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THEDIALOGUE

FEATURED Q&A

Can Public-Private Projects Boost Peru's Economy?

Peru's government announced the launch of more than 30 public-private projects that seek to boost the country's weakened economy following months of violent protests. A December protest is pictured. // File Photo: Peruvian Government.

Q Peru's government on Feb. 28 announced the launch of more than 30 public-private projects that will inject some $9 billion into the economy. The investments seek to revive the country's weakened economy after months of violent anti-government protests. The projects, which include road infrastructure, energy and sanitation, are set to start by 2024, according to José Salardi, the head of the government's agency for investment promotion. How will the projects be financed? What will be their overall economic impact, and which sectors and industries will be targeted? What are the major drivers of the Peruvian economy this year, and what are the biggest challenges it faces?

A Luis Miguel Castilla Rubio, former Peruvian minister of economy and finance: "To counter the ongoing confidence crisis and economic slowdown, the Peruvian government has prioritized accelerating GDP growth. Complementary to conventional fiscal stimulus being undertaken, Proinversión—the government's agency for investment promotion—plans to jump-start its private-public partnership infrastructure program. Attracting private investment had virtually gone to a halt since 2016 due to high political instability, public sector paralysis, corruption probes and the Covid pandemic. Intended project pipelines will require large public sector co-financing, which Peru's sound public finances can certainly accommodate. This much-welcomed effort is inscribed in plans to accelerate closing infrastructure gaps that amount to 50 percent of GDP and to boost the

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TODAY'S NEWS

ECONOMIC

Venezuela to Send Cuba 1.53 Million Barrels of Oil

Venezuelan state oil company PDVSA, headed by Pedro Tellechea, on Monday was loading the Panama-flagged supertanker Nolan with fuel and crude for Cuba. The oil seeks to aid the island following repeated electrical outages this year.

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ECONOMIC

Argentina's Inflation Rate to Exceed 100%

The Argentine annual inflation rate is set to surpass 100 percent in February, marking the first time since the 1990s that the figure will reach triple digits.

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POLITICAL

Brazil's Lula Visits Indigenous Land in the Amazon

Brazilian President Luiz Inácio Lula da Silva on Monday visited Indigenous land in the Amazon rainforest for the first time since taking office in January.

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Lula // File Photo: Brazilian Government.

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POLITICAL NEWS

Deadly Cyclone Yaku Sweeps Peru's Northern Region

At least six people have died in Peru in recent days as Cyclone Yaku sweeps the country's northern region, Reuters reported Monday. The tropical cyclone has brought torrential rains and flooding to the regions of Tumbes, Piura, Cajamarca, Lambayeque, La Libertad and Ancas, prompting the government of President Dina Boluarte to declare a state of emergency in 400 districts, Deutsche Welle reported. "It is sad and painful. Families are trapped in the mud, rice crops are flooded and you can't even see the river's course," Boluarte said, Reuters reported. "This can't continue." The president visited parts of northern Peru over the weekend as part of the government's efforts to bring relief to the affected areas. Boluarte said the government did not have sufficient resources to manage the floods, including motorized pumps and other machinery, because the state had been "abandoned." On Saturday, several rivers overflowed across the country, damaging crops and homes and causing at least one bridge to crumble in Casma province, Deutsche Welle reported. The bridge was the province's main path to northern Peru, the regional governor said. According to the National Institute of Civil Defense, more than 60 people have died in extreme weather-related events in the country since the start of the rainy season.

Brazilian President Visits Indigenous Land in the Amazon

Brazilian President Luiz Inácio Lula da Silva on Monday visited Indigenous land in the Amazon rainforest for the first time since taking office in January, the Associated Press reported. Addressing about 2,000 Indigenous people in the Raposa Serra do Sol region in Roraima state, near the border with Venezuela and Guyana, Lula said he would support creating new territories for these communities but did not announce any demarcations. "We need to quickly try to legalize every land whose [demarcation] studies are almost finished so the Indigenous can take the land that is theirs," Lula said at the General Assembly of Indigenous Peoples in Roraima. The president expressed support for the quick demarcation of lands "before other people take over [and] invent false documents" to claim ownership rights, the AP reported. Such incidents have been common throughout Brazilian history, in response to which the country began demarcation processes more than 50 years ago. Indigenous movements are putting pressure on Lula to demarcate 13 new Indigenous territories that still lack presidential approval to be official. The general coordinator of the Indigenous Council of Roraima, Edinho Batista de Souza, described Lula's visit as historic. "It's the first time in the 50 years of this assembly that the president has come to honor our event," he said, according to a statement by the Brazilian government. "This moment will shape the history of our generation, and of our steps toward even greater union, resistance, and victories," Batista de Souza added.

