

Leading the Way

PERU



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Private investment in the Peruvian economy is growing at a rate of 20%, boosted by favorable business conditions and the expected ratification of a free trade agreement with the U.S.

President Alan Garcia says that an increase in domestic consumption, together with rising foreign investment, will result in economic growth of between 7% and 8% this year.

The trade deal with the U.S. is expected to create thousands of jobs in the unregistered sectors of the economy and provide the basis for long-term stability in the region.

Peru has Latin America's fifth-largest population, and has enjoyed consistent growth since 1992, a record unmatched by neighboring states. In the past few years, Garcia's right-of-center government has managed to subdue the activities of rebellious left-wing groups that have challenged the government's authority for decades.

While half the population is still classified as living in poverty, hopes are high that the free trade deal will reinforce the government's efforts to improve the quality of life throughout the country.

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Next Steps

In the past 12 years, Peru's banking sector has become increasingly competitive. However, with only two foreign and two domestic banks currently operating in the country, financial analysts describe this Andean nation as being substantially under-banked.

"This is still a relatively small economy by global standards, but we are enjoying an extended period of monetary and economic stability. We think this is a key moment for Peru," says Raimundo Morales, general manager of Banco de Crédito del Peru (BCP), the country's leading financial institution. "The chal-

lenge for all banks is the formalization of an economy that is still very informal," he adds.

A necessary step for the banks is to attract the business of the estimated 8 million workers who earn more than the minimum wage, but who do not have a bank account.

According to Walter Bayly, chief financial officer of Credicorp, BCP's holding company, the reason so many Peruvians don't have bank accounts has less to do with them being unaccustomed to using banks, or to a distrust of the institution itself, than it does with availability. The country's banks, says Bayly, have yet to develop adequate distribution channels and, "people are not willing to take a 20-minute bus ride to get to some of our branches."

To overcome these hurdles, BCP has appointed merchants in less-developed areas to be its agents, and has installed a system of cashless automated teller machines (ATMs), many of which are located in neighborhood stores.


"When a customer selects an amount he wants to withdraw, he passes his debit card through the machine and out comes a voucher," says Bayly. "The withdrawal is transferred from the customer's account to the shop owner's account, who gives the customer the cash."

"By using the resources of the merchant, the actual transactions are much cheaper, and we're not transporting money or carrying significant overheads," adds Morales.

BCP is now preparing to launch what Bayly describes as a "true zero-cost account," which has no minimum balance and no monthly fee as long as transactions are carried out on the Internet or through the cashless ATMs and agents.

He believes the Peruvian banking infrastructure has to double in size and that its institutions must invest heavily in order to keep up with faster-than-anticipated growth in the sector. ♦

Michael Knipe



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Energy Reserves

The discovery of substantial oil and gas reserves in the foothills of the Andes in northern Peru offers the prospect of a massive injection of petrodollars into the country's economy.

"Within the next five years we will produce 100 million barrels a day," says Daniel Saba, president of Perupetro, the state-owned company responsible for promoting hydrocarbon exploration and exploitation.

Saba says the renewed and intensified interest in the country's oil resources is partly due to Peru's improved legal stability and its growing reputation as a country worthy of investment.

The latest discoveries have been in the north. However, the Camisea region in the south is the site of the largest natural gas reserve in Latin America, and its fields are already in production.

Saba says there is enough gas to satisfy domestic demand, export and warrant the development of a petrochemical industry with a potential capacity of a million tons, which would make it one of the largest in the world. Establishing such an industry will require the government to invest in infrastructure and provide tax incentives.

"We have spoken with various investors who agree with this model," says Saba. "And we are talking about major investments of up to \$1 billion." ♦

Highways to Growth

Peru's economy is getting a much-needed impetus from the President's commitment to developing the country's long-neglected infrastructure.

The construction sector, in particular, stands to benefit. Plans call for more than \$800 million in public and private funds to be spent over the next three years on highway projects throughout the country. Substantial money has also been earmarked for the construction of a major port and several liquid natural gas plants. The sector expanded by 9.1% in the first three months of this year and is expected to grow to around \$8.5 billion by 2010.

A leading player in the building boom is Odebrecht, a Brazilian conglomerate specializing in construction, engineering, chemicals and petrochemicals. Since it began operating in Peru in 1974, the corporation has built highways and roads, petrochemical and hydroelectric plants, and dams and bridges.

"Now that Peru is booming, projects are flowing at a faster pace and we are being rewarded for the commitment we have shown to this country," says Jorge Barata, director-superintendent of Odebrecht Peru.

However, while there has been a noticeable upswing in construction activity, low levels of investment in the past, inherent difficulties of working in the Amazon and the Andes and a cumbersome project

approval process have left Peru with a staggering infrastructure deficit.

"There are cities like Puerto Maldonado, a tourist center in the Amazon basin, and Iquitos, the largest city in the Peruvian rainforest with over 400,000 people, that still do not have a highway linking them to the rest of the country," says Barata. Nor does Peru have a highway connecting it to its neighbor, Brazil.

At least money is no longer an insurmountable obstacle. "With the economy booming, there is adequate financing from the local markets, especially as pension funds are highly capitalized," says Barata.

At present, Odebrecht's biggest projects are related to the Initiative for the Integration of Regional Infrastructure in South America (IIRSA), an ambitious plan to extend transportation, energy and telecommunications links between 12 Latin American countries. ♦

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