>	-12.0	31.6	21.7	-8.5	10.5	11.1
<b>Iron and steel</b>	-26.3	23.4	-1.4	-14.4	31.9	24.4

Source: BCRP, SUNAT and businesses.







## Lima Chamber of Commerce

### “A Business Magnet for Latin America”

Interview with Samuel Gleiser Katz, Chairman of the Lima Chamber of Commerce

**Samuel Gleiser Katz** is Chairman of the Lima Chamber of Commerce. He graduated as a Mechanical Engineer from the University of Michigan and as a Textile Engineer from the Georgia Institute of Technology, and he attended the Management Program at MIT. In 1997 he founded Corporacion Rey SA, of which he is President and CEO. He is also Director and shareholder of several other companies. He was President of the Chamber of Commerce of Lima (1992-1994, 2002-2004, 2006-2008), Director of the National Confederation of Private Business (CONFIEP), President of the National Confederation of Chambers of Commerce and Vice-President of ESAN Board (Graduate School). He was President of the International Chamber of Commerce - PERU, President of Perucámaras and Director of Promperú.

**The Lima Chamber of Commerce (CCL)** was founded in 1888. It's a private non-profit organization with both a national and international focus. It brings together individuals and corporations engaged in trade, production and services. It has more than 12,000 partners across all economic sectors and provides over 30 services designed to increase the competitiveness of Peruvian entrepreneurs.

Milestone GRP met with Samuel Gleiser Katz to discuss the importance of having an internationally recognized business association in an ever-changing Peru.

**Milestone GRP - The Lima Chamber of Commerce is one of the oldest associations in the country and one of the most recognized as well. How has the organization been able to transform itself over the years?**

**Mr Samuel Gleiser Katz** - The Lima Chamber of Commerce (CCL) has been around for over 124 years. The Chamber has a history as one of the most representative associations in the country and has always been linked to Peruvian commerce and business. We have represented all forms of businesses in Peru, from small to medium and large businesses. In a changing and increasingly global economy, the CCL today not only has one of the most modern business models in the country, but it has adopted cutting-edge technology platforms, in tune with the demands of competitiveness and international trade.

So since its inception, the Lima Chamber of Commerce took a decisive role on the national and international stage, not only

defending the rights of its member companies, but also contributing to the improvement of economic and business regulations to promote good governance. Currently, we have over 10,000 members from all sectors of the economy.

**Milestone GRP - The Chamber has been increasing its profile on the international stage recently. Do you see the CCL becoming a larger player internationally?**

**Mr Gleiser Katz** - We have always had a presence internationally and participate in international events. In addition, in March 2010, the Lima Chamber of Commerce received the ISO 9001: 2008 quality certification. With this certification we have gained national and international recognition as an institution committed to providing quality business services with the continuous pursuit of customer satisfaction. This makes us the leading association in the country with an international quality certification.

**Milestone GRP - Do you believe that the decentralization of the economy in Peru has been helpful or hurtful?**

**Mr Gleiser Katz** - Well, we are currently working with the government to try to work out any problems that might exist between the federal government and the regional governments, but we are strong supporters of the diversification of the national economy. However, at the same time, everyone has to respect the law and the commercial agreements that we have made as a country. We are also increasing our presence outside of Lima with more cooperation between our chamber of commerce and the regional chambers of commerce that exist across the country.

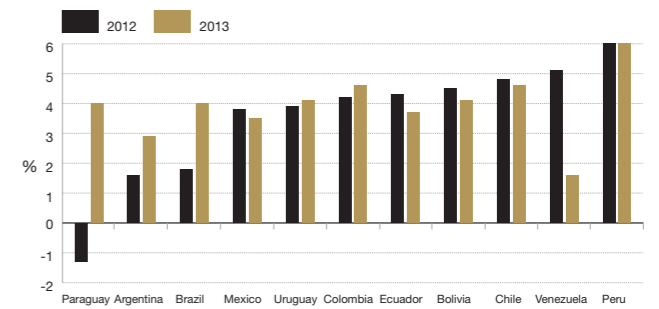
**Milestone GRP - You are planning a large-scale modernization of your facilities. Can you tell us what the goal is behind this plan?**

**Mr Gleiser Katz** - Well, in order to serve our members better, we are implementing a project to expand and modernize our current infrastructure. We are working hard to build two office towers and thereby increase the availability of areas for our members. We are also building a world class international convention center, which will allow us to expand our area for events from almost 1000 m<sup>2</sup> today to 4000 m<sup>2</sup> by the time we are done with the project. We are excited to be able to provide a place where our members can convene and promote commerce in Peru. As the

economy continues to grow, the needs of the business community continue to grow as well so we need to meet those needs.

**Milestone GRP - With all of the modernization of your infrastructure and your increased role on the international stage, what is the vision for the Lima Chamber of Commerce in the next five years?**

**Mr Gleiser Katz** - Our vision is to be the leading business association in Peru, while at the same time being internationally recognized for the business and commerce that we can facilitate here in Lima. We have been around for over 124 years with a history of providing the best services to our members and we will continue to do so in the future.



Latin America GDP Growth Forecast  
Source: Consensus Forecasts and BCRP

Audit - Tax - Advisory

**Reason says:  
there are three  
ways to go.**

**Instinct says:  
only one leads  
to growth.**

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## COMEX – Foreign Trade Society of Peru

### “Increasing Foreign Commerce for all Peruvian Players”

Interview with Eduardo Ferreyros, General Manager of COMEX Perú

**Eduardo Ferreyros** became the General Manager at COMEX in January 2012. Before that, he served as Minister of Foreign Trade and Tourism under President Garcia’s administration as well as Vice-Minister in that same sector (2007-2011) and was part of the negotiating team that established the FTA with the United States, Europe and China, among others. He has had a distinguished career in the public sector in the development of sector policies that benefit foreign trade in Peru.

**COMEX Peru** is the private association that groups together the major companies related to foreign trade in Peru. COMEX Perú bases its policies and strategies on three major areas: promoting the development of foreign trade, defending the free market and encouraging private investment, all with the key objective of helping to improve the competitiveness of Peru that would turn it into an attractive destination for private investment.

Milestone GRP met with Eduardo Ferreyros to discuss how Peru is trying to double exports over the next five years, and just exactly what that objective implies.

**Milestone GRP - Peruvian exports did not meet the expectations that people had at the beginning of 2012. How do you see exports recovering in the future?**

**Mr Eduardo Ferreyros** - Exports have been growing steadily for the last 10 years at a very solid rate. Lately, due to the international volatility in key markets that are important to Peruvian commerce, these markets are buying less. Luckily, Peru has had the foresight to diversify away from the traditional markets and towards other markets, namely the Asian markets.

For example, we have free trade agreements with China, Japan, South Korea, Thailand and Singapore. The private sector has been able to diversify as well. This doesn’t mean that we have not been affected by the crisis; the raw material exports in mining have fallen recently. On the bright side, the non-traditional exports with added value have continued to grow. They are still growing at a lower rate than what we are used to, but they are growing in areas like agriculture and manufacturing.

**Milestone GRP - What has trade with Brazil been like?**

**Mr Ferreyros** - Peru already exports to Brazil without paying tariffs due to a commercial agreement we have with them, but we have found difficulties entering the Brazilian market due to other trade barriers. The business community has been making progress in certain areas. For example, the textile industry has made strong inroads into Brazil. The Interoceanica Sur, the inter-oceanic highway between Peru and Brazil, has created access to regions of Brazil like Rondonia, where there is a population of about 5 million people, so it is an interesting market for Peruvian exporters. The highway is going to serve as a gateway to the Brazilian market, and it should serve as a platform for Brazilian products that are trying to reach the Pacific side of the continent.

**Milestone GRP - Do you believe that the infrastructure is going to be developed enough to sustain this growth and create trade routes between neighboring countries?**

**Mr Ferreyros** - As an association, we have been pushing the government to move quicker on the projects like the infrastructure of the port system, the road system, and the key logistics areas that are of interest to commerce. Callao, for example,

can be turned into a logistics hub for the Pacific side of South America. This has already started with the concessions that were made in the Port of Callao. We have definitely been pushing for the government to streamline the bureaucratic barriers that exist for future concessions.

The government knows what it has to do and they have pledged to start strengthening the number of concessions that are going to be bid on. What we hope for is that we can start closing this gap in infrastructure. This way we can have the infrastructure that is necessary for continued growth in commerce.

**Milestone GRP - Why has there not been a harder push for a rail system, especially since Peru’s main exports are minerals?**

**Mr Ferreyros** - We are not focused on a rail system right now. There is a reality that we have to face here: Peru does not have an existing rail system, and, thus, we have been focused more on roads. There has been a large investment in the road system.

**Milestone GRP - What role did COMEX, as an association, fulfill that had not been fulfilled before?**

**Mr Ferreyros** - We are the representative of all of the entities involved in the export and import process. For example, we have members from various sectors, including logistics services, financial services, and the exporters themselves. Our intention is to promote free trade and to promote the development of foreign commerce. The work of COMEX is to influence the development of policy that permits and promotes free trade.

**Milestone GRP - How do you see the free trade agreement between India and Peru being mutually beneficial in the long run?**

**Mr Ferreyros** - The Indian market right now is one of the largest in the world. In the future, India is going to be even larger than China. By removing the barriers of trade, we are setting Peru up for many benefits in the future as this market continues to grow. It is important to find markets with a lot of potential that can be developed. The principal sectors that will benefit from this agreement would be the agro-industry and fisheries sector.

**Milestone GRP - What are your priorities for 2013?**

**Mr Ferreyros** - One of the events that we have become known for is the Small and Medium Size Business Summit that we host every year. We bring together about 1,400 businesses and we focus on introducing them to the foreign markets and how they can tap the potential there. For the last few years, we have been very concentrated on this event.

One of our other priorities is to collaborate with the government to help create policies, such as the Trans-Pacific Partnership Agreement, which we see as an important step forward. We hope that this will serve as the base for the future free trade agreement for APEC (Asia-Pacific Economic Cooperation) and its member nations.

Another priority is the free trade agreement with India. This market is not only important now, but it will become increasingly important in the future as well.

**Milestone GRP - A free trade agreement with Russia has also often been discussed in Peru.**

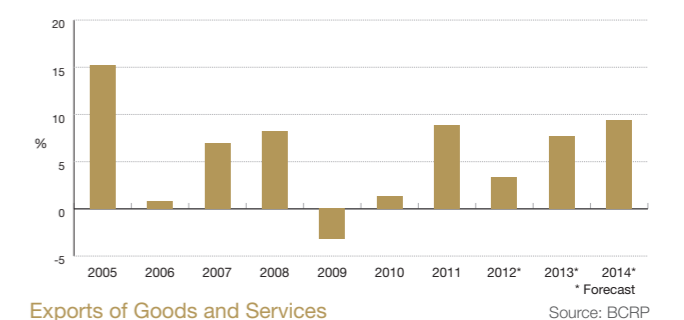
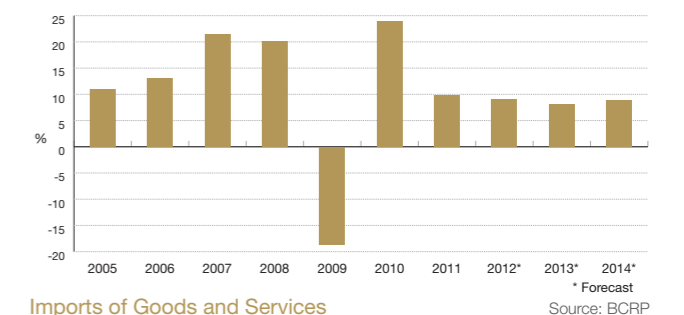
**Mr Ferreyros** - Russia is a very interesting market. I think we are closer to a free trade agreement with Russia than we have been in the past. We are also interested in forming a trade agreement with some of the countries that visited Peru during the Third Summit of Heads of State and Governments of South American and Arab Countries (ASPA) that we hosted this year. These are countries that we have very little commerce with, but that could be interesting to us in the future.

**Milestone GRP - What was the result of the summit?**

**Mr Ferreyros** - Currently, Peru does hardly any trade with Arab nations, but there is enormous potential there. Arab countries import 70% of the goods that they consume, so that is a big opportunity for us. I think that it is a good time to start looking at those countries as a key region for our exports. The event showed us that there is a lot of interest in investment. Right now, we only have two investments in the country that were made by Arab companies, Dubai Ports in the Port of Callao, and Sonatrach, which is investing in gas. The summit gave us the opportunity to show them why Peru would be of interest to them, why Peru is a serious market, and how we have had steady growth for over a decade.

**Milestone GRP - What is the vision for COMEX in the next five or ten years?**

**Mr Ferreyros** - We would like to see our exports double in the next five years, to reach US\$ 10 billion in food exports. We would also like to be able to close the gap in income between the rich and the poor and COMEX is going to be focused on making that possible.







## PromPerú

### “Managing Peru’s Reputation Abroad”

Interview with Mariella Soldi, Managing Director of PromPerú

**Mariella Soldi** completed her studies in Business Administration at the Peruvian University of Applied Sciences with a specialization in Marketing. She also studied International Tourism at Leeds Metropolitan University, UK. Before joining PromPerú as its Project Manager of the Peru Country Brand initiative in 2007, Ms Soldi worked for various private companies both in Peru and abroad, developing her career in marketing and related services. Ms Soldi was one of the people that saw the Peru Country Brand come to life and has actively participated in the creation of the logo that now represents all Peruvians. As of September 2012, Ms Soldi is the Managing Director of the Peru Country Image.

PromPerú is responsible for developing the strategy to promote an attractive image of Peru that permits the development of local tourism and promotes the country as an attractive and favorable destination for tourists and investors. In addition, it promotes the exportation of Peruvian products.

Milestone GRP met with Mariella Soldi to discuss the advantages of branding the country to increase interest at home and abroad.

**Milestone GRP - The country’s brand and image department is relatively new. What has PromPerú accomplished since it began Peru’s image promotion?**

**Ms Mariella Soldi** - PromPerú is Peru’s commission for tourism, exports and country image promotion. The country image department was created over a year ago. Our mission is to manage Peru’s reputation abroad in order to attract investors, tourists or importers. A potential investor has to believe that Peru will be a good global competitor at the same level as Malaysia, Chile or China. The Peru Brand, which was launched nationally in 2011, helps us achieve that goal.

In 2012 we’ve also launched the country brand internationally. For the first stage of the launch we targeted seven countries where we already have relationships due to tourism, exports and investments. We are not the first to promote our country internationally, but we have benefited from the experiences of neighboring countries such as Chile or Colombia. We targeted Peruvians first and after getting good feedback and brand identification, we were ready to take

it abroad. We had a good reaction to the country brand’s promotion domestically and we are looking for a similar outcome abroad. The brand is much more than a logo and it needs successful campaigns in order to keep it popular.

This year we are going to carry out the second part of the Peru Brand national campaign and the first part of the international campaign in seven countries: Argentina, Brazil, United States, Spain, France, Germany and China. The United States and China, for example, are two of our major trade partners. The United States provides us with the highest influx of tourists and China is Peru’s number one buyer of traditional export products. Our neighbors, Chile, Argentina and Brazil, are very dynamic economies with which we can also partner on tourism. Apart from Machu Picchu, which is one of the seven wonders of the modern world, this year we are going to focus on promoting tourism in the Amazon since it has been named by the New7Wonders foundation as one of the seven natural wonders of our planet. This important recognition will be celebrated in Iquitos, Loreto.

Today, there are many reasons to come to Peru – Machu Picchu, the Peruvian Amazon and our great gastronomy are just some of them.

**Milestone GRP - What were some of the challenges in creating and launching the country brand?**

**Ms Soldi** - The first challenge was reaching an agreement between all the different players. The Peru Brand is a project carried out by the state. With the permission of the Presidency of the Republic and the Ministry of Foreign Relations and ProlInversión’s contribution, the brand was commissioned by the Ministry of Foreign Trade and Tourism of which PromPerú is a division. We had to head a working group responsible for designing Peru’s country brand.

Our first mission was to hire a company able to create the brand, and for that we bid the project out and the contract was awarded to FutureBrand. They are also responsible for Brand Australia which is ranked among the top five country brands. They have also designed the campaign for Qatar’s 2022 World Cup bid that was very successful as well. FutureBrand has also worked with private enterprises such as LAN and in Peru they have designed brands for Banco de Crédito and the Wong supermarket chain. After that, we did an international bid to hire a marketing research firm in order to do all the pre-tests of the different possibilities that were being considered.

“Peru is proud of its past without getting stuck in its history, and it positions itself in the present, drawing an arrow and dynamically projecting itself toward the future. Peru is a country in clear evolution.”

That study was conducted by Inmark, a Spanish firm. They tested the brand in seven cities, from Tokyo to Los Angeles and Sao Paulo and the current brand won. Since its launch in March 2011, the brand has been included in every international fair presentation. The most remarkable thing we did was to cover the facade of the New York Stock Exchange with the Peru Brand logo on Peru Day, and it was very successful.

Today I can say that we are seeing the results of our hard work. We recently hired Ipsos Apoyo in order to assess the national campaign and the results were amazing: 93% of Peruvians believe it is important to have a country brand. That is a very high percentage since before most people would not even know what a country brand was. Enthusiasm for

the brand was at 66% across all the regions of the country and 77% in Lima.

With regards to the international campaign, we have to put ourselves in the shoes of someone in France or America and, from that perspective, find ways of attracting them to Peru. We are going to achieve that mostly with tourism promotion, since it will be a mass media campaign, with some elements of foreign trade and investments as well.

**Milestone GRP - PromPerú has often been awarded prizes at international fairs and promotional events. It would seem that other countries are looking at PromPerú as a model. Can you comment on that?**

**Ms Soldi** - PromPerú distinguishes itself by giving good presentations because it has a very professional team of very experienced people. Our stands, year after year, stand out for their rich cultural and historical information which draws people’s attention. This is why our presentation always draws a lot of attention and we are usually among the most awarded stands in the fairs.

Due to the experience gained by the Tourism Promotion team, which is a professional and committed team, I believe we do a good and efficient job. PromPerú is considered an island of modernity in the Peruvian state. We act as a private enterprise, and that is what has allowed us to stand out and compete. That is what has made us able to improve and excel in the international fairs.

**Milestone GRP - What type of budget will you have for this second campaign?**

**Ms Soldi** - We will have around US\$ 5 million.

**Milestone GRP - Minister of Foreign Trade and Tourism, Mr José Vicente Silva, told us that when Mick Jagger visited the country his son was struck by the country brand logo which looked like an “at sign” to him, while his father believed that it represented the Nazca Lines found in Peru. What do you see in it?**

**Ms Soldi** - I will give you the official explanation that I give in every university I go to in Peru when they ask me to explain the Peru Brand logo.

We wanted to find a symbol that could represent all Peruvians. Therefore, we had to get away from finding an animal, a product or an object, since that would be only representative of one specific region. That is, if it had been something particular to the rainforest or the coast, not everyone would have felt represented by it. Therefore, we saw a potential in the word “Peru” itself, common to all Peruvians, and decided to work with using a spiral form; the spiral represents evolution and it is present in all the cultures that have developed in Peru, from the Nazca Lines and the Moche culture to the Incas. If you look at it from above, the logo looks like a fingerprint, a symbol of identity. It can be drawn with a single line, and that means that Peru is proud of its past without getting stuck in its history, and it positions itself in the present, drawing an arrow and dynamically projecting itself toward the future. Peru is a country in clear evolution.



# Finance







## Central Reserve Bank of Peru

### “The Successful Turnaround of the Peruvian Economy”

Interview with Julio Velarde, President of the Central Reserve Bank of Peru

**Julio Velarde** was reappointed to head the Central Reserve Bank of Peru (BCRP) by President Ollanta Humala. Velarde was first named to the post in September 2006 by President Alan Garcia. Velarde is credited with helping Peru avoid deflation during the 2009 global economic crisis, cutting interest rates to an all-time low of 1.25%. Velarde first served on the Central Bank's board of directors from 1990 to 1992 when conservative Alberto Fujimori was president. He helped rid the country of rampant hyper-inflation at a time of financial chaos in Peru.

The purpose of the **Central Reserve Bank** is to preserve monetary stability. Its target annual inflation is 2.0%, with a tolerance of one percentage point upward and downward; its policies are aimed at achieving that goal.

Milestone GRP met with Julio Velarde to talk about how Peru has managed to turn the worst inflation record in the region into the best and what that means for the economy.

**Milestone GRP - In the region, Peru had the highest inflation rate two decades ago, and today it is the lowest in the region. How was Peru able to turn this around?**

**Mr Julio Velarde** - The credibility gained by the Central Bank during the last two decades has been crucial for this achievement. Hyperinflation at the end of the 1980s had come at such a high cost for the economy that people started to value macroeconomic stability. We caught up to 1975 per capita income levels only by 2006. Impoverishment had affected people's lives to such an extent that they were willing to support structural reforms and a stabilization program, which are at the base of Peru's current macroeconomic growth.

Just to give you an example of the situation at the beginning of the 1990s, at the peak of hyperinflation, gasoline and bread prices went up 3,300% and 1,000%, overnight. The fiscal deficit at the end of President Garcia's first term was a bit higher than Greece's in 2011. In August 1990, when I was a member of the Central Bank Executive Board we didn't have a single dollar of international reserves. The situation was so critical that the government had no way to pay police and public servants, and the money that was coming in had

to be used immediately to pay off debts. It was from that point that people started to understand the importance of macroeconomic stability. Today, even a slight jump in inflation will affect a president's popularity here in Peru.

At the beginning of the 1990s a new constitution granted autonomy and a unique objective to the Central Bank: price stability. No law can change that. But the most important change was that people supported the idea of monetary policy being implemented by an independent central bank. The results that monetary policy has delivered in the years that followed this period have consolidated its reputation. That is why I considered that even if pressures to limit the Central Bank's independence appear in the future, that kind of proposal would not have enough support to be implemented.

**Milestone GRP - What has Peru's approach to monetary policy been?**

**Mr Velarde** - At the beginning of the 1990s most countries with high levels of inflation chose to stabilize the economy using the exchange rate as a nominal anchor. We decided to use a different strategy and adopt a floating exchange rate

regime. I believe that was the right choice. We haven't had the crises that other countries have experienced in recent years, because we have been very conservative with our monetary policy. Since 2002 we have an inflation target regime with a target of 2% and a tolerance range of 1 to 3% that has been successful in consolidating price stability. Different from other central banks, however, we use a broader set of instruments to implement monetary policy, such as reserve requirements and accumulation of international reserves. These additional tools allow us to reduce the risks that financial dollarization can generate in the financial system.

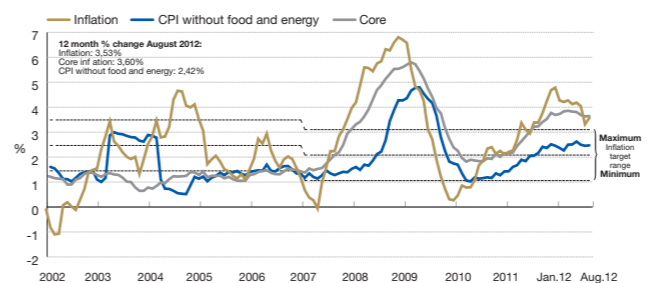
**Milestone GRP - For 2012, Peru will have the lowest rate of inflation and the highest GDP growth in Latin America. What accounts for this?**

**Mr Velarde** - Basically, it is a strong private sector that supports the dynamics of private investment. The structural reforms that we put in place at the beginning of the 1990s have increased the efficiency of the economy enormously. We used to have excessive controls on the economy, which limited our efficiency to compete. In the 1990s those controls were removed, many markets were deregulated, and the economy opened up to international trade and to the global financial markets. Now we have many free trade agreements that contribute to increasing our competitiveness and many domestic firms have gained access to the international financial markets.

Macroeconomic stability has become a strong fundamental to sustain long-term growth for the Peruvian economy, in addition to inflation being the lowest in the region. But our macroeconomic policies were effective in reducing the economy's volatility, even during periods of high turbulence, such as during the latest global financial crisis.

**Milestone GRP - You have maintained the same interest rate, even with the uncertainty of the European crisis. Do you believe that you will be able to sustain this?**

**Mr Velarde** - It's hard to say. There is so much uncertainty about the resolution of the European crisis. In the scenario that an orderly exit strategy succeeds there is a chance that we can keep growing at reasonable rates. In the past four to six years we have had a fiscal surplus. We have kept the interest rate at 4.25% since May 2011. We have a high level of international reserves that give us the capacity to react in the way we need to if necessary. These instruments help us to cushion any strong external effects. The important thing to avoid is agents taking excessive risks during periods of high growth, and to have the appropriate instruments to reduce the impact of shocks when



Inflation and Inflation Target

Source: BCRP

these materialize. A prudent monetary policy, such as the one we have applied, contributes to this aim.

**Milestone GRP - How are you managing exchange rate volatility?**

**Mr Velarde** - We are trying to avoid excessive volatility of the exchange rate. What we want to avoid is an excessive depreciation of the Nuevo Sol, because it can damage the financial system, given that loans and deposits are still highly dollarized. The exchange rate should be appreciating and that has been happening, but we don't want it to appreciate by more than its fundamentals indicate, otherwise it could affect economic growth negatively.

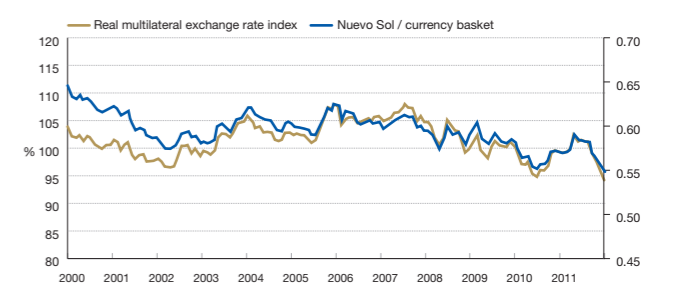
“Since 2002 we have an inflation target regime with a target of 2% and a tolerance range of 1 to 3% that has been successful in consolidating price stability.”

Large exchange rate volatility can affect the banking system and the financial situation of households and firms, so that's exactly what we want to avoid. International reserves can contribute to this objective, particularly in periods of stress in international financial markets, like between the last quarter of 2008 and the first quarter of 2009.

During that period the Central Bank used around 30% of its international reserves to inject dollar liquidity into the financial system and avoid a large depreciation of the exchange rate. The amount of liquidity injected was fundamental to calm domestic financial markets even on the eve of the global financial crisis, a necessary condition to apply counter-cyclical monetary policies, as indeed was the case.

**Milestone GRP - You publicly said a couple of years ago that you keep your savings in Nuevos Soles. Do you think that this movement of Peruvians saving in their national currency has been one of the leading factors behind the appreciation of the Nuevo Sol against other currencies in recent years?**

**Mr Velarde** - Peruvians are changing their savings from dollars to Nuevo Soles, but the most important thing now is the



Real and Nominal Multilateral Exchange Rates

Source: BCRP, data from central banks and statistics institutes

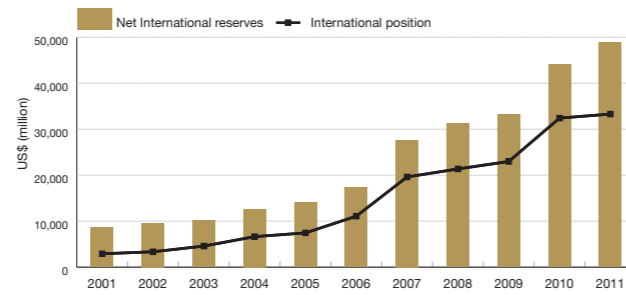


flow of capital from abroad, which has been putting upward pressure on the Nuevo Sol. The problem is that, when there is a perception of a continuous depreciation of the dollar, people tend to take loans in US dollars, and if this type of behavior generalizes it can increase the risk to the financial system of a sudden reversal in the exchange rate. This is worrisome, particularly when it occurs at the household level for mortgages and consumption loans, since most households in Peru are not paid in dollars but in Nuevos Soles.

The degree of wage dollarization in Peru is much lower than the degree of financial dollarization. To limit this type of risk, the Central Bank of Peru has been implementing additional measures, such as high reserve requirements in dollars, which help banks and agents to internalize the credit risk created by exchange rate risks. In coordination with the Superintendency of Banks, we are considering other measures, such as additional capital requirements and provisioning for loans that are exposed to exchange rate risks. However, the trend towards higher intermediation in Nuevos Soles is clear and in the future it will contribute to strengthening the financial system, particularly against unexpected exchange rate movements.



Inflation Forecast: 2013-2014 Source: BCRP



International Reserves of the Central Bank Source: BCRP

Net International Investment Position (End of period levels)						
	US\$ (million)			% of GDP		
	2009	2010	2011	2009	2010	2011
<b>I. Assets</b>	<b>55,561</b>	<b>72,104</b>	<b>79,787</b>	<b>43.7</b>	<b>46.8</b>	<b>45.1</b>
1. Reserve assets of BCRP	33,175	44,150	48,859	26.0	28.7	27.6
2. Assets of financial sector (excluding BCRP)	14,006	16,606	18,479	11.0	10.8	10.5
3. Others assets	8,470	11,347	12,450	6.6	7.4	7.0
<b>II. Liabilities</b>	<b>89,312</b>	<b>114,910</b>	<b>124,660</b>	<b>70.1</b>	<b>74.6</b>	<b>70.5</b>
1. Bonds and total external debt private and public <sup>1/</sup>	35,157	43,674	47,544	27.6	28.4	26.9
a. Medium and long term debt	30,431	37,359	41,219	23.9	24.3	23.3
Private sector <sup>2/</sup>	10,314	14,424	16,987	8.1	9.4	9.6
Public sector (I - II + III) <sup>3/</sup>	20,117	22,934	24,232	15.8	14.9	13.7
i. External public debt	20,600	19,905	20,204	16.2	12.9	11.4
ii. Public debt issued abroad purchased by residents	1,891	1,283	831	1.5	0.8	0.5
iii. Public debt issued locally purchased by non-residents	1,408	4,313	4,859	1.1	2.8	2.7
b. Short term debt	4,726	6,315	6,325	3.7	4.1	3.6
Financial sector (excluding BCRP)	1,425	2,514	1,901	1.1	1.6	1.1
BCRP	124	45	43	0.1	0.0	0.0
Others <sup>4/</sup>	3,177	3,756	4,381	2.5	2.4	2.5
2. Direct investment	34,521	42,976	51,208	27.1	27.9	29.0
3. Capital participation	19,634	28,260	25,908	15.4	18.4	14.7

<sup>1/</sup> External public debt includes the debt of the Central Government and public enterprises. The latter now represents less than 5 percent of total. The external debt is mostly medium and long term debt (99 percent).  
<sup>2/</sup> Includes bonds.  
<sup>3/</sup> Since these publication government bonds issued abroad and in the hands of residents are excluded from foreign liabilities of the public sector. Government bonds issued locally, in the hands of non-residents, are included foreign liabilities of this sector.  
<sup>4/</sup> Includes mainly short term debt of the nonfinancial private sector.

Source: BCRP, MEF, Cavalli SA ICLV, Proinversión, BIS and businesses.

## The Peruvian Financial System's Strengths and Improvements through Basel II and III

by Daniel M. Schydrowsky, Superintendent, Superintendency of Banking, Insurance and Private Pension Fund Administrators of Peru (SBS)

In the past few years, the Peruvian financial system has shown favorable tendencies that come as a result of its solid macroeconomic foundations, prudent regulatory measures and supervision based upon risk.

The Superintendency of Banking, Insurance and Private Pension Fund Administrators of Peru (SBS) has adapted and implemented international best practices according to Basel II. The first step was to develop five quantitative impact studies, done between 2005 and 2007: three were developed within the SBS and two had the participation of financial institutions. Once the potential impact of this significant regulatory change was identified in July 2009, the amendments to the Financial and Insurance System's General Law and the SBS Organic Law (General Law) were introduced.

system of cyclical or dynamic provisions. The objective of this measurement is to allow financial institutions to accumulate additional provisions during the expansive stage of the economic cycle. By the time the cycle is reversed, they are prepared for an eventual decline in the economic agents' incomes. To determine the accumulation period and the one where those resources were to be used, a tool was created. The tool activates and deactivates according to the behavior in the economic activity. The cyclical provisions element is added to the rate applied on the loans granted to borrowers whose credit rating falls under the normal risk category.

Additionally, the SBS published a regulation that requires companies operating in the Peruvian financial system to maintain a regulatory capital above the minimum level established in the General Law. This requirement for additional capital, which took effect in July 2012, allows companies to comfortably deal with the various risks associated to their sector activity. The key element of this so-called "capital cushion" is the fact that it is cyclical; it has to be accumulated during times of sustained growth so it can be used during times of product deceleration. Additionally, the regulation requires capital for risks other than those considered in the General Law (credit, market and operational risks) such as concentration risk and the interest rate risk in the banking book. Companies have until July 2016 to accumulate the total additional capital required.

On the other side, and in line with the Basel III standards, the regulations for the liquidity risk management have been adjusted in order to include short-term requirements (30 days) and track the net stable funding ratio. To determine the impact of such measures on the entities, supervised companies were requested to present detailed information about their cash inflows and outflows. The draft regulation has been pre-published on the SBS website and we are currently consolidating the comments received in order to issue the final rule.

Thanks to this entire scheme of regulation and prudential supervision, the financial system is very solid, and has liquid assets well above the legally required cushions of capital. The SBS continues to make strides towards becoming a regional leader with regards to best practices in prudential regulation and banking supervision.

By March 2012, the Peruvian financial system consisted of 15 multiple operations banking institutions, 10 financial companies, 35 non-banking microfinance institutions (12 municipal funds for savings and loans, a municipal fund for popular loans, 11 rural funds for savings and loans and 11 development agencies for small and micro enterprises), two companies specialized in leasing, and state-owned companies Banco de la Nación, Agrobanco COFIDE and MiVivienda. The balance of direct loans in the financial system amounted to 154,170 million Nuevos Soles (US\$ 57,806 million) as of March 2012. This represents an annual average growth rate of 19% in the

**The standardized methodologies to calculate the capital required for credit risk and market risk are similar to the previous regulatory framework. However, since 2009, the companies have had to consider a new element: operational risk.**

Later on, new regulations were issued for the actual capital required for credit risk, market risk and operational risk. Different methodologies were established to be used by the companies within the financial system for the calculation of regulatory capital and the conditions to be met to take advantage of them. Specifically, for internal models, the law established that companies shall present their formal application to the SBS. It should be noted that the standardized methodologies to calculate the capital required for credit risk and market risk are similar to the previous regulatory framework. However, since 2009, the companies have had to consider a new element: operational risk.

In 2010, the implementation of Basel II Pillar I was finalized, although a progressive adaptation period was established in order to avoid an excessive increase in costs for companies. This was a result of requiring more capital as well as operational expenses and the challenging economic context during the international financial crisis.

Another significant improvement in the macro-prudential regulation applied by the SBS was the introduction of a general



	Credits		Loans	
	Balance		Balance	
	US\$ (million)	%	US\$ (million)	%
Multiple Banking	48,882	84,6	49,707	80,5
Financial Companies	2,631	4,6	1,300	2,1
Non-banking microfinance institutions	4,966	8,6	4,361	7,1
Municipal Funds	3,789	6,6	3,597	5,8
Rural Funds for savings and loans	769	1,3	764	1,2
Development agencies for small and micro enterprises-EDPYME	410	0,7	n/a	n/a
Leasing Companies	130	0,2	n/a	n/a
State owned Companies <sup>2</sup>	1,198	2,1	6,383	10,3
	<b>57,806</b>	<b>100</b>	<b>61,751</b>	<b>100</b>

<sup>1</sup> It only considers state owned entities in a direct intermediation role to the private sector.  
<sup>2</sup> It does not consider the credits granted to the public sector nor to the rest of the institutions in the Financial System

Distribution of Credits and Loans

Source: SBS

last five years. Also, the financial system deposits reached 164,689 million Nuevos Soles (US\$ 61,751 million) by March 2012, which means that over the past five years, they have recorded an average annual growth of 16%.

As a result of the growing volume of loans and deposits in the national financial system, the level of financial intermediation increased from 18.1% and 22.6% in loans and deposits respectively in year 2006, to 29.0% and 30.8% respectively in year 2011.

The asset quality indicators of the multiple banking institutions are maintained at high levels, with a procrastination indicator of 1.6% in March 2012. The coverage of overdue loans reached a value of 235%; also, the total capital ratio (net equity/assets and contingent weighted by credit, market and operational risk) amounted to 14.4% in March 2012, more than 10% required by the General Law and the 8% established by the international standard. This allows the multiple banking companies to have additional capital to meet potential con-

tingencies, for an amount exceeding 6.6 billion Nuevos Soles (US\$ 898 million). Also, liquidity ratios in local currency (LC) and foreign currency (FC) reported values of 50.7% and 43.1% respectively, in March 2012; well above the legally required minimum, which are 8% for LC and 20% in FC.

While microfinance institutions have a reduced participation in the total amount of loans and deposits in the financial system, between 8% and 9%, they still hold a significant presence in terms of borrowers and depositors, reaching shares of 28% and 16%, respectively. These are mainly localized in areas with higher levels of poverty than traditional banking.

Finally, it's worth noting that thanks to the accomplishments of Peru in terms of stability, institutional development and an adequate regulatory framework, Peru is still leading the Global Microscope Ranking on the business environment for microfinance (among a total of 55 countries), created by the Economist Intelligence Unit.

	Current Situation	SBS Regulatory Minimum	Cushion
Capital	S/. 21,627 billion	S/. 15,020 billion	S/. 6,607 billion
Provisions	S/. 5,241 billion	S/. 3,845 billion	S/. 1,395 billion
<b>Liquidity (liquid actives / passives)</b>			
Local Currency	50.7%	8%	42,7 pp
Foreign Currency	43,1%	20%	23,1 pp

Capital, Provisions and Liquidity

Source: SBS

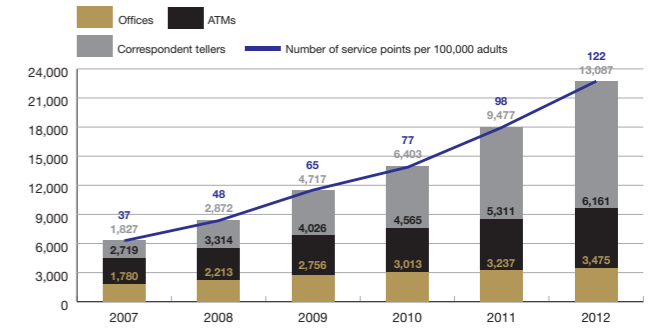
Financial Inclusion

The SBS' priority objective is to encourage the financial inclusion process in the country, without neglecting its core mission of ensuring the soundness and stability of the financial system.

The main commitment of the current government is to improve social inclusion in the country. One of the key elements for the accomplishment of such an objective is financial inclusion, which has a number of benefits for those who can access and use financial services. The possibility of having an efficient payment system, matching revenue and expense flows, allowing financing for profitable projects, creating safe and cost-effective tools are some of the benefits that the financial system can provide.

The SBS has an integral approach and tries to influence the factors affecting increased access and use of financial services by the population. Thus, the strategy to increase financial inclusion is based on four strategic pillars: regulatory framework, transparency of information, customer protection and financial education.

The first pillar provides a regulatory framework that promotes the strength and competence of the financial system and creates incentives to improve the scope and depth that financial institutions can get in the facilitation of financial services. Arguably, the SBS' greatest achievements are in this pillar. The



Number of Offices, ATMs, Correspondent Tellers and Contact Points for Every 100,000 Adults Source: SBS

regulation encourages the use of safe and low-cost channels, such as tellers, to improve public access to the financial system. Consequently, there has been a significant expansion of the contact points created by the financial institution, including offices, ATMs and especially correspondent tellers. In the last five years, the number of service delivery points within the financial system grew from 6,326 to 22,723.

The improvements in accessibility and favorable rules have facilitated greater use of financial services. Between March 2007 and March 2012 the percentage of adults who received formal credit from financial institutions rose from 19% to 27% due to the addition of 1.9 million borrowers in the financial system.

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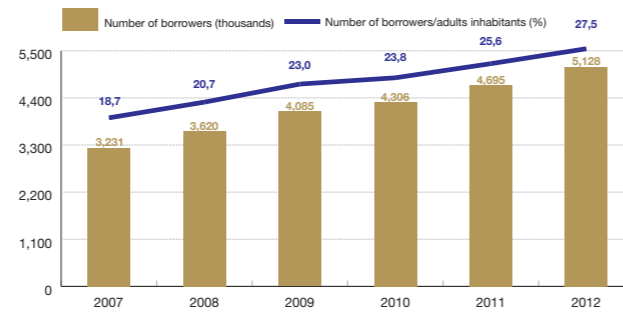
Similarly, the number of individuals with deposits increased to just over 7 million in the same period, representing about 91% of the adult population at the end of the first quarter of 2012.

Despite these impressive achievements, the financial inclusion gap is still wide and it is concentrated in segments of the population with low incomes and those living in areas with very low population density. However, the high level of mobile phone penetration in the country and international experience shows that Peru still has an opportunity to use virtual media to provide financial services, mainly for payment services and transfers.

To date, mobile banking services are available, mainly oriented to middle- and high-income segments of the population since it is based on the use of sophisticated and high-end phones, which cannot be accessed by the majority of the population. This type of product does not require more regulation than the one that already exists. For financial institutions that want to adapt their services to the needs and possibilities of the population, a rule that makes this work has been issued. It has legally defined that basic deposit accounts can be opened via correspondent tellers by showing personal identification. Similar products are currently being launched for the low-income population, using the mobile phone as an access channel.

**“The strategy to increase financial inclusion is based on four strategic pillars: regulatory framework, transparency of information, customer protection and financial education.”**

The SBS also seeks to promote the development of products based on electronic money, which is why, in coordination with the Ministry of Economy and Finance (MEF) and the Central Reserve Bank of Peru (BCRP), the SBS has filed a bill that seeks to establish clear rules for their use. Electronic money is defined by its own characteristics, being a monetary value stored on an electronic device, widely accepted as means of payment, which can be converted to cash and is not a deposit account. The project proposes the creation of a new type of company that allows specialized operators, under the supervision of the SBS, to provide low-cost and simple financial products such as prepaid cards and electronic wallets, among other possibilities. The main expected benefit is to achieve greater efficiency and outreach in the payment, transfers and remittances services.



Number of Borrowers and Borrowers as Percentage of Adult Population

Source: SBS

The promotion of market transparency, protection of the consumer of financial services and financial education are the other three pillars that support the SBS' strategy to promote financial inclusion. Market transparency encourages accessibility to information that is easy to understand and relevant to the user's needs, which enables them to make informed decisions. In this regard, the SBS maintains an active role in terms of full disclosure regarding financial services. This has helped to increase competition in the financial system and reduce lending rates.

In addition, the Peruvian financial system has a sound regulatory framework for protection of the consumer of financial services, which is based on three key elements: a consumer protection system, clear policies for financial consumers and mechanisms for resolving complaints; transparency throughout the contracting process, and contracts written in plain language, without unfair clauses. Through this framework, the SBS ensures the proper functioning of consumer protection, transparency in the procurement process and identification and prohibition of using unfair or abusive clauses. Thus, the SBS' work is preventative.

Finally, to ensure that the population has the capacity to understand and use the available information, the SBS is making efforts to improve the financial education of the population. A first achievement in this area was the adoption in December 2008 of a new curriculum for secondary education that includes financial education issues. In addition, the SBS has developed the Counseling Program for Teachers with the ultimate goal of students learning about finance, insurance and pension funds. To date, the program has trained about 4,000 teachers from urban and rural sectors, reaching 15 of the 25 regions of the country and by the end of 2012 it is projected to reach over 80% of the country.

At an international level, the SBS has an active role as a member of the steering committee of the Alliance for Financial Inclusion (AFI), a global network that brings together central banks, banking supervisors and other public policy makers from more than 60 countries. Through it, the SBS has been coordinating joint actions for the development of financial inclusion policies that allow for the extension of the benefits of financial services to all segments of the population.

## BBVA Continental

“Providing Financial Services at the Local, Regional and Global Level”

Interview with Ignacio de la Luz, CFO of BBVA Continental

**Milestone GRP - With 80% of the market share held by four banks, what are the real opportunities for new players to come to Peru?**

**Mr Ignacio de la Luz** - The banking concentration is a result of the 1998 crisis. We went from 22 to 11 banks and since then there have only been a few new operations that have entered the market. Peru is a very profitable market and one that offers great opportunities; however, the entrance of new players in the market has been limited due to the 2008 crisis.

The four major banks are able to attain 80% of the market share mainly because of their distribution networks throughout the country. But then again, most banks are also leaders in specific segments, so there are specific opportunities and growth allowances for all.

Currently there is a lot of interest coming mainly from other regional banks in Colombia and Brazil, which means that if they enter the market, we'll need to improve our services even more to face this new competition.

**Milestone GRP - How have international markets reacted to Peru's success?**

**Mr de la Luz** - Peru has become very attractive. In 2011, there was some concern about the political changes, but that has not materialized. In August 2012 we closed an international bond issuance which was very successful and our investors did not have any major concerns. Also, given the international crisis, a lot of the investors in traditional markets are turning to countries that offer real growth opportunities, and Peru is one of them. That is why we have seen an important capital injection in the last few months and also why the Central Bank is introducing new rules to control this expansion.

Just as an example, our last bond issuance was 16 times oversubscribed which means we had a very important group of investors who were interested in Peru, in our credit and that were willing to commit an amount higher than what we actually needed. It was a 10-year bond with a good interest rate. This is proof of what the international markets are thinking about Peru. Recently there has been an improvement in the country's international ratings, so more and more people are looking at us with great interest.

**Milestone GRP - What are the new trends in the Peruvian market? Where do you see future revenues coming from?**

**Mr de la Luz** - The main benefit of our operation is that we are a universal bank and able to provide services to a wide range of clients. However, what is already happening is that the margins are getting smaller. Also there is more pressure to reduce commission rates for the services we provide and more regulation that controls our services.

We believe that we need to focus on providing added-value services and encourage cross sales in order to promote loyalty among our customers with a strong focus on quality service.

**Milestone GRP - What's your opinion regarding the existing legal framework?**

**Mr de la Luz** - I think the regulatory body is doing a very good job and leading the way for all of us. Previous experiences have shown that we need to have a strong regulatory framework to control this growth and not let it get out of hand, which might create unreliable situations that later on burst into crises, like those we have seen recently in other countries.

The SBS is doing things the right way. As an international bank, we have seen various regulations frameworks from all over the world. I can say with confidence that Peru is up to the best international standards.

**“While our banking system may be dominated by four banks, there is plenty of space for new players to come in.”**

**Milestone GRP - What do you think the main trends will be in the coming years?**

**Mr de la Luz** - First, we have a very healthy financial system, a good legal framework, low debt ratios, and a good level of capitalization. While our banking system may be dominated by four banks, there is plenty of space for new players to come in. For example, there are many infrastructure projects in the pipeline to be financed so this will create more investment opportunities. As the country keeps growing within an adequate regulatory scheme, this will allow more growth for the whole system.

Of course, this relies on stability in the world economy since we still depend on commodities. If large markets such as China slow down their growth, this will have an impact on our economy. But the future looks promising because we are relying more and more on our growing internal market and on regional growth.





## Scotiabank

### “Democratizing Banking in Peru”

Interview with Felipe Bedoya, Senior Manager of Channels at Scotiabank

**Felipe Bedoya**, Senior Manager of Channels at Scotiabank, has over 14 years experience working in the financial sector and has been working as the Principal Director of Commercial Intelligence in the bank's marketing division for the last four years. Previously he worked at the former Banco Wise Ltd. in the Strategic Planning Department. Before that he worked at Monitor Company, a strategic consulting firm, and at the Pacific Basin Economic Council Limited.

**Scotiabank** is a Peruvian subsidiary of the Canadian Scotiabank Group. It entered Peru in 1997 and has been operating independently since 2006. As a universal bank it offers services in retail, business, corporate and investment banking.

Milestone GRP met with Felipe Bedoya to discuss how Scotiabank is using new technologies to bring banking to every corner of Peru.

**Milestone GRP - Scotiabank has undergone an aggressive expansion in the region. What is Scotiabank's history in Peru and Latin America?**

**Mr Felipe Bedoya** - Scotiabank has been operating as a universal bank in Peru since 2006. In the 1990s, it was associated with Banco Sudamericano, but after the acquisition of Banco Sudamericano and Banco Wiese Sudameris, it formed as a universal bank. The presence of Scotiabank in Latin America started in the Caribbean, then Mexico, Chile, and Peru. Recently, it entered Colombia and has operations in Uruguay, Brazil and Venezuela.

Peru has a low banking rate compared to the world's standards and other Latin American countries. In Peru, only 30-35% of the population uses banking services which represents a very big challenge for us. That is why, in 2009, the Scotiabank Group created its financial operations branch, Crediscotia. Crediscotia focuses on micro-enterprises and the emerging sectors in Peru. The Group's objective is to meet the needs of all the segments of the population. In 2005, the government believed that a way to foster banking development was to create a new model with banking corre-

spondents. This model uses lottery outlets, post offices and small retailers to distribute financial products in places too small for bank branches. Scotiabank adopted a mixed model, with some retail chains and some smaller shops. Today, there are around 10,000 banking correspondents in Peru.

**“In Peru, only 30-35% of the population uses banking services.”**

In terms of banking correspondents, our bank was the first and it kept expanding. We can target people who do not have access to banks by using banking correspondents who can sell products such as basic saving accounts. In particular, we have been developing banking correspondents in several newspaper kiosks in medium-sized urban areas. This way we can get closer to our existing and prospective clients in a much friendlier way. In Peru, kiosks represent a very important selling point and therefore, together with the municipali-

ties, we decided to improve them in order to make them more attractive places.

By January 2013, Scotiabank Group is going to have 300 branches, but our ultimate goal is to reach 70% of the population. Banking correspondents are so important for us because people can recharge their mobile wallets as well as purchase them at these locations. We have a very aggressive strategy for the development of banking correspondents that will not only increase banking but will also serve as a platform for the development of mobile wallets.

**Milestone GRP - Do you feel this is the way to adapt to the changing market?**

**Mr Bedoya** - Absolutely. It is a way of developing a very original, friendly and easily accessible channel for our customers. In terms of banking correspondents, our aim has been creating important coverage to get closer to clients, not only through retail points, but also through kiosks.

**Milestone GRP - Does this open up new markets for the banking sector?**

**Mr Bedoya** - The role of these agents is explorative in part. Once they reach a certain number of transactions in one specific area, we start evaluating. If we see that there have been many transactions in a certain place, we may conclude that we need an agency instead of a banking correspondent in that area. The agent's role is very promising, especially in a country like Peru.

Scotiabank has always worked to improve how we reach clients in a more efficient and cost effective way. The main challenge in Peru is to create a sense of trust. Banking correspondents have helped in this process. Only after banking correspondents were developed did mobile banking appear.

**Milestone GRP - Scotiabank has become a leader in mobile banking technology in Peru. What types of mobile banking applications does Scotiabank offer?**

**Mr Bedoya** - There are different models of mobile banking. The most basic model is SMS banking. As a bank, we decided to follow another path and develop smartphone banking. Today, Scotiabank has the widest range of services for smartphones and tablets. We are also developing other applications for smartphones and tablets, such as the reward program, the payroll program or the Scotiabank stock market. We are also developing another advanced application called Bmobile for those who do not have a smartphone or a tablet. This is a system that works with SIM cards. We are the only bank to have this system. Our aim is to develop as many facilities we can in order to provide the client with the best service.

**Milestone GRP - Is this a way of democratizing banking in less developed parts of the world?**

**Mr Bedoya** - Mobile payment is seen as a way of democratizing banking even more than the banking correspondents. Mobile payment is a very big issue that we are working on, particularly in the B2B and P2B environments. In terms of B2B, the retail platform, while it has been growing, still has a low

penetration rate. Today, the transactions between chain distributors and retail shops are carried out by cash. We decided to enter this sector as we saw some good potential there and we are now working on a pilot program with around 400 businesses. The B2B mobile payment is a fee-free account, like a prepaid account, where you deposit a certain amount of money and, through your mobile phone, you can make payments. This same process will apply to our P2B customers as well.

**“Mobile payments are going to change the banking sector in Peru just as it has in Africa.”**

Mobile payments are going to change the banking sector in Peru just as it has in Africa. We have worked to develop efficient and innovative channels for our clients. We are not looking to stand out in terms of number of agencies, but in terms of services with very advanced applications.

**Milestone GRP - How are you taking this expansion and innovation into other areas other than mobile phone technology?**

**Mr Bedoya** - We decided as well to enter the Smart TV sector. We look at Smart TVs in the same way as smartphones; in the near future there are only going to be Smart TVs. Smart TVs work in a very similar way to smartphones as there is a shop where you can download your applications. We are the first in Latin America to develop this service and we did it to address a certain segment of the population. With our different services we are targeting all segments of the population. Our banking correspondents and mobile payments are more oriented toward the mass audience. With TV Banking we are targeting a more specialized segment of people belonging to the upper middle-class, between the ages of 30 and 55.

Overall, we are constantly looking at innovations and ways of reaching the client in a friendly and efficient way. This leads to the implementation of very clear strategies to develop channels that can meet the needs of different segments of our society. Our agencies in Peru are still an important interaction point and this is why we keep investing in them. Nevertheless, we do aim at developing channels that can generate new client interactions. This is why we are the pioneers and leaders in mobile payments and banking innovations in Peru.



BCRP Reference Interest Rate

Source: BCRP





## Interbank

### “Peru is the Gateway Between Latin America and China”

Interview with Pedro Ayín, Head of Global Trade and Products at Interbank

**Pedro Ayín** is the Head of Global Trade and Products at Interbank. With Peruvian businesses looking for global opportunities, Ayín is tasked with helping them in Peru and abroad.

**Interbank** was founded in 1897 and is a leading player in the Peruvian banking sector. It has recently set up representative offices in China and Brazil to aid Peruvian businesses doing trade there and encouraging foreign investors to come to Peru.

Milestone GRP met with Ayín to discuss how Interbank is helping Peruvian companies do business in two of the largest markets: Brazil and China.

**Milestone GRP - Peru's country risk rating is the lowest in the region, reversing the situation it was in 20 years ago. What has the country done to achieve that and where is it heading?**

**Mr Pedro Ayín** - Over the last 20 years Peru has changed dramatically, especially in terms of its economic policies. The ones that were put in place at the beginning of the 1990s have remained unaltered and this continuity gives a sense of security to investors, as they have always been able to predict the future of the country and its economy. That has certainly allowed the country to develop and grow. Peru is the second safest country in which to invest in the region after Chile, and 17<sup>th</sup> in the world. We are very proud of this but we need to maintain this over the next decade. There are three main factors that have contributed to this success: Peru's economic performance, the social and political stabilization of the country, and the government welcoming foreign investment over the last decade.

**Milestone GRP - More than 90% of foreign trade is carried out under a free trade agreement with Peru's major trading partners like the United States and China. How are free trade agreements fostering exports and promoting Peruvian companies that did not receive international recognition before?**

**Mr Ayín** - In 2010, we signed an agreement with China and since then trade relations have increased by 30%. In Peru, there are several issues that need to be addressed. One of them is infrastructure; it is estimated that Peru has an infrastructure deficit of US\$ 40 billion. Since China's huge growth is partly due to its infrastructure, we can learn from their experience and implement it here. That can be done through the Free Trade Agreement, not just in terms of investments, but due to the close relationship between the two countries. As for our exports, Peru has great potential in agribusiness. Peruvian grapes are being exported to China with great success and we are experiencing a growing demand year after year.

The government is currently holding negotiations with China to open the market for other agrifood and dairy products, as they have to go through several certifications before they can enter the Chinese market. The free trade agreement with China has obviously led to several outcomes: it has increased trade; Peru now sees the Chinese market as a great opportunity to export value-added products; and Chinese companies are now considering Peru as one of the most attractive destinations for investment in Latin America, especially in certain critical sectors, such as mining, energy and infrastructure.

Without a doubt, the free trade agreement with the United States is very important, but nevertheless we tend to focus more on the one with China, as China has greater growth potential. Indeed, trade with China has increased twentyfold in the last 10 years, and we believe that we will be able to keep that annual growth rate at 20-30%. China can complement major sectors of the Peruvian economy: fishing, agrifood and the textile sectors.

**Milestone GRP - How has Peru engaged other countries in its own region?**

**Mr Ayín** - Today, we are much more aware than before that Latin American integration is important, but we have not completely reached it yet. The Integrated Latin America Market, or MILA, has been an important step towards this integration. We have opened a representative office in Brazil because we believe that many Peruvian products can do well in the Brazilian market. Furthermore, if you look at Peru, Brazil and China geographically, Peru is a natural gateway and bridge between Latin America and China. For Brazil it will be much easier and cheaper to reach China through Peru than through the Atlantic, and as a bank we have to exploit our strategic geographical location.

Peru has great potential to export agrifood products to Brazil. Brazil has quite a high labor cost and Peru's currency is not as strong as Brazil's but has a very skilled workforce, especially in certain sectors such as textiles and minerals. We are not looking forward to compete overall in Brazil, but we would like to introduce our products in order to complement the industry there. That is the kind of integration we need to look for and that is the integration that we, as Interbank, need to achieve. The next few years will be crucial for the integration between Peru and Brazil in particular.

**Milestone GRP - How are you using your international partnerships to help your clients export?**

**Mr Ayín** - The bank is strongly committed to the development of the country as a whole and whatever strategy we carry out is not only seen in terms of our own benefit but in terms of the benefit to the whole country. Our commitment as a bank is to make sure that in the future, Peru continues to be as competitive as it is now. From the commercial bank point of view, we have started developing some products that we believe have growth potential and that can help exporters at the international level. We are associated with a chain called FCI – Factor Chain International – that is present in more than 250 countries, including nine countries in Latin America.

We work with them mainly on three products that can support the Peruvian exporters. The first product is a factoring product that helps the exporter with payment handling in countries where FCI is present. The second is a factoring product that includes insurance to protect them against non-payment risks. The third product is a factoring product that includes both the insurance and an advance payment. This product accounts for only 40% of the local market. We estimate that around 80-90% of Peruvian exports are carried out through an open account, and only 1% of that goes through Factor Chain International. But this product will give our exporters very good support as trade to China and Brazil continues to grow in many sectors.

**Milestone GRP - The Chinese market differs significantly from the Peruvian one. What is your strategy for establishing Interbank in that market?**

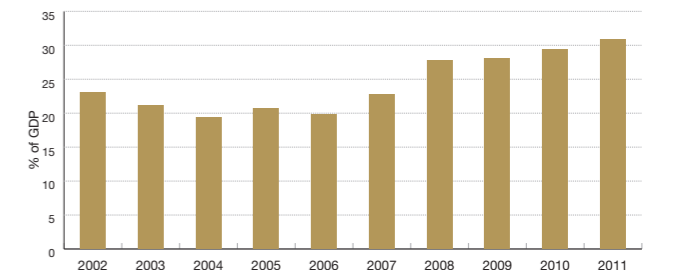
**Mr Ayín** - In 2007, we set up a representative office in Shanghai and one year later we opened a trading company in Hong Kong and Shanghai. We followed a differentiation strategy and that is why we are now able to provide tailor-made solutions for our clients when doing business with China, helping them to overcome barriers in language, diversity and business culture. Being in China, accumulating knowledge and developing networks in the market are the basis of our sustainable competitive advantage in this particular business.

**Milestone GRP - How are you providing support for Chinese companies in Peru and those seeking to establish a presence here?**

“Trade with China has increased twentyfold in the last 10 years, and we believe that we will be able to keep that annual growth rate at 20-30%.”

**Mr Ayín** - China went through different stages of development. It started by being a purely manufacturing exporter while building its infrastructure. Then it realized that it was important to look globally to guarantee the growth of the country. China, therefore, developed a strategy called Go Global that is about investing worldwide. Peru is the third largest destination for Chinese investment, mainly concentrated in the mining sector. Fortunately, now we have a diversified portfolio of projects and Chinese companies interested in investing in infrastructure, energy and agribusiness in Peru. The Go Global strategy matched the needs of our country and theirs. So then the challenge was to find a way to provide a service for the Chinese businessman in Peru. In 2010 we signed a trade agreement with China.

We created the China Desk, a shared business platform between the Bank of China and Interbank to help Chinese clients to invest and do business in Peru, providing them with all the financial and consulting services that they may need. Two senior executives from Bank of China have been appointed to work hand-in-hand with our team at Interbank in Peru and this strategy has proved to be very successful. As you may realize, it



Credit to the Private Sector

Source: BCRP



makes a difference when the two executives from Bank of China, as part of our team, have a meeting with a Chinese company willing to set-up an operation in Peru. The potential client will definitely feel more comfortable speaking in their language and knowing that the other side of the table understands the Chinese culture and way of doing business. That is a clear and strong differentiation for our bank.

**Milestone GRP - Do Peruvian companies get similar support in China?**

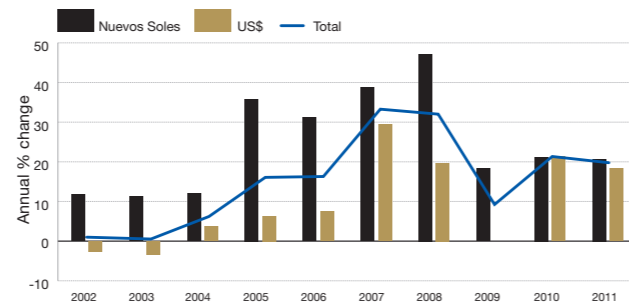
**Mr Ayín** - Yes, we provide the same service and support but in a different way. Instead of having a Peruvian desk at the Bank of China, as I mentioned before, we have set-up our own representative office and trading company in Shanghai so that our Peruvian clients can also feel comfortable and confident when going to China. We have become a kind of bridge between two cultures and two different ways of doing business, supporting more than one hundred Peruvian companies per year. We are currently helping many companies to identify potential suppliers and buyers, doing market research and even setting-up factories in China to take full advantage of the growing consumption trend in the most dynamic market in the world. This is the kind of success story that we would like to replicate for any Peruvian company interested in doing business with China.

**Milestone GRP - What are the sectors that are already benefiting from this situation?**

**Mr Ayín** - Excluding minerals and fishmeal, which are both primary products, there are some interesting value-added products that are making their way to the Chinese market. We have frozen giant squid and other fishery products, tropical hardwood for flooring, table grapes, mangoes and citrus fruits, alpaca tops and aquafeed for shrimp. Table grapes, for example, are a growing business, especially during the Chinese New Year when the demand for fruit has a significant increase. Last season Peru exported 1,235 containers of table grapes to China and Interbank provided not only a financial solution in Peru for the growers but also a commercial solution in China by finding the right buyers for our clients. Another good example is wood for flooring, which is aimed at the booming real estate, housing and office-building sector in China. We believe there is also an opportunity in the textile industry. We need to focus on the 300 million people in China's middle- and upper-classes by either producing in China or introducing a brand to supply high quality textiles and garments. Between 30 to 50 million people in China leave poverty every year. China is the largest consumer market in the world and Peruvian products can meet their growing needs.

**Milestone GRP - Brazil is also experiencing consistent growth. What was your goal when you established a representative office there at the end of 2011?**

**Mr Ayín** - Our objectives in Brazil are very similar to the ones we set for China: we want Peruvians to look to Brazil as a market with opportunities. Many Brazilian companies are already established in Peru. The biggest Brazilian construction companies are established here, as well as leading companies in the energy and mineral sectors, and we believe that more and more Brazilian companies are going to look at Peru as a resource extraction market. The best way to attract investments in Peru and estab-



1/ The balance in dollars is valued at the constant exchange rate in December 2011. Includes the credits of local bank branches abroad.

Credit to the Private Sector<sup>1</sup> (annual % change) Source: BCRP

lish relationships with Brazilian companies in Peru is to have a local presence in Brazil. Our representative office there provides local support and consulting to Peruvian companies exporting to Brazil as well as important information on the Peruvian markets for the Brazilian companies studying establishing subsidiaries in Peru. Just by being in Brazil, we can already see our commercial relations strengthening.

**Milestone GRP - 2012 raw material exports have increased by 52% and the textile industry has similarly increased by 100%. What are you doing, now that you are based in Brazil, to promote these products?**

**Mr Ayín** - First of all, we are trying to take part in most fairs in Brazil to better understand what kind of Peruvian products could successfully reach the Brazilian market. Second, we are taking part in fairs and meetings in Peru that aim at promoting Brazil. We are working very closely with PromPeru, Comex Peru, and the Peruvian Embassy and consulates in Brazil. We are also visiting local Peruvian companies that we believe have potential to enter the Brazilian market and we are providing them with market information that is difficult to obtain in Peru. We are already seeing some positive results but we still need to consolidate our strategy.

**Milestone GRP - What strategy are you implementing to position yourself as an intermediary between Chinese and Brazilian companies?**

**Mr Ayín** - We will be at a great advantage as soon as the Trans-Oceanic highway system is completed and Brazilian products start coming through Peru en-route to China. We will make sure that these products reach China through our representative offices. Just as we help Peruvian companies better understand the Chinese market, we could help Brazilian companies in the same way.

**Milestone GRP - Would you say, then, that the offices in Brazil and China are interconnected?**

**Mr Ayín** - Definitely. They already exchange information so that, for example, if a Brazilian company wants to establish itself in China, our Chinese office is going to send information and reports to our Brazilian office in order to make sure that that company can enter China in the most successful way. That same company may be motivated to settle in Peru and Interbank would take care of the financial side of their business, translating to benefits for our bank and for our country as well.



## Banco de Credito del Peru

### “Providing Banking Leadership in Peru”

Interview with Alvaro Correa, CFO & the Executive Vice-President of Planning and Finance of Banco de Credito del Peru (BCP)

**Alvaro Correa** is the Chief Financial Officer and the Executive Vice-President of Planning and Finance of BCP and Credicorp, positions he has held since April 2008. He also oversees Credicorp's international subsidiaries and branches. Correa is an industrial engineer from the Pontificia Universidad Católica del Perú and holds an MBA from Harvard Business School. In 1997, he joined BCP as Retail Risk Manager and later served as IT Solution Manager under the Systems and Organization Division. From 2006 to 2008, Correa served as General Manager of ASB, Credicorp Securities and BCP's Miami Agency. He currently is Chairman and CEO of Solucion-EAH and Director of Edyficar and Prima AFP.

**Banco de Credito del Peru (BCP)** is the largest financial institution in Peru with 124 years in business, over 350 branches across the country and around 30% market share in almost every product and segment.

Milestone GRP met with Correa to discuss how BCP remains the flagship of the financial sector in Peru and how they are expanding into other countries in the region.

**Milestone GRP - What has Banco de Credito del Peru done to achieve its reputation as the most important banking institution in the country?**

**Mr Alvaro Correa** - In the 1920s, the bank was called Banco Italiano and it was the leading financial institution in Peru. We are still the leaders in the country and probably our biggest achievement is to have been able to maintain that leadership for so many decades. There have been several milestones for BCP. One of them was the creation of Credicorp, our holding company, in a simultaneous listing in the New York Stock Exchange. That gave us great international exposure but also made us adopt a much more solid, modern and advanced corporate governance model.

We also acquired Banco Popular de Bolivia and the operations of Banco Santander in Peru. We have acquired the shares that AIG maintained in our insurance company and today we are the major shareholder. We recently acquired a micro-finance bank called Edyficar. All those have been important milestones in the evolutionary process of this institution. And

the most recent ones, IM Trust and Correal have been further steps towards a bigger and stronger presence in the region.

**Milestone GRP - What is needed in Peru in order to make banking penetration reach higher levels?**

**Mr Correa** - Among the corporate world, banking penetration is pretty high. Banking penetration is going to increase among the individuals that before would not have had any relationship with the financial sector. A big opportunity lies at the individual and micro-finance levels. In order to achieve higher banking penetration we need a combination of several factors. First, we need solid financial institutions otherwise we cannot make any progress. Financial institutions should be willing to invest through a network of channels: bank branches, ATMs or agents (electronic facilities within grocery and mom-and-pop retail stores). This is something that has recently developed substantially in Peru.

We need to be close to the people and being the best brand in the country is not enough; our brand must be physically and mentally close to the people. We also need to offer products



and services that people really need. Usually, traditional products are not the most adequate products for the lowest segments of a population. We still have a long way to go because at least 40% of the economically active population is not yet using financial products. However, banking penetration has been growing for the last five to seven years.

**Milestone GRP - BCP is the only bank in Peru offering a bank branch on a boat on the Amazon River. Do you see this as a symbol of the necessity to adapt to the market and fulfill the demand that exists?**

**Mr Correa** - Yes, this is a symbol of what we are doing as a bank in order to reach every population in the country. The people that work on that boat demonstrate that we are able to offer basic but necessary services in order to attract people living in those areas. We also offer mobile banking on Lake Titicaca, but these are two of the most peculiar examples that we can give. The reality is that we have thousands of agents in small villages scattered across the country and also in marginal areas of bigger towns and cities. Agents are the best vehicle we have to reach more people and they are a friendly and close presence.

**Milestone GRP - Considering that Peru is positioned within a strong region, what are the future implications for this region's financial sector overall?**

**Mr Correa** - First of all, we mainly focus on Peru. We have important operations in Bolivia and recently we have entered Colombia and Chile, but with the specific focus of our investment bank in the capital markets. We see a strong integration between Peru, Colombia and Chile taking place in the capital markets along with the Mercado Integrado Latino Americano (MILA). We have to be present in other countries since our clients, the institutional ones in particular, are more and more active in neighboring countries. We had to follow our clients otherwise some other financial institution would have done it. That led us to take majority shares of a leading brokerage firm in Colombia and one in Chile.

The clearest step we have recently taken in our internationalization process is creating an investment banking regional operation. These are markets that share common features, a solid economy, viable economic models and have given signs of stability for a long time. We would like to carry out operations in other neighboring countries but we do not see the proper conditions at the moment.

**Milestone GRP - How are you going about entering the regional market?**

**Mr Correa** - We made two acquisitions in 2012: Coreval in Colombia and IM Trust in Chile. The plan is to engage in the investment banking, asset management and brokerage business on a regional (MILA) level. These are the two major investments that we have carried out in the region recently.

**Milestone GRP - Do you see Credicorp, the BCP parent company, as a potential multi-Latina company?**

**Mr Correa** - I do not think Credicorp could be considered a multinational or multi-Latina company. We are not thinking

about growth just for the sake of it, we have to have a reason behind it. We may eventually see a Credicorp presence in other countries. We have been talking about banking, but we also have an insurance company that has some export possibilities, maybe in the pension funds business in different countries, but we do not have a specific platform for that right now. Ten years from now, we may be present in other neighboring countries with other businesses, but we will always be focused on the financial sector. We do not believe in conglomerates, we want to remain focused on what we call the financial business, including insurance.

**“At least 40% of the economically active population is not yet using financial products.”**

**Milestone GRP - Are you looking to expand into other operations in Chile or Colombia outside of the capital markets?**

**Mr Correa** - Our core expansion efforts are related to the capital markets. Eventually, what may happen is that we may have to book loans in those two countries and that may imply opening a branch in Colombia and another branch in Chile, just to get some funding and grant some loans out of those small operations instead of just using the BCP balance sheet out of Peru. So that could be the first step to doing something else in those countries but always around the central activity that we already have there. It is not because we are in Colombia that we need to sell, let's say credit cards, as it does not have anything to do with the capital markets business, but financing corporates could be, as it is much more related to the investment banking activities.

There is a clear separation between the expansion of BCP and the products that we create as an investment option for our clients. We believe that we know the region and can develop profitable and competitive products for our investment clients.

**Milestone GRP - What strategies are you implementing in order to boost the development of micro-enterprises?**

**Mr Correa** - In terms of social inclusion, we have micro-finance and our agents, which are the big elements of our strategy in line with social inclusion, which is key to the growth of our country.

Peru's micro-finance model is exportable, efficient and successful. Working with micro-enterprises in Peru is essential to the social inclusion process. We must be close to the people and support their small businesses in order for them to move forward in a process that can take years. The role that BCP and Edyficar have in this regard is very important, and it constitutes one of our major contributions to the welfare of the country.

Another important role in terms of social inclusion and contributions is that of the agents. We give people living in remo-

te villages access to the financial system's options, that before they would not have had, such as small saving accounts or deposit/withdrawal facilities. That means including those people in the formal system.

**Milestone GRP - Does that form part of a larger strategy? Do you consider your operations in micro-finance as ways of ensuring long-term integration?**

**Mr Correa** - Yes, absolutely. One of the things that BCP has accomplished is the ability to support micro-enterprises along their whole lifespan: from when they are first set up until they are able to issue shares in the capital markets, with much more complex and complete corporate governance. Indeed, our institution has followed thousands of companies over many decades. So that is part of our strategy, or better still, part of our essence. We are always there, close to our clients along all the different stages of their lives and the life of their companies.

**“I envision a bank where 75% of the business is retail because that is where the opportunities are in this country.”**

**Milestone GRP - How are you using the growth in the market to increase your hold on the market?**

**Mr Correa** - One of the factors that is part of the essence of our bank is that we want to be leaders in everything we do, in any segment, product or service we offer. Wherever there is an opportunity, we are there to be the leaders. We want to reach the market potential before and be more rapid than anyone else.

**Milestone GRP - Where would BCP like to be in the next decade?**

**Mr Correa** - We would like to be much more retail-oriented in the country. Right now, our portfolio is still 53-55% wholesale business. I envision a bank where 75% of the business is retail because that is where the opportunities are in this country. That is where we can get better benefits for the

shareholders, where we can contribute better to the country and to the population. So I envision a kind of bank that is much more retail, much closer to the people and to the lower income segments of the population. That is what we expect, that is where we are directing our strategy.

**Milestone GRP - What are you doing to move in that direction?**

**Mr Correa** - We are already there. We are in the process of building the branch network infrastructure and we will be opening many more Agents, investing in ATMs and a central infrastructure for our IT platform. We need to have the right scoring systems and models and risk management tools in order to grow in a healthy way. So that is what we are already doing.

**Milestone GRP - As the largest bank in the country and as someone who has important experience in the market, what would you say about the banking sector here in Peru and where it is going?**

**Mr Correa** - The banking sector is solid. I think the financial system had a bad experience in the late 1990s. We learned a lot. We have learned how important it is to have enough capital and to have solid risk policies and risk-management tools. BCP is the flagship of the financial system in Peru with 30% of the market, and I would say that it is really one of the most solid financial systems in the world. We have very professional regulators, sound policies and regulation, and we have the right level of capital and risk-management tools. So it is a combination of these factors that give Peru a promising national economic situation. All of these reasons make this a very good environment for banking in the country.

Indicators on Commercial Banks (%)			
	2009	2010	2011
Due loans / gross placements <sup>1/</sup>	1.6	1.5	1.5
High risk portfolio / gross placements <sup>2/</sup>	2.7	2.6	2.5
Provision for loans / high-risk portfolio	139.3	141.9	149.8
Ratio on equity (ROE)	24.5	24.2	24.5
Ratio on assets (ROA)	2.3	2.4	2.3

<sup>1/</sup> Credits due and in judicial collection processes.

<sup>2/</sup> The high-risk portfolio is equal to the most backward refinanced and restructured portfolio.

Source: SBS





## Lima Stock Exchange & inPERU “Still Growing Despite a Global Economic Downturn”

Interview with Roberto Hoyle, Chairman of the Board of Directors of the Lima Stock Exchange (BVL) & Executive Chairman of inPERU

**Roberto Hoyle** has over 40 years of international banking experience and is currently the Chairman of both the Lima Stock Exchange and inPERU. He was Executive Vice-President of Private Banking for Interbank Group (1995-2002), General Manager of stock brokerage firm Inteligo (2002-2011), the Director of CAVALI (2004-2006), and Director of the Lima Stock Exchange (2006-2008). He is currently also Chairman of Inteligo stock brokerage firm, Chairman of Inteligo Bank Ltd. Nassau, Datatec Directory President, Executive Committee Member of the Iberoamerican Federation of Exchanges, Chief Treasurer of the Peruvian North American Cultural Institute, Director of LIFE PERU, and Director of the Peruvian Yacht Club. He holds a Bachelor in Business Administration and completed the Advanced Management Program (PAD) at the University of Piura.

**The Lima Stock Exchange (Bolsa de Valores de Lima - BVL)** is the major securities exchange market in Peru. Business is conducted both on a trading floor and through an electronic system that was established in 1995. The Exchange also forms part of the new Integrated Latin American Market (MILA) alongside Colombia and Chile.

**inPERU** is a new non-profit Peruvian association founded by the main business associations involved in the Peruvian finance sector: BVL, APEF, APESEG, ASAB PERU, ASBANC, Asociación de AFP, CAVALI, CONFIEP and PROCAPITALES. It was founded to promote Peru, its opportunities, and its financial and capital markets to international investors.

Milestone GRP met with Roberto Hoyle to discuss the recent performance of the stock exchange, how Peru is working with other nations to build a stronger economy and inPeru's activities educating foreign markets about the opportunities the country offers.

**Milestone GRP - Despite the volatility that comes with a change of government, the Lima Stock Exchange has been performing well. What do you attach this success to?**

**Mr Roberto Hoyle** - The economic crisis in Europe undermined stock exchanges worldwide. 2012 was a volatile year for us, partly due to the effects of the global crisis, partly due to the variation in the price of commodities. However, the Ministry of Economics and the Central Bank have maintained the growth and stability of the Peruvian economy. Our international reserves reached about US\$ 62 billion in 2012, which is a record, and we have experienced sustained growth for the last 10 years because we have

been able to maintain consistent economic policy. President Humala made a very good move when he appointed Luis Miguel Castilla as his Minister of Economy and Finance, because he had been deputy minister during the previous government.

The Lima Stock Exchange, in this particular scenario, performed very well. During the first trimester of 2012, our General Index (IGBVL) saw more than 20% growth and lead the region. To December 2012, it is the fourth, after Sao Paulo, Colombia and Santiago. The performance of the IGBVL was related to the performance of the mining sector, the price of minerals and the global crisis.

**Milestone GRP - Peru has experienced growth despite the global economic downturn. Do you see this success being sustained?**

**Mr Hoyle** - Yes. In the past several years, the Peruvian economy's growth has been over 6% on average. This year was not the exception, with 6.2% growth, and in 2013 we expect to follow that same positive path. In addition, the expected increase in the price of commodities would also be favorable to us. The price of gold will increase by more than 10%, according to Apoyo Consultoria. Depending on the circumstances of the global economic scenario, the Peruvian economy could increase between 5.8% and 6.2% in 2013. The Central Bank is doing a very good job in terms of monitoring the appreciation of the Peruvian Nuevo Sol against the US dollar. The Central Bank is both increasing the reserves and defending the currency; both need to be balanced to limit the risks for importers and exporters.

“During the first trimester of 2012, our General Index (IGBVL) saw more than 20% growth and lead the region.”

**Milestone GRP - How have foreign investments played a part in the success of the Peruvian economy?**

**Mr Hoyle** - Foreign investments in all sectors of the economy are a key for Peru's economic boom over the last years. Capital from all over the world realized that the country has tremendous potential and investments have not stopped since. The Peruvian economy, of course, is open to foreign investment. Free-trade agreements have been signed with countries like the United States, Canada, China, and others. The government stimulates foreign investment, as well as domestic investment. Many infrastructure projects are on the government's agenda. Some of these are large-scale investment projects totalling billions of dollars. Our priority is that the results can be equally positive for all: for the people, the State and the investors as well. At the same line, the Lima Stock Exchange leads inPERU, a public-private association that was founded in 2011 to promote the image of our country as a good place for foreign investments.

**Milestone GRP - Which sectors performed well in 2012?**

**Mr Hoyle** - In 2012, the construction sector excelled most (15.5%) and in 2013 it will continue as one of Peru's strongest. The financial sector also kept on the positive trend it followed in 2011. To the end of 2012, in respect to the Lima Stock Exchange, some of sector indexes that stood up most were the ones from food & beverages, the electric power industry and non-metallic minerals.