U.S. Officials Stand Off Hundreds of Migrants at Border

U.S. officials on Sunday stopped hundreds of migrants from entering the country through the Paso Del Norte bridge from Mexico, Reuters reported. The migrants were seeking to gain asylum in the United States. Border officials used concrete and plastic barriers covered with barbed wire to stop the migrants, who were mostly from Venezuela, the Associated Press reported. The crowd of migrants withdrew following the brief standoff, Reuters reported. They were "posing a potential threat to make a mass entry," Roger Maier, a U.S. Customs and Border Protection (CBP) spokesperson, told the AP on Monday. A false rumor "that they were going to let [the migrants] cross massively, particularly people who arrived with children," may have sparked the attempted influx,

NEWS BRIEFS

Argentina's Inflation Rate Expected to Exceed 100%

The Argentine annual inflation rate is set to surpass 100 percent in February, a Reuters poll showed Monday. The country's Consumer Price Index is expected to increase by about 6.2 percent for February following a 6 percent jump in January, according to the poll, Reuters reported. The expected rate would represent the first time since the 1990s that inflation reaches the triple digit mark. Argentina's National Institute of Statistics and Censuses, or INDEC, is set to release its official inflation data from last month later today.

Brazilian Natura & Co Reports Net Loss in Previous Fourth Quarter

Brazilian cosmetic manufacturer Natura & Co. on Monday posted a net loss of 890.4 million reais ($169.7 million) in the previous fourth quarter, registering lower revenues across all business lines, Reuters reported. The company had recorded 695.5 million reais in profits a year earlier. Poor performance at its Avon International and The Body Shop lines, which both reported revenues down by more than 20 percent, dragged down Natura's net revenues by 11 percent.

Colombia Blames Clan del Golfo Criminal Group for Breaking Ceasefire

Colombian President Gustavo Petro on Monday said the Clan del Golfo criminal organization had severed the ceasefire over continued attacks, Reuters reported. The ceasefire with the Clan, also known as the Gaitanista Self-Defense Forces, represented an important part of Petro's effort to bring "total peace" to the country. In an interview, Petro accused the Clan of destroying a municipal aqueduct in Antioquia amid roadblocks that disrupted movement and caused shortages of food, fuel and medicine.

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said Camilo Cruz, who works with the U.N. migration office in Mexico. Such rumors are a recurring problem, Cruz added, the wire service reported. Many migrants at the U.S.-Mexico border are also frustrated with the new CBP One mobile application, which was developed by U.S. President Joe Biden's administration, Reuters reported. The application is meant to streamline asylum applications. "We want answers please," said Camila Paz, an 18-year-old migrant at Sunday's standoff. "The [CBP One] application has done absolutely nothing for us," she added.

ECONOMIC NEWS

Venezuela to Send Cuba 1.53 Million Barrels of Oil

Venezuelan state oil company PDVSA on Monday was loading the Panama-flagged supertanker Nolan with fuel and crude for Cuba, Reuters reported. The state-owned company is set to load 400,000 barrels of fuel, in addition to 1.13 million barrels of heavy oil at its José terminal, maritime documents showed. The uncharacteristically large volume of 1.53 million barrels is to aid Cuba following repeated electrical outages this year. The Nolan supertanker is owned by Nigeria-based Thomarose Global Ventures Ltd. and was blacklisted by the U.S. Treasury Department in November, following accusations of its involvement in an international oil smuggling network. "Cuba's primary source of energy is oil, much of which is imported," Lisa Glidden, professor and director of global and international studies at SUNY Oswego, told the weekly Energy Advisor in a **Q&A** published March 10. "The island's aging grid needs investment and replacement parts," she added. In 2022, Venezuela's oil supply to the Caribbean island decreased approximately 6 percent to about 53,600 barrels per day, Reuters reported. Venezuela's oil exports fell in February by 8 percent amid contract reviews by newly appointed Chief Executive Pedro Tellechea, the wire service reported last week.

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potential growth rate (which happens to be a third of the level posted a decade ago) amid high citizen disaffection. Congress has recently granted legislative authority to the government to streamline investment permits and assist local and regional authorities. This is urgent in view of a limited technical capacity that explains massive unexecuted public budgetary allocations and a growing stock of paralyzed investment projects. However, confidence remains elusive and for this to change, Peru urgently needs to restore political stability and deregulate its cumbersome investment procedures, including granting more autonomy to Proinversión from the ministry of economy and finance's strict control. Given that financial resources are not the real constraint, the main challenge ahead is to modernize public sector capacities, accelerate civil service reform and instill more transparency to avoid falling into a low growth trap. Streamlining efforts should also be extended to the mining sector, coupled with effectively dealing with social conflicts. Investor confidence is longing for an enabling and more predictable regulatory environment. This will only happen if a strong and legitimate political leadership is in place."

