

» Doing Business in Post-Electoral Peru

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Recent elections have left a divided country that will need to face multiple challenges if it wants to continue on the path of growth. For this prosperous path that has made Peru one of the countries with the highest growth rates in the region to continue, it is necessary to take a critical look at what has occurred in the last elections and understand the lessons from a business point of view and the role employers must adopt from now on.

This article discusses the challenges that the next government, led by Pedro Pablo Kuczynski (PPK), needs to face in order to generate the confidence necessary to unlock and encourage investment. Under this logic, we have identified five key themes that are crucial for the next five years.

THE CHALLENGE OF GOVERNANCE

Even though the reactivation of the economy is the main goal of the next government, there is an underlying theme they will have to comply with in order to fulfill the campaign proposals: ensuring good governance. To accomplish it, there are two key areas on which the next President must act upon.

The first is Congress, where the Popular Force party (led by Keiko Fujimori) holds the absolute majority. They have claimed they will act as the opposition and have not given clear signals of willingness to establish a dialogue with the Executive. In this sense, as noted by Oscar Espinosa, the government must look towards the medium term and adopt a political strategy that is able to face the risk of a

“game of thrones” between political forces, which can be detrimental to investments. This fear is mainly based on the interventionist position Fujimori has shown in the last legislative period, as well as the call of other opposition political forces such as the Left, which have even asked the President not to be pro-entrepreneurs.

Social unrest is another potential area for conflict. The political Left and anti-mining movements will adopt a key role in opposing the President. The latter have proved to be well organized and counts with social support throughout the country, which has allowed them to stop various mining projects. Enrique Pasquel highlights that PPK and his party, Peruvians for Change, do not control a single regional government in the country, and, in the first round, they just won in 46 out of more than 1,800 districts; this would prove the lack of popular base of the current President. That is why the challenge for the new President is to show that he has control over the territory, which will only be accomplished through political operators in remote areas who can serve as mediators.

ELIMINATION OF ADMINISTRATIVE OBSTACLES

Meanwhile, Robert Abusada recalled that Peru went from being perceived as a failed state to being a star in Latin America, a result of the economic shift that occurred in the nineties. However, efforts must persist to change the hostile terrain that prevails at some institutions closely related to businesses – for example, the Ministry of Labor and its regulators- but, above all, to eliminate the excess of state procedures that make economic growth difficult. The so-called red tape.

Eliminating administrative barriers should be one of the key goals of the government for reviving the economy. A detailed diagnosis of the situation has already been done, making it no longer necessary to diagnose any further. What is lacking are a series of urgent measures, and acting in a meticulous and effective manner. Cayetana Aljovin – executive vice-president of Confiep- believes it is no longer necessary for each State’s entity to generate its own resources. Instead, these should all go directly to the public Treasury so there is no incentive to generate income for an institution only. Other key measures include promoting the right incentives for State officials (for example, for those who apply more corrective measures), providing the State with technology to speed up processes and manage to be interconnected, and cleaning the legislative tangle that still exists with about 600,000 rules that need to be reviewed to determine their usefulness.

A clear example of this is the setback in the implementation of Public Private Partnerships during the last government, having been mostly affected by the little legitimacy present in their multiple addenda. In that case, it is necessary for



the incoming government to reform ProInversion and establish a plan that allows to filter projects, since many of them are poorly designed, ultimately generating distrust. The same is true of Works for Taxes, a mechanism that, even though it could be exported to other parts of the world, it needs to be simplified.

While many entrepreneurs are optimistic about the arrival of the new President, it is necessary to take advantage of this immediately. PPK should take strategic decisions and promote concrete actions to eliminate bureaucratic barriers. These measures would encourage investment, which, in turn, would promote more growth.

MINING ENVIRONMENT

Hand in hand with the eradication of the red tape, another priority is private investment, focused mostly on large mining projects. This without neglecting social expectations, which keep growing each year and almost always become a source of conflict.

There is already a consensus that Peru is a mining country, which in turn is supported by the vast majority of the electorate having opted for an open and market economy. However, as recalled by Oscar Espinosa, only one billion dollars will be invested next year, whereas 10 or 12 thousand could have been invested. The challenge for the incoming President will be to unblock at least one of the current major mining projects.

For this, a synergy between the State and private enterprise is needed, so that the former is concerned with getting to a place where it is not currently at, while the latter establishes proper mechanics to work with the communities. In general, people expect of mining companies actions that correspond to the State, so, in order for mining to triumph a joint effort between the company, the State and the President must be made, the latter leading the promotion of strategic projects.

