



SERVICES POLICY REVIEW



PERU





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ACRONYMS AND ABBREVIATIONS

APEC	Asia Pacific Economic Cooperation
APESOFT	Asociación Peruana de Productores de Software (Peruvian Association of Software Producers)
APC	Asociación Peruana de Consultoría
BCRP	Banco Central de Reserva del Perú (Central Bank of Peru)
BPO	business processing outsourcing
CAN	Comunidad Andina de Naciones (Andean Community)
CCL	Cámara de Comercio de Lima (Chamber of Commerce of Lima)
CIP	Colegio de Ingenieros de Perú (Engineering Board of Peru)
CITE	Centro de Innovación Tecnológica (Centre of Technological Innovation)
CNC	Consejo Nacional de la Competividad (National Competitiveness Council)
CPC	(United Nations) Provisional Central Product Classification
ECLAC	Economic Commission for Latin America and the Caribbean
EPCM	engineering procurement, construction & management
EFTA	European Free Trade Association
FDI	foreign direct investment
FYNCIT	Fondos para la Innovación, Ciencia y Tecnología (Science and Technology Fund)
FTA	free trade agreement
GDP	gross domestic product
GATS	General Agreement on Trade in Services (WTO)
ICT	information and communications technologies
IFRS	International Financial Reporting Standards
IER	Information Economy Report (UNCTAD)
INDECOPI	Instituto Nacional de Defensa de la Competencia y de la Protección de la Propiedad Intelectual (National Institute for the Defence of Competition and the Protection of Intellectual Property Rights)
INEI	Instituto Nacional de Estadística e Informática (National Institute for Statistics and Computer Science)
IIRSA	Iniciativa para Integración de la Infraestructura Regional Suramericana (Initiative for the Integration of Regional Infrastructure in South America)
IT	information technology
ITO	information technology outsourcing
KPO	knowledge process outsourcing
LPI	Logistics Performance Index
MDGs	Millennium Development Goals

MEF	Ministerio de Economía y Finanzas (Ministry of Economy and Finance of Peru)
MERCOSUR	Mercado Común del Sur (Southern Common Market)
MFN	most favoured nation
MINCETUR	Ministerio de Comercio Exterior y Turismo del Perú (Ministry of Foreign Trade and Tourism of Peru)
MINEDU	Ministerio de Educación (Ministry of Education)
MMM	Marco Macroeconómico Multianual (Multi-year Macroeconomic Framework)
MRA	Mutual Recognition Agreement
MTC	Ministerio de Transportes y Comunicaciones (Ministry of Transport and Communications of Peru)
NRS	National Register of Suppliers
OSCE	Organismo Supervisor de las Contrataciones del Estado (Organ for the Supervision of State Contracting)
PACIS	Programa de Apoyo a la Competitividad de la Industria del Software (Programme to Support the Competitiveness of the Software Industry)
PENX	Plan Extratético Nacional Exportador (National Export Plan)
POMs	Planes Operativos de Mercado (Operative Market Plans)
PPPs	public-private partnerships
PRODUCE	Ministerio de la Producción (Ministry of Production of Peru)
PROINVERSION	Agencia de Promoción de la Inversión Privada del Perú (Promotion Agency for Private Investment of Peru)
PROMEX	Programa de Mercados Externos (International Markets Programme)
PROMPERU	Comisión de Promoción del Perú para la Exportación y el Turismo (Export and Tourism Promotion Agency of Peru)
SEACE	Sistema Electrónico de Contratación del Estado (Electronic Procurement System)
SPR	Services Policy Review
SME	small and medium-sized enterprises
SUNAT	Superintendencia Nacional de Aduanas y de Administración Tributaria (National Superintendence for Customs and Tax Administration of Peru)
TCS	Tata Consulting Services
TPP	Trans-Pacific Partnership Agreement
UNCTAD	United Nations Conference for Trade and Development
VAT	value added tax
VUCE	ventanilla unica de comercio exterior (one-stop window for trade procedures)
WTO	World Trade Organization
WEF	World Economic Forum

FOREWORD

The Doha Mandate adopted in 2012 at UNCTAD XIII re-emphasized the importance of the development of, and access to, services, supported by adequate regulatory and institutional frameworks, which are important for sound socioeconomic development. It called upon UNCTAD to continue its work on services and assist developing countries and economies in transition in promoting the development of key services sectors and determining the right policy mix, including trade policy and strategic liberalization, which can lead to the improvement of domestic service provision and increased trade. Services Policy Reviews are an important component of this work.

A Services Policy Review examines economic and trade policy aspects of selected services sectors identified by the Government and provides an evidence-based approach to policymaking on services by reviewing policy, regulatory and institutional issues and options with a view to assisting the beneficiary in developing a coherent and comprehensive strategic framework for services. In close partnership with the Government, research undertaken by UNCTAD and at the national level is integrated into the results of national stakeholder consultations to yield policy recommendations for action.

The Government of Peru identified the following four services sectors to form the focus of this Services Policy Review: computer-related services, focusing on outsourcing; engineering services, emphasizing aspects related to consulting; accounting and bookkeeping services, focusing on outsourcing; and logistics services. These services have the potential to contribute significantly to diversifying Peruvian exports and, in the case of logistics services, promoting export competitiveness.

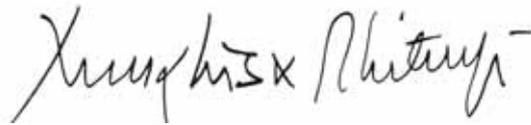
This Services Policy Review highlights the fact that the main obstacles affecting the growth of Peru's services supply include the following: difficulties in accessing financing, particularly for small and medium-sized enterprises; infrastructure shortcomings, particularly with respect to telecommunications and transport; lack of access and absorption of technology; and limited cooperation between the academic and business sectors.

Proposed recommendations for maximizing development benefits from services sectors include the following, among others:

- Complement the current trade promotion strategy with supply-side measures to support the development of a competitive services offer, with special attention to smooth integration with other policies such as for industrial development, competition, consumer protection and intellectual property.
 - Adopt education policies at the university level to produce well-prepared professionals, aligned with the current needs of service industries, for instance by encouraging local universities to improve their programmes and obtain international certification and appropriate accreditation for engineering programmes and by designing a scheme to certify the experience and skills of young engineers.
 - Enhance commercial intelligence programmes for small and medium-sized enterprises, to include access to financing and capacity-building on trade and fiscal factors affecting export potential.
 - Proposed recommendations for improving the contribution of the specific sectors analysed in this Services Policy Review include the following, among others:
 - Strengthen the institutional framework to support micro and small enterprises in the computer-related services sector.
 - Develop operative market plans for computer-related services, including interlinkages with growing services and services that demand computer-related services such as retail services, in order to identify further opportunities for the sector.
 - Promote partnerships between smaller and bigger accounting firms.
 - Develop a long-term plan for the logistics services sector, changing the traditional modal orientation to a comprehensive view including transportation, infrastructure, services and logistics.
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- Develop a policy framework to strengthen domestic supply and exports of engineering services by strengthening educational offers of engineering specialties in the mining and energy sectors (including gas, petroleum and electricity) and civil engineering.

My hope is that the analysis and recommendations of this report will make a constructive contribution to the development of Peru's services economy and trade.



Mukhisa Kituyi
Secretary-General of UNCTAD

EXECUTIVE SUMMARY

Services production and trade have an impact on growth, income, employment and poverty alleviation. They are able to strengthen several value chains, provide inputs for the delivery of services and goods and may be sold on their own. The recognition of such a relevant role has increased the focus of government agendas on services production and trade. Be that as it may, inadequate laws and policies, and inefficient institutions hamper countries' abilities to take full advantage of the benefits of services supply and trade.

The UNCTAD Peru Services Policy Review aims to investigate policy, regulatory and institutional weaknesses, and to make recommendations addressing such deficiencies in the sectors of (i) accounting and bookkeeping, (ii) engineering, (iii) computer and (iv) logistic services, with a view to maximize development gains from supply and trade in these services.

Since more than thirty years, services constitute over half of Peru's GDP. Nowadays, services dominate Peru's economy, as they constitute over 54 per cent of GDP in 2010 and employ a similar share of the formal workforce. Besides its key social role as a last resort provider of – mostly informal – employment, the services sector also provides infrastructure and other inputs to other sectors in Peru and contributes to the country's export potential.

