

## INVESTMENT IN INFRASTRUCTURE IN PERU AND ITS PROSPECTS

**José Hernández Pino**

Senior Economist

[jhernandez@comercia.com.pe](mailto:jhernandez@comercia.com.pe)

### Summary

Peru has an infrastructure gap of \$110 billion in the long term according to the IDB. The Ministry of Economy and Finance of Peru (MEF), approved an Infrastructure Plan with 72 prioritized projects, focused on transport, hydrocarbons, and telecommunications. In addition to the launch of PPPs, Peru is expected to continue using Government-to-Government (G2G) Agreements for the most important projects. Political uncertainty and poor performance in execution due to constant changes of Ministers in recent years affected public investment. The intervention in regions to improve management capacities developed by MEF can contribute to increasing it.

### Key facts



72 projects of the PNISC:

US\$ 39,700 million

36 projects 2023- 2024:

US\$ 9,100 million

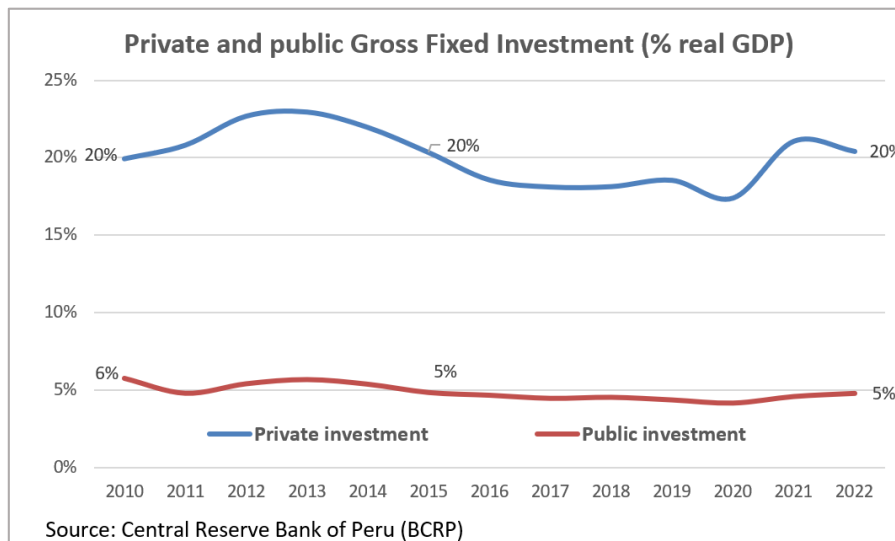
Public investment 2023:

increased 15.8% first quarter compared to 2022

# Investment in Infrastructure in Peru and its prospects

## 1. Importance of Investment in National GDP

Investment has represented 25% of Peru's GDP in the last 12 years. 20% of this investment corresponded to private investment and 5% to public investment, with private investment having the highest dynamism in this period. It should be noted that private investment in 2022 decreased by 0.5% after growing by 37% in 2021. In this context, it is a priority to provide the conditions to attract and facilitate the execution of private investment projects in the current year. Nevertheless, the Central Reserve Bank of Peru (BCRP) in its latest report on inflation and macroeconomic variables reduced its projection of private investment growth from 1% to -0.5%. This is due to multiple factors that generate strong uncertainty and do not currently foster a suitable business climate for investment.



## 2. Infrastructure Gap in Peru

An IDB study<sup>1</sup> estimated that Peru has a short-term infrastructure gap of US\$ 35.5 billion and a long-term gap of US\$ 110.1 billion. In this regard, the Ministry of Economy and Finance (MEF) has been promoting private and public investment in infrastructure in the country, having approved the National Plan for Sustainable Infrastructure for Competitiveness 2022-2025 in October 2022<sup>2</sup> which prioritizes 72 projects in various sectors, with a total investment amount of US\$ 39,093 million<sup>3</sup>. The main sectors these projects focus on are transportation (57%), hydrocarbons (13%), communications (8%), education (5%), health (5%), and water and sanitation (5%).

<sup>1</sup> Infrastructure Gap in Peru. 2020. Inter-American Development Bank. Pages. 60-61.

<sup>2</sup> Approved by Supreme Decree No. 242-2022-EF published on October 24, 2022.

<sup>3</sup> To convert the amounts from soles to dollars, the average interbank exchange rate of February 2023 was used (3.84146), which corresponds to the latest information published by the Central Reserve Bank of Peru (BCRP).