**Milestone GRP - Which emerging sectors are going to stand out in 2013?**

**Mr Hoyle** - We are aiming to make the stock market more profitable. One of our most important objectives is to attract more investors and listing more companies. To achieve our goals, we are cooperating with the government to carry on a reform of the stock market. This will bring lower costs for companies and, in general, bring more dynamism. We are trying to give strength to many sectors, promoting the Lima Stock Exchange as a good alternative that companies can use to finance their projects. At the same time, thanks to the Alternative Stock Market, one of our most important current developments, medium-sized companies will also be able to finance their projects.

**Milestone GRP - Are you also involved in the regional integration process?**

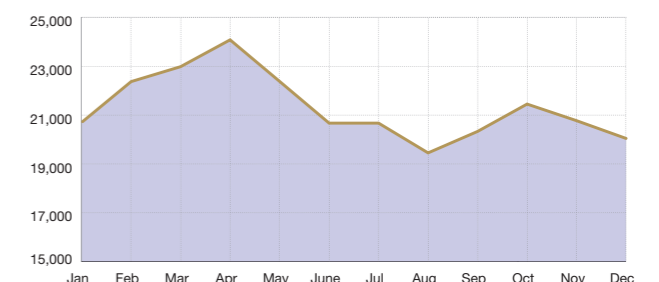
**Mr Hoyle** - Yes. We are taking part in the Integrated Latin American Market (MILA). It involves Peru, Chile and Colombia and it has been operating since May 2011. The foundations have been laid and it is gradually increasing its trading volume. What is important is that we create a unified market where a share issued in Chile, Peru or Colombia is considered a local one. In Peru, the brokerage firm Inteligo has signed agreements with brokerage firms in Chile and Colombia. Every trader has direct access to all three markets. We have also signed agreements in terms of custody. The integration process took a long time but it is working really well. Another important fact is that Mexico has shown serious interest to be part of MILA. We are all currently working on their incorporation, which is expected for the first semester of 2014. In that case, MILA would double in size.

**Milestone GRP - Is MILA going to equal Brazil's market?**

**Mr Hoyle** - Not yet, but we would be number two for sure. In terms of the number of issuers we would be the number one market in Latin America, and in terms of trading volume and market capitalization we would follow Brazil. After all, Brazil is the world's seventh largest economy.

**Milestone GRP - Was the need to be more competitive at the international level one of the reasons to carry out this integration?**

**Mr Hoyle** - We mainly carried out the market integration to level out our economies. We are neighboring countries and stock market integration was the most natural step to take in order to grow. Another reason behind it was the need to strengthen our markets and make them more competitive at the international level.



IGBVL Index Performance, 2012

Source: BVL



**Milestone GRP - What trading systems are Colombia and Chile using?**

**Mr Hoyle** - That is something that slowed us down a bit at the beginning, because we were using three different systems. We needed to create a platform that could integrate them all. At present, Peru is actually looking at changing its system, and it will need to be compatible with our partners. We hope to launch our new trading system shortly.

**Milestone GRP - How can investors benefit from that?**

**Mr Hoyle** - These new systems are much more rapid and transparent, and provide much more information. Nowadays, it is possible to make global online transactions. We have not gotten into this yet, but we are in dialogue with the Superintendency of the Securities Market so that we will have access to online transactions. We need to invest in a system that can make us competitive.

**Milestone GRP - What is inPERU's role and how does it differ from PromPeru?**

**Mr Hoyle** - inPERU's mission is to promote the country as a whole. Promotion of the financial sector is just one aspect of it. What differentiates us from PromPeru is that our road shows specifically target the international financial markets. We promote infrastructure, tourism and gastronomy as well. Our aim is to reach out to some of the most important international financial markets.

**Milestone GRP - Did you set any quantifiable targets for the road shows in 2012?**

**Mr Hoyle** - It is hard to quantify. We want to highlight Peru's economic growth throughout the world. Our main target is to attract foreign investments to the country. We are here to promote Peru and, although the road shows in 2012 were very successful, we are looking forward to an even better 2013. We are visiting New York, Chicago and San Francisco

in January; Dubai, Abu Dhabi, London and Frankfurt in May; Beijing, Tokyo and Seoul in October and are most likely to visit Sao Paulo in November too.

**“inPERU's road shows specifically target the international financial markets to promote infrastructure, tourism and gastronomy as well.”**

**Milestone GRP - Who are the major players involved with inPERU?**

**Mr Hoyle** - There is a Board of Directors that meets once a week. Our Executive Manager Ana Maria Soldevilla does the event management and planning with a team of three people. Our weekly board meetings will be to discuss every aspect of the road shows in detail. We invite members of our advisory committee to attend our meetings and offer input: Roque Benavides, CEO of Compañía de Minas Buenaventura, and Alfredo Thorne, CEO of Thorne & Associates, will be coming with us. We have invited some well-known media names such as Bloomberg, CNN and Univision to be moderators at the road shows.

**Milestone GRP - Who will be attending the North America road show?**

**Mr Hoyle** - We have received lists of investors from the Embassy of Peru in USA, the Consulates, AMCHAM, and other institutions such as Baker & McKenzie. Investment banks such as CitiBank are giving us great support and they have provided us with lists of investors as well. We are expecting to have more than 250 attendees in each city, excluding the

Peruvian delegation, which is made up of 60 confirmed delegates so far.

**Milestone GRP - How did you choose the locations for your road shows?**

**Mr Hoyle** - Through location analysis and business relationship analysis. The chosen locations are among the most important financial centres in the world. Some of the most important corporations are in those cities, which have global economic influence. The inPERU team uses several indicators, like the Global Cities Index and the Worldwide Centres of Commerce Index. England is one of Peru's most important business partners. Singapore, Hong Kong and Shanghai are very important business partners as well. For the 2013 road shows we followed the same method to choose the destinations.

**Milestone GRP - What kind of feedback are you receiving regarding this initiative?**

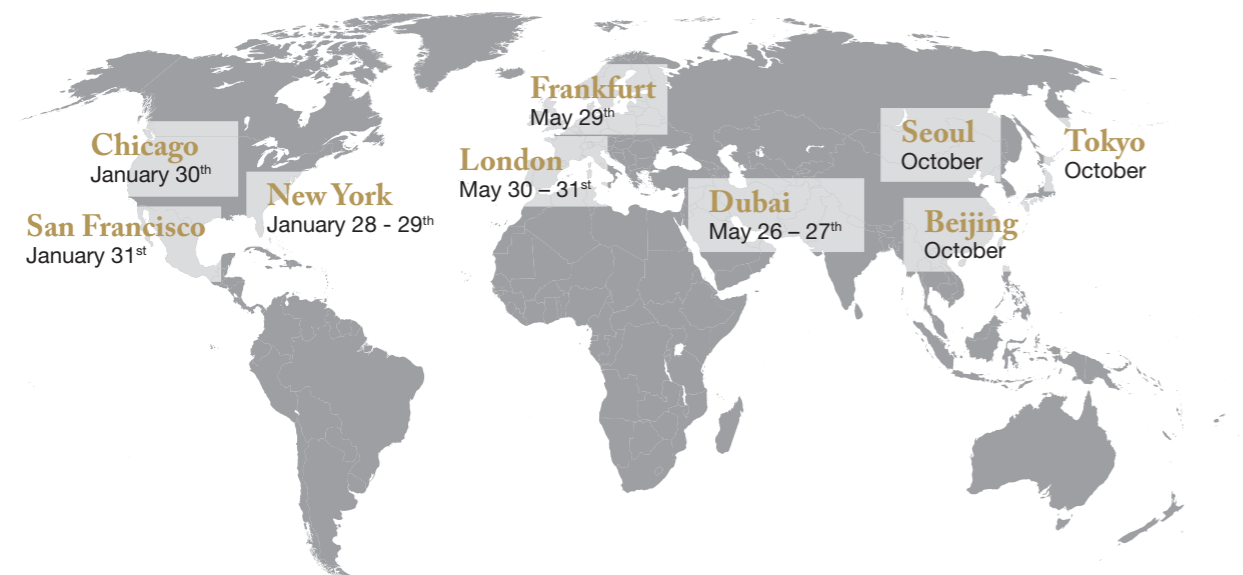
**Mr Hoyle** - inPERU is an example of a successful public-private venture done in our country. It has been supported by private organizations like the Lima Stock Exchange, APEF, ASBANC, ASAB PERU, APESEG, the association of AFP (Pension Fund Administrators), CONFIEP, CAVALI and PROCAPITALES. It has backing from public entities like the Ministry of Economy and Finance, and the Ministry of Foreign Trade and Tourism.

So far the work done had very positive results, having achieved successful road shows in London, Shanghai, Hong Kong and Singapore. We have received very positive support and feedback from the public sectors and investors in the countries we have visited. More than 800 investors interested in Peru, from the banking sector, mining industry, health industry, among others, visited us during these road shows. Following our mission to Asia, we received visits, for example, from IE Singapore, China Investment Corporation and ICBC Bank Peru. At the same time, these visits put us in the most important economic media, promoting our country's image as an ideal place to invest, which has been our most important objective.

**Milestone GRP - What do you seek to communicate to investors about Peru?**

**Mr Hoyle** - Since several years ago, Peru has been going through an excellent economical moment. This growth is the product of our own human capital, of local and foreign investors that have seen a great opportunity, and of the adequate policies of the government, which is committed to sustaining this performance. Following that path, the country has been performing very well and has been practically immune to the global crisis. There are many good opportunities of investment in diverse sectors. inPERU is a shared effort to promote the country's many faces, including as an attractive place for investors.

**inPERU 2013 Road Shows: North America, Europe & Asia**



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## Compass Peru

### “Creating the Tools for Investment”

Interview with Beatriz Martinez, Partner & CEO of Compass Group Peru

**Milestone GRP - The Peruvian market has seen increased levels of interest shown by international investors over the last five years. What does Peru have to offer foreign investors?**

**Ms Beatriz Martinez** - Peru has been one of the largest growing economies in Latin America with stable macroeconomic policies, regardless of the government's political orientation. GDP has grown at a compound annual growth rate of 6.4% over the last 10 years while new annual inflows of foreign direct investments have grown from US\$ 2.1 billion to US\$ 7.4 billion over the same timeframe.

In spite of this, Peru is still a small economy in terms of GDP compared to other countries in the region and to emerging markets in general. Therefore, global investors still perceive it as a marginal destination within their global portfolio. From another perspective this also represents an opportunity due to the potential for growth offered by a growing middle-class.

Peru's institutional pool of savings measured by assets under management is as big as Chile's was 10 years ago. Chile has US\$ 200 billion of assets under management in the Public, Mutual and Pension Funds industry, which represents slightly over 80% of GDP, whereas Peru is slightly above US\$ 40 billion or around 25% of its GDP.

There are opportunities for investments in asset classes that are becoming more attractive for investors looking to benefit from the real economy in Peru, such as alternative investments or small cap funds with a focus on companies with exposure to internal demand. In spite of these opportunities we have yet to see global investors or individuals participating significantly in this growth.

In the past 20 years, Peru has managed to achieve a remarkable political stability and establish long-term macroeconomic policies that haven't changed throughout several governments.

Although there has been some level of participation from global investors due to the strengthening of its fundamentals and potential returns, on a global scale, Peru is still a second-tier investment because it is at an earlier stage of development.

**Milestone GRP - Latin America is becoming a more attractive option for international investors. Can we expect to see a truly integrated market any time soon?**

**Ms Martinez** - Maybe eventually, but it will take time. The MILA (Latin American Integrated Market) is a very good idea to start with, but having differences in the regulatory framework does not promote its development: Peru is the only country that taxes 5% on capital gains, whereas Chile and Colombia don't. The MILA platform allows a Chilean investor to buy market shares in Peru through an agent, but it's actually more expensive than opening an investment account in Peru and doing

it yourself; this makes it less efficient. And now that Mexico is negotiating its entry into MILA these matters become complicated. Adopting similar legal frameworks and rules would allow this regional market to become a true option.

**Milestone GRP - What is your opinion on the current investment legislation and how it can be improved?**

**Ms Martinez** - There is a lot to be improved to promote a more dynamic development of the capital markets in Peru. For example, interest on bank savings for individuals are tax-exempt, whereas interest from fixed income investments are not. We need more mechanisms to facilitate investors' access to the capital markets through investments funds. We are aware that Minister Castilla (Peruvian Minister of Economy and Finance) is already working on capital market reform.

**Milestone GRP - What have been the most significant changes in the market in recent years?**

**Ms Martinez** - We basically created the market for alternative investment funds in Peru when we created our first SMEs fund in 2004. The idea was to channel the excess liquidity of Peruvian institutional investors towards micro, small and medium companies by giving them massive, direct and safe working capital. This idea earned us the Business Creativity Award in the category for Financial Services and Insurance in 2005. In the last 10 years, since we opened our office in Peru, the private pension funds have grown from less than US\$ 5 billion to US\$ 36 billion. In this period they have been increasing their investments in alternative assets, resulting in the development of the industry.

**Milestone GRP - What else can you tell us about Compass' strategy for its alternative funds?**

**Ms Martinez** - To date, the SMEs Fund manages US\$ 130 million and provides financing to almost 3,000 Peruvian SMEs. The Real Estate Fund manages US\$ 130 million and invests in housing and real estate developments. We are also at the final stage of launching two more alternative funds - another SMEs fund and an operational leasing fund - that will be ready by the end of 2012. Compass Peru's competitive edge is its capability and expertise in structuring new ideas in alternative investment funds, taking advantage of the current moment in Peru.

The next step will be to provide non-institutional investors with a wider range of alternatives that would allow them to benefit from the real economy. To attain this objective, we are expanding our team of investment specialists. We are also cultivating a good relationship with the Superintendency of the Securities Market to work together to invigorate this development. We will continue to work closely with our institutional investors and more and more with our individual ones to create adequate tools for them.

## Popular SAFI

### “Investing in the Enterprises of the Future”

Interview with Aldo Fuertes, CEO of Popular SAFI

**Milestone GRP - What role do the many pension funds play in Peru and how does Popular SAFI fit in?**

**Mr Aldo Fuertes** - Pension funds are big players in the Peruvian economy. The pension funds are pushing the state to allow them to invest more internationally because there is no depth yet in our capital market for that kind of money. There is a very large amount of money that has nowhere to be invested in Peru. The last private pension system reform allowed for pension funds to invest 10% of their portfolios in “alternative assets,” which is good news for private investment fund managers like us. This will help us to diversify our risk and return.

For people who aren't rich but have investment capital, Popular SAFI can help them invest that money. These people are looking at putting their money in traditional products, such as fixed deposits that are offering twice the return that a normal bank account can offer. Popular SAFI began raising funds for a social network of owners and high-net-worth individuals. Now, we manage assets of more than US\$ 80 million from individuals. We do not work with any pension fund association, but we are not ruling it out in the future.

**Milestone GRP - How does your investment model work?**

**Mr Fuertes** - We are the only investment institution doing impact investing. We are evaluating strategic prioritization systems in Peru. We have reached areas no one had before thanks to social impact investments. Impact investing is aimed at creating value for our investors while being sustainable. We look at the three pillars of sustainable development: the social, environmental and economic aspects. People in rural communities were unable to get loans because they were too informal or the interest rates were not competitive.

NGOs and international associations approached us to see if we could help entrepreneurs who had already invested money in small business plans but couldn't find the financing. The NGO was then the impact investor and the financial product was tailored to those people. In other cases when the investment was for new machinery or technology, we were able to take the patent as a guarantee. Even the Inter-American Development Bank (IDB) was interested in this program because here there is no high venture capital industry and they wanted to know how we achieved this sustainable model.

With Mi Cosecha, or the My Harvest Fund, we took another step. High-net-worth individuals could begin to invest in sustainable businesses. We are still in the pilot stage of this fund. Investors who want to earn a profit but also make a contribution to society can invest in this fund and expect to see 10% returns. This particular fund provides financing to small farmers through farmers' associations (the fund buys debt securities). The funds are given directly to the vendor

to avoid the risk of it being spent on something other than agriculture. The farmers' association supports the loans, meaning that if the farmer does not pay back the loan, the association will. When the farmer sells his crop to the agricultural export company, it will retain a portion of the payment to pay his debt to the fund. We also have a local insurance company who supports us in case there are climate risks or natural disasters.

**Milestone GRP - How do you ensure that your investments are profitable?**

**Mr Fuertes** - The idea was to create a private investment fund as an investment vehicle for individuals and have these investments as secure as possible. At the same time there was the opportunity to get returns of over 30% which is what we are seeing from this microinvestment sector. These investments also impact society as a whole.

What we were seeing as well is that there was financing for this sector at interest rates of 40% or 50%, and that is excluding the informal lenders that exist in this country that can get up to 10% per day. The average interest rate right now lending to microenterprises in Peru is 38%. So we saw the opportunity to give value back to our investors. To ensure safety to investors, our investments take real estate as collateral. As a fund we have access to these real estate securities, so then the investor is buying the real estate security. We make the person emit a bond backed in real estate and this opens a gateway to the capital. The investor has the peace of mind that their investment is backed by more than twice the value of the property.

**Milestone GRP - How do you reach these micro entrepreneurs?**

**Mr Fuertes** - The Micro and Small Business Fund, and the Popular Fund, which are two of our funds here in Lima, are tools we use exclusively in Lima. Through impact investing, working with associations and NGOs, we reach our country's inner regions. We work with local NGOs and evaluate the entrepreneurs' proposals during an interview. We assess whether it is wise to finance their projects by meeting with them almost always one-on-one.

**Milestone GRP - What kind of growth do you see in the next five years?**

**Mr Fuertes** - By using the impact investing model, we will have very strong international participation because we are offering profitable business in a developing country. These are people who want to put money into a business because they want to generate real social and economic impact in the country. We anticipate managing about US\$ 150 million in SAFI impact investing in the coming years.





Cathedral Rock Formation, Paracas National Reserve

# AFP Integra

## “Effects of Peru’s Recent Pension Reform”

Interview with Jorge Ramos Raygada, CEO of AFP Integra

**Milestone GRP - How has the pension reform affected the private pension fund administrators (AFP)?**

**Mr Jorge Ramos** - The objective of the reform was to strengthen the private pension system, which continues to grow and becomes more inclusive. There is a US\$ 30 billion deficit in infrastructure for which the government is looking for investors. These projects are profitable and more efficient when developed privately, they have predictable processes and constant numbers that make them the best fit for long-term investment. Some examples include the Interoceanic highway, the water plant in Lima and the road projects surrounding Lima that were funded by AFPs. The pension reform has also sought to lower the costs of the pensions for those that are affiliated.

**Milestone GRP - What have the reforms changed precisely?**

**Mr Ramos** - The big issue is coverage. This is a highly informal country, but passing a law is not going to increase the number of covered persons. What really needs to be done is to show these people that they should be in a private pension system. For example, the government is considering a scheme for micro and small enterprises that will subsidize part of their costs, so that it is more attractive for them to join. If a low-income worker places his savings in a pension fund, the government will match the contribution.

**Milestone GRP - Has there been any advancement in implementing reforms that favor alternative financial instruments, for example, in infrastructure or international investments?**

**Mr Ramos** - The reform has two parts within the field of investments. The first one is that we now have the power to use derivatives and not only for hedging. Before, it was only possible to hedge against positions you already had and with almost 100% correlation. It was also an issue of having very little flexibility. The efficient way to do this is to have a derivatives market. Here you have a tremendous contribution that is not yet formed; the law has been approved but it still needs to be put in motion by the Banking Superintendency.

The second issue is that we are very restricted in many areas, from everything in mutual funds to private equity funds, in which we have real estate, infrastructure, agriculture, retail, and so on. We have a certain limit on shares. It is also difficult when you have long-term investments, because your affiliates and investors are looking for results immediately. You're competing for profitability every day with your peers, you have tremendous cost versus opportunity ratios to make these healthy long-term investments while your competitors are investing in short-term assets with more return but higher risk. We are the pension fund administrator with the highest percentage of resources committed to long-term investment. When we look at the short-term, we have to seek the highest sales in order to satisfy our affiliates. With the new regulations, we are separating the investment funds from liquid shares on the stock

market. That way, you guide your portfolio to these short-term investments and it does not affect you because you have room for liquid investments as well.

**Milestone GRP - In New York, the pension fund administrators set up an exchange-traded fund (ETF). What was the purpose of this and what interest has it generated?**

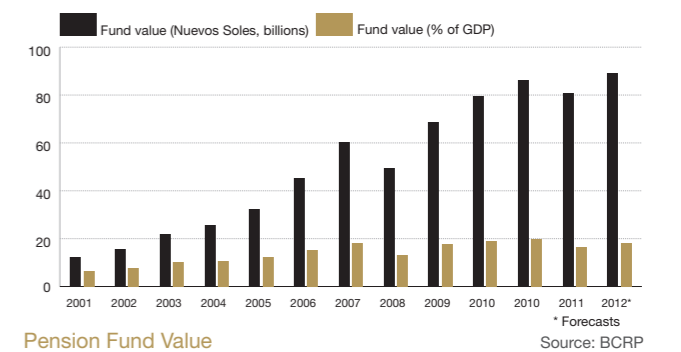
**Mr Ramos** - We are interested in the Peruvian market becoming more dynamic and attracting more investment so that we increase the number of investors to work with in the future. When the issue was raised about the Peruvian ETF, the private pension fund administrators created a package of their investments here in Peru that was the vehicle for promoting foreign investment in the country. This was the point behind the ETF. It has been successful so far and we should continue focusing on this sort of thing.

**Milestone GRP - So with the ETF the pension fund administrators have had the opportunity to draw the attention of future investors?**

**Mr Ramos** - Yes, that's the idea. The whole system was created to promote Peru. The ETF also gives you the advantage of knowing that Peru has serious international investors and that we are interested in working with international investors in their projects here in Peru. If a serious international company comes to do a project in the country tomorrow but at the same time would like to share the risk, they should approach us. We are comfortable with the country's risk and we want to invest in it. We enter as passive minority partners, giving these companies the room they need to do their business.

**Milestone GRP - Why do you consider Peru and the region to be of global importance for investors?**

**Mr Ramos** - Right now the country is going through a positive period with two basic structures that we have to maintain. First of all, if we learned anything from all the past crises, it was that the fiscal accounts have to be under control. We also have a growing, strong, young population combined with a peaceful environment, so you have the possibility of having impressive dynamics. These are the conditions that investors look for: a growth market, a powerful economy, limited risk and solid social foundations.







## APESEG – Peruvian Association of Insurance Companies

### “Insuring Peru and Creating an Insurance Culture”

Interview with Felipe Morris, President of APESEG & President of Interseguro

**Felipe Morris** is the President of Interseguro and the Association of Peruvian Insurance Companies. He is also the director of many companies, including Intercorp Peru Ltd., Intergroup Financial Services and Interbank, among others. He has worked in several countries in the region for international organizations like the World Bank and the Inter-American Development Bank. He is an economist, having received his undergraduate degree from the Universidad del Pacífico, a Masters in Economy from the University of Pittsburgh and a Finance Masters from the American University.

**The Peruvian Association of Insurance Companies (APESEG)** is a not-for-profit institution that was created in 1904, which represents all of the insurance companies and reinsurers in the country. Its objective is to represent and act in the best interests of its members before the public and private sectors, and to serve as associates coordinating and orienting the development of the legal system as it affects the sector.

Milestone GRP met with Felipe Morris to discuss the insurance market in Peru and what can be done to extend insurance coverage to a larger number of Peruvians.

**Milestone GRP - The base of insured individuals and companies in Peru is still rather small.**

**Mr Felipe Morris** - Right. It is really low and one of the lowest in the region. That gives us ample opportunity to grow. However, we have been saying this for years, and we continue to have a low insurance penetration rate. It's not easy to develop a good insurance system the same way it is not easy to develop a good financial system.

**Milestone GRP - Why has this industry been slow to develop?**

**Mr Morris** - I would say it is a combination of many factors. I think there is a very incipient insurance culture in Peru and this is something we need to work on, and not just the insurance industry. It also requires the involvement of the Superintendency of Banking, Insurance and Private Pension Fund Administrators of Peru (SBS). This is one of the topics we have on the agenda with the SBS. We need to design and implement a program

that will help develop an insurance culture in the country that will educate individuals and firms on the benefits of taking protective measures through insurance.

Another factor that I think affects insurance penetration in the country is the high degree of informality. More than half of the economy is informal and this is not helpful to the development of the insurance market.

Lastly, we have the issue of people's incomes. Despite the fact that incomes are growing, we are still a country that has a high percentage of people earning low wages. We now see a more solid middle-class and a demographic boom so that should expand the base. Higher income means that the people will be more likely to obtain personal insurance or acquire other coverage such as home, health or vehicle insurance.

As long as the economy continues to grow, the insurance business is likely to grow strongly as well. Nonetheless, we

cannot minimize the importance of working on strengthening an insurance culture.

**Milestone GRP - What can be done about the informal sector?**

**Mr Morris** - Informality is an issue that goes beyond the insurance industry. It is a national issue that is complex and as such is not easy to tackle. The Ministry of Economy and Finance is currently working on tax reform. They were given special powers to relax several regulations that are focused on dealing with the informal sector. So, it is not an issue that the private sector can solve on its own, but neither can the SBS or the Central Bank. It is an issue that requires strong intervention from the government.

It's a cultural issue as well; people are used to being informal. We need to make small business owners understand that being informal is not to their advantage. However, I think this is something that is changing and will continue to change gradually. We are now starting to see development and modernization in the country, not just in Lima, but also in the provinces and cities outside of Lima.

Modernization implies formalization, which will generate a stronger insurance culture. For example, if a retail chain moves into a city where all business before was conducted informally and starts selling their products formally, giving out receipts and so on, then people will start going there because they see them as more comfortable, cleaner, and better organized places. So the other businesses will have to realize that they also need to change. Big businesses have local providers who know that if they don't use receipts and are not organized no one will buy from them. Buyers demand from them a certain level of formality so they can keep them as providers. Therefore, I think that all this contributes to generating more formality. Formal companies tend to have better insurance coverage.

**Milestone GRP - How is APESEG educating people in Peru in order to strengthen and expand the insurance client base?**

**Mr Morris** - In my view, we are still doing very little on this front. However, this is exactly what we are trying to work on with the SBS. We are looking at what type of activities we can launch to promote an insurance culture. There are a few bridges that we need to cross before putting together a comprehensive plan.

**Milestone GRP - Will this be a priority in 2013?**

**Mr Morris** - Yes. I believe this will remain a priority for the next five years. An insurance culture cannot be created on a short-term basis. I think the media needs to cover this topic. There might also be a way of involving social networks in this.

In other words, a strategy needs to be developed that markets the insurance sector. This is not easy to do since it is not a tangible product; therefore it is not easy to sell the benefits of insurance to society. People are grateful when they need it and have it, but not when they have to purchase it, because it is not always easy to perceive its need or the effects of not having insurance when you need it. As you can see, it is quite complex.

The idea is to study what has been done in other countries that have succeeded in developing an insurance culture to

see if it can be replicated here. Their experience needs to be relevant and similar to ours. Looking at Latin America, the country that has the highest ratio of insurance premiums to GDP is Chile. We need to study their experience and that of other emerging countries that succeeded in this effort.

**Milestone GRP - What types of products is the industry offering?**

**Mr Morris** - Our insurance market has a wide range of products, covering most risks. So, the issue is not a lack of products but rather a lack of clients for the products. The insurance industry has the capacity of covering all these risks without any problems.

“Modernization implies formalization, which will generate a stronger insurance culture.”

Now, there is always the possibility of introducing new products. Innovation is something that we constantly work on. All the different companies are always thinking about how to adjust some products to make them more appealing to clients and also to differentiate them from the competition. So, the problem is not that the types of insurance they want aren't available. The products are available, but there simply isn't an insurance culture.

**Milestone GRP - Micro-insurance is experiencing a boom. What accounts for this?**

**Mr Morris** - Some companies in the country have been offering micro-insurance. It is a type of insurance that has a large potential because it is aimed at micro and small businesses, mostly informal, of which we have many. So it is targeting that specific segment of the market. Microfinance has grown significantly in Peru; this facilitates the development of micro-insurance.

Obviously, not all the insurance companies are interested in the different types of insurance. Some specialize in general insurance products, others in life insurance; some specialize in specific market segments or niches. Only a few companies are involved in the micro-insurance business because it is a very specialized niche that offers products with very low premiums. These require very specialized technology in order for them to be profitable.

**Milestone GRP - What other products do you see as the future of the market?**

**Mr Morris** - When we analyze the evolution and structure of the insurance industry, we can see that there is growth throughout most products and lines. Life insurance has grown strongly, as well as insurance related to retirement, accidents, and medical insurance. As for car insurance, we have car insurance itself, and SOAT insurance, which is basically mandatory accident insurance for personal damage to third parties. Car insurance grew by 10% between June 2011 and 2012, while SOAT has



only increased by 5%. This is a good barometer of our insurance culture because people don't even buy mandatory insurance.

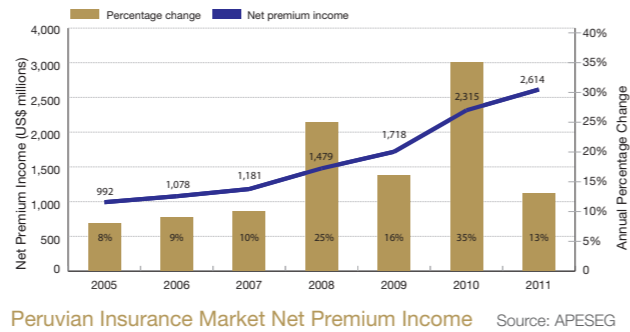
Another segment that is not related to cars is medical insurance, which also has a very large potential because people are underinsured. It experienced strong growth in 2012, around 17% in the past 12 months. It is one of the insurance businesses that has grown the most. All this goes hand-in-hand with income growth for families and the perception that they must protect their families and assets.

**Milestone GRP - The outlying provinces have a 50% growth rate over Lima. How do you see this influencing the insurance sector?**

**Mr Morris** - This is what is revolutionizing the country at the moment. There is heavy investment and modernization going on out in the provinces. I believe this will also be the case in the medical assistance area. As incomes grow and people see the benefits and importance of modernization, private companies will invest more in hospitals and this will encourage health insurance.

With respect to other insurance fields, there are good prospects for growth in most lines of business. There has been strong

growth in the insurance types that are linked to the private pension system recently. This has been partly due to the population growth, the number of people that are retiring, the growth of the economy, and the increasing number of pension fund administrators. Also, a special system of anticipated retirement was established for unemployed people where they were given special benefits to retire. This system resulted in an increase in annuity premiums. The special regime has been extended until the end of 2013; afterwards we are likely to see a decline in premiums related to annuities. This, however, is something that we have been expecting.



## Rimac Seguros

### “Educating People About the Importance of Insurance”

Interview with Rafael Venegas, General Manager of Rimac Seguros

**Milestone GRP - There has been a significant growth in the insurance sector, however, Peru has relatively low levels of insured people compared to other countries in the region.**

**Mr Rafael Venegas** - For the last five years Peruvians have seen significant growth in incomes and now a larger percentage of the population has access to goods and services that used to be unaffordable when their household income was spent, almost in its entirety, on survival.

The growth of the insurance sector, among other sectors, reflects the greater maturity of the Peruvian consumer, who now demands the same products that can be found in other developed countries. However, there are still groups of people that do not take out insurance, either because their income level does not allow them to, or because Peru lacks a sufficiently developed set of rules that could let us offer and distribute massive insurance products that would not be burdened with the same formalities applied to traditional products.

This process is on-going and, in fact, was started by Rimac, who was the first to expand the market by offering very affordable and very simple car theft, property and health insurance for low-income sectors through non-traditional channels.

In other types of insurance, such as in the corporate sector, both our company and our main competitors have worked hard to sustain the country's growth by, among other things, offering insurance and financing new investment projects.

**Milestone GRP - Do you see awareness and education as one of the main obstacles to increasing the base of insured Peruvians?**

**Mr Venegas** - Rimac is growing by penetrating what used to be inaccessible markets, but first, it is necessary to educate the public and build an insurance culture. We have to get people and companies to think about insurance as something necessary to assure their growth and not as an expense. Changing their opinion about insurance is difficult because it isn't tangible and they almost never use it, so they don't know if the service is good or bad. There have been efforts in the past few years, but we could do much more. As market leaders, it is our responsibility to educate the population, especially in health services, and we are currently working on educational campaigns. There is an old slogan from an insurance company that paints the situation well: “It's better to have insurance and not need it, than needing it and not having it”.

**Milestone GRP - Has the government been supportive of the sector's efforts and how were these affected by the recent financial crisis?**

**Mr Venegas** - In general, the government is trying to stimulate all industries. We were fortunate that when the global crisis struck the world in 2008, it didn't affect Peru as much as other

countries. That was due to many elements: the country's pace of growth over recent years and its projections, the international price of minerals; but, most of all, the fact that we were prepared for it. We have had all kinds of crises in the past and have learned something: you cannot plan just for the year ahead; you have to save for the rainy days. Peru's economy was more solid and healthier than ever before and the measures taken by both the public and private sectors proved to be correct.

“We have to get people and companies to think about insurance as something necessary to assure their growth and not as an expense.”

In 2008, there actually was a lower growth rate, but it was a positive growth nonetheless, and the deceleration was mainly caused by international companies that didn't keep the same investment rhythm they had before. Nevertheless, national companies continued to invest at the same pace. Growth in those years went down from 9% in 2007 to 5.5% for one year, and then went back up.

One further reason why the crisis didn't strike Peru as hard, is that the Peruvian entrepreneurs learned not to depend on the government anymore. Now, entrepreneurs do their business on their own; they don't expect to receive everything from the government as they did in the past.

**Milestone GRP - What are the main challenges that lay ahead for increasing the scope of products and services within the insurance sector?**

**Mr Venegas** - The first challenge is that the insured market is growing fast and we need to develop more modern health centres and hospitals to properly service that increasing demand. But we see this as an opportunity. We are integrating our former stand-alone clinics into the company and investing large sums of money in infrastructure, technical equipment, technology and human resources, both in Lima and the major cities of Peru, where we are currently setting up new hospitals and clinics.

Another challenge we have to face is the lack of insurance and prevention culture in the country. It's necessary to educate people about the importance of insurance. There have been efforts in the past few years, but we could do much more. We are currently working on educational campaigns.

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# Infrastructure







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## Ministry of Transport and Communications "US\$ 15 Billion Infrastructure Investment in Five Years"

Interview with Carlos Paredes Rodriguez, Minister of Transport and Communications



**Carlos Paredes Rodriguez** was appointed as the Minister of Transport and Communications at the start of President Humala's administration. He previously worked as a Senior Executive at Cervesur and served as General Manager of Arequipa Alprosa. He was also the Director of the Chamber of Commerce for Arequipa. Paredes has a degree in Business Administration from Universidad Católica de Santa María de Arequipa and an MBA from ESAN, with additional graduate studies at the J.L. Kellogg School in the US.

**Peru's Ministry of Transport and Communications (MTC)** is responsible for developing standards, and applying policies and strategies that will contribute to the development of the country's transport and communications services. This is done with the intent to geographically integrate both the diverse regions that exist within Peru and to the neighboring nations of South America. This ministry is also tasked with planning, boosting and administering the supply and provision of public services and public transportation.

Milestone GRP met with Carlos Paredes Rodriguez to discuss the major infrastructure projects that the ministry will be tackling in the next 5 years.

**Milestone GRP - How is the Ministry of Transport and Communications working to close the infrastructure gap in Peru?**

**Minister Carlos Eduardo Paredes Rodriguez** - The infrastructure gap in Peru is estimated to be around US\$ 30-40 billion, but this figure can easily increase as the infrastructure needs grow faster than our ability to actually create infrastructure. Ten years ago nobody would have imagined that we would need a fiber optic network. It was not an objective for infrastructure projects, but today it is. And in another 10 years we may have a new technology that people consider fundamental to the basic infrastructure of the country.

It is important to integrate the country in order to generate competitiveness, as well as integrating with our neighbors and with the rest of the world. Infrastructure is key to achieving integration. We obviously need resources in order to achieve the level of infrastructure we require. Thanks to the economic situation that Peru has been experiencing over the past few years, we have

more resources today than in the past. But still, our resources do not seem to be enough to achieve the level of infrastructure we need, and thus we need to prioritize following a set criteria.

We have identified the most important products that are generated in the country, developed 57 logistics chains and then identified the local and export market routes. We then broke this down into 22 logistics corridors. Our main objective is to provide these 22 logistics corridors with proper infrastructure and services. We believe that in this way we can give the country the right degree of competitiveness it requires. With competitiveness comes integration and the combination of these two factors leads to social inclusion, this government's biggest objective.

**Milestone GRP - What are your infrastructure priorities?**

**Minister Paredes Rodriguez** - Because the resources are scarce, the time is limited and the need for infrastructure



moves faster than its actual construction, we have to prioritize our needs. There are five main strategic objectives and behind each of them there is a flagship project. The first of our five strategic objectives is to pave 85% of the national roads. Our flagship project within this field is paving the 3,500 km of the Longitudinal de la Sierra Highway that crosses Peru. The highway runs from the Bolivian border to the Ecuadorian border and we are going to have it paved by 2016. We want the Longitudinal de la Sierra Highway to be as important to this key region of Peru as the Panamericana is for the coast.

**“The infrastructure gap in Peru is estimated to be around US\$ 30-40 billion, but this figure can easily increase as the infrastructure needs grow.”**

Our second strategic objective is the improvement and construction of new bridges on the National Highway Network, where the main project by 2016 is the construction and rehabilitation of 1,000 bridges. The structures of the bridges to be replaced will integrate the state and local road network.

The third objective is to continue with the construction of the Lima-Callao Metro, which will solve the ever-growing transport problems in Lima. The metro system can become, along with the bus service, the backbone of passengers' transportation. We are going to create an institutional body composed of the central and municipal governments of Lima and Callao, which will regulate everything related to this integrated transportation system. The flagship project of this strategic objective is the construction of Line 2 that goes from Ate to Callao. At the moment, we are completing Line 1 and we have already announced the construction of Line 2, which is going to be 32 km long, running entirely underground. It is the first project of this kind in Peru and is going to require an investment of more than US\$ 3 billion.

The fourth objective comprises two other important infrastructure projects in Lima: the Port of Callao and the Jorge Chavez International Airport. Their operations are growing exponentially. In 2011, the Port of Callao managed to move over 1.5 million containers, becoming the number one port on Peru's west coast for container traffic. We are expecting it to become the most important transportation hub of the Latin American west coast and as a result there are going to be thousands of trucks exiting the port. If we do not manage it efficiently, the impact will be fatal for the City of Lima, and losing competitiveness because of this is something that we cannot allow. Similarly, at the Jorge Chavez International Airport, the number of passengers is growing. We must make sure that the transport of passengers, as well as the transport of goods, is as efficient as possible.

The fifth strategic objective involves telecommunications. At the moment, only one third of the provincial capital cities

have access to broadband connections. Our flagship project will be the fiber optic network that will connect 195 cities in Peru with broadband access. The second part of this project that will be carried out at a second stage will involve extending broadband access to other districts.

**Milestone GRP - Why have you decided to carry out many of your projects through public-private partnerships (PPPs)?**

**Minister Paredes Rodriguez** - Public-private partnerships present several advantages for us. First of all, they allow us access to greater resources to build the infrastructure that we need. The private sector also has expertise that allows us to reach our goals in a much shorter time and in a more efficient way. Moreover, PPPs force us to have a long-term vision in order to make the projects more attractive to the private sector.

**Milestone GRP - Is the Longitudinal de la Sierra Highway being built as a PPP project?**

**Minister Paredes Rodriguez** - Almost two-thirds of the highway is going to be built through a PPP. Also, Lima's Line 2 metro is going to be done entirely as a PPP. In fact, we are going to have an international bid process to award a private contract for the construction of Line 2, the same as we did for Line 1. Our fifth project, the fiber optic network, is also going to be a PPP. We are going to invite a private operator to build the network and to be responsible for its maintenance. The five projects that we have for this five-year period will require an investment of approximately US\$ 15 billion and 50% of it is going to be carried out with PPPs.

**“The five projects that we have for this five-year period will require an investment of approximately US\$ 15 billion and 50% of it is going to be carried out with PPPs.”**

**Milestone GRP - What are the specific projects that you want to launch first?**

**Minister Paredes Rodriguez** - Our infrastructure projects generally exceed a year in execution. Some projects are going to be concluded in 2012, but they were started two years ago in around 2010. There are some that we are just starting now in 2012 and that will be completed in two or three years. Our deadline for completing all the projects in our portfolio is 2016. We have set some detailed objectives. For example, the fiber optic contract will have to be awarded by the end of the first trimester of 2013. By the end of 2012, we will have to bid out at least three stretches of the Longitudinal de la Sierra Highway. As for the underground, we are going to hire

a firm to conclude the technical studies in 2012 in order to be able to award the contract in 2013. Behind each one of these projects there is a very detailed timetable.

**Milestone GRP - After so many years of neglect, why have you decided to take on the railway network challenge again?**

**Minister Paredes Rodriguez** - One hundred years ago there were around 4,000 km of railways in Peru; today there are only around 2,000 km. We have experienced a decline that other countries in the region have experienced as well. If there is an increase in the mining sector, accompanied by an increase in the volume of materials that need to be transported to the production centers or to the ports, a railway network will be the best way to reduce logistics costs.

**“PPPs force us to have a long-term vision in order to make the projects more attractive to the private sector.”**

Along with the railway network there is another issue that needs to be considered: the ports. The Port of Callao is growing but it is not going to be enough. That is why we are developing additional port infrastructure projects in the north and south that will complement our railway and highway projects with a multi-modal approach. The Jorge Chavez International Airport is the main airport of Peru but it is not the only one we have. We have bid out modernization projects for 19 other existing airports in Peru. The only one left to be bid on is the one in Cuzco. The current Velasco Astete Airport in Cuzco has already reached its capacity limits, which is why Cuzco needs a new international airport.

**Milestone GRP - Where will the new Cuzco airport be located?**

**Minister Paredes Rodriguez** - Every year more and more tourists land in Cuzco and the current airport is located in the city itself. We need to have an airport outside the city. We have already designed a plan for the new international airport that, at least for the moment, is going to be located 15 minutes away from Cuzco in Chinchero. This project is going to require an investment of US\$ 500 million. We are also considering two other locations for the project that may be more favorable in terms of geographic and weather conditions. Nonetheless, we are going to put together an international bid this year in order to award the contract by the end of 2012. We need to move quickly since there is already more than one airline interested in having international direct flights to Cuzco.

**Milestone GRP - What are some of the most interesting port projects that the ministry is working on that take advantage of Peru's strategic position between Brazil and China?**

**Minister Paredes Rodriguez** - The investments in the north and south wharfs of the Port of Callao are going to make it a hub on the west coast. In addition to that, there is the Port of Paita in the north that has recently been contracted out to a private operator. In the south we have the Port of Matarani that was contracted out many years ago and that now requires expansion. Some new mining projects in that area are also going to need that gateway so we are considering increasing the port's capacity. In the south we also have the Port of Ilo where we are completing an investment plan to decide whether we are going to manage it through ENAPU (The National Port Company) first, or if we are going to contract it out.

It is the same situation for the ports of Iquitos and Salaverry in the north. These ports will have a strong demand not only from the mining sector but also from the agro-export sector businesses that need routes to markets such as China, India and the United States. We are also working on projects to connect our railways with Brazil's. In addition, the ministry is at the final stage of the contract award process for a waterway project that will create 2,500 km of year-round navigable rivers. All of these projects will complement each other to produce a multi-modal vision.

**Milestone GRP - Where will Peru's infrastructure be in 5 years?**

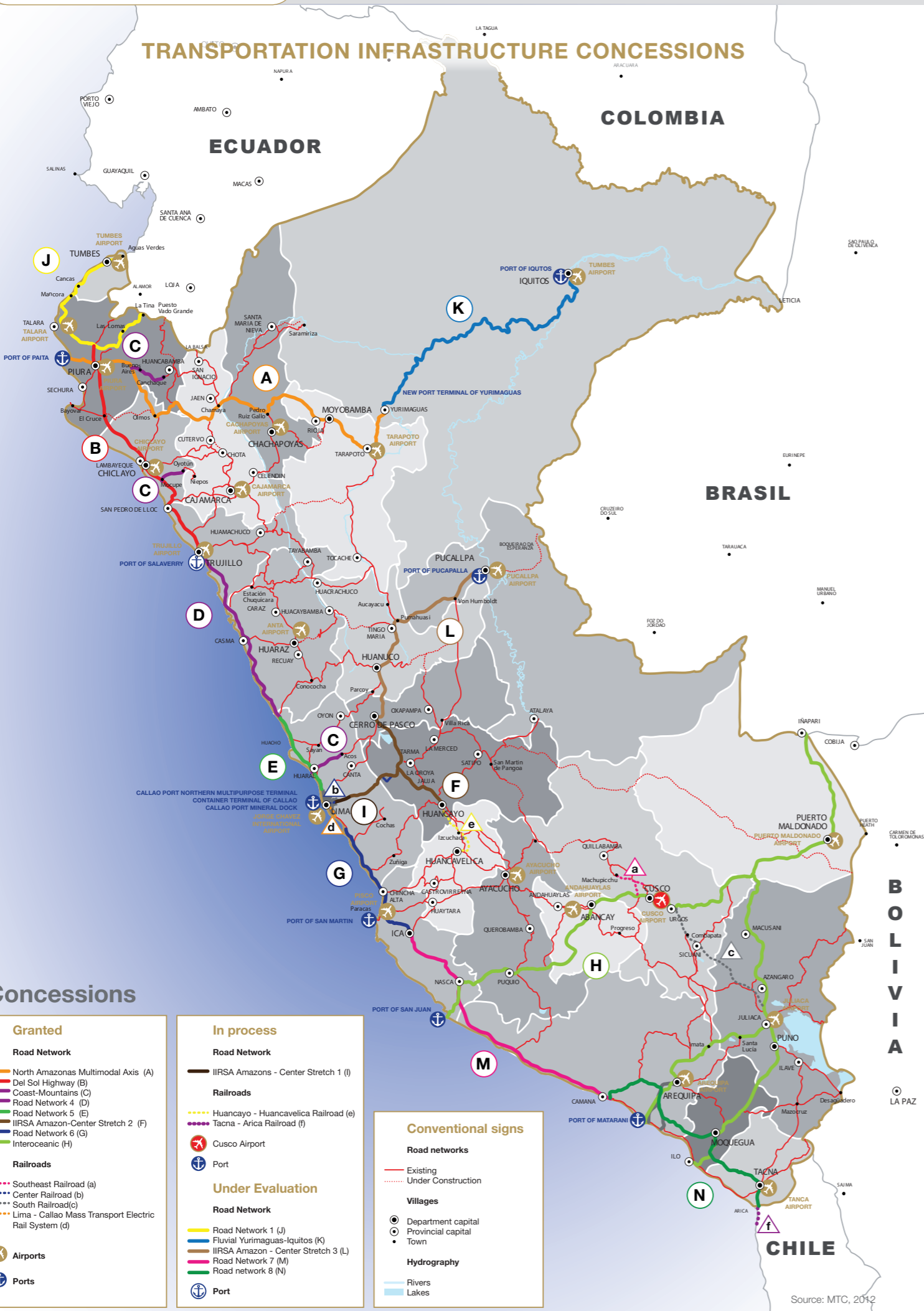
**Minister Paredes Rodriguez** - The government has estimated approximately US\$15 billion in investment for this five-year period. In addition to that we have private investments. Each private operator in Peru has its own investment plan that will complement the government's investment plan. While we are aware that we may not be able to build an infrastructure network everywhere we have needs within 5 years, we nevertheless want to make sure to have a foundation for future projects. In 2016, I see a country that will have made important investments in infrastructure and that will have made plans and done technical studies that can be used by the next government. So, in 15-20 years, Peru can be a completely developed country, where the infrastructure grows at the same pace as the economy.

**Milestone GRP - What would be your final message to our international audience who might be looking to take advantage of these opportunities to 'build Peru' with you?**

**Minister Paredes Rodriguez** - We know Peru is an attractive country and we want to be as attractive in the future. Our people know that private investments are the only way to carry out sustainable development. We, as a government, know we have to create the right conditions so that private investors will be able to choose Peru as the most attractive place to do business. In order to achieve that we need not only clear tax and administrative conditions but also social stability, which is key to secure long-term investments.



# TRANSPORTATION INFRASTRUCTURE CONCESSIONS



## Concessions

Granted	In process
<b>Road Network</b> North Amazonas Multimodal Axis (A) Del Sol Highway (B) Coast-Mountains (C) Road Network 4 (D) Road Network 5 (E) IIRSA Amazon-Center Stretch 2 (F) Road Network 6 (G) Inter-oceanic (H)	<b>Road Network</b> IIRSA Amazons - Center Stretch 1 (I)
<b>Railroads</b> Southeast Railroad (a) Center Railroad (b) South Railroad (c) Lima - Callao Mass Transport Electric Rail System (d)	<b>Railroads</b> Huancayo - Huancavelica Railroad (e) Tacna - Arica Railroad (f)
<b>Airports</b> (Symbol: Airplane)	<b>Under Evaluation</b> <b>Road Network</b> Road Network 1 (J) Fluvial Yurimaguas-Iquitos (K) IIRSA Amazon - Center Stretch 3 (L) Road Network 7 (M) Road Network 8 (N)
<b>Ports</b> (Symbol: Ship)	<b>Conventional signs</b> <b>Road networks</b> Existing (Solid line) Under Construction (Dashed line) <b>Villages</b> Department capital (Circle with dot) Provincial capital (Circle with dot) Town (Circle) <b>Hydrography</b> Rivers (Blue line) Lakes (Blue area)

# Peru: Investment opportunities in infrastructure in one of the strongest economies in the region

by Héctor René Rodríguez, Director of Investments Promotion at ProlInversión

The Peruvian economy is undergoing an economic boom. It has received increased investment flows and interest has spiked in various sectors due primarily to three factors: excellent economic performance, an attractive investment environment and the many opportunities available here.

The country has maintained rapid growth for 10 consecutive years and it is projected to see growth of around 6% in the coming years. The positive outlook for the coming years is based mainly on the concessions of public and private projects, the overall rise in consumer confidence, and increased activity from foreign and domestic investors. A concrete example of these positive trends occurred on October 18, 2012 when the country risk assessment decreased by 91 base points, the lowest level in history according to the Central Reserve Bank of Peru.

Peru's policy on investment is based on the principle of open and non-discriminatory treatment in an environment that provides legal certainty for investors. For over two decades, Peru has established a solid legal framework that is based on stability and transparency, and equal conditions. This has consolidated a policy attractive to private investment in general and, in particular, to foreign investment, which can develop freely in the same conditions as domestic investment and is not subject to the fulfillment of performance requirements. Additionally, Peruvian regulations contain special provisions that guarantee the stability of rules relevant to the development of investments.

This policy is based on the belief that private investment must be the engine of growth, and for this we require the concurrence of domestic and foreign capital to enhance the development of the enormous opportunities presented by the country.

Peru recognizes the importance of investment and, as the state agency responsible for promoting and facilitating the development of investment projects in the country, ProlInversión assists the investor in the stages of exploration, establishment and post-establishment.

### PORTFOLIO

As an investment destination, Peru currently offers, through ProlInversión, opportunities in a wide range of sectors. Some of the most outstanding are as follows:

### ROAD TRANSPORT

#### Section 2 Longitudinal de la Sierra Highway:

The vision of the Peruvian State is for this ambitious project to strengthen regional physical integration of the territory, improving the road network in order to form stronger and more competitive regions.

This road project will connect the north and south Andean Regions of Peru. Just as the Pan-American highway was, and is, essential for interconnection and trade in the regions of the Peruvian coast, this large road project has the potential

to boost the growth that the country is experiencing internally. This highway will pass through 12 of the 25 regions of the country, in which it will also be possible to create fiber optic installations. Its construction is estimated to benefit 6.5 million people. This is the real backbone of Peru's road integration, which provides the link between the mountains on either side, establishing a network of flows between intermediate cities in both directions and creating development zones to boost regional economic development.

Of the 3,463.41 km of the Longitudinal de la Sierra Highway, 1,903.71 km require improvement work on its tarmac, 1,428.17 km of which are part of the Northern Longitudinal Highway and 475.54 km are part of the Southern Longitudinal Highway.

The project is divided into five sections. The first section scheduled to be put out for bid is Section 2, which is located in the northern highlands of Peru. This section has the distinction of crossing two regions with significant mining operations, such as La Libertad and Cajamarca, and then going straight to the Peruvian coast via one of the fastest growing cities, Trujillo.

ProlInversión is currently working in coordination with the Ministry of Transport and Communications in order to launch the bidding process.

### RAILROADS

#### Lima Metro Line 2:

Currently, ProlInversión is also promoting the concession for the design, financing, construction, supply of electromechanical equipment, rolling stock acquisition, operation and maintenance of this metro line, which passes through 12 districts of the capital city, and whose length is approximately 35 km.

Line 2 is part of the core network plan for the Lima Metro, which will consist of five lines in total. The population that is estimated to be mobilized by this line is estimated at 25% of the population of Lima, which is attractive as an investment opportunity considering that the city has eight million inhabitants.

The start-up of Lima Metro Line 1 has had immediate and massive acceptance in Lima. It is anticipated that this project, which is currently under evaluation, will be co-funded by the state.

### ELECTRICITY

#### Moyobamba-Iquitos 220 kV Transmission Line:

Peru is putting out a bid for the design, financing, construction, operation and maintenance of this transmission line of 600 km to be located in the Peruvian jungle, in order to increase the capacity of power transmission to the east of the country and interconnect this electrical system with the National Grid.

The estimated investment in the project amounts to US\$ 345 million. The concession period is 30 years, which does not consider the construction period, estimated at 52 months.



**Machu Picchu-Quencoro-Onocora-Tintaya 220 kV Transmission Line:**

This project is located in the Andean region of Cusco, where the world famous archaeological ruins of Machu Picchu are located.

There is going to be a concession for the design, financing, construction, operation and maintenance of this line whose length is estimated at 300 km, in order to increase the transmission capacity of electricity to the southern region, and strengthen the two-way link between electrical subsystems of the zone, while further allowing the connection of new loads and / or power plants.

The estimated investment in this project amounts to US\$ 70 million and the concession period is 30 years plus the construction period of 38 months.

**70 MV Power Station for Iquitos:**

Iquitos is the largest city in the Peruvian jungle and its growth demands more sources of energy. ProlInversión is promoting the award of a concession for the creation of power and energy to the national grid for this area. In the first stage, it will operate on the basis of a regular regime of power that will culminate with the start of the commercial operation of the Moyobamba-Iquitos Transmission Line cited above.

In the second stage, the supply will be produced as Cold Reserve Generation. To support the provision, new thermoelectric generation plants (70 MW) that will be located in Iquitos will be designed, financed, built, operated and maintained.

The estimated investment involved in this project is US\$ 75 million and the planned concession period is 20 years, excluding the construction period of 24 months.

**Construction of the Molloco Hydroelectric Power Plant:**

This project, located in the southern region of Arequipa, requires an investor to be responsible for design, construction, financing, operation and maintenance of a hydroelectric power plant with a total capacity of 300 MW. Private investment is estimated at US\$ 600 million.

EGASA, the State-owned power generation company located in Arequipa, will give up its right of ownership of the final concession, the relevant studies, the easements' support and the social license for the project.

**FOSSIL FUELS**

**LPG Supply System for Lima and Callao:**

This project consists of the concession for the design, financing, construction, operation and maintenance of an LPG transportation system from the producer in Pisco to the geographical boundary of the province of Lima. The transport system will consist of the following parts:

- A pipeline of approximately 250 km from Pisco to a terminal located between the towns of Lurin and Conchán. Initial transportation is estimated at 1,000 tons of LPG per day.
- A storage and shipping terminal to be located between Lurin and Conchán.
- Pumping stations, valves, pig traps and measuring equipment and communications.

The estimated investment for the project is US\$ 90 million. This award will be for a period of 20 years, not including the construction period of 28 months.

**National Natural Gas Massification:**

This project consists of transporting liquefied or compressed gas by trucks or ships to city gateways, followed by regasification and distribution through a pipeline network in cities to end users. It aims to extend the use of gas nationally to 11 cities outside of Lima, Callao and Ica. The project's development will bring great benefits to the regions, because it will improve the competitiveness of the production of gas and the promotion of new investments, as well as enhance the quality of life of the cities' inhabitants.

The granting of natural gas distribution will be awarded in the form of an Integrated Project Contest, meaning that the grantee will be responsible for the design, financing, construction, operation and maintenance of the project. Grantees will be required to commit to transporting the LNG or CNG to the limit established by cities, as well as to the regasification and distribution of natural gas via pipeline.

The concession period is 20 years, over and above the period of construction of the distribution network, which would be 30 months from the date of closing.

The construction period could be affected by the physical difficulties presented primarily by the implementation of the distribution system in each city.

The estimated investment in the project amounts to US\$ 300 million.

The specifications and the first version of the contract are published on ProlInversión's website.

**LNG Supply System for the Domestic Market:**

This project awards the design, financing, construction, operation and maintenance of a water supply system which will provide a pool of liquid natural gas, gasified to use in cases of emergency. The project facilities would be located 170 km south of Lima in connection with the Peru LNG plant. They would consist of a storage tank, valves and pipelines needed to connect to the existing natural gas transportation system.

This project seeks to ensure, through a concession of 20 years, an emergency system to supply natural gas transmission to the

“Peru’s policy on investment is based on the principle of open and non-discriminatory treatment in an environment that provides legal certainty for investors.”

**INFRASTRUCTURE INVESTMENT PROJECTS PLANNED for 2013**





Peruvian coast and the system of distribution of natural gas in Lima and Callao (thermal plants, industries, vehicular and domestic consumption).

It is estimated that this project requires an investment of US\$ 400 million.

#### TELECOMMUNICATIONS

##### National Fiber Optic Network Backbone:

This nationwide project is aimed at expanding access to broadband in Peru, through the installation of 10,000 km of optical fiber. The backbone network will be the property of the Peruvian government, whose operation will be headed by an operator providing carrier services with regulated rates and conditions, established quality and continuity. Bidders can choose the best routes to optimize their technical proposals (support means: poles, power lines, etc.) and bids (less subsidies).

The project, which is expected to be co-financed by the State, is yet to be called. It will require an estimated investment of US\$ 420 million, subject to preliminary pre-investment studies, which are being evaluated by the Ministry of Transport and Communications.

##### Nationwide 1710-1770 MHz and 2110-2170 MHz Band Coverage:

The objective of this project is to select private telecommunications operators to be responsible for the provision of telecommunications services, nationally, in Blocks A and B of the 1710-1770 MHz and 2110-2170 MHz band. A single bidder may not win both blocks of the band.

The technical characteristics of this band allow for the provision of advanced wireless services (mobile broadband, voice communications, new applications, and large capacity and higher speed multimedia interactive services).

As for the progress of this bid, the estimated investment in this project is yet to be defined. The deadline for the duration of the concession is 20 years, with the possibility of renewal.

In August 2012, a Supreme Decree (DS 011-2012-MTC) was issued which amended the ceiling for allocations of radio spectrum for trunking services, mobile and personal communications services.

#### AGRICULTURE

##### Chavimochic Irrigation Project:

La Libertad is a coastal region of northern Peru that excels in many productive activities, one of which is agriculture for exports. This investment project seeks to complement the development of the Chavimochic Irrigation Project and incorporate around 53,000 hectares of new land, as well as improve the irrigation of another 48,000 hectares in the valleys of Chao, Viru, Moche and Chicama. The project will be granted for 24 years and includes:

1) The construction of the following works of Phase III:

- A prize of 360 million m<sup>3</sup> in the Palo Redondo sector
- A Third Line Siphon in Viru

- The 113 km long channel section in Moche-Chicama Mother-Urricape

2) The development of a measurement and automation system to control and improve the operational efficiency of the project.

3) The operation and maintenance of the Chavimochic irrigation system (stages I, II and III)

4) The provision of water supply services to the following types of users: population (Potable Water and Sewer Freedom - Sedalib), agricultural (valleys and Intervalles project) and hydro-power (Central Hydro).

The estimated investment in the construction of Phase III of this project is US\$ 498.8 million.

#### AIRPORTS

##### New Chinchero-Cusco International Airport:

The Andean region of Cusco, where this investment project is located, is a worldwide tourist destination because it is located near one of the seven wonders of the world: the Inca citadel of Machu Picchu. The purpose of this project is to concession for 40 years the design, construction, financing, management, operation, maintenance and operation of the new Chinchero-Cusco International Airport.

The call has already been published and investment has been estimated at US\$ 420 million, which corresponds only to the airport infrastructure. It is expected that this investment will have the co-financing of the State.

#### PORTS AND NAVIGATION

##### Improvement and Maintenance of Navigability in the Ucayali, Huallaga, Marañón and Amazon Rivers:

This project is located in the jungle of Peru and covers four major navigable rivers, three of which are located in Loreto, the country's largest region, and the fourth is between this region and the Ucayali region, south of Loreto.

The objective of this project is the concession to develop and dredge rivers to ensure navigability and improve the traffic between the Yurimaguas port terminals (concessed in May 2011), Pucallpa and Iquitos.

The estimated investment in the project, yet to start, is US\$ 60.9 million. The concession period is for 20 years.

##### General Port Terminal of San Martin:

This project is located on the central coast of Peru, in the Ica region, world famous for the Nazca Lines. Ica is also a region with a large agricultural export development and fisheries.

ProInversión has published a call to find a dealer that is responsible for the design, construction, financing, maintenance and operation of this industrial port for a period of 30 years. The estimated investment amount is US\$ 101.4 million.

The third draft contract is published on the ProInversión website.

#### SANITATION

##### Provision of Sanitation for the Southern Districts of Lima:

This project, still to be called for bids, aims to meet the demand for water and sewer services for the southern coastal districts of the capital. The chosen method is to grant a self-sustained concession for a period that is yet to be defined.

The estimated investment in the project is US\$ 102 million and the winner will be in charge of design, financing, construction, operation and maintenance of the following systems: (i) desalination of sea water, (ii) storage and distribution of drinking water, (iii) drainage, and (iv) treatment and disposal of treated wastewater.

#### CULTURE

##### National Grand Theater:

This project aims to deliver to a first-class private operator the infrastructure of one of the most modern theaters in Latin America, which will place Peru in the world cultural circuit and make culture accessible to the population.

The National Grand Theatre (NGT) is located in Lima, between the Culture Station of the Lima Metro and the National Museum,

and together with the National Library, integrates the so-called "Axis or Cultural Triad of Lima".

The NGT's building has seven floors and four basements, with a capacity of about 1400 spectators. The stage has a total area of 840 m<sup>2</sup> (central, side and bottom), a height of 24 m, has four double lifts which allow for the performance of up to three shows in one day. The orchestra pit of 128 m<sup>2</sup> offers capacity for 110 musicians, has mobile platforms with two lifts, all nonexistent technology in local theaters. It also has four individual dressing rooms, eight changing rooms for eight artists backstage and four large dressing rooms.

The NGT is a distinct asset given its design, excellent location and ability to become a performing arts center of international quality. This adds to the culture offerings in the country, which is reflected in the steady growth of a new middle-class hungry for theater and music. Proof of this is the massive attendance at concerts and artistic performances that are released in Lima. In recent times, local producers are betting on popular Broadway musicals that have been made into movies, such as "Chicago" and "Hairspray."

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# Closing the Infrastructure Gap: Key for productivity and social inclusion

by Fidel Jaramillo, Representative of the Inter-American Development Bank (IDB) in Peru  
and Omar Zambrano, Country Economist for the Inter-American Development Bank (IDB) in Peru

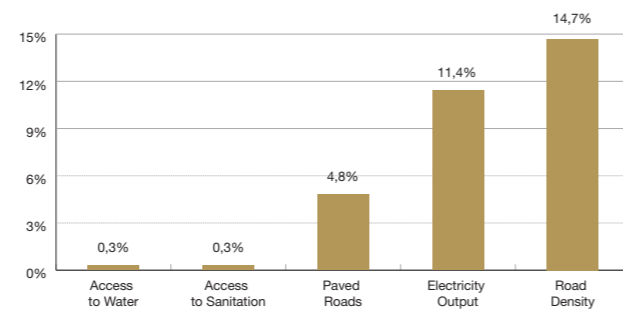
Academics and policy makers agree that infrastructure plays a crucial role in the economic and social performance of countries. The specialized literature shows that variables such as economic growth, productivity, poverty and inequality at the country-level, are directly or indirectly related to the abilities of such countries to accumulate and keep the quality of their endowed physical capital. Multilateral institutions like the Inter-American Development Bank (IDB), devote a great deal of their time to supporting the efforts of countries to provide infrastructure. We witness daily how such investments help poorer people from less developed areas join core productive activities of the economy, to foster productivity and enhance presence in new markets, and increase the coverage of basic education and health services.

rate of accumulation of infrastructure for the region in the last two decades was considerably slower than other emerging regions in Southeast Asia, and improvements have done little to close the gap with the advanced countries of the Organization for Economic Co-operation and Development (OECD). It is worthy to note that these trends occurred in a context where macroeconomic crises were frequent, which reduced the availability of public investment, while significant technical, regulatory and financial innovations allowed the private sector to compensate – although only partially – for the withdrawal of public investment. Nowadays the private sector is a key player in the provision of infrastructure in the region.

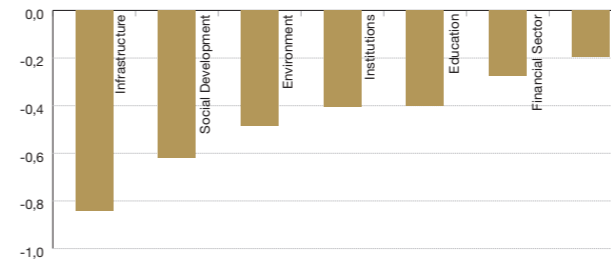
The Andean region, although areas vary greatly, also experienced the wave of regulatory changes that allowed the private sector to take a greater role in the provision of infrastructure, especially for public services. Currently, indicators regarding quantity and quality of infrastructure in the sub-region show mixed results, with areas where its member countries are above LAC averages, and areas where there are deficiencies. According to a recent study by the IDB, transportation infrastructure in the Andean sub-region is considered to be the worst vis-à-vis the rest of the region.

In the case of Peru, different estimates point toward the fact that the infrastructure gap is substantial, both in terms of access and in terms of quality. Peru ranks relatively bad compared to other middle-income countries, regardless of whether they are neighbors in the Latin American region or countries from other regions of the world but with a similar level of development as Peru. Despite recent sector improvements in air transportation facilities and efficiency in electricity distribution, Peru still has a long way to go in order to bridge its infrastructure gap.

As it is now common knowledge, Peru has shown robust macroeconomic performance during the last few years. The country has been one of Latin America's most dynamic economies in a context of fiscal stability, external equilibrium, and low inflation. After overcoming the adverse effects of the international financial crisis of 2008, it staged a rapid recovery. In the current situation, the short- and medium-term outlook for the Peruvian economy is positive, although it is not immune to the effects of a new interna-



Peru: Cost of Closing the Infrastructure Gap (% of GDP of 2010)  
Source: IDB



Peru: Competitiveness and Human Development Gaps in Respect to the Average OECD Country  
Source: IDB

tional crisis. At the same time, social indicators have improved in line with macroeconomic trends, with significant progress being made in the fight against poverty and extreme poverty.

Peru's economic performance has consolidated its position as a middle-income economy, with all the challenges and opportunities that this entails. The development level achieved means that continued growth, which is necessary to sustain the country's progress, increasingly depends on sustained productivity gains. Going forward, the persistence of development constraints, like the deficits in basic infrastructure, will hamper the necessary strength of productivity growth and will make economic growth vulnerable. In the next decade, Peru must build a model that maintains economic growth in order to restore social and territorial balances.

In terms of infrastructure, Peru faces multiple deficits. For example, despite having 4% of the planet's water resources, access to drinking water services is unequal between rural areas, where coverage is 40%, and urban zones where the figure is 89%. The same is true for sanitation, with rural coverage of 45%, compared to 84% in urban zones. The rate of wastewater treatment is low compared to the rest of the region: only 32.7% of all wastewater is treated, and coverage is particularly low in rural zones. In the energy sector the situation is no different. Although installed electric power generation capacity has grown at an average annual rate of 7% over the last five years, the energy capacity reserve margin has fallen below the recommended level. Peru's electrification rate is relatively low, ranking 22<sup>nd</sup> out of the 26 Latin American countries. Although electricity reaches 82% of the population, only 29.5% of rural households are connected to the public grid.

But perhaps the most pressing deficits are shown in the transportation sector. Only 16% of the total road network is paved, with major differences between the national (54%), departmental (8%), and neighborhood networks (3%). Road conditions also vary greatly between the national and regional levels, with 71% of national roads considered to be in good/fair condition, compared to 51% of departmental roads and just 33% of neighborhood roads. The close correlation between the level of coverage/quality of the roads and level of government is stronger in the more ru-

**Closing the infrastructure gap has the potential of increasing the long-term GDP per capita growth rate by 1% and decreasing the inequality index (measured by the Gini coefficient) by 4.5%.**

Beyond the effects at the macro level, infrastructure services in sectors such as transportation, water and sanitation, telecommunications, and other areas increase the quality of life for people at the micro level through a variety of channels. For example, water and sanitation investments increase labor productivity by reducing the amount of time spent on fetching water from distant wells, and by reducing water-related diseases (infections); electricity generation and distribution investments increase literacy, quality of education and labor productivity due to electricity access in schools, by allowing longer hours for reading at night, and by reducing the amount of time spent in picking up alternative sources of energy (like firewood); investments in transportation save time and effort spent trying to reach school and medical services, and for accessing new markets for selling/buying products; telecommunications investments improve the quality and availability of information for greater community knowledge.

Since the early 1990s, Latin America and the Caribbean (LAC) experienced a significant upward trend in its indicators of coverage and quality of infrastructure in most sectors and countries. The progress observed included significant improvements in access to water and sanitation, electricity, telecommunications, ports and airports, with the only exception being in the transport sector. Despite these advances, there is growing evidence that the

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ral departments and districts. Deficiencies in the sector make the country prone to excessively costly logistics rates, which hamper the expansion of markets inside and outside of Peru.

A recent study by the Inter-American Development Bank estimated the size of the infrastructure gap of countries, based on a comparative methodology that takes into consideration relative levels of development, social and economic characteristics and geographical variables. The results for Peru confirm what other sources say: the infrastructure gap is substantial in almost all sectors. Peru has a large gap in power generation, and is among the few countries in the sub-region with a deficit in terms of indicators of quality of electricity service. Peru also shows a relatively moderate gap in water and sanitation infrastructure. But undoubtedly the most important infrastructure gap observed in the case of Peru, from the point of view of its magnitude and prevalence, is the quantity and quality of road infrastructure.

More importantly, the magnitude of the calculated infrastructure gap in Peru is useful to envision the amount of financial resources that will be needed to mobilize in order to remedy the deficiencies. The IDB study estimated that, in the case of Peru, the cost of closing the infrastructure gap was a little over 30% of GDP in 2009, or about US\$ 40 billion, which is in line with other more recent research. For Peru, the deepest gap is related to the availability of road infrastructure (15% of GDP), followed by the costs of closing the gaps in power generation (11% of GDP) and road quality (5% of GDP). In the case of Peru, the investment

needed to close the gaps in the water and sanitation sector are relatively modest (0.6% of GDP in total).

Peru's infrastructure gap has a major impact on competitiveness, and there is evidence that closing that gap would spur growth and improve social indicators. It is uncontroversial that the infrastructure deficit has a significant negative impact on the investment climate. For example, the latest Investment Climate Assessments report published by the World Bank and the IFC, concludes that more than 50% of firms surveyed in Peru consider the lack of infrastructure a serious problem for running a business and reckon that their main difficulties stem from poor market integration and high logistics costs.

The latest Global Competitiveness Report that assesses the competitiveness landscape of 144 economies, providing insight into the drivers of their productivity and prosperity, reports that Peru ranks 97/144 in transport infrastructure, 100/144 in quality of road infrastructure, and 111/144 in quality of overall infrastructure. Also, lacking appropriate infrastructure reduced attractiveness for foreign investments, affecting most investors operating import/export businesses, which is crucial in a country that has trade as a key pillar to its growth strategy. Efficient infrastructure, particularly in logistics, is an important condition for such a strategy to be successful.

The infrastructure gap ultimately affects the economic performance. Based on data from 209 countries from 1960 to 2010, the

IDB study estimates the potential impact of Peru closing the infrastructure gap. The study concluded that closing the infrastructure gap has the potential of increasing the long-term GDP per capita growth rate by 1% and decreasing the inequality index (measured by the Gini coefficient) by 4.5%.

A World Bank study confirmed the positive impact of available infrastructure and quality on growth. The authors compared the effect of raising Peru's infrastructure development level to that of Chile (which, in practice, would require levels of investment much higher than current ones) and found that it would increase Peru's growth rate by 1.7 percentage points. Other studies estimated that the economic cost of road accidents in Peru amounts to approximately 1.5% of GDP annually.

As illustrated in the following graph, the gap in infrastructure is perhaps one of Peru's largest competitive disadvantages compared to industrialized economies. Given the scale of the required investment, it is critically important to rally the support of all stakeholders. It will be crucial to mobilize technical and financial resources from the private sector, in partnership with the public sector. Government, responsible for identifying priorities and maintaining a stable macroeconomic and regulatory environment, and the private sector need to work together to close the huge infrastructure gap.

Multilateral Institutions have an important role to play, since they are sources of financial resources, technical assistance and po-

licy advice for public and private infrastructure projects, as well as PPPs in LAC. Their technical contribution, particularly in the social and environmental management of large infrastructure projects, plays an important catalytic role for developing infrastructure projects. Moreover, their independent technical judgment makes Multilateral Development Banks "honest brokers" that help create infrastructure projects.

As shown above, Peru has significant gaps in infrastructure to overcome, although these are not homogeneous. The most glaring one, both in its magnitude and its prevalence, is related to the quantity and quality of road infrastructure. The cost of closing this gap, will involve great physical effort in terms of finances and GDP, which may only be addressed through a thoughtful process of mid- to long-term planning and with the concurrence of multiple actors, since the gaps identified in some sectors are of such magnitude that they would be impossible to close without the joint mobilization of resources from public and private sectors.

Underlying estimated earnings in long-term growth are positive, which allow us to say with a certain degree of confidence that the large investment in infrastructure needed to close the gaps estimated is profitable from the point of view of a cost-benefit analysis. Finally, the research is conclusive that investment in infrastructure quantity and quality can produce significant improvements in income distribution.



Lima Metro Line 1



National Grand Theatre



# The Private Sector's Role in Peru's Infrastructure Development

by Gonzalo Prialé, President of the Association for the Promotion of National Infrastructure (AFIN)

Peru is willing to promote required infrastructure investment and the Ministry of Transport and Communications has stated that Peru will register US\$ 19 billion in investments on roads and communications infrastructure between 2011-2016, 50% of which will be carried out through public-private partnerships (PPP). This investment represents about 10% of Peru's current GDP, but even with this commitment it will fall short of the required US\$ 50 billion that is necessary, mainly in the areas of hydroelectric and highway projects. Of that US\$ 50 billion, US\$ 10.5 billion is the responsibility of ProInversión, the public institution responsible for promoting bids for public-private partnerships, and will be bid on during the 2012-2013 period. US\$ 21 billion represents public-private partnership projects that have been suggested by Peru's regional governments in a forum organized by ProInversión in December 2011.

Below is a list of key projects that have been developed and future ones that will require private sector participation.

## Transportation Infrastructure

### • Roads

The Metropolitan Municipality of Lima has announced six major projects that are private initiatives for road development and represent an investment of US\$ 3.5 billion. In 2013, most of these municipal projects will be under construction.

Other important opportunities are found in the Longitudinal de la Sierra Highway, which runs through the mountains, where about 3,500 km of roads will be required, as well as a penetration grid of roads that should be built in integrated and comprehensive concessions. Eight concessions have already been identified, comprising the Longitudinal de la Sierra Highway and feeder roads that connect it to the coast. This amounts to a total of about 6,400 km.

Demonstrating the positive effects of such projects, the IIRSA North and IIRSA South Roads are already having a major impact on the regions outside of Lima, where the growth of economic activity and the indirect and induced benefits of building these infrastructures are evident.

### • Ports

Investments in Peru's port infrastructure are essential. The improvement and modernization of ports in the north and south, such as the Salaverry and the San Martín Ports, will allow a closer and faster delivery of products in those areas, rather than having to move products through Lima and the Port of Callao. The transportation cost and time would be reduced, facilitating the movement of goods and the growth of trade.

### • Railways/Subways

The mining sector isn't the only area that has developed railway infrastructure; the tourism sector has focused on this as well, and has put a strong emphasis on old railway lines that

reach remote areas. Today, Peru's most important railway project, the Lima Metro Network, already has a working line and a second line under study and about to be bid out. This second line represents an estimated investment of US\$ 3 billion. The four missing lines that would make the Lima Metro Network an integrated system should be studied jointly. Bids should be put out for each line every year to expedite the network's construction and avoid delays associated with developing separate studies for each line. Following this design, Lima could have an operational network by 2021.

**“Peru will register US\$ 19 billion in investments on roads and communications infrastructure between 2011-2016, 50% of which will be carried out through Public-Private Partnerships (PPP).”**

One key point to highlight regarding the development of Peru's transportation infrastructure is that the development of investment projects involving multimodal axes (river and sea ports, roads and/or railways) would allow the generation and development of economic centres organised by different geographical locations, which would go on to facilitate trade. As such, the government and private sector should orient their project designs to take this goal into account, and bids should be evaluated on the extent to which they meet this objective.

## Telecommunications

Within the telecommunications sector, Peru needs considerable investment. At least US\$ 12 billion is required to improve the country's broadband network. This would allow it to close the digital gap by at least moving up to the Latin American average by extending broadband access to the entire territory.

## Waterworks

The irrigation projects in the north of the country have been very successful. They have allowed some cities to experience an economic boom thanks to the impact of the agro-export industry and irrigation systems put in place by public-private partnership projects. More such opportunities abound and this is an interesting area for private sector investors to investigate.

## Conclusions

Other Latin American countries in the region have encountered similar problems and opportunities such as those the state

of Peru's infrastructure presents. Several of them, such as Colombia and Brazil, are encouraging public-private partnerships to improve their infrastructure. Colombia, for instance, has created a major fund to finance research projects and nurture a portfolio of projects ready to be promoted and concessioned. Brazil has recently announced an ambitious public-private partnership plan worth US\$ 66 billion over the next few years, and has given responsibility of the promotion and bidding process to a new autonomous entity. Tired of waiting for long processes, they chose to announce several mega-projects with dates of competition in 2013. The solutions are therefore out there.

One challenge that Peru faces is that some essential projects require co-financing because they will be developed in areas where current population and movement is limited, so traffic or demand would be low in the beginning of the project's lifespan. A valuable tool that would allow for the development of new projects and that has not been used a lot so far, would be encouraging private initiatives for such projects. When putting tenders forward, developing bids and evaluating them, both the government and private sector should keep at the forefront of their mind that the development of investment projects joining multimodal axes (river and sea ports, roads and/or railways) should be a priority. This would go a long way in

Investments in Transport Infrastructure Planned to 2016	
Infrastructure	US\$ (million)
Road	11,000
Railway	8,300
Airport	450
Port	300
Waterways	46
<b>Total</b>	<b>20,096</b>

Source: MTC

facilitating trade and integrating remote regions into the greater Peruvian economy.

To achieve Peru's development objectives, the government and private sector must work hard and must work together. The government has stated its interest and has already commissioned 25 projects to ProInversión that represent US\$ 10.5 billion, equivalent to 5% of Peruvian GDP. Although most of the projects will not be approved until the last quarter of 2013, this nonetheless represents a huge opportunity for the private sector to get directly involved in building Peru, developing its economy and enabling its people.