Peru has a track record of notable achievements and strengths with respect to economic reforms and the services sector in general. Indeed, Peru has witnessed sustained economic growth, macroeconomic stability and improvements in social indicators, due to their economic reforms of the last decade. Examples of results achieved include that income per capita has increased by more than 50 per cent after 30 years of stagnation; that economic growth reached 8.8 per cent in 2010, 6.9 per cent in 2011 and 6.2 per cent in 2012, in spite of the crisis.

Peru has also strengthened its international competitiveness, thanks to improvements introduced in the regulatory framework and in the business environment. For example, Peru moved up six places in the competitiveness ranking of the World Economic Forum (WEF). Peru is also a proactive actor with regard to trade agreements and trade cooperation initiatives. Peru has also emerged as an investor in the Latin American context.

In the specific area of services, the role and actions of the Ministry of Foreign Trade and Tourism of Peru (MINCETUR) and the Export and Tourism Promotion Agency of Peru (PROMPERU) are very relevant. These two institutions have developed policy documents, identifying priority sectors, markets and objectives of interest for Peru and marketing tools to promote exports in services. PROMPERU in particular, has had a leading role in aggregating and articulating business interests in some services sectors, through the creation of several services trade associations.

Main obstacles affecting the further growth of Peru's supply of services in general include:

- Difficulties to have access to finance, particularly for small and medium-sized enterprises (SMEs);
- Infrastructure shortcomings, particularly with respect to telecommunications and transport;
- Lack of access and absorption of technology;
- Limited cooperation between the academic and business sectors;
- Private sector-specific challenges related to human resources development, industrial organization and strategic planning, and affecting particularly SMEs that have a highly fragmented offer in many services sectors.

Problematic issues and weaknesses identified in the context of developing services exports in Peru include:

- Gaps in some policy spheres related to trade intelligence and SME-specific support policies;
- Lack of coordination among different institutions promoting initiatives to develop exports in certain services sectors;
- Private sector-specific challenges (particularly affecting SMEs) such as lack of identification of offensive interests in services trade negotiations; lack of understanding of functioning of international markets and information gaps affecting their decisions to embrace internationalization;

- Barriers affecting services delivery through the movement of natural persons (mode 4). Such barriers take the form of requirements related to visas, licences, nationality and lack of equivalence of titles making difficult for Peruvians to go abroad to provide professional services.

The main recommendations to overcome these obstacles and problematic issues include the following:

- Develop a consensus strategy to build supply capacity in key services sector, including tools to achieve this;
- Review the fiscal regime applicable to services exports;
- Adopt education policies, at the university level, to produce well-prepared professionals, aligned with the current needs of services industries;
- Strengthen the quality and certification promotion policies, with a special focus on the adoption of international standards that may lead to external trade facilitation;
- Design an appropriate framework to support SMEs in services sectors;
- Investigate further some aspects representing challenges that are difficult to quantify (infrastructure gaps, skills gaps and barriers limiting innovation and adoption of technology) in specific services sectors;
- Propose that the future Multisectoral Services Committee focuses its work on analysis and recommendations related to horizontal policies for services development and improved competitiveness, with special attention to the smooth integration with other policies such as industrial development, competition, consumer protection or intellectual property;
- Entrust this Committee with a consultative and monitoring role with respect to trade in services and the impact of trade negotiations in the evolution of trade performance of services exports;
- Strengthen the institutional framework for trade promotion, to gather data that is currently lacking and considered necessary by companies for internationalization.

The accounting and bookkeeping sector in Peru has several strengths, such as the number of companies in the market (2,248), some of which are exporting successfully, the fact that the industry in Peru has adopted relevant standards and a solid and well defined regulatory framework for the sector.

The sector presents weaknesses and challenges, for instance in connection with (i) the increasing market penetration of foreign services providers, (ii) human capital capacity shortcomings and (iii) lack of a clear strategy on priorities for the future development of this sector, derived partly from the lack of an effective association in the country articulating professional and business interests in this sector.

Considering the importance of SMEs in the domestic market (96 per cent of firms in the industry), there is room to improve strategies in the sector by designing specific policies aimed at them. The main recommendation in this sector is thus related to crafting measures to strengthen capabilities of SMEs, to help them embark on higher value-added activities and exports, for instance through capacity-building initiatives and support for internationalization.

Other recommendations in the sector relate to improving the academic offer for related careers; undertaking negotiations of mutual recognition agreements (MRAs) with Latin American trade partners and including temporary licensing schemes clauses in ongoing and future trade negotiations.

Turning to the engineering consultancy services, this sector has developed significant expertise during more than 30 years of continuous progress in Peru. In the last decade, the growth of the Peruvian economy created tremendous opportunities in the domestic market, enabling Peruvian companies to participate in important projects in a myriad of specialties and to gain experience and business capabilities at a high technical level. Several local companies possess quality certifications highly regarded within the industry. These positive prospects are likely to continue given forecasts for increased investment for infrastructure and housing projects in Peru in the coming years.

The local market has two clearly differentiated segments: (i) the bigger and more experienced companies, which are serving the local market but are also competitive in international markets and (ii) SMEs, more focused on the domestic market. The competition in the high end of the Peruvian market is increasing with the arrival of several

multinational foreign companies: the presence of foreign services providers has increased mainly with respect to large projects focused on infrastructure development, mining and petroleum. The two leading local companies, with international level experience, compete in the larger and more sophisticated projects, while all companies compete in roads, buildings construction, water and sewage, according to their capabilities and experience.

Companies identified several difficulties for exporting their services:

- Lack of information about target markets, particularly regarding regulatory issues affecting commercial presence;
- Lack of a legal framework that specifically promotes the development of the sector and its exports;
- Lack of credit facilities to participate in projects abroad;
- Shortcomings related to the offer and qualifications of local engineers;
- Lack of knowledge of the language and culture of target countries.

To overcome these difficulties, the following strategies are recommended:

- Develop a policy framework to strengthen domestic supply and exports of engineering services, particularly in most dynamic segments, such as engineering services associated with civil construction and mining and oil exploration. This policy framework should encompass finance measures to support participation of domestic services providers in international bidding processes;
- Strengthen the institutional framework related to quality assurance in education programmes related to the engineering profession;
- Strengthen the institutional framework related to trade promotion activities by (i) disseminating better information about international procurement opportunities (ii) including legal assessment studies of fiscal related matters and bidding processes in operative market plans (POMs in Spanish) and (iii) organizing trade rounds to introduce local services providers interested in participating in foreign biddings to international agencies with higher demand for these services.

Many efforts have been undertaken in Peru to support the computer-related services sector. For instance, a strategy and operative plans to develop the sector and exports in this sector exist. Initiatives to improve supply capacity include promoting certifications and efforts to promote scientific and productive skills by improving articulation between businesses, public and other institutions, including professional associations, and universities. Initiatives to promote exports include commercial intelligence activities, the design of a software portfolio and promoting participation of local services providers in commercial missions and in national and international fairs. The institutional framework includes a solid and active business association that promotes the interests of its members.

Main problematic issues identified in the sector include the following:

- Lack of reliable sales and export statistics which makes it difficult to assess performance and evolution in this sector, as well as impact of ongoing support initiatives;
- Constraints relate to infrastructure, levels of investment for research and development, capacity to innovate and availability of scientists and engineers and English capabilities;
- Lack of coordination of multiple initiatives to support the sector.

Main recommendations for this sector include:

- Developing strategic guidelines aimed at further enhancing capabilities in the sector, focused on promotion of innovation and technological upgrade;
 - Further developing export promotion activities in the sector;
 - Improving the collection of relevant statistics;
 - Improving articulation between efforts made by different ministries and agencies involved in the promotion of this industry;
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- Strengthening the link between the academic sector, businesses and policymaking bodies to develop skills that are relevant to provide higher value-added computer services;
- Strengthening the institutional framework to support small and microenterprises in particular.

Turning to logistic services, Peruvian authorities have prioritized this sector giving its relation with improving the competitiveness of the country. The sector is perceived as critical to improve prospects and trade opportunities for business, particularly SMEs. The Government of Peru has thus embarked on a reform to promote the use of electronic processes associated with customs procedures, improving efficiency of transport networks and infrastructure, attracting investment, improving capabilities of business practices of local companies and modernizing the regulatory framework. These reforms have achieved positive results in terms of overall improved performance of the sector, increase investment in the sector, increased efficiency in customs procedures and greater efficiency in receiving and clearing of goods.