**Prioritized Projects in the National Plan for Sustainable Infrastructure for Competitiveness 2022-2025 by Sector**

Sector	Number of Projects	Investment Amount (millions of US\$)
Transportation	18	22,202
Hydrocarbons	1	5,055
Communications	9	2,938
Education	4	2,018
Health	22	1,971
Water and Sanitation	12	1,794
Agriculture and Irrigation	2	1,364
Production	1	756
Electricity	2	513
Environment	1	75
<b>Total</b>	<b>72</b>	<b>38,687</b>

Source: PNISC 2022-2025

The execution of these projects will contribute to closing the infrastructure gap that the country has, with the government having various contracting modalities for the development of such projects.

**3. Modalities for the development of infrastructure projects.**

The main public infrastructure projects in Peru are developed under various modalities, such as Public-Private Partnerships (PPP), Asset Projects, Works for taxes, Public Contracting, and recently, Government-to-Government (G2G) contracts or agreements.<sup>4</sup>

- Public-Private Partnerships (PPP): Public-Private Partnerships (PPPs) are a modality of private investment participation in which the government and one or more private investors enter into long-term contracts to develop public infrastructure projects, public services, applied research, and/or technological innovation. In PPPs, risks and resources are distributed between the public and private sectors, with the latter taking on the risks and providing resources. This arrangement is preferably private, aiming to attract private investment for public benefit.<sup>5</sup> The projects under the PPP modality can be (i) co-financed, which require state co-financing, and (ii) self-financed, with their own capacity to generate income, without state co-financing.
- Assets Projects: a modality of private investment participation promoted by public entities with the power of disposition over their assets. Its application is carried out by PROINVERSION, Regional and Local Governments, and applies to present or future assets owned by public entities. Asset Projects contracts cannot commit public resources or transfer risks to the State, except by express law.<sup>6</sup>
- Works for taxes: is a mechanism that allows private companies to advance the payment of income tax in order to directly finance and execute public investment projects that regional or national governments have prioritized. At the end of the project execution, the Public Treasury reimburses the amount invested to the company through Certificates that can be used to pay income tax. Subsequently,

<sup>4</sup> It should be noted that, according to the Public Procurement Law, the term used is State-to-State Contract; however, they are also known as Government-to-Government contracts or agreements, or G2G.

<sup>5</sup> Article 20 of Legislative Decree No. 1362.

<sup>6</sup> Article 49 of Legislative Decree No. 1362.

regional and local public entities return to the Public Treasury the amount financed for the execution of their projects.<sup>7</sup>

- Government-to-government contracts: allow for the acquisition of goods, contracting of services, execution of works, management, development or operation to be carried out by another state through its own agencies, entities, public or private, national or foreign companies. The contracting of State-to-State must be authorized by Supreme Decree endorsed by the corresponding sector's titular, declaring the object of the contract as a matter of national interest. Although it is a modality of public procurement excluded from the Law of State Procurement, it is supervised by the Supervisory Agency for State Contracting (OSCE in the Spanish Acronym)<sup>8</sup>.

Additionally, public infrastructure works can also be developed through the State Procurement Law (Law No. 30225); in projects that have been declared feasible within the framework of the public investment system (invierte.pe). Such works are tendered by the public sector at its various levels of government and are governed by the mechanisms established in the aforementioned Law.

#### 4. Infrastructure projects in operation

The projects that contribute the most to reducing the infrastructure gap according to the PNISC are those related to transportation: roads, airports, ports, railways, and navigable waterways. According to information from the Supervisory Agency for Public Use Transportation Infrastructure Investment (OSITRAN in the Spanish Acronym)<sup>9</sup> as of January 2023, there were 32 concessioned project contracts under the PPP modality, which together constitute a committed investment amount of US\$17 billion. A large portion of these projects have been under execution for several years, with no new transportation projects concessioned under PPP in the last 4 years.<sup>10</sup> The total investment mentioned above is broken down as follows:

- 35% (US\$ 6,018 million) corresponds to railways, which includes projects such as Line 1 and Line 2 of the Lima Metro.
- The second most important sector is roads with 32% of the committed investment (US\$ 5,449 million), which includes the interoceanic highways (IIRSA North, Center, and South), various sections of the North and South Pan-American Highway, Longitudinal of the highlands, among others.
- The third most important sector is ports, with 17% of the total investment (US\$ 2,917 million), which includes the port terminals of Muelle Sur and Muelle Norte in Callao, the port terminals of Piura, Paracas, Matarani, Salaverry, among others;
- A fourth sector corresponds to airports, with 15% of the committed investment (US\$ 2,572 million), which includes the Jorge Chavez International Airport and the first and second group of regional airports.