We improve people's quality of life through the distribution of natural gas, which is the safest and friendliest energy to the environment.

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## Obrainasa

### “Closing the Infrastructure Gap”

Interview with Ernesto Tejada, President of Obrainasa

**Ernesto Tejada** is a civil engineer and graduated from the University Ricardo Palma in Lima, Peru. He has been in the construction industry for over 40 years and has been involved in many different projects in all parts of Peru. He is the Chairman of the Board of Directors of Obras de Ingeniería S.A. (OBRAINSA), and is a past Chairman of the Infrastructure Committee of CAPECO. He has also served as a member of various committees and panels on the construction industry in Peru.

**Obrainasa** is a leading civil engineering and construction company with more than 10 years of experience in Peru. As a key player in the Peruvian construction sector, it has an important role in road infrastructure projects in all the geographical regions of the country.

Milestone GRP met with Ernesto Tejada to discuss the importance of Peru's infrastructure development as well as to discuss the current projects in Obrainasa's portfolio.

#### **Milestone GRP - What is your opinion on the construction sector as an indicator of the economy?**

**Mr Ernesto Tejada** - The construction sector is a major contributor to Peru's GDP and is also one of the fastest growing sectors of the last two decades. The sector has a multiplier phenomenon, because construction moves other industries, besides being a major employer. The construction sector is one of the most dynamic sectors in this country. There are large gaps in infrastructure in Peru, due to years of decline and nationalization that took place during the Latin American leftist period of the 1960s. The realignment of the national economy in 1993 after the crisis is what has allowed for growth in all sectors.

There are important studies, conducted by the Peruvian Institute of Economics, on where the gaps in infrastructure investment are, in comparison to Chile and Colombia, countries that are similar, in terms of kilometers of roads, housing, sanitation, etc. The numbers for Peru are high: up to US\$ 40 billion.

#### **Milestone GRP - Do you think that these infrastructure gaps will be closed or will grow in the future?**

**Mr Tejada** - They are closing, but keep in mind that everything grows. We are a young country that is growing. Furthermore, things will always need updating so the demand is permanent.

#### **Milestone GRP - In the next four years the government intends to put out US\$ 14 billion in infrastructure tenders. What is your opinion on how the government allocates its concessions?**

**Mr Tejada** - The country already has experience in public-private partnerships (PPPs) and has already addressed important projects this way. Older concessions in Peru are mainly related to mining, which have been driven by impressive deposits, and that's what generates tremendous investment. There is already an important history that shows state officials have experience and shows that Peru has brokered major deals that are economically and legally stable. So it gives us faith that future projects will have the same success.

#### **Milestone GRP - Compared to other countries in the region, such as Venezuela, Brazil or Argentina, Peru's economy and regulations are considered to be open. How does Peru take advantage of this situation, especially in infrastructure?**

**Mr Tejada** - The stability of 20 years of continuous economic policy, the lowest inflation rate, effective and fully fulfilled contracts; all these show no signs that would create instability, making Peru highly competitive. The challenge is to continue to develop more, with better regulations, and improved political and economic environments. I think things are very clear. There have been political changes but, despite this, things continue on the right path.

#### **Milestone GRP - Due to the downturn in the US and Europe, do you see more competition locally now?**

**Mr Tejada** - Yes, everyday there is more competition because international companies with great capabilities, especially in the construction sector, are coming to Peru. For us, the more competitors, the better. Engineering, personnel, equipment, technology and our knowledge of our country is our advantage.

#### **Milestone GRP - What are some key projects for you right now?**

**Mr Tejada** - Continuing our participation in public-private partnership projects is a fundamental issue. It is the fifth year that we have actively participated in bids, including important associations with companies in the world. For example, we are partnering with a company called Ideal for the concession of the Panamericana Norte Highway, worth 500 million Nuevos Soles. We are also working with the Italian company, Salina, for hydroelectric operations. As far as concessions and PPPs are concerned, we are very prepared. It is part of the company's vision and policies of the board to maintain our participation in public works.

#### **Milestone GRP - How do you see your projects affecting the country?**

**Mr Tejada** - On the social side there are two different ways in which we can positively affect the country. Firstly, we hire a lot of personnel at three to four times the minimum wage. The salary in civil construction work is very high so people that might otherwise be working in agriculture at lower wages are allowed a substantial income. That also means giving families social security, healthcare, etc. The surrounding communities benefit as well.

Secondly, we do indirect social work. For example, we are building projects under the MiVivienda program to house 2600 people in the class C sector. We're building two eight-story buildings.

#### **Milestone GRP - How do you find enough skilled labor?**

**Mr Tejada** - The problem with this country is that there aren't enough people to work, so the company is a permanent staff trainer. There are 60 engineers at our company taking Project Management courses. The construction industry in Peru does not have enough qualified people. We are making efforts to train our staff according to our market demand.

#### **Milestone GRP - Are you trying to look for talent outside Peru?**

**Mr Tejada** - Yes, we are. At the moment we are hiring foreign workers, especially among young professionals who already have experience. For the next stage of our growth, this is unavoidable.

#### **Milestone GRP - What kind of growth do you expect for 2012?**

**Mr Tejada** - The numbers we have been getting are almost unreal. It is illogical to say that we grow 35% annually. We will grow much less in 2012 than in 2011 mainly because public works contracts have been delayed. But 2013 will also be very strong.

#### **Milestone GRP - How are you financing this growth for 2013?**

**Mr Tejada** - The shareholders have a policy of reinvestment, which has been very strict, so we reinvest almost everything in the company and our operations. This directory is currently doing a moderate dividend. Our debt is very low and so much capital comes from our shareholders. The company has been valued by a major international bank for a possible future public offering. We have taken the initial steps to prepare ourselves for making a public offering, and we will have to analyze if we go ahead and do so in a favorable environment.

The company has a reasonable level of capital for starting up projects that we acquire through concessions. So we are prepared for what may come or the capital demands that might be required at any given moment.

Currently in our portfolio we have concessions in several different areas. We have mineral concessions and concessions promoting and developing projects for power generation. So currently we have a diverse range of investments and a large portfolio. But we are open to financial opportunities. We have arranged international audits by PwC, the company is well-valued and our lawyers have completed all the correct due diligence processes; thus we will be prepared for any further options as far as financing is concerned.

#### **Milestone GRP - In five years, how do you see Obrainasa as a company?**

**Mr Tejada** - The company should have revenues - not only in construction and public and private contracts - but solid revenue from parking, roads and power generation. These are the three areas we are working on.

#### **Milestone GRP - Is Peru a country where you can have the same growth in the future?**

**Mr Tejada** - The reality is that there are significant opportunities for private and public investment in Peru. The state still doesn't fill the required investment as it should. Private participation is extremely important in the opportunities of the country. This is where there should be greater participation, especially from international companies. There are opportunities to close the gap with investments. And the political, social and economic stability in the country means security for investors.



## Graña y Montero

### “Infrastructure to Connect and Develop”

Interview with Mario Alvarado Pflucker, Group Corporate General Manager of Grupo Graña y Montero

**Milestone GRP - Despite recent years of growth in the Peruvian construction and infrastructure sector, there is a feeling that this is not enough to catch up with the general growth of the country. How can this process be sped up?**

**Mr Mario Alvarado** - The development of an infrastructure project requires the consideration of particular variables that are different from the customary analysis. As an example, the need for financial resources and the time factor in terms of maturity cycle, execution and impact are different, and these usually contrast with the overwhelming need for infrastructure that a developing country such as Peru requires. Nevertheless, this also constitutes a great opportunity for both the public and private sector to develop joint solutions that could be materialized through concession agreements or public-private partnerships. To structure, finance, execute and maintain this infrastructure is not a simple task, but is the path we must take, facing the challenges it conveys.

For example, the analysis of supply and demand for a specific infrastructure project cannot be performed in a linear order, but should be considered as simultaneous dimensions of the same solution in which the public and private sector contribute from their roles and capacities, within a risk assessment matrix in which the future benefit or profit will be a result of a present financial effort. Hence, the public sector performs a role that is key, and is complemented by the private sector's contribution. Co-financing is an example of that.

Another important matter to consider is the maintenance of infrastructure, something that also requires both the public and private sectors to have a long-term view of the infrastructure's contribution to the country's sustainable development.

**Milestone GRP - The entire Latin American region has been experiencing significant growth. How do you view the role of large infrastructure projects in connecting the whole region to improve trade?**

**Mr Alvarado** - Regional integration is a permanent objective, but not without challenges. One of them is our geography, which configures a challenging landscape for the development of infrastructure projects; either in the Coast, the Andes or the Amazon. The conditions under which these projects are executed, the related costs, deadlines, and other factors all demand a vision that goes beyond the short or medium term. They are sustained by developments promoted by other strategic activities such as mining.

**Milestone GRP - What has been your experience within the real estate sector and how do you see the future of this sector?**

**Mr Alvarado** - We have done very well in real estate and this is a segment we've been participating in for many years now.

We are a relevant player in the low-income housing sector, a sector that had not developed an important demand until recently, due to a few reasons. Firstly, the availability of long-term credit for this market has developed in the last five years. Secondly, the residential housing market still had attractive returns and potential to grow. Furthermore, the largest component of housing construction was self-construction, an activity that has been gradually replaced by the private sector. And finally, you also see a cultural shift where people are no longer purchasing a property for life but one to suit their current needs.

**Milestone GRP - You are responsible for the operation of the Lima Metro, which is an iconic project in the city. How has this project evolved?**

**Mr Alvarado** - The Lima Metro is a very complex and challenging project since it hadn't been working for the past 25 years, so all the infrastructure needed to be updated and modernized. Working at an initial stage with the existing old rolling stock is probably the most challenging part of the whole experience - we are scheduled to start receiving the new trains in 2013.

“Regional integration is a permanent objective, but not without challenges.”

We were awarded the concession by partnering up with a company from Argentina that has railway management experience. It's a joint venture where they participate with 25% and we participate with 75%. It's been working pretty well. Our partners are very impressed by how the train operates on a very punctual schedule, and the reaction from customers has also been very good. It is also important to mention that in line with our philosophy of delivering beyond our contractual obligations, we have selected the Lima Metro as a lever to spread the value of citizenship among the population of Lima.

The next challenge will be securing the connection between the existing line and the new ones, as well as with other public transportation systems in order to create a public transport network. Having the public sector at every level (national and municipalities) agreeing on this will be the key issue.

## Mota-Engil

### “Finding Growth Across the Board”

Interview with Rui Guimaraes, CEO of Mota-Engil Peru

**Milestone GRP - The health of the construction sector says a lot about the economy of a country. What do you think this sector is saying about Peru?**

**Mr Rui Guimaraes** - In the first place, Peru is experiencing a big growth in the middle-class that generates a growth in the need for infrastructure. When this happens, more houses and cars are needed, then roads, and public transportation, and so on. So nowadays the growth in construction and infrastructure is pushed by this middle-class, which at the same time grows because there's a significant increase in the investment from the private sector, which then allows more employment. It's a virtuous cycle.

That is why Peru is a refuge for international investors' capital because Peru has not seen recent crises like the rest of the world is experiencing. You can conclude that this is not a temporary thing, but will be sustained growth during the next 10 to 20 years. These past 20 years have proven that there's no major change in the economy, which results in major returns on investments.

I came here only three years ago from Portugal and what I see happening here, I saw 30 years ago there, and that's why we are investing a lot in machinery, human capital, preparing to do something we know that will happen for sure. We have seen this kind of cycle before and we know it will keep on happening for years to come.

**Milestone GRP - What would you say are the main challenges to improving the infrastructure in Peru?**

**Mr Guimaraes** - Companies are giving money for social programs but local governments need to invest faster and in better projects. We need to make sure that the money really reaches the local communities and we need to promote their development, because it is not for lack of money that these communities are disadvantaged. The strong regulations in Peru actually make it quite bureaucratic so there are a lot of controls that make the reinvestment procedure a bit slow. Unfortunately, it is not that easy for a local government to reinvest that money immediately since they have to go through a lot of procedures and approvals.

It's an incredible situation where you actually have the money to build these projects, the need for them and the human capital required to develop them, but you don't have the necessary procedures to make it happen quickly enough to see significant growth. With such conditions you shouldn't find these kinds of social problems.

**Milestone GRP - What has been your experience in developing public-private partnerships with the Government of Peru?**

**Mr Guimaraes** - The experience is good and ProlInversion works very well in providing the required information and facilities to the processes. The procedures and how the government

assigns these projects are clear and transparent. There's no subjective evaluation of the offers, which allows us to rely on the system. It's very trustworthy.

We won one of these bids. There are two other projects we are bidding on right now. One is the airport in Chincheros where we have been shortlisted with five other companies. Unfortunately, with the elections, the project was put on hold. It is also because the local government has a bit of an issue with the expropriation of lands required to build the airport. We have recently heard that they are re-launching the project so we are still interested and will keep on trying to win it.

At the end of the day, we do believe that in Peru you find an almost perfect symbiosis because the international markets are looking for safe places to invest and get benefits. In Peru you also find a strong need for building infrastructure and you have companies like us, which have the capacity to build a lot of projects at the same time and the international experience and background to secure its successful development. So we are the company who can do it, there are international partners who can provide the money and the country needs the infrastructure.

**Milestone GRP - What are your main projects?**

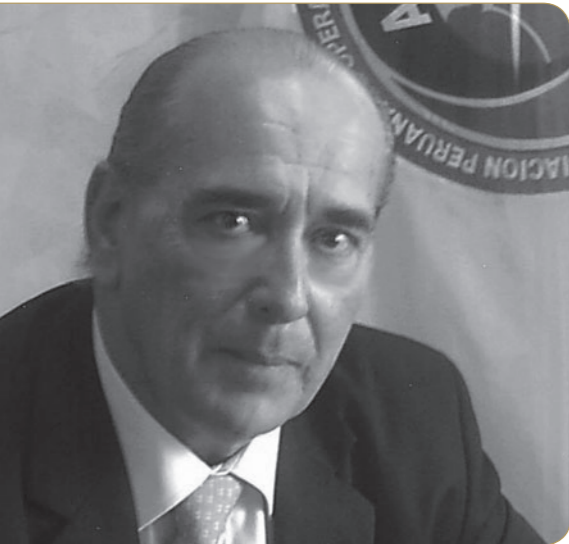
**Mr Guimaraes** - The main projects are in construction and acquiring more PPPs. Specifically, we are working a lot on electricity generation because there's a significant growth in the demand of energy and we are looking for more investors to come invest with us.

We are working a lot in the ports sector, trying to acquire new projects. So we are participating in the bidding process for Tisur, APM Terminales and the Port of Pisco. For our existing project in the Port of Paíta, we are working really hard and have recently begun the expansion program, which is a US\$ 110 million project very much in line with what we are used to doing.

In the mining sector we are also participating in all the available bidding processes. Currently, we are working in Las Bambas on a US\$ 200 million project, in Toromocho with Chinalco and we have been working with Antamina for years now. In the roads sector we are working mostly in cooperation with other companies. In the real estate sector, which is the newest area of development, we are also doing really well. In this case, we are not only building our own projects but participating in the social programs that the government is developing. And now we also want to start building for third parties to help increase our portfolio.

Recently we have presented a specific proposal to enter into the trains sectors by developing a line for Xtrata Copper, where we have great experience. Finally, and in line with our sustainable growth strategy, we are developing our own laboratory to help certify the quality of our projects and provide this service to other companies.





## ASPPOR - Association of Peruvian Port Operators

### “Latin America’s West Coast Transportation Hub”

Interview with José Vicente Silva, President of ASPPOR

**José Vicente Silva** is the President of ASPPOR, the Association of Peruvian Port Operators. Besides his position at ASPPOR, he is also the Executive Director of Grupo ALSA, and the CEO of the Customs Agency AGESIL. He has an undergraduate degree in Economics from the Universidad de Lima and a post-graduate degree in Finance from ESAN.

**The Association of Peruvian Port Operators (ASPPOR)** is a Peruvian group of 25 of the most important companies that provide goods and services for the port, maritime, and logistics sectors. ASPPOR has as a mission to be the promoter of the development and growth of its members and the sector, and to establish Peru as a logistical hub in the region.

Milestone GRP met with José Vicente Silva to discuss how the ports system in Peru can facilitate global trade by being the leading transportation hub on the west coast of Latin America.

**Milestone GRP - How would describe the evolution the Peruvian port system has gone through over the last decade and its current state?**

**Mr Vicente Silva** - Twelve years ago we decided to create the Association of Peruvian Port Operators (ASPPOR) in order to reduce the country's port infrastructure deficit. ENAPU, the national port company, had stopped investing in the sector for at least 30 years; therefore Peru was not ready to take on the challenge of foreign trade without proper infrastructure. Then, during Toledo's government, the south wharf of Callao and the Jorge Chavez International Airport were put out to tender. The airport is located only 7 km away from the port, which facilitates inter-modal transport. Given the strategic position we have, and the investments that are going to be approved this year, we are going to reach our main goal of turning Peruvian ports into the hub of the South American west coast.

**Milestone GRP - The President of the Peruvian Port Authority (APN) was also elected President of the Inter-American Committee on Ports (CIP) of the Organization of American States (OAS). What strategy is needed in order to accomplish growth not only at the national level but also at the regional one?**

**Mr Silva** - We are very glad that Vice-Admiral Frank Boyle was also elected President of the CIP. Ports are chosen by shipping companies. You need to be able to find a balance between supply and demand, importers' and exporters' needs and the needs of the shipping companies as well. You need to meet the needs of the main users of the port, which are the shipping companies. There are ports that still have to develop properly on the west coast of South America, including Colombia, Chile, Ecuador and Peru as well as in Central America where they are greatly evolving with Panama as a hub for container movement.

The development of Venezuela is also very important even though they are not allocating great resources to the port sector. On the other hand, Mexico is taking the issue very seriously. Both Argentina and Paraguay are improving their ports through investments. Uruguay is also greatly expanding in terms of their strategic position, which allows them to supply the entirety of Mercosur not only with ports but also with logistic distribution centers for all the countries of Mercosur.

**Milestone GRP - It is estimated that the port sector in Peru requires an investment of US\$ 3 billion. Which are the ports that most need these resources?**

**Mr Silva** - We definitely need to find alternatives to the Port of Callao. The Port of Callao is strategically located and has been improved with some good infrastructure work, but we still need to have some alternatives in case of a natural disaster. We believe that the Port of Pisco is one that should be put out to tender by this year so that the private sector will be able to make the proper investments in order to turn it into a valid multi-purpose alternative to the Port of Callao. In the South, where the Port of Ilo and the Port of Matarani are located, the petrochemical industry is developing and that is going to need an efficient port infrastructure in order to export oil-based commodities.

The service required, therefore, must be very efficient and of very high quality. We have estimated that the petrochemical industry will be moving around 400 containers a day so we need to create good port infrastructure in the South, as well. In the North, the Port of Paita has already been bid out, and it is big enough to supply the entire North. This port is important because it links the Brazilian Amazonian industrial area with the Pacific coast of Peru for its exports to Asia. The Port of Yurimaguas has already been bid out and they are now carrying out the technical studies. Work on that port will start in 2013.

**Milestone GRP - For the first time ENAPU experienced losses in 2011, what does that mean for the future of the state-owned company?**

**Mr Silva** - ENAPU experienced some losses in 2011 because it stopped its operations in July 2011. APM Terminals is going to move forward with its investments and ENAPU works in partnership with APM Terminals. ENAPU is going to see high profits from this partnership in the long run.

**Milestone GRP - There are many foreign companies willing to invest in the port sector. What stance does ASPPOR take on foreign investments?**

**Mr Silva** - I think foreign investment is essential for us even if there are Peruvian companies able to invest in the sector. APM Terminals is investing in the northern wharf of Callao but other big investments are being carried out by Peruvian companies.

**Milestone GRP - Are off-dock warehousing companies part of the solution to the congestion experienced in the Port of Callao or are they adding to the congestion?**

**Mr Silva** - I think that off-dock facilities complement port terminals. In every port of the world there is an area that provides logistic support where containers can be filled and emptied. Off-dock terminals provide good flexibility of services offered to its clients. I think without off-dock terminals we would not have the ability to move as many 20-foot equivalent units (TEU - inter-modal shipping container) as we do. DP World has a capacity of 250,000 m<sup>2</sup>, while APM Terminals is creating storage areas of about 300,000 m<sup>2</sup>.

**Milestone GRP - In terms of the connection between the Peruvian ports and Brazil, for example, do you think that a railway system may facilitate transportation?**

**Mr Silva** - A railway system is definitely a priority for us. We have been strong promoters of a railway system to be const-

ructed in order to improve container transportation and boost foreign trade. The government is actually in favor of the construction of a storage terminal in the eastern part of Lima that would receive the containers coming out of the port through a railway system. It would avoid the constant flow of trucks through the city of Lima. At the moment the project is being discussed and we are supporting it. The railway system is a big priority for us because it would translate into lower transportation costs and facilitate Peru's foreign trade activities. We stopped constructing railways more than 60 years ago. Today a railway system is key to our growth. We also need to improve the road network in order to facilitate transporting goods between the port and the city.

“Our main goal is turning Peruvian ports into the hub of the South American west coast.”

**Milestone GRP - Are you working on specific projects for 2012?**

**Mr Silva** - Our priority for 2012 is to award the bid for the Port of Pisco and to define the development of the Port of Ilo in accordance to the development of the petrochemical industry in that area.

**Milestone GRP - 71% of the exports directed to the Chinese market are carried out by small- and medium-sized companies. What are you doing in order to facilitate their export activities?**

**Mr Silva** - Our off-dock terminals are essential to these small- to medium-sized export companies. They need space to gather their goods to be exported later.

**Milestone GRP - What vision do you have of the port system after the upgrades are made?**

**Mr Silva** - I see the Port of Callao as the hub of the South American west coast moving 5 to 6 million TEUs. We should also have good alternatives to the Port of Callao like the Port of Pisco, but we also need an alternative airport like the airport in Pisco. I would like to see our exports continue to grow like they are now. In addition, I would like to see Peru exporting more sophisticated products with a greater participation of the national labor force.

Peru is geographically located in a very strategic position on the west coast of South America and it has huge growth potential. Peru has a coast that is 3,000 km long and we are developing the port infrastructure to boost Peru's foreign trade. Peru is experiencing constant growth and at the same time is carrying on with its fight to reduce poverty levels. 20 years ago the country went through a major change and we started following the right path that has allowed us to get where we are now and reach a very high level of competitiveness in the port sector.



## APM Terminals

### “The Biggest Port Investment on the West Coast of Latin America”

Interview with Henrik Kristensen, CEO & Director General of APM Terminals

**Milestone GRP - Peru is committing around US\$ 3 billion to modernizing its port systems over the next five years, which fits into a larger infrastructure strategy that the government has allocated considerable funds to. Do you see Peru as a future logistics hub for South America?**

**Mr Henrik Kristensen** - Presently, we have about US\$ 2.5 billion in investments in the ports of South America. We felt that on the west coast of Latin America there was a missing link, and we had been evaluating that for a long time. Finally we came into Peru with the idea that we could transform the Port of Callao into a world-class port and create a hub. The private initiative we proposed was considered a good idea, but they decided that they wanted to put the idea out for a bid. The approval for the concession was initiated in 2010 and was finalized in 2011 when we were awarded the port on 1 April, 2011.

“The most important thing about a logistics hub is that it is an engine that can accelerate national and regional growth.”

The most important thing about a logistics hub is that it is an engine that can accelerate national and regional growth. Apart from this, there is a uniqueness to having a hub here. Most hubs are volatile, because they mainly concentrate on transshipments, and the transshipment business is a risky business: from one moment to another, shipping lines may decide to find another place to ship their cargo. Therefore you can suddenly lose a big chunk of your business. If you don't have a home market to serve, and many markets don't, you are in a bit of a problem. The good thing about Callao is that it serves Peru first and foremost. It is the gateway of cargo for imports and exports in a growing economy that has huge projects and expectations. Peru is also on the axis between Brazil and China, and this is very interesting. In the future these countries will start to do more business with each other. It is important to think about, not only moving products up and down the coast, but also what we can move from Western Brazil to China. We saw the port of Callao as a great opportunity.

**Milestone GRP - How would you describe your relationship with the Peruvian government? What has your experience been like so far?**

**Mr Kristensen** - We have a very good relationship with the government. We are investing US\$ 750 million within 10 years and the two phases are currently in progress. These two phases will be completed by 2014 at the latest, but we are actually speeding up the process and should be finished 6 to 12 months earlier than expected. Our agreement with the government specifies that the government will receive 51% over the next 30 years; so this is a marriage with the Peruvian state, no matter

what administration is in charge. Every time we make US\$ 100, Peru will get US\$ 51 in return and we will get US\$ 49. We have to make the investment, we have to develop the port, attract customers and bring everything in. At the end of the concession we have to hand everything back to the government. So you can imagine why we are so eager to get this done quickly. We simply need to invest quickly in order to recover our money quickly. The relationship with the government has been great and I think APM Terminals will have a lot to show for our work.

The socioeconomic effect that this concession will have is much bigger than the monetary effects themselves. It will kick-start the local economy of Callao and Lima, creating a driver for growth in new areas and markets, which are not here today. We're here to create commerce and increase trade, and therefore we need to take in the biggest ships while improving all logistics. What is the advantage of taking in the biggest ships? It means that the cost per unit will go down because of economies of scale.

**Milestone GRP - What are some hurdles to achieving increased capacity?**

**Mr Kristensen** - Congestion is a big issue. It is caused by the transportation of cargo along roads, which become particularly congested because there are no railroads for this purpose. For example, cargo in the South is moving up from Arequipa, up along the highway until it reaches Lima. By then, the inland leg is more expensive than the sea leg. That just doesn't make sense. So this is the next big issue for APM Terminals Callao. This country is lacking a rail system and it needs one that goes up and down the coast.

**Milestone GRP - How do you view the existing infrastructure supporting this port's operations?**

**Mr Kristensen** - One of the main concerns is actually about that. We are developing a world-class port, but a world-class port will not operate if the infrastructure on the other side of the gate does not correspond. We are working closely with the government and the Minister of Transport and Communications to explain what we think will happen when the cargo begins to grow considerably.

**Milestone GRP - What types of clients are you looking to attract in the future?**

**Mr Kristensen** - All of the grain products coming into Peru will be coming through APM Terminals. So, essentially, we will develop the grain sector in Peru. On the other hand there are 15,000 cars coming in per month, and we want to increase that number by being more logistically efficient. We are a multipurpose port so we have the cars, the grains, the minerals, the tank ships and a variety of other things. As well, the containers will come here from the biggest ships in the world. We are going to have 12 big cranes, and the port has a 3 million TU throughput a year. This is the size of the port we have in Rotterdam. This is a big port.

## Vía Parque Rímac

### “Connections at the Heart of Lima”

Interview with André Giavina Bianchi, CEO of the Vía Parque Rímac Project

**Milestone GRP - The Ministry of Economy and Finance has declared that there is a deficit of US\$ 40 billion in infrastructure here in Peru. In what ways do you see this problem being addressed?**

**Mr André Giavina Bianchi** - Peru has grown tremendously in the last few years at an average of over 7%, even growing during the global economic crisis, and the infrastructure simply hasn't been able to keep up. I was here over 17 years ago and then returned to Peru 10 years ago, and the change during the last 10 years is astonishing. There has been an increase in per capita income, but in the case of the infrastructure, not much has changed. For example, the auto industry is taking off. They estimate 190,000 new vehicles will be on the road in the country in 2012. This is the fastest growth of motor vehicles in Latin America, but little progress has been made to create the proper infrastructure to handle this growth. Not only is there an infrastructure deficit, but Peru's geography further exacerbates the problem. However, from the viewpoint of an investor, this is an excellent location with a strong pipeline of government bids that are continually being turned out.

**Milestone GRP - What is the Via Parque Rimac project?**

**Mr Bianchi** - The concession consists of 25 km of highway in the center of Lima. We are working on 6 km of the road that already exist, and we are constructing 9 km of new road. Basically, it connects two of the most important highways in the country, the Panamericana Sur and Panamericana Norte, with the central part of the capital, which is where a lot of industry is.

Currently there is no road connecting the seaport and the airport. This project makes that possible. As this road travels along the River Rímac, part of the highway will travel under the river, doubling the capacity of the road. Nowadays the roads are 100% occupied so this will facilitate movement from this area to the center of Lima. We believe this project has great potential.

**Milestone GRP - How have the political structure and public institutions affected your investment here in Peru?**

**Mr Bianchi** - If you have a commitment and there is political stability and support, things will run smoothly even if the bureaucracy doesn't follow through as you would like. To give you a concrete example, we received financing in June 2011 worth US\$ 530 million in 25-year bonds and debts issued locally and linked to the Nuevo Sol. We expected it to come around US\$ 150 to US\$ 200 million from local bonds and loans, and the remaining part from foreign loans and bonds. But to our surprise it was completely financed from within Peru.

This brings greater strength to the project. The investors and bond-holders are here. They know of the need for infrastructure, and this mentality is backed by thousands of local investors. Fifteen years ago, this wouldn't have been possible. This, in turn, will also pave the way for other investments in the future. It's

important for companies to find an available pool of resources, which would be hard to find in another country.

**Milestone GRP - The project will have social ramifications since there are areas where you will have to relocate families in order to complete construction. How are you working with the community to create alternative housing?**

**Mr Bianchi** - There are about 1,000 homes involved. Most belong to unlawful residents, who came to the area about 30 years ago. 80% of those buildings involved are occupied by residents who don't hold the appropriate deeds to their property. They live in a state of risk with many of these homes not being up to minimum legal standards. We are creating a powerful social program, and we have already relocated 65 families and we are constructing 420 homes.

“From the viewpoint of an investor, this is an excellent location with a strong pipeline of government bids.”

We assess the condition of the home and determine its value in dollars. If the home is worth under US\$ 30,000, we guarantee them a home valued at US\$ 30,000. If it is worth US\$ 70,000, we guarantee a home worth US\$ 70,000. So we guarantee at least the current value of the home. Socially speaking, it is a powerful program for the most vulnerable parts of society. Due to the results that we have already been able to show, we have generated trust with the people in the area. They are now living in a safer area with proper deeds to their own homes. Now the people in this area are able to apply for credit as homeowners. Now they have an asset which they can pass on to their children. This changes their social status and place in society.

**Milestone GRP - How will the road affect the homes and business centers around it?**

**Mr Bianchi** - The project is self-sustaining. The better the roads are, the more people can travel through here. We're investing US\$ 700 million in a project so that the road is open and usable 24 hours a day so that trucks can use it at night. This is not merely a simple road project, but rather it generates service, security, and greater earnings. This goes beyond the construction of a simple highway; it positively impacts the residents of the adjoining neighborhoods. The social aspects of this project are very important as we're looking at a long-term solution that satisfies the needs of the residents as well as the city. It converts an inactive area of the city into a commercial center of Lima.





## Everandes

### “Always a Step Ahead in our Operations”

Interview with Moises Woll, General Manager of Everandes

**Moises Woll** is a graduate from the Thunderbird School of Global Management, Arizona. He holds wide experience in the logistics services sector and previous to founding Everandes Group worked in the energy sector in the US.

**Everandes** is a Peruvian business group with proven experience and tradition in the shipping industry. It is dedicated to providing services for shipping lines, importers and exporters in areas such as liner and non-liner representations, port agency, terminal and depot activities, logistics, freight forwarding, warehousing, and other related activities. It is present in Peru, Bolivia, Chile and USA.

Milestone GRP talked to Moises Woll to discuss how Peru's port infrastructure is growing to handle higher traffic due to the growth in international trade.

#### **Milestone GRP - What are your views on how Peru's ports are being developed?**

**Mr Moises Woll** - We applaud and obviously agree with the concessions that previous governments have started and that have continued with the current government. Regarding the sea ports, the bid process for the south pier, granted to DP World, was important to upgrade the existing infrastructure. These investments in its expansion and upgrade allowed new and more shipping companies to come operate at the Callao port, increasing trade flow in Peru. After that came the concession for the Port of Callao (previously owned by ENAPU and including Pier #5 or “North Pier”) granted to APM Terminals, who are also moving forward according to the contract terms of the concession and in some occasions accelerating their investment plan. Those two privately operated ports have created competition and as a result, benefited the final users, not just the exporters or importers but the operators throughout the logistics value chain.

Another point that needs discussion is the access to the port itself; there is no highway that lets you enter Callao in an efficient and fast way. There isn't a clear plan of what is going to be done with the access ways to the Callao port. Even

with the progress being made, the cargo moved today is still way too much for the quality of the roads. In the last 5 years, the loading volume has grown 70% and you would expect that the road infrastructure would grow at the same pace but it hasn't been that way. That is the main problem that we see with the development of the port.

#### **Milestone GRP - What are private companies doing to correct this lack of infrastructure?**

**Mr Woll** - The private sector is very important when it comes to the development of terminals outside the port. The “off-dock” container yards located a few kilometers from the Port of Callao allow clients to pick up and return containers outside the port where they can have faster access and more flexibility from the vast number of off-dock container yards. So then the operators of the terminals outside the port deal with the problem of carrying the loads in and out of the port by having a very detailed plan and program following the dates of arrivals and departure of the ships in the port. This reduces traffic and takes the problem off the client.

When this process of modernization started, everybody agreed that we needed modern ports with adequate equipment,

which is why there was tremendous support for the privatization of the ports. But at that time, we were already feeling the limitations of the existing infrastructure. Today, we can certainly see improvements but we still have infrastructure problems around the port. There is still room for much more improvement in order to make the Callao port the hub that we all want it to be.

#### **Milestone GRP - How does the Everandes group of companies fit into the logistics value chain?**

**Mr Woll** - Everandes has a long history in the shipping industry. We started operating in the 1970s where we represented several shipping lines like Prudential Lines, Johnson Line, Likes Lines and Nedlloyd, which was previously Royal InterOcean Lines. The Everandes Group, as it is known today, was formed in 2000. As a group we handle the commercial representation of three lines: Evergreen Line, APL and Dole Ocean Cargo. Through the TPP terminal we also handle these three cargo lines as well as Cosco and other third-party companies. Due to these representations, Everandes Group started to grow at different points in the logistics links, creating TPP as a port agency and off-dock container yard and launching an integral logistics and freight forwarding company called Sealand Logistics.

“We are considering starting dialogues with international partners who are interested in entering the market and able to provide financing for larger projects.”

We also opened offices in Paita and in Arequipa to provide services to our clients in Peru's southern region and Bolivia using the Matarani Port. We also opened offices in Santa Cruz, Bolivia, since there was a lot of cargo movement coming from there to the Matarani Port. Bolivia, being a landlocked country, moves cargo through Peru, Chile, and Argentina. Since Arica, Chile was a main entry port for Bolivian cargo, we also opened an office in Arica, in order to serve the Bolivian cargo that goes through Chile. Also, in 2011 we bought a cargo agency in Miami and are currently evaluating doing the same in Asia.

The group was born to provide exclusive representation services for international cargo lines, but we are also very cautious here because they are independent companies that compete in their commercial strategies, so each one of them are represented with absolutely independent structures. Of course the back office and logistics support is done as one single unit by TPP, but the commercial strategies are developed independently.

One of our main strategies as a group is being always a step ahead in our operations and not waiting until we are saturated

in order to take steps forward. Peru is growing at an impressive pace. There's political and economic stability, so sooner or later bigger ships will start to come and we have to be ready. For our commercial offices we are always looking for qualified personnel and the right manpower. We are always looking to develop in terms of infrastructure, permanently reinvesting and growing. And all these actions go hand-in-hand with the country's perspective of growth.

#### **Milestone GRP - How are you financing this expansion and growth?**

**Mr Woll** - Thus far, our commercial operations have been financed mainly with equity and investment in TPP has been financed in part with equity and in part with a mix of credit structures provided by local banks. However, we are aware that there are opportunities to take advantage of, especially in large infrastructure projects, so we are considering starting dialogues with international partners who are interested in entering the market and able to provide financing for larger projects.

#### **Milestone GRP - With the global changes that have occurred over the last 5 years, how has your client list evolved?**

**Mr Woll** - With the free trade agreements there has been a shift in Peru's trading partners and we are also seeing Peruvian cargo being moved to new destinations worldwide. Up until a few years ago, the main commercial partner of Peru was the US but that has changed, especially now that we have an FTA with China. In general, Peru is an importer of medium products and end products, and an exporter of raw materials. We import a lot of finished products from China and export a lot of raw material to Asia. There are certain metals that go to the US and Europe. What is really important to highlight is that there is a big regional market. If you add trade operations between Peru, Chile, Ecuador and Colombia you come close to the total trade with China.

We already have operations in Chile, Bolivia and the US, and we are also paying a lot of attention and already have requests from current customers and Brazilian exporters to ship merchandise from Matarani Port in order to take advantage of the Peru-Brazil-China corridor that is currently being developed by the three countries. This is a very interesting development area.

#### **Milestone GRP - How are you differentiating yourselves from the competition?**

**Mr Woll** - We strive to develop our own service strategy based on our experience with customers. Although it is important to keep watch of what the competition is doing, we really focus on our own strategy and develop our own identity. Our focus on customer service usually goes beyond what we are required to do and go the extra mile with the client. This is our priority and we push this concept to everybody in the organization. We promote a company philosophy that takes care of our internal talent.



# Mining & Energy





# Mining and Energy: Encouraging Peruvian growth

by Pedro Martínez Carlevarino, President of Peru's National Society of Mining, Petroleum and Energy (SNMPE)

The mining, hydrocarbon and electricity sectors have been key elements to making Peru one of the countries with the best economic growth in Latin America (an annual average of 6.4% over the past 10 years) and achieving a fiscal surplus of 1.9% of GDP in 2011. These results would not have been possible without the legal, economic and political stability in the country, which have helped to establish Peru as an important destination for investment.

To date, the Peruvian mining and energy sectors have an investment projects portfolio of more than US\$ 68 billion for the next 10 years. From this total amount, more than US\$ 53 billion is directed at mining operations, about US\$ 9 billion to the oil sector and more than US\$ 6 billion for electricity. This investment potential is a great opportunity to promote further development for Peru.

## Mining

From 1995 to 2011 the accumulated mining investment in Peru reached US\$ 29 billion. In 2011 alone, it totalled US\$ 7.202 billion, a 77% increase from the previous year. Thanks to these investments, mining production has increased and the country has been able to take advantage of the high commodity prices.

This has helped to boost our exports in recent years, establishing mining as the largest profit generator for Peru, with over US\$ 27 billion worth of exports in 2011 (60% of Peru's total exports). Also, it has significantly contributed to raising tax revenues, being able to generate around 35% of the income taxes collected by the Peruvian administration.

This dynamism has turned Peru into one of the leading producers of various metals worldwide. For example, we are the second largest producer of copper and silver in the world and the sixth largest producer of gold. In Latin America, we are the leading producer of gold, zinc, lead and tin.

While in 2011 the Peruvian production for most metals fell, it's expected to recover in the coming years with the implementation

of new projects and expansions. As noted above, this portfolio of investment totals more than US\$ 53 billion, 66% specifically for projects that produce copper. Following copper, we find gold and iron projects, each one of them with an estimated 13% of the total investment. In the pipeline, but with smaller amounts of investment, are also projects to develop zinc, silver and phosphate production, among other minerals.

“The Peruvian mining and energy sectors have an investment projects portfolio of more than US\$ 68 billion for the next 10 years.”

Regarding the status of these projects, it should be noted that 37% of them already have an approved Environmental Impact Study (EIS) and that 16% are expansions of existing operations. The rest of this package goes to exploration projects, which represent 46% of the projects.

According to a study done by the Peruvian Institute of Economics (2012), if the expansion projects and the ones with an approved EIS (representing approximately US\$ 28 billion worth of investment) were the only ones actually carried out, Peru would export an additional US\$ 14.877 million annually, increasing the Peruvian GDP by US\$ 21.869 million a year. Also, thanks to mining synergies with the rest of the Peruvian economy, these projects would create 1.1 million permanent jobs during their operation time and this would generate a tax revenue increase of around US\$ 3.7 million per year.

## Hydrocarbons

The great potential of the hydrocarbons sector in our country has attracted the attention of different companies operating worldwide. Currently, there are 13 companies in the operating phase and 31 in the exploration phase, representing an investment of US\$ 1.361 million in 2011. In the last 10 years, the accumulated investment climbed up to US\$ 8.484 million.

In terms of production for 2011, liquid hydrocarbons production averaged about 153,000 barrels per day, while in 2001 it was only 97,000 barrels per day.

However, the fuel that stands out is natural gas, now that the Camisea Project has begun its operations. Thanks to this activity, natural gas production in Peru increased from 43 million cubic feet per day in 2002 to over 1,000 million cubic feet per day in 2011. This product's exports began in June 2010, and in 2011 natural gas exports had already reached US\$ 1.284 million, 353% more than in the previous year. In 2011, hydrocarbon activity generated more than US\$ 2 billion in royalties for the Peruvian State. With regard to future investments, according to the Ministry of Energy and Mines, the Peruvian government, through PeruPetro, is launching new lots for concessions. They've made it easier with the "one window" process that was created to streamline the permitting and authorizing process so that companies only need to go to one place to get all their approvals.

The portfolio of investments in this sector involves further exploration activities as well as improving the modernization process of refineries, service stations, and storage and gas transportation terminals.

Note that a key issue for the government is the development, by exploiting gas, of the petrochemical industry in the south of the country, which involves investments beyond US\$ 15 billion. The government hopes that this will mark the beginning of a decentralized industrialization era in Peru.

## Electricity

The electricity sector has also contributed to the Peruvian productive and social development. Its investments reached US\$ 11,392 billion between 1995 and 2011. In just 2011, it generated US\$ 1.880 billion worth of investments, 37% more than in the previous year.

These investments enabled an increase of 130% in the country's electricity generation capacity by adding more than 7,500 km of transmission lines and increasing national electricity coverage from 60.5% to 84.8% between 1995 and 2011. These investments have substantially improved the service quality, establishing standards that are within the highest in Latin America.

Additionally, investments have allowed Peru to diversify its electricity generation sources. In 1995, 61% of the electricity capacity was generated by water and the remaining 39% corresponded to residual/diesel. In 2011, water sustained its significant share at 58%, but the residual/diesel represented only 2% and natural gas moved forward to produce 38% of the total capacity, leaving coal and biomass as the least utilized source with 2%.

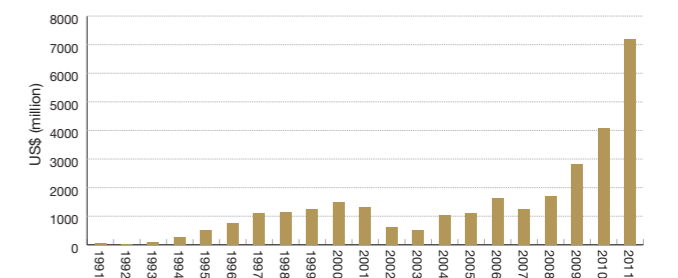
An important fact for the sector in 2011 was the commissioning of the first section of the Chilca-La Planicie-Zapallal Transmis-

sion Line, which is the first 500 kV line operating in the country. This line, which strengthens the existing transmission system, represents a significant technological improvement in transmission networks.

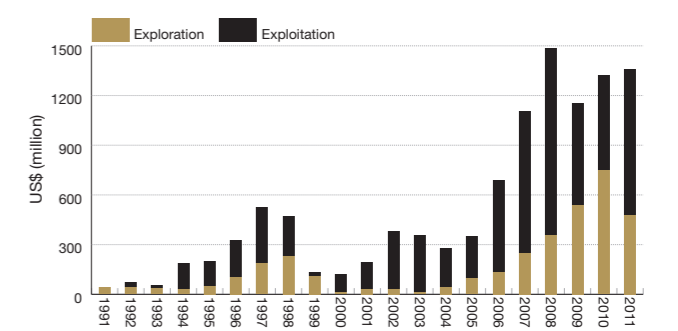
For the coming years, investments are expected to be focused mainly on hydroelectric plants, which represent 58% of the more than US\$ 6 billion portfolio of investments. Investments for high voltage transmission lines are at 14%, unconventional renewable energy projects at 12% and thermal plants fuelled by gas at 9%, among others.

As a result, the electricity generation projects that are in advanced stages of studies and execution represent around 4,000 additional megawatts that must be operational in the coming years. These investments are needed to meet the growing electricity demand that comes as a result of our economic growth, which will be around 6% in the coming years.

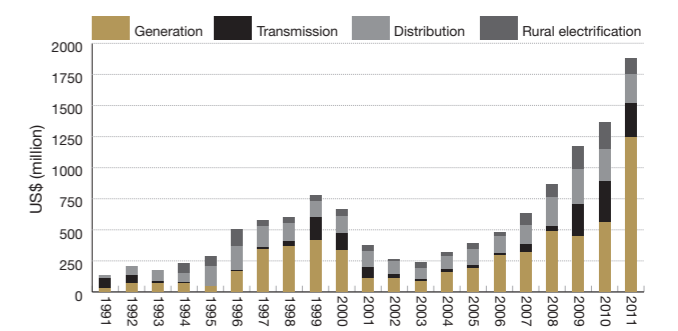
As we can verify, the mining and energy sectors have been an important engine for the growth that Peru has experienced in recent years and still have great potential to keep on adding value across multiple investment opportunities.



Investments in Mining Source: MEM



Investments in Hydrocarbons Source: MEM



Investments in Electricity Source: MEM







## Ministry of Energy and Mines

### “Improving the Conditions Under Which Mining Is Performed”

Interview with Manuel Bernales Alvarado, Coordinator for the Extractive Industries Transparency Initiative (EITI), Ministry of Energy and Mines

**Manuel Bernales Alvarado** has served as the Chair of the National Environment Council (CONAM) at Peru's Ministry of Environment, and as President of the National Environmental Fund (FONAM). For 15 years, he worked as an international specialist for UNESCO in the Social and Human Sciences Sector focusing on Central America, MERCOSUR countries and Chile.

**The Extractive Industries Transparency Initiative (EITI)** is a strategic alliance that brings together global governments, extractive companies (mining, oil and gas), civil society groups and international organizations to use transparency criteria in the payments made by mining, oil and gas companies to governments, and revenues that governments receive from these companies, so that these resources are used to promote development. Currently there are 33 countries that are implementing this initiative worldwide. In 2005, Peru was the first Latin American country to join the EITI, through the leadership of the Ministry of Energy and Mines.

Milestone GRP met with Manuel Bernales Alvarado to discuss how EITI is changing the face of extractive activities in Peru.

**Milestone GRP - Do you think that the mining sector is well-positioned to have sustained growth in the coming years?**

**Mr Manuel Bernales Alvarado** - First of all, it's important to mention that most of the current mining projects in Peru have been going on since the beginning of the 20<sup>th</sup> century. These years of experience have allowed the Peruvian mining sector to be very well positioned to face challenges. However, we need to work more in developing new exploration activities in the long run. We need to see more new projects entering the production stages as well as expansions of the current projects. There are still great mining opportunities here since only 15% of the possible areas have been explored.

Another element, and a very significant one, is the fact that the mining sector requires a long-term vision since it not only needs to fulfill current demand, but also future demand. We need to continue exploration of areas and products to see if we have them in commercial quantities, for example, in some non-metallic minerals, which are used for the development of new production technologies, such as clays.

**Milestone GRP - What is the situation with illegal mining and what is being done to suppress it?**

**Mr Bernales Alvarado** - Illegal mining activities have been going on for a long time in Peru. If we are to be successful, we need to have collaboration from both the private and public sector. The mining companies need to incorporate those who are currently participating in informal mining into their own work. Stakeholders need to have a permanent and continuous role. Thinking that this can be solved in only one or two generations would be ignoring the fact that this is an ancient activity that goes back 300 years in our country.

**Milestone GRP - How do you make sure that investments in the mining sector are transparent?**

**Mr Bernales Alvarado** - To make them transparent you need two elements. Number one is making sure that all legal procedures are conducted and are available for verification and that the information is accessible to the public. This directly influences the second element, which is related to the percep-

tion people have towards mining activities, or better said, the misperception. If you are able to educate people about mining, then you will be able to change this misconception and that will benefit you, but you can only achieve this by providing transparent information through the media and education, making information available for everyone to see.

**Milestone GRP - What would you say have been the main reasons that have allowed Peru to join EITI?**

**Mr Bernales Alvarado** - Until the 1960s, mining was small, medium, informal and artisanal; the principal exception was Cerro de Pasco Copper Corporation. The government was allowed to collect some taxes and provide financial options for small miners, but as production grew and there was more of a need for capital to extract the minerals, the informal lenders showed up in the market as a complement to a very limited lending market.

“Applying EITI rules is to promote the preservation of the environment, to develop corporate social responsibility policies, and to promote an active respect for local communities, all under the same international legal framework.”

But then from 1990 on, we started receiving mega-investments from international companies that came with their international standards and we successfully applied those

standards here. Since 2004, we have been focused on the environmental and social aspects as well.

Peru has always worked not only to eliminate informal mining, but also to encourage the growth of medium and large size operations to have a better quality of mining and to improve the conditions under which this activity is performed. Because of this experience, plus our reserves and potential of having useful resources, we were invited by EITI to join in their activities.

On the other hand, the reasons why Peru wanted to join this initiative was also a result of the foreign policy strategies that were established under President Fujimori and President Toledo's administration that aimed to make Peru an active player in the international processes and world markets. These were continued by President Garcia, and now President Humala is working to make the benefits reach all Peruvians through a social inclusion program.

Finally, applying EITI rules, not only in Peru but also in the region, means applying international rules and standards for the actual development of the activity. In addition, it is to promote the preservation of the environment, to develop corporate social responsibility policies, and to promote an active respect for local communities, all under the same international legal framework.

**Milestone GRP - What have been the main challenges you have had to face in implementing EITI?**

**Mr Bernales Alvarado** - The main challenge was building trust and credibility among all involved stakeholders. And I can say that we can divide this process into three stages: how we trust each other, how we improve what we are already doing and how we educate people about what we are doing to gain their support. By facing these challenges one by one we came to a successful result.

**Milestone GRP - Congress is looking to establish a national law to make EITI mandatory for all mining companies in Peru. Is this the next natural step?**





**Mr Bernales Alvarado** - There's not a single way to do these things. In some countries it might work better with a law. In Peru, we don't have one but it's already working pretty well and has been implemented quickly. In only half a generation since we started with its implementation, we already have 80% of the mining companies involved in it, so if this is the case, I'm not sure why you have to make it a mandatory rule. Then again, this discussion will take place in the National Congress where you will find people that support it as a law and others who don't. Even before we enter that debate, I think the participants need to discuss the need for such a law and the willingness to apply it without a law.

**Milestone GRP** - How can you take advantage of EITI to encourage more business in Peru?

**Mr Bernales Alvarado** - If we are able to show the advantages of EITI implementation to the shareholders of the mining companies, and can demonstrate their intangible benefits, such as social and moral benefits, then we will attract more people.

EITI is not only beneficial for the environment and the way mining companies work, but also to promote social inclusion. It allows the local communities to have a direct and indirect impact. The objective is to involve not only the communities directly near the mines, but also the communities in the areas nearby to promote social development in the region.

**Milestone GRP** - You are developing a pilot project at a small-scale mining operation where you are promoting the participation of artisanal miners. How is this project going so far?

**Mr Bernales Alvarado** - We have only recently started, but I can say that the main objective is to include informal miners in the formal process. We have a long way to go but it's a good way to start the process of eliminating informal mining.

The key element is knowing that not only are you facing informal miners, but also very complex and related issues like

smuggling and trafficking of drugs and people. It is a balance between local and international political pressures. Of course, it's not only in Peru that you find this kind of situation, but in other mining countries throughout the world. We are already working with diverse tools to face it. It is necessary to work internationally on this issue.

“There are still great mining opportunities here since only 15% of the possible areas have been explored.”

**Milestone GRP** - What specific benefits does EITI yield in terms of environmental protection?

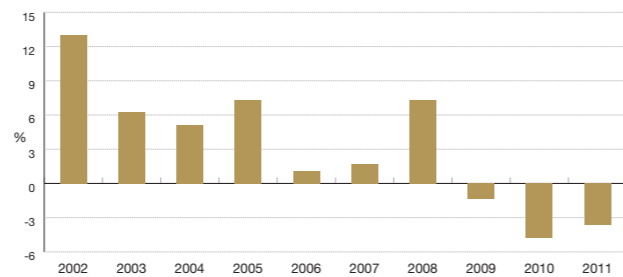
**Mr Bernales Alvarado** - One of the key elements here is the recuperation of the land after the extraction process is complete. This is not just for the companies, but something that all stakeholders must get involved with.

In Peru, we have passive mines that were left behind by mining operations that are not working there anymore. EITI promotes the establishment of systems and different ways to solve this situation, but you need to have everyone involved such as the private sector, public sector and the local communities.

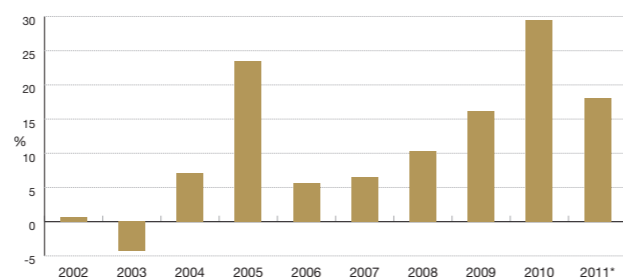
This is something that companies need to consider before starting operations in Peru. The main element of EITI is the fact that, even though this is still a voluntary standard, it allows us to push for a very wide agenda that includes social, economic, environmental, technology and human rights issues, which will benefit Peru now, as an alternative to old extractive industries, and in the long run.

Mining and Hydrocarbon Production (real % change)				
	2009	2010	2011	Average 2002-2011
<b>Metallic Mining</b>	-1.4	-4.8	-3.6	3.1
Gold	2.3	-10.8	0.0	1.7
Copper	0.5	-1.7	0.1	6.3
Zinc	-5.6	-2.8	-14.6	1.7
Silver	6.4	-7.2	-6.2	2.9
Lead	-12.4	-13.4	-12.2	-2.3
Tin	-3.9	-9.7	-14.7	-2.8
Iron	-14.4	36.7	16.0	8.7
Molybdenum	-26.5	37.9	12.8	7.3
<b>Hydrocarbons</b>	<b>16.1</b>	<b>29.5</b>	<b>18.1</b>	<b>10.9</b>
Liquid hydrocarbons	20.7	8.2	-2.8	4.6
Natural gas	2.5	104.0	56.9	40.8
<b>Total</b>	<b>0.6</b>	<b>-0.1</b>	<b>-0.2</b>	<b>4.2</b>

Source: INEI, MEM and Perupetro.



Production of the Metallic Mining Sub-Sector Source: INEI and MEM



Production of the Hydrocarbons Sub-Sector Source: INEI and Perupetro.

# Sometimes drawing a solution means drawing from experience.

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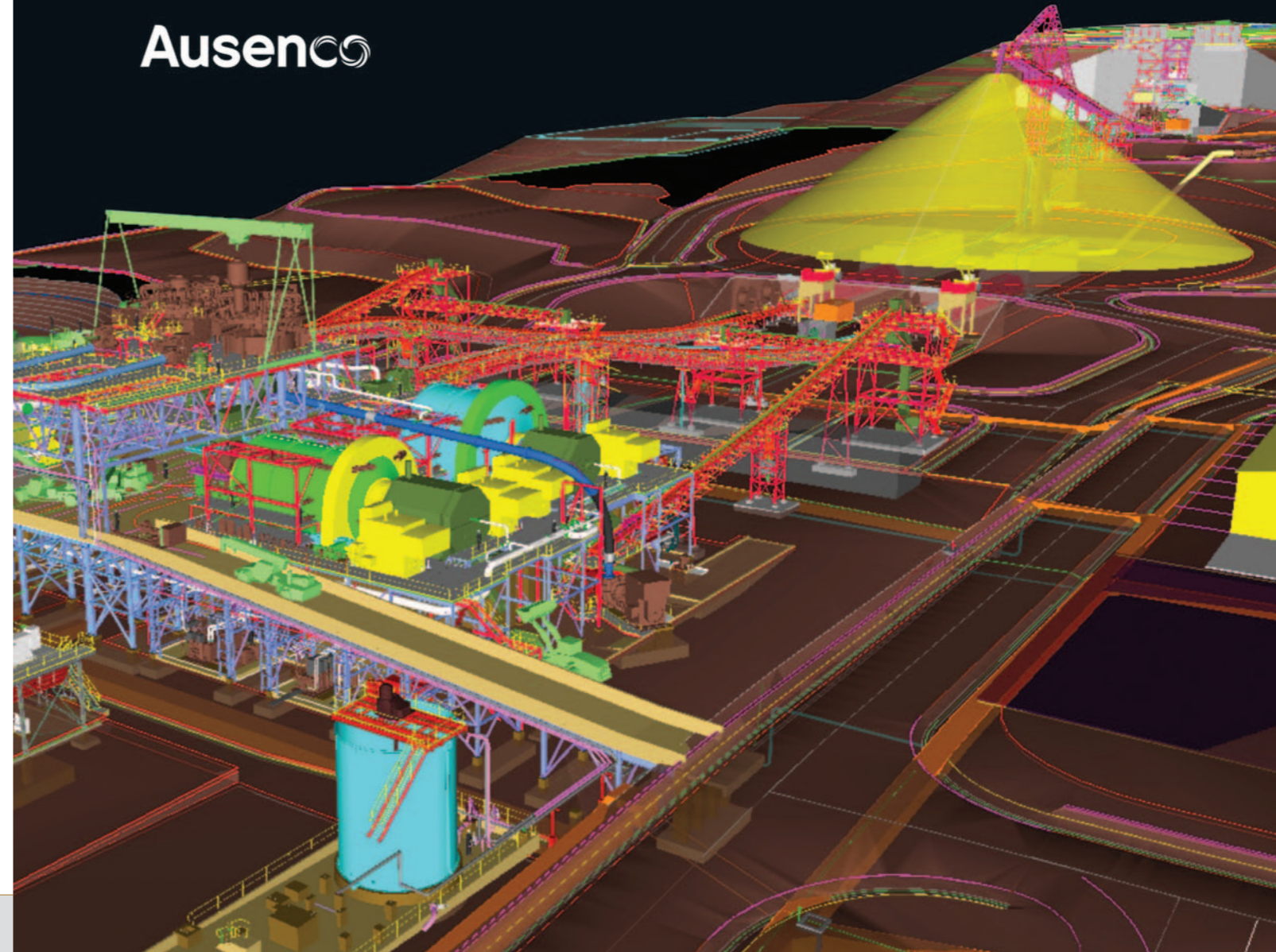
Constancia project, our largest EPCM project managed from Peru, with engineering sourced from Australia, Canada and Peru.

We are drawing on our unparalleled design experience to develop a cost effective solution for a 25.3 Mt/y high volume low-grade concentrator and associated infrastructure. Our global management experience and geographic reach is helping us tackle the

While the mere size is an accomplishment in itself, it is our skilled know-how and track record that is assisting us to work towards delivering a successful project completion.

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### Mining Overview by Region

Region	Territorial Expanse	Entitled Mining Concession	Mining Production	Mining Exploration	Units in Production	Units in Exploration	Contributions to the Region (2011)	Mining Fees	Mining Royalties	Legal Enforcement and Penalties	Direct Employment of Mining-Related Workers	Mining Investment
<b>AMAZONAS</b>	3,924,913 ha	339,575 ha	0 ha	5,699 ha	0	6	S/ 2,892,759	S/ 131,224	S/ 2,623	S/ 2,758,912	451	12,597,457 US\$
<b>ÁNCASH</b>	3,582,557 ha	1,153,721 ha	45,511 ha	30,856 ha	34	46	S/ 790,628,190	S/ 775,892,022	S/ 5,343,754	S/ 9,392,414	6,951	822,389,062 US\$
<b>ÁPURÍMAC</b>	2,089,579 ha	928,573 ha	0 ha	28,151 ha	0	16	S/ 10,445,195	S/ 2,075,833	S/ 651,000	S/ 7,718,362	2,148	837,649,870 US\$
<b>AREQUIPA</b>	6,334,393 ha	2,260,790 ha	167,752 ha	31,318 ha	51	48	S/ 759,231,196	S/ 677,134,120	S/ 63,648,667	S/ 18,448,409	17,695	475,135,675 US\$
<b>AYACUCHO</b>	4,381,480 ha	1,124,145 ha	10,144 ha	14,504 ha	8	25	S/ 94,697,533	S/ 58,537,201	S/ 27,906,052	S/ 8,454,082	3,925	88,798,833 US\$
<b>CAJAMARCA</b>	3,324,777 ha	1,234,951 ha	52,645 ha	34,837 ha	25	36	S/ 570,322,073	S/ 423,554,586	S/ 15,557,517	S/ 21,841	21,841	1,436,398,959 US\$
<b>CALLAO</b>	14,698 ha	2,328 ha	416 ha	0 ha	3	0	S/ 5,196	S/ 108	S/ 5,088	S/ 21	21	159,650 US\$
<b>CUSCO</b>	7,189,197 ha	888,135 ha	10,900 ha	28,471 ha	3	17	S/ 225,571,571	S/ 175,900,439	S/ 40,821,436	S/ 9,659,696	10,731	681,453,764 US\$
<b>HUANCAVELICA</b>	2,213,147 ha	694,980 ha	31,486 ha	6,604 ha	12	9	S/ 38,695,121	S/ 8,876,798	S/ 21,977,731	S/ 7,840,592	5,830	105,423,242 US\$
<b>HUÁNUCO</b>	3,693,809 ha	268,961 ha	12,640 ha	6,227 ha	6	6	S/ 6,621,436	S/ 4,389,013	S/ 2,520,113	S/ 1,702,370	2,050	25,631,858 US\$
<b>ICA</b>	2,132,183 ha	552,286 ha	86,548 ha	4,630 ha	23	11	S/ 238,573,697	S/ 204,891,541	S/ 29,267,386	S/ 4,414,770	4,304	110,212,067 US\$
<b>JUNÍN</b>	4,440,967 ha	677,902 ha	81,979 ha	47,052 ha	73	56	S/ 147,362,546	S/ 80,530,725	S/ 60,437,858	S/ 6,393,964	15,212	973,001,652 US\$
<b>LA LIBERTAD</b>	2,556,990 ha	905,616 ha	93,047 ha	30,885 ha	30	40	S/ 554,588,524	S/ 468,813,234	S/ 63,679,774	S/ 12,095,516	20,283	382,301,494 US\$
<b>LAMBAYEQUE</b>	1,423,130 ha	243,548 ha	90,559 ha	21,459 ha	1	0	S/ 2,429,293	S/ 51,792	S/ 1,790,986	S/ 6	6	104,138 US\$
<b>LIMA</b>	3,480,159 ha	1,177,045 ha	112,498 ha	31,658 ha	45	53	S/ 180,565,048	S/ 108,110,008	S/ 70,573,908	S/ 11,380,129	14,739	273,062,612 US\$
<b>LORETO</b>	36,885,196 ha	86,572 ha	0 ha	0 ha	0	0	S/ 488,981	S/ 0	S/ 488,981	S/ 0	0	0 US\$
<b>MADRE DE DIOS</b>	8,518,263 ha	424,158 ha	19,085 ha	0 ha	77	0	S/ 2,212,592	S/ 0	S/ 2,087,314	S/ 1,746	1,746	4,367,038 US\$
<b>MOQUEGUA</b>	1,573,397 ha	994,026 ha	90,559 ha	10,500 ha	11	10	S/ 510,321,038	S/ 399,513,585	S/ 105,764,194	S/ 5,043,319	6,183	238,533,393 US\$
<b>PASCO</b>	2,531,959 ha	321,341 ha	46,248 ha	10,862 ha	15	17	S/ 266,762,186	S/ 185,201,841	S/ 77,161,768	S/ 4,398,577	14,559	316,590,691 US\$
<b>PIURA</b>	3,589,117 ha	801,170 ha	90,556 ha	0 ha	7	0	S/ 5,459,677	S/ 131,312	S/ 169,351	S/ 5,159,014	2,935	166,592,521 US\$
<b>PUNO</b>	7,199,900 ha	1,788,915 ha	58,759 ha	30,687 ha	14	26	S/ 402,281,560	S/ 311,121,652	S/ 77,843,525	S/ 13,516,184	11,103	99,219,934 US\$
<b>SAN MARTÍN</b>	5,125,331 ha	53,890 ha	13,300 ha	200 ha	1	2	S/ 1,581,062	S/ 640,583	S/ 71,686	S/ 869,382	172	213,256 US\$
<b>TACNA</b>	1,607,589 ha	656,956 ha	20,188 ha	300 ha	18	1	S/ 470,385,347	S/ 356,999,991	S/ 109,283,397	S/ 4,102,959	2,634	152,436,403 US\$
<b>UCAYALI</b>	10,241,055 ha	7,601 ha	0 ha	0 ha	0	0	S/ 35,251	S/ 0	S/ 35,251	S/ 0	0	0 US\$
<b>TUMBES</b>	446,920 ha	4,400 ha	0 ha	0 ha	0	0	S/ 19,456	S/ 0	S/ 19,456	S/ 0	0	0 US\$

#### NATIONAL STATISTICS

TERRITORIAL EXPANSE OF PERU 128,000,000 ha

**13.6%** CONCESSION TERRITORY FOR MINING  
17,418,228 ha

**1.09%** TERRITORY WITH MINING ACTIVITY  
1,399,996 ha

448 UNITS IN PRODUCTION	1,045,889.00 ha	0.817%
410 UNITS IN EXPLORATION	351,098.00 ha	0.277%

#### 57% AREAS RESTRICTED FROM MINING ACTIVITY

73,128,132 ha

TYPE OF RESTRICTED AREA	SIZE	%PERU
186 NATURAL PROTECTED AREA	23,657,252 ha	18.41%
58 NATURAL BUFFER AREA	15,990,465 ha	12.44%
45 OTHER RESTRICTED AREAS	13,045,265 ha	10.15%
13 SPECIAL PROJECTS	14,191,866 ha	11.04%
20 PORTS AND AIRPORTS	4,189 ha	0.00%
7,571 ARCHAEOLOGICAL ZONES	5,749,694 ha	4.47%
143 URBAN ZONES	489,401 ha	0.38%
<b>8,036 TOTAL</b>	<b>73,128,132 ha</b>	<b>56.90%</b>

#### PERU'S POSITION IN REGIONAL AND GLOBAL MINING RANKINGS, 2011

MINERAL	LATIN AMERICA	WORLD
Zinc	1	3
Tin	1	4
Lead	1	4
Gold	1	6
Copper	2	2
Silver	2	2
Molybdenum	2	4
Selenium	2	9
Cadmium	2	10
Phosphate rock	2	13
Iron	5	17

### PRODUCING MINING CONCESSIONS AND EXPLORATION PROJECTS



Source: MEM, 2012



# Compania Minera Antamina

## “Using our Mineral Resources to Leap Forward”

Interview with Abraham Chahuán, CEO of Antamina

### Milestone GRP - What changes have you seen in the mining sector over the past two decades?

**Mr Abraham Chahuán** - Today Peru has a world class mining sector. In the last two decades the mining sector has undergone a very important transformation. We are now seeing a new technologically advanced sector with technologically advanced production processes.

In the case of Antamina, we meet the most rigorous international standards that exist today. Antamina is within the top three largest metal producers in the world right now, not to mention we have had a continued dedication to the conservation of the environment where we operate, becoming a global model for environmental conservation and protection within the mining sector. The sector in Peru is on the right path; it's constantly moving toward the highest and newest standards.

### Milestone GRP - Many of those who are not very familiar with Peru and the mining sector here don't understand how important the sector is for the country.

**Mr Chahuán** - Antamina, in particular, is the largest producer of minerals in the country, and the largest producer of copper and zinc in the world. I believe we are the second or third in silver depending on the month it is measured, and we are also the second in molybdenum. Internationally we're one of the top three basic metal mines in the world, so our technology and standards have to be at the highest possible level. But as you mentioned, many people don't know and don't understand the importance of the sector that exists here.

### Milestone GRP - How have you seen the Antamina mine transform the infrastructure around it?

**Mr Chahuán** - Since Antamina started producing metal minerals, the mine has made up 1% of the GDP of Peru. So we have always had a strong impact on, not only the country as a whole, but also the community around us. The mining sector has a tendency to go into areas that are typically impoverished, with little infrastructure, so we have naturally had to develop infrastructure systems such as energy, roads and communication systems. It's also important to remember that 50% of the taxes in the mining

sector are funneled back into the mining fund, which is distributed to the regional and local governments. These funds are having a definite long-term impact.

“50% of the taxes in the mining sector are funneled back into the mining fund.”

As far as social involvement, Antamina has also made great investments in the local community. We've invested US\$ 270 million in the last 5 years in a variety of ways, from education to health and nutrition. For example, we have been able to lower the levels of malnutrition by 17% in the Ancash region. So this is one of our focuses and one of the focuses of the mining sector right now in Peru.

### Milestone GRP - Do you believe that there is a way to have a standardized process for mining negotiations in order to avoid social conflicts before the initial investment is made?

**Mr Chahuán** - I think so. Each mine is different, but the tendency today is toward creating a dialogue and starting negotiations before the investment is made. We need to have a three-way dialogue between the government, the mine and the community in order to make sure that all parties benefit from this investment before operations begin.

### Milestone GRP - What lasting impact will the mine have on the country and the local communities?

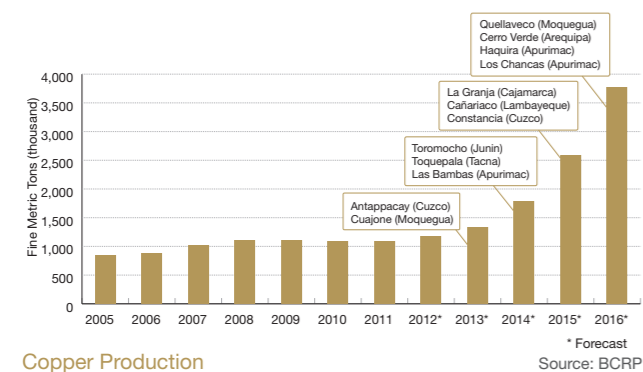
**Mr Chahuán** - There has been great economic change. The windfall tax has created a way for this money to be channeled into local infrastructure projects. We are, however, finding here in Peru that the windfall funds are not being well managed in certain cases by local administration.

### Milestone GRP - How can this money be better managed?

**Mr Chahuán** - We need to work more hand-in-hand with those that are managing the funds and make sure that they have the skillset and knowhow to distribute these funds in a productive way. We are interested in working with the local governments, but the state has to take the lead in this area.

### Milestone GRP - How would you summarize mining's importance for the Peruvian economy?

**Mr Chahuán** - 30% of the world's copper resources can be found in Peru. This country will continue to be a hub for mining and we need to proceed with all of these mining projects for the sake of the industrialization of the country. It is fundamental. By using our mineral resources, we can leap forward much quicker than if we didn't have this natural advantage.



Copper Production

# Buenaventura

## “The Future of Peruvian Precious Metals”

Interview with Roque Benavides, President & CEO of Buenaventura

### Milestone GRP - Do you see the mining sector as an indicator of the state of the overall Peruvian economy?

**Mr Roque Benavides** - The mining sector is a major contributor to Peru's GDP and is also one of the fastest growing sectors in the last two decades. The sector has a multiplier phenomenon; it affects other industries as an employment generator. The mining sector is one of the most dynamic sectors in this country. There are large gaps in infrastructure in Peru due to years of decline and nationalizations that took place during the Latin American leftist period of the 1960s. The realignment of the national economy in 1993 after the crisis is what has allowed growth in all sectors.

There are important studies, conducted by the Peruvian Institute of Economics, on where the gaps in infrastructure investment are. The numbers for Peru are high: up to US\$ 40 billion. The construction sector is in charge of closing these gaps so there's a lot to do. The growth of the sector itself is permanent and superior to other sectors.

### Milestone GRP - Certain outlying provinces are growing at double Lima's growth rate. What contribution does mining bring to the most remote regions and provinces?

**Mr Benavides** - Mining has played a very important role in Peru's development. If we go back to the 1980s when terrorism was a major issue, a lot of mining companies like Buenaventura had enough confidence to keep going with their operations, allowing the economy of these remote provinces to improve despite the terrorism. The mining activity in these provinces has a long tradition, and it has continued even when very few companies were able to make large investments.

Historically, Lima, Arequipa and Trujillo have been the richest regions of the country, but mining has contributed the most in the areas where there was nothing. Cajamarca, for example, used to be a very poor area. Barrick Peru operates one of the biggest mines in the world there and the region saw incredible development in the 1990s because of the mine, despite it being one of the most difficult periods that the country has ever undergone.

### Milestone GRP - What is your opinion on the Prior Consultation Law?

**Mr Benavides** - The Prior Consultation Law acts as a bridge between the government and the communities in order for them to be informed about mining investments. That is, they are told how these mining investments will benefit their communities.

We go beyond what is required in terms of environmental issues. We follow the Peruvian legislation literally, as well as complying with the same standards as the big international mining companies. Local communities have to be properly informed about all that. The government enjoys greater credibility than us in these regions and that is why the Prior Consultation Law is a commu-

nication and dialogue bridge between the government and the communities.

### Milestone GRP - You started your mining operations with silver, but lately you have been producing gold as well. How is your production going to evolve in the future?

**Mr Benavides** - One of our challenges is to maintain our 70% of income from precious metals. Our expertise is in exploration and exploitation of gold and silver mines, and our aim is to keep being precious metal producers. From this perspective, at the moment we are developing gold mines and new technology that will allow us to recover more ounces of gold and silver in the most important mines.

### Milestone GRP - What investments do you carry out every year in terms of social responsibility and projects involving local communities?

**Mr Benavides** - We have a Vice-President of Environmental and Social Affairs dedicated exclusively to social development and environmental issues. This position did not exist eight years ago. Today this Vice-President reports directly to the President and CEO.

For Buenaventura, social development is key when doing business in vulnerable areas. But, at times, it is difficult to assess the degree of social development because there is a lot of money going directly to the regional and local governments where the mining activity is carried out. Sometimes, we do not have much influence on these resources that are used by the regional government. For example, one community built a stadium for 10,000 spectators while the community has only 3,000 people. 50% of the income tax paid by the mining companies goes to regional governments as fees.

“The Prior Consultation Law is a communication and dialogue bridge between the government and the communities.”

Very often, local governments do not know how to invest these resources, but in some cases the company advises or supports the government when there is a good relationship between the two. The mining company tries to offer its management ability in order to develop projects that can maximize benefits for the local community. Up until 2011, we had a voluntary contribution where 3.75% of the company's profits were directed to the districts in the area of influence of the mine. We organized a trust to generate investments in infrastructure, nutrition and education. Our company worked together with the community and regional authorities in order to manage the funds.



## Gold Fields

### “Prior Consultation in the Mining Sector”

Interview with Miguel Inchaustegui, Head of Corporate and Legal Affairs at Gold Fields

#### **Milestone GRP - As the largest sector of the economy, what has mining meant for Peru?**

**Mr Miguel Inchaustegui** - The mining sector in Peru has grown considerably in the last decade. Several gold and copper projects have commenced and have boosted Peru's GDP growth by a significant rate. This is all thanks to mining. Mining in Peru, due to the increase in the price of minerals, has resulted in substantial profits for businesses and government. However, there has also been a parallel increase in social conflicts over mining activities. The government has been trying to promote several initiatives to improve the situation, but this will remain a critical issue. For example, in 2001, the “Canon Minero” tax charged to mining companies was 20% of income and it was increased to 50% with the idea that this would help provinces, cities and towns around mines to grow and improve their quality of life.

Despite this increase, this benefit wasn't as positive as many wanted partly due to regional authorities and municipalities. These municipalities didn't possess the sufficient technical capacity to properly use these new revenues. By 2006, after several meetings with mining companies, the government agreed to implement Voluntary Contribution, which replaced the tax on earnings with the same aim of helping nearby towns develop and improve health, education and infrastructure. Unfortunately, that did not occur as they had hoped due to the inability of the authorities or because the authorities did not agree with mining companies on which projects to implement.

Despite this, in the last decade projects like Antamina's Cobre Grande have started operations, the mining company Cerro Verde in Arequipa expanded, and Gold Field's Cerro Corona was built and began operating in 2008 in Cajamarca's conflict zone. The current situation in Peru is that it has very good resources, operations and potential projects, but it also has conflict in the locations that are close to these projects and these challenges, unfortunately, are growing.

#### **Milestone GRP - How did the Prior Consultation Law come to be and what are its effects on the mining sector and local communities?**

**Mr Inchaustegui** - NGOs and agencies seeking community involvement initiated the Prior Consultation Law. In Peru, former president Alan Garcia's government had many conflicts related to extraction activities. In 2009, after the conflict in Bagua, the need for prior consultation was established for any new project in Peru that would affect indigenous communities. Despite being approved, the law is still not clear because it lacks regulations that clearly specify which projects or which rules have to be consulted and who should be consulted. Many rural communities with mining activities now want to be considered indigenous so this law can be applied to them. My opinion is that what people really are demanding is greater participation in decisions related to new projects and I think governments have been working hard on this. Now, prior to construction, there is a public hearing in the

towns or districts where the project is located followed by workshops. This new law of prior consultation may make procedures, environmental impact studies, and approvals take longer.

“Now, prior to construction, there is a public hearing in the towns or districts where the project is located followed by workshops.”

#### **Milestone GRP - How do you think new investors will respond to the issue of prior consultation?**

**Mr Inchaustegui** - I think new investors are going to handle it like any new investor who wishes to have a good investment in a foreign country. They will try to meet the requirements. Mining companies have to inform people about what they are doing, and in the case of mining companies that are coming to Peru, I think they all have that desire to communicate properly about their projects and be in contact with people in the surrounding communities. What has happened is that there have been several problems in the past, but I think that now, every company in the world that wants to invest has to be concerned about informing people and authorities. They have to somehow try to explain in detail how they will be doing their business. The great problem that exists in Peru and the world is that people feel that a stranger is coming in and they will probably use their land and water in a bad way. So the more the communities understand what we are doing, the fewer conflicts we will have.

#### **Milestone GRP - The Gold Symposium held in Lima in 2012 underlined the problem of informal mining. How do you view this situation in Peru?**

**Mr Inchaustegui** - Within our areas of operation there isn't any informal mining, but we are concerned about this situation in Peru. Obviously, with the increase in the value of gold, informal mining has also increased. There is informal mining in Madre de Dios, in eastern Peru, and in the Cajamarca region, but not near the operations of Cerro Corona. The company welcomes the initiatives the government has in place to fight this scourge against the production and activity of Peru. We believe it is an effort that we all must support. The National Mining Association, an organization that represents all the mining companies operating in the country, both domestic and foreign, has emphasized that it is something to address and they support the new laws. It is important that companies that are working on an informal basis understand that this is against the law and is a health issue. Illegal mines are polluters, and they exploit women and children, and should not be in Peru or anywhere in the world.

## Hudbay Minerals

### “The Experiences of Entering a New Market and Making it Work”

Interview with Chasel Meagher, Vice-President of the South America Business Unit of Hudbay Minerals

#### **Milestone GRP - How has the Peruvian government encouraged foreign direct investment while also remaining true to their social inclusion platform?**

**Mr Chasel Meagher** - The government has gone to great lengths to deal with the perception of the haves and have-nots. We met with several ministers from various ministries and President Humala himself. They have all stated that the primary goal is to increase the standard of living within Peru. They recognize that all, not just a portion, of Peru should be able to benefit from the exploration of gas, oil and mining resources. The government knows that Peru is in a favorable position in the world and that a lot of foreign businesses want to invest here because there are excellent opportunities. They want to increase the available funds to create better infrastructure for the people of Peru, and they can do this through encouraging foreign direct investment.