Main problematic issues that may affect further growth in this sector include the following:

- Infrastructure shortcomings: in certain areas it is non-existent or it is concentrated in Lima. The lack of adequate infrastructure results in (i) production centres and consumption centres not being well connected and having certain geographical areas that are clearly underserved and (ii) important logistic bottlenecks in Lima, particularly with respect to air and maritime operations. The main explanation for infrastructure shortcomings is insufficient investment;
- Main obstacles to the development of domestic services providers include lack of access to roads, seaports and storage facilities. Deficiencies that have an impact on merchandise trade with neighbouring countries were also identified with respect to road transport domestic providers;
- Complexity and length of customs procedures;
- Lack of transparency on the fees charged by different agents along the logistics supply chain;
- High degree of concentration and vertical integration, which raises concerns about potential anticompetitive practices in the sector;
- The functioning of concessions for infrastructure development in Peru, which has raised some concerns, leading to (i) increased risks and costs due to renegotiation of contracts and (ii) a perception of lack of transparency in this regard.

Main recommendations for this sector include:

- Developing a long-term plan for the development of this sector, changing the traditional modal orientation for a comprehensive view, which includes not only transportation, but also infrastructure, services and logistics;
 - Creating an institutional setting to improve national and regional interaction among different actors involved in logistic services;
 - Introducing changes to regulation related to infrastructure development in a manner that reduces investment risk in large infrastructure projects;
 - Strengthening competition oversight in the sector;
 - Developing mechanisms to improve transparency regarding logistic costs and developing a consumer protection framework to protect users of logistic services.
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SERVICES POLICY REVIEW



INTRODUCTION

INTRODUCTION

Trade in services has become increasingly important to both developed and developing economies. Since the 1980s, world trade in services has expanded at a faster rate than that of merchandise trade and, today, many developed economies produce more services than goods. Services account for approximately 70 per cent of gross domestic product (GDP) and employment in developed countries and approximately 50 per cent of GDP in developing nations.¹ Although trade in services currently accounts for only 20 per cent of global trade,² by 2050, global services exports are predicted to exceed global merchandise exports. The growing importance of services trade is also reflected in the growth of free trade agreements (FTAs) containing commitments relating to services. Furthermore, a vast body of research undertaken by UNCTAD and other organizations³ clearly demonstrates that services can contribute significantly to enhancing productivity and economic competitiveness.

Recently, the onset of the global economic crisis has raised the profile of the services sector as a tool for driving economic growth and development. In the midst of the global economic crisis, services exports proved to be relatively more resilient and less volatile than merchandise trade. Globally, during 2008–2009, services exports grew at a rate of 9.3 per cent even as the agriculture and industrial exports recorded a steep decline.⁴ This suggests that efforts to develop domestic and export-oriented services industries can play a meaningful role in facilitating diversification into new markets and exports and ensuring that economies are more resilient to external shocks.

Given the enabling and driving role that Governments typically play in the development of services economies, it is useful for policymakers to devise national services development strategies. Moreover, to ensure buy-in and support, as well as to generate desirable spill-in and spill-over effects among related economic sectors, the development of these strategies should take place through participative consultations at the national level with all key actors – including parastatal institutions, potential and existing foreign and domestic investors, labour groups and academia. The inclusion of the latter two are particularly relevant for the development of services strategies given the need to ensure adequate labour transformations and the enhanced levels of human capacity needed to support growth of the services workforce.

Mindful of this, UNCTAD SPRs are designed to assist countries in improving their regulatory and institutional frameworks and in utilizing trade policies as an instrument to advance national objectives and interests. By reviewing economic, trade policy, regulatory and institutional frameworks characterizing the services sectors, SPRs can play an instrumental role in providing policymakers, regulatory authorities and other stakeholders with an improved understanding of the dynamics of particular services sectors in an economy and of issues currently confronting these sectors. In turn, this can form the basis for the development of effective reforms to the regulatory and policy frameworks that underpin these sectors. Ultimately, this can pave the way for policy reforms that advance both sectoral objectives and broader national economic and social interests.

The Government of Peru – through the Ministry of Foreign Trade and Tourism (MINCETUR) – with the assistance of UNCTAD, initiated the SPR of Peru. The outcome of this SPR is the present report. It has been developed in close communication and collaboration with MINCETUR and a broad range of national government, business and civil stakeholders. The objectives of this report are:

- Assessing, in general terms, the current state of development in the services sector;
- Identifying achievements, weaknesses, opportunities and challenges in specific services subsectors;
- Identifying or determine policy options, including regulatory, institutional and sector-specific trade policy reform measures that can enhance the contribution of services to the advancement of national developmental objectives;
- Identifying specific measures aimed at strengthening capacities to engage effectively in services trade and services trade negotiations.

A. METHODOLOGY

The research process underpinning the Peru SPR began with the preparation of the desk study by UNCTAD. This study was used as the basis for discussion at the National Stakeholder Workshop staged in Lima on 10 and 11 October 2012. This multi-stakeholder workshop provided a platform for discussions that focused on issues and challenges and opportunities confronting key services sectors in Peru.

Thereafter, a national team of experts embarked on a research process that involved extensive engagement with key stakeholders in Peru. This research process drew on the content of the UNCTAD desk study, together with a comprehensive body of statistics, reports, previous studies, policy instruments and regulations. In turn, the engagement process was conducted through interviews to key government agencies involved in the design of policies pertaining to the services sector and to services providers.

It is important to note that given the lack of national disaggregated services statistics at the sectoral level, the study relied to a great extent on survey and interviews with diverse stakeholders. This methodology was particularly used to collect data on supply and export potential of services in Peru. Examples of the interviews used to gather this information can be found in annexes 8 and 9 of this study.

The research findings by the experts were presented during the second National Stakeholder Workshop held in Lima, on 22 and 23 April 2013. This workshop provided the opportunity to critically review SPR findings and conclusions relevant to policy and obtain further inputs from stakeholders. Discussions led to further refinement and validation of recommendations to be submitted to the Government and other relevant actors. The recommendations should provide the basis of strategies for the development of the service sectors and also for the identification of concrete actions and benchmarks for further services reforms.

B. SECTORAL COVERAGE

As an initiator of this process, MINCETUR suggested four services sectors to form the focus of the SPR, which are of particular interest to Peru:

- Computer and related services, with a focus on outsourcing;
- Engineering services, emphasizing aspects related to consulting;
- Accounting and bookkeeping, with focus on outsourcing;
- Logistic services.

These sectors were identified by MINCETUR as holding the potential to contribute significantly to the future growth and development of Peru's economy.

C. STRUCTURE OF THE PUBLICATION

This study is structured as follows: Chapter I presents an economic overview of the economy of Peru. Chapter II contains an overview of the services sector in Peru and examines existing trade policies for expansion of services, particularly referring to trade negotiations. Chapters III, IV, V, and VI analyse key aspects related to the sectors reviewed.

Finally, in Chapter VII, recommendations are presented, based on the findings drawn from the desktop research and consultative engagements with key stakeholders. The recommendations are separated into a series of general recommendations applicable to the services sector as a whole, together with recommendations specific to each of the four services sectors.

SERVICES POLICY REVIEW



PART ONE

UNCTAD DESK STUDY: PERU ECONOMIC AND SERVICES OVERVIEW

SERVICES POLICY REVIEW



ECONOMIC GROWTH AND DEVELOPMENT

A. THE DIRECTION OF REFORMS IN PERU SINCE THE 1990s

From the early 1990s, the Peruvian Government enacted a profound and comprehensive liberalizing and market-oriented structural reform programme. The main goals of the reforms were (i) promotion of both domestic and foreign investment and (ii) trade liberalization.

1. The investment promotion framework

The most important of these investment-friendly norms, which still constitute the backbone of Peru's economic policies fabric included:

- Free private initiative in the framework of a social market economy;
- Possibility on the part of the State to establish additional guarantees and investment-protecting measures through law contracts;
- Free competition and anti-monopoly regulations;
- Free hiring of manpower;
- Possibility on the part of private actors to defer controversies with the State to national or international arbitrary courts;
- Free holding and disposal of foreign exchange;
- A very high degree of protection of private property;⁵
- Equality of fiscal treatment and exclusion of confiscatory taxes.