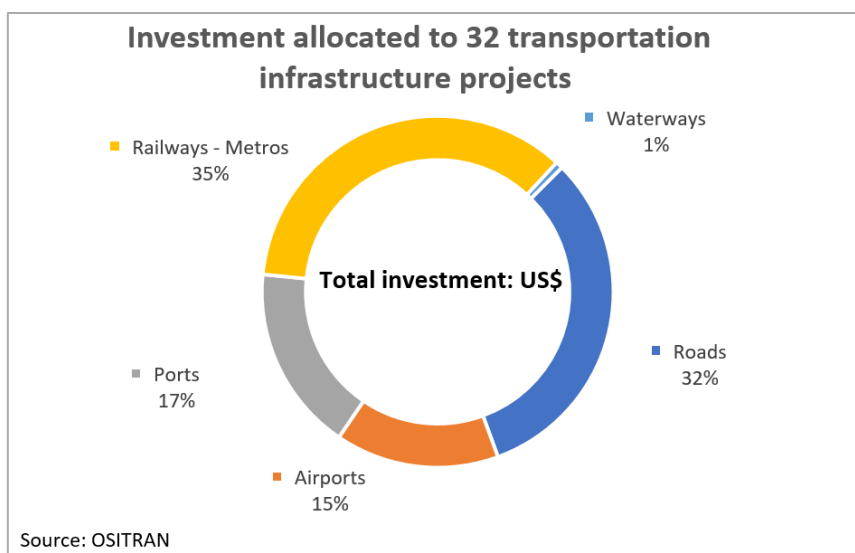
---

<sup>7</sup> See: [https://www.mef.gob.pe/es/?option=com\\_content&language=es-ES&Itemid=100270&lang=es-ES&view=article&id=3976](https://www.mef.gob.pe/es/?option=com_content&language=es-ES&Itemid=100270&lang=es-ES&view=article&id=3976)

<sup>8</sup> Twenty-first Final Complementary Provision and Article 5 of the Single Text Ordered of Law No. 30225, Law of State Contracting, approved by Supreme Decree No. 082-2019-EF.

<sup>9</sup> See: <https://www.ositran.gob.pe/anterior/nosotros/ositran-en-cifras/>

<sup>10</sup> The last transportation infrastructure project awarded through a Public-Private Partnership was the "Modernization and Development of the Multipurpose Port Terminal of Salaverry" (May 31, 2018).



It should be noted that, with regards to infrastructure in other sectors, PROINVERSION<sup>11</sup> reports concessions in 34 projects in electric energy, 22 in mining, 20 in telecommunications<sup>12</sup>, 7 in sanitation, 4 in hydrocarbons, and 3 in agriculture; all of which were granted as concessions between 1999 and 2021.

**Government-to-government contracts:** to date, the main infrastructure projects that have been developed or are being executed under this modality are the following:

- Cooperation and Assistance for the Execution of the XVIII Pan American Games and VI Parapan American Games 2019 (signed on August 3, 2017 with the United Kingdom)<sup>13</sup>, with an estimated investment of US\$ 1.04 billion.<sup>14</sup>
- Contract for Advisory and Specialized Assistance in the Management of the Implementation of the Integral Plan for Reconstruction with Changes (signed on June 22, 2020 with the United Kingdom). This contract projects an investment of US\$ 3,267 million destined for the reconstruction of 74 schools, 17 health facilities, and 46 interventions for comprehensive solutions for rivers, streams, and drainage systems.<sup>15</sup>
- Contract for Technical Assistance in the Execution of the Investment Project: "Improvement and Expansion of the Airport Service in the Cusco Region through the New Chinchero-Cusco International Airport" (signed on October 24, 2019 with South Korea). For the implementation of this contract it is expected an investment of US\$ 427 million.<sup>16</sup>

**Public Procurement:** an example of the development of this type of procurement is the Road Infrastructure Program for Regional Competitiveness - PROREGIÓN 1, which is a project under the Ministry of Transport and Communications (MTC), through the Special Project for Decentralized Transport Infrastructure - Provías Descentralizado. The required investment is US\$ 482 million and includes the execution of 4,927 km of departmental roads in 16 regions, 54 provinces, 198 districts, and a beneficiary population of 1.7 million inhabitants. In May 2021,

<sup>11</sup> See: <https://www.investinperu.pe/es/app/estadisticas-de-procesos>

<sup>12</sup> It does not include projects awarded under the FITEL, which mostly correspond to projects in operation.

<sup>13</sup> See: <https://www.rgbavocats.com/es/blog/contratos-de-estado-a-estado-en-el-peru-rgb-avocats-asesora-en-contratos-gtog>

<sup>14</sup> To convert the amounts from soles to dollars, the average interbank exchange rate of February 2023 was used, which corresponds to the latest information published by the Central Reserve Bank of Peru (BCRP).