Mining is not new to Peru; there is a rich tradition of mining in Peru, but larger enterprise mining is basically new here. If you look at previous Peruvian mines, many of them were small. Of course, there were some exceptions to this, like Yanacocha, but many more companies are going to be investing in Peru in large-scale mining now. We found the government extremely receptive. There have been changes in the cabinet, but every time there has been a change, they have immediately reached out to inform private industry. The message remains the same: the changes in the cabinet do not mean a change in direction for the government.

#### **Milestone GRP - What are some benefits or setbacks you've experienced while working with the government?**

**Mr Meagher** - We have achieved a number of milestones during the process. There are a number of favorable regimes that exist here. One of these is the tax protection treaty on income tax, whereby some resource industries can elect to sign a treaty with the government that states that they will pay 32% in income tax instead of 30% in order to guarantee protection for the 15-year life of the mine. That's just one favorable aspect. A mine like Antamina, one of the biggest mines in Peru, which is coming up on its 10-year anniversary, has not had this tax treaty revoked even though there have been many changes in government. This is not the same in other countries in the region like Venezuela or Bolivia. We are confident that the current regime and the opposition party are both pro-business and pro-investment. They both recognize that this is what is going to help Peru's standing in the world.

#### **Milestone GRP - And what about the risks in investing in Peru?**

**Mr Meagher** - Like in many countries, legislation and permitting have come under scrutiny in the media, specifically with respect to projects like Tia Maria in 2011 and Conga in 2012. These areas are part of a list of 150-200 active con-

flicts in the resource industry around the world. The oil and gas sector is no stranger to conflict either. Our philosophy is engagement and dialogue, which is what President Humala and his government encourage the most. They believe that most problems can be solved through discussions. These problems are caused by extremists, who have one point of view and one political agenda. They do not want to mediate or to change.

Many of the problems in Peru stem from the fact that people have not seen the investment in infrastructure, resulting in real frustration. The tax coffers are full but there is still a vast gap between the rich and poor. The disparities between the various communities would have been the government's number one focus, but they have had to manage the extremists in order to be able to address those issues. What we have found is that the government is very willing to listen and that they want investment in the country. However, they have also explained that they want us to be patient, as things take time.

#### **Milestone GRP - When you came here during the election cycle, what did you see as the risks? Were you concerned this government would not be as receptive to investment?**

**Mr Meagher** - We decided to purchase this project before the election's outcome was known. We evaluated the political risk, but felt that risk was not very significant. We felt that Peru had started down a path of moderation as early as January 2011. You could see moderation in President Humala's rhetoric and we felt that it was sincere. A lot of people would say that he was just trying to satisfy the middle of the road, but his recognition that Peru had only one path was reassuring. We received a lot of in-country advice and out-of-country consulting, so we received a lot of opinions on this matter. We felt it was fairly low-risk and in this industry, there are some primary factors that drive your decisions. One factor is that you can only mine where there is ore. Another factor is that you have to assess the risk of nationalization and we felt that this risk was very low in Peru. So when you consider all those risks within the community itself and within the region itself, we have been able to do well. This is thanks in large part to our community relations team, and the ministries' willingness to work with us to get various permits.

#### **Milestone GRP - Have you been facing any challenges finding a qualified workforce in Peru?**

**Mr Meagher** - There are large challenges to developing a team here. Peru is obviously very popular for its mining investments; however there have been some difficulties with a couple of the projects recently. It is a very difficult labor market, especially for the technical staff. What we have had to do in order to fast-track this project was to bring in expats like myself. We have a very experienced team, and I have been trying to substitute the influx of expats with a team from Peru.





## Ausenco

### “Mining Solutions for Added Value”

Interview with Aaron Beckett, General Manager of Environment and Sustainability with additional input from Jorge Gonzalez-Rodiles, General Manager of the Process Infrastructure Division, and Clint Donkin, General Manager of Operations – Minerals and Metals at Ausenco

**Aaron Beckett** is the General Manager of the Environment and Sustainability business line of Ausenco in Peru. He completed his undergraduate degree at the Queensland University of Technology in Australia and has worked as a civil and geotechnical engineer for the last 18 years on projects in Australia, Asia, North America and South America, living in Peru for the last 4 years. His specific project experience includes the design of tailings storage facilities and heap leach facilities, management of acid rock drainage, geotechnical investigations, construction quality assurance and project management. His post-graduate studies have included business administration and project management.

**Ausenco** is a global service provider primarily in the minerals and energy sectors. Those services include engineering, design, EPC/EPCM and operations of mine process plants, mine infrastructure, bulk transport systems (such as pipelines and railways), ports and alternative energy technologies. It also provides environmental and social science, and earth engineering consulting services across the sectors to support sustainable solutions for construction, operations and closure. It has been operating in Peru for 15 years.

Milestone GRP met with Aaron Beckett in Peru and communicated with Clint Donkin and Jorge Gonzalez-Rodiles to discuss the need for mining services and assistance as the market continues to develop and mature.

#### Milestone GRP - What potential do you see in Peru?

**Mr Clint Donkin** - The potential is as great in Peru as it is in Chile, Canada or some of the hot spots in Africa. The country, from an economic and political perspective, presents a broad range of opportunities – and we have only scratched the surface here. The extent of exploration drilling is really still in its infancy, particularly when compared to countries like Chile and Australia. There is no foreseeable limit to resources in Peru. In addition, Peru still has a favorable economic climate. The industry is dealing with some tax policy changes from the end of 2011, but mining companies have labeled the changes as manageable and government support is very strong.

In the last few years we've seen significant attention drawn to social and environmental concerns, and some of the recent and

proposed changes in legislation related to sustainable approaches in the industry have generated concern due to uncertainty of their impact on proposed projects. The industry has its share of challenges, however the trends in the Peruvian regulatory processes are reflected around the world.

#### Milestone GRP - Are the social and environmental issues the same as those you find in Australia, Canada or the USA?

**Mr Jorge Gonzalez-Rodiles** - There are many similar examples internationally but they need to be solved at a local level and in context. Companies need to consider and invest in social and environmental components of their projects as intently as they do technical aspects and financial merits. They need to create and implement detailed plans for handling such issues and establish collaborative relationships with

communities. It's a delicate balance and it can greatly affect future investment in Peru.

The mining world continues to be sensitive to the Minas Conga project - the high profile Peruvian project - with regard to the feasibility of large greenfield projects in respect to the current dynamics between community, environment, industry and politics. The impact on more than 4,000 jobs has been significant and will reverberate globally. Potentially these events may cause mining investors to believe that the current social environment poses too great a risk and in turn may consider investing elsewhere.

**Mr Aaron Beckett** - On mining projects around the world there exist similar concerns, such as the environment, infrastructure and resources, socially responsible development within impacted communities, along with appropriate collection and distribution of mining royalties and taxes.

Mining projects within Peru are implementing the same level of safeguards, standards and principals in their studies and designs as those utilized in other environmentally and socially developed countries such as Australia and Canada. The biggest challenges in Peru revolve around the development of trust with communities during planning phases of projects and maintenance of that confidence during project execution (construction, operation and closure).

“We see part of our role as being catalysts for international investment in Peru.”

In some countries the various stakeholders have improved access to information and may therefore be better informed about mining projects. In those same countries mature regulatory process may also be highly visible and transparent. Many Peruvian communities are quite isolated and can feel threatened by the thought of being taken advantage of as well as not fully understanding the impacts of proposed mining development. In addition the concept of development or progress in traditional communities may be very different to the perception of other stakeholders.

#### Milestone GRP - Why was the Peruvian market interesting enough for Ausenco to establish a presence here?

**Mr Beckett** - Ausenco established itself in Peru through the acquisition of three companies: PSI, Sandwell and Vector. Ausenco has been able to capitalize on the outstanding reputations of these businesses already well-established in the Peruvian and South American market.

Part of our corporate strategy is global diversification which also includes an extensive presence in Australia, North America, Africa and Asia. Ausenco's goals and potential for growth hinge on this global approach.

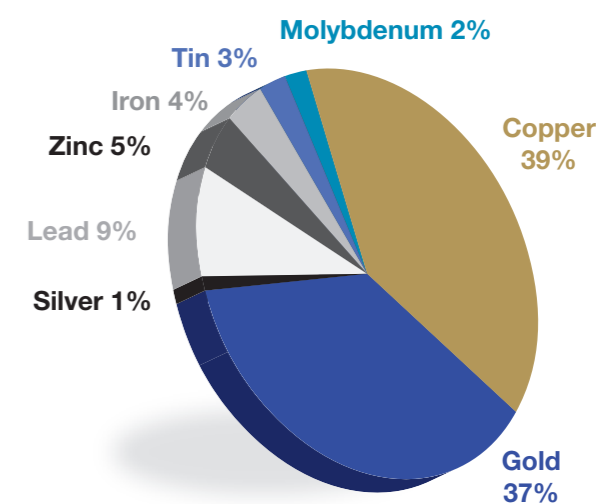
Ausenco also boasts broad mineral diversification in its mining project portfolio. The Latin American market represents a great opportunity with regards to commodity diversification and Peru alone has large deposits of resources that include copper, gold, iron-ore, zinc and silver. Investing in South America was a logical choice given the opportunity to expand our portfolio of diversified projects.

Additionally, over the last 15 years or so, Peru has built a deserved reputation for strengthening economic policies and international relations and also, in more recent years, for dramatic improvements in social indicators. In October 2012 Peru's Finance Minister was recognized by English press as the Latin American Finance Minister of The Year for maintaining a stable economy. These are certainly results that promote confidence when investing in the future of any country.

#### Milestone GRP - How does Peru fit into your service delivery strategy?

**Mr Donkin** - One of the great qualities of Ausenco is that it can draw great strength from being a global organization. We have a wide range of experts in house and we can call on their expertise for whatever need our clients might have, and regardless of the nature. From within the Ausenco organization, there are few services that we cannot provide to mining clients – “pit to port” and “cradle to grave” are our catch phrases. And if for some reason we do not have the expertise in house, we have the confidence of a number of specialist consultants and partners around the world. We are always looking for that next element that our clients might need – solutions to add value.

Ausenco is not just another consulting or engineering group on the ground in Peru; our commitment to Peru, our combined depth locally and globally, and our values are what distinguish us and drive our competitiveness. We leverage our strengths wherever they are and combine them with our local expertise to provide international standard, cost effective and fit-for-purpose solutions. For instance we have strong mineral processing technical solutions groups in Brisbane, Vancouver and Santiago and we can count on their support to ensure that the solutions that we offer our clients in Peru are to the same



Exports per Mining Product, 2011

Source: SUNAT



technical standards that they would receive from Ausenco in Australia or Canada. One such mineral process plant that was designed by Ausenco is now entering construction in Peru and, complementing our EPCM services for the same project, our local experts are involved in advancing project permits and environmental management at the site on behalf of the client. This level of experience, integration and service from one company is unprecedented in Peru.

We are able to leverage our global experience and combine it with a strong local presence and knowledge. In Lima we have an office 340 people strong and approximately 90% of our team is Peruvian. Many clients are looking for local knowledge and expertise - our people are our strength. The Ausenco strategy is to execute the projects from a local level while capitalizing on our global experience, expertise and innovative solutions.

**Milestone GRP - How do these three groups come together to create a turnkey solution for your clients?**

**Mr Donkin** - We're a one-stop shop. Our clients come to us with a particular need and they are soon enlightened to the fact that many of their needs can be met by our "One Ausenco" approach. We are able to put in place a single study or project manager who is then our direct contact after which our lead engineers and consultants are promptly pulling resources from wherever they are required, for whatever is needed. We are continuously working towards unifying our growing group so that our different business lines and abilities come together as One Ausenco.

**Milestone GRP - What are some of your most important projects right now?**

**Mr Beckett** - Each and every client is important to us, however we have some very notable projects that we are very proud to have been or be part of. Ongoing and historically is the Pierina mine with Barrick, the Las Bambas project with Xstrata as well as the Antamina pipeline, which is one of the flagship projects for our pipeline team.

We have a broad project portfolio in terms of juniors, Tier 2 and Tier 1 clients. This year our clients in Peru include Antamina (BHP/Xstrata/Teck/Mitsubishi), Barrick, Buenaventura, Free-

port-McMoRan Copper, Hochschild, Hudbay, Milpo, Minsur, Shougang, Sulliden, Vale, Volcan, Votorantim and Xstrata, amongst others. We have created strong, trusting relationships with our clients, based on hard work and innovative solutions, and are privileged to work alongside them.

**Mr Gonzalez-Rodiles** - We place a lot of importance on working in all phases of project development, from concept to closure, and in developing relationships across the spectrum of client profiles - with the juniors, mid-tiers and the majors. The client profile associated with a project can be very dynamic during the life of a project, as can the ownership of a project. For example, we became involved with the Constancia project when it was owned by a Canadian-based exploration company. The relationship has been extended to the new owners, Hudbay, who are executing the project with our support in EPCM.

**Milestone GRP - Are you seeing companies that you've worked with in other countries starting to get interested in working in Peru?**

**Mr Beckett** - Definitely, and it's exciting to see the mix of investors looking at the Peruvian mining sector. We have clients of various nationalities: Australian, Canadian, Chinese, South African and more. The range is quite impressive and we expect people, from wherever they might originate, will remain confident in Peru's potential over the coming decade.

**Milestone GRP - Are you seeing companies that you've worked with in other countries starting to get interested in working in Peru?**

**Mr Beckett** - We have seen this quite a lot in Chile and we are seeing similar trends here. We also see part of our role as being catalysts for international investment in Peru. We can provide advice to investors through our studies, consulting and due diligence types of services.

Independently gaining a foothold and acceptance as a foreign-based company can be challenging, and we like to think that through our global industry network we can bolster confidence in the Peruvian market for those groups that know us but not Peru, either as a trusted partner or as a successful business example.

**Milestone GRP - What type of growth are you going to see in 2013 and beyond?**

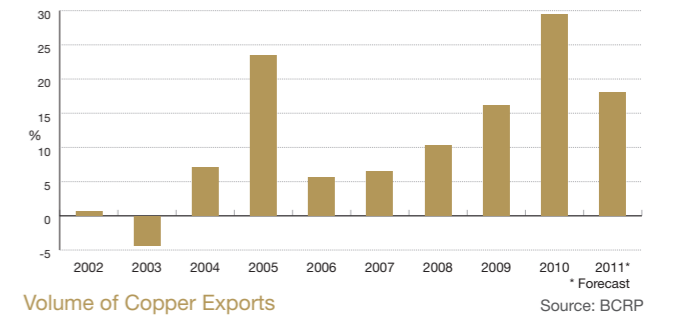
**Mr Beckett** - A key strategy for Ausenco is growth; by the end of 2015 our plan is to be around 6,000 people globally, at present we have over 3,000 worldwide.

We also envisage significant growth over the next few years for Ausenco in Peru in EPCM services and Program Management. Our Program Management business line focuses on developing partnerships with clients that integrate our professionals directly within the client teams in order to achieve project goals and, when required, support operations. It has become quite a common practice globally and currently on the increase in South America. A couple of our clients in Peru are currently considering this approach, which is being driven by the demands and pressures on the local talent pool to achieve fast-tracked delivery of multiple projects.

**Milestone GRP - You are in the energy business in Chile. Are you looking to do the same in Peru?**

**Mr Beckett** - It is still in its infancy here for us and certainly leaves room for growth. We do however have some clients in the energy sector but it represents a relatively small part of what we do here at the moment.

With many clients turning to alternative and cleaner energy projects, globally we are also looking to increase our market within this sector. In Peru we are expecting growth in certain aspects of the energy industry as the country continues to develop the supply of electricity to rural areas, and with continued growth in heavy industry and supporting infrastructure. The energy sector in Peru is turning rapidly towards natural gas for both domestic use and export and, with some future regulatory support, we understand there is great potential for wind power to contribute to the country's increasing energy demands. We have the international expertise in Ausenco to support design and sustainable development of wind farms and gas exploration and distribution.



Mining in Figures, 2011					
Metal	Production Ranking		Production		Reserves
	World	Latin America	Thousand of TMF*	% World Share	Thousand TMF
Silver	2	2	109,763	15%	120,000
Tin	3	1	29	11%	310,000
Zinc	3	1	1,256	10%	19,000
Copper	2	2	1,235	8%	90,000
Molybdenum	4	2	19	8%	450
Gold	6	1	5,273	6%	2000
Lead	4	1	230	5%	7,900

\*Silver production in thousands of fine ounces and gold production in thousands of troy ounces

Source: US Geological Survey and MEM

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# SEDIMENTARY BASINS, HYDROCARBON BLOCKS, PIPELINES AND PROTECTED NATURAL AREAS



**Block agreements**  
 Blocks in Process of Approval/Assignment

Available Areas in Sedimentary Basins  
 Off-limit Protected National Areas  
 Territorial Reserve of the State  
 Accessible Protected National Areas  
 International Border  
 Regional Border  
 Oil Pipelines  
 Gas Pipelines/Multi-Purpose Pipelines  
 Refinery

**Protected Natural Areas under National Administration**  
 Abbreviations  
**Areas of Indirect use**  
 (PN) National Parks  
 (SN) National Sanctuaries  
 (SH) Historical Sanctuaries  
**Areas of Direct use**  
 (RN) National Reserves  
 (RP) Scenic Reserves  
 (RVS) Wildlife Refuges  
 (RC) Communal Reserves  
 (BP) Protected Forests  
 (CC) Hunting Preserves  
**Reserved Zones (ZR)**  
 (Transition Zones)

Total Area of Peru	128,521,160.0 ha	100%
Effective Area of Exploration Work	245,256.0 ha	0.19%
Total Area of Exploitation Agreements	2,041,618.3 ha	1.59%
Effective Area of Exploitation Work	25,104.0 ha	0.02%

Source: PeruPetro, 2012

Block	Basin	Operating Company	Assignment Date	Area of the Block (ha)	Effective Work Area (ha)
<b>Exploitation Agreements</b>					
I	TALARA	GMP S.A.	27.12.1991	6,943.250	339.00
II	TALARA	PETROLERA MONTEERRICO S.A.	05.01.1996	7,707.420	136.00
III	TALARA	INTEROIL PERU S.A.	05.03.1993	35,793.856	227.00
IV	TALARA	INTEROIL PERU S.A.	04.03.1993	30,721.982	181.00
V	TALARA	GMP S.A.	08.10.1993	9,026.032	42.00
VI/VII	TALARA	SAPET DEVELOPMENT PERU INC	22.10.1993	34,44.834	2,513.00
IX	TALARA	EMPRESA PETROLERA UNIPERU ABC S.A.	17.06.1993	1,554.133	52.00
X	TALARA	PETROBRAS ENERGIE PERU S.A.	20.05.1994	46,952.342	2,252.00
XIII	SECHURA	OLYMPIC PERU INC	30.05.1996	263,357.845	29.00
XV	TALARA	PETROLERA MONTEERRICO S.A.	26.05.1998	9,999.772	10.00
XX	TALARA	PETROLERA MONTEERRICO S.A.	19.01.2006	6,124.207	131.00
1-AB	MARANON	PLUSPETROL NORTE S.A.	22.03.1986	287,050.906	2,037.00
8	MARANON	PLUSPETROL NORTE S.A.	20.05.1994	182,348.210	541.00
31-B 31-D	UCAYALI	MAPLE GASCORPORATION DEL PERU SRL	30.03.1994	71,050.000	154.00
31-C	UCAYALI	AGUATIA ENERGY DEL PERU SRL	30.03.1994	16,630.000	18.00
56	UCAYALI	PLUSPETROL PERU CORPORATION S.A.	07.09.2004	58,500.000	64.00
67	MARANON	PERENCO PERU LIMITED	13.12.1995	101,931.686	378.00
88	UCAYALI	PLUSPETROL PERU CORPORATION S.A.	09.12.2000	143,500.000	129.00
Z-2B	TALARA	SAVIA PERU S.A.	16.11.1993	199,865.223	318.00
Z-6	TALARA, SECHURA	SAVIA PERU S.A.	20.03.2002	528,116.614	15,552.00
				<b>2,041,618.312</b>	<b>25,104.00</b>
<b>Exploration Agreements</b>					
XIX	TUMBES, TALARA	BPZ EXPLORACION & PRODUCCION SRL	12.12.2003	191,441.161	36.00
XXI	SECHURA	GOLD OIL PERU SAC	04.05.2006	303,331.200	44.00
XXII	TALARA, SECHURA	BPZ EXPLORACION & PRODUCCION SRL	21.11.2007	369,043.817	66.00
XXIII	TALARA	BPZ EXPLORACION & PRODUCCION SRL	21.11.2007	93,198.956	543.00
XXIV	TALARA, SECHURA	UPLAND OIL AND GAS LLC	23.07.2007	88,825.396	301.00
XXV	TALARA	VETRA PERU SAC	21.11.2007	40,451.020	80.00
XXVI	SECHURA	SAVIA PERU S.A.	21.11.2007	552,711.858	63.00
XXVII	SECHURA	FAULKNER SUITA EXPLORACION INC S.A.	16.04.2009	71,173.057	144.00
XXVIII	SECHURA	PITKIN PETROLEUM PERU XXVIII S.A.C.	23.09.2011	314,132.582	000.00
31-E	UCAYALI	MAPLE GAS CORPORATION DEL PERU SRL	06.03.2001	141,003.357	9.00
39	MARANON	REPSOL EXPLORACION PERU	09.09.1999	745,141.204	119.00
57	UCAYALI	REPSOL EXPLORACION PERU	27.07.2004	287,102.800	12.00
58	UCAYALI	PETROBRAS ENERGIA PERU S.A.	12.07.2005	340,133.717	65.00
64	MARANON	TALISMAN PETROLERA DEL PERU, LLC	07.12.1995	761,501.001	66.00
76	MADRE DE DIOS	HUNT OIL EXPLORATION AND PRODUCTION	02.05.1995	1,071,290.083	235.00
95	MARANON	GRAN TIERRA ENERGY PERU S.R.L.	07.04.2005	515,731.131	7,509.00
100	UCAYALI	COMPANIA CONSULTORA DE PETROLEOS S.A.	26.03.2004	7,700.000	40.00
102	MARANON	PLUSPETROL E&P S.A.	13.12.2005	126,676.114	50.00
103	MARANON, HUALLAGA	TALISMANPETROLERA DEL PERU, LLC	09.08.2004	870,896.168	120.00
105	TITCACA	SIBOIL DEL PERU S.A.	13.12.2005	443,213.167	9.00
107	UCAYALI	PETROLIFERA PETROLEUM DEL PERU SAC	01.09.2005	252,213.167	114.00
108	ENE	PLUSPETROL E&P S.A.	13.12.2005	1,241,675.952	36.00
109	MARANON	REPSOL EXPLORACION PERU	16.12.2005	359,023.441	90.00
114	UCAYALI	CEPSA PERU S.A.	14.07.2006	307,000.000	47.00
115	MARANON	PLUSPETROL E&P S.A.	13.12.2005	241,226.680	63.00
116	SANTIAGO	MAUREL ET PROM. PERU SAC	12.12.2006	658,879.677	128.00
117	MARANON	PETROBRAS ENERGIA PERU S.A.	16.05.2006	1,094,039.523	155.00
121	MARANON	SUBANDEAN E&P PERU LLC	14.07.2006	281,326.447	66.00
123	MARANON	BURLINGTON RESOURCES PERU LIMITED	29.09.2006	940,421.092	171.00
126	UCAYALI	PETROMINERALES PERU S.A.	23.10.2007	1,066,955.807	12.00
129	MARANON	BURLINGTON RESOURCES PERU LIMITED	24.05.2007	472,433.684	90.00
130	MARANON	CEPSA PERU S.A.	16.04.2009	1,275,349.404	130.00
131	UCAYALI	CEPSA PERU S.A.	21.11.2007	990,472.317	90.00
133	HUALLAGA, UCAYALI	PETROLIFERA PETROLEUM DEL PERU SAC	16.04.2009	396,050.736	47.00
135	MARANON	PACIFIC STRATUS ENERGY S.A.	21.11.2007	1,020,390.628	117.00
137	MARANON	PACIFIC STRATUS ENERGY S.A.	21.11.2007	448,947.445	117.00
138	UCAYALI	PACIFIC STRATUS ENERGY S.A.	21.11.2007	414,220.398	93.00
141	TITCACA	PAN ANDEAN RESOURCES PLC (PERU)	21.11.2007	516,891.592	90.00
144	MARANON	KEI (PERU 112) PTY LTD.	16.04.2009	683,616.472	87.00
145	BAGUA	OLYMPIC PERU, INC	16.04.2009	500,000.004	80.00
156	TITCACA	GRUPO PETROLERO SURAMERICANO SAC	16.04.2009	474,632.087	117.00
158	MARANON	TALISMAN - ECOPETROL	16.04.2009	272,254.861	63.00
160	UCAYALI	KEDCOM CO - CIA. CONSULTORA	16.04.2009	484,400.867	90.00
161	UCAYALI	PAN ANDEAN RESOURCES PLC (PERU)	16.04.2009	491,784.035	90.00
163	UCAYALI	EMERALD ENERGY PERU SAC	16.04.2009	499,759.384	90.00
174	UCAYALI	TECPETROL LOTE 174 S.A.C.	23.09.2011	263,943.844	000.00
179	MARANON	ECOPETROL DEL PERU S.A.	29.09.2011	350,284.816	000.00
183	MARANON	HYDROCARBON EXPLORACION PLC	28.09.2011	396,825.657	000.00
188	UCAYALI	HYDROCARBON EXPLORACION PLC	28.09.2011	595,808.664	000.00
Z-1	TUMBES, TALARA	BPZ EXPLORACION & PRODUCCION SRL	30.11.2001	224,375.850	30,077.00
Z-33	LIMA, PISCO	SAVIA PERU S.A.	01.09.2004	594,696.590	15,414.00
Z-34	TALARA	GOLD OIL PERU SAC	08.03.2007	371,339.166	32,549.00
Z-35	SALVAVERRY, TRUJILLO	SAVIA PERU S.A.	20.09.2005	1,081,517.478	20,549.00
Z-36	SALVAVERRY	SAVIA PERU S.A.	14.07.2006	999,995.388	20,549.00
Z-38	TUMBES, TALARA	KEI (PERU Z-38) PTY LTD.	12.04.2007	487,545.511	112,555.00
Z-45	TALARA, SECHURA	SAVIA PERU S.A.	21.11.2007	1,092,048.347	546.00
Z-46	TRUJILLO	SK ENERGY	21.11.2007	1,134,547.763	411.00
Z-48	SALVAVERRY	SAVIA PERU S.A.	21.11.2007	720,106.442	411.00
Z-49	SALVAVERRY	SAVIA PERU S.A.	21.11.2007	676,096.600	411.00
Z-51	LIMA	SAVIA PERU S.A.	16.07.2010	849,413.879	000.00
Z-52	LIMA	SAVIA PERU S.A.	16.07.2010	803,574.482	000.00
				<b>33,360,803.128</b>	<b>245,256.00</b>

Exploitation and Exploration Blocks

Source: PeruPetro, 2012





## PeruPetro

### “Seeking International Investors for an Under-Explored Market”

Interview with Dr Rosa María Ortiz, President of the Board of Directors of PeruPetro

**Dr Rosa María Ortiz** is a lawyer with solid legal experience in the fields of administrative, civil, commercial, corporate and hydrocarbon law, for both national and multinational companies. She has worked as an advisor in the public sector, especially in areas related to contracting, concessions, privatizations, administrative and hydrocarbon law. On 28 July 2012, she was appointed President of the Board of Directors of PeruPetro, the state-owned enterprise in charge of promoting investments in hydrocarbon exploration and exploitation activities in Peru.

**Perupetro** is the company responsible for promoting, negotiating, signing and monitoring hydrocarbons exploration and exploitation contracts on behalf of the Peruvian State.

Milestone GRP met with Dr Rosa María Ortiz to discuss how Peru is promoting investment in the hydrocarbon sector throughout the world and how the country is going to reverse its decline in hydrocarbon production.

#### **Milestone GRP - How does the government promote private investment in the hydrocarbons sector?**

**Dr Rosa María Ortiz** - PeruPetro constantly organizes promotional campaigns in North America, Europe, Asia and the Middle East where we keep on getting positive feedback, interest and great expectations from potential investors to come to Peru and participate in the exploration and exploitation activities within the country.

Thanks to the favorable legal and economic framework to promote the country worldwide, PeruPetro actively participates in international events with promotional booths that provide visitors with publicity materials and technical information about the availability of areas with potential for hydrocarbon exploration. In such events, our specialized staff is always available to answer any questions that visitors may have.

#### **Milestone GRP - How are your outreach efforts received by foreign investors?**

**Dr Ortiz** - We are taking part in the most important internati-

onal events around the world. So far there has been a great degree of interest among foreign oil investors. During the last quarter of 2012 alone, we participated in the World Petroleum Congress in Scotland and the AAPG ICE 2012 (American Association of Petroleum Geologists) in Singapore. In Lima, Peru, we have participated in the 9<sup>th</sup> Southern Cone Energy Summit, the 1<sup>st</sup> International Petroleum Summit (ALIP) and the 3<sup>rd</sup> Summit of South American-Arab Countries.

As you can see, we enjoy great international exposure, and we are very active in our promotional activities. We have received very positive feedback and extensive interest from the world's largest oil companies. Our goal is to strengthen our commercial strategy taking advantage of the legal and economic framework that we can offer our potential investors.

#### **Milestone GRP - What is the reason behind the 5% reduction in Peru's oil production during 2012?**

**Dr Ortiz** - There is a well-known natural decline in oil production worldwide and Peru is no exception. In the first place, we have some companies whose contracts are expiring in the next

two or three years; these companies have experienced a normal reduction in their blocks' productivity. Nevertheless, we believe this is just a temporary situation because we will soon launch the bidding round for Block 1AB that will allow us to reverse the current decrease in production.

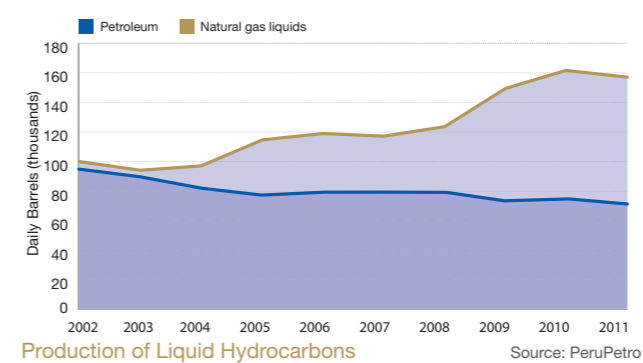
“Peru has the potential to reach a production of at least 200,000 oil barrels per day and around 1.8 million cubic feet of gas per day in the next few years.”

On the other hand, there have been new discoveries in the last years that will start production very soon. This is the case for Block 64 located in the Marañón Norte basin where Talisman has found light oil of up to 39 degrees API. This discovery has been made in the deepest well drilled in the country, which gives this discovery special relevance because it has changed the perception that we had about the productivity of the Marañón Norte Basin. This has opened a very promising extension to the South making it very attractive for new explorations. We hope that this area, in particular, will attract an increasing number of companies interested in exploration in order to find additional reserves.

As for our heavy oil reserves, Perenco, which operates Block 67 located in the northern portion of the Marañón Basin, has discovered important heavy oil reserves that, in the future, will contribute to increasing production in Peru. We will also count on hydrocarbons production coming from blocks located in the Peruvian jungle and in the Northwest – both onshore and on the continental shelf.

Once these new discoveries enter a production phase and the new areas where we are expecting more discoveries do too, Peru has the potential to reach a production of at least 200,000 oil barrels per day and around 1.8 million cubic feet of gas per day in the next few years.

Following these trends, we will be completely satisfied when Peru is self-sufficient in hydrocarbon production and once we



are able to turn into an exporter after meeting the domestic demand. This will be our key strategy in years to come.

#### **Milestone GRP - What investments and concessions will be carried out in 2012 and in the future?**

**Dr Ortiz** - Since 2007, the number of investments in hydrocarbon exploration has grown significantly. As a result, in 2011 we received investments for over US\$ 1.8 billion and 2012 is expected to reach an investment of US\$ 1.9 billion. By 2015, we are expecting investments of as much as US\$ 2.9 billion.

#### **Milestone GRP - What priorities are you going to set for the next 5-year period?**

**Dr Ortiz** - Our priority is launching the scheduled bidding rounds both in exploration and exploitation areas. Therefore, we hope to reverse the oil production decline and reach a higher productivity level than we have today.

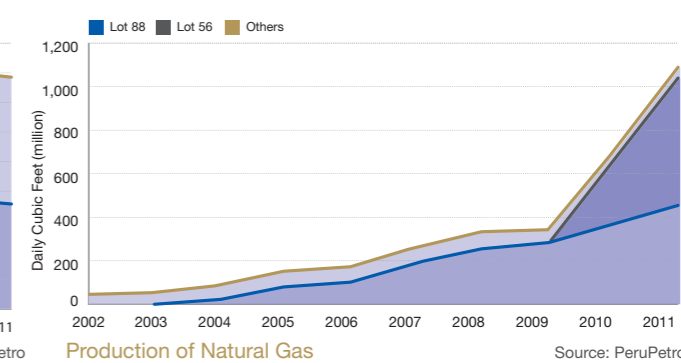
#### **Milestone GRP - What is your main message to potential investors about the potential of Peru's hydrocarbon sector?**

**Dr Ortiz** - They should come and invest in exploration and production activities in Peru. Our country is able to offer all the guarantees that investors need in order to take the risks inherent to investing in the hydrocarbon industry.

Peru is one of the least explored countries in the world, which is reflected in the low number of exploratory wells drilled in the country. There are 18 sedimentary basins that have the potential of containing hydrocarbons, however, there are exploration activities taking place in only 6 of them, and the country's total production is concentrated in only 3 of them. The remaining basins contain very large unexplored areas or areas with very little activity.

“We will soon launch the bidding round for Block 1AB that will allow us to reverse the current decrease in production.”

From a geological point of view, there is still a lot to be discovered. For this reason, investors looking for new horizons should consider Peru as a very attractive destination.





## Petroperú

### “Changing the Way the State Thinks about Hydrocarbons”

Interview with Humberto Campodónico, President of Petroperú

**Milestone GRP - What's your opinion on the how the government is proceeding with Peru's oil and gas concessions?**

**Mr Humberto Campodónico** - What the government has found is that it is necessary to have a centralized initiative that permits flexibility and enables investment, because many times obstacles exist that make investment more difficult and cause delays. So there is now a commission that has to solve these problems and at the same time make sure that these potential investments keep up with the necessary quality standards that we are looking for. At the same time, I think that the government needs to push through the most important concessions.

**Milestone GRP - What role is Petroperú playing in the South Andean Gas Pipeline (Gasoducto Surandino) and what effects will the pipeline have?**

**Mr Campodónico** - Petroperú has been promoting the development of a project which will transport liquefied natural gas (LNG) by tankers from the Peru LNG plant in Cañete (Ica) to other major cities in southern Peru. This will allow the populations in Cusco, Arequipa, Puno, Juliaca and Moquegua to save 40% of their current spending on fuel consumption. We are working with Repsol to currently supply the communities with gas, which will later be supplied by the pipeline. This complementary project will have an estimated investment of approximately US\$ 100 million.

**Milestone GRP - Do you see this company following the model of your Brazilian counterpart, Petrobras?**

**Mr Campodónico** - Petroperú is a very small company compared to Petrobras. Ecuador's national gas company, Ecopetrol, invests US\$8 billion a year and Petrobras is about 3 times that, while we invest only US\$ 100 million a year. We have a long way to go because we do not produce a single barrel of oil. We need to return to vertical integration and production of oil. The fields were privatized in 1996, and we also had to privatize the refinery, our shipping company and other additional assets. Petroperú, according to the economic objectives at that time, should have disappeared, but there was a lot of social and political pressure to keep the company around. That is why we are still here and today we are the number one company in Peru in terms of sales revenue.

We will take a while to get to those levels, and I always say we're crawling because it's not an immediate process. We'll have to return gradually to occupy the place we once had, but that will take some time. The upstream segment gives us greater income and could almost double our profits.

We must enter the upstream market and there is an opportunity now to do just that; several oil blocks that were bid on 20 or 30 years ago will return to the state in 2012 and 2013. They will return to Perupetro, the entity that promotes

and creates the concessions, and will be negotiated again. So it's a great opportunity to enter production in these lots. These blocks have very low risk and we would partner with private investors, and gain expertise in upstream. It will enable us to train our petroleum engineers, our geologists, and other factors that will be needed as we get further into the upstream industry.

**Milestone GRP - What is Petroperú doing to combat the environmental effects of the extractive and refining sector?**

**Mr Campodónico** - To preserve the environment and fight global warming, we will produce gasoline and diesel with low sulfur content. Currently, Peru produces gasoline and diesel between 1,700 and 2,000 sulfur parts per million (ppm), which is very high. We are trying to get down to 50 ppm, but the

“These blocks have very low risk and we would partner with private investors, and gain expertise in upstream.”

EU and the US are already at 5 or 10 ppm. Lima is the only place in Peru where gasoline and diesel have less than 50 ppm because it is imported, but only in Lima because the rest of the country still consumes gasoline and diesel with 1,700 to 2,000 ppm.

We want to take what we have today in Lima everywhere and that means modernizing our Talara oil refinery. In addition to lowering the sulfur count through modernization of the Talara oil refinery, we will increase production capacity by 50%, from 65,000 to 95,000 barrels. We will also construct processing units accepting heavy oils, because these heavy oils are now the most abundant in the region. The refinery we have currently was not made for heavy oil to light oil. We will be able to obtain diesel fuel - the so-called middle distillate - and it will give more value to the refinery and a better profit margin on each barrel of oil. And all the while Petroperú will ensure compliance with environmental laws.

**Milestone GRP - Petroperú is considering planning an IPO on the Lima Stock Exchange. What projects are you trying to support with this initiative?**

**Mr Humberto Campodónico** - Well, we are not sure how we are going to approach alternative funding. We are working with financial advisors who are telling us what the next steps are. The financial advisors might recommend that we first enter the stock market and then maybe do bonds, but it depends.

## Petrominerales

### “Searching for Hydrocarbons”

Interview with Rafael Ford, Corporate Representative of Petrominerales Peru

**Milestone GRP - What attracted you to come invest in Peru's hydrocarbons sector?**

**Mr Rafael Ford** - Petrominerales has been successful in Colombia over the years, and the Peruvian economy functions much in the same way as the Colombian economy does. Much of the knowledge and knowhow that we have in Colombia was easy to transfer to Peru and operates in a similar fashion to what we do in Colombia. There is also the benefit of being in the region already, so that even the skilled labor could be transferred from Colombia to Peru. Also, the language is the same and the culture is relatively similar, especially the business culture.

“The next few years are going to be crucial to investment in the energy sector.”

There is so much potential here in Peru for growth in this sector, and we know that the country is rich in hydrocarbons, as has been shown, especially in the north of Peru. With new technologies we are looking to be able to better research the territory and take advantage of the opportunities in this oil rich country.

**Milestone GRP - There have been complaints in the sector about how the government is moving too slowly and is too bureaucratic. What has Petrominerales' relationship with the government been like so far?**

**Mr Ford** - Petrominerales has had a good working relationship with the government. It is also important to take into account that this is a country that is recently starting to take advantage of this resource that has up until now been largely unexplored. So while the government has been making progress, there is still a lot of progress to be made, especially between the local, and national governments. But these issues are things that you could find anywhere around the globe, because this is a sector that affects a lot of people and groups of people. After they are able to smooth out some of the processes, this sector is going to be one of the most interesting sectors in the country. But the most important thing is that the government is willing to work with the private sector and has a good relationship with the companies that are looking to invest.

**Milestone GRP - Local communities near the extractive sector's projects often oppose their operations. What has your relationship been like with the local communities where you have been exploring?**

**Mr Ford** - The private sector has for the most part been very cooperative with the local communities, and we are seeing this

year that the government is trying to solve the issues that have been appearing in select regions of the country. But these issues are also unique, not just to Peru, but to each region that is affected, so there needs to be a unique solution as well. In addition to maintaining good relations with the local communities, we want to be an environmentally conscious player and have a good reputation in this respect. I think that we will be considered as a positive player in the Peruvian market.

**Milestone GRP - As the price of commodities fluctuates over time it is usually accompanied by a fluctuation in skilled labor in the sector as well. How are you dealing with this?**

**Mr Ford** - Absolutely, especially here in Peru where this industry hasn't really taken hold. Many times, and this is the case in Peru, new talent comes into the sector when the sector is hot and experiencing growth, because that is where the demand is. But then when there is a downturn in the sector, new talent is more scarce. In general, Peru has a scarcity of skilled labor in the hydrocarbon industry, and since the last boom here was some time ago, some of our most qualified workers are around 80 years old. And many times they don't want to leave because they have a chance to get back to what they are really interested in, and not just the corporate side of the business. So yes, I think that is very true in many cases.

**Milestone GRP - There is a push from the Peruvian government for added-value products to be exported to other countries. What is your view on this?**

**Mr Ford** - Nowadays, our GDP is basically based on mining and fishing, and those are products that don't have any added-value. At the moment, many Peruvians believe that they don't have the technology to produce added-value products or that buyers don't trust them. In the future we have to start producing added-value products because the products on which we depend currently, mining and fishing, are very volatile. Just look at how the value of gold fluctuates. We are an economy that depends on raw materials and we are going to be depending on them for the next 10 or 15 years. We are not yet in an added-value production stage yet.

**Milestone GRP - What opportunities for investment exist in the Peruvian oil and gas sector?**

**Mr Ford** - The Peruvian market is largely unexplored and is rich with possibilities. The next few years are going to be crucial for the energy sector in order for the Peruvian government to be able to meet its goals, and so that the sector can meet the growing demand of Peruvians as well. There is a lot of interest from both local and international companies and there will continue to be more in the future if the government is able to keep the system working and flowing as best as possible. And Petrominerales, in particular, is here in Peru for the long-term.



## Duke Energy Peru

### “Finding Great Potential in the Energy Market”

Interview with Mark Hoffmann Rosas, CEO of Duke Energy Peru

**Milestone GRP - What's your opinion on the opportunities you find in Peru?**

**Mr Mark Hoffmann Rosas** - Peru is in a privileged position with its abundance of natural resources, but what's going to take Peru to the next level of development is not only extracting and exporting these raw minerals, but processing them and exporting intermediate or finished goods. Right now, we're doing very little of that but it's a huge opportunity for the country.

In the specific case of the energy sector, Peru is a country that generates around 90 to 95% of its energy from clean resources. We have approximately 55% of energy coming from hydro sources, although the percentage varies year-on-year depending on how much it rains annually. We have about 35% of energy coming from natural gas and that's only going to increase as more gas becomes available from the Camisea and surrounding gas fields in the coming years. That is going to be shipped to the south for further generation there.

Our projection is that this is going to be a hydro- and gas-dominated energy system for the foreseeable future with a small amount of coal and diesel that are mainly used as back up. It's a very fortunate situation that we have here and the main benefit is not only environmental but economic too. The availability of cheap energy will fuel the country's economy and increase our competitiveness by allowing us to be inexpensive producers of final products even as the currency strengthens.

**Milestone GRP - How do these rich and clean energy resources affect other sectors of the economy?**

**Mr Hoffmann Rosas** - Gas is a very predictable source of energy, hydro is much less predictable. In a country where in a dry year you can lose 10% of your total installed capacity just because it didn't rain enough, it's important to have a diversity of fuel sources available to fill in for those bad hydrological years.

Equally important is having a robust transmission network because of the way the country is laid out, with a very narrow strip of coastline that rises very steeply into the Andes and comes down again going into the jungle. Most of the energy generation occurs on either side of the Andes but usually pretty far away from the most productive cities. You need to have a fairly good transmission grid because it doesn't matter if you have thousands and thousands of available megawatts of energy if you are not able to take it to where it's needed.

This continues to be a problem and there's a very possible risk of blackouts over the next few years since the necessary network is being built as we speak. This is just part of the growing pains. Once you have that robust grid, this won't happen anymore.

**Milestone GRP - Tell us a bit more about your operations in the energy sector and where you see them heading?**

**Mr Hoffmann Rosas** - We see great potential in the energy market. Once we confirm long-term firm gas supply for our Las Flores facility, we see potential to upgrade it to a combined cycle to produce even more efficient energy. We also see great potential in our operation in Aguaytia, near Pucallpa, in the jungle where we operate a gas field. We have gas production wells, gas processing facilities, and transmission lines that go over the mountains and to the coast, which makes it a very complex operation and we're very proud of that. We believe we can find more gas there by drilling further down. If we can increase our capacity, produce liquids from it and supply cities such as Iquitos, we could be their major supplier. Right now Iquitos is a very isolated city in the Amazon that relies on diesel energy, which is very expensive and polluting; we could provide them with cheaper and cleaner energy.

Aguaytia was the first modern natural gas field to enter production, approved by the government in 1993, a decade before Camisea, and we expect to renegotiate the license contract to allow further investments.

We have plans for two large investments to expand our operations: one is the Aguaytia expansion plan, where we already have an approved environmental impact assessment to upgrade the existing generation plant and another expansion plan in our Las Flores plant in Chilca. Each one has specific conditions that need to be met before we pull the trigger, but we keep on looking for opportunities to acquire new operations and expand current ones.

“Peru is a country that generates around 90 to 95% of its energy from clean resources.”

We have 12 facilities in Peru and one in Ecuador and we are the only electric company that operates in all three major regions: the coast, mountains and jungles of Peru. We are the fourth biggest, but, by far, the most complex in terms of operating logistics. We operate with natural gas, hydro and diesel, so we have a good portfolio of generating sources that allows us to be fairly competitive in the market, but we are always looking for more.

**Milestone GRP - What levels of growth do you expect in Peru for the coming years?**

**Mr Hoffmann Rosas** - What we look at is the GDP growth because it is directly linked to the demand for energy, which usually grows 1% more than the GDP. So our results are usually very much linked to the country's economic performance. The same is true for future expectations, so we plan according to those trends.

## Contugas

### “Giving Opportunities to New Regions with Gas Massification”

Interview with Enrique Cadena, CEO of Contugas

**Milestone GRP - How did Contugas win the license to install and distribute gas in the Ica region? What are the main challenges involved in this project?**

**Mr Enrique Cadena** - This concession was awarded to us in April 2008, with the objective of distributing natural gas in the Ica Region. Since the beginning of this process, which took around three years for the bid, a lot of hard work has been put in and a lot of good results were achieved in its design. For example, the way the tariffs were structured allowed us to capture a growing demand and establish a competitive rate. However, it's the first time the government is decentralizing the distribution so it was also a learning process for Peru.

**Milestone GRP - How did involving the local population increase your success?**

**Mr Cadena** - We made sure that we communicated with transparent, consistent and clear messages. It's important to have the local population involved. We actually started our operation in the city of Pisco, which is a community that suffered a strong earthquake and that has a lot of social and economic problems. It was a good decision to start the project there in order to encourage them and motivate them. The message was very clear, the citizens were the first beneficiaries and then the main connection network was built to serve the local industries.

**Milestone GRP - What will the impact be of having natural gas in the south, an area which is booming at the moment?**

**Mr Cadena** - There is an opening of new industries, such as petrochemicals, mining, and agro-industry, and our challenge is to be able to respond to the new demand. This is an important opportunity not only for us, but for many other industries, both in the Ica region and in all of Peru.

**Milestone GRP - What is the current installed capacity and when do you expect to complete the project? What is your schedule?**

**Mr Cadena** - We started building the network at the beginning of 2011. Currently, we are building the pipeline that is divided into three subsystems: Humay-Pisco, Humay-Marcona and Chincha. In Chincha, we will have the station and the distribution network done before the end of 2012 so we will be able to serve industries and homes before the end of the year.

At the beginning of 2013, we should be serving the industrial sector of Pisco and Inca, and at the end of 2013 we should be serving Marcona and Nazca, which are the farthest towns in the system. There will be 330 km of pipeline with distribution networks in each municipality, so we are basically in the middle of the building process.

**Milestone GRP - Have you hired local people to work on these projects?**

**Mr Cadena** - Hiring local people has been one of our main targets as well, that's why about 60% of our employees are local. We have invested a lot in providing them with adequate training. To do so, we are working with public institutions in order to secure the sustainability of this operation and integrate the local population in our business. The establishment of this new natural gas system will open opportunities for new businesses in maintenance and the petrochemical industry. But in order to have employment opportunities, you need training and education.

“The expected investments in the region due to this connection are estimated at around US\$ 5 billion.”

**Milestone GRP - What impact will the gas connection have on regional populations?**

**Mr Cadena** - The expected investments in the region due to this connection are estimated at around US\$ 5 billion. And history and experience tell us that these expectations usually fall short. The demand for natural gas has been one of the greatest strengths of the project. In fact, we have projects in different stages that demand more natural gas than the capacity we have right now. The real challenge of the project has been the supply and capacity of transportation from Malvinas to Humay.

After someone takes the first step, that usually works as a trigger for more and more investments that benefit more people. This will create opportunities for the locals, who will be able to benefit if they have the appropriate training. It's proven that for every direct job generated as a consequence of natural gas, you create 10 indirect job opportunities and this is very interesting because, in the long run, this will mean social and economic development for the communities, the regions, and the country.

Finally, natural gas is an environmentally friendly resource and is also cheaper, which generates savings and improves the competitiveness of the companies that use it, allowing for their growth and expansion. At the family level, with an average income of S/. 750 per month, it allows them savings of up to S/. 20 per month, which can provide bread to an entire family for 20 days. This is a very significant impact and benefit for the family economy.





## Cálidda – Gas Natural de Lima y Callao “Fueling Natural Gas Development in Lima”

Interview with Adolfo Heeren, CEO of Cálidda

**Adolfo Heeren** is the CEO of Cálidda (Gas Natural de Lima y Callao). Before his time as the CEO of Cálidda, he was the CEO of Shell Peru. He received a degree in Industrial Engineering from the Universidad Católica del Perú, where he has also taught, and has participated in the Management Program at the Universidad de Piura (PAD Piura). He also has an MBA from the Universidad Adolfo Ibáñez in Chile. He is also a Director and member of the Executive Committee of Peru 2021.

**Cálidda** is a Peruvian natural gas distributing company that holds the concession for the Department of Lima and the Constitutional Province of Callao in Peru for a period of 33 years. The main shareholder is Grupo Energía de Bogotá. Cálidda is the pioneer in the natural gas industry in Peru.

Milestone GRP met with Adolfo Heeren to discuss the natural gas revolution that is taking place in Peru and how they are working against the clock to distribute to 50% of Lima's residents by 2020.

**Milestone GRP - One of the principal natural gas projects, the Southern Andes Pipeline, is currently under construction. How will this enhance the natural gas sector in Peru?**

**Mr Adolfo Heeren** - One of the key challenges the country is facing is the interconnection of all regions with natural gas pipelines; the pipeline between Ica and Lima is a start. The southern natural gas pipeline is an interesting project to bring gas to a very large area of Peru.

**Milestone GRP - The proposed Braskem petrochemical complex will provide a big boost to Peru's natural gas sector. What effect do you see it having?**

**Mr Heeren** - Each natural gas project must have an anchor at the end – a big consumer – to make it viable for the costs involved in transporting gas. I think the petrochemical plant is not only an excellent anchor to make the project viable but one that gives added-value to the product as well. The potential to generate greater value and greater economic development in the region is essential if we are going to develop an industry that surrounds something like a petrochemical plant.

**Milestone GRP - Which sectors can benefit from the development and use of natural gas in Peru?**

**Mr Heeren** - Interestingly, the benefits of natural gas start appearing when gas consumption begins. When the Camisea project was launched with Shell in the 1990s, one of the issues that attracted attention was that in 1997-1998, there was only one client interested in natural gas in Lima. We currently have over 400 industries using natural gas, including power generating companies, gas stations and residential clients. The residential aspect is beneficial for families, and therefore generates a better economy in the long term.

In business terms, there are two important components. First is the transport interconnection of one part of the country. Having natural gas in a number of regions, in addition to Lima and Ica, generates the interconnection of all transport between them. Secondly, every day the Peruvian industrial sector, having more than 16 free trade agreements and regional agreements, is in a constant competition with domestic Peruvian industries as well as international industries. So, natural gas, which is cheaper and has a better cost structure, makes industries more competitive

at home and abroad. There are industries that are energy intensive, and for them it is important to have a competitive energy source to compete or they will not be able to grow.

**Milestone GRP - What is the future of natural gas in Peru?**

**Mr Heeren** - I think there is still enormous residential potential. Only 80,000 residences in Lima, a city with more than 1,400,000 families, have been connected. Considering Peru as a whole, the potential is still very large. I think the industrial energy matrix will be migrating to natural gas. It will also depend heavily on the reserves discovered by natural gas producers to encourage more intensive use of this gas. There can be more petrochemical and power generation via more natural gas. The exploration potential is still very large.

**Milestone GRP - What potential do you see for natural gas exploration?**

**Mr Heeren** - It is still in the early stage. PeruPetro is doing a great job, having increased the number of bids for exploration lots, assignments and execution of contracts, but they are still at a preliminary stage. There are many long-term investment projects and the first step, the call to market, has already happened. Peru has made it clear that it has an interest in exploring both gas and oil.

**Milestone GRP - Cálidda entered the market in 2000 as one of the pioneers in natural gas distribution. How has the market changed over the last 12 years?**

**Mr Heeren** - Initially, Cálidda was a transportation and distribution company; later, they were split. In early 2000, Cálidda was created and the shareholder was Suez. In 2004 Cálidda began commercial operations. The construction of the main grid started in 2002 and concluded in 2004, when commercial business operations started. Then Suez sold its stake and Ashmore, an American group, and Promigas, a Colombian company with extensive experience in the region, bought in. In 2011, Ashmore sold their stake and then Bogota Energy Group entered into the game. They have transportation experience and various businesses in Colombia, Peru, and Guatemala.

The difference between residential use and business use is that business use is more oriented to the benefits of cost structure and processes. Residential is more oriented to habits and perceptions of the product. We communicate to everyone that natural gas is better for them in all aspects: it's economic, safe and environmentally friendly.

**Milestone GRP - And how do you communicate that idea?**

**Mr Heeren** - In the beginning we had very generic brand messaging since it was not yet known. In time, we have created campaigns at different levels. We are targeting districts where we are currently distributing, so as not to raise expectations in places we have not yet arrived.

Our distribution began in the western districts of Lima, which are middle-class districts. In 2010, ago we decided to dedicate ourselves to entering lower socioeconomic sectors. This does not mean we're not going to the rest, but we are putting more

emphasis on the most vulnerable areas of the city, because for them the benefit can mean a major change in personal savings.

**Milestone GRP - And how have you been able to successfully democratize the distribution of natural gas?**

**Mr Heeren** - We are currently reaching C and D socioeconomic levels. We are trying to see how we can accelerate the distribution process. In 2011 we connected the same number of residences that we had connected in all previous years combined before that, and for 2012 we plan to do 60% more than in 2011. Because Lima is such a large city, the potential is huge. We are committed and aligned with the government to reach more than 400,000 families by 2016 and to reach half the population of Lima by 2020. This is an important and aggressive strategy, compared to what has been done in other cities in the region, such as Bogota or Buenos Aires. Those were cities that started their processes in the 1950s or 1960s but took them many years to develop.

“The expansion of natural gas in Lima involves a large investment that could exceed US\$ 700 million by 2020.”

**Milestone GRP - What investments will you have to make to reach half of the population of Lima in less than eight years?**

**Mr Heeren** - We need to do several things. First, we need to expand our network capacity. For 2012 we have made an investment of US\$ 80 million. In 2013, we hope to have made key investments of up to US\$ 100 million. The expansion of natural gas in the department of Lima, in all sectors, not only residential, involves a large investment that could exceed US\$ 700 million by 2020.

**Milestone GRP - You have the concession for Lima and Callao for 33 years with option to extend. What has your relationship with the government been like so far?**

**Mr Heeren** - There are several dimensions to our relationship, because the government in Peru comprises both the central government, with whom we signed the concession contract, and the local governments as well. Our relationship is generally very good with everyone. With the central government there is very good communication and teamwork because, beyond the contract and growth expectations, we have to work with them on regulatory issues. Since this is a new industry, we work with them so that we are sure to handle everything in a way that has no impact on consumers. With local governments, we have an excellent relationship and have been working hand-in-hand, but some are more proactive than others.

**Milestone GRP - Is Cálidda interested in further concessions?**

**Mr Heeren** - The government is creating other concessions in other places in Peru. We will have to evaluate them once they are launched in order to make a decision.





## Abengoa

### “Energy and Infrastructure in a Growing Peru”

Interview with Ignacio Baena, CEO of Abengoa Peru

**Ignacio Baena** is originally from Spain but has been living in Peru for the past 16 years. He holds a Masters Degree in Corporate and Personnel Management from the Instituto Universitario de Postgrado in Spain. He's been a member of the Abengoa family of companies since 1990, and has been the Executive Chairman of Abengoa Peru since 2006.

**Abengoa** is an international company that applies innovative technology solutions for sustainability in the energy and environment sectors, generating energy from the sun, producing biofuels, desalinating seawater and recycling industrial waste.

Milestone GRP met with Ignacio Baena to discuss how the company is implementing the latest global innovations and solutions to the energy and infrastructure sectors.

#### **Milestone GRP - What is your view on Peru's current global competitiveness and what it has done to be more competitive over the last 20 years?**

**Mr Ignacio Baena** - Peru, as well as other countries in the region, have had periods of continuous crises in the past that have led to a general delay in competitiveness compared to other larger countries. The areas that have been affected are those sectors related to infrastructure. Almost 20 years ago, Peru started to draw a line and made a key decision to rise to the global level. There has been a continuity of macro policies that have been revalidated by the various governments in the past two decades. This macro economic and political stability has been the key to achieving inexpensive financing and good levels of liquidity in the financial system in order for companies in Peru to have the best return on their investments. Macro policies followed by government decisions have created what is happening today: economic growth, reduction in the poverty gap and infrastructure growth in all important areas. But it is still not enough. The country has a lot of catching up to do but a lot of progress has been made.

#### **Milestone GRP - How is Peru adjusting to keep its growth sustained while avoiding the problems that come along with it, such as a lack of labor resources?**

**Mr Baena** - Vocational schools such as SENATI or TECSUP are fundamental. They are also crowded, which means there is a definite need. As an example, we are building the longest transmission line in the country's national grid, which runs from Lima to Moquegua. It is a 900 km 500 kV line, with a more than US\$ 500 million investment. With 3,000 people working, we still don't have enough human resources to cover it; however, with SENATI we have been able to staff our projects and try to meet our needs. We have created a school with SENATI where we are generating skilled labor in areas that need quality employment such as Ica, Huancavelica, Arequipa, and Pisco.

The future operators go to the technical school for 2.5 months, first with corporate and technical training, then for more practical training and, finally, they have a fixed contract with Abengoa as T1 initial operators. Within one year they have the possibility to work in more specialized activities. This is something that also goes hand-in-hand with social impact, which eventually creates harmony and socioeconomic growth in these communities. With such a demand for labor, many people are coming back to Peru and getting significant salaries in order to match the needs with the offers.

#### **Milestone GRP - Latin America represents 30% of Abengoa's business globally. What proportion of that LatAm business is done in Peru?**

**Mr Baena** - Of that 30%, 21% is from Brazil. Of the remaining 9%, Peru represents 30%. In ABEINSA, which is the engineering and construction section, Peru's contributions are almost 7% worldwide. Peru, in a few years, has become a cornerstone, or key country for the overall strategy of Abengoa.

In Peru, our business model is based on an idea of permanence and blending into the local market, so we have had a local Peruvian-based business structure since 1994, where we learned to work and develop locally, with people from here. That allowed us to be more dynamic and has allowed us to take advantage of opportunities, which has resulted in explosive growth since 2004. We have been part of the major energy and infrastructure projects in the country because we were prepared for the game.

#### **Milestone GRP - You have a reputation for being at the forefront of technology and infrastructure innovation. What are the innovations that Abengoa Peru is currently implementing in its projects?**

**Mr Baena** - One goal of Abengoa has always been geographical and product diversification. To achieve this, we need to make a lot of investments. We have several engineering and construction projects, electrical infrastructure or energy projects, electromechanical installations, transmission lines, substations, etc. In concessionary activities we have operations in the creation of transmission lines, for example. This is where we have developed the most in Peru. In fact, we are the second electric transmission company by number of kilometers. Building the transmission lines along the Andes 3,000-5,000 meters high was a huge logistical and technological challenge. We are trying to get into renewable, wind and solar energy as well; that's where we would like to apply new technology.

We apply our technological knowhow to our water and sewer development. In water, we are international leaders in engineering and water management. We have developed projects commissioned by SEDAPAL and Cerro Verde here in Peru, for example.

#### **Milestone GRP - Abengoa is a company that is listed on various stock markets around the world. In the case of Peru, where does your financing come from?**

**Mr Baena** - While Abengoa has a financing department and large structures around the world, we have always believed in the importance of a structured finance department at our side. I have a good team here that is constantly searching for finance opportunities. In response to your question, our project finance models depend on the project. Recently we have been searching for multilateral structures over the shorter term or according to the size of the project.

We are always seeking out new partners with our track record of compliance and commitment credibility supporting us. We are at a stage where all project partners that we seek to participate with will also allow us to reduce our need to cover our projects and continue to grow. Today it is increasingly important to have partners, asset turnover and a good reputation in the market to take advantage of financing opportunities. Currently we have 5 concessions here in Peru.

#### **Milestone GRP - How do you position yourself in the market when working with other partners?**

**Mr Baena** - Strategies are different and sometimes more natural according to the synergy that we have with our different partners at a local level. In general terms, we can say that if a project is a concession, we usually seek financial partners to help us develop the project. In EPC projects we usually go alone since we have the local expertise and when specific technologies are required we always have the backup of our world network. It's only in very limited cases that we have to look for a third party partner to bring in their technological expertise. Mainly I can say that we make sure that we develop our projects to the highest standard. In reality, it depends on each situation.

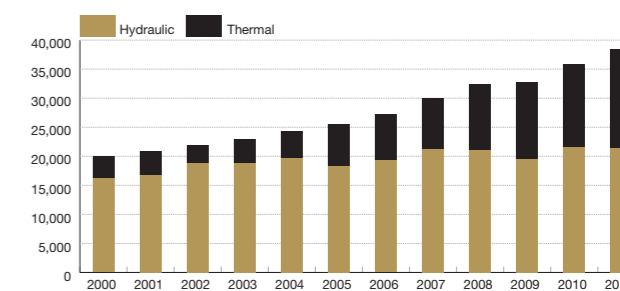
“We are building the longest transmission line in the country's national grid.”

#### **Milestone GRP - How is your work in the field of renewable projects advancing? Are you seeking a financial partner to help you develop those projects?**

**Mr Baena** - There have been two bids and there is expected to be a third one. We are identifying the potential zones that show promise and where we can find financing. We are in the process of due diligence and risk analysis in order to be ready for a future bid in solar energy.

#### **Milestone GRP - Taking into account all these projects, where is Abengoa Peru heading in the future?**

**Mr Baena** - Peru is seeing a lot of growth. The infrastructure gap is still very large and we have to have a permanent presence to be part of the solution. Developments in new technology solutions are still being made with tentative attempts. We are going to stick with the traditional business and aim to get promotion and development projects in renewable energy as well. We want to be a key player in the world of water and environmental, drainage and sanitation. Abengoa has been present on the 3 biggest projects that SEDAPAL has done. So there is a lot to look forward to in the future.



Electric Power Production (GWh)

Source: MEM



# Agriculture





# Peruvian Agriculture: Past, present and future

by Fernando Cillóniz, Founding Partner & CEO of Inform@cción

## The past

Agriculture has been important to Peru throughout history despite political, social, economic, cultural and technological changes. Our pre-Colombian ancestors, the Incas and their predecessors, were extraordinary farmers. They grew crops and preserved the land with hard work and dedication, regulated water management to perfection, and respected and revered the land to the extent of calling it "Pachamama" (Mother Earth).

Nothing could erase the agricultural legacy of our ancestors. No war, crisis or natural disaster could damage the terraces, roads, drums and aqueducts, which were conceived and built for eternity. And with the recent development of information technology and telecommunications, the world has become familiar with the colossal work of the ancient Peruvians' agricultural infrastructure.

required to import 345,000 tons from abroad. Our technicians were scattered all over the world attending to the production of the most developed sugar cane mills.

At that time, the Valley of Chincha produced between 500 and 700 million pounds of raw cotton annually, with a yield of 50 to 80 quintals per hectare. Peruvian cottons (Tangüis and Pima) were synonymous with quality and prestige in the immense international textile market. In 1990, the total production in the Chincha Valley only reached 300 million pounds of raw cotton and productivity barely reached 30 quintals per hectare. And so Peru became an importer of cotton.

And just like sugar and cotton, all crops and livestock fell significantly, and all of Peru felt the adverse effects of the failure of the Agrarian Reforms of 1970.

## The rebirth of Peruvian agriculture

The resurgence of private agriculture represents a radical and positive change in the development of our economic and trade policy, which is attracting the interest of many domestic and foreign businessmen to invest in lands that were badly worked by the beneficiaries of the mentioned Agrarian Reforms.

In this regard, it is worth noting that the existing National Constitution, enacted in 1993, provides that any individual or corporation, domestic or foreign, can develop agriculture activities in the country without any limitation. Indeed, the same constitution eliminated the limits on land ownership that previously existed.

And with regards to economic and trade policy, it is clear that the simplicity, safety and predictability of monetary and fiscal affairs of Peru, are quite attractive to entrepreneurs who are investing



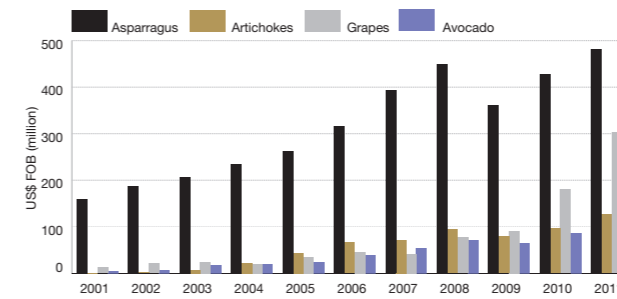
**The resurgence of private agriculture represents a radical and positive change in the development of our economic and trade policy, which is attracting the interest of many domestic and foreign businessmen to invest in land.**

Peru's agricultural potential is not an untapped resource or a novel one that needs to be discovered and developed. Agriculture was, and remains, one of the key activities for the economic and social development of our country. It is, and always has been, a source of prosperity for Peruvians.

However, it is worth noting that Peruvian agriculture had a few dark decades too. During the Agrarian Reforms that were implemented in 1970, and which lasted until the early 1990s, the lands of the largest agricultural companies of the time were expropriated and given to cooperatives formed by the employees of those companies.

The failure of the Agrarian Reforms can be quantified by looking at the two main Peruvian crops of the time: sugarcane and cotton. By the 1960s, Peru produced 750,000 tons of sugar annually, of which 400,000 were exported. In those days, sugarcane specialists from around the world used to come to Peru to learn about our sugar technology.

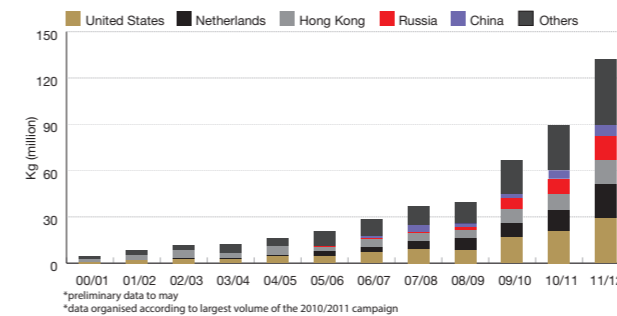
The deterioration of the sugar companies due to the Agrarian Reforms was dramatic. In 1990, Peru produced around 600,000 tons of sugar, but in order to meet domestic demand, it was still



Main Agriculture Exports Source: SUNAT, ADEX, PROMPEX, MINAG, BCR

in the country's rural sector. Equally attractive is the international trade policy based on free trade and reciprocity between Peru and various countries of the world.

But what has significantly changed from the past are the target



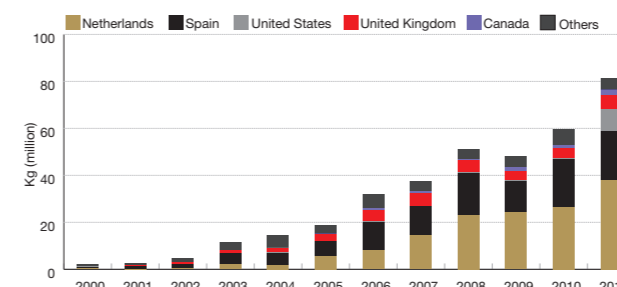
Grape Exports Source: ADEX / SUNAT

markets for national food produce. Agriculture in the past was basically aimed at feeding the local population. Now, however, apart from the domestic market, Peruvian agriculture is supplying the most distant and demanding world food markets.

## Today

In 1990 Peru's agricultural exports only reached US\$ 300 million. In 2011, Peru exported agricultural products worth US\$ 4.5 billion, an increase of fifteen fold. These figures clearly indicate that Peruvian agriculture is undergoing a dynamic growth process; therefore, talking about the current situation is very ephemeral and variable.

Indeed, such is the speed of agriculture's growth in the country that the situation changes every year, if not every day. It's impressive to watch how quickly precarious plots are becoming orchards and/or very modern and technically advanced fields with fruit plantations such as table grapes, avocados, citrus, pomegranate, and vegetables such as asparagus, peppers, artichokes, among others.



Avocado Exports Source: ADEX / SUNAT

The evolution of exports of what has been called "the new agriculture of Peru", (ie. fruit and vegetable agriculture for export) is immense. Just by tracking the evolution that has occurred with four crops, we can see a situation that is illustrative of the overall agriculture boom in Peru.

## Table grapes

In 2001, exports of Peruvian table grapes were practically non-existent. By contrast, in 2011, Peru exported 135,000 tons of the fruit to major northern hemisphere markets such as the US, Western Europe, Russia, China and others.

In this regard, we have information from greenhouses producing table grape seedlings that indicate that 2,000 to 3,000 hectares of table grapes are being planted annually, which places Peru as the country with the highest relative growth of the crop worldwide.

Peru now shares with Chile the global leadership of table grape exports supplying the international market from October to April each year.

## Avocados

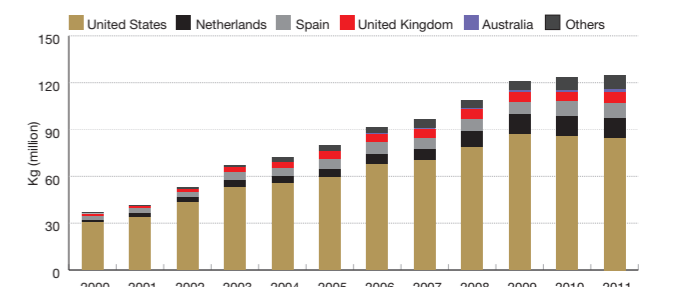
In 2001, just like in the case of table grapes, avocado exports were virtually nil. Peruvians knew and consumed avocados on a daily basis, but didn't export them. In 2011, as part of the modernization and reorientation of Peruvian agriculture for export, avocado exports exceeded 80,000 tons.

This crop is growing at a truly fast pace and it all seems to indicate that this growing pace will continue in the future. The sales of avocado seedlings greenhouses also denotes that around 2,000 to 3,000 hectares of avocados are being planted each year, which will soon make Peru a global leader of avocado exports, right after Mexico.

Peruvian avocado producers grouped under the umbrella of the The Association of Peruvian Hass Avocado Producers (ProHass), together with the National Health Service (SENASA) and the Ministry of Foreign Affairs deservedly got the United States' sanitary authorities to allow the entry of fresh avocados from Peru. That permission has opened a huge market for Peru since, according to US avocado analysts, the market there is growing at an average of 10% annually.

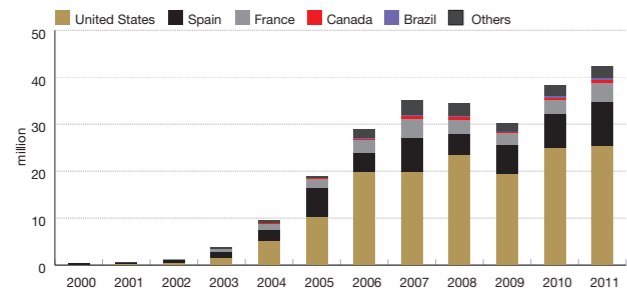
## Fresh green asparagus

Certainly, the flagship crop of "the new Peruvian agriculture" is the fresh green asparagus. Many will recognize the merit of this crop of as the one that has opened the doors of the world to the wide range of fruits and vegetables that followed from Peru.



Green Asparagus Exports Source: ADEX / SUNAT





Artichoke Exports Source: ADEX / SUNAT

Today, Peru is the leading exporter of fresh green asparagus worldwide, and while it is estimated that local production will not grow in the coming years, the leadership of the product in world exports will remain dominated by Peru.

In 2001, exports of fresh green asparagus from Peru were 40,000 tons and ten years later, in 2011, Peru came to export about 125,000 tons, which is a record worldwide.

The United States remains the top destination for Peruvian asparagus exports, while Europe increasingly constitutes another important destination of Peru's fresh green asparagus.

**Artichokes**

It's worth mentioning what happened with the cultivation and export of artichokes, which are mainly exported canned but also frozen.

In 2001, Peru didn't export a single artichoke. As in the case of avocados, Peruvians knew and consumed the Peruvian artichoke coming from the highlands, but did not export them. In 2011, Peruvian exports of canned artichokes reached about 45,000 tons, placing Peru as one of the leading exporters of artichokes worldwide.



**Other crops and horticultural exports**

It would be impossible to give a detailed account of all fruit and vegetable crops that Peru is exporting. A quick and incomplete list would indicate that exports include a wide range of horticultural crops such as peppers, chillies, onions, garlic, peas, beans, lettuce, mangos, bananas, citrus, pomegranates, strawberries and olives, among others.

The fact is that practically all crops for export grow year-to-year. And when it comes to the availability of land and water, it is clear that Peruvian agriculture has a lot of space to keep growing; not by expanding the agricultural frontier but by transforming the large amount of precarious farmland plots into highly technical and competitive ones.

**Industrial crops**

As far as industrial crops are concerned, the modernization process is similar. The capitalization and development of the sugar and ethanol industry is being done very quickly, and so are some plantations of cotton, corn and rice.

“Peruvian agriculture has a lot of space to keep growing; not by expanding the agricultural frontier but by transforming the large amount of precarious farmland plots into highly technical and competitive ones.”

All this is happening mainly on the country's coast, where the climate, water and soils allow for a highly competitive agriculture sector. The Amazon is also participating in the resurgence of Peruvian agriculture, primarily through palm oil, coffee and cocoa, but with more limitations than the coast.

The mountains, however, have seen the least agricultural modernization and growth. Certainly the rough terrain and extreme weather of the high Andean region are not the most suitable for a competitive and profitable agriculture sector. Therefore, in some spaces, especially in relatively low valleys, business operations in crops such as blueberries, flowers, avocados, and ancestral crops like quinoa, white corn, among others, are being developed.

**The Future**

There is no doubt that in the coming years agriculture will be different from what we have experienced these past years. Many precarious settlers will sell their plots to companies that pay ever-higher prices for them.

The explanation is simple. Certainly attracted by the good prices, these settlers are taking the opportunity to sell their land,

but also because they have grown old and need the money to survive. Many have widowed or become sick, and their children do not want to work in the field.

The younger generation prefers working in cities where they do very well working in industrial companies, construction or in the many malls that are being built everywhere, where, as they say, they "work with air conditioning."

On the other hand, many young people are also betting on business enterprises such as manufacturing textiles, leather and footwear, wood products, metal mechanics, etc., and in services such as food, transportation, information technology, and trade in general.

Water will also go up in price. The high cost of water will generate a greater awareness of the proper use of water resources. It is estimated that each year on the Peruvian coast, 20,000 hectares are being transformed by irrigation technology, which allows us to foresee a radical change in the efficiency of water use, and consequently, in the production and productivity of national agriculture.

Something similar will happen with salaries for farm workers. Given the high demand of manpower to meet the growth in fruit and horticulture exports, wages will rise significantly from cur-

rent levels, although they have increased considerably since the start of the modernization of agriculture around the 1990s.

Fortunately, on the sales side, the outlook is favorable. Agricultural products are rising in price, and it appears that this trend will continue. The United States and Europe will produce less food, but will not decrease consumption, which will be supplied by countries such as Peru, especially with fruits and vegetables. China will produce more but will also consume more, and instead of competing, will become a very large market for our products.

Increasing global demand for fruit and vegetables is also supported by: a) changes in food consumption patterns in the United States to counter the obesity that a major part of its population suffers; and b) the increase in low-calorie foods consumption, typical of a largely elderly population such as the one in Western Europe.

To conclude, a realistic scenario for Peruvian agriculture's future is as follows. Precarious individual agriculture will fade and the technological and competitive agriculture business will grow. And so, there will be many new investments in Peruvian agriculture, a higher demand in employment for the country's youth, and the world will consume more and more fruits and vegetables from Peru.



www.viru.com.pe

Our Motivation is Excellence  
because Excellence is part of our Nature.



From the seed that grows in our fields to the moment that seed becomes an outstanding product, this motivation drives us all along the way. Thus, we have become the agro-industrial leading Peruvian company and one of the largest exporters of canned vegetables worldwide.

We grow and process canned vegetables: White and Green Asparagus, Peppers, Artichokes (hearts and bottoms); in Brine, Oil, Marinated and Pickled; Creams and Sauces. In all retail and food service sizes. Presentations: Glass Jars, Tins, Plastic Trays.







## Virú

## “Agricultural Product Diversification and Market Expansion”

Interview with Miguel Nicolini, CEO of Sociedad Agrícola Virú

**Miguel Nicolini** is the owner and CEO of Sociedad Agrícola Virú, a company that started its operations in Peru's agribusiness sector in 1994.

**Virú** is a Peruvian agro-industrial leader specializing in the production of canned vegetables, a segment in which it is a global leader. Virú owns and manages over 5,000 hectares of land in the valleys of Virú and Chincha, as well as two processing plants nearby. It is committed to the development and implementation of new technologies to ensure high levels of quality to continuously supply the markets in Europe, Asia, Oceania, North and South America.

Milestone GRP met with Miguel Nicolini to discuss how Virú is expanding its export markets and improving its competitiveness in the Peruvian agribusiness sector.

**Milestone GRP - The Ministry of Foreign Trade and Tourism has been advocating for increasing the added-value of exported Peruvian goods. What factors are necessary to creating an agricultural industry and a company that rise to that challenge?**

**Mr Miguel Nicolini** - Basically, we need technology and research related to food preservation and packaging techniques in order to add value to products. I believe that technology and creativity are very important. We try to have an innovative product line with much more added-value in order to counteract the oversupply of agricultural products. This is why we have tried to develop a product line that is not too vulnerable within our sector.

“Peru is located in an area where only two degrees more than the average temperature can make a big difference and impact as much as 10 to 15% of our productivity.”

More than creativity, it is the ability of translating and applying good ideas that we have seen in other countries to our products to make them more competitive. We try to use everything we produce in an industrialized manner, for example by using plastic containers. We were also the first ones to produce canned artichokes because we were looking for a way to counteract the consequences of El Niño, which affects our crops.

Unlike other countries where the agricultural sector naturally developed, Peru's agricultural sector was stuck in the past for a long time, and this is why today we have to learn from other countries and see how the sector has evolved globally in the past 30 years. As part of this evolution, today we can count on young professionals with agricultural science de-

grees that we did not have before. So it is about bringing all the technology, creativity and innovation from other countries to Peru and combining it with the new set of skills and expertise that we are able to provide here.

**Milestone GRP - How can Peru be more competitive with other countries in the region?**

**Mr Nicolini** - The first thing you need is financial freedom and flexible labor laws. Our trade agreements with Europe, the United States, China, Japan and Canada are also a big advantage for us. Peru can count on a very large labor force and a beneficial climate that allows us to develop a variety of products. For example, we produce a lot of canned vegetables, so we are able to offer our clients a whole range of products. The country's production ranges from pineapples to asparagus because we have a Mediterranean climate in some regions, mixed with a colder climate in the mountains and a tropical climate in the forests. Nevertheless, we need more investment freedom, more security, and flexible labor laws to ensure that we are as competitive as possible.