Constanza Perez Aquino, associate director of Sovereign and Public Finance Ratings: "Political and social tensions in Peru generate uncertainty over future policies and limit economic growth prospects, in a context of favorable external conditions for the country. The external sector will likely contribute to growth amid still high copper prices, compared to the historical average, along with contributions to production from the Quellaveco mine, in its first full year of operations. The administration has been making efforts to counterbalance subdued private investment that will likely remain in 'wait and see' mode until there is more political visibility. These include improving the execution of public investment, which has shown some positive results this year and could contribute to growth, along with investment projects underway such as Metro de Lima 2 and the Jorge Chávez airport, both under execution. The development of new public-private investment projects generally takes time, while funding will depend on general conditions included in the contractual terms and counterparty risks that remain a key feature for these types of investments that are long tenor by nature. We consider that the current context presents an opportunity cost to growth. If new rounds of protests emerge and political instability heightens, we could revise our growth forecast of downward of 2 percent."

Carlos Arata, partner at Rubio Leguía Normand in Lima: "After several years without many infrastructure projects awarded or executed, we are finally seeing Proinversión being more proactive. These announcements come as part of its efforts to reactivate our infrastructure sector. Financing infrastructure projects in Peru depends on the type and size of the project. For larger and more complex projects, the government generally co-finances the construction through 'investment retribution payments' payable in installments upon the completion of certain project milestones. This allows developers to access capital markets in order to monetize these future payments. For smaller projects, financing comes from third parties through, normally, project financing structures in which local or foreign banks and financial institutions participate. Infrastructure projects have a very important impact on the country's overall economy. They do not just involve the work of construction companies, but also of other subcontractors and providers. However, and probably more importantly, once completed they have an impact on a better transportation system (facilitating transport of goods), energy to distant locations, better sanitation systems or improving the health system,

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where nowadays the population needs to travel far away to get proper treatment. Still, the main challenge in Peru is to regain political stability. We have had six presidents in the last seven years, which obviously creates a difficult environment for long-term investments."

Carlos Aquino, director of the Centro de Estudios Asiáticos San Marcos (CEAS) at the National University of San Marcos: "The public-private partnership initiative allows the government to mobilize private resources for projects. Peru has done it before; in the building of highways and airports, for example, and in the building of the first metro system in Lima. The government announced road infrastructure projects, including in the Andean region where a lack of road is evident, as well as energy and sanitation projects because some regions lack basic utilities, such as access to drinking water and sewage networks. This year, again, it is expected that exports will be the engine of growth. Copper, which represents around 30 percent of the country's exports, should have good prospects as China's reopening could push prices up. The challenge is whether mines will be able to fully export their production, considering road blocks have impeded transportation at times in 2022 as well as this year. This will depend on whether the social protests continue, and on the government's ability to keep the roads open. The same applies to another of Peru's main exports—the agroindustry—and whether shipments of avocado, asparagus, blueberries, grapes and the like do not encounter problems in reaching ports. Public investment should be the other engine of growth (as private investment probably could not increase or perhaps decrease, as was the case last year), as the government has announced several projects to be implemented. The challenge here is that this year marks the beginning of new regional, provincial and local governments (following the November 2022 elections), and many of the new authorities do not have the knowledge nor expertise to spend the public funds allocated to them. Besides this, corruption is endemic, and funds could be diverted or spent in inefficient ways."

Cesar A. Martinelli, professor of economics at George Mason University: "Peru's economic administration wants to speed up 31 investment projects this year worth $7.9 billion, most relating to badly needed infrastructure. These are to be in the modality of public-private partnership, that is, the government expects to attract—mostly foreign—private funding. The administration aims to reinvigorate growth and favor areas of the country traditionally excluded. In this sense, the administration has the correct goals and the heart in the right place. The plan, however, is not realistic. Over the last two years, only few, and very small, projects were awarded. The reason for this was the backlash of corruption scandals bedeviling previous administrations and political instability. The latter has only gotten worse due to 1.) a lack of clarity regarding new elections and 2.) the state of emergency in some of the areas affected by riots. Moreover, the plan is insufficient. Even if foreign investments were to come, there is little hope that they will spur private domestic investments as hoped by the economic administration. The long-run prospects for the country remain very strong, in particular in mining and agribusiness, but political stability is desperately needed."

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta.

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