Private investment in Public Infrastructure: the experience of MINEDU - Peru

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Institutional context in Peru

Public Investment in Peru: 2007 - 2015 *

* USD Billions

- 2000: NG, RG
- 2002: NG, RG, LG
- 2007: decentralization of appraisal and feasibility evaluation
The National System of Public Investment

- Fully decentralized system
- Pre-feasibility studies: UF
- MEF is the governing body
- Project appraisal: OPI - MEF
Public Private Partnerships

- DS Nº 059-96-PCM: concession to the private sector in public infrastructure and public services
- DL Nº 1012 (2008): General Law of PPPs
- Private Investment Promotion Office: Proinversion, Ministries, Decentralized Governments
- PPP: promoted by government or unsolicited private initiatives (co-financed and self-sustainable)
Work for Taxes (OxI)

Law N° 29230 (2008) : creates Work for Taxes (OxI)
DS N° 005-2014-EF: regulation of Law N° 29230
DS N° 006-2015-EF: allows National Government to finance OxI
Private Investment Promotion Office: Proinversion, Ministries, Decentralized Governments

- OxI is a mechanism in which the private companies can pay their income taxes with public works.
The private company finances the work today under the income tax to be paid the following fiscal year to Tax Authority up to 50%.
- Meanwhile, regional/local governments, are funded today and start paying a year after the work is finished and up to ten years without interest from its resources canon, over-canon, royalties, rents customs and shares.

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<tr>
<th>Benefits</th>
<th>Regional/Local Government</th>
<th>Private company</th>
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<td>The private company finances infrastructure, which will be discounted from Canon revenues</td>
<td>Directly relates the payments of its taxes with infrastructure of local impact</td>
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<td>Simplifies procedures to contract and execute infrastructure: process under private rules</td>
<td>Improves the relationship between the company and the community</td>
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Education infrastructure does not meet minimum quality standards

- 64% of the buildings need to be completely replaced.
- 15% require structural reinforcement.
- 79% of rural schools do not have the three basic services.
- 91.5% of rural primary schools do not have internet access.

Source: CIE-MINEDU

PPP: Unsolicited private initiatives

- High performance schools (COAR), Schools at risk, and Higher Technological Institutes.

**2014 process: USD$ 371 Millions**, 41 schools at risk, 6 COAR; 45,400 students
Contract length: 20 years

Work for Taxes

- Investment in feasible PIPs, according to the Public Investment System
- Infrastructure + equipment. In some cases maintenance

**2015: USD$ 605 Millions**, 6 COAR, 23 regular schools; 7,557 students
1) Capabilities

- Training programs: UK Embassy, Development Bank of Latin America (CAF)
- Capabilities ex-ante: a pre-condition?
- Practice makes the master

2) Enabling private investment (PPP and OxI)

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<th>Organization matters</th>
<th>Developing a market</th>
<th>Creating good governance</th>
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Changes in institutions, not just in techniques.
3) About good decisions

- Service delivery as main objective (PPP) and integral solutions (OxI)
- Information systems: first Census of Education Infrastructure + others
- Institutional management tools for planning: National Plan of Education Infrastructure 2025

**Keep things simple - PPPs**
- Strategy: right time for unsolicited private initiatives
- Defining scope of the PPP Program: “products” to be promoted (COAR, IEST, Schools at risk) – Clear information to the market
- Defining a risk distribution matrix for evaluation of projects
- Defining prioritization criteria for selecting projects (per product, within regions, per quality of proposal)
- Qualitative value for money (time, sustainable quality, uninterrupted service, institutional receptiveness of the APP, Institutional strength to conduct PPP process, existence of private investors, competition within investors, risks and uncertainty; urgency)

**Keep things simple – OxI**
- Process systematization: methodology to select projects based in observations of the National Audit Office
- Close coordination with private actors
- Transparency in the bidding process: public disclosure of bidding process.