**Milestone GRP - Which agricultural products are you focusing on? How are you seeking to diversify your production?**

**Mr Nicolini** - We are limited in terms of capacity for asparagus because it is a product that has not had great profitability over the last few years, so our supply has been quite limited recently. On the other hand, we are ready to invest in increasing our capacity and growing our product offerings with items like capsicum and artichokes.

Every year we invest up to US\$ 1 million in an effort to diversify our product line. For example, we are now starting to produce avocados. It is important for us to diversify with new products. 85% of our exports occur between August and December and 15% between January and July. So we are looking for products that can be exported in the first six months of the year.

**Milestone GRP - Over the past 18 years, what have been the major challenges that you have had to face in order to become one of the largest producers of canned vegetables in the world?**

**Mr Nicolini** - First of all, this is a sector that has to face many variables and a lot of competitiveness. A big challenge for us was to balance the range of crops in order to compensate for a number of variables. The biggest impact on us has been the development and growth of the country itself. With the growth of the economy came overproduction, lower prices, and international competitiveness. Another big challenge has been mitigating the climate and its variability. Peru is located in an area where only two degrees more than the average temperature can make a big difference and impact as much as 10 to 15% of our productivity.

**Milestone GRP - What new export markets have been attracting your attention?**

**Mr Nicolini** - This year we entered the Russian market and took part in a fair in Moscow. We were also present at a fair in Dubai and are starting to enter the Middle East markets as well. The events were really successful for us and we're looking forward to seeing what type of reception we'll have in these markets in the future.

“We will probably reduce our exports to the United States and Europe from 85% to 70% so we can focus on developing new export markets.”

**Milestone GRP - What countries are the biggest importers of your products and do you focus on certain regions over others?**

**Mr Nicolini** - Our most natural markets are obviously Europe and the United States; 85% of our exports are directed to these markets. We are now trying to develop the Latin American markets more, like Brazil, which is still pretty small compared to the volumes that we generate. We are already selling our new products really well in Brazil and we are going to take part in a fair there this year to promote our products.

We have been trying to reach other Latin American markets and we have been lucky enough to find a really good importer to work with and achieve important growth. In just a short time, we have reached US\$ 5 million in exports to Latin American countries, and Brazil is going to contribute another 3-4% to our 2012 profits.

**Milestone GRP - What is your approach in terms of finding suitable distributors when entering a new market?**

**Mr Nicolini** - We are always in search for distributors for our products but we are also very loyal to the people we currently work with. One of our most important clients is Carrefour who we have been working with for about 14 years. Our entire product range is in almost every market in Europe. General Mills and Costco in the United States are two other very important clients of ours. We have been increasing our presence in other

markets like Venezuela and Brazil, which I mentioned earlier. Obviously, there is a lot we can still do in order to enter new markets.

**Milestone GRP - Is there a link between Peru's new image as a gourmet country and the agroindustry sector?**

**Mr Nicolini** - Indeed. There are clients who ask us to organize, for example, Peruvian stands in supermarkets, but the problem is that we export Mediterranean products, not typical Peruvian products.

We have not industrialized traditional Peruvian food but we have certainly considered it. Mexico has been successful in industrializing their traditional foods, like the tortilla. We are starting to industrialize some sauces and Peruvian flavors, but we have to be able to offer a whole range of products in order for this to be feasible. But that is certainly a path to follow so that we could create our own niche and have a competitive advantage.

**Milestone GRP - Which products are you most interested in developing in the future?**

**Mr Nicolini** - We are trying to grow in our line of value-added products and we would also like to consolidate our presence in the fruit market. I think that in the future we will probably reduce our exports to the United States and Europe from 85% to 70% so we can focus on developing new export markets.

**Milestone GRP - How would you sum up Virú?**

**Mr Nicolini** - Virú is a company offering the best quality and service at a competitive price. Virú is well-positioned to be competitive in the market and provide alternatives in terms of packaging technology, variety of products and new products that, in turn, allow our clients to expand their presence in the market.

Main Non-Traditional Agricultural Products (US\$ million)			
Most popular products	2002	2011	Annual average % change
Fresh grapes	19	301	32.0
Fresh Asparagus	83	292	13.4
Fresh avocados	5	164	42.2
Asparagus prepared	85	141	5.1
Paprika	19	132	21.1
Canned artichokes	2	123	50.1
Fresh mangoes	33	115	13.3
Piquillo peppers	11	112	25.7
Shrimp feed	12	94	23.4
Evaporated milk	10	93	24.6
Organic bananas	6	64	26.4
Cocoa beans	1	63	49.0
Canned jalapeños	2	50	35.5
Noodles	7	48	20.6
Subtotal	297	1,793	19.7
Total	550	2,830	17.8

Source: BCRP and SUNAT





## ProHass – The Peruvian Hass Avocado Growers Association

### “The Hass Avocado in the Peruvian Agricultural Revolution”

Interview with James Bosworth, President of ProHass

**James Bosworth** is the President of ProHass. Bosworth has had a long career in the agro-industrial sector. For the past 25 years he has been working at Corporación Drokasa in the areas of Administration and Finance, and is currently heading the Agrokasa initiative in Ica, Peru. He has formed part of the Directory for the Peruvian Citrus Fruit Association, PROCITRUS. He is also currently the Project Director for Agrícola Hoja Redonda S.A. He studied Economics and Business Administration at the University of St. Thomas in Houston, Texas and has a post-graduate degree in Marketing from ESAN.

**The Peruvian Hass Avocado Growers Association – ProHass** is the largest avocado growers association of the Hass variety in Peru. Their members oversee more than 1,800 hectares of crops, mainly located along the Peruvian coast. The association consolidates the efforts of producers in the areas of production and marketing, as well as strengthens their position internationally. It facilitates the transfer of technology, the application of economies of scale, supporting research programs, as well as assisting companies that are trying to access international markets.

Milestone GRP met with James Bosworth to discuss the spectacular growth that the Peruvian Hass avocado has experienced in the international market.

#### **Milestone GRP - How has Peru become one of the world's largest exporters of avocados?**

**Mr James Bosworth** - Peruvians currently consume 90,000 tons of Fuerte avocados, which are the avocados with the light green exterior. This amount of consumption has been going on for ages. People in Peru have been familiar with avocados since they were born and have eaten them since they were children. But the Hass avocado, which is the avocado with the rough, dark green exterior, was established in Peru at the end of the 1980s.

In 2001, we started exporting about 2,800 tons of Hass avocados. At present, we expect to export between 75,000 and 80,000 tons by the end of 2012. Another 10,000 to 15,000 tons basically go to the frozen products and guacamole industry. We have approximately 9,000 hectares of Hass avocado in Peru.

Those 9,000 hectares of Hass avocado are producing 90,000 tons, which means that we are producing 10,000 kg per hectare. Those 10,000 kg per hectare include fields that have just been planted and fields that have reached their mature state. We also know that the mature fields, which are about eight or nine years old, are able to produce between 20,000 and 24,000 tons per hectare. This means that with the number of hectares we currently have planted, once all our fields have reached maturity, we should be able to produce approximately 180,000 tons of Hass avocados without adding more hectares. That is our production focus four years from now. We will continue to plant more hectares and we are growing at a rate of 1,000 to 1,500 hectares per year.

Now, I don't believe that Peru will become the main exporter of Hass avocados in the world. I think that is too much wishful

thinking. Mexico will continue to be the main producer, consumer and exporter of Hass avocados in the world, and I believe it will be very difficult for anyone to overtake that leadership position. I think that we should satisfy a demand in a balanced way because if we offer too much of a product worldwide, producers will be negatively affected. So, we need to have a balance between worldwide demand and supply. This should not just be our aim, but rather the aim of all Hass avocado producers around the world. Besides Mexico, Chile holds an important position. The United States even more. So, Peru could eventually become the fourth biggest producer.

#### **Milestone GRP - What is the international competition like?**

**Mr Bosworth** - Not all countries produce Hass avocados in the same timeframe or season. If we take the Northern hemisphere, for example Israel or Spain, their growing season is totally different than ours. Chile and Peru complement each other's production and their offers. Chile exports from September until February or March, and Peru begins in April or May and lasts until September. However, we are in direct competition with South Africa when it comes to supplying the Northern hemisphere and we also have to compete with Californian producers.

“Once all our fields have reached maturity we should be able to produce approximately 180,000 tons of Hass avocados.”

If we had not worked on opening new markets such as Europe, the producers of Hass avocados in Peru would have faced serious problems. We had worked for approximately nine years to open the North American market for Peruvian Hass avocados. We opened that market in 2010 but we were required to export the avocados as a frozen product at 1 degree Celsius, which directly threatened the quality of the product. To solve this, ProHass launched a study that took two years with the conclusion that the Hass avocado does not sustain fruit flies. With this we were able to get the United States to recognize that the Hass avocado does not in any way sustain fruit flies, and therefore we could in fact export to that country without having to export it with a cold treatment. This is not only beneficial for Peru. It also opened the doors for any country in the world that has issues with fruit flies. This has been to the benefit of California, Mexico, Peru and many others.

In August 2011, at the end of the Peruvian harvest season, we were finally able to ship 446 containers to the United States and they arrived in great condition. This is how we established the precedent.

#### **Milestone GRP - What new markets are Peruvian suppliers looking to target?**

**Mr Bosworth** - ProHass has a development plan to open new markets. We are working on the markets of Argentina, Japan,

Mexico, Colombia, and China. Those are the countries we have identified and with whom we are working.

#### **Milestone GRP - What are the issues that you find are most difficult to address and how are you solving them in each market?**

**Mr Bosworth** - The main issues in each country are the phytosanitary regulations that we must abide by. Free trade agreements are an important step to increasing trade, but they do not solve the phytosanitary issues. The sanitary issue can pose a much higher obstacle than the commercial issue. Basically, we need to establish a transparent process where other international agencies can come and discover whether certain diseases are present in the crops or not.

#### **Milestone GRP - What are the challenges you face in terms of infrastructure in Peru?**

**Mr Bosworth** - As crops continue to grow, so will the need for more packaging plants in different parts of the country. The government is currently launching programs and initiatives that are being carried out to improve everything related to roads, highways and ports. In this sense, the government has also made good progress in satisfying our urgent needs. There will definitely need to be more work done in the future in all the areas related to infrastructure.

#### **Milestone GRP - How do you envision future growth for Peruvian avocados and other produce?**

**Mr Bosworth** - Most of what is consumed is the fresh product itself. The food campaigns that we see in the United States give us a very promising outlook. The demand for fresh products is decreasing worldwide and the demand for fresh products is increasing. We are now more conscious and eat healthier foods, exercise more, and in general take better care of our health than our parents or grandparents did. So I am optimistic in this sense as I see that worldwide demand for fresh products will increase, and not just because of this change in awareness but also because the world's population is growing. There are now 7 billion people on the planet and by 2040 or 2050 we will be 9 or 9.5 billion. So, there is and will be an even greater need to feed this population. This is why I believe that all fresh products, such as fruits and vegetables, will have a greater demand. Of course, processed and canned products are always going to be a necessity due to practical reasons; however, I think that fresh products will always be in demand.

#### **Milestone GRP - How has the agricultural boom in Peru affected Peruvians and increased social inclusion?**

**Mr Bosworth** - In Ica, which was the first region to grow asparagus in Peru, we now see that the area has a 100% employment rate, the entire workforce is local, and the wages are above the minimum wage rate. Trujillo is another similar case. The agriculture sector is basically hiring a lot of manpower. It uses manpower intensively and it does this in parts of the country where work used to be scarce. In this sense, agriculture is the economic area that has contributed the most in terms of providing employment to the neediest people.





## Organic Sierra & Selva “Exporting Health”

Interview with Cesar Zorrilla Wong, CEO of Organic Sierra & Selva

**Cesar Zorrilla Wong** is CEO of Organic Sierra & Selva, also known as Exportadora Agrícola Orgánica. He is a retired Peruvian Naval officer with an undergraduate degree in Business Administration from the Universidad del Pacífico, and a masters of Business Administration from the Universidad Ricardo Palma, as well as from the Université du Québec à Montréal. He previously worked at the newspaper “La Primera” where he reached the position of Chairman of the Board.

**Organic Sierra & Selva** is the world’s leading exporter of organic Andean and ancient grains from Latin America. By investing in strategic partnerships with the Andean producers, Organic Sierra & Selva has assured a constant supply of high quality grains and products that are high in nutritional content to both the local and international community.

Milestone GRP met with Cesar Zorrilla Wong to discuss the global boom in organic grains and how his company plans to lead the charge.

### Milestone GRP - How did you get into this specific market?

**Mr Cesar Zorrilla Wong** - I love sports and a healthy lifestyle. I wanted to run a business through which I can give my contribution and do something in order to change the world. We export health and we offer our contribution to the world, to change the world. That is very important for our company.

Some years ago, another company was the number one producer of quinoa, with a 90% share of the market. That company was using traditional methods, but there was a potential industrialization that could happen in the market. So, Organic Sierra & Selva started by gaining the producers’ trust, then we started knocking on the banks’ doors, and they supported us because they saw the success of the company. 140 producers turned into almost 3,000 producers. These people trust Organic Sierra & Selva.

We designed very competitive sales strategies and focused on differentiating our company from others. Our success has been due to negotiations with the producers and technology. We were the first ones to use optical selectors. We

visited a Brazilian company to make sure it could also be used with quinoa and amaranth. Then we went to our first four or five clients and we started offering a value-added product. This product had an immediate effect on the entire market. We made a real difference and when the buyers knocked on the door we were ready to receive them and offer them the best quality.

Organic Sierra & Selva started to offer the best quality service. We implemented international standards like the HACCP and BPM certifications - we are the first Peruvian Andean grains export company to have a HACCP certificate. Then we applied for ISO 9001 and today we are applying for the FSSC 22000, which is going to be implemented. We are going to be audited and assessed by DQS Germany, which is the association for the certification of management systems in Germany. In order to stay on top, we have built our plant according to those standards; trying to be the best. Moreover, every single aspect of our company management is backed by written reports, and this is what allows us to apply for these kinds of certifications. Organic Sierra & Selva wishes to always have continuous growth in the national and international market.

### Milestone GRP - Organic products are increasingly popular in Europe, the United States and Australia. What potential do you see for this market?

**Mr Zorrilla Wong** - At the moment, this industry is growing at 35-40% annually. Everyday there are more and more consumers in markets such as the United States, Europe and now, surprisingly, also Australia and New Zealand. In 2011, Australia grew 454%. Today Australia positions itself, within our market share, as our second most important export market, leaving the European Union far behind. The fact that Australia and New Zealand make up 20% of our exports comes as a very big surprise for us, while the European Union only represents 15% of our total exports.

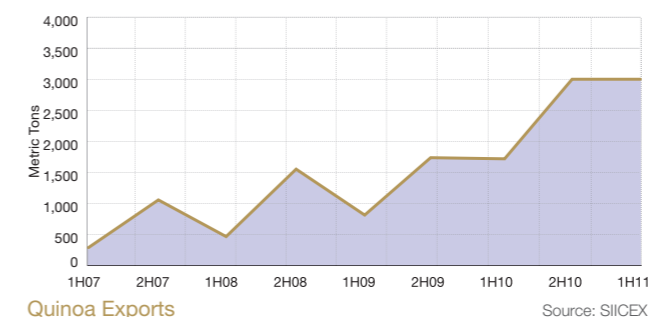
“Quinoa and chia are going to be consumed more and more, and the demand is going to exceed the offer.”

This is an industry with a huge potential, because people are more and more health conscious and they are starting to eat the grains of our ancestors again. Not only are they consuming quinoa, but also chia, a type of grain eaten by the Mayas. We are working on the appropriate marketing strategy in order to launch other types, such as quinoa, amaranth, or cañihua.

### Milestone GRP - The UN has declared 2013 as the International Year of Quinoa. What properties does this specific product have and why is it experiencing such a boom?

**Mr Zorrilla Wong** - 2013 has been declared the International Year of Quinoa because it has been singled out by the World Health Organization as a food with high nutritional value. Quinoa has all the amino-acids that the human body needs. This product is very high in proteins as well, reaching between 13 to 16%. Quinoa is a product suited for people with celiac disease or diabetes, even juvenile diabetes. Quinoa is a gluten-free product, with antioxidant properties as well. It is a well-balanced product that is starting to replace other products, such as rice, that contain gluten.

### Milestone GRP - These products’ exposure is still quite low. What strategies have to be implemented in order to promote them and therefore increase their export potential?



**Mr Zorrilla Wong** - Today we are not ready to meet the market’s demands. Peru produces around 40-42,000 tons and exports 10-12,000 tons. The rest is partially consumed by the local market and some is illegally exported to Bolivia or Ecuador to meet the demand there. Oprah Winfrey said on one of her shows one day that she eats chia and quinoa. I was already producing quinoa but I had to research what chia was. I then met with people throughout South America and we designed a project that involved different partners and we started producing chia. Oprah was one of the best marketing tools for quinoa and chia.

I have gained a lot of expertise by going to fairs, talking to my clients, asking them about their forecasts and then relaying that information to the producers. So, I have a very strong understanding of this market and I can tell you that quinoa and chia are going to be consumed more and more, and the demand is going to exceed the offer. Our problem, indeed, is the supply. We have to work with the state and the major producers in the country in order to find a solution.

### Milestone GRP - What are your current production levels? What objectives would you like to reach in the near term?

**Mr Zorrilla Wong** - We are exporting an average of 6,500 tons of product. 70% of that is quinoa and 20% is chia. That 10% left is amaranth, cañihua and a few other products. With more investment our quinoa sales in terms of volume could increase substantially. We’re looking at 40% during the first year, going from 4,000 tons to 5,600 tons in 2013. There are also many other interesting aspects in this business. Chia is much more profitable than quinoa, so we want to substantially increase our production of chia, in order to address that niche market.

### Milestone GRP - Where do you see your company in five years? What is your vision?

**Mr Zorrilla Wong** - Opening retail shops is part of our strategic planning for the next five years. Within our main expansion objectives there is the project of opening eco-fitness gyms. We are creating a completely different culture of doing physical activity backed by an organic diet. We plan to open a chain of mini-markets where you will find our organic products. For the mini-markets, we already have a portfolio of partners that love this idea and that would work with us if we were to open a mini-market. We are using the mini-markets and the eco-fitness gyms as a tool for changing the diet culture and the whole world. Our main objective is to make the world a better place.

### Milestone GRP - How are you guaranteeing quality and safety?

**Mr Zorrilla Wong** - When the FDA announced that 20 people had died in the United States after eating butter contaminated with salmonella, the regulations changed for all importers in the United States. US importers now bear both civil and criminal liability for the products they import. So US importers are worried now, and they are not just focusing on price but also on quality. We designed our own technology to improve quality. We built a washing and drying plant, since the quinoa is usually washed and dried directly in the fields. By creating higher standards we



are getting out in front of our competitors. That way, we guarantee that the product that is exported can even be used in the baby food industry.

**Milestone GRP - What does this washing and drying machine do?**

**Mr Zorrilla Wong** - First of all, it purifies the water, and then washes the quinoa in a completely automated way, with no human intervention. Then the saponine, which is toxic, is extracted and turned into an organic pesticide that we use in our fields. Once it is washed, the quinoa enters into a stainless steel rotating dryer, and after three different drying stages the quinoa comes out perfectly. We are the only company that works with ferrous, non-ferrous metal detectors and quartz detectors.

**Milestone GRP - Tell us about your corporate shared value model. How does it apply to your producers and to your corporate employees?**

**Mr Zorrilla Wong** - We have applied for the Fair for Life certification. We do not engage in corporate social responsibility, we create shared value. That way, we generate social value

and economic value. So, with a certification such as Fair for Life, for each dollar we make, Fair for Life wants to know how and where we have invested it. So, for instance, we can tell them we have invested that money in an Organic Agricultural School. Through such a school, we train and recruit agriculture producers with idle capacity. Through that training we offer them a market and I train them in non-traditional organic agriculture. At the same time, we are promoting an efficient inheritance, as their children are going to inherit that land and will become producers themselves. They will inherit a plot of land that will need to be productive, and in order to ensure the productivity of the land for generations, they will have to use organic agriculture. That is where the trend is going: a slow but sure and safe organic agriculture market.

**Milestone GRP - How would you summarize your approach on how companies should deal with their producers?**

**Mr Zorrilla Wong** - One of Organic Sierra & Selva's main objectives within the creation of this shared value is to turn the producer into an entrepreneur. You cannot develop a productive chain if your producers do not have the right information. We need to change their business culture and the way they understand their activity. That is where we stand.

## Agrícola Cerro Prieto

### "Watering the Seeds of Change"

Interview with Alfonso Bustamante Canny, Chairman of the Board of Agrícola Cerro Prieto

**Milestone GRP - Cerro Prieto is a very unique project. Can you tell us a bit about how it got started?**

**Mr Alfonso Bustamante Canny** - Cerro Prieto is the first private irrigation project with zero support from the government. The first stage was to create 6,000 hectares and the second stage is to create 6,000 more hectares of irrigable farm land. Cerro Prieto was born after a privatization process. The Peruvian government put out a tender for a piece of land in the Peruvian desert and included in the tender was a promise that whoever won the bid would make a commitment to invest there. The current shareholders of Cerro Prieto won the bid and pledged to bring water to this desert area.

We have had many more challenges than we thought in the beginning - everything from property rights to water rights and acceptance from the local community. It was difficult because some of the locals saw us as a type of colonizer, even though the land was sold by the state. The water law requires the approval of the neighbors and that has taken some time. Likewise, some people have made claims against our land and we had to start a legal process against them to vindicate our rights.

In order to turn the land into productive soil and incorporate organic matter into the soil, we started with seasonal crops such as rice and corn in our first stage. This first stage was not to make revenues, but to turn deserted lands into productive soils, which required the consolidation of the water influxes that was accomplished in 2009.

The Peruvian natural conditions are its competitive advantage because even though the Peruvian coastline is a great desert, it does have 52 valleys that originate in the Andes and have natural rivers that flow into the sea. They are narrow and of irregular water flow. The Peruvian coast has no rain because this is where two water currents collide: El Niño, which is a warm current that comes from the Pacific Ocean, with the Humboldt Current, which is a cold water stream that originates in the Arctic. This collision generates a change in sea temperatures and prevents evaporation and rain. The shortage of water forces farmers to get water in other ways.

In our specific valley, when we made this investment, we found we had very good conditions to develop our crops. The reservoir "Gallito Ciego" had been developed in the valley in the 1980s for energy purposes, and is one of the largest in Peru. But since then, the valley itself had not changed much so we needed to make this reservoir useful for agriculture production. The modern irrigation for agriculture, drip irrigation, requires water pressure. Instead of using the traditional power plant used for energy generation purposes, we took advantage of the existing components and created a canal with pipelines that facilitate this drip irrigation.

The first stage was the "colonization" of the desert, or showing that we could have productive lands. We proved that it worked,

so the water rights granted by the state to us as a private enterprise were finally accepted by the local community.

Now we are transforming our crops from seasonal crops to the crops we wanted to do from the beginning. We started our agricultural business and we are now growing grapes and avocados, and our second business will be to sell agricultural lands. We have had the lands for 12 years. We will start selling the hectares of the first stage but we would keep the second 6,000 hectares. We are offering land to buyers with similar businesses that want to cultivate crops like ours, farmers whose businesses are growing and have to find more land.

**Milestone GRP - In order to transition from seasonal crops to permanent crops, what were the necessary changes that you had to make?**

**Mr Bustamante Canny** - Seasonal crops are crops that require a major capital investment, but it pays off in time. We planted our first crops in 2009 and today we have a high-tech irrigation system with hundreds of kilometers of pipes, everything works without pumps. It was a major initial investment.

After consolidating the use of water through this irrigation system in late 2009, we decided to take the step to go to permanent crops. Not all of the change came overnight. We started with 500 hectares, later we moved on to 1,000 hectares. We did pest control with the local communities and generated a lot of employment in areas where there was no economic activity. As a result, we have had a very strong impact on the valley.

**Milestone GRP - Will avocados be the main product in your business model?**

**Mr Bustamante Canny** - Today we already have 1,000 acres of avocados and we are planting another 1,800 acres. We are just beginning to grow grapes but it requires more demanding labor so we are developing a social housing program to draw people closer to our irrigation area, and that way we will have more workers on the land.

**Milestone GRP - What markets are you targeting for your grapes and avocados?**

**Mr Bustamante Canny** - We have a natural restriction to produce grapes in the region from October to February, but the market wants them all year round. So we are working with intermediaries that collect seasonal fruits from different producers and locations, to complement our seasonal crops in order to satisfy this demand.

For avocados, we have our usual customers that we know well. Peru has many advantages in the field of avocados. The American market is the largest market in the world right now, but we are making efforts to penetrate other markets as well.

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...taking health to the world

organic sierra & selva

quinoa

amaranth

chia

cañihua



# Peru at the Centre of Regional Agribusiness

by Carlos Lozada Zingoni, Vice-President of the Association of Exporters of Peru (ADEX)

Expoalimentaria is the region's largest international fair for food, beverages, machinery, equipment, supplies, packaging, services, restaurants and gastronomy, which was established to bring together select international exporters and buyers from five continents. The fair attracts more than 25,000 visitors, including producers, food manufacturers, importers, exporters, service and equipment providers for the food industry. In addition, more than 500 companies in the food sector in the region display their products and the latest technology.

## Expoalimentaria: Peruvian food products for the world

With Expoalimentaria a new era for food fairs began in Peru and its importance has transcended all barriers and frontiers. This has made Expoalimentaria a mandatory event for all buyers who want to identify new and reliable food providers in Latin America.

Spearheaded by ADEX, the fair started in 2009 as a project intended to exhibit Peruvian exports in the agriculture and fisheries sectors. Given its almost immediate success, most companies in the region have participated and it has grown exponentially.

At this international event, the widest and largest regional offer is on show, including produce, beverages, machinery, equipment, commodities, packaging, services, restaurants and gastronomy. In 2011, the fair generated business of more than US\$ 471 million, an increase of US\$ 446 million from the initial expo in 2009.

## History, profile and objectives

Expoalimentaria was created in 2009 during an economic crisis. The success we achieved then taught us a very important lesson: if we want to grow we need to look at our capabilities before looking at our difficulties. With this philosophy we continued with the initiative that has become one of the most important to the most relevant buyers in the world.

Another good lesson we have learned is that great results can be achieved when the public and private sectors work together.

ADEX led the way and had the support of institutions such as the Commission for Exports and Tourism Promotion (PromPeru), the Ministry of Foreign Trade and Tourism, the Ministry of Foreign Affairs and the Ministry of Agriculture.

The event highlights food products native to Peru for specific and very demanding niche markets that are keen on consuming products such as quinoa, camu camu (a native fruit from the Peruvian Amazon) and cocoa, which are not only sold in their traditional way but with added-value adequate for more demanding consumers.

## Evolution

The growth of the event is reflected not just in the amount of business generated but also in the increase of participants and tourists. The first event, Expoalimentaria 2009, generated US\$ 25 million in business opportunities; in 2010 this grew to US\$ 69.1 million; in 2011 it reached US\$ 471.1 million; and in its 2012 edition it grew even more.

Growth is also shown in the expansion of the exhibition space, which has grown 310% since 2009. The same experience goes for the number of national and international booths, which rose 227% and 1500% respectively. Also, the number of national visitors increased by 382% and the international visitors by 44%.

At the 2012 expo, other Latin American products were highlighted. Hence the presence of special pavilions for Brazil, Ecuador, Argentina, Colombia, and many others.

As for the international buyers that attend the fair, their numbers and areas from where they are coming have grown. In 2012, business people coming from the United States were the largest group followed by Europe, Asia, South America, Central America, Africa and the Pacific. Well-known companies have participated from the US, UAE, China, UK, Belgium, Russia, Poland, Taiwan and Bangladesh, to name a few.

Characteristics	2009	2010	2011	2012
Exhibition Area	6,600 m <sup>2</sup>	12,000 m <sup>2</sup>	18,000 m <sup>2</sup>	20,500 m <sup>2</sup>
National Booths	195	301	382	415
International Booths	10	99	130	134
Countries	1	5	23	18
National Visitors	7,850	19,800	27,273	30,548
International Visitors	450	740	1,715	2,037
Visiting Countries			58	57
Negotiated Amount	US\$ 25M	US\$ 69.1M	US\$ 471.7 M	+US\$ 500M

Expoalimentaria by the Numbers

Source: ADEX

## Special Attractions

### Andean Grain Corner

Since its first edition, Expoalimentaria has always highlighted the great potential of our natural wealth and biodiversity, while recognizing various endeavors and innovation. That's why in its fourth edition we created a space devoted to our ancestral grains called the Andean Grain Corner. It highlighted the benefits of quinoa, amaranth and cañihua and what these products can do to help us face a complex food crisis.

Peru is a very rich producer of such grains. Peru is the number one producer of quinoa and because 2013 will be the "International Year of Quinoa," Expoalimentaria is keen on promoting the national and international benefits of such grains. For example, we had a special presentation preparing 15,000 loaves of bread during the three-day exhibition to highlight its application in the baking industry.

“The first event, Expoalimentaria 2009, generated US\$ 25 million in business opportunities; in 2010 this grew to US\$ 69.1 million; in 2011 it reached US\$ 471.1 million; and in its 2012 edition it grew even more.”

### Coffee and Cocoa Corner

Also, Peruvian coffee and cocoa are globally known for their high quality, which is reflected in the increase in their exports. Peru is the world's third largest producer of specialty coffees. This is the main reason why we developed the Coffee and Cocoa Corner, where the best products were on display and where we presented very diverse and elaborate drinks that can be made from these products. Various cocoa tastings were held, as well as a special chocolate sculpture presentation by Peruvian chocolate sculptors.

### Pisco, a Peruvian Flagship Product

Pisco, a Peruvian Flagship Product, was another one of the stars at the expo, where, thanks to our main distiller, 7,500 drinks were prepared with Peruvian fruits such as mangos, camu camu, aguaymanto, purple corn, strawberries, and lucuma. This demonstration allowed us to draw attention to our various types of piscos like blended, green must, quebranta (a type of grape native to Peru) and Italy (another type of grape), among others. The pisco producers from all five regions of the country attended the fair.

### Gastronomy Lectures

Peru's national gastronomy is also present at Expoalimentaria through the Gastronomy Fair, where the best Peruvian dishes are presented and Peru's international culinary prestige is demonstrated. With great variety, smells and flavors, the fair hosts the best national and international chefs, who prepare a wide range of dishes using exportable Peruvian products.

Within Expoalimentaria 2012, Peru Natura was also developed and established as a special platform for the promotion of natural and sustainable products. At this particular event producers of natural, organic and fair trade products meet to do business and foster partnerships that increase domestic and international trade. In this space we find products like cat's claw, sachu inchi, maca, tara, yacon, cocona (citric fruit from the Amazons) and aguaymanto, among others and in various forms.

## Parallel Events

Complimentary conventions and seminars are held during the fair to provide updated and specialized information about specific sectors such as organics, fisheries and innovation, which are directed at exporters, investors, representatives of public and private institutions, teachers within the food industry and students, among others.

### 7<sup>th</sup> Annual International Fisheries and Aquaculture Convention

In Piura, the 7<sup>th</sup> Annual International Fisheries and Aquaculture Convention was developed to promote business investments in the aquaculture segments, providing information on their technological improvements and market tendencies. We not only look forward to being recognized as exporters of fishmeal but also producers of nontraditional products directed at more selected markets that are interested in importing shrimp, squid, trout, and sardines, among others of the hundreds of species that we have in our waters.

### The 5<sup>th</sup> Annual International Convention of Organic Products

We also developed the 5<sup>th</sup> Annual International Convention of Organic Products to provide a space to present and discuss emerging global trends regarding the consumption of more natural and healthier foods. Peru is an important provider of such kinds of products, given the fact that in 2011 we became the world's largest exporter of organic bananas, the second largest exporter of organic cocoa and the world's third largest producer of specialty coffees.

Peru also displays great potential in becoming a leader in other products such as aguaymanto, camu camu, sesame, amaranth, quinoa, and maca, in which the international scientific community discovers new nutritional properties every day.

### 2<sup>nd</sup> Annual International Entrepreneur Seminar

Another of the important conventions is the 2<sup>nd</sup> Annual International Entrepreneur Seminar that promotes the Peruvian entrepreneurial spirit by presenting techniques on efficiency, good management and good use of our natural diversity. It also helps to identify opportunities in both the local and the international markets. There are plenty of successful businesses in Peru that have crossed the borders and become important international companies.

### International Convention for Food Packaging

A new event was launched in 2012 called the International Convention for Food Packaging, which was developed to showcase the packaging industry, a vital element for the agro-industrial and fisheries sector. Key trends in machinery, equipment and services were presented, giving the participants integral solutions that will allow them to achieve maximum benefits in their exports.



# Fishing







# Innovative, Eco-efficient and Socially Responsible



- Fishmeal and fish oil of excellent quality
- Traceability at all stages of production
- Certified systems which guarantee the harmlessness of the product
- Commitment to the sustainability of the resource
- Promotion of human consumption and healthy nutrition

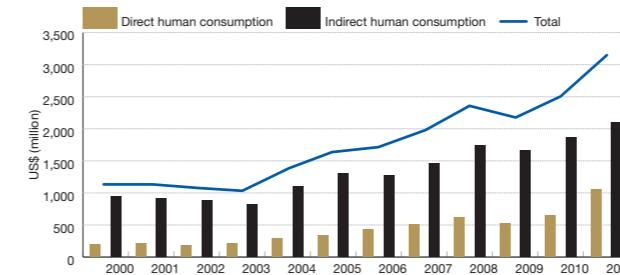


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## The Fisheries Sector in Peru

by Richard Inurritegui Bazan, President of Peru's National Fisheries Society (SNP)

Peru has the second largest fishing industry in the world. The catch is an annual average of about 7 million tons, 2.2 million tons of which is made up of various seafood products. Seafood exports exceed US\$ 3.160 million; with US\$ 1.028 billion for direct human consumption. This direct human consumption sector has experienced 24% growth in the last five years. Fishing is the second most important economic activity in the country and the sector works to contribute to the competitiveness and sustainability of marine resources.



Fishing Exports

Source: SUNAT

The key elements the fisheries sector has been working on and that have strengthened it are:

### Compliance with fisheries regulations

The fisheries regulation effort, conducted jointly for several years both by the public and private sector, has achieved significant progress. Among the key measures that drive the organization of the sector are:

- Satellite Tracking System for all industrial vessels
- Fishing and Unloading Surveillance and Control Program in all industrial plants
- Implementation of Legislative Decree 1084 - Maximum Catch Limits per Vessel (individual quotas) that made the Peruvian sardine fishery industry more efficient and sustainable. In addition, this standard has created important economic resources for fisheries employees by providing them with specific beneficial programs. For example, retirees receive a contribution of US\$ 100 million to their pension fund.

These measures have supported technical actions to preserve the Peruvian sardine, including a global quota, fishing seasons and closed seasons, minimum unloading sizes, limit in percentages of juvenile fishing and bycatch, and controls on fishing gear.

### Environment Protection

The sustainability of the fishing sector largely depends on responsible management and on applying the best environmental practices. In the last four years, approximately US\$ 500 million has been invested in environmental improvements in order to be more efficient under the principle: "For greater efficiency, less pollution."

In 2011, many actions have already become evident to the citizens of Samanco and Chimbote, who have perceived a significant environmental improvement. The investment here has been more than US\$ 100 million, of which 2/3 has already been deployed.

The permanent concern for the fishing industry, as agreed upon by the National Fisheries Society (SNP) and Producers Associations (APROs), is to prioritize actions to improve the environment. These measures include:

- Provide due compliance within the established legal framework, to the maximum permissible limits for sea effluents and air emissions.
- Implementation of the following voluntary environmental projects:
  - APROPISCO System: Effluent Treatment Optimization and Outfall in Paracas Bay, which has been successfully operating since 2004.
  - Transfer of Plants in Chimbote: from Florida Baja to the Industrial Park. Completed in 2010.
  - APROCHIMBOTE System: Effluent Treatment Optimization and Outfall in Chimbote Bay to be finalized in 2013.
- Duly comply with the standards for technological upgrading of fishmeal and fish oil plants, with a deadline of December 31, 2013. 85% of the plants have already undergone the conversion process and should achieve this goal by the deadline.
- Establish environmental standards for maximum permissible limits for human consumption plants.

### Development of other fisheries

In Peru, about 1.25 million tons of different species for direct human consumption have been caught. In addition to the anchovy, other species like squid, mackerel and hake make up the direct human consumption catch. Together the industrial and artisanal fleet have caught around 390,000 tons of seafood products for consumption.

**“In the last four years, approximately US\$ 500 million has been invested in environmental improvements in order to be more efficient.”**

The challenge in the Peruvian fishing industry is to achieve greater diversification and expand the supply of fishery products. Therefore, SNP is encouraging the development of new fisheries.



**Development of the tuna fisheries**

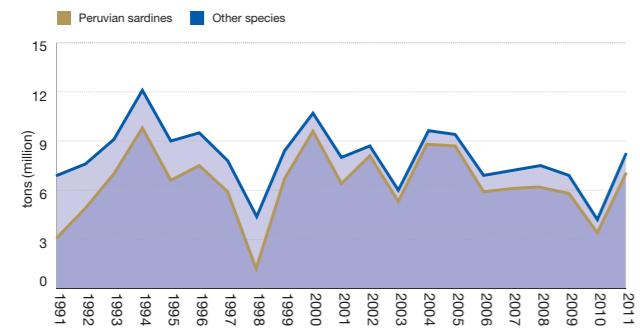
The Inter-American Tropical Tuna Commission (IATTC) has granted Peru the assignment of 5,000 m<sup>3</sup> of tuna carrying capacity that leads to an extra 6.140 m<sup>3</sup> of carrying capacity that would allow Peru to be a tuna country once again.

**Development of jumbo squid or pota fisheries**

The large volumes of this resource that is in Peru's territorial waters may allow for the creation of an industrial squid fleet, including transforming vessels that were formerly devoted to the anchovy fishery. Added to the existing artisanal fishing fleet, it will create added-value by investing in plants for frozen products, especially in the northern part of the country where there is the highest concentration of this resource.

**Development of mackerel fisheries**

The regulation process for mackerel fishing permits is being finalized, providing access to existing vessels that meet the requirements of having adequate cooling systems on board. This will also strengthen the exchange of scientific information between the Peruvian Sea Institute and the industry for a better understanding of the resource status. This resource is preferred for direct consumption by the Peruvian population. It will allow a responsible fishery in harmony with the commitments that Peru has with the Organization of Fisheries Resource Planning in High Seas of the South Pacific Ocean for mackerel fishing, without sacrificing the autonomy and sovereignty that international standards grant a coastal country with regards to the processing of this resource within territorial waters.



Fishing Catch Evolution

Source: MProd

**Development of aquaculture**

With a well-defined aquaculture cadastre outlining areas that can be enabled for the development of aquaculture, direct investments can be achieved in this important area. As a country, Peru has a significant comparative advantage for the development of aquaculture because it has an extensive coastline, temperate weather that does not undergo major variations, and lots of lakes and rivers in the mountains and the jungle. Moreover, Peru has the advantage of being the first worldwide producer of fishmeal and fish oil, which are the main ingredients to feed aquaculture species. In addition to the main species such as shrimp and scallops, trout and sole, Amazonian species like paiche, paco, gamitana all have great potential.

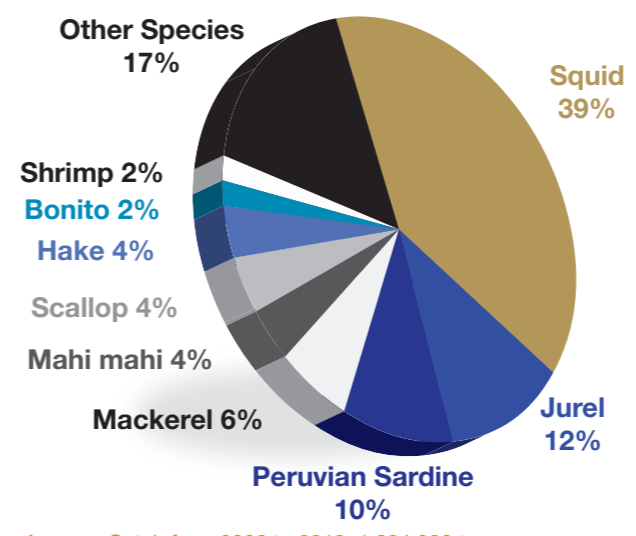
**“The direct human consumption sector has experienced 24% growth in the last five years.”**

**Encouraging fish consumption**

The direct human consumption of fish generates, within the industry, approximately 20,000 direct jobs a year and employs 57,000 fishermen. The industry has invested about US\$ 354 million in recent years for refrigerated fleets, canneries and freezing plants.

From a social contribution viewpoint, and to encourage fish consumption, the industry has arranged the donation of 300,000 boxes of different species of canned fish throughout different regions of the country. This has led to a massive sale of around 14 million kg of kingfish at a discounted price of around US\$ 0.50 per kg.

The SNP has repeatedly renewed its commitment to the promotion of fish consumption by leading a series of activities and nationwide donation campaigns and sales of fish at very low prices. The key objective is to encourage the consumption of fish in popular sectors and highlighting its nutritional qualities.



Average Catch from 2008 to 2010: 1,094,000 tons Source: MProd

**Corporate social responsibility**

The SNP has worked and promoted a management model for the Producers Associations that seeks to improve the contribution to local development in the regions where the fishing industry operates through strategic and coordinated initiatives with local government and civil society.

We have developed training and have given advice to establish APROs with sustainable objectives and projects that set the foundations for harmonious relations both with stakeholders and local communities. The complexity of each area requires proper planning of actions from the fishing industry, which are established based on common guidelines. The work developed by the SNP was aimed at the unification of the APROS and there have been activities related to planning and identifying investment projects.

**Seafood exports**

Peru's seafood exports reach about 120 countries worldwide. The free trade agreements (FTAs) signed by Peru have contributed to Peru's competitiveness in markets like China, the United States, Japan, the European Union and South Korea.

**Main exported fishery products and their markets**

Peru stands out worldwide thanks to its exports of fishmeal and fish oil, but also offers various frozen seafood such as squid and cuttlefish, prawns, scallops, mahi mahi, hake and mackerel. Also included are canned tuna, bonito, mackerel and Peruvian anchovy.

**Main export markets are:**

- Fishmeal: China, Germany, Japan, Chile
- Fish oil: Denmark, Chile, Belgium, Canada
- Frozen squid: China, Spain, South Korea, Japan
- Scallops: France, USA
- Frozen shrimp: USA, Spain
- Mahi mahi: USA, Venezuela
- Yellowtail: Nigeria, Ghana, Cameroon
- Hake: Germany, Venezuela, USA
- Canned mackerel: Chile, Brazil, Ghana, Haiti
- Canned peruvian sardine: Colombia, Panama, Dominican Republic
- Canned anchovies: Spain, USA, Italy

**Conclusion**

The Peruvian fishing industry can show the world a fishing sector that is well managed, sustainable, modern and efficient. It has the potential for further development in human consumption and in aquaculture, where investment opportunities are plentiful. In recent years there has been a joint effort between the private sector and the public sector that has contributed to this development.

Rank	Countries	US\$ FOB (Thousands)	Tons	Market Share
1	China	1,206,852.14	854,119.07	38.87%
2	United States	188,887.77	31,356.80	6.08%
3	Japan	180,190.67	122,413.30	5.80%
4	Germany	176,740.69	128,149.98	5.69%
5	Spain	170,992.18	82,846.50	5.51%
6	Chile	143,887.74	107,335.13	4.63%
7	France	103,375.97	20,348.03	3.33%
8	Denmark	77,934.28	59,082.01	2.51%
9	Taiwan	75,100.10	46,778.29	2.42%
10	South Korea	72,309.63	28,185.07	2.33%
11	Vietnam	69,005.72	47,995.26	2.22%
12	Canada	62,323.65	32,450.66	2.01%
	<b>Total</b>	<b>3,105,193.63</b>	<b>1,935,179.70</b>	<b>100.00%</b>

Main Destination Countries for Peruvian Seafood Exports, 2011

Source: SUNAT







## TASA – Tecnología de Alimentos

### “Adding Value to Peru’s Fishing Industry”

Interview with Carlos Pinillos, CEO of TASA

**Carlos Pinillos** is an economist who graduated from ESAN. He’s the CEO at Tecnológica de Alimentos S.A. (TASA) and is currently a member of the board at the following institutions: Clínica Internacional S.A., Bodegas Viñas de Oro S.A., Centria S.A., Apropisco, Sociedad Nacional de Pesquería, AFP Horizonte and CONFIEP. Before becoming the CEO at TASA he was Director at Consorcio de Productores de Fruta S.A., Rímac Internacional EPS, Corporación AESA as well as CFO at Administración de Empresas S.A. and CEO at Protección Personal S.A.

**TASA** is a leading fishing company that provides the world with high quality and added-value marine food and ingredients, in harmony with the community and the environment. To do so, TASA applies a highly developed model of fisheries management and industrial processing with a focus on eco-efficiency and respect for biodiversity. It also provides shipyard services such as construction, modification, maintenance and repair of vessels and naval crafts. With only 10 years in the market, TASA has become the first producer of fishmeal and fish oil worldwide.

Milestone GRP met with Carlos Pinillos to discuss how TASA is developing a market for value-added fishery products and looking to expand abroad.

**Milestone GRP - The fishing sector in Peru represents more than 8% of the global fishing industry. Peru is the leading country in the production of fishmeal and fish oil. How would you qualify the sector in Peru?**

**Mr Carlos Pinillos** - First of all, Peru is a country that has been able to manage its resources well. Peruvian institutions, such as the Peruvian Ocean Institute (IMARPE), study our fishing resources, allowing us to carry out resource sustainability and, therefore, industry sustainability, specifically for anchovies. While the rest of the world is seeing a decline in the fishing industry, Peru has a very solid sector. Today we are seeing the development in the human consumption business in relation to anchovies as well. Mackerel, jack mackerel and giant squid are also some of our major resources and we are now focusing on creating added-value for these resources.

**Milestone GRP - What segment of the market have you focused TASA on?**

**Mr Pinillos** - TASA wants to position itself as a company that produces nutritional marine ingredients in an environmentally sustainable way. By producing fish ingredients, we are not just producing fishmeal, but an ingredient that will be used in the agribusiness or pharmaceutical industry. When we started in 2002, our strategic plan was to develop the fishmeal and fish oil sectors, but also to develop the human consumption sector. When we started our upgrades, we needed 4.5 tons of fish to produce one ton of fishmeal; today we are only using 4.05 tons to produce one ton of fishmeal, gaining 10% in efficiency. We bought more plants and had to convert them to efficient and modern facilities to produce a higher quality product.

**Milestone GRP - How have stricter environmental regulations affected your production processes?**

**Mr Pinillos** - Environmental requirements have changed throughout the years, with laws now setting a limit for how much of the solids and fats have to be from each fish. It took us five years to set up teams to work on the technique that

would be necessary to recover 99.99% of the fat and suspended solids, and that has allowed us to improve our efficiency levels. We have been in compliance with the new environmental regulations since 2011. We have invested a great amount of resources towards technology and environmental upgrades, which has allowed us to win an eco-efficiency prize. Before, TASA’s factories would have needed 55 gallons of fuel per ton to operate, but now that figure has been reduced to 37 gallons per ton. We are also carrying out research in terms of energy reduction and we have plans to further reduce our energy and water consumption. We have been working on reducing the amount of fuel used for our boats as well.

“While the rest of the world is seeing a decline in the fishing industry, Peru has a very solid sector.”

Our focus is not only on production but also on having the lowest possible environmental impact. We are implementing fume and odor reduction projects at our plants, catching up with requirements already in place in Europe and other parts of the world. Our sustainable strategy and plant modernization process were completed in 2012. The direct human consumption plant was completed in 2006-2007 and, at that time in Peru, it was unheard of to build a storage plant with a capacity of 8,000 tons, but now, we’ve increased our storage capacity to 14,000 tons.

TASA is also committed to nutrition issues, and we’ve set up distribution centers in the southern mountains of Peru where we sell frozen fish. This way we are able to reach the section of the population that is most in need of the nutritional benefits our products bring.

**Milestone GRP - How has your product line evolved?**

**Mr Pinillos** - Once we were able to produce good anchovy fishmeal, we decided to produce fish oil as well. We then decided to give added-value to this product and started to produce canned products that today are sold in supermarkets under the Kontiki brand. Then we launched our ready-to-eat Kontiki anchovy. We now distribute this product both to the underdeveloped mountainous region and supermarkets around the country. We have a very innovative product called the Omega-burger, which is made of anchovies. At the moment we are also looking at ways to bring this product to areas that do not have refrigeration facilities through dehydration techniques.

Our objective is to keep pushing the production and development of anchovy products and to have our research and development unit create brands that could eventually be exported abroad. We are looking at breaking down the anchovy into peptides and amino acids. This way we can sell it as an ingredient to several different markets. The research that we are investing in this product is going to make a big difference in the long run.

We went from selling fish oil only to the salmon industry, to selling fish oil to pharmaceutical companies. Our objective is to grow in terms of added-value and to do that, TASA is going to build an Omega-3 fish oil refining and concentration plant. With the refinery we will be able to provide the agricultural and pharmaceutical industries with a product that is easy to process. And this is only our first step in a growing industry.

**Milestone GRP - Are you using technology and added-value as a way to protect against climate change and fishing quotas?**

**Mr Pinillos** - Peru implemented a fishing quota system in 2010. IMARPE sets the fishing quotas for each company, and TASA has 14.09% of quotas in the north and 16.81% in the south. There is no reason why those figures should decrease.

As for climate change, we are aware of the problems related to El Niño that clearly threaten anchovies, but TASA is in a much safer position than other companies. When El Niño changes the temperature of the water, the fish migrate, but at the same time, other fish migrate to the Peruvian seas. But we are lucky because TASA has fishing quotas in both the north and the south so we are able to fish even with the effects of El Niño.

We are well positioned because we are diversified and face less risk, and we also have a highly developed human consumption sector. One factor to consider is that when there is a decrease in production, prices go up; so that balances out the financial impact that these environmental problems produce.

Fish Catch by Main Species (% change)				
	2009	2010	2011	Average 2002-2011
<b>Anchovy</b>	-5.4	-42.9	110.0	1.0
<b>Pacific chub mackerel</b>	-56.5	-77.4	1,487.0	2.4
<b>Prawns</b>	513.8	-81.6	46.2	31.8
<b>Giant Squid</b>	-30.1	-3.2	11.5	25.7
<b>Mackerel</b>	19.3	-83.7	150.3	3.3
<b>Hake</b>	35.2	-12.8	-23.6	-12.9
<b>Scallops</b>	39.3	143.6	-19.1	26.9
<b>Others</b>	-4.3	2.8	5.6	-9.2

Source: MProd

Fish Catch by Destination (Real % change)				
	2009	2010	2011	Average 2002-2011
<b>Human consumption</b>	-13.6	-3.0	17.4	6.7
<b>Canned</b>	-22.3	19.8	2.0	5.4
<b>Fresh</b>	6.1	-16.2	18.0	0.1
<b>Frozen</b>	-22.1	4.4	20.3	17.1
<b>Dry-salted</b>	-36.9	-3.0	-12.6	-4.0
<b>Industrial consumption</b>	-5.4	-42.9	110.1	-0.4
<b>Anchovy</b>	-5.4	-42.9	110.0	1.0
<b>Fishing Sector</b>	-7.9	-16.4	29.7	4.1

Source: MProd



**Milestone GRP - What catch levels do you envision for 2012? Will you diversify your catch to species such as giant squid, which will be a key product here in Peru?**

**Mr Pinillos** - 2011 was an exceptional year for anchovies. In 2010 there were a lot of fish but they were small, so IMARPE told us not to overfish. So in 2011 we were able to produce 430,000 tons of fish. For 2012 the set quota was lower than the previous year, but we still achieved similar results. In 2011 we had revenues of US\$ 600 million. TASA currently has 88 vessels and since the quotas have been introduced, we have only been fishing with 50 vessels. Some of the remaining vessels have been sold to other countries, but I would like some of the others to be converted into giant squid fishing vessels. At the moment we are waiting for the Ministry of Production to implement the regulations. As soon as those come out, we will be ready to start exploring giant squid fishing as well.

**Milestone GRP - How are you positioned in relation to the ever-growing Chinese market and what results are you expecting there?**

**Mr Pinillos** - At the moment, 52% of Peruvian fishmeal is directed to China. We see China as an important market, but TASA is present on every continent because we want to diversify and not rely on just one market. China is, without a doubt, our biggest market and we work very well with them. China is a country that is growing and is more and more concerned about quality standards, so it will be interesting to see how the market develops in the future. Indeed, we are working with very important clients there.

**Milestone GRP - Are you planning to diversify your product offering for the Chinese market?**

**Mr Pinillos** - Our commercial department goes to China two or three times a year. We have just taken part in the Chinese producers fair and we are going to be at the annual fair of frozen products, where we will promote our frozen products, such as

Main Non-Traditional Fishing Products (US\$ million)			
	2002	2011	Annual average % change
Frozen giant squid	36	228	20.4
Canned giant squid	4	199	47.0
Frozen scallops	9	135	31.1
Frozen fish	3	79	40.8
Frozen prawns tails	10	58	18.7
Frozen fillets	18	75	15.5
Canned fish	11	59	18.6
Canned anchovies	1	22	38.4
Whole frozen shrimps	3	19	20.9
Giant squid meal	1	15	30.9
Shark fins	4	14	12.0
Fish eggs	2	13	18.9
Subtotal	102	929	24.7
<b>Total</b>	<b>164</b>	<b>1,047</b>	<b>20.4</b>

Source: BCRP and SUNAT

the anchovy burger, anchovy and giant squid. This is the third year that we're going to be participating in these events in China. We have to find a way to market our anchovy as a human consumption product in China, since they are not used to eating a product like that.

“Our objective is to keep pushing the production and development of anchovy products, and to have our research and development unit create brands that could eventually be exported abroad.”

**Milestone GRP - In terms of Omega-3, the demand in China lags behind other countries, when compared with Europe or Japan, for example.**

**Mr Pinillos** - We are following the Chinese demand very closely. They import very little Omega-3 fish oil, but they import a lot of fishmeal. However, China is going to become an important client in terms of Omega-3 fish oil in the future. In the United States, you can find Omega-3 in any store. One gram of fish oil contains 30% of Docosahexaenoic acid, or DHA, which is an amino acid that improves protein metabolism. So you can find concentrated Omega-3 in capsules as well as in other products such as milk or orange juice. In contrast, the United States is a developed market which gives special consideration to health-related issues. China, on the other hand, finds itself at a stage in which it still has to develop a culture for these issues, but nevertheless it is our biggest potential market. As soon as China starts to recognize the importance of Omega-3, as many European countries and Japan already have, they will start demanding this product as well.

The world is looking for natural products more and more, and this is why we carry out research and commercial intelligence to understand where global trends are headed. Our objective in the future is to be producing more value-added products, which is a process that will take a long time. While at the moment only 20 to 30% of fish oil is allocated to human consumption products, we are going to get to a stage in which fish oil will be completely absorbed by the area of human consumption. Studies are being conducted to see where Omega-3 can be found, and it is actually present in the seaweed that anchovies eat. So we are currently looking at extracting Omega-3 directly from seaweed.

**Milestone GRP - Where do you see TASA in 10 years?**

**Mr Pinillos** - At the moment, 85% of our revenue comes from fishmeal and fish oil, and 15% from human consumption products. We want to grow in terms of human consumption production with value-added products. We also want to strengthen our global position as leaders in the fishing sector. That is our aim and where we would like to be in 10 years.

## Copeinca

### “Transforming the Global Fishing Sector”

Interview with Pablo Trapunsky, CEO of Copeinca

**Milestone GRP - Over the last decade Peru has signed many free trade agreements. How has this affected the country's fishing sector?**

**Mr Pablo Trapunsky** - The free trade agreements have been very positive for the sector because the tariffs have been largely decreased so we are able to export to our target markets more easily. It allows us to be more competitive, especially in our principle markets, such as the Asian markets and China, in particular. China is able to buy from Peru because we have the best possible product at the best possible price, which is only possible because of the free trade agreement we have with them.

**Milestone GRP - The government has stated that it wants to double the amount of exports from the fishing sector by 2016. Do you see this as feasible?**

**Mr Trapunsky** - The previous governments did a good job in establishing the law of individual quotas, which has helped to organize the sector and to maintain long-term development and growth in the sector. Now we are able to further develop the products that we have so that we are not just making fishmeal or even fish for human consumption, but now we can start developing products that are derived from fish, with much more added-value. Because the anchovy has the best biomass of any fish, it will be a good product to develop and we can exploit that much more in the future.

**Milestone GRP - So do you think that expanding fishmeal for human consumption is the way that the sector is going to be able to double its exports?**

**Mr Trapunsky** - This is definitely going to be the future of the sector. We have to start thinking outside of just China; the Chinese market is our prime market, but other markets can benefit from our products as well. The fishmeal that we produce for other animals is rich in nutrition and we believe that this nutrition should not only be used for animals, but for human consumption as well.

**Milestone GRP - Copeinca was the least affected by El Niño. How are you preparing for future ones?**

**Mr Trapunsky** - It was a completely different time back then. The last strong El Niño that hit was back in 1997 and lasted until 1998. At that time, the company was very small and had only one processing plant, just to give you an idea. But we were lucky to be located in a particular area that benefited from this phenomenon and that was why we were not affected. Rather, this started a period of growth that did not stop until 2008 when there was a change in the quota law. I would say that it was more about being in the right place at the right time. The company has also gone from being a small family business to being much larger. It is listed on a European stock exchange and it is the second largest fish producer in the world. We definitely have a different structure today that allows us to manage our risks.

One of these risks is El Niño. This is always going to be a risk for us because we obviously cannot control the weather. The important thing is that the company has a business model that is prepared to function when we have these natural events that occur. For example, we have less processing plants than we did in the past. A couple of years ago we had 12 processing plants, now we have only 5. We had 65 boats before the quota law and now we have 28 boats in our fleet. So we are much more dynamic, which permits us to confront these natural events with little cost to our operations.

“[Fishmeal for human consumption] is definitely going to be the future of the sector.”

**Milestone GRP - How has the quota law made the sector more efficient with time?**

**Mr Trapunsky** - It has changed things enormously. Before the quota law, all of the fishing companies were focused on quantity and not necessarily quality or with concern to the environment. Now we fish between five and six months a year and all of our plants have been converted to making fishmeal with high protein content. We have mechanisms that help us make less of an environmental impact, and now the sector is focused on quality and not quantity. Before the law, this wasn't something that we were thinking about at all. We have gone from having 30% premium quality, to being above 80% premium quality. After the quota law we focused our investments on becoming much more efficient and more compact. Now we are investing in environmental technology and in the future we are going to be investing in bettering our added-value products.

**Milestone GRP - Omega-3 is becoming a very important component in the fishing sector, especially for value-added products. How do you see this segment of the market evolving?**

**Mr Trapunsky** - Omega-3 products are popular in Japan and the United States, as well as in Europe, but it is only a matter of time before the Chinese become more interested in this product. The anchovy is the fish with the largest amount of Omega-3 in the world, and it is also the most prevalent fish. By the year 2016 the fish oil market here, which is the largest in the world, will be directed only at the Omega-3 market.

We believe that there is a very good opportunity to create these products for a growing market. The pharmaceutical sector, in addition to the food and drink industry, has been demanding these products so we are already seeing the effects of these products.





## Pesquera Exalmar

### “The Oldest Company in the Fishing Sector”

Interview with Rossana Ortiz Rodríguez, Chief Executive Manager of Pesquera Exalmar

**Rossana Ortiz Rodríguez** is the Chief Executive Manager at Pesquera Exalmar. She is a certified public accountant and graduated from Universidad de Lima in 1983. She studied in the Advanced Management Program of the Universidad de Piura in 1992, with additional studies in strategic planning, project management, accounting systems and taxes in Sweden, Japan and the United States. She served as Executive Director of Pesquera Exalmar from 1996 until January 1, 2006. She previously served for six years as Manager of Administration, Finance and Business at Fima S.A., as well as six years as senior auditor at Arthur Anderson & Co.

**Pesquera Exalmar**, with more than 30 years of experience in the sector, is the fourth largest Peruvian producer and exporter of fishmeal and fish oil. Its exports are mainly directed to Asia (China, Japan, Thailand), some European countries (Germany, Norway) and Chile. Exalmar owns six plants strategically located along the Peruvian coast. During the last two years, the company has entered the direct human consumption business.

Milestone GRP met with Rossana Ortiz Rodríguez to discuss how Pesquera Exalmar has grown over the past 30 years and what they are doing to adapt to global markets.

**Milestone GRP - Exalmar was founded by Victor Matta 35 years ago, with only one vessel, the Cuzco 4. How did the company evolve?**

**Ms Rossana Ortiz Rodríguez** - Victor Matta is a man with a strong spirit of enterprise, very visionary, and a born leader. He was the one to develop the business and we followed him in his dream. When I first met him in 1991, I had the opportunity to meet a real entrepreneur. He was the first Peruvian entrepreneur, without all the necessary resources, to buy a fishmeal plant when the sector had recently opened to private investments during Fujimori's government. When I was working for another company, Victor Matta knocked on my door saying that he wanted to own a fishery plant. That is how I met him. That was one important milestone in the history of our company and when he started to apply the integration strategy.

Another important milestone was in 1995-1996, when he decided to professionalize the company, which was not an easy thing to do for a family-run business. So he started to

hire independent professionals. 2000 was a very important year as well, when we were able to manage a very heavy crisis. Then, in 2007, the company started a consolidation process with big investments. That is a great example of our organization's ability to adapt. That is when our company incorporated a strategic financial partner, Citigroup Venture Capital. Another important milestone was when the company became listed on the stock exchange.

**Milestone GRP - Was entering the stock market a way of financing your acquisitions?**

**Ms Ortiz Rodríguez** - Absolutely. We simply needed more economic resources in order to keep acquiring quotas and to make improvements to our plants. That is when we raised US\$ 100 million.

**Milestone GRP - Exalmar counts on both foreign and local investment. How has that helped in shaping your inclusive business model?**

**Ms Ortiz Rodríguez** - Exalmar has always been known for our adaptability and our ability to create new opportunities by analyzing the environment. We have 35 years of experience and we are the oldest company in the fishing sector. That means that we are a company with a broad vision, high levels of adaptability, a great ability to execute and a strong understanding of what surrounds us. These are our unique selling points. We are very hard workers that have built and developed an industry on the basis of a profound understanding of our environment, and that is where we connect and where we make a difference. Our investors understand that so our company will continue growing and improving.

**Milestone GRP - How are you ensuring sustainability in the anchovy fishery?**

**Ms Ortiz Rodríguez** - Thanks to its geographical location, Peru presents the best habitat conditions for the development of sea species. Our star product is, obviously, the Peruvian anchovy, but we also have other important species such as jack mackerel, mackerel, mahi mahi and the giant squid. The convergence of our rivers with the sea currents creates the proper environment for a variety of fish species. It is our strategic geographical location that has allowed the Peruvian fishing industry to become one of the largest in the world. Having said that, our two big sectors, the fishmeal and fish oil segments, are both based on our anchovy resources.

The Peruvian anchovy is the world's largest fishery of a single species. This species is very stable; it reproduces quickly, with a relatively short life cycle of almost one year. That allows a constant renovation of the ecosystem, unless the habitat is affected by excessive increases or decreases in seawater temperature. That is why the industry is involved in atmospheric issues and it is a pretty sustainable industry. IMARPE [Peruvian Oceans Institute] evaluates our fish resources and decides on fish quotas in order to ensure the development and reproduction process, and to preserve the ecosystem. All of that contributes to making the anchovy an important industry. It is a species that can be fished in very large quantities and it is very rich in proteins and amino-acids.

**Milestone GRP - What other products are you looking at?**

**Ms Ortiz Rodríguez** - At the moment we are also evaluating the idea of using the anchovy as a direct human consumption product. That is one important aspect of this big industry. China, which has a long tradition of aquaculture, is one of our main markets, as well as Europe. In terms of Omega-3, we export all across the world. Chile, whose industry is prima-



rily based on jack mackerel and mackerel, has a strong salmon industry, and they import fishmeal and fish oil from Peru. Therefore, Peru is an important player in anything related to the world's food resources.

There is also another important business segment that is constituted by all the other marine species, such as the giant squid, mahi mahi, jack mackerel and mackerel. For example, in Peru, unlike in Chile, mackerel and jack mackerel are used as direct human consumption products with which we first supply the local market and then the international one.

“Peru is an important player in anything related to the world's food resources.”

**Milestone GRP - How are you trying to increase direct human consumption products? For example, do you see China as a potential market for these products?**

**Ms Ortiz Rodríguez** - Yes, absolutely. Not only China but the whole Asian continent is a market. For example, Korea and Spain import large quantities of giant squid as well as the Russian market. The United States imports mahi mahi.

**Milestone GRP - Why is there so much interest in the Omega-3 market in Peru?**

**Ms Ortiz Rodríguez** - There is big potential in terms of better profits from fish oil production, but Omega-3 is also amazing for our health. Omega-3 plays an important role in building neural pathways in babies, but appears to also be essential in the prevention of Alzheimer's disease. Omega-3 can be found in the anchovy as well as other fish, such as tuna.

**Milestone GRP - You are working with BASC that promotes business transparency. How are you integrating them into your operations?**

**Ms Ortiz Rodríguez** - We have the BASC certification and they assess us regularly in order to ensure safe trade practices. Therefore, as exporters, we want to always be watchful of any risk related to this industry. So, they come and revise and assess our practices, and we have a BASC committee that works very closely with them.

**Milestone GRP - On the environmental preservation side, what strategies are you implementing?**

**Ms Ortiz Rodríguez** - While BASC is a business alliance that promotes safe trade, we are also regulated by very strict environmental regulations imposed by the government. The individual fishing quota system allows our industry to act in accordance with all the environmental regulations. With a clear idea and a financially stronger sector, it has been possible to comply with legislation that regulates the environmental



impact in areas such as water and waste treatment, among others.

**Milestone GRP - El Niño, which severely affected the industry in 1998, could possibly repeat itself. Does this concern you?**

**Ms Ortiz Rodríguez** - Yes, absolutely. But today we would manage it in a completely different way. The fishing companies today can count on several years of experience and this is reflected in the business models used that are much more professional and strategic than before. We have evolved in that respect. Today, we have a pretty mature sector, whose risks are easier to manage.

**Milestone GRP - As one of a few women who have achieved the rank of CEO in Peru, what would you say to women looking to climb up the ranks?**

**Ms Ortiz Rodríguez** - I believe that women are much more idealistic than men. Therefore, thanks to our nature, plus the academic training and opportunities at the corporate level, women represent a huge potential. I am not saying that women are better than men, we are just different. Women tend to look for and develop more transcendental issues. On the other hand, men tend to search for numbers and power. In that big difference, there is a huge growth potential for women within the corporate world.

**Milestone GRP - Are female leaders more attentive to the issue of social inclusion that Peru is championing?**

**Ms Ortiz Rodríguez** - Within the corporate world, there are more opportunities with an inclusive focus, and that is the big potential for our country. We see this process happening in each sector. Without a doubt, the private corporate sector should try harder, understanding the importance of their role in making each sector of the Peruvian industry a more inclusive one. It is not a political issue, it is an executive issue. Each sector has to learn and work on ensuring social inclusion.

Our company started in Chincha, then we moved to Ica, and within the development process we hired many women. Today, Ica has a 0% maternal and child mortality rate, unlike any other region in Peru. That is the result of an environment that promotes employment through private companies. What we do specifically, is to create and develop markets. We have developed markets for our agricultural products in the United States, Europe and Asia. We apply our experience and concepts to these areas of influence. That is what greatly differentiates us from other companies.

Peru provides endless opportunities for growth and development. Our business world is more aware of that, and this whole process is contagious for new private investments as well.



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## Hayduk Corporation “Diversifying Products and Markets”

Interview with Fernando Parodi, General Manager of Hayduk

**Milestone GRP - Fishmeal has played an important role in your development. What other products does Peru's fishing industry offer?**

**Mr Fernando Parodi** - Aside from fishmeal, two other important products characterize Peru's fishing industry. One of them is fish oil, for which there is a very solid demand. Peru is the only fish oil exporter worldwide and our exports amount to US\$ 400 million, which we could easily double. The fish oil export price is going to increase and if you add to that the Omega-3 business, which is an industry that grows at a rate of 35% a year, it is estimated that in four or five years all the Peruvian exports will be absorbed and fish oil prices are going to increase substantially.

Another important area that we should focus on is the export of products for direct human consumption. We can count on three basic species: the sardine, Pacific jack mackerel, and the giant squid. As for the jack mackerel, we have already implemented strategies in order to give it more added-value. All the jack mackerel we are fishing today, which before we would have sold fresh in the local markets, we are now selling frozen on the world market at a very competitive price. As for giant squid, our exports are directed mainly to China. It can be risky for us to depend on just a single export market so we need to explore other markets for growth.

“Peru is the only fish oil exporter worldwide and our exports amount to US\$ 400 million, which we could easily double.”

Another product we should concentrate on and explore more is the anchovy. Our first success story in this regard is when, together with other fishing companies and with the support of the Ministry of Production, we managed to create the 'Peruvian Sardine' designation. We are trying to introduce this branded product in the international markets. We are successfully exporting canned sardines to Europe and Brazil, as well as other Latin American countries.

**Milestone GRP - What sort of pressure is the Fishing Association putting on the Government?**

**Mr Parodi** - Unfortunately, Peru is quite slow in terms of implementing new legislation related to the fishing industry. Today our biggest obstacle is the state, which should regulate our sector more efficiently and introduce legislation that we urgently require. There is not much the industry can do and it is very hard to carry out a proper plan when, unfortunately, in less than one year, we have seen three different Ministers of Production and four Vice-

Ministers of Fisheries. The Peruvian coast is very rich in fishery resources but few people understand that. We don't seem to be able to convey a good image of the sector and to make Peruvians understand how beneficial a good, solid and responsible fishing industry would be for the country. We should be seen as caretakers of the resource on which we depend. For example, fishing regulations set a limit of 10% for baby fish catching. If you exceed that limit by only 1%, they will impose very high fines on you and that really undermines the economy of the industry.

From the private sector's point of view, the only thing we need from the state is its support to make our job easier. Indeed, when we collaborated with the Ministry of Production launching our Peruvian sardine in Europe, we were really successful. We should be able to carry out more initiatives like that. If we created a group to discuss fishing in a completely different way, we could really boost our industry.

**Milestone GRP - What kind of growth is the industry seeing?**

**Mr Parodi** - The Peruvian sardine should be promoted as a frozen product and not just in terms of fishmeal. I also believe that the frozen anchovy will be the Peruvian fishing industry's top export product in the future. Because the Peruvian anchovy is the largest fishery in the world, we should be putting our efforts there. By 2016 we will see important contributions from fish oil, frozen products and giant squid, but the future of our industry lies in the production of anchovies.

Disruptive innovation is the biggest challenge for the Peruvian fishing industry at the moment. We cannot do everything by ourselves; there is a great deal of research to be conducted and this is the area where the state could be most helpful. In terms of the Peruvian anchovy, we should really embark on disruptive innovation. Anchovies have the largest amount of proteins, Omega-3 and amino acids.

**Milestone GRP - What strategies are you implementing in order to add value to your products?**

**Mr Parodi** - We have identified different characteristics in terms of fishmeal. We do not sell fishmeal only for its proteins or fats. We sell fishmeal for other qualities that our clients are looking for. For example, we sell additives from our fishmeal which other companies use to improve the inferior quality of their fishmeal. As for fish oil, we were the first ones to identify the Omega-3 properties and started to differentiate between crude oil and Omega-3 oil. Our next step will involve oil concentration and oil refining.

In terms of products for human consumption, our major strength lies in our canned products that we export very successfully worldwide. We are now investing a lot more in frozen products as well. Our brand Campomar is well-known for its quality and is marketed as our premium product. We have introduced many innovations in our canned products and we will keep working on this area.



# Diversified Industry







## Ministry of Foreign Trade and Tourism “Adding Value to Peruvian Exports”

Interview with José Luis Silva, Minister of Foreign Trade and Tourism

**José Luis Silva** is Peru's Minister of Foreign Trade and Tourism. Before serving in President Humala's administration, he was the Interim President of the Association of Exporters of Peru (ADEX). Mr Silva specialized in the commercialization and promotion of medicinal products for therapeutic purposes while working in the private sector. He has an undergraduate degree in Accounting and Business Administration from the Universidad del Pacifico and a masters in Business Administration from the Universidad San Ignacio de Loyola.

**The Ministry of Foreign Trade and Tourism (MINCETUR)** is the Peruvian institution that oversees foreign commerce and its promotion, as well as the promotion of tourism in Peru. The ministry is responsible for all issues pertaining to any exportation or international business agreements between Peru and other corresponding parties.

Milestone GRP met with José Luis Silva to discuss the transformation that Peruvian products have been experiencing and what this means for trade in the future.

**Milestone GRP - What are your primary objectives in order to increase trade between Peru and the rest of the world?**

**Minister José Luis Silva** - As far as foreign trade is concerned, our primary goal is to promote and give added-value to our natural resources. The Peruvian seas are home to the richest biodiversity in the world. Peru is a leading exporter of fishmeal and fish oil worldwide, and that reflects the richness of our seas. There is great potential to expand and grow in areas related to fishing for direct human consumption and aquaculture in general. Peru is also an important exporter of minerals and natural gas. We could also become exporters of hydroelectric power because there are many waterfalls in the Amazon and Andes. If Peru is able to move from being exclusively an exporter of raw materials to an exporter of finished goods, we will push our growth even further. Therefore, that is our main goal within the ministry.

With regards to tourism, we are looking at decentralizing tourism, since 70% of the tourist flow is directed to Machu

Picchu. In Peru there are many other archaeological sites to promote that are worth seeing but people simply do not know anything about them. Along with cultural tourism, our goal is to develop gastronomy tourism, adventure tourism and ecotourism.

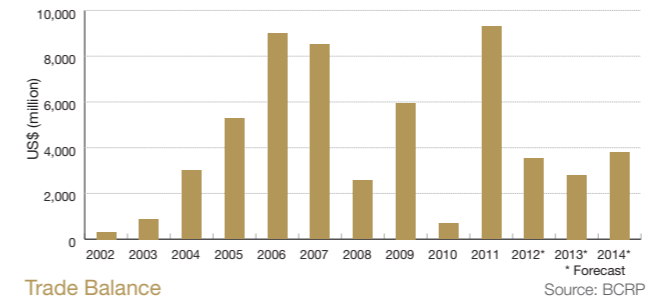
**Milestone GRP - How is Peru benefiting from the various free trade agreements that have been signed?**

**Minister Silva** - Peru has an international focus and is looking at opening trade by signing free trade agreements. In fact, 95% of our exports are carried out under a free trade agreement. In 2011, exports increased by 28% and value-added products increased by 32%. We are on the right track and we want to keep working in this direction in order to give added-value to raw materials, create more jobs and increase social inclusion, while respecting the environment. President Humala has been very clear on that: we are only going to welcome investments that can both meet the legislative requirements and respect the environment.

As for the FTA with the European Union, we are expecting growth especially within agriculture, textile and clothing exports. When countries in the northern hemisphere stop producing something, they can import it from Peru. For example, our clothing industry has been growing over the past few years, producing very high quality products.

**Milestone GRP - Trade between Peru and Japan is estimated to increase by 25%. What are the sectors and products that will most benefit from this agreement?**

**Minister Silva** - Japan represents a very promising market for Peru. Our focus is on fish products for direct human consumption. Japan is an important client in terms of fishmeal, fish oil, giant squid, and other marine products. Another interesting op-



**“If Peru is able to move from being exclusively an exporter of raw materials to an exporter of finished goods, we will push our growth even further.”**

portunity is our agricultural exports. Japan still presents some import barriers in that regard, because they want to protect their domestic agricultural production. Nevertheless, we believe that slowly we will be able to grow in that sector as well.

**Milestone GRP - Peru has strong trade ties to the United States, Asia and Europe, but Latin America has lagged behind. Do you foresee trade between the Latin American countries increasing on par with these other regions?**

**Minister Silva** - Due to the economic crisis, Peru has been working at promoting development of exports at a regional level. Latin America is not going to be affected by the crisis as much as Europe or the United States.

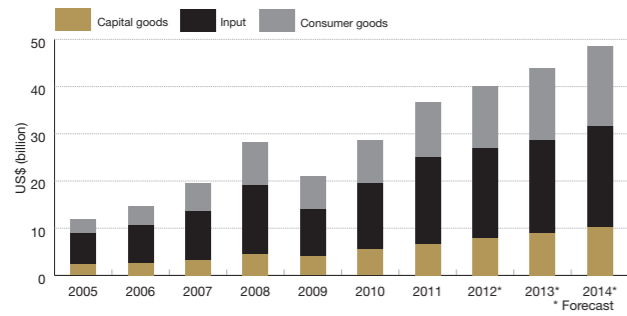
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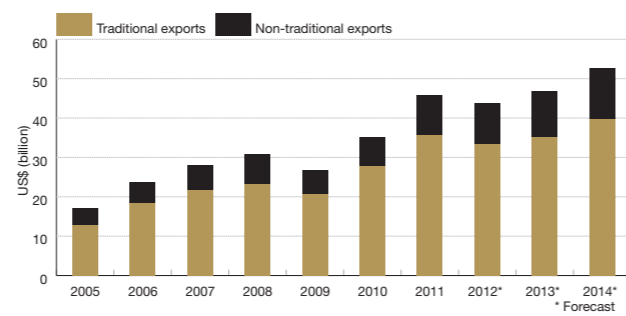
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We occupy a very interesting position in the world in terms of geographical location. Peru is located right in the middle of Latin America, halfway between Mexico and Argentina. For example, Callao has become a maritime hub and it is the biggest Southern Pacific coast port. We also have the only two trans-oceanic routes that go from the Atlantic coast in Brazil to the Pacific coast in Peru. These routes have allowed trade activities to improve. For example, in most cases it is much more cost-effective for Brazilian goods directed to the Asian markets to be sent from Peru. Furthermore, thanks to our geographical location, we are slowly becoming an air transportation hub. In Peru we have a confluence of the three main means of transportation.

In geopolitical and economic terms, the FTAs give Peru access to a market of 3 billion people: more than 50% of the population and more than 50% of global GDP. Moreover, our growth projections show a shift to the Pacific. Peru is well positioned to be a gateway to Asia for Latin America, and is becoming an investment platform for trade activities between Europe and Latin America. Its unique position allows easy management of offices you may have in Mexico or Argentina, while being easily connected to Europe and to the United States. In terms of the language, there are only three countries in the region where Spanish is not the first language: Canada, the United States and Brazil. The rest of the countries are united under one common language. In

addition, English has almost become a second compulsory language for business people here.

**Milestone GRP - You are carrying out an analysis of two new possible FTAs with Russia and India. They are two of the largest markets worldwide, how would you like to proceed with these negotiations?**

**Minister Silva** - We are conducting a preliminary evaluation study on these agreements' cost-effectiveness. If we sign these agreements, it would mean we would be virtually reaching every corner of the globe.

**Milestone GRP - How focused has the ministry and this government been on increasing exports of non-traditional goods and value-added goods?**

**Minister Silva** - We expect our non-traditional exports to grow more than 10%. The agriculture, manufacturing and chemical sectors are expected to experience a steady increase.