<sup>15</sup> See: <https://www.rcc.gob.pe/2020/autoridad-para-la-reconstruccion-con-cambios-amplio-vigencia-del-acuerdo-de-gobierno-a-gobierno-con-el-reino-unido/>

<sup>16</sup> See: <https://andina.pe/agencia/noticia-cusco-obras-aeropuerto-internacional-chinchero-presentan-gran-avance-923928.aspx>

the MEF signed two loan contracts, one with the Inter-American Development Bank (IDB) and another with the Development Bank of Latin America (CAF), for more than US\$ 340 million to finance road infrastructure.<sup>17</sup>

## 5. Infrastructure projects prioritized for the coming years

Regarding future projects, which are not yet concessioned and therefore constitute an investment opportunity, the BCRP<sup>18</sup> highlights that the main infrastructure projects prioritized by PROINVERSION in the 2023-2024 period would add up to US\$ 9.1 million, including PPP and active projects. The largest projects are the Peripheral Ring Road, the Sierra Longitudinal Highway Section 4, the Ancón Industrial Park, the San Juan de Marcona Port Terminal, the Essalud Hospitals in Piura and Ancash, among others. The 15 most important prioritized projects are:

N°	Projects to be awarded 2023-2024 - PROINVERSION	Investment amount (US\$ million)
1	Peripheral Road Ring	2,380
2	Longitudinal of the Highlands range section 4, Road	929
3	Ancon Industrial Park	762
4	500 kV Tie-line Huánuco –Tocache – Celendín – Trujillo and 500 kV Tie-line Celendín – Piura	611
5	Headworks and Pipeline Works for the Drinking Water Supply for Lima	480
6	New Port Terminal San Juan de Marcona	410
7	Essalud Piura and Ancash	323
8	AWS-3 and 2.3 GHz bands	267
9	Huancayo – Huancavelica Railway	263
10	Improvement of tourist services in the Choquequirao Archaeological Park	260
11	Schools at Risk: Metropolitan Lima	255
12	Hipolito Unanue National Hospital	250
13	500 kV Transmission Line Piura Nueva - Frontera Substation	217
14	Wastewater Treatment System - Huancayo	172
15	220 kV Tie-Line Belaúnde Terry – Tarapoto Norte	164
<b>Others</b>		<b>1,357</b>
<b>Total prioritized</b>		<b>9,100</b>

Source: BCRP with information from PROINVERSION

### ● Works for taxes

PROINVERSIÓN has recently<sup>19</sup> identified 491 projects nationwide to be executed through the Works for Taxes mechanism with an approximate investment amount of US\$ 1,522 million. Of this total, 30 projects (US\$ 115 million) are looking for private companies that can finance their execution.

An important project that would be executed under this modality is the Construction of the Santa Rosa Bridge, accesses, roundabout and underpass, which aims to provide adequate conditions for transit to the Jorge Chavez International Airport. The project has been

<sup>17</sup> See: [https://www.mef.gob.pe/es/?option=com\\_content&language=es-ES&Itemid=101108&view=article&catid=100&id=7009&lang=es-ES](https://www.mef.gob.pe/es/?option=com_content&language=es-ES&Itemid=101108&view=article&catid=100&id=7009&lang=es-ES)

<sup>18</sup> Inflation Report. March 2023. BCRP. Page 60.

<sup>19</sup> See: <https://www.investinperu.pe/es/pi/detalle-noticia/proinversion-identifica-491-proyectos-de-oxi-a-ni>



prioritized through Ministerial Resolution No. 258-2023-MTC/01 and will require an estimated investment by PROINVERSION of US\$ 475 million.<sup>20</sup>

- **Government-to-Government Contracts**

According to the PNISC, the Lima Metro Line 3 project will be completely underground and will cover 34.8 kilometers, crossing 12 districts of Metropolitan Lima. The projected investment amounts to US\$ 6,157 million and according to the PNISC, this work would be awarded in June 2025<sup>21</sup>. The MTC expects however, that this work could be awarded earlier, in the second half of 2023.<sup>22</sup>

## 6. Investment perspectives for 2023 and economic reactivation

The World Bank highlights Peru's macroeconomic strength based on technical management by the Ministry of Economy and Finance and the BCRP. However, it also indicates limited state capacity in several cases at the national and subnational level that hinders the provision of quality services and infrastructure. Thus, it refers to the poor performance in the management of public investment, the lack of coordination between different levels of government and the capacity gaps in the civil service as some of the key challenges that the country faces. At the local government level, municipalities that receive significant revenues through the mining canon intended for infrastructure are not able to spend it, and those with the highest share of canon revenues have the lowest levels of budget execution.<sup>23</sup>