The legislation was crafted in a manner that guarantees the same rights to foreign investors and national investors, such as benefitting from investment incentives, including tax exemptions. It authorizes private investors to carry out any economic activity, with few minor exceptions, provided investors comply with all constitutional precepts, laws and treaties. Profit repatriation was free, and no significant limitations were imposed with respect to specific sectors, technologies, or financial frameworks in which foreign investment would materialize.⁶

The attractiveness of Peru for foreign investors was further enhanced by a substantial incentives package (including legal stability agreements, a favourable fiscal regime, and a series of enabling regulations in the area of residence permits and hiring of non-nationals). Peru has also been actively seeking to engage in bilateral, regional and multilateral trade agreements and in bilateral investment treaties.⁷

Such a favourable legal investment protection framework was complemented by a vast programme of privatization and concessions of public services to private operators, that covered state-owned enterprises operating in all the macrosectors (which included, among others, energy, telecoms, and financial services).⁸ The justification of this policy stance was, on one hand, to attract foreign investment, and, on the other hand, to get rid of a number of activities in which the State was deemed not to be efficient or effective as an owner and a manager, allowing it to focus on a more reduced range of intrinsically public tasks. By the end of the 1990 financial and telecoms services had been fully privatized. The privatization wave continued in the early 2000s, in other infrastructural services (such as water and sanitation).⁹

2. The trade policy framework

Peru's trade policy pursues two goals. The first is to develop and increase exports of goods and services, as well as trade, in non-traditional sectors, by implementing a comprehensive strategy to develop foreign trade and improve conditions for the access of goods, services and investments to external markets. The second is to bring about conditions that will contribute to Peru's economic importance in the South American Pacific.¹⁰

To achieve its trade policy goals, Peru has resorted to three main instruments: international trade negotiations, unilateral liberalization of tariff and non-tariff measures and domestic policies to foster competitiveness.

2.1. International trade negotiations

For Peru, trade negotiations and trade agreements play a crucial role in (a) increasing and diversifying trade flows in services (and goods), (b) providing access to inputs, intermediate products and capital goods to improve national productivity and (c) developing opportunities for future investment projects abroad by Peru. These goals are pursued in order to achieve a stable, transparent and predictable regulatory framework for investment and trade in services in Peru, which in turn would increase employment levels.¹¹

Peru is a contracting party to the General Agreement on Tariffs and Trade since 1951 and a founding member of WTO (1995). Peru is a signatory of one WTO plurilateral agreement: the Information Technology Agreement. In the last decade, Peru has devoted considerable efforts to the negotiation of FTAs. Thus, 95 per cent of the

country's exports currently take place under the framework of regional and bilateral trade agreements.

At the regional level, Peru is a member of the Andean Community (CAN) and participates actively in the CAN integration process. Peru is also a member of the Latin American Integration Association and in this context has strengthened its preferential trade agreements with Latin American countries, such as Chile, the members of MERCOSUR and Mexico. Negotiating efforts within the region have also included trade agreements with Central American countries such as Costa Rica, Guatemala and Panama.

Ongoing negotiations between Peru and other partners in the region include El Salvador and Honduras. In addition, Chile, Colombia, Mexico and Peru are negotiating the establishment of the Pacific Alliance, a deep integration instrument for the free circulation of goods, services, capitals and persons, to promote more growth, development and competitiveness of its members.¹²

Beyond the Latin American context, Peru has negotiated comprehensive trade agreements with

Canada, China, the European Free Trade Association (EFTA), the Republic of Korea, Singapore, the United States and more recently with the European Union. These agreements involve commitments in new areas such as services, investments, intellectual property, government procurement, labour and environment, among others. Peru is a member of the Asia Pacific Economic Cooperation (APEC) and actively cooperates with other member economies to create the FTA of the Asia Pacific. Peru has also deepened its trade relations with key Asian countries (China, Japan, the Republic of Korea, Singapore and Thailand).

Peru is currently negotiating the Trans-Pacific Partnership Agreement (TPP), with the view to developing an ambitious agenda as the basis for an APEC free trade zone. Currently, the countries participating in the process are Australia, Brunei Darussalam, Canada, Chile, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States and Viet Nam. This process is open to other members of APEC.

Table 1 contains a list of bilateral FTAs signed by Peru and their status.

Table 1. Regional and bilateral FTAs negotiated by Peru

Agreement	Current Status
Andean Community	In force since May 1969
Cuba	In force since December 2000
Mercosur	In force since February 2006
United States	In force since February 2009
Chile	In force since March 2009
Singapore	In force since August 2009
Canada	In force since August 2009
China	In force since March 2010
EFTA (Iceland, Norway, Liechtenstein, Switzerland)	In force since August 2012
Republic of Korea	In force since August 2011
Thailand	In force since December 2011
Mexico	In force since January 2012
Japan	In force since March 2012
Panama	In force since April 2012
Costa Rica	Expected force in coming months
Guatemala	Expected force in coming months
Bolivarian Republic of Venezuela	Expected force in coming months
European Union	In force since 1 March 2013
El Salvador	In negotiation
Honduras	In negotiation
Pacific Alliance (Chile, Colombia, Mexico and Peru)	In negotiation
Trans-pacific Partnership (several APEC member economies)	In negotiation

Source: MINCETUR webpage.

2.2. Unilateral liberalization of tariff and non-tariff measures

Peru has undertaken, in the last few years, a unilateral reduction of barriers to trade. The country has reduced tariffs drastically: from an average of 66 per cent in 1986 to 12 per cent in the late 1990s. According to a recent review by APEC's Bogor Goals Progress Report (2012): "the Peruvian tariff structure has been reduced and currently consists of three levels: 0 per cent, 6 per cent and 11 per cent. The current simple most favoured nation (MFN) average tariff at HS 10-digit level is equal to 3.2 per cent. Of these tariff lines, 55.6 per cent are equal to zero, which are equivalently to 75.7 per cent of Peru total imports".¹³

The reduction of tariffs has been an important trade policy goal for the Government of Peru. The Government believes that lower tariffs are better for consumers and producers. From their viewpoint, it is not sensible to distort domestic prices by increasing tariffs, in the case of a small open economy like Peru. On the other hand, they are of the view that low tariffs promote simplicity and transparency in the determination of prices, thereby reducing rent-seeking behaviour by interest groups trying to influence and gain from tariff distortions.¹⁴

Non-tariff measures, such as price controls, subsidies and exchange controls were also eliminated at the

beginning of 1990s reforms. Legislative decree 668 of 14 September 1991 required the State to ensure that standards and technical regulations did not constitute an obstacle to the free flow and use of goods and services in external and domestic transactions, and prohibited any type of exclusive right or other monopolistic restriction affecting the production or marketing of goods and services.

2.3. Domestic policies to foster competitiveness and supply-side capacity

Generally, Peru's domestic policies to foster competitiveness are not aimed at favouring specific industry sectors. Rather, they aim at improving the competitive conditions of the economy as a whole, seeking to benefit all sectors, without exemptions. Behind this policy statement there is the view that the development of exports sectors should be based on their comparative advantages and the use price-distorting mechanisms (such as border measures, taxes and subsidies) should be discouraged.

In this context, efforts to develop trade and a competitive export offer, based on the country's comparative advantages have consisted of trade facilitation measures and the promotion of public and private investment, with a focus on reducing the infrastructure gap. Examples of such efforts include:

Objectives	Examples
<ul style="list-style-type: none"> Implementing initiatives to improve customs procedures and facilitate trade 	<ul style="list-style-type: none"> Creation of a one-stop window for trade (Ventanilla Unica de Comercio Exterior, VUCE) Adoption of the authorized economic operator model (Operador Económico Autorizado – OEA), promoted by the World Customs Organization (WCO)^a to facilitate risk management control processes Adoption of a procedure to promote the development, automation and harmonization of customs processes (Tránsito Aduanero Internacional de Mercancías CAN-ALADI)^b
<ul style="list-style-type: none"> Implementing regulatory reforms to improve the business environment and encourage private investment growth Improve Peru's competitiveness performance as measured by the World Bank Doing Business ranking and other international competitiveness benchmarks 	<ul style="list-style-type: none"> Implementing the National Competitiveness Plan 2011–2013 with the aim to improve in areas such as: starting a business, dealing with construction permits, enforcing contracts, trading across borders, paying taxes, registering property and protecting investors
<ul style="list-style-type: none"> Introducing complementary measures to promote trade and investment 	<ul style="list-style-type: none"> Expanding the period of stay for business persons up to 183 days under Temporary Business Visas

Source: APEC's Bogor Goals Progress Report (2012).