**Milestone GRP - In 10 years, Peru is estimated to become the biggest exporter of avocados worldwide. How can this lesson be applied to other non-traditional Peruvian products?**

**Minister Silva** - Peruvians have the ability to focus on a single product, managing, in a very short time, to convert it into

large-scale production. For example, 25 years ago Peru did not grow asparagus. Today, Peru is the largest exporter of asparagus in the world. As for avocados, our scarce production was to satisfy the domestic demand and we never exported them. Today, we are one of the major exporters in the world and some Peruvian producers have thousands of hectares of plantations. Without a doubt, Peru is going to become the largest producer of avocados in the world within less than 10 years.

**Milestone GRP - One of your aims is to substantially increase the degree of added-value in your products.**

**Minister Silva** - Our aim is to triple exports. By 2016, non-traditional exports are expected to rise to US\$ 23 billion. Our goal is also to triple the number of small-sized exporting companies.

**Milestone GRP - What is the best path to follow in order to meet these goals?**

**Minister Silva** - It involves a very tight collaboration between our ministry and the companies. Traditionally, the Ministry of Foreign Trade and Tourism has always had a

close interaction and maintained a good relationship with the corporate world and this is why our ministry has been successful.

**“We are only going to welcome investments that can both meet the legislative requirements and respect the environment.”**

**Milestone GRP - When you look back to the economic and political situation that Peru was in 20 years ago with hyperinflation and terrorism, what can you say about the transformation that Peru has undergone since then?**

**Minister Silva** - We got over that. That stage of our national history is a closed chapter; nevertheless, we cannot afford to forget it. Today, Peru is a safe country that investors and tourists can visit and discover, enjoying its food and its beauty. Peru is an extraordinary country.



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## SIMA – Servicios Industriales de la Marina

### “Goal: Be the Best Shipyard in Latin America”

Interview with Rear Admiral Víctor Pomar Calderón, Executive Director of SIMA

**Víctor Pomar Calderón** has been the Executive Director of Servicios Industriales de la Marina (SIMA) since December, 2011. Before this he had a long and distinguished career in the Peruvian Navy. He studied his undergraduate degree in Naval Maritime Science at the Peruvian Naval Academy and his postgraduate studies were completed at the Superior School of Naval Warfare.

**Servicios Industriales de la Marina – SIMA Perú (Industrial Marine Services)** is a state-owned company that complies with private law. Its headquarters are situated on the coast of the South Pacific in the Port of Callao, Peru. It is charged with the maintenance, modernization, design and construction of the various units within the Peruvian Navy. It also executes complementary projects related to the naval industry and the metal mechanical industry, for both the public sector and the private sector. SIMA has three operations centers located in the ports of Callao, Chimbote and Iquitos, and is the principal driver behind the Peruvian naval industry.

Milestone GRP met with Víctor Pomar Calderón to discuss SIMA's shipbuilding origins, its evolution into a major shipyard, transition into bridge building and aspirations to become the leading shipyard in Latin America.

**Milestone GRP - How would you describe SIMA and its role in Peru?**

**Mr Víctor Pomar Calderón** - SIMA is a state-owned enterprise operating under the private law regime. It is self-managed, as any other company within the defense industry that operates under a private law regime. Our budget comes entirely from our sales and the management services we carry out every year. Nonetheless, we are directly supervised by the state through a control authority.

SIMA is the leading Peruvian shipyard and one of the biggest shipyards in the region with a very long history. In 1845 a naval factory was established in Bellavista, which set the first milestone of what is today's shipbuilding industry in Peru. Years later, in 1864, a second factory was built in the Amazonian region where the city of Iquitos was founded as a result of this endeavor, and today Iquitos is the largest city in the Peruvian Amazon. For many years, shipbuilding

and repairing operations went from generation to generation until, in 1950, the state decided to convert it into an enterprise so that it could contribute to the growth of the country. Since then we have been a state-owned enterprise while still remaining true to our duties towards the navy, the armed forces and the country as a whole.

**Milestone GRP - SIMA recently entered into a military agreement with Colombia to build vessels and to jointly develop both countries' military industries. How valuable are such agreements for SIMA and for the maintenance of Peru's relations with nearby countries?**

**Mr Pomar Calderón** - Like in any other industry, naval technology is evolving very quickly. Therefore, signing agreements with other players in the regional shipbuilding sector allows us to exchange experiences that each of us has gained over the years in different segments. As a result of this, we are always up-to-date and always at the technological

forefront. The agreements that we sign have the ability to lead to exchanging expertise and know-how, and in the long-term they will allow us to move forward in a more favorable position within the global world we live in today.

**Milestone GRP - As a state-owned company, SIMA has responsibilities towards supporting Peru's socio-economic development – arguably more than private companies do. How is SIMA acting to improve the living conditions of Peruvian citizens?**

“A contract with Panama gave us a competitive presence in the international arena, for which we had been preparing year after year.”

**Mr Pomar Calderón** - In the last few years, SIMA has worked towards the development of the metallurgical industry, and within this sector it has focused on bridge construction. More than 90% of the steel bridges in Peru have been built by SIMA. Therefore, thanks to our experience we have been able to offer the different regional governments our services and our expertise. We have been developing different kinds of bridges to meet the needs of every single region. For example, in 2011 we signed a contract with the Junin region in order to build a bridge over the Mantaro river. This 300 m long bridge will provide a link to the city of Huancayo. That was the last agreement that we have signed with a local government. Nonetheless, we have been operating in many other Peruvian regions, building bridges along the coast, in the mountains and even in the rain forest.

**Milestone GRP - Historically, SIMA is known for building sea vessels. How did you transition into the bridge construction sector?**

**Mr Pomar Calderón** - SIMA started off exclusively as a shipbuilding company. It then moved into ship repairing operations. The major component of these two operations is steel. Therefore, we saw that there was an opportunity in other areas closely related to steel making and steel casting. Thanks to these skills, our infrastructure and equipment, we started getting involved in the bridge building sector.

With recognition of our capabilities in these areas, along with the need for bridges in certain regions, we understood we could play an active role in pushing the whole country forward through infrastructure development. We could make our contribution in improving the living conditions of the people in many villages that in some cases were completely isolated, therefore providing them with a better and faster way to communicate with each other. We are aware that the road network is like the country's veins and the blood that flows in it is the progress of that country. That is why we are in this industry to give our contribution and support development as we can.



**Milestone GRP - How is SIMA linking Lima with the traditionally less reachable provinces through its projects?**

**Mr Pomar Calderón** - Aside from what we have already built, we have signed agreements with many of the regional governments. This allows them and our government to embark upon agreements to build whatever they need. At the moment we are building a bridge in the Junin region. We also have other bridges in Ayacucho, and in the Lambayeque region, and we are in dialogue for the construction of another bridge in the Cajamarca region. With regards to the construction of bridges, we are very dynamic. As soon we finish with a project, we immediately start receiving new inquiries for more, from people who did not know about us or to whom we had not given priority. A finished bridge is the best image that SIMA can offer to the growth of the country.

**Milestone GRP - You have carried out projects for the private sector as well, such as the construction of 3 vessels for fishing company Copeinca. How can SIMA benefit from the private sector and the Peruvian fishing industry?**

“We have the skills within both the metallurgical and shipbuilding industries to build vessels for oil companies targeting sea oil extraction or oil extraction in the Peruvian rain forest.”

**Mr Pomar Calderón** - Indeed we work with the fishing sector. The fishing sector created a great demand for fishing vessels construction and we have another shipyard in the port of Chimbote, which is a leading fishing port located 400 km north of Lima. Therefore, SIMA has become the shipyard partner of all the fishing ship-owners, providing them with technical support, helping them in maintaining their fishing fleet or renewing their fleet through our shipbuilding opera-



tions. In 2011, we signed a contract with Copeinca. We built three fishing vessels for them, with an 800 m<sup>3</sup> fish hold and a dead load of 1,200 tons. At present, these are the biggest fishing vessels ever built in Peru.

That gives this company the ability to develop its fishing activities efficiently and in compliance with the fishing quota legislation set by the Peruvian Government. This convincingly demonstrates that the Peruvian fishing industry can count on SIMA with regards to maintenance and repair operations to keep their fleet operative and well functioning.

**Milestone GRP - Is SIMA looking to get involved in the energy sector?**

**Mr Pomar Calderón** - We have the skills within both the metallurgical and shipbuilding industries to build vessels for oil companies targeting sea oil extraction or oil extraction in the Peruvian rain forest. We have had certain contacts in the past. For example, we have worked for the Savia Group that is extracting oil in the northern part of the Peruvian Sea. The company's operations require support vessels and personnel transfer vessels that we have provided them with.

logy projects. We will then integrate them with our set of skills and expertise. We will be able, therefore, to embark on projects using the latest technology available that will be competitive on a worldwide level.

**Milestone GRP - SIMA has demonstrated expertise in the construction of fluvial vessels. How is SIMA positioning itself as a regional expert in this field, with so many rivers running between Peru and nearby countries?**

**Mr Pomar Calderón** - We are the Peruvian Navy's shipyard and our shipyard located in the rain forest, SIMA Iquitos, has grown in such a way that we have acquired the skills to build vessels for oil companies and other river-based operations. On the other hand, the shipyard has also been involved in the construction of specialized ships, such as hospital ships, to ensure the river population's preservation and safety, as required by the Peruvian Navy. We exchange this wide range of expertise with our partners in Colombia and Brazil in order to develop new projects to meet the needs of our countries. In addition, that helps us in reaching all the villages on the river banks and integrating them into the country's wider development.

**Milestone GRP - SIMA is developing an agreement with South Korea in order to use their technology to further develop the Peruvian maritime industry. What role does international technology transfer play in your growth strategy?**

**Mr Pomar Calderón** - We are aware of the very advanced technology available worldwide and that large shipyards use that technology to be more efficient and competitive. It is important for us to establish a relationship with the major shipyards in order to gain the necessary experience to be able to assess to what extent this technology can be central to our growth. The

technological progress of the Asian countries in the last few years has been great. They are at the forefront of the worldwide maritime industry and we are collaborating with South Korea to do everything we can to reach that level.

**Milestone GRP - SIMA has constructed 5 barges enabling the continued use of the Panama Canal. How can SIMA keep expanding further afield?**

**Mr Pomar Calderón** - We signed a US\$ 40 million contract with Panama in 2010, as a result of an international award process in which SIMA took first place. Our competitors were some of the world's leading shipyards from Europe, Asia and Latin America. We had an advantage over the other players thanks to our competitive prices and conditions. This contract with Panama gave us a competitive presence in the international arena, for which we had been preparing year after year. It involved the construction of 5 barges to remove sedimentation from the canal floor. The contract also included the construction of two pusher-tugs for these barges. Our shipyard in Callao was involved in the construction of the barges while the shipyard in Chimbote constructed the pusher-tugs. In October 2011, we delivered two barges and, in June 2012, we delivered the other three. This level of work will allow us to secure our position both at a national and international level. We want to gain confidence with this big client we have, and the work we are doing.

**Milestone GRP - What projects have you carried out for Chile?**

**Mr Pomar Calderón** - Over the last few years we have been building several powerful pusher-tugs. These pusher-tugs are operating in some of the major ports in Chile and Argentina. We have signed an agreement for the construction of another four pusher-tugs that will operate in Colombian ports and that we will deliver in January 2013. It is important to highlight the fact that the pusher-tugs are designed by SIMA, allowing us to modify parts according to the client's needs. We would like to keep developing within the barge-building sector as well, as it allows us to be more independent, and this in turn is beneficial for the client.

**Milestone GRP - What role do you see SIMA playing in a regional context in the next 5 years?**

**Mr Pomar Calderón** - We have set a very clear vision for our company. We are committed to the projects that we have to carry out, such as ships for the Peruvian Navy, as well as the Merchant Navy, which the President is supporting very strongly at the moment. Our main objective, though, is to be considered the best shipyard in Latin America within a few years.

“Our main objective is to be considered the best shipyard in Latin America within a few years.”

Furthermore, in our operative centre in the rain forest, SIMA Iquitos, we have built several barges for the carriage of crude oil for companies such as PetroPerú and Repsol. The barges that are being built now meet all the regulatory requirements, and are equipped with double hulls to offer a better safeguard against pollution. We are able to meet the construction standards set by Peruvian legislation.

**Milestone GRP - The Ministry of Defense has signed two co-operation agreements with the defense industry in Brasilia; one in the aerospace sector and the other in the naval engineering sector. The latter will allow SIMA to take part in vessel construction projects and technology exchange projects with Brazil's Emgepron. This is a major step forward, not only for SIMA but also for the military relationship between Peru and Brazil. Could you share with us some details of this agreement?**

**Mr Pomar Calderón** - The memorandum of understanding signed by the Peruvian and Brazilian Ministers of Defense is focused on the maritime industry. This means that ourselves, SIMA Peru, and Emgepron in Brazil, will be exchanging information about the maritime industry and also about the possibility of establishing joint ventures in the projects in which SIMA positions itself as a competitive player in the Brazilian market. Moreover, we are going to be able to take advantage of the skills that they may have in different areas of the maritime industry, such as in research and development, and in advanced techno-



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## Belcorp

### “Becoming Number One in Latin America”

Interview with Pedro Malo, Vice-President of Strategy and Finance for Belcorp

**Pedro Malo** has been the Strategy and Finance Vice-President at Belcorp since January 2012, after acting as Director of Business Development and Financial Planning since he joined the company in January 2010. Mr Malo previously worked at Bank of America Securities in New York, as Senior Vice-President in Strategy and Business Development. Additionally, he has a solid experience as a consultant at McKinsey, where for six years he worked with multinational companies advising them in areas such as strategy, finance, organization, marketing and sales. Mr Malo holds a masters in Finance from Brandeis University, where he attended as a Fulbright Scholar and a bachelors degree in Economics from the Universidad de Cuenca in Ecuador.

**Belcorp** is a leading direct sales company in the cosmetics and beauty sectors, and is present in 16 countries, mainly in the Latin American region. Through a multi-brand offer, Belcorp provides women the chance to achieve their personal ideal of beauty while giving one million consultants opportunities to establish their own business, increasing their possibilities of personal advancement and enabling them to provide a better life for themselves and their families.

Milestone GRP met with Pedro Malo to discuss how Belcorp has become one of the top 25 companies in the competitive global beauty and cosmetics industry.

**Milestone GRP - How did Belcorp evolve into a Peruvian multilatin company and become the tenth ranked direct sales cosmetics company in the world?**

**Mr Pedro Malo** - Belcorp is a very dynamic company with a strong international focus. Its history goes back to 1968 when Eduardo Belmont, founder and CEO, created it in Peru. Today, Belcorp is present in 16 countries and in 2012 our sales will be around US\$ 2 billion. The reason Belcorp is such a good story is that we are an international company, a multilatin. We have two corporate centers in Colombia and Peru, and have just opened the third one in Panama. Belcorp is also a very diverse operation and we need to be close to our customers. When you look at the distribution of our sales, we don't have one leading country that takes most of the sales. This is what makes us strong and solid, because we have a diversified portfolio with a large geographic dispersion, but it also makes it a complex operation. We deal with the same things that big multinational companies deal with on a daily basis, where you have giant operations with a presence everywhere.

Another significant element is that we have relevant market shares in all the markets in which we operate, where we are first, second or third. The only markets where we are not in the top three are Mexico, Argentina, the United States and Brazil.

**Milestone GRP - Is there a correlation between the appeal of your direct sales model and smaller GDP per capita?**

**Mr Malo** - Yes, we have studies that show a correlation between level of income per capita and level of employment with the direct sales business. It's clearly more attractive for our business working in countries where this offers a relevant income for the person who does the direct sales. Nevertheless, in more developed countries like the US or in Europe, there's a significant market for direct sales but with a different value proposition, different sales targets and different earning expectations.

But our traditional direct sales model has a significant social impact in Latin America. We are actually trying to encourage

this social impact in the daily lives of our sales consultants since the direct sales business creates a relevant extra income for our consultants. We have one million consultants that benefit from these sales without putting in too much effort other than placing the order. So it does become a very flexible model for low-income sectors.

“Today, Belcorp is present in 16 countries and in 2012 our sales will be around US\$ 2 billion.”

On top of that, we are also reinforcing our consultants' social development by creating programs that grant them access to social benefits that they usually don't have. For instance, we have created a micro-insurance program where, for a very small amount of money, our consultants get access to basic health and life insurance. So we are interested in having them as our consultants but we make sure we keep them for the long run by helping them in their social development. Currently, we are also developing a micro-credit program in order to create alternatives that give our consultants access to financing that promotes their business growth and that goes with a bit of financial education.

We encourage initiatives that improve our consultants' standard of living in order to develop a stronger relationship with us. Encouraging their business growth helps our business growth.

**Milestone GRP - You entered the Brazilian market only a year ago. What's the strategy behind this recent expansion?**

**Mr Malo** - Brazil represents 50% of the cosmetics market in Latin America and if we aspire to be the best company in Latin America we need to have a relevant footprint in Brazil. It took us two years to start our operations there and we wanted a powerful launching nationwide. The expansion required building our distribution network and our main challenge there is making sure that we have the logistics capacity to keep growing our business in such a vast country. That's our priority: building our network.

In less than a year since we have been there, we are already exceeding our expectations and the feedback has been very good. Our last satisfaction surveys indicate that 90% of our customers are very satisfied with the quality of the product.

**Milestone GRP - When you entered the Brazilian market you also decided to build up your corporate brand: Belcorp. What's the reason for that and how are you doing it?**

**Mr Malo** - First of all, it's a fantastic story to tell. We can talk about where we've come from, what we are doing and what our targets and objectives are. Secondly, it's very important to be able to develop better business relations with our partners and to attract the necessary talent.

2011, we received a financing package from the International Finance Corporation (IFC) in order to get the necessary fun-

ding to enter the Brazilian market, to expand our plant in Colombia, and to build a new plant in Mexico that will be ready by 2015. Getting out the word about Belcorp as a corporate brand made this much easier.

Also, our main challenge is finding the right people to keep on growing our business. Belcorp is growing at an average of 20% a year and we need the adequate human capital to sustain this growth. To do so, it's very important for these potential people to know who we are because we are competing with multinational companies to attract them.

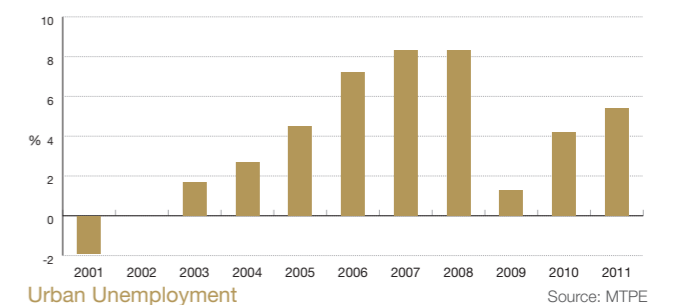
**Milestone GRP - How close are you to your customers? How much do you know about them?**

**Mr Malo** - It's worth noting that even though in the cosmetics business the main customers are women, men are also a significant part of it. Of course, if you compare the diversity of products that you have for women there is a big difference, but the male business will keep on growing as well.

In terms of marketing, we invest a lot in surveys that help us understand the needs, tastes and preferences of our customers. We also invest a lot in order to promote product innovation and development. In Colombia, we have our laboratory where we develop our products in partnership with international specialized companies. For instance, given the fact that there's a very limited amount of perfume houses, they make perfumes for us as well as for the most well-known brands. Given the size of our business, we have direct access and relationships with these specialized companies. Since we have a very thorough knowledge of our customers, we work with them to develop our specific products. In addition, we have such a diversified client base, from such diverse places and cultures that we make sure we develop a very wide offering of products adequate for each one of them.

**Milestone GRP - Belcorp is currently the 22nd largest company in the cosmetics industry and you are trying to become the number one in Latin America. How are you positioning yourselves?**

**Mr Malo** - We are working toward understanding our customers and we are working very hard in developing the right products for them. To do so, we are also working on building a strong network with our international partners, not only with the traditional ones, but also targeting and looking for those very special centers of innovation that are pushing the boundaries and creating new kinds of unique products. This knowledge and this network will allow us to have much stronger and exclusive products and we will be able to develop them faster to respond to our customers' needs.







## Consorcio Carolina “Marketing Native Peruvian Fabrics”

Interview with Felix Rosenberg, President of Consorcio Carolina

**Felix Rosenberg** is a Peruvian businessman responsible for turning the family business into a multinational corporation. In 1949, his parents Carolina and Edmundo Rosenberg started a textile company. In 1963, he joined the team and later in 1976, he took over as the General Manager. Rosenberg is the Founding President of Proas (Pro-Social Assistance), an institution dedicated to helping people in need. He was chosen as Entrepreneur of the Year in 2010 by Sector Magazine in Argentina, in recognition of his silent and constant social work.

**Consorcio Carolina** is dedicated to manufacturing high-end garments for ladies sold in five stores in Peru. It is also the leader in making uniforms for both public and private companies.

Milestone GRP met with Felix Rosenberg to talk about the high quality of Peruvian fabrics and what that means for Carolina as a brand.

**Milestone GRP - Consorcio Carolina has a very interesting history. Tell us about how you got started.**

**Mr Felix Rosenberg** - In 1949, my parents, Edmund and Carolina, came from Hungary to Peru and started this textile industry by hand. Gradually, through all the political changes in the country, Carolina has become one of the leading companies in terms its brand and Peruvian women's fashion. Right now, Carolina is a company that employs more than 500 people in fashion and boutiques in various parts of Peru, and we have a fairly active growth plan to open boutiques in different regions of Peru. The brand Carolina is well-known for its quality, because everything is produced in our own workshops; our clothes are well-regarded in the fashion industry.

**Milestone GRP - What major segments of the market is Carolina in currently?**

**Mr Rosenberg** - We reach a few key segments. For example, we make uniforms for companies that need a classy and elegant look for their employees. Generally, the uniforms are manufactured from wool or cotton depending on the season. This is our primary product.

We also have stores for direct client sales. We have a department for imported fabrics from around the world because the success of Carolina is the exclusivity of the product. Let me emphasize that we understand that women, unlike men, do not like to buy a garment that is seen everywhere and on everyone. We offer exclusivity for each item and we have done that to position ourselves at a higher level in the market.

**Milestone GRP - What is the current state of the Peruvian textile sector, and why has there been a decrease in exports?**

**Mr Rosenberg** - The 2008 financial crisis in the US is just recently affecting European countries that are major consumers of textile products, both raw materials and finished products. With less international consumption, orders are down, but Peru still keeps an interesting export pace. This is especially true when it comes to Peru's natural products, such as pima cotton and baby alpaca products that can't be found in other countries. Although the crisis has affected many countries, it hasn't been as impactful in Peru. The demand has not dropped. The textile industry is looking more to the domestic market to compensate for the drop in exports. In the next two or

three years, this financial crisis is going to be resolved and the consumer will still be purchasing clothes.

**Milestone GRP - Do you feel that these natural Peruvian products are necessary to combat competition from Indian cotton as well as other global competition?**

**Mr Rosenberg** - The government has been encouraging trade offices to promote Peruvian products across the globe since President Toledo signed FTAs with different countries like the US and the EU. The big problem is teaching the Peruvian manufacturer how to sell in international markets. We believe that once the financial crisis is over, we are going to see a boom in sales of finished goods to the US and Canada.

**Milestone GRP - Have you considered starting to export?**

**Mr Rosenberg** - The domestic market covers all of our production capacity. We have no problem with sales in Peru; on the contrary, we have problems keeping up with demand because our quality is highly demanded by Peruvian clientele. Maybe in the next five years we'll be exporting, seeing that the Peruvian government is providing many facilities for export and is creating commercial offices in our embassies abroad to showcase our products. The idea is to initially enter with wool/alpaca products that will have less competition and a high value. At the same time, we believe that we can compete with other countries for our the quality of raw materials and good workmanship that we have here.

**Milestone GRP - Are you trying to increase the demand for alpaca in other markets?**

**Mr Rosenberg** - It is our plan to increase international demand but our production is currently at capacity with the local demand. We have orders of 2,000 to 3,000 uniforms that fill our capacity. Year after year our customers come to us for good quality clothing.

**Milestone GRP - How can you change the opinion of foreigners who think of Peruvian wool as the products they see in tourist shops?**

**Mr Rosenberg** - There are two markets for alpaca wool. The craft market is where people come to buy alpaca sweaters that are hand woven and have Inca pictures on them. That is a different market than the one we are in. Peru is a modern country and our clothing is on the same level as Italian or French designs. What we produce is made here so we have complete control over the quality of the product, unlike the clothing from Europe, which is manufactured in other countries.

**Milestone GRP - How important is it to control your brand image?**

**Mr Rosenberg** - This is one of the most difficult things that a fashion company has to do: be known by clients and be the first choice. The good thing is that this company has a very strong brand image, we have a lot of experience in this, and we take care of it. We worry that if we introduce our product in places like New York, we would not be able to control the market in which our brand is offered. We want to explore the

possibility of offering our alpaca products in boutiques in the US to let people see the quality of our products.

**Milestone GRP - Since this is a family business, how involved are you in the selection and process of material now?**

**Mr Rosenberg** - We have a system that works where our designers present their samples and once these are accepted, we show them to customers to customize them further. We have 20 to 30 years of experience in the market so we know what women want. These are cuts and designs that have very little variation from year to year. Our main customers are women over 40 who can afford quality. We work with a variety of different raw materials and we are very picky about the products we use. Because of that selectivity, women know that they are buying a high quality garment.

**Milestone GRP - Is this still a Lima-based clientele?**

**Mr Rosenberg** - We see that regionalization means that people living in the regions no longer have the need to come to Lima to get products, since there are outlets opening in their city or region. There are now stores that have branched outside of Lima.

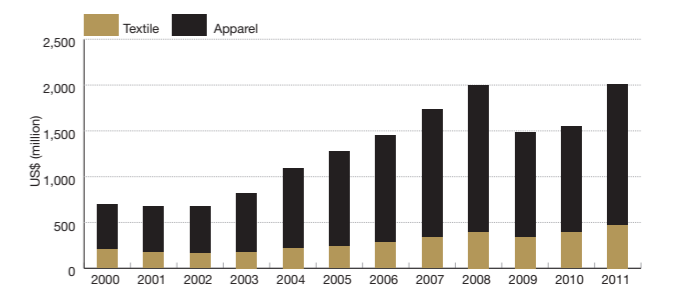
Institutions are very important to us. We earn most bids for uniforms because the customers that purchase our product receive an added value: we measure each employee when we sell them uniforms. That decision was made at an additional cost to us that made the difference in the successful sale of uniforms. That is why customers seek us out, because we give them an added-value service. The manager of a company that spends thousands on uniforms doesn't come back if they are not satisfied the first time.

**Milestone GRP - What is your vision for five years from now?**

**Mr Rosenberg** - Our vision, in the textile industry, is always to be better at what we are doing, to have a better textile product every time we make one, to be at the height of the latest fashion, and to participate in international fairs.

**Milestone GRP - Do you have a final message on the Peruvian textile sector?**

**Mr Rosenberg** - Recent college graduates that want an exciting future should follow their artistic inclinations and enter the design world of fashion, since Peru understands what it means to have quality production and good taste. Second, they should also study foreign trade, because Peru is, and will continue to be, a major exporter of raw materials.



Textile and Apparel Exports

Source: SUNAT



# The leading Peruvian company in the shipbuilding and metal- working industry







## Hidrostal

### “Providing Quality Products is the Key”

Interview with Pedro Luksic, CEO of Hidrostal

**Pedro Luksic** has served as Hidrostal's CEO since 1995 and Board Member since 1994. He has also served as member of the Executive Committee of Peru's National Industry Society and ADEX. Mr. Luksic holds a degree in Mechanical Engineering and an MBA from ESAN.

**Hidrostal** was founded in 1953 by Martin Stähle, inventor of the screw centrifugal impeller. Because of the pump's unique features, it was instrumental in the development of the Peruvian fishing industry in the 1960s. That success was then extended to other diverse industries. Hidrostal has achieved worldwide recognition and exports its products to over 40 countries.

Milestone GRP met with Pedro Luksic to discuss how a small Peruvian pump manufacturer grew into one of the most respected specialized manufacturers in the world.

**Milestone GRP - Hidrostal started producing its screw centrifugal impeller for the fishing sector. What sectors are you involved in now and which others would you like to enter in the future?**

**Mr Pedro Luksic** - Our products can be used in virtually any sector of the economy: agriculture, construction, mining, just to mention a few. We are lucky enough not to depend on just one single sector. That means that in times of economic crisis not all sectors are affected and therefore we may only lose 20-30% of our productivity. We have been improving our products and developing new ones, and that has allowed us to reach many different sectors. For example, more than 90% of our training is related to the agro-industrial sector. We have been able to control this market for the simple reason that we are better than anybody else. For us, it is not a matter of implementing good marketing strategies; it is about producing equipment that works well. That is what people want.

**Milestone GRP - How are your products able to adapt to that many different sectors?**

**Mr Luksic** - There are around 200 different types of water pumps on the market, each one with a different use. We have

been focusing only on a few of them and, as far as our exports are concerned, we have only focused on the screw centrifugal impeller. We have always tried to specialize in the products we produce, looking for niche markets. That is because we have to compete against very big companies.

**Milestone GRP - What are you doing to ensure steady technological development?**

**Mr Luksic** - We aim at being only a bit better than our competitors for one simple reason: producing better quality costs more and the market may not necessarily ask for it. What the market requires is that you are able to offer something better than your competitors. So, our research is conducted following this vision: offering more than others. This way we are able to successfully compete against companies that have very large international exposure.

**Milestone GRP - You export your products to 40 countries worldwide. Considering the high degree of international competitiveness, how do you manage to position your products in the international markets?**

**Mr Luksic** - Since we produce very technical products, we depend on specialized distributors that know this kind of mar-

ket very well. We are not talking about a massive distribution. Basically, we work with only two sectors abroad: the drainage sector and the industry sector. We export only a small part of our product range. Our most important markets are the United States, Europe and some countries in Latin America.

“In nine years we have grown by 500% in the domestic market, against a 100% growth rate in exports.”

**Milestone GRP - How are you managing growth in Peru and abroad?**

**Mr Luksic** - We have grown both at a national and international level, but we have definitely grown more in Peru than anywhere else. In nine years we have grown by 500% in the domestic market, against a 100% growth rate in exports. The biggest problem Peru faces in terms of exports is our currency. Before, the Sol exchange rate against the US dollar was 1 US dollar to 3.50 Nuevo Sol, but now our currency value is decreasing more and more. The only way to overcome currency depreciation is by increasing production and by maximizing efficiency. Nevertheless, the more our currency depreciates the harder it will be to compensate that depreciation with levels of efficiency. This is a macro-economic issue that must be solved if we want our country to keep exporting successfully. Up to now, we have been able to counter our currency depreciation with our efficiency levels, but we will get to a point at which we will not be able to do it anymore.

**Milestone GRP - Despite the volatile international economy, Peru's Ministry of Foreign Trade and Tourism's aim is to triple the number of non-traditional and value-added product exports. How can Peru achieve that, considering the situation of the current international markets?**

**Mr Luksic** - In 2011 Peru's total exports reached US\$ 40 billion, of which US\$ 30 billion was in raw materials and US\$ 10 billion in value-added products. So we are already dealing with very important figures. A country like Peru should focus on niche markets. We cannot develop every single market. We have to concentrate on just some of them.

There is still a lot to be developed in sectors such as agriculture and mining that would allow the development of value-added products. We need to find niche markets for these sectors. For example, Peru is the world's fourth largest copper exporter. We need to see what copper products can be produced here as export products. At the same time, we have to assess, at a local level, what these two industries need. Before we export them, these products need to satisfy the local demand. You cannot start exporting a product, completely bypassing your local market, as you need a lot of experience, in particular when you deal with value-added products. That is the right path to follow, I think, but we need to identify niche markets, as many other countries have done.

**Milestone GRP - How can local companies use domestic consumption in order to grow and later be able to export abroad?**

**Mr Luksic** - This is a free market economy that implies that we have to co-invest with the whole world. Without distorting the market's rules, the government has to create the right conditions for these companies that manage to add value to their products, to grow and expand. It is not a matter of implementing legislation; the government has to tell these people what is needed in order for them to be able to export, and guide them on all sorts of issues.

**Milestone GRP - Where do you see an increase in demand for Peruvian products?**

**Mr Luksic** - Peru has a natural advantage in terms of its agricultural products for climatic reasons, therefore, the agricultural sector has a big potential for growth. Another sector with huge expansion potential is the mining sector. Today, Peru exports only 20-30% of its raw materials. The issue here is that while the government is pushing towards the production of value-added products, the mining companies, that still have around 70% or more to explore, do not see that as a top priority.

**Milestone GRP - What can the government do in order to increase exports?**

**Mr Luksic** - Peru has been very successful in developing its macro-economic policy. The country now has to develop its micro-economic policy, because that is what we are lacking. There is not much dialogue between the government and the private sector. Our main problem and biggest limitation is the lack of human resources. There are already many companies that are hiring personnel from abroad and that organize specialized trainings in order to satisfy the demand for a skilled labor force that is not otherwise met by universities or other institutions.

The problem starts with the bad quality of basic education that students receive. We should start by improving the quality of education. Peru still has a 40% poverty rate, and those children receive a bad quality education. If that 40% of the population received some good quality education, we would have enough of a labor force to meet our domestic demand. This is a long-term issue not easy to overcome.

**Milestone GRP - What is Hidrostal's future vision? Where would you like to see this business in the next few years?**

**Mr Luksic** - We already went through an important change from being just water pump producers to being a company that offers a whole range of products and services. Now, we feel we have to take one more step forward. First of all, we want to expand the product lines that we are already producing. That is because in Peru, the new projects and businesses that are developing are demanding bigger equipment than the ones we are producing. So that is the first step we want to take. Then, our second important step will be that of developing a project related to the production of new kinds of equipment, that do not have anything to do with water pumps, for the mining and industry sectors. We are going to launch this new project towards the end of 2012.





## SOMEREX – Sociedad Mercantil de Exportación

### “Adding Value to Peruvian Inputs”

Interview with Manuel Pardo d'Ornellas, CEO of SOMEREX

**Manuel Pardo d'Ornellas** is an Economics graduate from Lima's Universidad del Pacifico. Before working at SOMEREX, he worked in PwC's Transfer Pricing department. He has been the CEO of SOMEREX since 2010.

**Sociedad Mercantil de Exportación – SOMEREX (Mercantile Society for Exportation)** was founded in 1945 as an export company specializing in cotton and coffee. In 2006, the company refocused its production on natural and organic value-added products to satisfy growing international demand. SOMEREX has become a leading manufacturer of insecticides, colorants, preservatives and food-grade ingredients, such as stabilizers and additives. It has done so by adapting its products to the specific needs of customers in their respective industries, mainly agriculture, food and fisheries.

Milestone GRP met with Manuel Pardo d'Ornellas to discuss how he transformed his company from a raw materials exporter to a value-added producer.

**Milestone GRP - There is a government push for value-added products to be exported to other countries. Do you see this shift taking place in Peru?**

**Mr Manuel Pardo d'Ornellas** - Nowadays, our GDP is basically based on mining and fishing, and those are products that don't have any added-value. At the moment, many Peruvians believe that they don't have the technology to produce added-value products or that buyers don't trust them. In the future we have to start producing added-value products because the products on which we depend currently - mining and fishing - are very volatile. Just look at how the value of gold fluctuates. We are an economy that depends on raw materials and we are going to be depending on them for the next 10 or 15 years. We are not in an added-value production stage yet.

I can export my products with added-value but Peruvian companies themselves are not willing to buy these products. There are many companies here that prefer to import them from abroad, because they have long-term agreements with other companies. They don't trust Peruvian production for several different reasons, but mentalities change. I believe that the Peruvian products are going to gain trust soon in foreign markets.

And it is not just about trust; there are many other variables. Many Peruvian companies import these kinds of products even though they already exist here, maybe because it is cost-effective. Peruvian companies are demanding international products, yet many of those products come from Peru and are exported to foreign companies only to be imported again by Peruvian companies at double the price. We are trying to use this information to go to the big Peruvian companies and explain this to them. We are offering to sell to them directly, without intermediaries.

**Milestone GRP - How did you make the decision to go from a raw material producer to a value-added producer?**

**Mr Pardo d'Ornellas** - Although our company has existed since 1945, this development is relatively new. Our emphasis on value-added products began in 2006. Before that, we exported cotton and coffee. There were many crises worldwide that showed us that it was very risky to continue just exporting raw materials. There was no certainty being on the production side. In 2006, we decided to invest money on organic products with added value because we saw that as the future of our business. But those two markets are completely different. It is one thing to export raw materials and another to sell value-added products

for different sectors and industries, because these value-added products are going to be consumed under your brand. So to have a good name and reputation is very important. For that I have to make sure I have the appropriate certifications.

**Milestone GRP - When you came to the company, what was your key objective and how have you been able to transform the business?**

**Mr Pardo d'Ornellas** - When I came to the company, it wasn't doing very well. My father asked me to help them. From the 25 products we produced, I kept just two. Then we started producing more and more until we got to 25 again. After that, we have tried to be consistent. It wasn't that hard to basically put the house in order.

Before we started working with any kind of product, we did a lot of research about the viability of the raw materials for these products. One of the first problems we had was that there weren't enough raw materials to develop these products. Then we worked with our research and development director who had many ideas and who finally had the opportunity to develop them.

“We are seeking partnerships with a big company for investment.”

We also developed 95% of our own machinery specifically to suit our needs. We went to the Universidad Nacional Agraria La Molina (UNALM) and the Universidad Nacional de Ingenieria (UNI), and worked with them to figure out what the best models would be and then found appropriate modifications to tailor the machines to our new products.

**Milestone GRP - What products do you specialize in now?**

**Mr Pardo d'Ornellas** - Basically, we have products for the fish, agricultural and food industries. We produce food preservatives for products like fish. We developed an organic product for the fishing company TASA that does not preserve the fish, because that would be artificially altering it, but it prolongs the life of the fish. So, instead of being fresh for three days, it can be fresh for 15 or 30 days.

For the agricultural sector, we have developed 10 or 15 products to attack different insects. We have a specialized natural insecticide for lice. We have developed all different kinds of insecticides. From tara (a Peruvian fruit) we produce many different products for the leather industry and livestock industry. We are very proud to have gone to the next level and created many different things that in the future will help our development.

**Milestone GRP - What is the product that you are most interested in right now?**

**Mr Pardo d'Ornellas** - We have a product that has not been unveiled yet because we are waiting for the patents. It is a natural blue colorant that is 100% organic and a fruit extract.

We are trying to introduce it into the cosmetics industry for people who dye their hair or as an eye shadow, so we are seeking partnerships with a big company for investment. We have a lot of competition and a lot of information tends to leak out. That is why we have decided to keep this wrapped up.

**Milestone GRP - What raw material suppliers are you working with?**

**Mr Pardo d'Ornellas** - In order to find potential suppliers, I test the products they have for quality and if they will work for our products. We have to be very selective. If we like the quality, then we buy from them. The margin of error is very delicate here, especially in organic goods. Tara is one of the most complicated raw materials, because the outcome with a very slight change of quality can be either very good or very bad.

We help the VRAE communities to stop harvesting coca and plant other things for us. It was hard at first because of the cultural barriers; they were really suspicious about people from the coastal region, as they are known for taking advantage of them. We tried to go by ourselves and convince them to work with us, but unfortunately it didn't work. After that, we contacted the leader of the community and told him the quantity we wanted to buy from them. We are not talking about kilos, but tons and directly without intermediaries. I am proud to say we have been working well with them for a year now.

**Milestone GRP - Who are your biggest clients?**

**Mr Pardo d'Ornellas** - One of our biggest is in Norway and they purchase an organic insecticide from us. We also have big clients in Japan, most of Europe and Argentina. One of my biggest clients is Unitan, the biggest trader of leather in the world; they are my best client for tara powder. Danisco is our client as well.

**Milestone GRP - What work do you do with SIPO, the Peruvian Intellectual Property Office?**

**Mr Pardo d'Ornellas** - SIPO has a coaching program. We were very happy when, in 2011, we went to their fair and found that we were ahead of other Peruvian companies regarding documentation and registration. We work with SIPO to promote ourselves in fairs. We also work with other organizations that help us develop our certifications like with GTC, the German Support Community here in Peru. They have been very willing to help Peruvian companies. From the beginning they helped me with the certifications and now I follow their quality control programs they send by email.

**Milestone GRP - What is your next step in terms of product and market development?**

**Mr Pardo d'Ornellas** - My next goal would be to let go of our basic production techniques and get further into research. That is what we are aiming for. I want to serve more specific markets as well, like a more niche market, to be able to make a great product at a much more stable price. If you serve a niche market you can have very few participants and agreements for prices because it can happen in any open market.





## Quimica Suiza

### “A Complete Range of Retail Services”

Interview with Martin Engel, CEO of Quimica Suiza

**Martin Engel** has been CEO of Quimica Suiza since 2005. He previously worked as the General Manager for Supermarket Wong y Metro (2000-2005) and the General Manager for Empresas Richard Custer (1992-2000). He received a degree in Business Administration from HWV University of Berne, Switzerland.

**Quimica Suiza** is a leader in representation, importation, manufacturing, marketing, logistics, distribution and support of pharmaceutical, consumer goods, supplies and equipment for the industrial, agricultural and construction sectors. It has 70 years of experience in Latin America, namely in Peru, Colombia, Ecuador, Venezuela, Bolivia and the Dominican Republic. It is the main subsidiary of the holding company, Quicorp.

Milestone GRP met with Martin Engel to discuss how Quimica Suiza was able to expand internationally over 30 years ago and how they have become a trusted pharmaceutical company in the region.

**Milestone GRP - You represent different brands and you have different businesses within Quicorp. What is your portfolio mix?**

**Mr Martin Engel** - Our holding company Quicorp is divided into two main businesses: Health and Consumption, and Industrial/AgroVet. In Health and Consumption we have over 70 years of experience in providing innovative marketing, distribution and retail services for pharmaceuticals and consumer goods. We represent a one-stop shop for our clients as we offer a complete range of retail services including production, brand representation, a specialized health and consumer sales force, marketing, logistic services, distribution to all channels and the largest drugstore chain in Peru, with over 500 stores.

For the Industrial/AgroVet business, we offer integrated solutions for the construction, chemical, textile, agriculture and livestock sectors.

**Milestone GRP - What are the trends that you have seen lately in the pharmaceutical industry?**

**Mr Engel** - In the pharmaceutical industry we can see stronger growth in local branded generics, compared to patented brands and originals. Pharmaceutical labs that invest in research have compensated their lower sales participation with price increases. Another important trend is the strong integration of wholesale channels with drugstore chains, generating a downward impact in market prices. Today, we are also experiencing a consolidation of retailers.

**Milestone GRP - The last business unit you launched is focused on the production of your own finished products. What has been your experience with this value-added business unit?**

**Mr Engel** - We are a vertically integrated group that offers our clients services that range from production to retail sales. For example, our production company based in Lima, Cifarma, has international ISO standards and produces not only our own brands, but also provides production services to third parties, including international pharmaceutical labs for local use or export to neighboring countries.

**Milestone GRP - This is a market that has been growing. Are you looking to expand outside of Lima?**

**Mr Engel** - Our sales outside of Lima are around 35% of our total sales and that is growing because provincial economies are growing. However, the larger companies still buy most of their products in Lima. For instance 40% of pharmacy chains in the provinces buy their products in Lima.

We have a presence in the main cities of Peru like Iquitos, Trujillo and Arequipa, and we are present in the whole country with our distribution unit, so we sell directly there or through the sub distribution units. Currently, we serve 300 drugstores in Lima and 200 in the provinces.

“In the pharmaceutical industry we can see stronger growth in local branded generics, compared to patented brands and originals.”

**Milestone GRP - Quimica Suiza expanded its operations outside Peru in 1978. How were you able to expand and how will you continue this international growth?**

**Mr Engel** - The combination of our strong internal organization culture with the culture of each of the countries where we operate has made our company different and unique in developing a regional reach. In the long run, our success will depend on our ability to do various things, including continuing to expand in different countries, organically and inorganically through acquisitions or development of new businesses. Additionally, we will need to extract the best from each country's operations and translate it to the entire corporation and integrate our back office operations, like the SAP platform, to maintain high levels of control and standardization. This is all needed on top of respect for local cultures and needs.

**Milestone GRP - How well have you been able to replicate the Peruvian model in the rest of your operations?**

**Mr Engel** - The health and consumer experience in Peru helped us translate a successful model as well as knowhow to Ecuador and Bolivia. In both countries we have a similar business model as in Peru, as well as a regional presence, allowing us to provide services nationwide. In Colombia, we are focused on representing international pharmaceutical labs in marketing and sales force efforts, and distribute through third parties.

Regarding our industrial business, we have an active presence in Ecuador, Bolivia, Colombia, Venezuela and the Dominican Republic, following a similar model to the one developed in Peru.

**Milestone GRP - How do you finance your expansion projects? How have you attracted companies to work with you in the region?**

**Mr Engel** - Our growth has been financed through a combination of cash flow generated by our operations, shareholders' contributions and bank debt.

Our corporation's strong reputation in different markets has helped us have an excellent relationship with, and access to, customers, suppliers, banks and strategic partners internationally. We are well known for our serious and responsible behavior, as well as for our experience and leadership in the pharmaceutical market. Most companies in the business seeking to develop operations in Peru knock on our door.

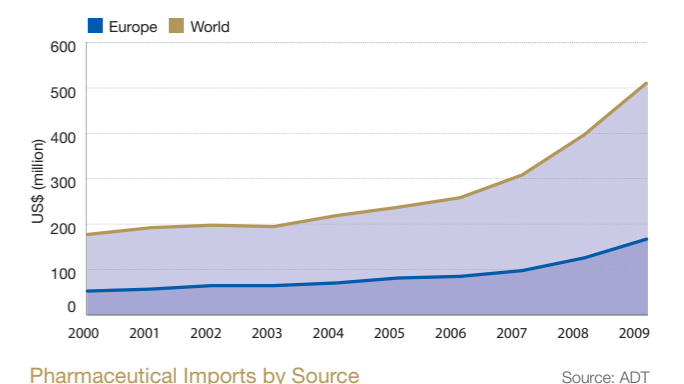
**Milestone GRP - What are your predictions about the future of the Peruvian economy?**

**Mr Engel** - The World Bank classified the Peruvian economy, based on 2011 results, as the 42<sup>nd</sup> largest worldwide. This represents an important improvement compared to other similar countries 10 years ago.

An interesting factor is that the Peruvian economy has expanded in the past few years to regions outside Lima. Also, an increase in the per capita income, combined with a strengthening of formal employment, has finally translated into a stronger middle-class with demand for all kinds of products and services. Being one of our more important commercial partners and a large Peruvian mineral products importer, we believe that China's economic performance will determine if the Peruvian economy can continue expanding at levels over 6% over the next few years. Internally, the government is focused on lowering poverty levels through social programs.

**Milestone GRP - What would you say to those international companies who are looking at entering the Peruvian and South American market?**

**Mr Engel** - Each country in Latin America is different from the other and markets are complex. A local strategic partner, with extensive years of experience is the best reassurance for investors' success. Quicorp offers this experience and expertise in six countries in the region.





# Real Estate & Construction





# Real Estate in Peru

by Eric Rey de Castro, Partner & Managing Director of Colliers International Peru

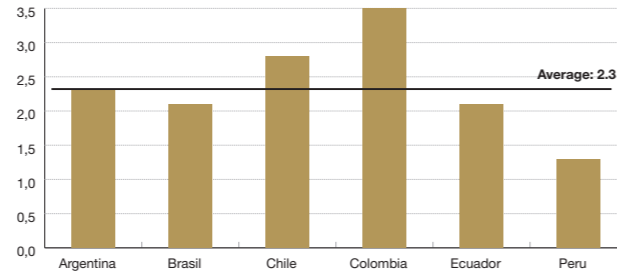
## Macroeconomic conditions

I've had the opportunity of meeting several times with two wise men who live in Omaha, Nebraska. In one of these meetings, they convinced me that to persuade people, we should not appeal to reason but to interest. Consistent with this concept, this article seeks to develop some ideas that clearly show variables that shall awake the investor's interests in the Peruvian real estate sector.

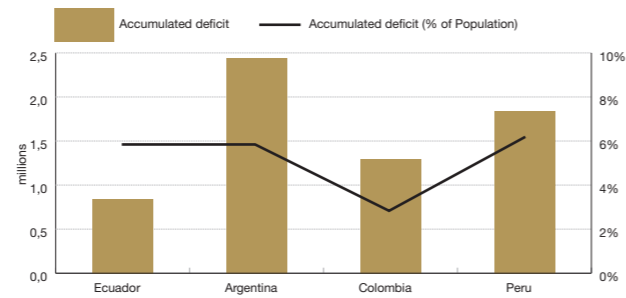
In the first place, we must understand that when we speak of Peru, we are talking about a new Peru that started writing its new story some 20 years ago when new measures that changed our economic fundamentals were established, and which opened our economy to the world and to competitiveness. The result has been a steady growth that in the past 10 years has averaged 7% per year in GDP and a reduction of poverty that has gone from almost 60% at the beginning of the millennium to a current 28% of its population, according to the World Bank.

On the one hand, the facilitation of extended term loans has allowed for the construction of office buildings, commercial and industrial centers available to be rented on long-term contracts. On the residential side, mortgages created a purchasing capacity for Peruvians that enabled them to access housing, where we find an important unmet demand that will take more than 10 years to be reduced to appropriate levels. Additionally, accessing consumer credit through commercial firms and credit cards enables more sales per m<sup>2</sup> in commercial premises and therefore the need for more outlets, leading to a healthy growth of the sector.

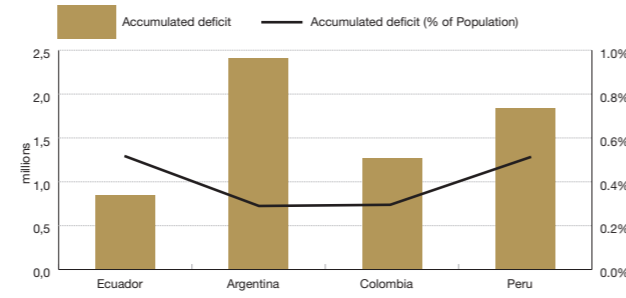
Moreover, the economic stability and the signing of free trade agreements with countries like the US, China, the European Union, Canada, Chile, Mexico, and South Korea, has led us to encourage investment protection practices and a respect for agreements that have brought legal security and thus, predictability for investments in Peru. Also, this process has allowed us to receive a good investment rating from the three major rating agencies in the world, making us second in Latin America next to Chile. Recently, the Cato Institute in the US and the Fraser Institute in Canada released their latest rankings of economic



Commercial Malls per Million of Inhabitants (2010) Source: Colliers International



Housing Shortage (2011) Source: Colliers International

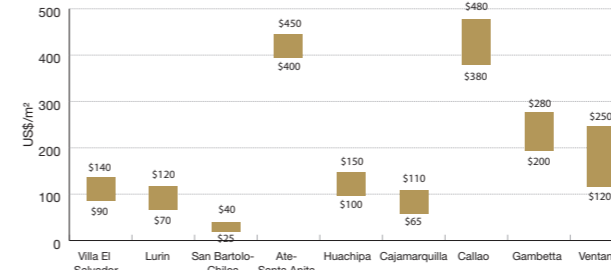


Increase in Housing Deficit (2011) Source: Colliers International

freedom and Peru is ranked 25<sup>th</sup>. These good practices have led to an accumulation of international reserves worth 30% of Peruvian GDP, something never seen in this economy. This also gives us tremendous strength in case the international economy

2012 Rank	Country	Region	Market attractiveness (25%)	Country risk (25%)	Market saturation (25%)	Time pressure (25%)	GRDI score	Change in rank compared to 2011
1	Brazil	Latin America	100.0	85.4	48.2	61.6	73.8	0
2	Chile	Latin America	86.6	100.0	17.4	57.1	65.3	0
3	China	Asia	53.4	72.6	29.3	100.0	63.8	+3
4	Uruguay	Latin America	84.1	56.1	60.0	52.3	63.1	-1
5	India	Asia	31.0	66.7	57.6	87.9	60.8	-1
6	Georgia	Central Asia	27.0	68.7	92.6	54.0	60.6	N/A
7	United Arab Emirates	MENA	86.1	93-9	9.4	52.9	60.6	+1
8	Oman	MENA	69.3	98.3	17.4	50.4	58.9	N/A
9	Mongolia	Asia	6.4	54.4	98.2	75.1	58.5	N/A
10	Peru	Latin America	43.8	55.5	62.9	67.2	57.4	-3

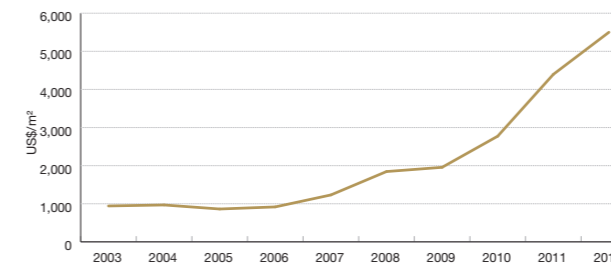
2012 Global Retail Development Index Source: Euromoney, Population Data Bureau, International Monetary Fund, World Bank, World Economic Forum, Economist Intelligence Unit, Planet Retail; A.T. Kearney analysis



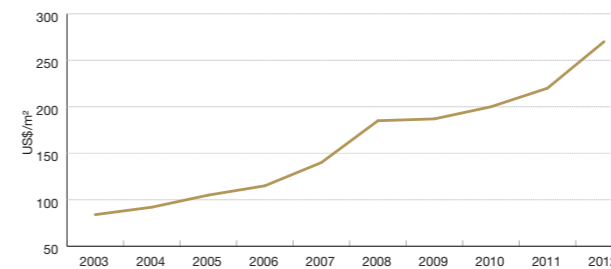
Industrial Selling Prices - Industrial Land Source: Colliers International

suffers a slowdown in the coming years, given the fact that the Central Bank of Peru can guarantee dollar liquidity for banks and prevent the exchange rate from losing its balance.

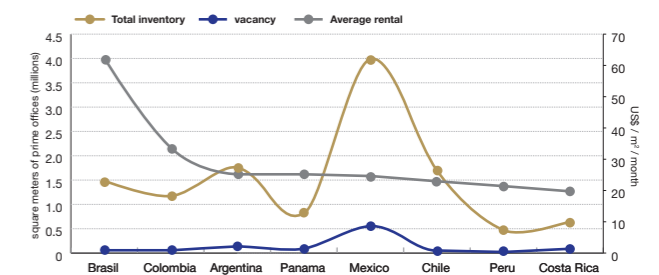
Also, the late awakening to a competitive Peruvian economy creates space for many opportunities. Bringing the latest technology and solutions that have already been proven to be effective in other cities, allows us to use the best solutions with proven success for our projects. For example, in the case of LEED certification, in 2011 only four projects were certified but there are nearly 50 projects certified today.



Land Price Evolution in San Isidro - Financial Center Source: Colliers International



Land Price Evolution in Comas - Urban Residential Expansion Source: Colliers International



Prime Offices - Latin American Summary 1st semester 2012 Source: Colliers International

## The real estate market

Within the real estate markets, our country is one of the regional leaders in terms of prime square meters of office space, commercial buildings, industrial property and housing solutions.

For example, Lima only has 27% penetration in the supermarkets segment versus 70% in Bogota and 80% in Sao Paulo. That's why we see a lot of projects being developed in Lima, as well as in the provinces, which will reduce the gap in modern retail and will bring quality of life to a massive emerging population.

Overall, in the residential market there will be an increase in the number of units sold and in prices. For example, 2012 is estimated to reach 40,000 units sold with a demand of more than 100,000 and an accumulated deficit over 1 million homes. As for prices, we estimate that a 5% growth in real terms for 2012 would be consistent with the market fundamentals and implies an 8% average for recent years.

The steady increase in domestic demand and the openness from free trade agreements have significantly increased the demand for industrial and warehousing space. Additionally, Peru is geographically located between Asia and Brazil, becoming a natural link between these regions. Therefore, three roads are being built between the Pacific Coast and neighboring Brazil. Additionally, we have cheap energy and good port infrastructure. If we compare this segment of the real estate market to Argentina, where there are already 200 industrial parks and an equal number are under construction right now, and we take into account the three scarce Peruvian examples, it is obvious that this represents a great development opportunity.

On average, land prices in real terms have been growing at a rapid pace annually. However, I believe this speed will slow down, although land should be bought right away given the fact that the availability of land is decreasing.

City	Country	Total Inventory (m <sup>2</sup> )	Vacancy (m <sup>2</sup> )	Average Rent US\$/m <sup>2</sup> /month	Vacancy %
Sao Paulo	Brazil	1,451,772	46,457	62	3.2
Bogota	Colombia	1,162,486	43,012	33.3	3.7
Buenos Aires	Argentina	1,737,082	121,596	25.2	7
Panama City	Panama	798,535	67,875	25	8.5
Mexico City	Mexico	3,973,805	528,516	24.5	13.3
Santiago	Chile	1,688,427	32,000	22.87	1.9
Lima	Peru	463,536	5,145	21.22	1.1
San Jose	Costa Rica	617,818	77,845	19.63	12.6

Selling Prices - Industrial Land Source: Colliers International



Accelerated Growth	Growth	Stable
China	Brazil	United States
India	Mexico	Japan
Philippines	Turkey	Germany
Egypt	Russia	United Kingdom
Malaysia	Indonesia	France
Peru	Argentina	Canada
	Saudi Arabia	Italy
	Thailand	South Korea
	Iran	Spain
	Colombia	
	Pakistan	
	Chile	

Economies' Growth Rate up until 2050

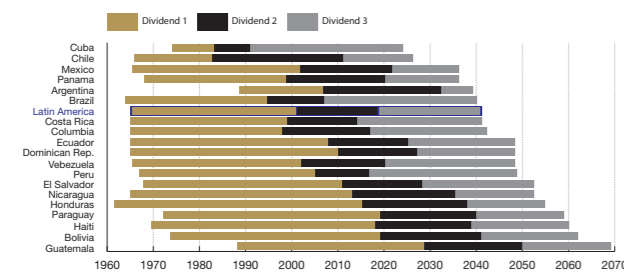
Source: HSBC Report – January 2012

The demand for office space is constant due to the increase in companies establishing themselves in Peru, and the associated jobs growth. We have moved from an annual assimilation of 20,000 m<sup>2</sup> between 2001 and 2007 in the prime market segment to 80,000 m<sup>2</sup> by 2010 and 60,000 m<sup>2</sup> in 2011 – a reduction explained by the lack of supply. Moreover, accessing better financing conditions and the competition that's been created to attract talent, forces these companies to migrate from very basic spaces (houses, residential buildings or B and C market buildings) into new corporate buildings. Actually, there is currently no available space for sale or lease given that the vacancy rate within the "prime" market is below 2%, and represents a total of 450,000 m<sup>2</sup> of demanded office space. The estimates indicate that this low availability will remain below 5% for the next two years.

**The baby boom in Peru**

To the previously outlined elements, we still need to add the "demographic dividend" effect that outlines the concept that most of the Peruvian population is in the 18 to 65-age range, which is when people are fully active, and therefore, produce and consume more. The dependency ratio (people who do not produce) is particularly low and it represents a 2% of GDP yearly growth up until 2049, giving Peru great opportunities and benefits.

The process is similar to what the US experienced after World War II, when soldiers returned home and started having families. The "baby boom" was acknowledged as one of the factors responsible for the tremendous growth of the American post-war economy. However, while the US baby boomers are retiring, the Peruvian baby boomers are just now entering their active cycle.



Dividend 1: period in which the dependency ratio declines but is above two thirds;  
Dividend 2: period in which the dependency ratio falls below two thirds and continues to decrease;  
Dividend 3: period in which the dependency ratio rises, but is still below two thirds

Latin America: Duration and structure of the demographic dividend  
Source: CELADE

Additionally, the aging of the population brings challenges for countries and their economies in terms of sustainability of their growth, as well as the capacity to sustain their welfare economies. This issue is already affecting countries like Japan, Spain, Germany, Italy and the developed world in general. The average age in Europe is between 43 and 46 years, in the United States it is approaching 41, while in Peru it is only 26 years.

**On the residential side, mortgages created a purchasing capacity for Peruvians that enabled them to access housing, where we find an important unmet demand that will take more than 10 years to be reduced to appropriate levels.**

**Other variables that will contribute to investment decisions:**

1. The local macroeconomic environment and the difficulties discussed above in several developed countries, are allowing for an important capital flow towards Peru, contrary to what happened in the 1980s when the trend was the reverse.
2. For the first time, the GDP of emerging countries exceeded the developed countries in 2011 and the trend keeps indicating that direction as the movement of the overall economic and political power shifts towards emerging economies of the world.
3. The huge deficits accumulated by the countries of the European Union, United States, Japan and other developed countries will not be solved without inorganic emissions of money. This will lead to future inflation, and within the real estate sector, will represent a tremendous hedge against the loss of purchasing power that the currency will hold.

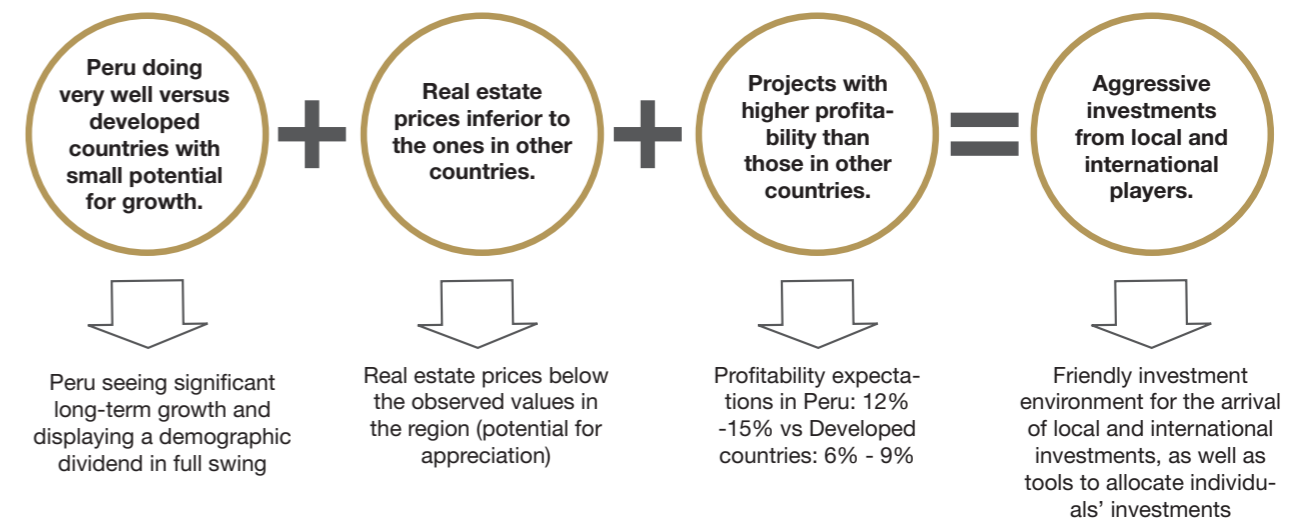
4. Given its macroeconomic fundamentals and demographics, Peru can continue to grow more than any other country in the region over the next five years. The President of Peru's Central Reserve Bank even envisions the possibility of two-digit growth if we continue on the same trajectory and have the necessary investment.
5. Prudent management from the Central Reserve Bank has kept inflation at very low levels even below the rest of the region for the past 10 years.
6. Mortgage loans have been growing at annual rates of 20% over the past five years and represent only just above 4% of GDP and less than 1% of loan delinquency – this represents much room for growth.
7. While real estate prices have been increasing steadily, even in real terms, they did not reach the levels seen in the first half of the last decade. Regionally, according to our Purchasing Power Parity, real estate prices continue to be the lowest compared with Chile, Colombia, Mexico, Panama, Brazil and Argentina.
8. According to the Central Reserve Bank, the PER (Price Earnings Ratio) analysis of our residential real estate market shows we have a yield under 19% which doesn't show evidence of overvaluation, but rather of balance.
9. Companies' return on investment has been standing at 20% for the past five years, reflecting the success we are experiencing.
10. The projected growth of the construction activity for the next three years is auspicious with the existence of an estimated US\$ 51 billion portfolio of private projects that will bring the sector's GDP growth to at least 10% annually.
11. The aggregate domestic demand is positively affecting real estate demand, which will grow 8% over the next years.
12. Few solutions have been offered for the sustained demand in each segment of the housing market. Construction increases at a pace of 6% growth per year but is not sufficient to satisfy increasing demand.

We must not be too optimistic and remember that the sector is cyclical.

**“Most of the Peruvian population is in the 18 to 65-age range, which is when people are fully active, and therefore, produce and consume more.”**

13. The characteristics of a housing bubble that have been present in real estate crises in other countries are nowhere to be found in Peru. Therefore, in the case of a possible adjustment of the property cycle eventually happening, the macroeconomic impact would be quite insignificant.
14. Models of innovative real estate developments, such as future asset sales or leaseholds, are contributing to lower the risks of new developments as well as their capital requirements, favoring return on investment.
15. There is a clear trend of big money coming to the market from sovereign wealth funds, pension funds (ex: Calpers) and HNWIs, increasing their capital allocation in real estate.

Peru has also made progress in that politics is separated from the economic model. Of course, there is still much to do in this regard, but the vast majority of Peruvians support continuing free market practices regardless of their political choice. It is essential to incorporate this variable in our analysis without forgetting that there is still much to be done to strengthen institutions, improve infrastructure development, improve education at all levels, grant better health coverage, etc. However, these limitations offer great opportunities for our country and the solutions will come from a private sector that continues to grow.







## Shamrock Promotora Inmobiliaria “Added-Value Housing Projects”

Interview with Carlos José Chuman, CEO of Shamrock Promotora Inmobiliaria

**Carlos José Chuman** is the CEO of Shamrock Promotora Inmobiliaria and has worked with the Shamrock Group for over 19 years. Prior to becoming the CEO for Shamrock's operations in Peru, Chuman was the Project Manager in Shamrock's Corporate Housing Construction Division and before that was the Assistant Project Supervisor in the company's Condominium Construction Division in Miami. He has an MBA in Finance and Management from St. Thomas University.

**Shamrock** is a real estate and development company with over 25 years of experience in the Americas. Currently they have operations in the United States, Costa Rica and Peru. Their projects are designed by the recognized architecture firm 51-1. In Peru their most important projects are Shamrock El Polo, Shamrock El Rancho and Shamrock Paracas Lagoon, the last two of which are currently under construction.

Milestone GRP met with Carlos José Chuman to discuss how Shamrock has been able to position itself as a large-scale real estate developer in Peru.

### **Milestone GRP - How do you, as an international company, view Peru for foreign direct investments?**

**Mr Carlos José Chuman** - We came to Peru in 2006. We are Peruvians but we were living in the US where we have a company that does corporate housing. 2006 was our best year in Florida. We won the Corporate Housing of the Year Award for the entire United States. Business was booming. Our business model is to purchase land and develop complexes where we do corporate housing, which basically is an apartment that is fully furnished where people mostly stay for a month or so.

In 2006, when we wanted to build new complexes, we noticed that we would get the same profits by selling the land rather than actually building, renting or selling the units. Therefore, we decided to sell all of our land and some of our assets too. In 2006, we took a trip to Peru. Realizing that the land was cheap and the economy was booming, we saw an opportunity. We decided to try building in residential areas of Lima known for being inhabited by a high socioeconomic segment. First we did a test with a small apartment building with 16 units in Miraflores, Lima.

This was a small residential building. It sold pretty well. We built another one in San Isidro and Chacarilla, Lima and those sold pretty well too. After these trials, we decided to do something that we were really accustomed to: a really large complex of apartments. We did one in El Polo, Surco District, Lima with 173 units, with a total of 17 buildings surrounding a very nice park. That was our first large project and our fourth project in Lima. We also decided to buy 20,000 m<sup>2</sup> of land on Benavides Avenue, Lima. This place is very special because it used to be home to a very well-known restaurant called “El Rancho”. We decided to do a very nice development there, offering luxury townhouses, which was a new concept in Lima.

We really saw an opportunity here because business was just starting to take off. Sometimes people talk about a bubble happening here and that is impossible because we have a demand that needs to be fulfilled.

**Milestone GRP - Were you more cautious with your approach to the Peruvian market, especially after the hard-hitting housing recession in the United States?**

**Mr Chuman** - After we built in three different districts of Lima, we saw that there was a very high velocity in sales. We always gathered information through marketing about future places, about what clients are looking for. We saw that there was a really high demand. We made sure we had the right credit, location, product and price and we were successful.

**Milestone GRP - What type of synergy do you find with local companies such as Graña y Montero?**

**Mr Chuman** - It's been great. Basically, we just give them the blue prints and they give us the keys. You have nothing to worry about because they will do everything. You basically concentrate on sales and marketing and that is it. They will take care of the construction 100%. We also work with a supervision company that manages the project, called Schmidt & Chavez-Tafur, which is one of the most well-known supervision and project management companies. They manage the project for us.

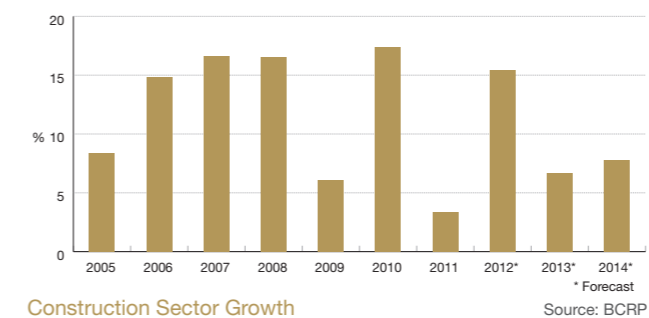
**Milestone GRP - Were you looking to find an associate to partner with upon your entry into the Peruvian market?**

**Mr Chuman** - Not really. We just wanted to do a small test on our own without being influenced by present standards and experiences from other people. The best thing is to do it on your own and make your own decisions. It worked for us and now we are welcoming new investors and partners.

**Milestone GRP - What do you envision for Shamrock Paracas Lagoon, which is a huge project south of Lima?**

**Mr Chuman** - It is very typical that the luxury segment, or the A class, has several homes. Usually, they have second homes, a beach house where they spend the summer, and a country home where they spend the winter. That has been going on here in Peru for many years. Now, where this segment used to spend the summer and looked for relaxation, the area is getting very populated. Now, there is a lot of commerce, nightclubs, and restaurants. We decided to do something away from that with a different twist, so we went further south. Only in Paracas can we give our customers the opportunity to enjoy a summer climate all year round, surrounded by a paradise where you can enjoy water sports in an artificial saltwater lagoon where you can have the feeling of a Caribbean vacation. It is something different where we want to attract not only Peruvians, but international investors as well.

**Milestone GRP - How exactly is this Paracas Lagoon project different from others?**



**Mr Chuman** - Location is one of the priorities. It is right in Paracas Bay, a place where you never see a grey sky but always a blue one. Second, only one other project in Peru has a lagoon similar to ours and it sold really well. Finally, we have great design that mixes perfectly with the environment. We are very close to The Paracas Natural Reserve; therefore, we have to be very careful about what we do and how we do it. The project is a green project, with an energy efficient design that is part of the green building trend in Peru. Shamrock Paracas Lagoon will be the first residential project in Peru, which will be LEED (Leadership in Energy and Environmental Design) certified, the standard for high-grade sustainable construction in the world. This has been achieved through effective systems that save energy and a water treatment plant that reuses the grey water to irrigate parks and gardens. We are delighted to offer a world-class project for its architectural value and contribute to the benefit of the Paracas National Reserve.

“People talk about a bubble happening here and that is impossible because we have a demand that needs to be fulfilled.”

**Milestone GRP - Did you find any challenges to make this happen?**

**Mr Chuman** - Yes, many. But we work around them. The design is very complicated. It is much more expensive but I think it pays off.

**Milestone GRP - What client profile are you looking to target?**

**Mr Chuman** - We always try to attract a mix of foreigners and locals. We also try to offer products for families and for single people. We know every family is different, we offer homes ranging from 155 m<sup>2</sup> meters to 550 m<sup>2</sup> in Paracas. We try to have a variety to offer, targeting to every family size.

**Milestone GRP - Does being an international company with an international reputation help in attracting high-profile clients?**

**Mr Chuman** - Definitely. Our company in the US has a total of 17,000 clients from over 40 different countries. We already have a database that we can target and have built customer loyalty all around the world.

**Milestone GRP - The El Rancho project is different to what you have done before. Are you looking to repeat this kind of project in Lima?**

**Mr Chuman** - One of the challenges that we have had here in Lima is land. If we find similar pieces of land, we can do a project like El Rancho, but usually you don't get that. It is not very typical. We try to give back to the city with every project



we do. We decided to decrease the number of units because we wanted to deliver more green areas.

**Milestone GRP - Has the community been pleased with your developments?**

**Mr Chuman** - Yes, actually the happiest people are the government. They don't like to see big developments where you are taking up every inch of available space. We have a very different perspective and we try to do things differently by having more open green spaces. We do not necessarily focus on profit and what we can get out of that land; instead we try to give an added value by giving more open spaces and more green areas.

“Paracas Lagoon is something different where we want to attract not only Peruvians, but international investors as well.”

**Milestone GRP - How will you finance future projects?**

**Mr Chuman** - Financing is also one of the challenges that we have had here in Peru because credit limits are not very large. Typical financing only works for projects that are medium-sized. Whenever you have large projects you need to partner with a fund. That is why we need to look for funds or business partners.

**Milestone GRP - Are you currently looking for this financing in Peru as well as internationally?**

**Mr Chuman** - We look locally and internationally. The key markets are the US and Latin America. We even have had some people interested from Europe.

**Milestone GRP - Who are some of your supporting partners?**

**Mr Chuman** - We have two important partners right now; Graña y Montero which has built two of our projects, and Mota Engil which is developing Paracas and is our partner for the MiVivienda segment. Graña y Montero is a leading engineering company in Peru and Mota Engil is the leading engineering and construction group in Portugal.

**Milestone GRP - Could you tell us about the projects that you are looking to do in the future?**

**Mr Chuman** - We are trying to move from the A or A+ segment into the MiVivienda segment, which is somewhere between C or a little bit more than that, with houses up to US\$ 100,000.

This segment is where the critical mass is and where there is the highest demand. We are trying to build projects for that segment, with the same green spaces and quality.

**Milestone GRP - Is this something you have done before?**

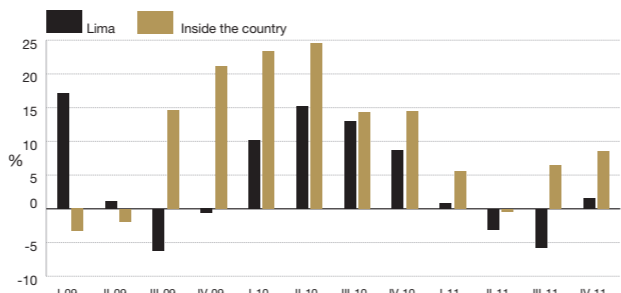
**Mr Chuman** - No. This is something that we have never done before. We partnered with Mota-Engil to buy a very large piece of land in Ate, Lima. We are going to build 3,000 apartments there for this segment. It will happen very soon.

**Milestone GRP - Could you give us an idea of what Shamrock will look like in five years?**

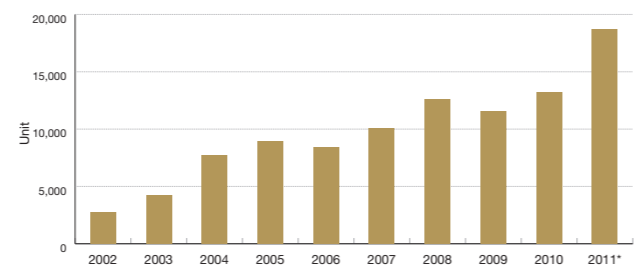
**Mr Chuman** - I hope that we have done at least three or four really large projects, including this one that I just mentioned, focused more on the MiVivienda segment. We will still have projects in the A+ sector but that will be less and less as we are now moving toward high-demand areas. I hope to go into inner cities. We are currently in Ica with an A+ project and we want to go to Northern Peru with MiVivienda. I'm looking for sales of over US\$150 million each year.

**Milestone GRP - As a foreign company that has successfully established itself in Peru, what would your advice be to international investors looking to enter the country?**

**Mr Chuman** - I think that the time is now; it is the time to invest with a great return. Companies abroad can partner with local companies, especially if they aren't familiar with the culture here. Shamrock is one such local company. There are many other good companies around too. The time is now because there will be growth for at least the next 10 or 15 years.



Local Dispatches of Cement Source: ASOCEM and cement companies



Evolution of Apartments Sold Source: CAPECO

# Edifica

## “Housing Growth Based on Demand”

Interview with Martin Bedoya, Founding Partner of Edifica

**Milestone GRP - Peruvian mortgages have exceeded historical records. How long will this mortgage growth last?**

**Mr Martin Bedoya** - Mortgages are breaking historical records, but that's because we had a tremendous historical lag too. Overall, debt versus GDP is below 5%, when similar countries in the region are well above that, 20% in Chile and 15% in Mexico, for example. Developed economies where the mortgage crisis hit, like Spain, were at 70-80%. So the issue of credit over-supply is not happening here. Within segment A, prices have gone up over the last five or six years, but when you look at the last 14 years in real terms, this growth has not been as rapid due to many years of decline.

Growth is still not significant compared to other countries in the region or the world. We have low prices and our mortgages are lower. What is happening in the country is growth based on demand. The country has been growing at annual rates of over 6% for the past 10 years and we have a young population. In the capital, in particular, traditional districts have seen significant price increases in recent years, which is because there are no developed alternatives to attend to the growing demand in the segment AB.

On the contrary, these districts are creating more restrictive policies like increased parking areas, environmental permits, and others, which complicate real estate development, and thus shorten supply. Also large developers are migrating towards larger projects in lower segment sectors, where larger areas of land are available, so supply in these traditional districts is dominated by small developers who work on one small project at a time. In summary, the rising demand and falling supply within the housing market is causing prices to soar.

**Milestone GRP - Where will future construction take place if the demand is so high?**

**Mr Bedoya** - Buildings in Lima are low in height compared to other cities in Latin America. There is a real land problem. The AB segment is growing, but the segments underneath them can't satisfy their demands. 10 years ago, when Peru was having difficulty raising long-term loans, mortgage loans did not exist for those segments, specifically CD, that were in need. From one day to another, we began to get loans and long-term mortgages.

It was at this point that 500,000 people who before could not purchase a house could finally afford one. Due to land scarcity, developers have started buying land in peripheral areas, which should be developed for the lower segments. Once that land is bought and developed, however, prices increase due to the high demand, making that land overpriced for the social segments it was originally intended for. Projects in these peripheral areas are no longer accessible with credits from the MiVivienda subsidized housing program, so the sales market grows but MiVivienda doesn't, at least not the

way it should. As long as land scarcity and building height restrictions continue, prices will continue growing.

**Milestone GRP - So the supply-side was not prepared for the growth of the middle-class?**

**Mr Bedoya** - Due to the lack of a mortgage market the country's housing sector has developed with the predominance of "self-builders" or invasions, where lower income households build their own houses over the course of 20 years as a way of saving. Over time those people have improved their economic status and now that mortgages are available, a very large number of people can afford better quality housing, but the supply-side has not been able to cope with this sudden increase in demand.

“The rising demand and falling supply within the housing market is causing prices to soar.”

Developers, consequently, should become more efficient in creating housing and the proportion of houses built by “self-builders,” which still accounts for close to 50% of new homes built, should decrease rapidly. This will consequently make formal housing developments soar. State programs should continue to promote the development of housing since the housing deficit in the country should last for at least 20 years. The issue rests in the organization and enabling of space in Lima, but I think we're on the right track.