An example that was mentioned during the meeting was that of the newly elected vice-president and former governor of Moquegua, Martin Vizcarra, who created an interesting synergy when he linked a mining project to the construction of a highway and a hospital, getting people to ask the company to begin operating so the projects that directly benefit the community could materialize.

Besides, a question mark raised around the rise of political operators who then become leaders of social protests in places where the State is absent, so the incoming government will have to exert its leading role and work closely in every corner of the country.

PERU'S INTEGRATION IN THE WORLD

The importance of Peru's role in the world is passing through unnoticed despite enormous opportunities such as the Pacific Alliance, which has already liberalized the market for Peruvian trade, and the Trans-Pacific Partnership (TPP). Both are ways in which the country could enter into value chains that would positively impact economic growth and replicate what is now seen with Peruvian engineering companies working in Colombia and other countries within the region.

The world has begun to look at Latin America as an area of potential growth and, despite fear and capital outflows, there is still great untapped potential in Peru's free trade agreements with the major world economies. However, the integration in the global market, which has already been achieved, is still being curbed by the state bureaucracy, yet another challenge for the incoming government.

“Eliminating administrative barriers should be one of the key goals of the government for reviving the economy”

PRIVATE BUSINESSES' REPUTATION

Although the State has major challenges, such as those aforementioned, employers also have to face this five-year period with a new attitude that appraises what they do and who they are, since it has a direct impact on their business.

Previously, they need to disassociate themselves from bad entrepreneurs. Corruption is another working point, and it is critical that those who have committed a foul act take responsibility and pay for their mistake. That is the only way to be able to differentiate good entrepreneurs from bad ones.

On the other hand, companies need to understand that, even though Peruvians live better than before, people continue to be outraged because of existing inequality. Another important challenge for large, medium and small businesses is to promote development. Other than performing their duties, investing and paying their taxes, they must be excellent employers, be concerned about their employees and their families, and be socially responsible, particularly in regards to education. That is why it is important for them to communicate and share best practices with their stakeholders in a more noticeable and permanent way. Only so will they be able to build a reputation that will position them in a positive light in front of public opinion.

CONCLUSIONS FOR THE FUTURE

Given the still uncertain political scenario, the next government has to make strategic decisions and promote specific measures to revive short and medium-term growth. One of the great challenges for Peru in this five-year period will be to continue the effort to improve competitiveness, particularly with the goal of being included in the Organization for Economic Co-operation and Development (OECD). In this sense, productive diversification is essential, particularly diversifying the country's mineral matrix. Agricultural development is also imperative, as it is one of the best ways to fight critical issues such as drug trafficking.

Thus, the key challenges the business sector faces, which directly affect the business climate, are: fighting informality, given that 50 percent of Peru's workforce is informal as well as 60 percent of its economy, which promotes inequality; strengthening the institutions; and, finally, promoting a social agenda clearly committed to the development of the country.

On the other hand, it is imperative to rethink and reorganize the regionalization agenda, which until now has brought more problems (corruption, crime, etc.) than benefits. This reorganization implies, for example, the elimination of shared functions within the State, which avoids a single entity becoming responsible for the problems (something that is particularly reflected in the problem of insecurity); and the restitution of functions to the executive for those entities that have failed to fulfill their role.

Finally, and equally important as it is a major concern for the population in general, is seeking solutions, both from the State and from companies, for the citizen insecurity crisis. This is not only a problem that appears in all surveys, but it is also reflected in some competitiveness reports, according to which Peru is the Latin American country with the most victims of crime. For this, it is essential to fight drug trafficking, an activity that penetrates the State and the institutions, corrupting them and triggering the violence that we see today.

* These five key issues were conducted within the framework of the meeting "Los negocios en el escenario postelectoral" (Business after the elections), organized by the association "Asociación para el Progreso de la Dirección (APD)". The panel was composed by Roberto Abusada, director of the Peruvian Economy Institute (IPE), Cayetana Aljovín, executive vice-president of the National Confederation of Private Entrepreneurial Institutions, Óscar Espinosa, business leader and chief executive of Ferreycorp, Enrique Pasquel, journalistic deputy director from El Comercio. The event was moderated by Luisa García, partner and CEO at LLORENTE & CUENCA Andes Region..



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