^a A key piece of legislation aimed at the OEA promotion was the "Reglamento de Certificación del Operador Económico Autorizado" (Decreto Supremo N° 186-2012-EF).

^b An important piece of regulation was the "Procedimiento Tránsito Aduanero Internacional de Mercancías CAN - ALADI" (Resolución de Superintendencia Nacional Adjunta de Aduanas N° 023 -2011/SUNAT/A).

3. Results achieved by Peru because of these reforms

Peru has witnessed sustained economic, investment and exports growth; macroeconomic stability, and improvements in social indicators and in its overall degree of competitiveness.

Peru has obtained impressive economic growth levels: GDP expanded for more than 5 per cent in 2003–2008 peaking at 9,8 per cent in 2008, and after a drop in 2009 due to the effects of the international financial crisis, GDP rebounded in 2010 expanding at 8,8 per cent, and maintaining growth levels of 6,9 per cent and approximately 6,2 per cent in 2011 and 2012 respectively.

Future prospects are also encouraging. Assuming good domestic and international conditions prevail, the Ministry of Economy and Finance (MEF) of Peru estimates that the country will grow by around 6 per cent to 6.5 per cent during the period 2012–2015 and will remain the most dynamic economy in the region. By 2015, GDP may reach \$260 billion and GDP per capita will be higher than \$8.300. These estimates are also supported by important consulting firms in Peru (Apoyo Consultoría),¹⁵ which estimated the average

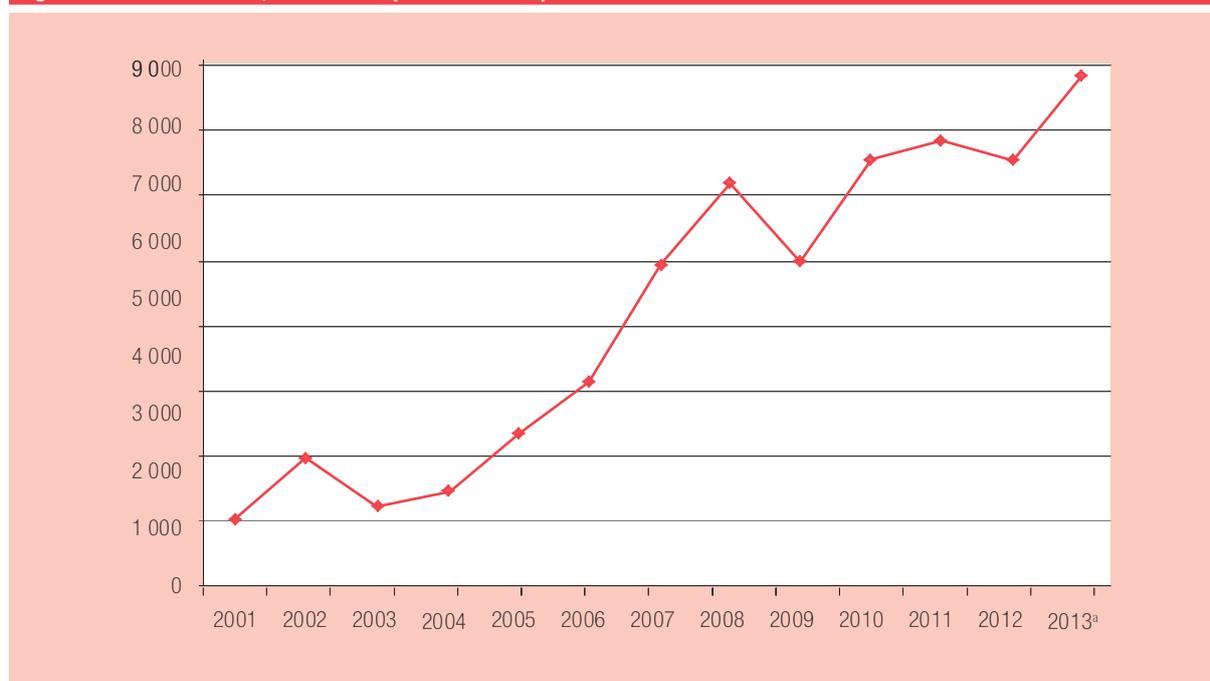
growth rate for the Peruvian economy in the period 2011–2022 at 5.4 per cent.¹⁶

Peru has succeeded in making the country, with its abundant natural resources endowment, an exceptionally attractive destination for FDI. In 2003, net FDI totalled \$1.3 billion. Since then, FDI has increased by an average of 29 per cent annually, reaching \$7.6 billion in 2011 and \$8.2 billion in 2012 (see figure 1).. In addition to extractive industries, other sectors such as communication, infrastructure, retail and agriculture have witnessed a significant growth in FDI stocks.

The significant efforts undertaken to improve the conduciveness of the environment to promote investment in physical infrastructure appear to have resulted in an increased participation of the private sector in such investment, particularly using public–private partnerships (PPPs).¹⁷

Thanks to trade policy measures and to increasing global demand, exports have grown from an average of \$6.3 billion in 1998–2000 to an average of \$28.8 billion in 2007–2009. It is important to mention that both traditional and non-traditional exports increased. However, growth of non-traditional exports was based on larger trade volumes while growth of traditional exports was supported mainly by higher commodity

Figure 1. Peru: FDI flows, 2001–2013 (million dollars)



Source: PROINVERSION, 2012.

^a Estimated.

prices, especially of mining products (although volumes also increased). Figure 2 reveals the evolution of Peruvian exports, according to the level of technology. The predominance of primary and natural resources exports implies that there is still plenty of room for upgrading in Peruvian exports.

Because of prudent macroeconomic and fiscal policies, inflation rates and debt levels were reduced drastically during the last decade. Solid economic fundamentals and timely countercyclical interventions allowed Peru to continue growing through the global financial crisis. Fiscal policy is driven by a commitment to fiscal rules at national and subnational levels, the strengthening of fiscal space, a reduction of the public debt and permanent increases in tax revenues.¹⁸

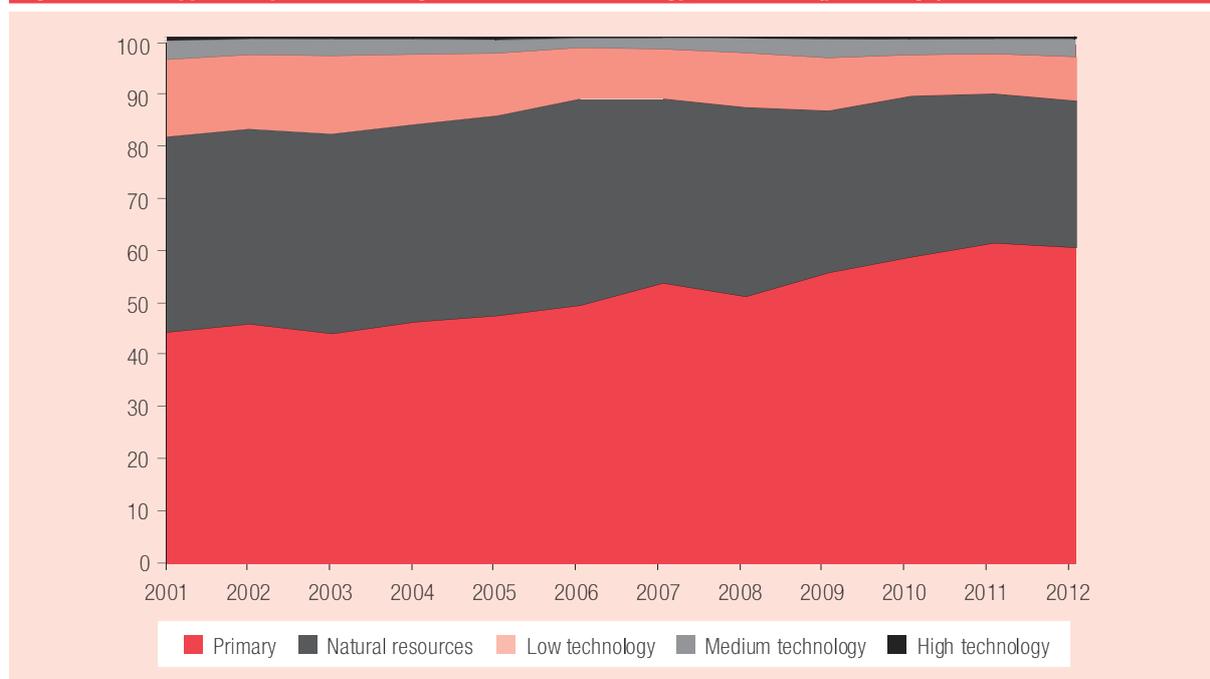
Thanks to the remarkable efforts carried out on the part of policymakers in order to modernize and upgrade Peru's legislative, institutional and regulatory framework, with a clear, market-friendly orientation, the country's overall degree of international competitiveness ranking has improved.¹⁹ According to the latest WEF Global Competitiveness Report, Peru ranks 65 out of 144 countries. This is a middle-range position with respect to the Latin American average – for instance, Chile, Brazil, Mexico and Costa Rica

score better, with 37, 52, 57 and 61 respectively, while Colombia (73) and Argentina (98) score worse. Peru's strongest aspects are its overall macroeconomic setting, health and primary education, labour and goods market efficiency and financial market development.