**Milestone GRP - How do you source your financing?**

**Mr Bedoya** - We have talked to large funds, both local and international, but there is a dissonance in the market between real estate funds and most promoters. For example, for a project with sales of US\$ 20 million, the equity required by the developer is under US\$ 3 million with most of the financing coming from buyers that pay for the residence before it has been completed. If you want to associate with a fund, then the numbers do not add up because the ticket size is too small for them. Large funds have elected to buy land, hire a builder and a developer, and assemble all the parts so that the investment is more significant. We have chosen family offices or smaller funds, with investment tickets of US\$ 2 million to US\$ 10 million. We are also creating a public fund for common people, which will partner with Edifica in our projects. It has a buy-in ticket of only around US\$ 20,000, so it is very accessible for those who want to participate in the growth of the real estate market.





## La Viga "Realizing Peru's Potential"

Interview with Diego De La Torre, Chairman of La Viga

**Diego De La Torre** is the Chairman of La Viga, Aleteia Capital and New Investment Manager. He is also founder of Quikrete Peru, a joint venture with an American company, which has been the pioneer and leader in the production and development of dry concrete mixtures in the Peruvian market. He also serves as Chairman of the United Nations Global Pact in Peru, President of the Angel Investors Network in Peru, is Director of the Atocongo Association, the Museum of Art of Lima and Peru Global Heritage Fund. He is also a Member of the Executive Committee of the Graduates School of the Universidad del Pacifico and Member of the Board of Trustees of the IDB Foundation. He holds an MBA from LSE.

**La Viga** is the largest cement and steel distribution company in Peru. The company achieved considerable success for its ability to build cultural and business bridges between the Andean migrants from the highlands and the business circle of Peruvian society. With annual sales of US\$ 175 million, the company plans for expansion through the diversification of its commercial supply and strategic alliances for further vertical integration. La Viga's mission is to serve society through useful products and services, and the creation of decent jobs with a strong commitment to society and the environment. The company has been an active member of the UN Global Compact since 2003.

Milestone GRP met with Diego De La Torre to talk about the increasing role that the construction sector is playing in the development of Peru outside of Lima.

### Milestone GRP - Peru has experienced a major turnaround in the last 20 years. What does this mean for the construction industry?

**Mr Diego De La Torre** - There has been a type of Meiji revolution in Peru, similar to what happened in Japan during the 19<sup>th</sup> century. A lot of Peruvians are being integrated into modernity and there have been important demographic changes. Peru has stopped being a rural country and is now an urban country. In the last 20 years, we have made good decisions about economic policies and the governments have changed, but the economic path has remained the same. There's been increased investment and the free trade agreements have created a hunger for modernity in the Peruvian people. This has pulled 6 million Peruvians out of poverty in the past seven years.

Currently, the per capita amount of cement consumed in Peru remains one of the lowest; seven years ago, it was 180 kg per person, nowadays it is around 300 kg. To give you an idea, when

the Asian Tigers of the 1970s and 1980s had their boom, the construction industry grew by 17%. This is happening in Peru and the local industries have anticipated this and made investments to expand their production.

There are companies in Peru that have realized that we need to channel our production to the C, D and E sectors of the economy, the middle- and lower-income sectors in the economy, which are the sources of the current construction boom. Until recently, there was an overstock and a lot of demand on sectors A and B here in Lima. Now, more and more businessmen in Peru have begun to go outside of Lima and have realized the huge economic movement in the lower districts of Lima and the regions.

The cultural divide that has existed in Peru for many years has been overcome. There is a definite reconciliation with Peruvian culture, and with cultural diversity you will find innovation and opportunities for growth. As an example, I have been a university professor at Universidad del Pacifico, which is an elite univer-

sity, for the past 15 years. Before you used to see only "western faces," now there's more and more new "Andean faces" coming to the classroom and that is great. There is a vertical movement in society, which means that people are acquiring status through merit and not just inheritance. That is reflected in the construction industry and in everything else.

I think that we are going to have a very long growth cycle. The truth is that Peru is acquiring an institutional maturity little by little. Peru's biggest challenge now is reducing informality. In the private sector, we are trying to promote the formalization of the construction industry more and more.

**"The middle- and lower-income sectors in the economy are the sources of the current construction boom."**

### Milestone GRP - What is La Viga doing to reduce this informality, specifically within the construction sector?

**Mr De La Torre** - At La Viga we have always promoted the formalization of distribution channels. We try to promote banking and good building practices. We also participate in the Peruvian Chamber of Builders, which has a formalization committee that we belong to as well. If there was an earthquake now like the one they had in Chile not too long ago, more than 80,000 people would die. We are trying to promote a system in which houses that are not built properly can be reinforced with a small investment so they do not become tombs. This is a short-term solution. The long-term one would be to enter with a lot of strength and support for the banking sector and for the state to start making massive quality housing.

There is a demographic boom that is going to happen, and overall we are a little more ambitious in the sense that we want to promote ecological housing through the Peruvian Green Building Council. Spanish groups are very interested because the industry is idle in Spain now and you have a lot of machinery

and engineers there. Right now the bottleneck is getting good engineers.

### Milestone GRP - How are you reaching out to global investors as well as integrating into the communities in which you work?

**Mr De La Torre** - La Viga is basically a construction materials distributor, but it is among our growth plans to vertically integrate ourselves. We are looking to participate in the stock exchange and to have partners, so we are not only in the cement and metal business. This is all part of the strategic plan to be able to enter the ecological construction territory. We are moving toward vertical integration but that is a process and we are going to need private equity companies. This is part of modernity and the Peruvian businessman has to learn how to open his capital to be able to have strategic goals that are more ambitious. Look at what Buenaventura has accomplished. Since the beginning, Buenaventura was the first one that opened its capital to have full listing in New York, and look where Buenaventura is now. It's impressive; it is a world class company.

We want to integrate ourselves into the social and environmental weave in a harmonious way and be socially and environmentally responsible. We have generated a lot of profit but our objective is to serve society. Our goals are to be profitable, efficient, and environmentally conscious. We create decent jobs and invest part of our profit in social issues. I also hope that when Peru becomes a developed country, social responsibility won't be necessary anymore, but only environmental responsibility. Poverty would eventually disappear and people would live with democracy and a sense of well being.

### Milestone GRP - What can be done about the lack of educated workers in Peru?

**Mr De La Torre** - A lot of Peruvians are studying overseas and coming back to live here. For example, a database of Peruvian scientists has been made already and we are trying to figure out how to get them to come back. We want them to return and we want to hook them up with a network of angel or venture capital investors and make a kind of Silicon Valley, which I call Quipu Valley. We are working on that.

Real Estate Sector: Evolution of main variables			
	2009	2010	2011
Unsatisfied demand - CAPECO <sup>1/</sup>	308,180	399,952	391,434
% Change	6.1	29.8	-2.1
Apartments sold (units) - CAPECO <sup>1/</sup>	11,598	13,184	18,736
% Change	-8.3	13.7	42.1
Apartments units sold- TINSA <sup>2/</sup>	13,378	15,643	21,550
% Change	-1.7	16.9	37.8
New mortgages <sup>3/</sup>	20,529	29,457	34,487
% Change	n/a	43.5	17.1
Number of debtors of current mortgages <sup>3/</sup>	122,992	136,929	153,542
% Change	8.4	11.3	12.1
Average interest rate of mortgage in S/. <sup>3/ 4/</sup>	9.8	9.3	9.4
Average interest rate of mortgage in US\$ <sup>3/ 4/</sup>	9.1	8.1	8.2

<sup>1/</sup> El Mercado de Edificaciones Urbanas en Lima Metropolitana y el Callao, CAPECO. A one-year period is considered (from June to July in the next year).

<sup>2/</sup> Informe de Coyuntura Inmobiliaria, TINSA PERU SAC.

<sup>3/</sup> Commercial banks. Source: SBS.

<sup>4/</sup> Average monthly interest rates of mortgage loans granted in December by commercial banks.

Source: SBS



The attitude of the Peruvian businessman has changed a lot. Fifteen years ago my students would tell me "I'm going to be successful even if I am Peruvian." Now they tell me "I will be successful because I am Peruvian," and that is a big change that we hope remains.

**Milestone GRP - What kind of international interest are you seeing and what is the perception of Peru?**

**Mr De La Torre** - Peru used to be a 10 second segment per year on BBC, but that has changed a lot now. That was one of the good things that President Garcia did. Once I went to a Global Compact meeting in Geneva, and a lot of businessmen told me "I received a letter from your president today and he's inviting me to invest in Peru." I understand that the current president is doing that as well, especially with APEC. The embassies are also very active when it comes to this, and I see that Peru is already on the international radar. The giants of Latin America are still Mexico, Brazil, Chile and Argentina, but Peru is getting in there.

I think that Peru has to aspire to be a country like Norway because it is not that big, it does not have a lot of inhabitants, but it has a lot of great natural resources. Let's not forget that Norway exports a lot of resources like oil, but at the same time they invest in brain power and design industries, architecture, engineering, ecology, and biotechnology. The good thing is

that there is a critical mass of Peruvians who are studying those subjects.

I think that hard science needs to be pushed. Mario Vargas Llosa's Nobel Prize is not an isolated spark but a sign of the future for Peru. I think that the current government is very conscious about that and Peruvian businessmen are bullish. We got a little scared with the government change but not anymore. Political change doesn't seem like a big deal after the things we went through in the 1980s.

**Milestone GRP - Do you see Peru realizing this potential in the future?**

**Mr De La Torre** - Yes, it can be done in 30 years, but you need to stay the course, and I think construction is fundamental. An adequate house or apartment with electricity and water leads to better lives for families. Peru used to have a westernized world with a technocratic and cosmopolitan minority, but you also had a big sector of Peruvians who were not integrated into modernity. That was unacceptable. The good thing is that Peruvians are getting to know each other again in every sense of the word. I see a healthier society, with more self esteem, which are intangible aspects but very important at the same time. Specific things are starting to be noticed. There are a lot of opportunities out there and the construction industry will be a major player because you have to build roads, schools and hospitals.

# Megaplaza

## "Developing the Commercial Real Estate Sector"

Interview with Percy Vigil, CEO of Megaplaza

**Milestone GRP - How has the economy changed in Peru over the years to allow you to keep building shopping malls and growing your business?**

**Mr Percy Vigil** - Having a stable business environment has had a very good impact on the development of our economy. Even though change and growth were slow at first, we are now beginning to see results and we are becoming more active and aggressive to make sure the success benefits everyone in the country.

A second result of this stabilization process is that now, politics and the economy walk on independent parallel paths. For the past 20 years we've seen a continuation of the macroeconomic policies that have resulted in a surplus of federal reserves plus an increase in exports. This, together with consumer optimism, has allowed Peru to avoid the negative effects of the world economic crisis. After the instability that this country has experienced in its history, we are confident that we can overcome anything no matter what and this is a conviction shared by everyone: consumers and investors.

Through our experience developing shopping malls and commercial developments, we have a firsthand view of market behavior. What we are seeing is strong confidence in the market and that's why we will continue to develop malls in the future.

**Milestone GRP - What are you doing to take advantage of this growth potential?**

**Mr Vigil** - If you compare us to our neighbor, Ecuador, Peru has half the number of shopping malls and double the population. So we see plenty of opportunities here. We were cautious at first and only developed malls in large cities, but we've reached a level of sophistication that lets us take it to more and more places. In the next five years, we expect the amount of shopping malls being doubled. This also comprises a social inclusion component. Developing malls in all corners of the country opens the door for more people to feel part of this modernization process that is underway in Peru.

**Milestone GRP - It's only recently that malls are expanding to the regions. What are the effects of such operations?**

**Mr Vigil** - The main advantage is that we are giving the people living in the regions the same shopping experience closer to home as they would find in Lima. The arrival of a shopping mall in the regions generates a huge impact at all levels, so you have to be ready to welcome all that interest and all those customers. But we are still only one option in the community, because not all customers will be shopping at the malls; they still have the traditional stores that they are used to shopping at. We encourage competition to improve the retail experience for the benefit of the customers. In April 2011,

we opened two new malls in Chimbote, in the north and in Villa El Salvador, in Lima, and we anticipate these two stores doing US\$ 104 million in business in the first year.

**Milestone GRP - What is your growth strategy going forward?**

**Mr Vigil** - We have a medium- and long-term strategy, and we are looking at entering markets where there currently is no competition. By 2015, we expect to have a total of 10 malls in the country. The malls may vary depending on the estimated demand but the format will be similar, with a mix of department stores, supermarkets, food courts and smaller stores.

Our flagship Megaplaza needs a market of 2.5 million people to be sustainable but you don't have that many big cities, so we need to change our format to adapt to those new cities. With this expansion plan, we are creating malls for cities with populations over 200,000 people.

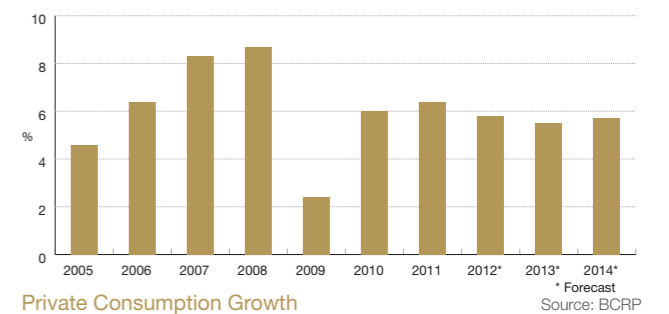
**Milestone GRP - Are you considering a partnership with international investors that can help you grow your business?**

**Mr Vigil** - We have recently issued bonds to get the funds for this expansion plan but eventually we will have to evaluate new options and potential partnerships. We are also aware that as the market grows there will be more opportunities for developing other projects such as hotels and schools, so we will certainly have to use mixed financing sources in the future.

**Milestone GRP - What would you tell potential investors that are interested in entering real estate development, particularly in the retail sector?**

**Mr Vigil** - The first thing to know is that this is a market with a very low penetration level and the return on investment in developing economies is completely different than in mature markets.

On the other hand, they can be reassured that they will have a stable economy and sustainable growth for the long run and that's something quite invaluable in the current context of conflict and economic crisis.



Your peruvian partner in the construction industry.

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# Tourism







## Ministry of Foreign Trade and Tourism “Promoting Quality Tourism”

Interview with Claudia Cornejo, Vice-Minister for Tourism

**Claudia Cornejo** is the Vice-Minister for Tourism and is responsible for the orientation, execution and supervision of policy and regulation oriented toward promoting the development of tourism and craftsmanship within Peru. Until July 2011, she was the National Director of Tourism Development, charged with the mission to plan and execute the national policy of development of tourism activities, formulate regulatory norms for the sector and issue directives to monitor compliance. She has a background in Political Science and International Relations with a masters degree in Politics and Communications from the London School of Economics.

**The Ministry of Foreign Trade and Tourism (MINCETUR)** is the ministerial body in charge of the creation, execution and supervision of policy and regulation pertaining to the foreign trade and tourism of Peru. This ministry also has a mission to promote Peru both domestically and internationally, both in terms of Peru's potential for trade and its attractiveness as a world class tourism destination.

Milestone GRP met with Claudia Cornejo Mohme to discuss how MINCETUR is diversifying and promoting Peru's tourism offerings, and attracting greater numbers of tourists to experience them.

### **Milestone GRP - What is the overall international impression of tourism in Peru?**

**Vice-Minister Claudia Cornejo** - I think that, like in many other countries, the tourism sector has not been given the same relevance as other sectors, such as the agriculture, fishery or extractive sectors. The tourism sector has been slowly gaining importance in many countries and regions around the world, not only for its ability to generate profits, but also for the growing number of employment opportunities it provides. On the other hand, the tourist profile has changed dramatically over the last few years. Learning and experiencing different cultures and lifestyles has become integral to today's tourists' traveling experience. In Peru, like in many other places, this has given us an incredible opportunity.

As far as the Latin American region is concerned, presentation and product quality has improved substantially over the last few years. This is very important for us because the better the overall

image of the whole region, the more we benefit as a country. Peru's most important icon is Machu Picchu and we use that icon to attract tourists not only there but also to the many other attractions Peru has to offer. Our artistic and cultural heritage is a big responsibility for us to manage and it implies huge investments. The development of our cultural and artistic heritage across the country will be one of our greatest challenges as a country over the next 15 to 20 years. Peru is a real gem. Peru is able to offer a very wide range of tourist products from its natural landscapes to its culture and adventure sports.

### **Milestone GRP - Could we say the global economic downturn has not really affected Peru's tourism sector?**

**Vice-Minister Cornejo** - Yes. Absolutely.

### **Milestone GRP - What strategies are you implementing to help tourists see and do as much as possible, and also to increase the number of returning visitors?**

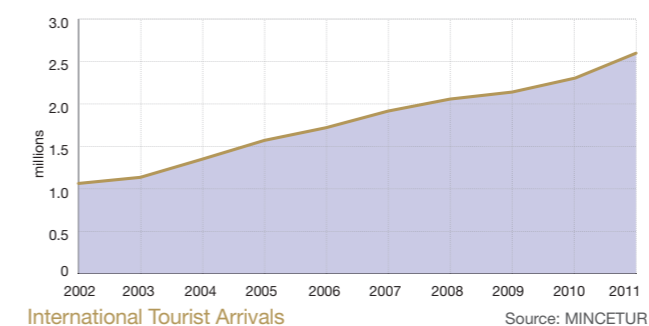
**Vice-Minister Cornejo** - There is a distinction to be made in terms of types of tourists. There is a high number of returning visitors among the tourists that come from within the region. This is mainly due to proximity, which then results in reduced traveling costs. As for tourists coming from farther away we have been enacting a strategy aimed at targeting quality rather quantity. We want to attract quality tourists that can appreciate our cultural products. Moreover, we need to protect our unique heritage so by targeting quality and not quantity of tourists we are able to achieve sustainable tourism.

“Tourism is actually the third largest sector contributing to Peru's GDP and our goal is to be the second largest sector in Peru by 2016.”

Another issue is the duration of stay; in Peru the average length of stay is between 11 and 14 days. For most visitors, Machu Picchu and Cuzco will be their first destination but we also have complementary products that are available for all different tastes and preferences. Our strategy is about finding ways of packaging our products to attract tourists. In turn, we must have a deep understanding of our clients. That is the reason why we work in close collaboration with the private sector in order to provide them with the latest market research. The Ministry of Tourism conducts market research regularly in an effort to help prepare them in the most efficient way at tourism fairs and other events. As a government we then promote these products to foreign tour operators.

Another factor that needs to be addressed is that of connectivity. In 2011 we completed a project related to the creation of a regional airline utilizing small planes, which could cover interregional routes without going through Lima. As a government we want to facilitate investment and are trying to improve transfers from one region to the other by making our air transport more efficient.

### **Milestone GRP - How important is it to have an international airport in Cuzco?**



**Vice-Minister Cornejo** - Our goal is to improve Peru's air connectivity within the country and with the rest of the world. Our aim is to have a hub in the north, one in the rain forest, one in the Andean region and, of course, in Lima. So that is our big challenge at the moment. We are also seeing that with such a huge growth in tourism the demand is starting to exceed the supply, especially in the hospitality sector and in the air transport sector. It is a race against time and the private sector is going to play a very important role, while the state's role will be that of a facilitator in order to develop this highly profitable industry.

### **Milestone GRP - Have you launched any campaigns targeted at domestic tourists?**

**Vice-Minister Cornejo** - Peruvians today are very different from what they were 10 or 15 years ago. This is not only due to their increased purchasing power but also because they have become more demanding tourists within their country. What is important about domestic tourism is its ability to provide new opportunities and new destinations. In 2011 we had 34 million trips in a country with 33 million people. It is not a very big number and we definitely want more. We have learned a very important lesson in 2008 which is that we cannot neglect our domestic market. When everything is falling to pieces elsewhere, domestic tourism becomes a pillar of the economy.

### **Milestone GRP - Is the Moche Route going to be promoted as an alternative to Machu Picchu or as a complementary route?**

“With such a huge growth in tourism demand is starting to exceed supply, especially in the hospitality sector and in the air transport sector.”

**Vice-Minister Cornejo** - The northern part of the country has huge tourism potential. While it is almost impossible to promote the Moche Route as an alternative to Machu Picchu, it is a wonderful complement to it. The Moche Route can also become the destination of choice for returning visitors. The Moche Route is special because you can experience archaeological work in progress because archaeologists discover something new every day. That is one reason the Moche Route is becoming the new archaeologist's paradise. Another important part of the Moche Route is the high-quality archaeological museum, which has received significant investment. The Moche Route includes the spectacular city of Chan Chan with the Moon Temple and the Lady of Cao.

Another important feature in Peru is the Amazon. The Amazon rainforest makes up about 60% of Peru's territory. Despite the problems that we are facing with informal mining or tree cutting, the Amazon today is a very good and exotic product. So the big challenge today is to give the Peruvian Amazon an international position as a great complement to Machu Picchu.





We need to promote the Amazon as a boutique destination, because this is what it really is. Our mission is to promote the whole country as a boutique destination and develop high quality services.

**Milestone GRP - What strategies are you putting into place to improve infrastructure and access to these destinations?**

**Vice-Minister Cornejo** - In terms of the Moche Route there is very good road connectivity. As for the Amazon, the only way to reach certain places is by plane so what we are trying to do is improve the connectivity between these places and other important tourist cities. For example, we could have flights connecting Cuzco and Iquitos or Iquitos with the Moche Route or we could have a big triangle connecting Iquito, Cuzco and Chiclayo. We are trying to give life to a business strategy that involves a smaller airline that can complement bigger airlines such as LAN or TACA. With smaller planes an airline can be very profitable by covering these routes.

**Milestone GRP - Are you looking at establishing a partnership with these airlines?**

**Vice-Minister Cornejo** - The idea is to create a shared code among the airlines because the smaller airline can be a feeder for the bigger airlines flying the more commercial routes. This is not about competition; instead, it is about being complementary and that would be a win-win situation for everybody.

**Milestone GRP - In terms of social inclusion, what are you doing to promote investments in remote areas and small villages?**

**Vice-Minister Cornejo** - There is no sector as socially inclusive as the tourism sector. This is because tourism is all about service and there is no limit to the number of people that can take part in it. So that goes back to what I was mentioning at the beginning, which is the ability of the tourism sector to generate employment. What we are trying to do is position the tourism sector as economically important and inclusive. Tourism means an influx of foreign currency into the country. Tourism is actually the third largest sector contributing to Peru's GDP and our goal is to be the second largest sector in Peru by 2016.

**Milestone GRP - How do you balance tourism development with environmental preservation?**

**Vice-Minister Cornejo** - We not only have a very good relationship with the Ministry of the Environment but there is also a very strong confluence of ideas between us. This is key because in order to develop a sector such as tourism you need the collaboration and support of many other sectors, because tourism can be very fragile and subject to many external factors such as crime or climatic changes. We share the same vision with the Ministry of Environment, which is the responsible use of Peru's cultural and natural heritage.

**Milestone GRP - Peru's business tourism is also growing at a very fast pace. What are you expecting from this segment in five years time?**

**Vice-Minister Cornejo** - The huge growth that business tourism has experienced over the last few years has boosted investments in big hotel chains, not only in the city of Lima but in the North in particular. I think that business tourism will simply keep growing. This is a very promising sector. Business tourists tend to spend more than the average tourist and they also tend to be returning visitors as well. I am not only talking about foreign business tourists, but also the domestic business tourists that travel across the country looking for high quality accommodation and services. Our sector experienced a growth of 9.5% in 2011 and in 2012 we want to get to 10%. Foreign currencies have increased by 16%. The figures seem to indicate that our strategy of promoting quality tourism rather than quantity is the right way to go.

Quarterly Income from Incoming Tourism (US\$ million)													
Quarter	2002	2003	2004	2005	2006	2007	2008	2009	2010 *	2011 *	2012*	Variation % 2011/2010	Variation % 2012/2011
Q1	198	232	277	328	412	456	563	581	572	688	786	20,4	14,2
Q2	198	241	291	341	426	467	572	572	579	686	777	18,3	13,4
Q3	232	285	339	405	488	557	671	644	671	784	863	16,9	10,1
Q4	209	265	324	364	449	527	590	643	653	754		15,5	
<b>Total</b>	<b>837</b>	<b>1,023</b>	<b>1,232</b>	<b>1,438</b>	<b>1,775</b>	<b>2,007</b>	<b>2,396</b>	<b>2,440</b>	<b>2,475</b>	<b>2,912</b>		<b>17,6</b>	

\* Forecast

Source: MINCETUR

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## Tourism in Peru: Traveling down the right path

by Taleb Rifai, Secretary-General of the United Nations World Tourism Organization (UNWTO)

Receiving over 2.5 million international tourists in 2011, Peru has earned a reputation as one of the world's most desirable destinations, topping the travel wish-lists of millions. At the same time, with the number of tourists growing each year, Peru has taken important steps to ensure that tourism growth is economically, socially and environmentally sustainable.

Tourism today is one of the world's largest and fastest growing economic sectors. In 2011, a record 990 million tourists traveled the world and UNWTO has already calculated that an astonishing 1 billion tourists have traveled over the course of 2012; equivalent to one seventh of the world's population.

As they travel, these tourists become part of one of the most impressive engines of economic growth, development and job creation worldwide. A trillion dollar sector, tourism represents 30% of global service exports and one in every twelve jobs, or over 200 million jobs worldwide.

“Over 2.5 million international tourists arrived into Peru in 2011, generating US\$ 2.4 billion in exports.”

### Tourism in South America: One of the world's fastest growing tourism regions

In recent years, South America has emerged as one of the fastest growing tourism regions in the world. From 15 million international tourist arrivals in 2000, the region grew strongly over the past decade and today receives close to 26 million arrivals. In the first half of 2012, South America recorded growth above the world average, a trend expected to continue for at least the next 20 years. Indeed, UNWTO's long-term forecast for tourism, Tourism Towards 2030, expects South America to reach 58 million international tourist arrivals by 2030.

This impressive growth can be attributed to a number of factors, key among them being the region's unique natural and cultural resources. At the same time, South America's strong economic growth over the past years has resulted in an extremely dynamic regional tourism market, with a large share of South America's tourist arrivals coming from within the region itself.

Perhaps most importantly, there has been a clear recognition among South American governments that tourism is a driver of shared growth and should therefore be a vital part of national and local development policies and strategies. There can be little doubt that this support has translated into growing benefits from tourism development.

### Tourism in Peru: Good prospects for continued growth

Peru has certainly not let South America's tourism success pass it by. Over 2.5 million international tourists arrived into Peru in 2011, generating US\$ 2.4 billion in exports. The first six months of 2012 have seen equally impressive figures, with growth of around 11% as compared to the same period in 2011. Exports from tourism are also up 12%.

This growth comes as little surprise given the tourism experiences and attractions on offer in Peru. From the country's Pacific coastline, to its jungles and mountains, and, of course, the legacies of the Incas, Peru is a country that offers something for everyone. At the same time, Peru is among those countries demonstrating explicit support for tourism, having recognized its flourishing tourism sector as one of its most promising drivers of growth. In June of 2012, President Ollanta Humala became the 32<sup>nd</sup> head of state to receive the UNWTO and World Travel & Tourism Council (WTTC) Open Letter on Travel and Tourism. In doing so, Mr Humala made a commitment to support Peru's tourism sector and position tourism higher on the country's agenda.

Thanks to the combination of natural and cultural resources and political support, all indicators point to tourists continuing to visit Peru in ever greater numbers over the coming years.

### Ensuring responsible, sustainable and universally accessible tourism

Tourism is about far more than simply increasing arrivals and income. If properly managed, the sector can make a significant contribution to all three pillars of sustainability – economic, social and environmental. In fact, the outcome document of the recent United Nations Conference on Sustainable Development (Rio+20), agreed upon by heads of state, governments and civil society, emphasized that “tourism can make a significant contribution to the three dimensions of sustainable development, has close linkages to other sectors, and can create decent jobs and generate trade opportunities”.

To do so, tourism must balance the needs of present tourists and host communities while protecting and enhancing opportunities for the future. Sustainable tourism, defined by UNWTO as “tourism that takes full account of its current and future economic, social and environmental impacts, addressing the needs of visitors, the industry, the environment and host communities”, is one that strikes this balance.

In Peru, sustainability has been at the heart of the country's tourism development, and is gaining weight as tourism numbers increase. With growing environmental awareness among tourists – more than one third of travelers favor environmentally-friendly tourism and are willing to pay a premium price for such an experience – sustainability has also emerged as a way for Peru to distinguish itself in an ever more competitive market.

There is a clear recognition in Peru that tourism stakeholders must protect the resources on which their very jobs and in-

come depend, and the Ministry of Foreign Trade and Tourism has set out a growing number of standards, guidelines and best practice handbooks to steer responsible and sustainable tourism development. At the same time, the ministry is working to reduce the pressure of tourism on famed tourism sites, such as Machu Picchu, by diversifying the tourism offer. Steps taken towards promoting alternative destinations in the region, such as Vilcabamba or Choquequirao, are already proving successful in this regard.

over the past three years, UNWTO has been working through the Millennium Development Goals Achievement Fund (MDG-F) on a project designed to alleviate poverty through tourism in four of Peru's most disadvantaged regions. The program is particularly focused on those normally excluded from economic activities, such as poor small-scale producers, women and indigenous communities.

### Tourism: The right path for Peru

Tourism is a sector that can deliver, like few other economic activities, on job creation, economic growth and sustainable development. While many other sectors are suffering as a result of the global economic crisis, tourism continues to show steady growth. In South America, one of the world's strongest growing tourism regions, there has perhaps been no better time to invest in the sector.

Nevertheless, as we have crossed 1 billion international tourist arrivals in the world, any tourism development must be undertaken in accordance with the principles of sustainability. Peru, a country that has already taken important steps in this regard, is sure to benefit from this milestone, with new jobs, higher export earnings and the protection of its celebrated tourism sites for all to enjoy.

“In South America, one of the world's strongest growing tourism regions, there has perhaps been no better time to invest in the sector.”

The social and economic pillars of sustainability are also accounted for in much of Peru's tourism development. Indeed,

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## PROFONANPE – Peruvian Trust Fund for National Parks and Protected Areas

### “Innovative Fund to Protect the Environment”

Interview with Alberto Paniagua, Executive Director of PROFONANPE

**Alberto Paniagua** has been the Executive Director of PROFONANPE since 1997. In the last 12 years, Paniagua has participated in a number of horizontal cooperation missions for the benefit of environmental funds in Latin America, the Caribbean, Central Asia and Africa. Before joining PROFONANPE, he gained significant international experience in the design, evaluation and management of sustainable development projects as an International Expert at the Food and Agriculture Organization of the United Nations. Paniagua chaired the Latin American and the Caribbean Network of Environmental Funds from 2003-2007. He is a graduate in Economics, with post-graduate studies in Agricultural Development and Socio-economic Development at Université de Paris I - Pantheon-Sorbonne.

**The Peruvian Trust Fund for National Parks and Protected Areas (PROFONANPE)** is a private non-profit created with the mission to oversee the financial stability, lasting conservation and management of Peru's protected areas and their zones of influence. For the last 20 years, PROFONANPE has become one of the key financial instruments to secure the conservation of the biological diversity that exists in the country. The organization is made up of board members from local NGOs, the local private sector, the public sector and the international community. Over the last two decades PROFONANPE has become a reference for other Latin American environmental funds, and actively works together with these funds to safeguard natural ecosystems.

Milestone GRP met with Alberto Paniagua to discuss how PROFONANPE's business model is being used in Peru and abroad to save the environment.

#### **Milestone GRP - How did PROFONANPE get started?**

**Mr Alberto Paniagua** - PROFONANPE is the financial arm of the government's efforts to conserve the biodiversity of Peru's protected areas. We are a private institution with a diverse board of directors from the government, civil society, the private corporate sector and from international cooperation organizations. This has allowed us to have a solid and stable association with a balance of interests, which is part of our success. PROFONANPE was first established during the pilot phase of the Global Environment Facility (GEF), a multilateral financial organization dedicated to providing grants to developing countries for projects related to environmental conservation. In that period, GEF worked in partnership with three

implementing agencies: the World Bank, the United Nations Development Program and the United Nations Environment Program. Through the World Bank, and after long discussions with the government and civil society, we came to the conclusion that there should be a financial mechanism to attract, manage and channel financial resources for the conservation of the biodiversity of the protected areas. So PROFONANPE was formed in a unique way so that it could manage investment portfolios and invest its resources to generate more resources. PROFONANPE is the first fund like this in Latin America, and we will be celebrating our 20<sup>th</sup> anniversary in December 2012.

When PROFONANPE was first established, it received an endowment fund of US\$ 5.2 million from the GEF/World Bank

and the fund had as one specific function to finance the operational costs of the institution. The institution's team could then focus specifically on attracting resources. The debt swaps of the 1990s were a very important financial source for PROFONANPE, adding up to more than US\$ 40 million. We have also received grants from other multilateral and bilateral sources. Since the beginning of the fund, we have raised capital of over US\$ 134 million and we have already allocated more than US\$ 80 million to conservation projects. Before the creation of the Ministry of Environment and the National Service for Protected Areas (SERNANP), our organization represented 75% of the total resources allocated to the Peruvian protected areas. Our challenges, which were shared with the conservation community in Peru, were creating the right conditions, supporting some institutional reforms related to the management of protected areas and looking for a commitment by the state to provide financing. The Ministry of Environment and SERNANP were created in response. Today, PROFONANPE provides 50% of the resources allocated to the management of the protected areas.

#### **Milestone GRP - What changes have you seen over the past 20 years?**

**Mr Paniagua** - Our financing strategy has changed over the years as we've gained more experience and demand has increased. Initially, our main efforts were just to finance the operating costs of the National Service. Over the years we have been changing our strategy to encourage innovation in environmental management. For example, we carried out a participatory management program in order to encourage the local population to be more committed and make them understand how the conservation process would benefit them. This helps to save some of the state's resources by sharing the task of conservation with civil society institutions. We have already supported nine protected area management contracts. According to the contractual terms, whoever wants to manage a protected area has to show enough financial resources and abide by any conservation intervention required to that specific area. So we saw interesting public-private opportunities that would allow us to optimize the state's resources for the benefit of the environment.

We also developed a sustainable economic program for local communities. Each protected area has a local management

committee with representatives from all the local institutional bodies. The management committee considers projects and we

“We came to the conclusion that there should be a financial mechanism to attract, manage and channel financial resources for the conservation of the biodiversity of the protected areas.”

finance them. But the local community has the freedom to choose and hire its own advisers, not us. This innovative program has shown very positive results. We are also working on developing conservation corridors, which include both national and regional protected areas. Each corridor will have several different conservation initiatives to develop a common strategy that can go beyond just the protected areas.

In terms of fundraising, besides the financial resources coming from international cooperation, we have started to get the private sector involved as well. We have already signed many agreements and we work in partnership with several private companies, such as Pluspetrol, who has set up an endowment fund of US\$ 6 million for the conservation of the National Reserve of Paracas. This is a way of diversifying our financial sources.

#### **Milestone GRP - How are you working with the private sector to conserve the protected areas in Peru?**

**Mr Paniagua** - The companies create a fund, we administer it, and the National Service executes it. The companies, therefore, become part of a board of directors and have a supervisory role to make sure that their money is invested in the right way. Over the years, we have developed three main institutional virtues. The first one is institutional autonomy, the second one is admi-





nistrative efficiency, and the third one is transparency. That has given us credibility and is the reason why companies from the private sector have decided to collaborate with us. Even after 14 years and four different governments, we have produced very good results and have been very stable and solid.

Trust funds constitute a very innovative practice in Peru. Trust funds adapt really well to the long-term needs of conservation. Over the last 10 years, we have been able to allocate an average of US\$ 8 million a year to the protected areas because of these trusts. With the capital we have, we will be able to ensure the same financial resources for the next 10 to 15 years.

“Since the beginning of the fund, we have raised capital of over US\$ 134 million and we have already allocated more than US\$ 80 million to conservation projects.”

**Milestone GRP - Is the same framework being implemented in other countries?**

**Mr Paniagua** - Yes, absolutely. We have a network, REDLAC, which is composed of 24 similar funds in Latin America and the Caribbean and together amount to funds of about US\$ 1 billion. There are many successful funds, such as the Mexican Fund for the Conservation of Nature and the Fund for Biodiversity in Rio, Brazil. The network meets once a year, and in 2012 the meeting will be held in Lima during the first week of November since it is PROFONANPE's 20<sup>th</sup> anniversary.

**Milestone GRP - How does knowledge exchange fit into your engagement strategy?**

**Mr Paniagua** - We have gained a lot of experience in this field so we receive and give support by collaborating in environmental funds similar to ours in many parts of the world. We have

worked with all the Latin American countries, 13 countries in Africa and also in Asia and Eastern Europe.

The network helps us to seek advice or expertise when needed. We meet once a year and we constantly exchange information and expertise. We have also supported the African states in creating their own network called the Consortium of African Funds for the Environment (CAFE), which includes 14 to 15 African funds. We are very well known internationally, but interestingly not as well known domestically.

**Milestone GRP - What important projects are you working on in 2012 and in the near future?**

**Mr Paniagua** - Our system is very large, representing 15% of the national territory and therefore there is a lot of work to do. The concept of participatory management is going to be applied to any new project that we will be developing in the future. There are three areas that we will need to keep working on: participatory management, protected area management contracts and sustainable economic activity support programs.

We are working on a program involving the Guano Islands that was created only three years ago. The National Reserve is made up of 22 islands and capes. The idea is to have a program in which, for the first time, SERNANP will be tackling the issue of marine biodiversity conservation management. The GEF and the World Bank have approved a donation of US\$ 10 million plus other co-financing of 10 million Euros from the German Financial Cooperation to fund the project. We are going to develop support programs for local fishermen to include them in the preservation of their environment.

**Milestone GRP - Why is natural conservation a priority in Peru for individuals, populations and companies alike?**

**Mr Paniagua** - Peru is worth seeing not just for its archaeological sites, but for its amazing biodiversity and cultural diversity. There are ways to combine our natural resources with investments that can generate increased sustainable economic development for the country and better living conditions for the people that depend on that biodiversity. Any company wanting to invest in Peru should discover our natural richness. We would love to see companies invest in our protected areas because they would be both protecting our amazing biodiversity and, at the same time, the life of our planet.



RESERVA AMAZÓNICA - TAMBOPATA



MACHU PICCHU PUEBLO HOTEL



LA CASONA - CUSCO







## Inkaterra

### “Tourism as a Catalyst for Environmental Solutions and Education”

Interview with José Koechlin, Chairman & CEO of Inkaterra and Inkaterra Association

**Jose Koechlin**, Chairman and CEO of Inkaterra and the Inkaterra Association (ITA), is a pioneer developer of eco-friendly tourism in Peru, while generating economic growth via research for conservation. Mr Koechlin is Chairman of the Peruvian Hotel Society and Emeritus Board Member of Conservation International in Washington. He is a Board Member of the National Service of Protected Areas of Peru (SERNAMP), was Chairman of the Association of Adventure Travel and Ecotourism (1998-2002), and also of Peru's National Chamber of Tourism (1995-1997).

**Inkaterra** is a Peruvian organization celebrating 37 years of experience in sustainable tourism initiatives. It focuses on preserving and rescuing Peru's geography, nature, customs and cultures, and sharing them with the world. It currently operates Inkaterra Machu Picchu Pueblo Hotel, named by Travel&Leisure magazine as one of the “World's Best Hotels” in 2010, 2011 and 2012. Inkaterra has an alliance with NGO Inkaterra Association (ITA) through which the company's profits are invested in research, conservation, educational and social development programs.

Milestone GRP interviewed José Koechlin to talk about the importance of a budding ecotourism subsector and why it is so important both in Peru and internationally.

**Milestone GRP - The Ministry of Environment was created only four years ago. Today, how are private entrepreneurs working together with the ministry in order to create synergies aimed at saving the environment?**

**Mr Jose Koechlin** - The two previous ministers, Antonio Brack Egg and Manuel Pulgar-Vidal Otarola, both recognized the importance that the private sector plays in reducing poverty through wealth creation, education and sustainable development of natural resources. Peru has 84 of the 104 existing ecosystems, which means that in our country there are 84 different manifestations of life - 84 different ways in which people relate to their environment. Each ecosystem differs in terms of its climatic conditions. We usually look at Peru as having only three geographical regions: the coast, the High Andean Mountains and the Amazon Rainforest, without considering the sea. So, in reality there are four different regions. We must recognize the sea as an important region. I was involved in tuna fishing for 16 years and I have been Presi-

dent of the Institute of Fisheries Technology, an organization that forms part of the public sector. I know the sea very well. Peru's huge diversity must lead to a deeper understanding of the environmental richness of our country. That understanding must, in turn, be passed on to our local populations so that they can open up to the rest of the world through domestic and international tourism.

“Tourism can generate wonderful academic value. And that is the way that tourism should be seen.”

**Milestone GRP - And how does tourism fit into that equation?**

**Mr Koechlin** - Tourism is one of the most important economic activities in the world. It is estimated to make up about 9% of the global economy. So I think there is a lot of growth for the Peruvian market. The great magnet here is Machu Picchu. When foreigners go to Machu Picchu they realize that it wasn't such a difficult trip to get there, that the people are friendly, the food is good, the hotels are comfortable and the airports are secure. And so there is sometimes a surprise about that. They also can see the cultural difference of the people who don't use fabrics made in China; they use hand-made fabrics from methods that have been passed down generation after generation.

“Tourism is one of the most important economic activities in the world. It is estimated to make up about 9% of the global economy. So I think there is a lot of growth for the Peruvian market.”

**Milestone GRP - You have been at the forefront of green tourism, not only in Peru, but globally. How do you think Peru can take advantage of its plentiful biodiversity and diverse geography to create a tourism sector that complements the natural environment here?**

**Mr Koechlin** - When the company was founded we were called Cuzco Amazonico because we wanted to reinforce the idea that you could access the Amazon from Cusco. In the 1970s no one understood that. We started by doing studies of the biodiversity that exists in the Peruvian Amazon, and we became the reference for all Amazonian studies. That means that tourism can generate wonderful academic value. And that is the way that tourism should be seen. Today we are talking about CO<sub>2</sub> levels, and destroying the natural habi-

tats of animals, and we should look at tourism as the catalyst for fixing these environmental problems and educating the population on the biodiversity that exists in the world.

**Milestone GRP - And when did you start in Machu Picchu?**

**Mr Koechlin** - We started operations in Machu Picchu in 1976. Recently we completed 20 years of research, and through our NGO, the Inkaterra Association (ITA), we produced a publication that records our two decades of studies. All of the profits from this publication go to the ITA.

**Milestone GRP - And how were you able to communicate this biodiversity to the world over three decades ago?**

**Mr Koechlin** - At the time when we started, there was no one else focused on these issues. At the time it was not good to associate science with tourism. Plus it was a difficult era for Peru at the time as well. In all of Madre de Dios, there were about 6,000 to 8,000 residents. So it almost didn't exist. It was the same in Aguas Calientes and Machu Picchu Pueblo. So we basically had to create the town around us in order to create a better vision for the village there.

Today, Inkaterra is creating another type of biodiversity reserve that is intended to preserve the natural marine life off the coast of Peru. This is in Cabo Blanco where the cold current from the south meets the hot current from the north. It used to be known as Marlin Boulevard when there was fishing there, but now you are no longer allowed to fish there. We have been working for the last five years on research and conservation of the area. On International Ocean Day, Inkaterra presented the Minister of Environment with a formal proposal to establish the first marine reserve in this area of Peru. So slowly but surely we are getting our message across.

**Milestone GRP - What does the future look like for Peruvian ecotourism and environmental conservation?**

**Mr Koechlin** - People are starting to realize that the Peruvian Amazon is the densest part of the Amazon and contains the most biodiversity as well. I think that both Peruvian and international visitors are interested in this type of tourism more and more. I think that people realize that they have to be conscious of our surroundings where they can find innate beauty.







## Casa Andina

### “Lots of Tourism Potential”

Interview with Juan Stoessel, CEO of Casa Andina

**Juan Stoessel** graduated from the University of Johnson and Wales in Providence, Rhode Island. Before working at Casa Andina, he was the CEO of the Sonesta Posadas de Inca hotel chain. As well as holding the position of CEO at Casa Andina, he is also the Chairman of the Board of Inversiones Gastronómicas, a chain of restaurants in Cusco, and a member of the Board of the Peruvian Hotel Association.

**Casa Andina** is a Peruvian-owned and operated hotel group. Founded in 2003, Casa Andina has quickly become the most important hotel group in Peru with 20 hotels located in 11 destinations throughout Peru. The hotels are inspired by Peru's regional attractions.

Milestone GRP met with Juan Stoessel to discuss where he sees the tourism market growing and how Casa Andina will react to the rise in tourism.

**Milestone GRP - In 2011 there was a 16% growth in foreign visitors to Peru. Aside from Machu Picchu and the Amazon rainforest, which sectors are you looking to develop next?**

**Mr Juan Stoessel** - Tourism in Peru went through a rebirth in the 1990s especially in the South, because that is where our major tourist attraction, Machu Picchu, is located. Other tourist attractions such as the City of Cuzco, Lake Titicaca, the Nazca Lines and Arequipa's Colca Valley are all located in that corridor south of Lima. So there is a strong concentration of attractions in the South. Our tourists come mainly from Europe, North America and Latin America. Europeans are the ones that generally stay the longest, while tourists from within the region stay for the shortest amount of time with the average stay being 13 days. In order to visit the whole southern circuit you need at least two weeks, and it is difficult for first time visitors to come to Peru without going to Machu Picchu. If you are in Machu Picchu, you most likely are going to visit the rest of the circuit, which is all well-connected, including the southern Amazon rainforest and the Tambopata area.

The challenge for the north and east of Peru is that, if a tourist

does the 13-day southern circuit, the chances are slim they will visit the North. Some who stay longer than two weeks go to the North. Only a few split their two-week stay between the North and the South. The northern area is very rich in archaeological sites and culture and has something that the South does not have: an open site where ruins are being discovered little by little. So, over the next 30 years in the North, we will see big archaeological discoveries every year.

That, plus the colonial cities and Kuelap, the “Machu Picchu of the North,” give the North a lot of potential, but the problem is time. In the North, the length of stay for tourists is growing, but it is still pretty limited. The growth in visitors in that area is strictly due to domestic tourism, which has also experienced huge growth thanks to the country's economic development over the past 15 years. Unlike before, domestic tourism makes up 15% of the country's tourism traffic today. Another factor contributing to northern growth is business tourism, since there are more industries there and a larger concentration of wealth. For example, Casa Andina built a hotel in Chiclayo mostly for business tourism, which will also be complemented by the domestic leisure tourism market.

**Milestone GRP - Casa Andina has experienced a boom over the last nine years with 20 new hotels. The majority of them are located in the South. Are you carrying out a strategy that will take advantage of opportunities in the North as well?**

**Mr Stoessel** - Yes, in 2011 we built two hotels in the North and the idea is to own a few more there and a few more in other parts of Peru. Our aim is to build about two new hotels each year. Many of them will be located in the North, but there are also areas in the South that still need to be explored.

**Milestone GRP - What level of investment do you require to average two new hotels each year?**

**Mr Stoessel** - We are lucky in that our chain can count on a strong position and reputation that allows us to carry out that kind of investment without needing to turn to external sources.

**Milestone GRP - Are you considering investing in foreign markets, such as Chile or Colombia?**

**Mr Stoessel** - Yes. We have always had that in mind. Most European tours go through Bolivia and also through Ecuador. Unfortunately, these countries are not very open to foreign investment, which has discouraged us. At the same time though, Peru has been improving and new opportunities have arisen within our own country. So, our priority is Peru, and once we have completed our projects here, we can look at alternatives.

**Milestone GRP - You have launched a new brand called Select. What is the market you are targeting with this new hotel line?**

**Mr Stoessel** - Today, we have three different brands: Private Collection, which are 4-star superior/5-star hotels; Select, which are 4-star hotels; and Classic, which is our 3-star brand. With these three categories we can attend to different market segments. Our new Casa Andina Select product is mainly for business tourism since we have designed it to be in cities with important corporate markets.

**Milestone GRP - How is the industry supporting and investing in the diversification of the sector?**

**Mr Stoessel** - The two major tourist segments of the country are leisure and business tourism. As long as the economy keeps growing, business tourism is going to grow. As for leisure tourism, we may identify some different segments: conventional tourism and archaeological tourism are Peru's most prominent segments. In addition, since the Amazon rainforest covers more than half of Peru, we have a fantastic opportunity there. Our many protected areas and parks offer huge potential in terms of ecotourism. There are also some other small niches such as gastronomic tourism or homestay tourism. We need to highlight our tourist resources and make sure that regional governments understand these needs. The private sector along with the national authorities can work on these tourist resources and develop a proper strategy.

**Milestone GRP - What other sectors, such as transportation, health care and construction, need to make further investments in order to support the tourism sector?**

**Mr Stoessel** - Peru has gone through a big decentralization process. Today, there are regional and local governments, each with their own budgets. Many of them count on a large influx of money coming from the mining and gas sectors. For example, the gas sector in the city of Cuzco is investing US\$ 2 million a day. The country has huge economic resources, so the challenge is how to invest that money.

“Peru has been improving and new opportunities have arisen within our own country.”

What we really need is regional and local governments to start organizing their cities to better receive visitors. Today we have some good highways, some good airports and good connectivity. Nevertheless, what any tourist traveling here alone needs is good public transportation, clear road signs, hospitals and ambulances, among other things. The region that understands this best is going to be the one that will benefit the most from tourism. We already have big highways and big airports but we still have big transportation and security issues. The challenges we still face have to be addressed by local and regional authorities.

**Milestone GRP - International hotel brands are starting to become interested in Peru. Chains like Westin, Marriott and Hilton have already opened operations in the country. What accounts for this change?**

**Mr Stoessel** - For many years Peru was not even considered by big hotel chains. What is happening today is a natural result of our economic growth. We are a country that is strategically located right in the middle of South America. Lima is a big city so it is natural for big hotel chains to have a presence there. Foreign hotel investments are always going to be focused in Lima. I think it is a very positive sign to have big international brands establishing themselves in the country. For example, the fact that Cuzco has a Marriott will attract many tourists, especially North American ones.

**Milestone GRP - How can local chains, such as Casa Andina, compete with these more international names?**

**Mr Stoessel** - We have been implementing a very interesting marketing strategy through different channels. Casa Andina, for example, works in partnership with Summit, so our hotel chain has international support. Through this collaboration, we are able to attract the same clientele as the bigger international chains such as Marriott. It is a strategy that works really well for us.

**Milestone GRP - The Peru national brand is entering the second stage of its campaign, which is being launched internationally. As the leader of the biggest hotel chain in Peru, how do you think the tourism sector can capitalize on this campaign in the long-term?**

**Mr Stoessel** - In the past we did not have a proper brand. Our previous one was: Peru, the Land of the Incas. I never under-



stood it because the Inca is only one of a wide range of cultures here. That brand allowed us to concentrate only on Machu Picchu and Cuzco. Fortunately, Peru launched a new brand, which, in my opinion, is very powerful and embraces all of the country. We finally have a brand that stands out and that is appreciated by our European clients as well as within the region. That is the first step toward many positive outcomes.

**Milestone GRP - How can PromPerú help in the promotion of Peru's hotel chains?**

**Mr Stoessel** - PromPerú is doing a really good job, and it has a good number of representatives in the countries that contribute most to our tourism sector. When we go abroad to promote Peru, PromPerú gives us their support in terms of budget, logistics and goes with us to our main clients in order to promote our products: in this case, our hotels. PromPerú does not seem like a state entity. It functions like a private institution because it works so well. Our competitor countries are always monitoring what PromPerú is doing in order to replicate it.

**Milestone GRP - From 2008 to 2010, Casa Andina has been included in the "30 best companies to work for" in Latin America. How do you differentiate from other Peruvian companies, and how can they learn from your example?**

**Mr Stoessel** - It is very simple. When Casa Andina was in its third year of operations, we decided that we wanted to create a wonderful work environment. We are very proud of that fact. In 2011 we ranked fourth in Peru and 12<sup>th</sup> in all of Latin America. Our goal for 2013 is to be top three and maintain that in future years.

**Milestone GRP - As the CEO of Casa Andina, what would be your final message to our foreign readers about Peru and the investment opportunities found here?**

**Mr Stoessel** - Today, Peru is a stable country with clear rules, with free trade agreements signed with practically every country in the world. Peru provides opportunities in every sector. We require reliable people, willing to follow the rules of the game and willing to carry out medium to long-term investments. Foreign investment is good for the country.

While in the past Peruvians would suffer a complex of inferiority due to our economic situation, today we are proud of our identity. We have our renowned gastronomy; we have one of the World's Seven Man-Made Wonders - Machu Picchu. These are the right ways of moving our country forward. Our logo has also helped to encourage our Peruvian pride. You can see that logo everywhere. You can even see our logo stickers on upper- and middle-class cars. You wouldn't have had this passion for our identity before. This change in trend means a lot to us.

# LATAM Airlines Group

## "The Future of Peru's Aviation Sector"

Interview with Manuel Van Oordt, General Manager of LATAM Europe

**Milestone GRP - How was LATAM Airlines created?**

**Mr Manuel Van Oordt** - LATAM Airlines Group is the new name for LAN Airlines as a result of its association with TAM SA. LATAM Airlines Group now includes LAN Airlines and its affiliates in Peru, Argentina, Colombia and Ecuador, LANCARGO and its affiliates, and TAM SA and its affiliates, including TAM Linhas Aereas SA. This association has generated one of the world's largest airline groups, servicing 150 destinations in 22 countries with a fleet of 311 airplanes. Since 2000, LAN has been an active member of the Oneworld Alliance and has several agreements with other airlines, which allows us to cover more than 750 destinations worldwide. LAN Peru is the largest airline in the country, with roughly two thirds of the Peruvian domestic travel market and approximately one half of the country's international passenger market.

**Milestone GRP - Was the merger between LAN and TAM Airlines difficult to push through?**

**Mr Van Oordt** - This merger, completed in June 2011, is a very good fit for both of us. We are currently trying to get our operations in sync and getting to know each other a bit. The most attractive part of this merger is that we have very little overlap in terms of network coverage. The route maps of TAM and LAN are very complementary, so I think we are going to create positive synergies among the two airlines. Together, TAM and LAN cover many destinations in South and North America, as well as Europe and the Pacific. With this alliance we will be among the top 10 airlines in the world, any way you look at it. We want to become the carrier of choice for most travelers in Latin America. We want to be the Latin American airlines for anyone that is either traveling within Latin America or anyone that is traveling to Latin America.

**Milestone GRP - LAN Peru has grown in a market that has been very adverse to large airline companies over the last decade. What do you attribute this success to?**

**Mr Van Oordt** - As a group we have seen the majority of our expansion in a little over a decade. We have been successful because we have been able to stick to the low cost, budget airline model, offering a high service standard, while being able to provide low ticket fares for our domestic travelers in Peru. LAN Peru has been able to offer these low fares by focusing on having a very efficient operation in every sense. A highly efficient operation yields low operating costs, which in turn allows us to pass those savings on to our customers and offer them very attractive ticket prices. More than 75% of our flown passengers in 2011 bought their tickets by paying a promotional fare. For most of our passengers, we only make a few dollars on each ticket that we sell.

**Milestone GRP - With Peru's growing importance as a logistical hub, what market share has LAN Peru been able to win over the last decade?**

**Mr Van Oordt** - LAN has the largest market share in the country ahead of other airlines. However, our focus has always been in growing the market rather than just obtaining a larger market share. We came into the market at a time where we could grow with the market, and we have been championing many of the reforms and policies that have been vital in the aviation sector in Peru. In 2011, more than one million Peruvians flew for the first time. We are very proud to have been leading that kind of demand in Peru for over five years.

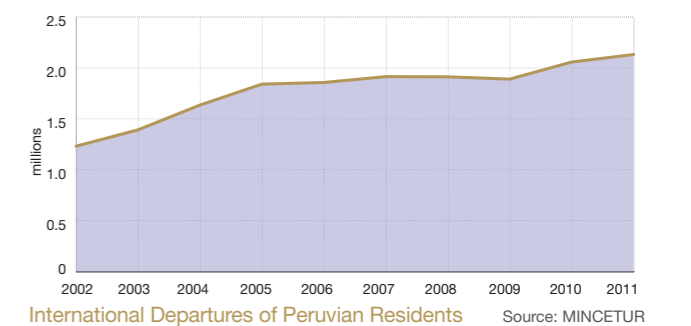
**"In 2011, more than one million Peruvians flew for the first time."**

We offer 14 destinations in the local market, operating in the regions of the coast, highlands and jungle of Peru. From LAN Peru we also have 25 international destinations and have a solid presence in all of Latin America, parts of the United States and Europe. In recent years we have been adding international flights to the Caribbean, the United States and South America. Our most recent addition was in October and November 2012, when we increased capacity between Peru and the United States, reaching three daily flights between Lima and Miami, two daily flights between Lima and New York, as well as two daily flights between Lima and Los Angeles and four weekly flights between Lima and San Francisco. We currently transport more than 6 million passengers in Peru.

**Milestone GRP - In what ways are you looking to stay ahead of the curve in aviation technology as a way to mitigate any future volatility in the sector?**

**Mr Van Oordt** - We have implemented a really interesting satellite navigation system that is revolutionary. LAN is one of the first airlines to use it in the world. The system is called RNP (Required Navigation Performance), a cutting-edge technology that reduces flight time, CO<sub>2</sub> emissions and noise.

This system is also going to allow much safer and accurate navigation, even in low visibility conditions, significantly reducing delays and flight cancellations, which will result in more satisfied customers and less cost to the airline.



## Not just a destination. A journey to explore.

Your experience to Machu Picchu and Lake Titicaca starts in our trains. In PeruRail we look after every little detail so your experience is as unforgettable and magical as the destinations.

Reservations: [reservas@perurail.com](mailto:reservas@perurail.com) - Book online: [perurail.com](http://perurail.com) Point of sale Lima: C.C. Larcomar / Jorge Chávez International Airport - Point of sale Cusco: Portal de Carnes 214, Main Square (Plaza de Armas) and Calle Regocijo 202, Regocijo Square - Cusco.







## PeruRail

### “Not Just About Transportation”

Interview with Armando Pareja Díaz, CEO of PeruRail

**Armando Pareja Díaz** is an industrial engineer by trade with an MBA from ESAN (Escuela de Administración de Negocios) and the UQAM (L'Université du Québec à Montréal). For the past 10 years he has been working in the tourism transport sector. Before he became the CEO of PeruRail in 2007 he was the CFO and later the Director of Corporate Finance for Orient Express Perú, the parent company of PeruRail.

**PeruRail** is the leader in the Peruvian rail tourism sector, and belongs to international company, Orient Express Hotels, Trains and Cruisers. It transports over 2 million passengers per year by train in southern Peru. PeruRail also transports cargo on the Ferrocarril del Sur, a line that stretches over 1,000 km, connecting the coast with the border to Bolivia, with over 270 million tons transported yearly.

Milestone GRP met Armando Pareja Díaz to discuss how PeruRail is investing in the rail sector to provide a better transportation system for tourists and the mining industry.

#### **Milestone GRP - How did PeruRail come to be?**

**Mr Armando Pareja Díaz** - In 1999, the Peruvian government realized railway infrastructure wasn't effective anymore. They decided to contract it out to a private company. At that time, there were two main routes: one in downtown Lima and a minor route in the South that stretched from Cuzco to Machu Picchu. The two railways were being run by mining groups and were in terribly bad shape.

At the same time, a group of Peruvian investors decided to invest in hotels for a higher class of tourist. They spoke to James Sherwood, the CEO of Orient Express, about becoming a business partner and he was interested. They built two hotels, one at the Monastery and another on Machu Picchu. The hotel in Cuzco has won many awards and is the third or fourth best rated hotel in Latin America. The lesson that Peru has learned from Orient Express is that if you want to attract luxury, you have to have the best quality of everything.

We needed to be able to offer a complete tourist package, including transportation from Cuzco to Arequipa. The focus was on

transportation from Cuzco to Machu Picchu so we decided to develop a super luxury train with tickets that cost US\$ 400. People said it didn't make sense. Who could buy that? It was crazy. But if you create luxury and cater to a specific clientele, people will come. The first tourist circuit was completed and it has been a success.

Along the train route there were numerous small stands, stores and restaurants, but they were only selling low-end products like gum, candy and trinkets for a dollar or two. We've upgraded those businesses so that nowadays, people can buy high-quality merchandise, gourmet meals and alpaca products. This is a big change for Peru showing that we can have a lot of success providing an extremely high quality service.

#### **Milestone GRP - In 2011, tourism to Machu Picchu greatly increased. How will you continue that trend?**

**Mr Pareja Díaz** - Basically, this tremendous growth was due to our goal to promote Peru as a tourist destination. In 2004, an important change was made. The Minister of Tourism de-

icated US\$ 5 million in funding to promoting Peru. Up until then, there had been no promotion strategy. It was successful and now tourism is flourishing in Peru. This shows that a good product, marketed with intelligence, brings success.

#### **Milestone GRP - What was PeruRail's vision for creating a tourist circuit in the South?**

**Mr Pareja Díaz** - The vision of Orient Express was to have a circuit of super luxury trains, but PeruRail is more than just Orient Express. Our signature service has served a million or more travelers per year. Cuzco isn't an ordinary destination, nor is Machu Picchu. They are exclusive destinations. You can't be cheap with a tourist who has high expectations. We needed to improve the trains so we could attract better tourists and improve the tourist experience in Peru.

We started renovating the trains, practically creating new ones. The only thing left of the original equipment was the base. We enlarged the windows and added windows on the roof, because on the way to Machu Picchu, the most beautiful view is above. The green mountains against the blue sky make for an incredible picture. You can't appreciate it otherwise.

#### **Milestone GRP - You describe your trains as being more than just a means of transportation, but rather an "experience." What experiences would a passenger have onboard PeruRail?**

**Mr Pareja Díaz** - At PeruRail we have different experiences for every type of traveler. The Expedition service provides experiences for young people who like adventure, quality and an affordable service. We also have the Vistadome service, a journey with fully panoramic views, music, typical dance and food made with local produce. We also operate the Hiram Bingham train by Orient Express, which provides an all-inclusive luxury trip to Machu Picchu. We also provide a service for the local community by offering locals a ride up to Machu Picchu for only US\$ 2.50. Without this service, they would be paying an average of US\$ 40 per ticket.

#### **Milestone GRP - Where do you see potential growth in the tourism sector?**

**Mr Pareja Díaz** - There is still a lot of potential in the tourism sector. The Alhambra in Spain, for example, receives 3 million visitors per year. You buy a single ticket that allows you to enter certain attractions. In Machu Picchu we haven't even begun to manage it as we could. Machu Picchu has an incredible light and sound show in the evening that is really impressive. Machu Picchu at night is pure magic. We need to make this kind of experience accessible to more people.

In Peru, the train lets us control the level of service we offer. The worst thing for a tourist is feeling at risk and insecure. Buses are risky, but trains are different; they are structured and controlled, much like airplanes. We've never had a fatal accident and we've transported millions of people. In addition to the safety, we offer not just transportation but an experience. We want the journey to be an excursion that allows you to explore the different geographic zones as you climb the mountain and see the changes in the vegetation.

How can we make the high plateaus of the Andes with volcanoes covered in snow against the blue sky accessible to people? It is really precious and a true jewel and we want tourists to experience it. On the route, travelers can step outside and meet the local people with their typical dress tending to their animals. It's a cruise ship on land. You enjoy banquets, dance to live music; it's all about the experience. We believe the future is about generating ever-improving experiences for the tourist, because it's not just about transportation.

#### **Milestone GRP - You are also involved in other sectors like mining and mineral transportation?**

**Mr Pareja Díaz** - Now, outside of tourism, mining is a huge industry in Peru that we have been working in for six years. We've specialized in transporting mineral products, which has seen great growth. It requires going into the mine to transfer products from the mine to the truck and then the train takes the gems and metals on their way. For a country that has so much mining, it's surprising that there isn't a larger system of trains for transporting it. There are several railways we are interested in expanding for this purpose.

#### **Milestone GRP - Where do you see PeruRail headed from here?**

**Mr Pareja Díaz** - PeruRail has two large divisions: passenger trains and cargo trains. Growth of the passenger division is increasing by 12% per year. As long as there are adequate conditions, we will keep up high levels of service and provide the security that the tourist needs. Peru will continue to increase its tourism and increase its products and services. Our operations are certified to the quality management system (SGS) ISO 9001:2008.

“If you create luxury and cater to a specific clientele, people will come.”

The cargo division is doing quite well too. We have the three certifications of quality that mining companies need. We address environmental and security issues and we have six or seven years of experience. We're working with the largest mining projects in the country, providing a transportation alternative. A locomotive is equal to about 10 trucks, so with several train cars, you save 30 to 40 trucks on the road. The roads in Peru shouldn't be used for huge loads carrying millions of tons. It causes great congestion and is bad for the environment. We're exploring investment options and services to the mining industry of about US\$ 200 million. The PeruRail expansion plan for the next 10 years, apart from the mining projects, is a US\$ 140 million investment in tourism. It's a boom for Peru, for mining, and for tourism. We need to continue to do things well.



# Professional Services





# Securing Foreign Investments in Peru

by Alonso Rey, Partner of law firm Payet, Rey, Cauvi

The Peruvian economy has been growing steadily by an average of 6.4% per year since 2002. Growth in 2011 alone was close to 7%. For the same year, the Central Reserve Bank of Peru (BCRP) reported an FDI flow of US\$ 7.659 million, which represented a growth of US\$ 331 million in comparison to 2010.

One of the main factors behind Peru's economic performance is the country's openness to foreign and private investment, through the development of, among other things, a stable legal framework that warrants equal treatment to both domestic and foreign investors.

## Equal treatment and protection of foreign investors

The 1993 Constitution acknowledges the right to free private initiative in economic activities, promoting and protecting national and foreign investment under the following guidelines: free competition, freedom of contract, freedom of possession and disposal of foreign currency, equal legal treatment for local and foreign investors and, private property. No prior authorization is required for foreign investments.

Although the legal framework is quite favorable for foreign investors in Peru, there are certain restrictions such as the inability to acquire, either directly or indirectly, ownership or any other right to certain resources within 50 km of the border. Another restriction is the inability to acquire 100% participation in companies that give special services in certain sectors (e.g. waterways freight transportation and national commercial aviation).

It is important to mention that, in addition to the 1993 Constitution, the general principles for the protection of investments in Peru were enacted through Legislative Decrees No. 662 and No. 757. This framework is primarily designed to facilitate, promote and ensure freedom of economic initiative and private investment.

Under these general principles, foreign investors enjoy benefits such as free transfer of capital, guarantee for private property, free access to internal and external credit, freedom to pay royalties, and access to a network of bilateral investment treaties and FTAs, such as that with the United States of America (already approved by both Congresses), which includes an Investment Chapter.

These statutes also contain provisions regarding the conditions and requirements that must be fulfilled in order to enter into Legal Stability Agreements (LSA) with ProInversión, the entity which represents the state in signing such agreements. Under the LSA, the following fundamental rights exist for the investor and the recipient companies.

### • LSA for investors:

In this case, the Peruvian State grants stability in: the income tax regime applicable to the distribution of profits (currently 4.1%), foreign currency regime, rights to equal legal treatment and non-discrimination, and free remittance of foreign currency funds abroad.

It is important to mention that free remittance of foreign currency abroad does not require authorization, but must be necessarily carried out through the National Financial System. For this purpose the investor requires a minimum investment of US\$ 5 million (US\$ 10 million in case of mining or hydrocarbon investments).

### • LSA for recipient companies:

In this case, the Peruvian State grants stability in: the general income tax regime (currently 30%); labor regime for the hiring of employees; export promotion regimes, value-added tax recovery regime.

## Forms and vehicles under which a foreign investor may invest in Peru

Foreign investment may be made in any income-generating activity, under any of the following forms established by Law:

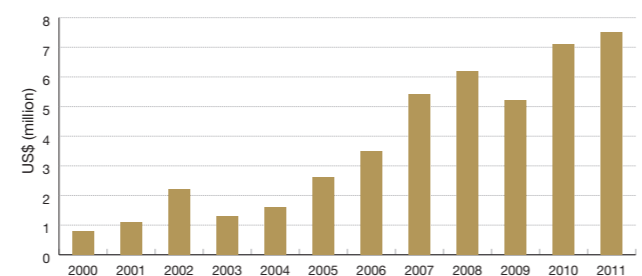
- Foreign direct investment, as a contribution to stock equity.
- Contributions to the development of contractual joint ventures.
- Investment in goods and properties located on national land.
- Portfolio investments.
- In intangible technological contributions and;
- Any other investment modality contributing to the development of the country.

In order to qualify as such, foreign investment shall originate from any place alien to the national territory and shall be directed to any economic activity likely to generate income. It may be carried-out under any of the following forms:

- Direct foreign investment: carried-out by any foreign individual or corporation in the capital of a new or preexisting corporation incorporated under any form of business organization allowed by Peruvian legislation.
- Investments in goods and properties located in any part of the country.
- Any other modality of investment that contributes to the development of the country.

## Infrastructure concessions

In August 2003, Law No. 28059 was enacted to foster private investment in a decentralized way in order to obtain a complete, sustainable and harmonic development of each region of



Foreign Direct Investment Flows

Source: BCRP

the country. Pursuant to this law and in accordance with the regulations issued thereunder, each division of the state was allowed to promote private investments in infrastructure and public service concessions in accordance with its jurisdiction, powers and authorizations.

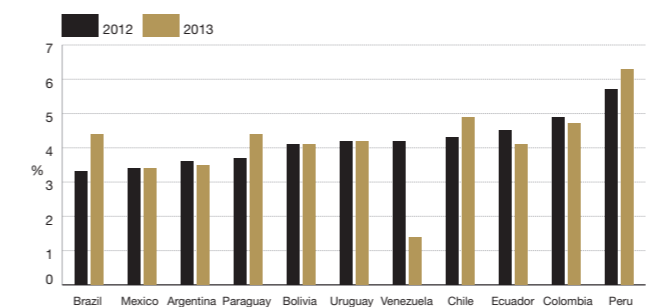
Attempting to adapt to global economic requirements and preserving the general principles of private investment, Peru continues to enhance the legal regime applicable to investments based on the experience of successful processes of privatization and concessions. Therefore, on May 13, 2008, Law No. 28059 was modified by Legislative Decree No. 1012, which in turn was regulated on December 9, 2008, by Supreme Decree 146-2008-EF. These statutes expanded the mechanisms to achieve participation of private investors in sectors of the economy promoted by the state. In this sense, these laws established principles, processes and regulations for public-private partnerships and private initiatives allowing private investors to present infrastructure projects for review and approval by the relevant governmental authority. Additionally, the Legislative Decree No. 1012 establishes the role of the public sector in the evaluation, implementation and operation of public infrastructure and public service involving private sector participation.

Under this legal framework many important concessions have been granted, including energy, communications and infrastructure concessions. For this reason, the Multilateral Investment Fund (MIF) ranks Peru third among Latin American and Caribbean countries with the greatest capacity to implement sustainable public-private partnerships, which allow for the development of infrastructure projects and increase access to basic services in the country.

## Promotion of public-private partnerships (PPP) and private initiatives (PI)

Since 1990, Peru has established a regulatory framework for infrastructure and public service concessions to promote private investments. In 1996, the state enacted the Supreme Decrees 059 and 060-96-PCM ("Supreme Decrees") setting forth public bidding mechanisms required for all the different forms of private intervention in concessions for a term of 60 years. Concessions may be granted in the following forms:

- Concession for valuable consideration: the concessionaire must make a contribution in money or an interest according to its benefits.
- Concession as a gift.



Latin America: GDP growth projections

Source: BCRP

• Concession co-financed by the state through the state's contribution during the construction stage or the exploitation stage.

• Mixed concession, including more than one of the aforementioned forms.

In this context it is important to mention that concessions are granted in the following two forms:

- The special public bidding ("Licitación Pública"), that is applicable when the grantor previously determines the work to be executed and has the required studies and technical documents.
- The integral projects tender ("Concurso de Proyectos Integrales"), which is applicable when the grantor has not required studies and projects for the execution of the work or the exploitation of the service. In such a case, the proposals to be submitted by the bidders contain the contractual, technical, economic and financial conditions of the work to be executed or exploited as well as the corresponding project.

The concessionaire of infrastructure or public goods is empowered, by virtue of the corresponding concession agreement, to charge rates, prices, tolls or apply other investment recovery systems. Thus the concession agreement must include the conditions and the winning offer.

Additionally, said Supreme Decrees created the Private Investment Promotion Agency (ProInversión) which is the agency that promotes private investment in all sectors.

## Legal framework for public-private partnerships and private initiatives

Legislative Decree No. 1012 defines, among other things, the following guiding principles for the PPP and PI policy:

- Value for money: a public service must be provided by the private actor that can offer better quality at a given cost or lower cost for a given quality outputs
- Transparency: all quantitative and qualitative information used to make a decision during the evaluation, development, implementation and monitoring stages must be public.
- Competition: competition must be sought in order to ensure efficiency and lower costs in the provision of public infrastructure services

The Legislative Decree established that a PPP is a kind of concession that can be awarded over infrastructure regarding transportation, telecommunication, energy and other services with social interest which included those in relation to infrastructure in general. A PPP may be granted with or without co-financing by the state. In order to do so, the Ministry of Economy and Finance should perform the necessary analysis to grant co-financing. However, a PPP is not considered as co-financed by the state when:

- It demands minimum or null guarantee provided by the government. The guarantee will be considered as minimum if it does not exceed 5% of the total cost of the project (including operation and management cost).



- It requires non-finance guarantees or has minimum or null probability to demand the use of public resources. The non-finance guarantee will be considered as minimum if it does not exceed 10% during the first 5 years of the concession.

On the contrary, a PPP requires co-financing by the state when finance and non-finance guarantees required by the project exceed the limits established to non co-financed PPPs.

PI is another main institution within this framework. Under this scheme, investors can identify investment projects in infrastructure and other sectors of social interest typically developed by the state and request to the relevant governmental authority a special authorization to build and operate them. In the event the project is considered as relevant and of public interest, the corresponding governmental authority shall issue a written notice declaring said project as relevant ("Declaración de Interés" or "Notice of Interest").

Once the Notice of Interest is issued and published in the Official Gazette (including a brief description of the project proposed), third parties are allowed to express their interest on the project. If third parties express said interest, the corresponding governmental authority shall summon a public bid where only the investor that presented the PI and those third parties that expressed their interest during the term granted by the corresponding governmental authority are allowed to participate.

In recent years, the most important projects in the country were the result of Private Initiatives developed by private investors.

Both PI and PPP projects are formalized through Concession Agreement with the Peruvian Government. This Concession Agreement may not change during the first 3 years, except to:

- Correct material mistakes.
- Comply with requirements of guaranteed creditors, provided that these requirements are related with the financial closing.
- Specify operative matters provided that these matters do not involve conditions regarding co-financing issues.

An aspect to bear in mind are the minimum requirements set forth by government entities for investors interested in developing projects under these mechanisms. These requirements can vary according to the nature of the project. Generally, requirements are related to technical capability (proven experi-

ence in infrastructure projects) and financial capacity (minimum capital requirements) of investors.

Once the investor has been awarded the concession and is enabled to develop the project, the investor must comply with the regulatory requirements for completion and operation. Among these are Environmental Impact Assessments, native communities' approvals, certificates of no archaeological remains, licenses and several municipal authorizations.

#### Free trade agreements: Legal protections for investors

Peru has had a very active participation in the negotiation of instruments of bilateral, regional and multilateral nature, in order to consolidate the legal framework that guarantee and protect investments and aid the creation of an adequate climate to encourage bigger foreign investment flows. Those instruments have the purpose of setting forth guarantees for the treatment, protection and access to mechanisms of settlement of controversies applicable to investments. Moreover, these instruments are an integral part of the Peruvian legal system.

Thus, since 2006, Peru has signed trade agreements with China, the United States, Canada, Singapore, Korea, Mexico, Japan, and recently, with the European Union. It has also concluded negotiations with the European Free Trade Association (EFTA) and Chile, and has begun trade talks with Central American countries and others.

The reduction of duties for a variety of products and the great investment opportunities in the Peruvian market are the main benefits offered by the country. This is demonstrated by the steady increase in the amount of business transactions under these free trade agreements. In 2011, 95% of Peruvian exports (US\$ 43.440 million) and 90% of imports (US\$ 33.940 million) were under free trade agreements.

#### Arbitration

Peru has developed a modern domestic and international arbitration regime. This new Peruvian Arbitration Law follows the recent 2006 arbitration model law of the United Nations Commission on International Trade Law - UNCITRAL.

Among the key innovations that the Arbitration Law contains, we may find strong limitations to any intervention from Peruvian domestic courts in arbitration proceedings except to aid arbitrators in evidentiary issues and enforcement of orders; the protection of the arbitration agreement, whichever its form; and, the enforcement of the parties' right to decide the rules upon which the arbitration will proceed.

Investment Projects Announced (US\$ million)				
	2012	2013	2014	2012 - 2014
<b>Mining</b>	7,455	8,323	9,546	25,324
<b>Hydrocarbons</b>	2,250	2,756	1,710	6,716
<b>Electricity</b>	2,611	2,355	1,379	6,345
<b>Industry</b>	1,122	816	632	2,570
<b>Infrastructure</b>	1,472	1,092	572	3,136
<b>Other sectors</b>	3,601	2,751	1,212	7,564
<b>Total</b>	<b>18,511</b>	<b>18,093</b>	<b>15,051</b>	<b>51,655</b>

Source: Data from Press media and information companies./ Elaboration by BCRP

Survey on Macroeconomic Expectations: Peruvian GDP growth			
	Mar. '12	Jun. '12	Sep. '12*
<b>Financial entities</b>			
<b>2012</b>	5.3	6.0	6.0
<b>2013</b>	5.6	6.0	6.0
<b>2014</b>	n/a	6.0	6.0
<b>Economic analysts</b>			
<b>2012</b>	5.0	6.0	5.8
<b>2013</b>	5.6	6.0	5.9
<b>2014</b>	n/a	6.2	6.0
<b>Non-financial firms</b>			
<b>2012</b>	5.5	6.0	6.0
<b>2013</b>	6.0	6.0	6.0
<b>2014</b>	n/a	6.0	6.0

\* Survey made during the second half of August 2012.

Source: BCRP

This allows parties in an international arbitration to renounce to the right of appeal for the annulment of the arbitration award, whereas in domestic arbitration said renunciation is forbidden.

The national courts' intervention has been reduced, for example, by the elimination of the right to appeal an arbitration award. The only remedy the parties dispose of, before national courts, is the annulment of the award; and this is only possible for strict causes and only after other remedies have previously been exercised before the same arbitral tribunal (integration, interpretation, exclusion and rectification).

Furthermore, the law establishes that if the parties do not reach an agreement, the chambers of commerce are the ones to appoint the arbitrators or decide upon the challenges that the parties may raise against arbitrators. The latter means that even in ad hoc arbitration procedures, there is no need for national courts' intervention.

Also, when it comes to provisional measures, the law provides that once the arbitral tribunal is appointed and in function, this tribunal is the competent authority to dictate and enforce all measures needed to protect the arbitral award enforcement. Even

when the provisional measure is dictated by a national court before the arbitration procedure began, once the arbitral tribunal is settled, said records are to be submitted to the given tribunal. However, the arbitral tribunal is always entitled to demand support from the national courts and authorities, when use of force is needed to enforce any act.

Peruvian Arbitration Law has also been very careful to grant parties the freedom and right to decide upon the rules that will lead to an arbitration procedure. For instance, the parties may decide upon the place of arbitration, the language, rules upon the presentation of the lawsuit, the hearings and proofs' treatment. The only mandatory rule is that the parties are to be treated with equality providing that they have enough opportunities and means to defend their positions.

On another matter, the innovation of our law when it comes to the arbitration agreement must be taken into account. Providing its protection, it establishes that the arbitration agreement must be written. However, said requirement is satisfied by any means in which an agreement among the parties is recorded. This leaves out any unnecessary formal exigencies which many times only pretend to dilute an arbitration procedure or even more, lead it to a judicial procedure. Also, this offers the possibility to extend the arbitration agreement to non-signatory parties who however were preponderant in the negotiation, celebration, enforcement or termination of the agreement subject to the arbitration agreement.