On the other hand, the World Bank also indicates that, politically, the constant changes in the cabinet, especially in the President of the Council of Ministers (PCM), would have affected the ability to coordinate both vertically and horizontally. Thus, since July 2021, there have been 68 changes of ministers, equivalent to a change every six days, the highest rate in the last two decades. This high turnover affects coordination between public sector entities and subnational authorities. Political appointments (advisers, secretaries and directors) tend to rotate with the new ministers, which affects the agencies' ability to manage resources and achieve goals.<sup>24</sup>

However, recently, the MEF announced that public investment in the first quarter of 2023 would have reached a record in execution. Thus, it reached US\$ 1,827 million, representing a growth of 15.8% compared to the same period in 2022 and exceeding the levels of budget execution of the last 5 years in comparable periods. This higher execution of public investment is due to actions taken by the National Government, highlighting the coordination of officials with managers at different levels of government to generate an institutional framework that allows for the development of capacities and the consequent achievement of execution goals.<sup>25</sup>

Regarding the prospects for the second quarter of 2023, the Minister of Economy and Finance stated that a supplementary loan approval would be necessary to maintain the pace of economic growth, given the possible effects of natural disasters. In this regard, the Budget Committee of the Congress of the Republic recently approved said loan of US\$ 2,154 million<sup>26</sup>,

---

<sup>20</sup> See: <https://elcomercio.pe/economia/peru/proinversion-priorizan-ejecucion-del-puente-santa-rosa-mediante-obras-por-impuestos-noticia/>

<sup>21</sup> National Infrastructure Plan for Competitiveness 2022-2025. Page 78.

<sup>22</sup> See: <https://gestion.pe/economia/linea-3-del-metro-de-lima-gobierno-contempla-adjudicar-linea-3-del-metro-de-lima-en-el-segundo-semester-de-2023-noticia/>

<sup>23</sup> Systematic Country Diagnostic: Peru. World Bank. October 2022 Page 21.

<sup>24</sup> Systematic Country Diagnostic: Peru. World Bank. October 2022 Page 17.

<sup>25</sup> See: <https://gestion.pe/economia/inversion-publica-total-crece-en-primer-trimestre-pero-se-hunde-en-municipios-mef-noticia/>

<sup>26</sup> This corresponds to Bill No. 4482/2022-PE. Bill approving supplementary credits for financing higher expenses within the framework of national reactivation.

which would be used to address emergencies related to the Coastal El Niño phenomenon and for economic reactivation. Such loan must be subsequently approved by the plenary of Congress.<sup>27</sup>

## Conclusions

- There is a portfolio of prioritized projects that must be awarded in the present and the following year under various modes of award, in order to contribute to closing short-term infrastructure gaps, boosting the economy, and improving the quality of life of the population. Likewise, it is necessary to provide favorable conditions to stimulate private investment, which, although projected to fall by 0.5% this year, could be reversed if the appropriate signals are given to the market, and the business context for investment improves. Peru is internationally recognized for its macroeconomic stability and long-term policies. However, it is also important that the national government and subnational governments work together to address social demands in the regions and advance the development of the necessary infrastructure for the population.
- We hope that the current government will contribute to strengthening key public institutions for infrastructure development in the country and have sustained leadership over time that gives continuity to technical and high-level staff. Law drafts to create a specialized infrastructure agency are moving in that direction but may generate mismatches and delays in the short term in the execution of urgent projects, especially in a context of possible climate phenomena with adverse effects for the country. Such risks should be clearly considered.
- Finally, it is noteworthy that the Ministry of Economy and Finance develops intervention strategies in the regions to provide tools and technical capacities to regional officials who have just assumed functions. This will allow for greater execution of public investment at the regional level in the short term, which will have an impact on meeting the basic needs of the population and contribute to social stability, especially in regions that have canon resources and have not been able to benefit from them due to the limited technical capacity of former officials in subnational governments.



### Legal and Economic Consultancy Firm

Ave. Monterrey N° 405 Office 704  
Chacarilla del Estanque, Surco – Lima  
Phone +51 6917913  
[www.comercia.com.pe](http://www.comercia.com.pe)

### José Hernández Pino

Senior Economist  
[jhernandez@comercia.com.pe](mailto:jhernandez@comercia.com.pe)

<sup>27</sup> See: <https://rpp.pe/economia/economia/comision-del-congreso-aprobo-credito-suplementario-para-el-gobierno-que-implica-noticia-1476863>