Economic growth in Peru has been accompanied with positive social outcomes. For example, the continuous recovery of the income per capita (which increased by more than 50 per cent during the last decade, after almost 30 years of stagnation) led to an important decline in poverty rates and a slight decrease in inequality. From 2005 to 2010 in particular, Peru reduced both relative and absolute poverty levels more rapidly than other countries in the region.²⁰ Thanks to this, Peru's poverty rate is now similar to the Latin American average, while it was higher in the mid-2000s.²¹ Formal employment has also increased.²²

The positive evolution of various social and human development indicators contributed to Peru's progress towards the achievement of the MDGs. In addition to poverty reduction, infant and under-five mortality rates, and the maternal mortality ratio fell noticeably.²³ Peru's Human Development Index and its ranking relative to other countries also improved.²⁴ Peru's performance

Figure 2. Peru: Type of exports according to the level of technology, 2001–2012 (percentage)



Source: SIGCI Plus., consulted on 27 September 2013.

Note: Exports classified as "others" by SIGCI Plus are not included in the graphic.

in the area of education also improved, as shown for instance by a rate of (gross) secondary school enrolment exceeding the Latin American average.

B. KEY CHALLENGES WITH RESPECT TO ECONOMIC GROWTH, TRADE AND DEVELOPMENT

In spite of the positive results described before, Peru still faces some important challenges related to competitiveness and productivity. In this regard, the Government has recognized that, in order to ensure Peru's continued growth at sustained rates above 6 per cent in the future, the following aspects must be addressed:

- Substantially improving human capital;
- Reducing the infrastructure gap through PPPs;
- Simplifying administrative procedures, in order to promote investment and facilitate entrepreneurship;
- Fostering technological innovation and information technologies;
- Diversifying the supply towards higher value-added productive activities by improving quality; using new instruments to develop production; promoting free competition and internationalization;
- Fostering financial deepening and the development of capital markets;
- Designing actions aimed at improving environmental sustainability.²⁵

Indeed, the infrastructure gap is an important challenge for Peru. The country lags behind many other countries in Latin America in terms of infrastructure. A 2007 report published by WEF said that Peru had the second largest infrastructure gap in the region – behind the Plurinational State of Bolivia – hindering the country's growth prospects and poverty alleviation strategies.²⁶ The gap²⁷ in basic infrastructure was estimated, in 2012, at \$55.32 million by the Institute for Economic and Business Development²⁸ and Lima's Chamber of Commerce. This gap relates mainly to the following sectors: telecommunications, sewage, transport and electricity.²⁹

Another challenge relates to the fact that the Peruvian economy is characterized by a marked development dualism,³⁰ as it is made up of two very different and poorly articulated components. The modern sector is located in the coastal plains, where most of the

population lives. The traditional, subsistence sector is located in the mountains and jungles and plagued by very poor infrastructure availability and a very low endowment of both physical and human capital³¹ and therefore by isolation and widespread poverty.

In terms of competitiveness, Peru's main weaknesses lie in the areas of institutional and infrastructural development, technological awareness, business sophistication and innovation.³²

The Government of Peru has also identified some challenges with respect to maximizing benefits derived from trade agreements. In their view, overcoming such challenges requires undertaking the following actions (some of which are still pending implementation):³³

- Strengthening the capacity to enforce legal measures (particularly regarding intellectual property);
- Improving the regulatory frameworks;
- Facilitating business activities (through access to finance, elimination of excessive costs, reduction of barriers to entry and exit from the market);
- Promoting investment in education, capacity-building and research to improve productive processes through technological innovation;
- Advancing towards the progressive reconversion of vulnerable sectors (particularly traditional agriculture) into more competitive productive activities;
- Investing in infrastructure (ports, airports, train and lake transportation);
- Promoting creative linkages and associations;
- Promoting of standards compliance, with a special focus on SMEs;
- Fully implementing Peru's export strategy and of regional export plans.

Peru also faces development-related challenges, regarding employment conditions and social inequality. Underemployment is still widespread. The proportion of the workforce in the informal sector was estimated as high as 60 per cent in 2008,³⁴ although estimates that are more recent point towards remarkable improvement. Indeed, CELFIN³⁵ estimated that the unemployment rate was just below 40 per cent in 2011: 7 per cent less than in 2010. Some observers attributed such high share of informality in a stable macroeconomic context, to rigid labour markets and related fiscal contributions.³⁶ However, it is likely that Peru's underemployment is a mainly structural

feature of its socioeconomic landscape, stemming largely from the country's above-mentioned dualistic development pattern.

Peru, like most Latin American countries, has a very unequal income distribution.³⁷ Inequality appears to be more pronounced in urban areas, most notably metropolitan Lima.³⁸ There are various estimates of the degree of inequality, not reciprocally consistent. According to one of them, by 2008 the richest 20 per cent of the population was capturing over half (55.2 per cent) of the total national income, while the poorest 20 per cent was getting only 3.8 per cent.³⁹ According to the World Bank, Peru's Gini Index was well above 0.50 until the mid-2000s, but fell slightly afterwards, down to 0.48 by 2010. An alternative methodology applied by ECLAC (2011) gives a much lower figure (0.458) for 2011.⁴⁰ The ECLAC analysis concludes that the period 2002–2010 presented distributional improvements within inequality levels in Peru.⁴¹

C. PRIORITIES OF THE GOVERNMENT OF PERU WITH RESPECT TO ECONOMIC GROWTH AND DEVELOPMENT

Taking into account Peru's social reality, the Government intends to enact significant structural changes, deeply transforming the prevailing development pattern. The main goals are: social justice and poverty reduction, to be pursued in a framework of orderly and progressive change, while preserving the basic tenets of a macroeconomically stable and relatively fast-growing market economy.

The present administration promotes continuity with the prudent stability-oriented and market-friendly macroeconomic framework that has characterized Peru since the 1990s. In addition, it promotes a gradual structural transformation of the development pattern towards a higher degree of self-reliance, a wider productive base, a better income distribution structure, according a high degree of priority to the expansion and upgrading of basic public services, social programmes and anti-poverty policies.

The economic and social priorities of the Government of Peru are reflected in five major goals, mentioned below.

This study, related to reforms in services sectors and boosting trade performance, aims to contribute to the first four goals.

One challenge for Peru is to maintain its position as "the fastest-growing economy in the region and the one exhibiting the best record in terms of poverty and inequality reduction".⁴² This ambitious target would require a GDP growth rate of at least 6 per cent for the next 15 years, a performance that in turn depends on the enactment of a comprehensive package of productivity- and competitiveness-enhancing policy measures.

The country's strategy in the area of enhancing competitiveness is developed to further detail in various important documents produced by the National Competitiveness Council (CNC). The CNC is a specialized coordination commission formed by representatives of the national and local governments, the private sector and the academia. The CNC has produced a document containing a consistent

Goals	Comments
Social inclusion	A holistic terms that includes: combating poverty reduction, improving income distribution, promoting equality of opportunities and fostering a stronger and more effective presence of the State in rural areas
Stable growth	Instrumental for making it possible to pursue goal 1
Improving productivity and competitiveness	Instrumental for making it possible to pursue goal 1
Raising the quantity of fiscal revenues	Will be possible through the improvement of the macroeconomic situation, which in turn will contribute to achieve the social objectives identified in goal 1
Raising the quality of public expenditure	Will be possible through the improvement of the macroeconomic situation, which in turn will contribute to achieve the social objectives identified in goal 1

Source: MMM 2012–2014.

competitiveness-enhancing vision in a short time period, the “Competitiveness Agenda 2012–2013”.⁴³

In the trade area, the Government strongly supports further commercial and political integration efforts implemented under the Union of South American Nations and CAN. The relationship with Brazil is a priority, given growing trade and investment flows between the two countries and an energy integration pact. The relationship with Chile is being strengthened to guarantee continued growth in trade and investment

flows. In fact, Chile and Peru have established a Pacific Alliance with Colombia and Mexico in 2012, aimed at integrating their economies more deeply and develop new trade links with the Asia–Pacific region.