Finally, it must be acknowledged that the Arbitration Law establishes that the recognition and execution of foreign awards will be executed in accordance with the following legislation: the Convention on the Recognition and Enforcement of Foreign Arbitral Awards, approved in New York on June 10<sup>th</sup>, 1958 (New York Convention); the Inter-American Convention on International Commercial Arbitration, approved in Panama on January 30<sup>th</sup>, 1975 (Panama Convention); and, any other treaty on recognition and enforcement of foreign arbitral award signed by Peru.

In addition, if more than one treaty would be applicable, the Peruvian Arbitration Law provides that the most favorable to the party requesting the enforcement will be applicable, unless the parties have agreed otherwise.







## PricewaterhouseCoopers

### “Staying in Peru through the Good Times and Bad”

Interview with Esteban Chong, Managing Partner of PricewaterhouseCoopers

**Esteban Chong** is the Managing Partner of PricewaterhouseCoopers (PwC) in Peru. He has been with PwC for over 30 years and has experience in auditing in various sectors, including energy, mining, retail and consumption goods, as well as being a consultant in areas such as mergers and acquisitions, and implementation of International Financial Reporting Standards (IFRS). He is a licensed accountant from the Universidad del Pacifico and currently also serves as a professor there.

**PwC** is a leading professional service provider both internationally and within Peru. PwC Peru has a long history in Peru with almost 90 years in the market. The firm started its operations in Lima in 1924, and over the years has undergone several transformations to adapt to the evolving market. PwC currently offers professional services in the areas of auditing, tax and legal services and advisory services.

Milestone GRP interviewed Esteban Chong for his in-depth knowledge on the Peruvian market and to understand how PwC has been able to mold to the market and function in Peru for close to a century.

**Milestone GRP - Over the last 90 years that PwC has been in Peru, how have you seen the country and the region change?**

**Mr Esteban Chong** - Peru has principally been an exporter of raw materials. In the last 90 years we have been like a pendulum. During the 1920s and 1950s, we had policies promoting foreign investments as well as the development of certain local industries. However, as in all of Latin America, in the 1960s and 1970s the pendulum swung to state controlled industries. During the 1980s we had a democratic government but also substantial issues with local terrorism. We had hyperinflation and a fiscal deficit. 1990 saw the biggest hyperinflation in our history.

In the 1990s Fujimori was elected president. We adopted liberal policies, state-owned companies were privatized and there were mining and energy concessions. Additionally, terrorism was almost totally defeated in 1992 after the capture of Abimael Guzman, the leader of one of the most powerful terrorist groups in the country called Shining Path. We still have some terrorism in the jungle but nothing compared to what we had. It is not widespread in the country; it is in specific parts of the jungle only.

We still have inflation but it is under control. We are no longer a hyperinflationary economy; we have 3% inflation per year, one of the lowest in Latin America. We have been growing steadily for the past 10 years. During the 1990s, the government established the foundation for our growth for years to come. We have had democratic governments since then. First with Toledo, then Alan Garcia and now Ollanta Humala, but the really important thing here is that the economic policies have been maintained since the 1990s. Nobody questions the fact that we have had 20 years of the same economic philosophy.

**Milestone GRP - PricewaterhouseCoopers has been working in Peru for nearly a century. Many international companies have been coming and leaving from one decade to another. What has been the key for PwC to stay here?**

**Mr Chong** - We entered Peru in the 1920s following our clients, mainly from England and America. We have been there for them through all the 1930s and 1950s, and in 1968 when nationalization began. Despite the adverse economic environment in those years, we have been developing as well by

working for national companies. Therefore, our portfolio is now mostly comprised of local companies.

The years when we had a military government were the worst ones for us. Even so, we have always thought that Peru was a country with a lot of potential, which is the reason why we decided to stay here, in spite of the economic crisis, terrorism and hyperinflation. For example, the last crisis in 2008 made us nervous as we waited to see what the consequences in Peru would be, but we decided to keep on investing in people because we believe in Peru's potential. Sooner or later investments were going to come. Now we are harvesting the results of believing in such potential.

**Milestone GRP - Julio Velarde, the President of Peru's Central Reserve Bank, told us that one of the most important issues is the stability of public institutions. How do you see these public institutions working toward creating a stable business environment?**

**Mr Chong** - In the private sector I would say there is stability. We have tax stability and legal stability although we still have to work on some things. Even with disputes, companies have an arbitration process and have insurance that protects both sides. For example, in the beginning of the Humala Government, we had some people that wanted to relook at some contracts. We told them that it would be impossible because we had already signed tax stability contracts. President Humala respected those contracts, which was a good sign for investors; a populist government may not have respected those contracts.

**Milestone GRP - As a professional service firm that has been involved in all the various sectors of the economy, what sectors do you see attracting foreign direct investments?**

**Mr Chong** - First, I would say mining is still important and attractive. We know that there are some significant mining groups considering entering Peru. The other area is infrastructure. In the case of Peru, we need to develop infrastructure if we want to be competitive. In this regard, Prolnversion has been very active in trying to promote investment in infrastructure.

“The really important thing here is that the economic policies have been maintained since the 1990s.”

For construction or energy, the private sector can help to develop the country by investing in new or existing infrastructure and construction of power plants; the public-private partnership scheme has worked well in past years. Examples include the Panamerican Highway, the Jorge Chavez airport in Lima, airports in the North and South, ports and energy projects. Those are things that are important to continue developing Peru.

**Milestone GRP - How does PwC Peru fit into PwC's regional and international strategy?**

**Mr Chong** - We are totally aligned. Globally, PwC is divided into three clusters: the Western Division which is the Americas, the Central Division which is Europe, Africa and the Middle East, and East which is China, Japan, Southeast Asia and Australia. I would say that we are well aligned, but what we are trying to achieve, despite cultural differences, is to provide the same quality of services in every part of the world.

In the case of Peru, we are going outside to look for our partners in other countries; we are visiting other companies that are not global clients of PwC. For instance, I have been to China three times in the last six months, two of them were to bring China and Peru closer, because China is going to be an important investor for Peru as well. We have signed free trade agreements with significant countries including the United States, China, the European Union and Canada. Traditionally, we just waited for the phone to ring and clients to come, but with the competitive market that we now work in, we are actively looking for companies to work with. In addition, we share the same values and standards throughout the PwC network.

**Milestone GRP - How is PwC differentiating itself in the competitive professional services market?**

**Mr Chong** - One of the things that we are trying to do is differentiate our services worldwide by not only providing added-value services to our clients, but also providing a different way to build long-term relationships with our people and with clients. It is a philosophy that we call the PwC Experience. Indeed, quality is the foundation of our service delivery, but currently clients perceive quality as a given when they relate to top professional service firms; therefore, it is not a significant differential factor with competition. Providing value-added services could initially make a difference but certainly other professional service firms could reduce the gap. For us, the way we relate with clients and our people is the difference we are looking for to strengthen our relationship with stakeholders.

**Milestone GRP - When you upgrade your products do you find it difficult to recruit the right talent?**

**Mr Chong** - We use our network. In Peru, one of our limitations is that we do not have enough of the right talent locally for these new challenges and demands. We are competing with many other companies to hire the right people. That is the biggest struggle that we have to achieve growth. There is also a generational difference that we are dealing with in order to stay attractive for new hires. The millennium generation is more socially-oriented and they want everything faster. Therefore, we are changing to be more attractive to them. We provide professional services and we need them. In our case, here in Peru, the lack of enough professionals is a problem.

It is a limitation. If we could bring in more talent, we could grow more. We are not going to bring people that are not qualified enough to provide services. We try to bring in the



resources and train locals so that we have experts here. Currently, we have people from the US, other Latin American countries and Spain.

**Milestone GRP - How are you changing your services?**

**Mr Chong** - We are working with our network to change our advisory services, especially in the case of family-owned companies. In the case of taxes, we are also changing things. We have invested a lot in people. We have the largest tax practice among all of the professional firms. Nowadays, people are interested in working with us when, traditionally, graduates didn't want to work in these kinds of firms because of the long work hours. We changed that and now they are knocking on our door looking to work with us. We have done a lot to promote our image in the press to attract not only clients but also students. We need to be attractive for students.

**Milestone GRP - Are you looking to move into the different regions in Peru?**

**Mr Chong** - We now have an office in Trujillo. For the North, the Trujillo market is very important. We are working on decentralizing.

**Milestone GRP - Where do you see PwC in five years?**

**Mr Chong** - I see us doubling our revenues. Our growth year-on-year is 15 to 20%. We have 1,000 people working for us, which makes us the largest service company in our professional service area, and we have almost doubled our workforce.

**Milestone GRP - And where do you see Peru headed?**

**Mr Chong** - We are very optimistic about Peru. In the last 20 years, in political terms, we have gone from the center to the right, and now we have a left-oriented government with consistent economic policies. We are stable with strong institutions. Peru, and most Peruvians, understand that we need foreign investment. For that to happen we need to be stable and we need to develop and have better infrastructure. One of our main problems is poverty. We don't have equality in the inner regions. President Humala, in his electoral speech, talked a lot about social programs in order to reduce poverty. I think that is the right way. We can have favorable economic indicators but that needs to reach more people. I think we are heading in the right direction. I have been working for 30 years at PwC in Peru and I have never seen Peru as developed as now. Now it is a country of opportunities. In the 1980s everybody wanted to leave Peru, now people that once left are coming back. We are very optimistic.

## KPMG

### "The Emergence of Peru and the Multilatinas"

Interview with Oscar Caipo Ricci, President of KPMG in Peru

**Milestone GRP - How have the free trade agreements changed the Peruvian economy from what it was 20 years ago to what it is now?**

**Mr Oscar Caipo Ricci** - The free trade agreements have been an important component of the transformation we have gone through in the last 20 years. That, coupled with the economic reforms to bring financial balance, low inflation, and low interest rates has brought us fiscal stability as well. It is not a single component that has helped to transform the way Peru is performing now. Specifically, the free trade agreements have helped to foster a virtuous cycle, we are not only exporting our natural resources, but we have also started exporting non-traditional products. In addition, we are able to offer competitive products for the consumer or for the industrial sector in terms of capital investments.

**Milestone GRP - For the first time in Peruvian history, Peruvian companies are going outside of Peru and investing in other countries. Is this going to continue? How are they financing these expansions?**

**Mr Caipo Ricci** - First, we have a group of companies originally from Peru that are becoming multilatinas, and a couple of them are even becoming global players. This is happening because they need to. In a world economy with globalization, you either become a regional and global player, or someone else is going to come to your market and bring those efficiencies and be much more competitive than you are. So, it is a strategy of both playing offense and defense; in certain sectors you need to become global.

If you play that game then you need to play with all the components. One of those is how you can finance your growth. It is going to be very hard to fund that kind of inorganic growth unless you find a partner or go to the capital markets.

**Milestone GRP - We are also seeing other multilatinas companies enter the Peruvian market. Is this what you foresee for the future?**

**Mr Caipo Ricci** - Yes, you need to be a truly regional and global player, and that is going to be the game that we are going to see more and more. The difference here is that we are used to seeing only American or European multinationals playing that game. But those economies are growing at 1, 2 or 3% or not growing at all right now. However, the emerging economies are having tremendous growth so the multilatinas are becoming really strong and now they are going out to conquer the world. In the past, Chile was a leader in that area with its energy companies. It took some time, but then Brazilian companies started to become multilatinas as well. We are seeing that more and more and I think we will continue seeing that more in the future.

**Milestone GRP - In order for Peruvians to compete, do you think that some tax or legal reforms need to be addressed?**

**Mr Caipo Ricci** - Yes. I think that one important reform that we require is that we do not have double taxation on dividends. If that isn't changed, the Peruvian multinationals are going to end up establishing holding companies in other places of the world and we want to make sure that Peruvian multinationals are truly Peruvian.

**Milestone GRP - KPMG had 10% growth in the region in 2011. What kind of growth are you seeing in Peru?**

**Mr Caipo Ricci** - Peru has been growing consistently at an average of 6% in the last few years with some ups and downs. In terms of our sector, we usually grow three or four times that of the economy. We get involved when there is a lot of direct foreign investment in a market, because we provide the necessary services for that influx. In the last three years, our average growth has been around 20% and in 2012 in particular, we are beyond 20%. That is the same we are seeing in advisory areas in Latin America. In that area, for example, we are growing close to 30%.

“Emerging economies are having tremendous growth so the multilatinas are becoming really strong.”

**Milestone GRP - What role have you identified for your firm in the Peruvian economy?**

**Mr Caipo Ricci** - First, KPMG plays an important role in building confidence in the markets, especially in a high-growth emerging economy like Peru that is competing in a world that is living through one of the longest economic crises that we have ever seen. Our role is to be monitors and advisors of large companies or large financial institutions and in that role we want to bring transparency to the markets. We also play a role as advisors to help our clients build and sustain their competitive advantage, protect the value they create and manage risk. We do that in either helping them expand on the growth around transactions or helping them compete more effectively in the supply chains, in the bulk of their operations or the way they manage human capital or in the way they manage risk. That is what we do and we do it in a multidisciplinary way.

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## Grant Thornton

### “Guiding and Supporting Foreign Investors”

Interview with Andrés Ropert, Managing Partner and José Luis Sarrío, Partner & IBC Director, Grant Thornton

**Andrés Ropert** is the Managing Partner at Grant Thornton and has over 26 years of experience in management, business and auditing. Ropert has served as the Managing Director of several major industrial companies in Peru. He graduated as an Accountant-Auditor from the University of Chile and received his MBA from the same university. He is a certified accountant-auditor.

**José Luis Sarrío** is a Partner at Grant Thornton Peru. He is a certified economist, chartered accountant and certified auditor with a master's degree in Sales and Marketing. He is also the Regulatory Contact Partner (RCP) for Peru. Sarrío has more than 10 years of experience advising privately held and multinational organizations doing business in Peru.

**Grant Thornton** is one of the leading firms in the world for auditing, taxes, and consulting for private and public companies, and has had a presence in the Peruvian market since 1979. The Grant Thornton team comprises more than 31,000 people in 100 countries.

Milestone GRP met with Andrés Ropert and José Luis Sarrío to discuss how Grant Thornton is helping clients enter the Peruvian market and the potential the country offers.

#### **Milestone GRP - Why did Grant Thornton establish a presence in Peru?**

**Mr José Luis Sarrío** - Many of our clients needed a Grant Thornton office to be based here. Latin America has become a central focus in terms of profit generation, especially in times of economic downturn, where the traditional investment channels do not offer safety and stability anymore. Therefore, investors start looking at other opportunities, and one of those is Peru.

#### **Milestone GRP - What specific services does Grant Thornton offer here?**

**Mr Andrés Ropert** - We do finance auditing, but we also do internal auditing within a company. Internal auditing deals with company risk assessment which is an important area at the moment. We offer forensic auditing services to deal with

fraud or theft. Investors have the responsibility and the need to find out where their investments are going and if they are getting into something illegal. We have experts that work in this specific sector guiding and supporting foreign investors looking at setting up businesses here.

We also offer tax and legal services. In terms of the advisory area, we deal with the entire financial side: company validation, mergers and acquisitions, and transfer price. Other important areas are outsourcing and logistics. Each sector offers very specialized services. We help foreign investors make their entry into Peru as easy as possible. We can provide investors with all the services they may need, from accountancy and auditing, to setting up their business or assisting them with financing matters.

#### **Milestone GRP - To what extent are you working with companies to invest in Peru?**

**Mr Ropert** - Before, investing in Peru was a way of extending an existing business. Now, many investors look to Peru because their business in their home country is not going well and they want to bring their business here. That area has potential and is something we are looking at.

#### **Milestone GRP - How is Grant Thornton finding its niche among the other global accountancy firms?**

**Mr Ropert** - We will be rolling out a global Customer Relationship Management (CRM) solution which is revolutionary software that has incredible potential. We have been working on it for two years and it is a major priority for us. This tool will allow us to expand our internal commercial activity, especially for our targeted medium-sized companies. For them, we can be much more cost effective while offering the same products that bigger and more expensive firms offer.

#### **Milestone GRP - By what degree is Grant Thornton Peru expected to grow?**

**Mr Sarrío** - We have 110 staff in Lima at the moment and we expect this figure to double by 2015. We are constantly looking at the other five important cities in Peru in terms of their growth and development to see whether there could be an opportunity to set up other offices there.

#### **Milestone GRP - What kind of clients do you target?**

**Mr Sarrío** - We have two big targets: the domestic market and the international market. In terms of the international market if there is a new or returning investor that is willing to set up or expand his investment operations in Peru, we are going to be there for support. The idea is to be a resource for any foreign investor dealing with investment operations here in Peru. We can provide any service they may need: from setting up a joint venture or a commercial office, to exploring investment opportunities, to assisting them in the business acquisition process.

In terms of the local market, we want to support Peruvian enterprises so that they can expand beyond national boundaries and grow internationally, first at a regional level and then at a global level.

“We have 110 staff in Lima at the moment and we expect this figure to double by 2015.”

#### **Milestone GRP - What sectors are you targeting?**

**Mr Sarrío** - At the moment we are specifically targeting two sectors: the mining industry and the tourism sector. We are developing specific strategies for these two sectors. We are not putting aside the other ones, but we are just giving more emphasis to these two for the time being. These two sectors are very different from each other; the mining sector is a capital intensive industry, while tourism, apart from the initial investment, is all about services.

#### **Milestone GRP - What steps are you taking to gain a specific position in the market?**

**Mr Sarrío** - We are trying to gain visibility in terms of investors and to be visible within the different Grant Thornton offices so that Peru can become a valid alternative when discussing business opportunities outside of Europe for European companies. Moreover, Peru can really become a strategic choice. Once a business is set up here it can have easier access to neighboring markets such as Colombia, Chile, Ecuador or Bolivia. And if they are successful then there is opportunity to expand even further afield to China.

“Overall, in Peru there is a low penetration rate and therefore a great deal of potential within all sectors.”

#### **Milestone GRP - Grant Thornton names Peru as the most optimistic country in its business report. Why do you think that is?**

**Mr Sarrío** - Overall, in Peru there is a low penetration rate and therefore a great deal of potential within all sectors. The level of optimism is maintained because governments or ministries can change, but the policies remain in place. It does not make any difference who the president of the Central Bank or the Minister of Economy and Finance is; the economic growth policy to attract foreign investments are not affected and remain in place.

#### **Milestone GRP - What hurdles is the country facing?**

**Mr Sarrío** - What we lack at the moment is infrastructure. But if you look at the state development plans, they are very clear in terms of targets, demand and expected profits. What we need are people willing to invest in these areas because the majority of public companies are inefficient. What we need is at least a joint venture between the public and private sector. Many of these joint ventures have been set up since 2006, and since then they have been performing really well.

#### **Milestone GRP - What advice would you give foreign investors about Peru and Grant Thornton?**

**Mr Sarrío** - We are their trustworthy advisors. If they need anything related to exploring, expanding, improving, setting up or restructuring their businesses within any sector, Grant Thornton Peru will be able to assist them.

**Mr Andrés Ropert** - They should come and invest in Peru. All the legislation is in place in order to protect investments here. We can give them all the information and support to make their investment operations and their businesses the easiest and safest possible.





## Lazo, De Romaña & Gagliuffi Abogados

### “Making Business Laws Work for Peru”

Interview with Jorge Lazo, Managing Partner of Lazo, De Romaña & Gagliuffi Abogados

**Jorge Lazo** is the Managing Partner at Lazo, De Romaña & Gagliuffi Abogados. Before his time with this law firm he was a Partner at Grimaldo and Lazo Abogados (2005-2008), and prior to that, the Legal Vice-President at Banco Wise Sudameris. Lazo specializes in the areas of banking, finance and capital markets, mergers and acquisitions, as well as corporate law and project finance. He is also the author of several articles related to securitization, banking and finance. He received his law degree from the Universidad de Lima.

**Lazo, De Romaña & Gagliuffi Abogados** is a top-tier law firm located in Lima, Peru. The law firm began operations in 2008 and after leading major transactions in banking, finance and capital markets, it has quickly become a leading firm. Its clients include some of the largest Peruvian entities as well as some of the largest international entities with a presence in Peru.

Milestone GRP met with Jorge Lazo to discuss how his law firm is helping international companies enter and do business in Peru.

**Milestone GRP - Peru has the highest growth rate in the region. Does the legal system contribute to that growth and in what way is Peru's legal framework fostering foreign investments?**

**Mr Jorge Lazo** - One of the most important steps taken by Peru many years ago was to adopt a flexible legal framework for foreign investments. The system does not discriminate between domestic investment and foreign investment. It is a system that favors foreign investments in terms of international financial settlements and arbitration. Peru's legal framework is evolving along with the country's economic activity. Our legislation is adapting to the changes that are taking place in the country. Over the past few years, Peru has been adopting some interesting legislative packages that are balancing the process of economic globalization. Recently, the country amended the consumer code in order to reflect global standards. We will soon be discussing regulations for controls, mergers and acquisitions that will lead to better market protection. That standard will ensure the balance between offer and demand without imposing any unnecessary control on the market. The Peruvian legislative system is evolving according to international standards.

**Milestone GRP - What are some of the legal reforms or changes that need to be addressed in the legal system?**

**Mr Lazo** - From a legal point of view, several issues start to come up and become more important as the country develops. For example, the goal is to have sustainable development so all the environmental regulations play a very important role. Peru needs to follow the same international environmental regulations as any other developed country. That way, foreign companies that are investing in Peru have the same environmental legislation here as in their home country. It also forces Peruvian investors to raise their standards in order to be able to compete against foreign investors.

**Milestone GRP - What further reforms will be needed in order to support the development of the stock exchange or the private pension funds?**

**Mr Lazo** - Today, the financial system and the capital market count on an advanced normative system. The Peruvian normative adoption of Basel II or Basel III, which are international recommendations on banking laws, is very advanced. Peru has a

very healthy financial system today because we already went through a period of great financial crisis in the late 1990s. Now the Superintendent, Superintendency of Banking, Insurance and Private Pension Fund Administrators of Peru (SBS) has to exert both strict and modern control over the activities of the companies operating within the financial system. As for the capital market, we have progressed with legislative changes by implementing the regulation for asset security legislation, investment funds and even the regulations for brokerage companies are being adapted in order to facilitate activity in the sector.

As for the pension fund system, there have been changes related to local and foreign investment. What the capital market is lacking at the moment is a developed financial culture among both the Peruvian corporate world and the Peruvian investors. I believe that this is an ongoing evolution. The Peruvian market is so attractive that many issuing companies have gone to the international markets to raise capital. That has drawn the attention of the private pension fund administrators. Peru will most benefit from the stock market integration process because it will allow Peruvian companies to have a more liquid market. That liquidity will most likely come from the offer and demand of the Chilean and Colombian markets, which will result in a much more important Peruvian investors' market. You need to have a good legal framework, financial instruments, a financial culture and a surplus in order to have a strong capital market. Peru's economic growth is leading to the creation of a surplus. Having a surplus means the government has to look for investments, which is something that would not have happened 10 years ago.

**Milestone GRP - Can that explain the boom in companies now looking for capital financing?**

**Mr Lazo** - Yes, of course. Major companies are looking for investment abroad because they obtain better rates in much more liquid markets. That liquidity allows them to obtain higher profitability or at least to pay lower interest rates than they would in their home market. All that has caused a process of internationalization of the Peruvian market and that is very interesting because all the companies that are being listed abroad are starting to impose very high standards of corporate governance.

**Milestone GRP - How are you positioning yourselves within the context of this economic boom?**

**Mr Lazo** - Many of the associates in the firm have a lot of experience in capital markets and we have been dealing with capital market operations since 1993 when there were not many specialists in the sector. I have 19 years of experience in the field of capital market operations. With the Lima Stock Exchange we have to position ourselves as a firm that can assist companies that are expanding to apply good corporate governance to improve both the work climate and credit risk perception. The next step is obtaining cheaper financing through capital markets for many companies and investors are looking to invest in companies that can give them very attractive returns.

**Milestone GRP - How are you reaching out to international companies that are looking to come to Peru?**

**Mr Lazo** - 70% of the clients at our firm are international. BBVA, Cemex, and Kraft Foods are just some of them. First, we are

looking to Latin America as the main source of potential clients. We need to establish good relationships with the major firms based in our region's capital cities. At the same time, we have been establishing connections with major firms in the European Union, England and the United States. It is very important for us to first create a solid network within the region and use that as the base for dealing with other countries, such as the UK.

**Milestone GRP - What are some of your most interesting projects for 2012?**

**Mr Lazo** - There is a very interesting case we are working on at the moment. We have presented a start up investment proposal in Peru for Cemex, a Mexican cement company. We are also working with a multinational corporation that does renewable energy that wants to establish operations in Peru. Therefore, we are looking at everything related from the investment system to tax issues, for example. We have also seen some very interesting financial operations, which we are very happy about.

We have worked with Grupo ACP, a Peruvian financial holding company that has operations throughout Latin America, to place bonds in the Chilean market. Grupo ACP is also exploring international investment opportunities, which has allowed us to collaborate with them abroad, mainly in Argentina, Brazil, Colombia and Uruguay. We have also seen some transnational operations, such as the merger between Kraft Foods and Cadbury Adams, which we dealt with at a local level. We also deal with infrastructure and real estate investment fund developments. We are a firm that attracts many international clients. For example, we are looking at investment funds for Bank Chile while also dealing with Forum Chile, whose main shareholder is BBVA Chile.

**Milestone GRP - How do you differentiate yourselves from the other firms in Peru?**

**Mr Lazo** - Similar to other sectors, the legal industry is going through a modernization process. Today the legal sector has adopted a more corporate model. This organization has to be shaped like any other company because lawyers want to be offered the same structure as any other employee. The only thing that can differentiate your firm from all the others is the way you manage your internal organization and the innovation level that you are able to provide your team. Your team speaks to your competitiveness, so you have to give them a clear model of where they are going, not only in terms of the company but also from an individual point of view. Our favorable economic situation allows younger generations to look at their career development differently than the previous ones.

The first thing you need is a modern vision. You need to adopt good governance policies, ensure a good work climate and be flexible. Your lawyer is not someone you call only when you have a problem. A lawyer must be someone you invite to a meeting to bring in new business ideas. That is what can differentiate you from any other professional. We may also introduce some of our clients to each other and create new business opportunities. Today, you have to add value to your product. The more you add value to your product, the more market participation you gain. Lawyers today have to be flexible, creative and take risks.





## Newlink Group

### “Connecting the Dots”

Interview with Daniel Córdova, Managing Partner of Newlink Group Peru

**Daniel Córdova**, Managing Partner of Newlink Group Peru is a Peruvian economist with a career focused on both the business and academic sectors. Prior to joining Newlink, he was Dean of the Universidad del Pacífico's Business School. In 1994, he was part of the executive committee for Javier Pérez de Cuéllar's presidential campaign. In 1997, he became the General Manager of the National Society of Exporters (SNE), which he re-launched and converted into the Foreign Trade Society of Peru (COMEX). In 1999, Córdova was hired as the CFO by Compañía Milpo. In 2001, he founded Procapitales and served as its first president. He was the Dean of the School of Economics at the Universidad Peruana de Ciencias Aplicadas (UPC) for six years, before joining Pacífico University. Córdova is the author of several books and articles, and has a doctorate in Economics from the Université de Grenoble in France. Currently he is also Chairman of Instituto Invertir, a non-profit entity he founded in 2007 that strives to promote economic development.

**Newlink Group** is a consulting firm specializing in strategy, communications and public affairs. The group has created a new concept for corporate innovation dealing with public and communications issues. Newlink Peru was founded as part of a strategic expansion plan by the international Newlink Group. The team in Peru has found original solutions for international and local corporations operating in Peru.

Milestone GRP talked to Daniel Córdova about the unique communications issues that Peru faces and how they are working toward integrated solutions to address these.

#### **Milestone GRP - Why did Newlink Group decide to enter the Peruvian market?**

**Mr Daniel Córdova** - Newlink wanted to enter Peru a long time ago, but they couldn't find a suitable associate. At the same time, I moved away from my original academic and political activities toward the private consultant sector in order to help companies in their growth processes, dealing with strategic innovation and new solutions for communications, and public affairs issues.

Newlink entered Peru because of the ample opportunities and the potential of the market here. Newlink is based in Miami and previously expanded to Argentina, Chile, Colombia, the Dominican Republic and Mexico. Peru was an obvious next step. The Newlink CEO, Sergio Roitberg, was looking for something more than a traditional PR company. My back-

ground fit that position well so in the end they found us and we partnered with them.

#### **Milestone GRP - Peruvian companies are increasingly looking to expand internationally. Were there certain conditions that made this possible over the last couple of decades?**

**Mr Córdova** - Peru has risen out of two very bad decades, the 1970s and 1980s, where there was mismanagement of our institutions by our governments. There were institutions that were not adapted to the development of the market economy. But after the reforms in the 1990s, such as the privatization of many of the state-owned companies, the government began to generate a base of solid institutions that are now bearing fruit.

Some of the most important advances that were made in the reforms stated that it is unconstitutional to discrimina-

te against foreign capital. Likewise, it established that the Central Reserve Bank (BCRP) must be completely independent. The new constitution also established the basis for banking regulations, the public services that we see today, plus a series of institutions that generate the laws by which all businesses must abide. All of these changes allowed the economy to grow and generate opportunities.

Certainly in the last decade, many of the political problems from the past have been fixed and a new emergent middle-class is appearing. We now have business opportunities for Peruvians and this is true internationally as well. Currently there are a lot of opportunities for Peruvian companies looking to expand into other markets, but the tendency for outside companies to enter the Peruvian market has been much stronger.

#### **Milestone GRP - Despite the global economic crisis, Peru's economy is doing well. What challenges is it facing?**

**Mr Córdova** - Peru is doing well compared to other countries. We have an average growth of over 6%, inflation of 2.5%, and low levels of debt. What we are still lacking is the aptitude of the public sector to promote investment more aggressively, especially in infrastructure.

Peru has more resources than it can manage. It is a paradox that in an emerging country there is an enormous budget surplus. The central government, the regional or local governments, on average, have more resources than they can manage, and their execution of projects is very poor. This is a long-term problem that we have to solve. Another problem that we currently have are some regional governments rebelling against investment, usually due to a political agenda.

#### **Milestone GRP - How do you advise your mining clients when conflicts arise between the local communities and the mine?**

**Mr Córdova** - We work with some mining companies that have these problems and we help them modernize their system for political negotiations and to communicate with their stakeholders. Since most of these mining companies didn't have professional structures for communications and public affairs, they had a tendency to keep a low profile, and then when these problems arose they were left without a solution. What we suggest is to prepare a serious strategy that includes a social responsibility plan, partnership projects with local governments and a system for working with them. Then we present them a strategy of political intervention and communications programs between the company, the community and society in general. In the world that we live now, we are conscious that communications have taken a more important role than before. There are new technological changes in communications everyday that affect all companies.

Our firm works with our clients based on four points. The first point is speed. Today, everything is online, and we have to be prepared to react to any event or circumstance. If you are not prepared, you are not going to be able to take control of your message. No one can create a communications strategy in five minutes.

Second, companies need to be more transparent. Before, companies' internal operations were much more confidential. Now, any employee who publishes something on Facebook can reach everyone in a matter of seconds. There is no longer a disconnect between internal and external communications; everything must have the same message.

“Greater social conscience makes it necessary for companies to change their behavior and to communicate with stakeholders regarding their social responsibility.”

Third, the social conscience of society has increased and this generates new social demands. This greater social conscience makes it necessary for companies to change their behavior and to communicate with stakeholders regarding their social responsibility.

Finally, this social conscience creates more participation. Now, not only are journalists reporting the news, but any citizen with a Twitter account can create a social revolution. This is why it is so important for any company to formulate a strong communications strategy.

#### **Milestone GRP - What percentage of your clients are international and what sectors does Newlink specialize in?**

**Mr Córdova** - Approximately 90% of our clients are foreign or related to a foreign corporation. At the moment we specialize in mining, construction, banking, tourism, government agencies, healthcare and retail, among others.

#### **Milestone GRP - Will Newlink Peru move into the political realm, especially with your personal experience in politics?**

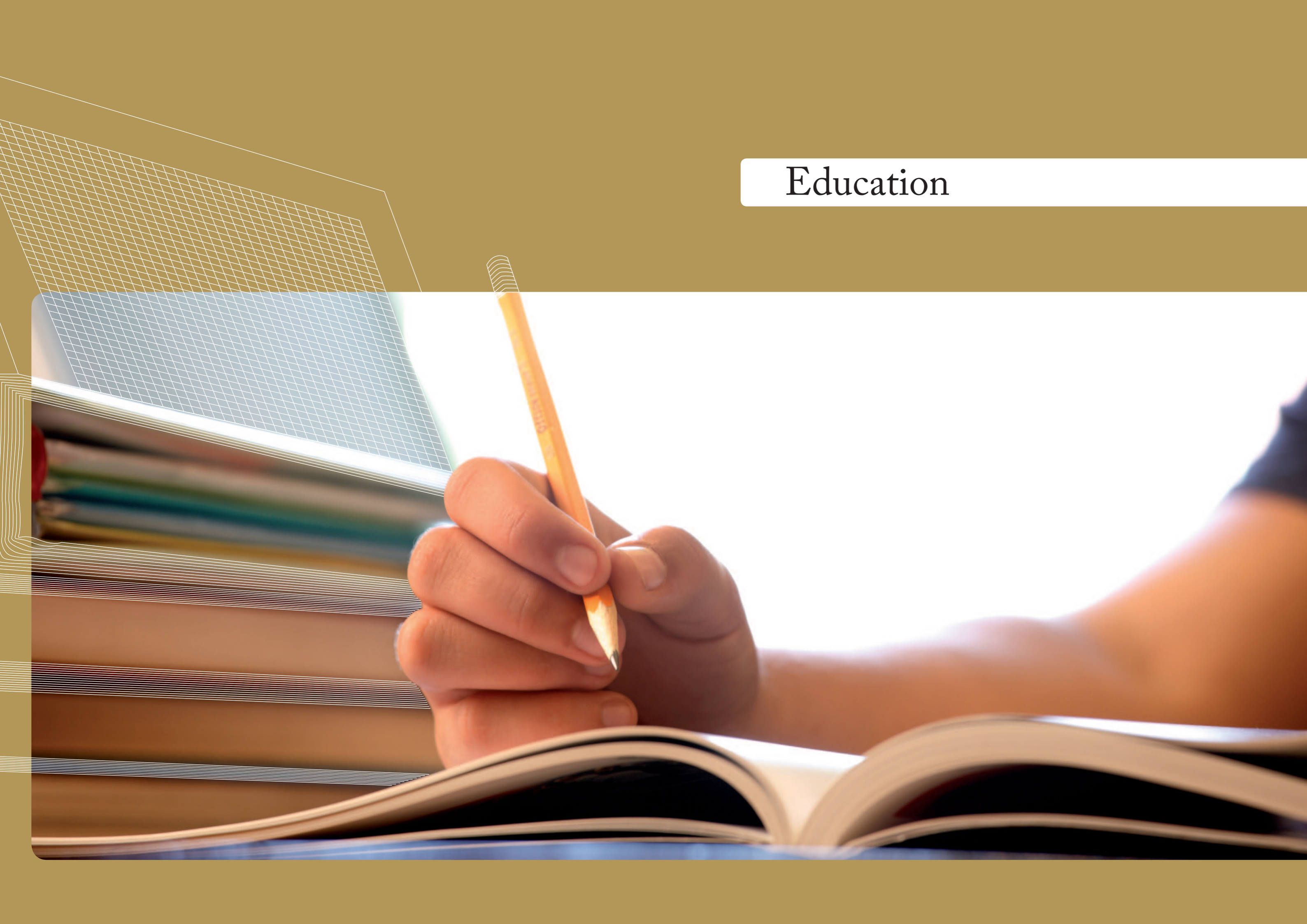
**Mr Córdova** - Newlink has worked on presidential campaigns in several countries. Recently Newlink Political advised two presidents of the Dominican Republic for two consecutive elections. We still have not done this here because there are no campaigns going on right now. We will start for the 2014 regional and municipal elections.

#### **Milestone GRP - What type of growth are you aiming for in the future?**

**Mr Córdova** - My goal is to grow 50% to 70% a year for four years. I hope that in four to five years we will have become four times larger than we are now.



# Education





# A Vision for the Future of Education in Peru

by Álvaro Henzler, Co-Founder & Executive President of Enseña Peru

Twenty years ago, Peru was socially and economically in ruins: Peru was fighting the Shining Path terrorist movement, it was just out of one of the longest hyperinflation processes in world history, more than half of its population was living in poverty, there was large external debt with a high risk rating and no international reserves and, basically, it was a closed and isolated economy. Three out of four young people wanted to leave the country. Today, 20 years later, Peru ranks as one of the most dynamic emerging economies, with one of the most attractive and open markets in the world. Moreover, poverty has been reduced substantially. 50% of Peruvians are very proud of their country and the young people are coming back.

Twenty years ago, the quality of our education was also in ruins. Now, in terms of learning opportunities and accessibility to all Peruvian children, nothing significantly positive has happened. Coverage levels in basic and higher education compete well with the best countries in the region. However, the quality and equity levels are only comparable to Haiti or some African countries. In the latest Global Competitiveness Report of the World Economic Forum, in the "Macroeconomic Stability" pillar, Peru climbed 31 positions and was placed 21<sup>st</sup> among 144 countries. At the same time, in the pillar of "Primary Education Quality," not only did Peru place last at 138<sup>th</sup>, but it also fell three positions. In 20 years, the economic face of the country is very positive and radically different from the ruins of the past; the face of education, however, is very negative and nothing significant has changed in the same period.

## What is the size of the challenge for the education system?

In Peru's schools there are nearly 9 million students distributed as follows: 1.4 million children at the kindergarten level, 3.7 million students in primary school and 2.6 million students in secondary schools, who study in more than 75,000 educational institutions in urban areas (53%) and rural areas (47%). Of these schools, 75% are public and 25% private with nearly 500,000 teachers, of which 65% teach at public institutions.

If we consider children under five, 61% of this population, which amounts to 2 million children, are not served, i.e. more than half a million children in early childhood are excluded. Only 4.6% of the population aged 0 to two years receives education services or early stimulation, and in the case of children aged three to five years, 74% of them attend different modalities of schooling.

The distribution of public expenditure exacerbates the inequality of conditions. For example, in Lima, the rurality index and per capita expenditure per student is 1% and S/. 900 respectively, while in Loreto, the wider region of the country, the spending per capita is the same, however the rurality index is 32%. The most extreme example of unequal investment is the Huancavelica region, the poorest in the country, where the rurality index reaches nearly 70% of its population and the per capita spending on primary education is only slightly higher than S/. 600.

The vast majority of the 25,000 rural schools are essentially private, built on community lands and with materials, labor and maintenance provided by the community, but become state schools

only because the state provides them with a teacher, creating a dependency on public administration. If the state subsidized an equal amount to the cost of the teacher, this would allow communities to choose their ideal teacher, with appropriate cultural and linguistic characteristics; it would also allow them to manage the school following a private management framework, while making them responsible for the respective monitoring.

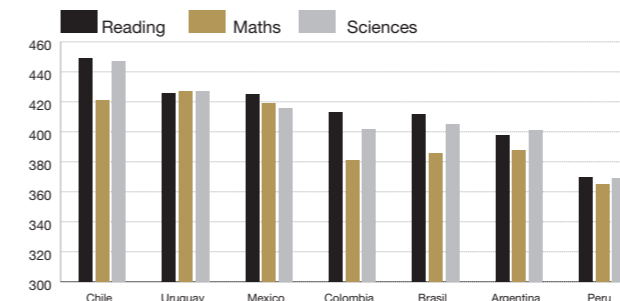
**“In the last 20 years, there have been three major changes: a long-term plan was formulated; priorities were set to increase coverage, and new concepts of merit and evaluation were introduced.”**

Standardized census assessments of students show very poor and uneven performance. According to the ECE 2010 (Student Census Assessment) the expected outcomes for 2<sup>nd</sup> grade children are achieved only by 28.7% in reading and 13.8% in math. Furthermore, the results show large gaps between different areas and groups: in text comprehension the urban - rural gap is 27.9% and the public - private gap is 25.8%. Within minority groups, the percentages of achievement are drastically lower: for example, only 7% of Quechua children and only 1% of Aymaras reach the expected learning mark. This is reaffirmed in international tests. In PISA (Programme for International Student Assessment) 2009 tests, Peru is ranked 63<sup>rd</sup> in reading and math and 64<sup>th</sup> in science out of 65 countries. This result positions Peru in last place among the Latin American countries that took the tests.

As for higher education, in Peru there are more than 120 universities and dozens of technical institutes. Enrollment indices indicate an average similar to others in Latin America: 36%. However, 35% of young professionals between 24 and 45 years are underemployed, which makes us wonder how relevant and appropriate higher education in the country is. According to QS Latin University Rankings only three Peruvian universities are among the 100 best in Latin America, with two private and one publicly owned. The National Council of Education said that "higher education in Peru is extremely heterogeneous with a very low and mediocre standards level, which indicates that the institutions that offer this service have no incentive or resources to invest in quality."

## What were the three major changes in the past two decades?

According to GRADE, one of the top 20 social think tanks in the world, in recent years a series of reforms have been consolidated that have allowed some improvements, such as expanding school coverage, education and training programs for teachers, and having initiated efforts to establish, for the first time, learning stan-



Comparison of the PISA Test Performance among Latin American Countries  
Source: PISA Report, 2009

dards. However, it is necessary to ensure not only an equitable access to the system, but the acquisition of basic skills and knowledge so as to reduce the immense educational inequity. In the last 20 years, there have been three major changes: a long-term plan was formulated; priorities were set to increase coverage, and new concepts of merit and evaluation were introduced.

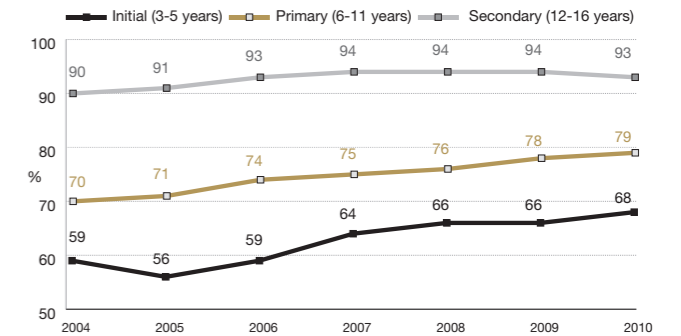
## A long-term plan for education.

Under President Alejandro Toledo's administration, the National Education Project 2021 (PEN) was developed. This agreement established the main aspirations of Peruvian society regarding the meaning and function that education should have in the long-term development of the country. The vision, priorities, choices and decisions that constitute this project reflect a state policy that is detailed in an educational policies matrix that indicates terms and deadlines, achievements and verifiable results that should engage all levels of political power and mobilize the entire society.

PEN is a public policy that frames, defines and directs successive government policies in education, ensuring continuity and consistency of the already begun processes with a long-term perspective, avoiding the constant elimination of what has already been achieved with each change of ministerial management.

**“The policies of the current administration are focusing on three major priorities: quality learning for all, teacher development, and modernization within the management processes.”**

PEN's vision is "Everyone develops their potential from early childhood, enters the world of knowledge, solves problems, practices values, learns to keep on learning, has rights and responsibilities, and contributes to the development of their communities and the country, combining their cultural and natural capital with global progress." It has six strategic objectives.



Net School Attendance by Educational Level  
Source: INEI

## Granting coverage and infrastructure with no concern for quality.

In the 1990s, ample facilities for universities were provided but the exponential increase happened without significant regulations and certifications. Peru has no quality teacher capacity to cater to the more than 100 universities that exist today, which can be reflected, for example, in the fact that half of these teachers are not published.

Universities are being perceived as a source of business and their increase is not reflected in the research capabilities and knowledge production. Moreover, beyond the quality of education provided, there is a clear mismatch between supply and demand in the labor market that is not being considered. As proof of this, there is no integrated system between higher education and business that focuses on technical training, but this is where the real profitability for graduates is. In Peru, law and education remain the most pursued careers even if there is no demand for them.

## New concepts of merit and evaluation were introduced.

Under President Alejandro Toledo's administration (2001-2006) teachers' salaries were doubled, and under President Alan Garcia's administration (2006-2011) the Public Educator Career legislation was enacted. These measures were aimed at increasing the incentives that the actors in the education sector face in order to improve the quality of the system, especially for teachers and principals. More importantly, these two governments introduced systems to evaluate teachers and introduce meritocracy as principles and values. This has produced many reactions from teachers and even fierce opposition from an extremist faction within the teachers union.

## What are the government's priorities today?

Currently, and in line with PEN, the administration of President Ollanta Humala and the Ministry of Education, have focused on improving teaching standards as a fundamental aspect of educational quality. To do this, the policies of the current administration are focusing on three major priorities: quality learning for all, teacher development, and modernization within the management processes.

Ambitious goals have been established. One such goal is moving from 28.7% of learning success to 55% by 2016. This shall be achieved through a participative management in schools, holding them accountable for their outcomes. This will include infrastructure and equipment improvements, timely delivery of school sup-



plies, pedagogical support and effective use of census assessment results.

To meet this priority and to achieve the set goal, it's necessary to close the gaps in three key areas: education in rural areas, early childhood education and inter-cultural bilingual education, paying special attention to Quechua, Aymara and Amazonian students.

Currently, in rural areas, only 7.6% of children and teenagers achieve the expected results and this figure aims to be increased to 40% by 2016. A large percentage of schools are multigrade where a single teacher is responsible for teaching a class made up of different ages in the same classroom at the same time. Furthermore, only 51% of pre-school children have access to education services and only 20% of Amazonian, Quechua and Aymara children are taught in their mother tongue.

implementing periodic standardized tests. This must be one of Peru's focuses.

To achieve these goals, there are six strategies to focus on for the following years:

- Refine and constantly share with people an inspiring mobilizing vision for education that all Peruvians want to achieve by 2021 and a few clear, concise and ambitious goals for 2016 and 2021. The National Education Project is the perfect input.
- Having a Ministry Economy and Finance that always establishes as its first priorities the pursuit of quality and equity in public education in Peru. For educational reform, the ministerial team in the Ministry Economy and Finance is as important as the one in the Ministry of Education.
- Strengthen the capabilities of the sector's middle-management. For example, creating a highly-skilled national and regional management team, and implementing a competition that attracts talented university graduates, similar to the prestigious and well-known course at the Central Reserve Bank.
- Develop a leadership program for key stakeholders in the education sector, civil society and business community to foster an organizational culture focused on institutional trust and open dialogue that promotes synergies and networking.
- Implement a public-private fund to scale innovations. In Peru, regional governments, social organizations and private enterprise have launched several proposals with success. It could be said that for every educational challenge, there is little experience of success. We just need to articulate it and scale it up.
- Create a visible and specific entity, with ministerial rank and authorities above the national public sector, to lead and take responsibility for the planning and implementation of all policies and programs articulated for early childhood in education, nutrition and health.

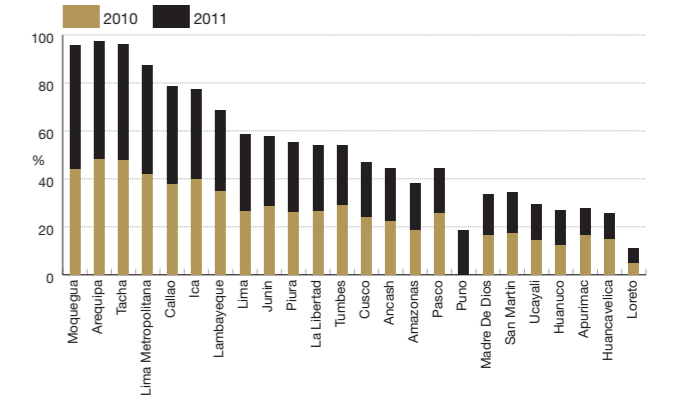
**Why is education important for investment and economic growth?**

One of the most damaging philosophies in emerging economies is thinking that education is merely a social and charity issue, that

"the state should solve it" and that companies should support education via Corporate Social Responsibility. Education should be a fundamental priority both for society and for the business community. With a basic course in economics it can easily be concluded that the basic pillars are to achieve sustained economic growth, education and infrastructure. A study by the McKinsey consulting firm says growth models survey the importance of human capital in economic growth: more educated people have higher levels of productivity and a greater ability to adapt to technologies and innovate in processes. In this regard, in a World Bank Policy Research Paper, Woessman and Hanushek present evidence on causation and a positive relationship between knowledge and cognitive skills with economic growth. These authors emphasize that those countries that have improved in knowledge and skills, recorded higher growth rates. It is estimated that an increase of 100 points on the PISA test scores in math and science, would result in a higher rate of GDP per capita growth of 1.2 to 2%.

To enjoy the benefits of economic growth, constantly and without interruption, economic investment and political determination to introduce educational reforms is essential in the medium- and long-term. Peru must change the public education system from its

very roots into one that provides all Peruvian students the possibility of receiving an excellent education, regardless of their origin or socioeconomic level. Today, we are far from that reality. We are, therefore, in immediate need for the adequate leadership, courage and resources to do so.



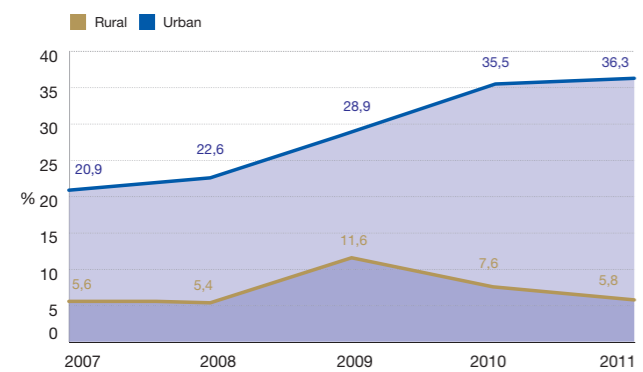
Percentage of Students Achieving the Expected Levels of Learning by Region Source: MEd

**“Ambitious goals have been established. One such goal is moving from 28.7% of learning success to 55% by 2016.”**

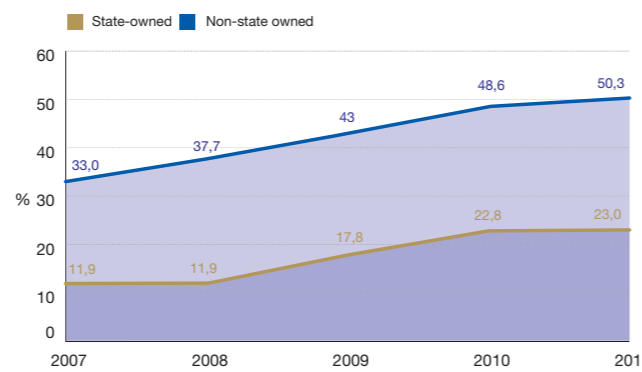
This year, the budget has increased in the education sector by 15% compared to 2011, which amounted to S/. 15.251 million. It is a significant increase that brings Peru closer to attaining the goal of 6% of GDP directed to education by 2016. This figure will reflect the average percentage of investment in the countries of the region. The budget is organized with an emphasis on the established goals: inclusiveness in rural areas, where the highest levels of concentrated poverty are found, in kindergarten education and early childhood education.

**What are the main challenges for the future?**

The consulting firm, McKinsey, argues that education systems that have evolved from poor to acceptable levels in recent years (Minas Gerais in Brazil, Madhya Pradesh in India and Western Cape in South Africa) have prioritized obtaining basic comprehension skills and calculation by primary education students, and have based their success on standardized lesson plans and in



Percentage of Students Achieving the Expected Performance in Reading Comprehension Considering Location of the Educational Institution Source: MEd



Percentage of Students Achieving the Expected Level in Reading Comprehension Considering School Management Source: MEd



Peruvian Primary Student





## SENATI – The National Training Service for Industrial Skills

“Training Future Skilled Labor”

Interview with Jorge Rivera, National Director of SENATI

**Jorge Rivera** is a senior strategic executive with over 30 years of experience in consumer goods, telecoms, education and business development in Peru, Ecuador, Guatemala, Honduras, Costa Rica, Panama, Salvador, Nicaragua and the US.

**Servicio Nacional de Adiestramiento en Trabajo Industrial - SENATI (The National Training Service for Industrial Skills)** is an educational institution with a mission to form professionals and train Peruvians technicians in the manufacturing, installation, repairing and maintenance sectors in order to supply local industry. SENATI has a strong presence across all regions of Peru and trains and educates skilled workers for the needs of industry.

Milestone GRP talked to Jorge Rivera about higher education in the developing industry and manufacturing sectors in Peru, as well as the country's current demands for talent.

**Milestone GRP - What is SENATI's main objective?**

**Mr Jorge Rivera** - SENATI was founded in 1961 to provide a solution for Peru's lack of skilled workers. At that time, workers had to be hired from abroad. For example, I worked in the footwear industry for almost 17 years and now the industry is starting to boom again. But the reality is we need to train technicians because the industry has evolved and many operations are carried out with robots. So we need to grow along with the industry and we need people from these industries to tell us which way the wind is blowing.

So we have an upgrading plan and we are improving all 80 locations, changing machinery, and investing almost US\$ 4 million in equipment and almost US\$ 8 million in facilities work to make SENATI a more modern structure that reflects the technology and industry requirements. Today, we deal with computerized sawing machines and industries that use robots so we are introducing robotics and mechatronics courses. We are inviting experts to teach us about all the newest Japanese

equipment so that our students will not have an adaptation period once they get to work in a specific industry.

**Milestone GRP - Within the region, Peru has the least competitive education sector. How is that affecting the demand for professionals in a country with a 6-7% average annual growth rate?**

**Mr Rivera** - Having skilled labor and a wide range of university degree courses is key to developing a sustainable economy. The industry is growing and SENATI was created in order to provide industry with a skilled labor force. We provide our students with qualified technical training through dual model-based programs. The dual model has its roots in Germany and constitutes one of the main pillars of the SENATI model: learning by doing. According to this model, students learn by practicing, which means they study at SENATI and do practical training at the job site concurrently. We offer 60 different technical programs, which are based on specific industries' requirements.

We have 80 locations across the country, and we are the largest and most decentralized educational institute in Peru. Our SENATI method aims at providing our students with transversal skills. First, we provide them with a general background, then the theoretical framework of the techniques they will be using later, and then they are placed in our sponsoring companies where they work four days each week. There they put into practice everything they have learned in their courses. Once a week they go back to class where they discuss their learning experience with their instructors. Students receive 70% of their training at the job site.

I believe that our country needs more skilled technicians than engineers. Today, industry requires specialized technicians that may turn into superintendents or managers in the future. Our programs is the only technical one in Peru to offer BULATS, an English certification by Cambridge University, because you need to communicate with the world. Sooner or later these people will have to interact with foreign instructors or with foreign companies, which will require this specific training.

**Milestone GRP - What are the most important sectors in Peru from your institute's point of view?**

**Mr Rivera** - Peru's industry is constantly growing and so are its needs. Our academic department is continuously identifying Peru's industry-specific requirements. In northern Peru we recently signed an agreement with Petroperu to train 600 students divided into three different groups: welding, industrial maintenance techniques and industrial mechanics. These programs go hand-in-hand with the industry's needs; thanks to this we have a high degree of job placement. For example, the gas industry needs welders, as well as technicians who can repair their machinery and electricians.

“Having skilled labor and a wide range of university degree courses is key to developing a sustainable economy.”

We adapt our training to the specific needs and requirements for each sector. As for the petrochemical sector, we are going to have an expert from Germany help us design the curriculum so we will be able to develop the degree course. We bring in foreign experts to train our instructors, then the people from our sponsoring companies and, eventually, our students. We also try to reproduce miniature factories in our institute. For example, in the North we have a small sugar plant where our students can see all of the sugar processing steps. We train our students to be technicians, not just simple workers, who can later aim to become supervisors. We do not want to compete with universities. We believe that we need to train people to work and that is our mission and that is what has made us successful.

**Milestone GRP - You are opening a new center in Huancavelica. Is that a way of meeting industry demand or are you thinking Huancavelica is where you need more industrial workers?**

**Mr Rivera** - The Huancavelica case is a peculiar one since it involves social inclusion issues that we need to fulfill. Usually, SENATI reinvests its profits in new machinery and infrastructure. But we also think that it is important to support the government and the country in areas such as Huancavelica, one of the poorest regions of the country. There are potential students there that need to learn necessary technical skills and today we are ready to enroll 200 students there. We have adapted the courses to that particular zone's industry requirements, by offering very specific programs such as automotive mechanics, heavy plant maintenance, jewelry, silversmithing and Alpaca fiber manufacturing. During this process the local community was also involved. In addition to our own resources, the community gave SENATI the land, the government gave us its support and we also received some support from the private sector, which invested in the project. We built a center that can offer new alternatives for the local people living there to train as skilled workers, and we think that is something very beneficial for our country.

**Milestone GRP - You have also expanded abroad with centers in other Latin American countries. How are you leaving your mark in Peru and abroad?**

**Mr Rivera** - We have signed support and cooperation agreements with other institutes, such as Senai in Brazil and Sena in Colombia. So we support each other with technicians and several programs where possible. Through these partnerships we invite experts, change curricula or send our students to their institutes for internships. We create these synergies in order to identify the best results coming out of these three realities and to adapt them to each country. Nevertheless, SENATI is a national enterprise that aims at supporting national industry and the country as a whole.

**Milestone GRP - Have you built other partnerships outside the region?**

**Mr Rivera** - Yes. We signed an agreement with the German Academy for International Cooperation (GIZ). Through the Peruvian-German Chamber, this cooperation allows us to invite German senior experts related to various fields within the industry, such as metal mechanics, mechatronics and die-stamping. They come to Peru and train our instructors first, and after that they train our students and people from the industry. They share teaching techniques, their experiences and present case studies. These foreign experts review our curricula as well, and give us suggestions on how to improve them. We have also built partnerships in France, Switzerland and Japan. We want to strengthen our ties with Spain as well. We aim at having experts from abroad constantly visiting our school, sharing their experience and helping us to improve all the time. We are working to enhance the German model in terms of technology.

**Milestone GRP - Peru is experiencing an increase in private foreign investment. Is SENATI working with these new foreign companies in Peru who may need these types of professionals?**



**Mr Rivera** - We have created a jobs bank for them. When students complete their program, we identify the industry's requirements, and together with our sponsoring companies, we make sure students get apprenticeships and then work to get them absorbed within the productive chain. This is obviously an ongoing process that never stops.

must pay a fee, which is regulated by law in the industrial sector and that becomes part of our revenue budget. We use that budget to buy our resources, while searching for the best conditions, prices, and products. For example, in Cerro de Pasco, we are building a 1,700 m<sup>2</sup> structure where we want to create a heavy plant workshop with our own funds. But we are also looking at the possibility of getting donations. In this case, in exchange for machinery, we offer training and maintenance courses, which can be very useful for the industry.

**Milestone GRP** - Can you explain the sponsorship process and how you are carrying it out?

**Mr Rivera** - The sponsorship process can take place in two ways. The first way is a Learning Contract, where based on the contributions it has made to SENATI, a company can 'adopt' a student, that is, pay for his courses and the student then carries out a dual practice in that company. They receive the minimum wage and once the student completes his program, he continues working with that company. The second way is a Learning Agreement between SENATI and the student, where the student works-off his student loans through the internship program.

**We adapt our training to the specific needs and requirements for each sector.**

**Milestone GRP** - Do you have any policy that regulates which company you get a specific kind of machinery from?

**Mr Rivera** - We have consultative committees formed by businessmen that basically tell us what direction to take, what technology to implement and what the current standards are. In order to join SENATI as a sponsoring company, a company



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## Universidad Nacional de Ingeniería “Engineering the Development of the Future”

Interview with Aurelio Padilla Ríos, Rector of Universidad Nacional de Ingeniería (UNI)

**Milestone GRP** - Let's start with a brief history of the Universidad Nacional de Ingeniería [National Engineering University].

**Mr Aurelio Padilla Ríos** - In the 1850s, the government saw an urgent need to increase the number of engineers for the mining and construction sectors. In 1869, Eduardo de Habich, a Polish engineer, arrived in Peru after having studied in France, and with the support of President Manuel Pardo y Lavalle, who was also an engineer, Habich founded the school. In 1976, they started the Escuela Especial de Ingenieros de Construcciones Civiles y de Minas de Lima, which was a post-graduate institution.

In 1995, the school was converted into the Universidad Nacional de Ingeniería, as it is known today. Today, we have 28 programs ranging from mathematics to architecture to engineering.

**Milestone GRP** - What are some of the most emblematic innovations that have come from the university?

**Mr Padilla Ríos** - One interesting innovation that came from the university happened in the late 1800s. Juan Carlos Grieve Becerra, the son of a famous inventor, joined the university in 1898. By the time he was a student, he was already developing car models and in 1908 he was developing cars that were more tailored to the Peruvian terrain. Unfortunately, there was no support from Peruvians because people thought imported technology was better quality. So that killed the initiative. At the time, we were the first country in Latin America to build cars and it would have led to a great auto industry.

**Milestone GRP** - How is the UNI guaranteeing the quality of the professionals that graduate?

**Mr Padilla Ríos** - There has to be a high level of confidence on the part of the professionals that are creating infrastructure structures. We take into account all aspects of construction, from the architects to the engineers, and they have practical experience with various projects.

**Milestone GRP** - What kinds of partnerships do you have with other institutions?

**Mr Padilla Ríos** - We work with the Japanese Peruvian Center for Seismic and Mitigation Investigation (CISMID). This center has been around for about 25 years, and is currently doing research in order to find improved technologies that will be able to better resist the effects of earthquakes and tsunamis. This is a project that the Japanese are funding, with a portion being funded by Peru. Our students are receiving interesting hands-on experience that is going to serve them in the future and help them become highly qualified professionals.

We have other projects in many different fields. An example is the strategic alliance we have formed with the oldest universities, Universidad Nacional Mayor de San Marcos and Universidad Nacional Agraria La Molina, having among its objectives the selection of candidates at the national level, to enable them to study their masters and doctoral degrees in countries such as France, Italy, Japan and Germany.

**Milestone GRP** - Can you tell us more about the Chasqui I satellite the university has been developing and how you think Peru can compete in the aerospace field?

**Mr Padilla Ríos** - The Chasqui I satellite is being used for communication and telecommunication in different fields in Peru. This satellite will be launched from Russia in coordination with Roscosmos in the first half of 2013. The satellite will orbit at 360 km of altitude. The life of the satellite is about two months. We have begun to build another satellite which will be much larger, about 50 kg, to orbit at the same altitude as the International Space Station. This satellite will have a higher resolution for registering images and will be used for more intense research.

These are the first and second phases, but we are going to have a third phase. We are creating a center for processing the digital images from the satellites and it will function as our ground station that will be receiving these images. And we will have access to other satellites and their images from those countries that we have an agreement with. So we are going to be able to process these images and they will be of use to many different areas, such as agriculture, energy, environmental safety, as well as natural disasters, among others.

**Milestone GRP** - Are you working with private companies to develop these projects?

**Mr Padilla Ríos** - Yes, but in a very insignificant way. That is what we are missing right now.

**Milestone GRP** - How are you able to stay competitive with the other engineering schools in the region?

**Mr Padilla Ríos** - Our standards are very high. Annually, 13,000 people apply to the university but only about 1,500 students are accepted each year. So there are still 12,000 students with the desire to study that are not admitted.

We have a pre-university center that aims to give students the tools that will serve them best at the university and if they don't get into the university directly from this preparatory class, they usually are accepted based on the general exam. So we know that this process is working. The state should be active in the search and formation of its future professionals, because these students are going to give the economy a competitive edge in the future and they are going to be the key participants in the development of Peru.



# Universidad del Pacifico

## “Forming the Best Professionals for the Market”

Interview with Miguel Bravo, General Manager of Universidad del Pacifico

### **Milestone GRP - How is the Universidad del Pacifico taking on the challenge of meeting the demand for skilled labor?**

**Mr Miguel Bravo** - Due to the Peruvian economic growth over the last few years, there has been an increase in the demand for skilled labor, and that skilled labor force goes hand-in-hand with the options in education. In the last five to ten years the number of universities has grown substantially. Today, there are about 98 universities, where 15 years ago we had only 40. That would seem to be enough to meet the demand for skilled labor, but now the problem is the academic quality of these new institutions. Unfortunately, not all universities are the same. There are some that aim at training people, and some that look for profits.

Another problem is that the labor force is more and more specialized, especially in the engineering field. The mining, agriculture, and agro-export sectors look for people with an engineering background, but sometimes universities are unable to provide graduates with all the required skills in order to be hired. For example, one mining company needed mechanical engineers specialized in heavy load diesel truck engine repair and they could not find them here. In other countries, educational options increase according to the market's needs, while here the education sector has developed without taking into account industry's requirements. Peru's education sector has to go in that direction. It has to identify niche markets and see what the employers are looking for.

### **Milestone GRP - How can the education sector be organized in order to make it more competitive?**

**Mr Bravo** - One of the education sector's greatest weaknesses is research. South America as a whole is not represented well in terms of research. There are universities that assess the growth of the economy, its trends and the companies' needs and requirements. Then, based on those assessments, they create their curriculum with a 10-year projection. The higher education institutions that have a more “business” model, shape their curriculum based on present-day needs. For example, the Hochschule Group University is offering very specialized engineering degrees directed at the industrial, mining and energy sectors. Universidad del Pacifico is working with the IT side, as a way of evolving in accordance with the economic growth of our country, and with what companies are going to require in five to ten years. The most successful universities are those whose course offerings are based on future jobs, because they are essential to sustaining the economy.

### **Milestone GRP - How do you ensure that your faculty is ready to teach these new subjects and that there is demand for the degree?**

**Mr Bravo** - This issue has to do with academic quality. One or two years ago, we made a big change in the strategy related to ensuring academic quality. One of the basic requirements

to be hired as a full-time lecturer is that candidates must be at least studying for their PhD. This is a way of ensuring quality. Choosing which degrees to offer is not done merely by conducting market research. You obviously carry out an evaluation of the market and assess the country's economic trends, but what we also do is apply a backward process. We go to the employers and see what their present or future needs are. After assessing their needs, we carry out market research to see what kind of demand we are going to have for that specific degree. After having designed the degree we incorporate our teaching staff. Our teaching staff participates in this process by creating the curriculum that is strictly related to the future employers' needs. The design of a curriculum can take up to one year. The curriculum is worked on at different levels. The dean of the department counts on a faculty board and on heads of departments that, in turn, depend on a teaching board.

“In the last five to ten years the number of universities has grown substantially. Today, there are about 98 universities, where 15 years ago we had only 40.”

We not only work on the list of subjects, but we also work on the specific content for each subject. Each subject has to provide certain skills aligned with the skills of the professionals. Once we have designed the subjects with all the relative course objectives, we design the syllabus for each of the subjects. Then, all the subjects get approved to ensure that all the skills provided are in line with the skills required of a professional. Once we have defined the curriculum, we take one step back and we assess what would be the ideal candidate profile for this subject. This way we try to make sure that the students have the right predispositions in order to succeed in this career. Then, we can start with the admission process. Our aim has always been that of forming the best professionals for the market, not to sell a course.

### **Milestone GRP - How do you ensure that your students are prepared for the international market and the expectations of international investors in Peru?**

**Mr Bravo** - There are two ways by which we ensure our students' international preparation. First of all, in the education sector, there are certain international accreditations that are similar in concept to ISOs. One of the most important accreditations for us is from the Association to Advance Collegiate Schools of Business (AACSB). We are the first university in Peru that has

this accreditation, which means that we are part of that small 5% of the world's universities that are internationally certified. We are also part of many international networks, such as the Association of Master's of Business Administration (AMBA). We work through accreditations and big international university networks.

“We want to provide Peru with the best professionals, no matter what university they come from, for the sake of our country's growth.”

Our curriculum also includes an international student exchange program. Through this program, the students that meet the necessary requirements can spend one semester at a university abroad. We have established partnerships with more than 70 universities across the world. One of our most successful partnerships is with the University of Maastricht in the Netherlands. That is the one that is most popular with our students. When we look for partnerships we only look at universities that are similar or better ranked than ours. We do not just send our students abroad, but we also receive students from other universities. Lately, we have received around 85 students from universities from all around the world. That is very good for us, because according to international standards, exchange students must account for at least 5% of the university's total student population, and we already outnumber that percentage.

### **Milestone GRP - Where do your exchange students come from?**

**Mr Bravo** - They come either from the United States or from Europe. We only receive students from our partner universities. At the moment, we are assessing which are the most relevant partnerships that we have in order to strengthen them even more. Many of our students choose Europe, but lately there is an increasing number of them that are choosing Asian countries such as China or Singapore. In 2021, there are going to be 440 million more people in the world and more than half of them are going to be in China and India. Therefore, we are looking at those countries as a future possibility for our students.

### **Milestone GRP - Why was the consortium with the Universidad de Lima, the Pontificia Universidad Catolica del Peru and Universidad Peruana Cayetano Heredia founded?**

**Mr Bravo** - This consortium was created with a dual focus. The first one was to try and solve some management issues together. In the future we may discuss further resolutions on how we handle our information or manage our resources, how to handle our administrative human resources or what the teacher policies are.

On the academic side, the consortium allows for our students to take courses at other universities within the consortium. For in-

stance, through new partnerships with other universities we are going to offer management courses in exchange for engineering courses through a student exchange. At the end of the day, we want to provide Peru with the best professionals, no matter what university they come from, for the sake of our country's growth. This kind of selfless vision is what we have decided to embrace.

### **Milestone GRP - What agreements have you established with local companies in terms of your graduates' placements? What criteria do you use in order to find the best placement for them?**

**Mr Bravo** - Placement is carried out according to the students' abilities. We work with companies through our Professional Contact office. As a requirement for graduation, our students have to complete an internship. Our Professional Contact office keeps a portfolio of companies that are interested in our students. When a company comes to our office, we first assess its specific needs, and then assess the company's working conditions for our students. Once the assessment is completed, the company can post a job and students can apply. It is the company that handles the official selection process. That is what we are doing in Lima.

As far as the provinces are concerned, we are working on increasing internships in those areas. The problem is that when students choose an internship in one of the provinces they may end up working in pretty difficult areas. So, we must limit the risk potential for our students. We do that by carefully assessing not only the company itself but also the type of accommodation that they are going to offer our students. We pay a visit to the company while the internship is taking place. What often happens is that the CEOs of these companies host our students in their houses, making them feel like a part of their family, and that makes it a much more pleasant experience for them.

We also offer training to students from other universities through the PIE network, an education integration program. This program addresses two different types of audiences: teachers and students. Twice a year, the university organizes economics, management or administration courses for local university teachers and for local university students. 25 leading companies fund the event and we organize it. The aim is to train the best local university teachers by financing them completely, including accommodation and travel expenses. So they come here and have classes with some of our best staff that train them in the latest teaching technologies, trends and theories. We also do the same with local university students within our consortium that spend around two weeks with us. We train them in the latest administrative and economic trends and theories. The idea behind this type of course is to give them an opportunity to spend some time training in an institution that they wouldn't normally be able to afford. We offer this completely free of charge and the students gain valuable experience.

### **Milestone GRP - What trends have you observed in terms of specific business skills needed?**

**Mr Bravo** - A trend that we have observed and incorporated into our curriculum is focusing more on soft skills. Soft skills are not just related to negotiation and communication, but are about training well-rounded professionals. For instance, we are about



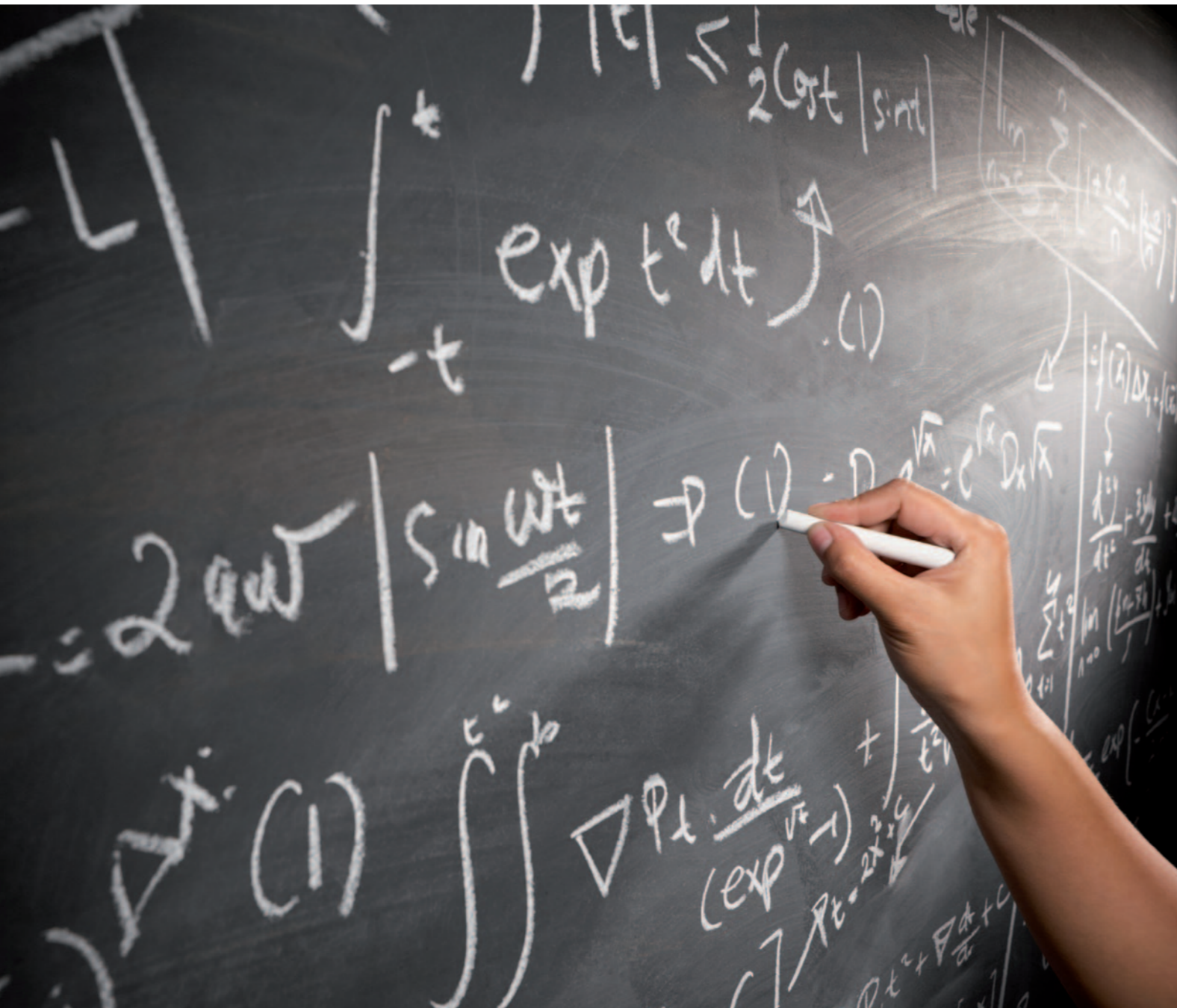
to launch the university's Cultural Center and we have extracurricular activities, ranging from dance lessons to different types of sports, in order to provide our students with important social and cultural experiences. We are a relatively small university but we have 23 different student associations, with support from the community being the main purpose of most of them. For us, being involved in the community is so important that we require that our students take part in at least one kind of volunteer initiative.

Students also have to take a compulsory subject called Social Responsibility. During this course, our students are required to apply corporate theories to Peruvian micro-enterprises, which represent 90% of Peruvian companies. We then work with these micro-entrepreneurs, translating all the theory into very basic concepts that can be understood by the business owners. We also require our students to take classes outside of their core subject area. For example, an economics student has to take two accounting subjects. This way, we make sure that our

graduates will have a wide knowledge in different branches of business management and economics.

**Milestone GRP - In your opinion, what sets Universidad del Pacífico apart?**

**Mr Bravo** - First of all, we train the best leaders for the country and for the world. We train leaders, no matter their income level. We have scholarships and sponsorship programs that we carry out through our UP Solidarity Fund, a student loan created in the 1980s and promoted by one of our teachers. Student loans are different from scholarships and they are more sustainable. We also give great importance to our infrastructure as we believe it plays a key role in the quality of our educational offering. That is why we invest a lot in our infrastructure. Over the past three years our infrastructure investments have exceeded US\$ 60 million, in order to provide our students with the best academic quality they need.



## UTECH – University of Engineering and Technology “Setting New Standards in Engineering”

Interview with Alberto Bejarano Heredia, General Manager of UTECH

**Milestone GRP - How do you perceive the significant boom in the number of universities in Peru?**

**Mr Alberto Bejarano** - While there has been a major increase in the amount of universities, we need to pay specific attention to coverage and quality. In terms of coverage, the explosion in the number of universities might indicate that higher education is reaching all the population in all corners of the country, however this is not so. On the one hand, there has been a significant growth but it is only in a few important cities.

And that's why you also have to consider the quality element and consider how many of these programs are adequate to answer the real needs of the economic market in Peru in order to secure sustainable growth. And this is key in a country like Peru, where you find a wide range of productive activities, diverse geographies, landscapes and wealth. So we need to create higher education initiatives to respond to the needs of Peruvian society.

I honestly don't think that our education system is providing these answers right now and this is a very tricky situation because you are playing with the students' expectations in addition to those of the companies that hire them.

**Milestone GRP - How does UTECH differentiate itself from these other universities, considering you are one year old and part of this higher education boom?**

**Mr Bejarano** - We are not just trying to create a new engineering university. Our objective is to be the ones who are developing and setting the new quality standards of engineering in Peru. This will benefit companies and graduates and have a direct impact on the country's growth.

UTECH is an absolutely private initiative. We know that there's a big demand for engineers in Peru with adequate skills and capabilities required by a complex and very professional market. That is why we talk about setting new standards in engineering. To do so, we are adopting international standards as our own and receiving international accreditations that back us up.

We are following specific steps. In the first place, we are providing our students with the best infrastructure, making available state of the art laboratories that are open and accessible to students 24/7. This will encourage innovation in the engineering fields. Also, the design of the campus itself, which will be ready in 2015, takes into account elements of comfort, accessibility, and green space. We are creating an environment that encourages our students to be the best.

A second element is the faculty. Our model follows both teaching and research specialties so it's a strong focus on the highest level of theory complemented by research. The objective is to allow our students to systematize data in order to create solutions to the problems they find.

A third element is taking advantage of the information technologies available to facilitate our students' education process.

A fourth element is having a holistic approach to education. The credits granted in our program are balanced as follows: 50% of the credits are for engineering, 25% for science and math, and 25% for management, humanities and arts. We want a holistic approach that integrates art, business management, ethics and understanding of society, as well as the capability to do their job as engineers.

And finally, the main objective is creating excellent professionals that are excellent human beings.

**Milestone GRP - You have made MIT and Purdue your strategic partners. What will the benefits of these partnerships be?**

**Mr Bejarano** - We are not only forming partnerships with international universities, but also with local ones to fulfill the 25% of credits that we are giving for management, humanities and arts. So, in Peru, we will be working with Universidad del Pacífico for the management courses, with Universidad Antonio Ruiz de Montoya for the ethics courses, and with the Lima Contemporary Art Museum for arts courses.

“We need to create higher education initiatives to respond to the needs of Peruvian society.”

At the international level we are developing exchange programs both for students and teachers, to promote joint research and practices, publications and patents.

**Milestone GRP - How are you going to ensure that your students meet the demands of private companies?**

**Mr Bejarano** - Our program includes internships for our students in different companies in Peru throughout their career. We won't be pushing our students into specific companies. On the contrary, these companies will come and look for them.

**Milestone GRP - Considering this is UTECH's first year, what is your vision for the next 10 years?**

**Mr Bejarano** - Our objective is developing the engineering standards in Peru and being recognized as one of the best universities by companies and by our students.





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