FTAs will remain an important driver of foreign and trade policy as the relationship with China, the European Union and the United States, Peru’s main trading partners, will remain anchored in bilateral FTAs in operation since 2009, 2010 and 2013 respectively.

SERVICES POLICY REVIEW



OVERVIEW OF THE SERVICES SECTOR

Peru has experienced an early and pronounced process of tertiarization.⁴⁴ Since more than 30 years, services constitute over half of Peru's GDP. In fact, services dominate Peru's economy, as they constitute over 54 per cent of GDP in 2010 and employ a similar share of the formal workforce.⁴⁵ Given the important weight of the informal sector in the Peruvian economy, this figure is likely to be even higher. Besides its key social role as a last resort provider of – mostly informal – employment, the services sector also provides infrastructure and other inputs to other sectors.⁴⁶

From a qualitative viewpoint, the development of the services sector has been suboptimal: “Peru has not yet embarked on a significant journey of endogenous service sector growth”.⁴⁷ The figures 3 and 4 show that contributions to GDP and employment have remained relatively stable since 2000, suggesting that no structural change has taken place during this period.

Among the various services groupings, the most important are commercial services⁴⁸ and “other services”. Among the latter, the largest ones are transport and communication, business services, government services, restaurants and hotels, and services to commercial entities (see tables 2 and 3).

As tables 2 and 3 show, the most important sectors (in terms of GDP shares and aside from government

services) appear to be: transport and communications, services to enterprises (business services), restaurant and hotels, finance and private education.

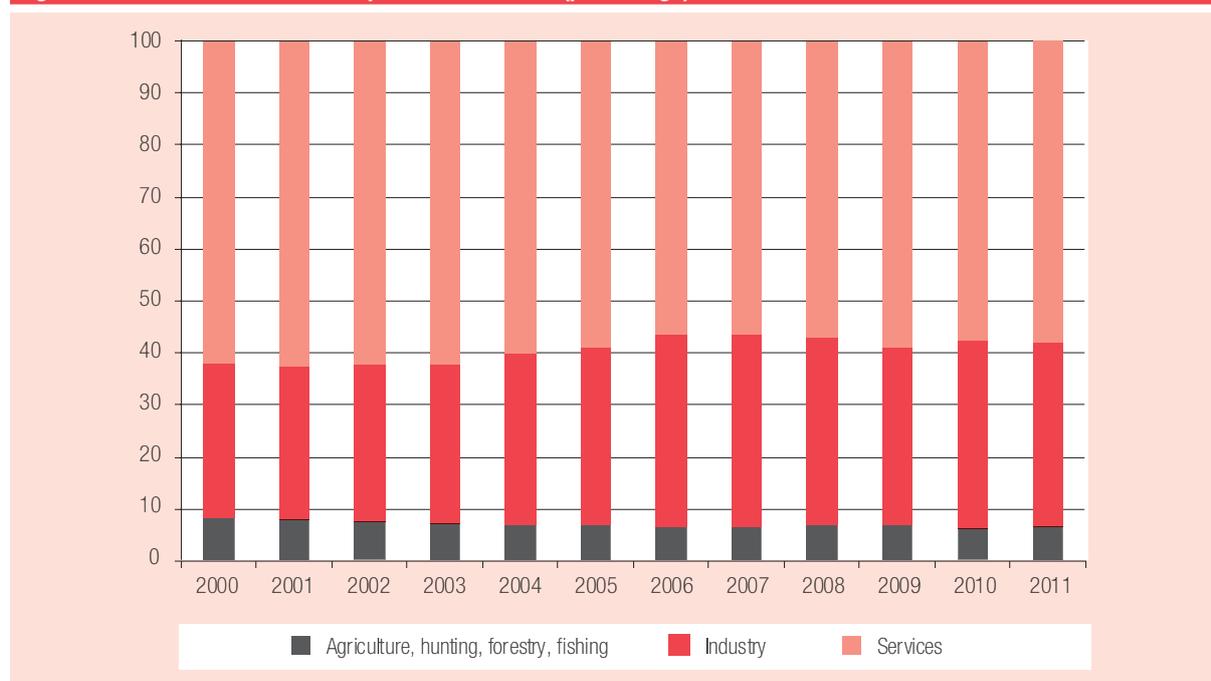
A. CONTRIBUTION TO TRADE

1. Trade in services as a component of Peru's trade structure

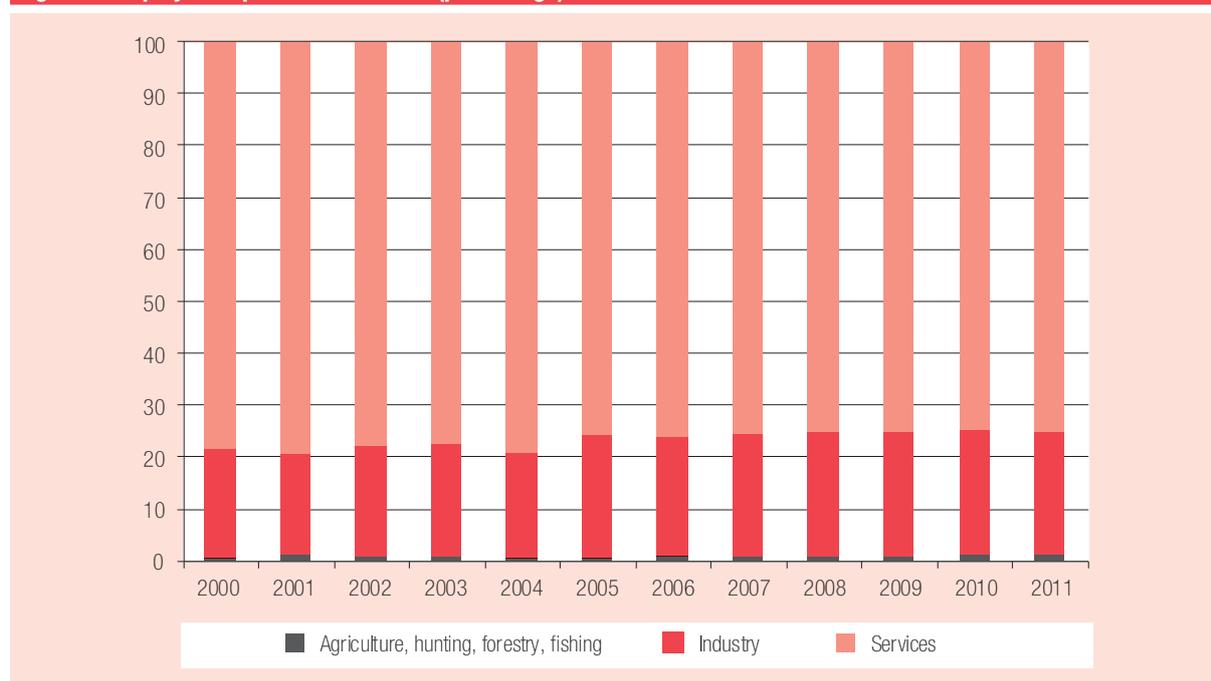
Peru's share of international trade in services in GDP more than doubled since 1980. Peru's witnessed a steady growth in trade in services in particular since 2005. From 2005 onwards, Peru's exports of services have been growing. They have proved more resilient, than exports of goods, to the impact of the international economic crisis in the late 2000s (see figure 5).

Figure 5 also shows that services exports figures remain small when compared to figures for exports of goods. Services exports are equal to only about 10 per cent of exports of goods.⁴⁹ Indeed, the equilibrium of Peru's balance of payments is entirely predicated on a strong trade in goods surplus. This structural feature of the balance of trade of Peru is due to a surplus in goods trade, almost exclusively attributable to mining exports, which overshadows the services deficit (see table 4).

Figure 3. Total value added to GDP per sector for Peru (percentage)



Source: UNCTADstat.

Figure 4. Employment per sector for Peru (percentage)

Source: World Bank DataBank.

Table 2. GDP by productive services

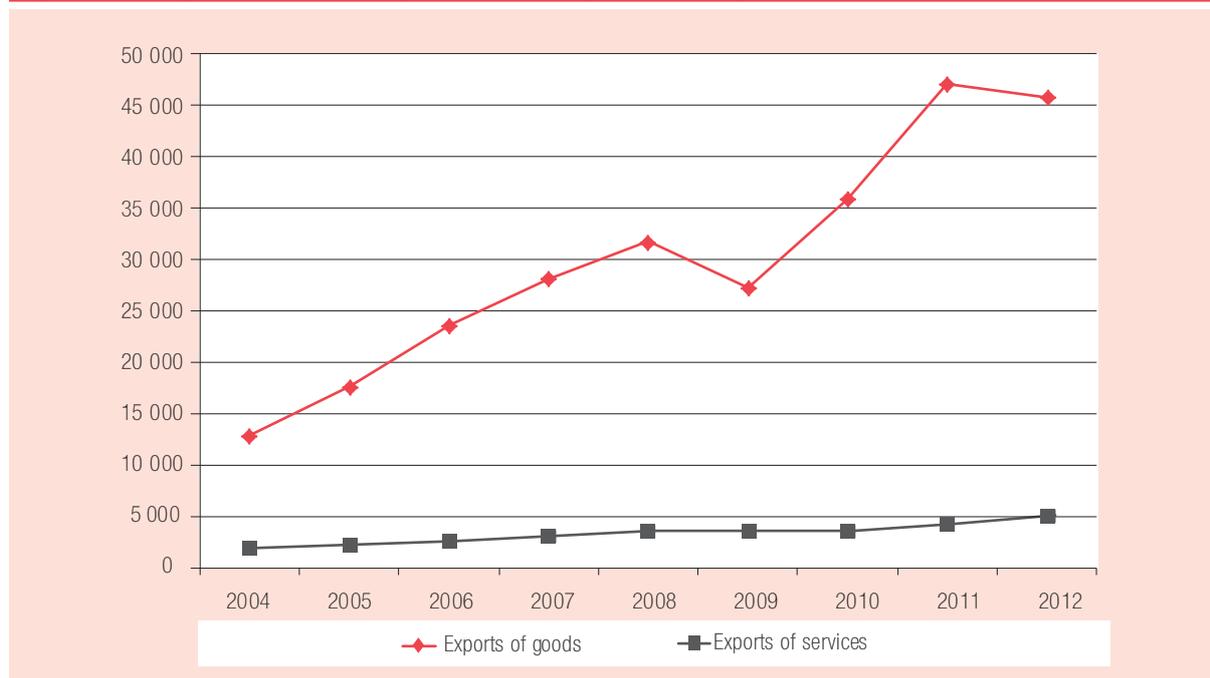
	Millions of nuevos soles			Percentage shares		
	2005	2010	2011	2005	2010	2011
SERVICES (total)	88 220.72	131 075.76	141 616.66	0.59	0.62	0.63
— Electricity and water	3 094.39	4 213.05	4 524.96	0.02	0.02	0.02
— Construction	7 275.67	14 134.87	14 619.55	0.05	0.07	0.07
— Commerce	20 821.31	31 473.01	34 250.78	0.14	0.15	0.15
— Other services	57 029.37	81 254.83	88 221.37	0.38	0.39	0.39

Source: EIU/INEI.

Table 3. GDP by category of “other services” (2010)

Other services	Percentage shares of GDP
Transport and communications	0.23
— Communication	0.08
Finance	0.08
Insurance	0.01
Home rents	0.05
Business services	0.18
Restaurants and hotels	0.10
Services to commercial entities	0.08
Services to non-commercial entities	0.01
Private health	0.04
Private education	0.07
Government services	0.15
Total	1.00

Source: EIU/INEI.

Figure 5. Peru's goods and services exports, 2000–2012 (million dollars)

Source: UNCTADstat.

Table 4. Balance of trade, 2009–2011 (billion dollars)

Other services	2009	2010	2011
Trade in goods balance	5.9	6.8	9.3
— Exports goods FOB	26.9	35.6	46.3
— Imports FOB	21	28.8	37
Trade in services balance	[1.1]	[2.3]	[2.1]
— Exports	3.64	3.69	4.36
— Imports	[4.81]	[6.04]	[6.5]
Trade balance	7	9.1	11.4
Per cent exports services/exports goods	13.53	10.37	9.42

Source: INIEL.

Services imports have traditionally exceeded services exports. As shown in figure 6, by 2012 services imports had peaked to \$7,388 million while services exports had reached \$5,130 million. As a result, the balance of trade on services has been negative for Peru by an amount of \$2,258 million in 2012.

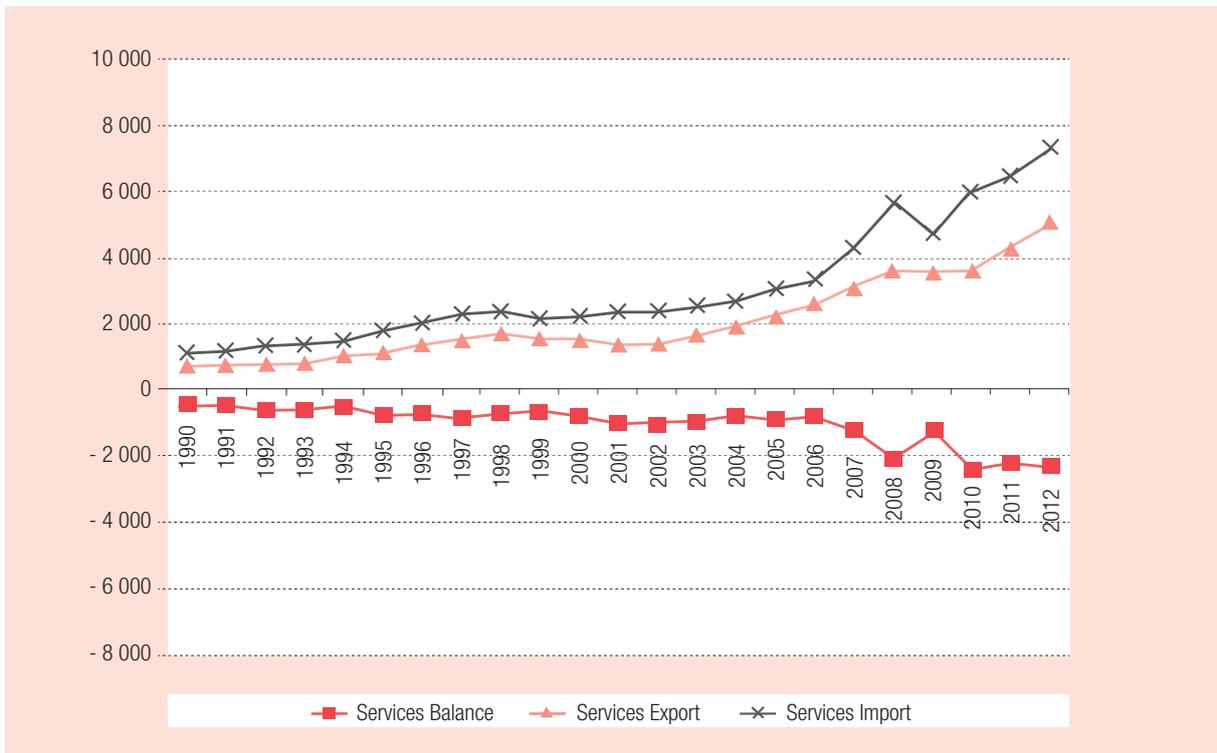
Despite the steady increase in the services exports and imports described above, their participation in the total amount of Peruvian exports and imports has decreased in the last few years. As can be seen in figure 7, in 1998 services exports represented 30.8 per cent of total Peruvian exports; nonetheless, this figure has decreased ever since and in the year 2012

was equal to 11.2 per cent. Similarly, the participation of services imports in total imports has decreased in the last few years and, as can be seen in figure 8, by 2012 it is equal to 18 per cent.

2. Composition of Peru's trade flows in services

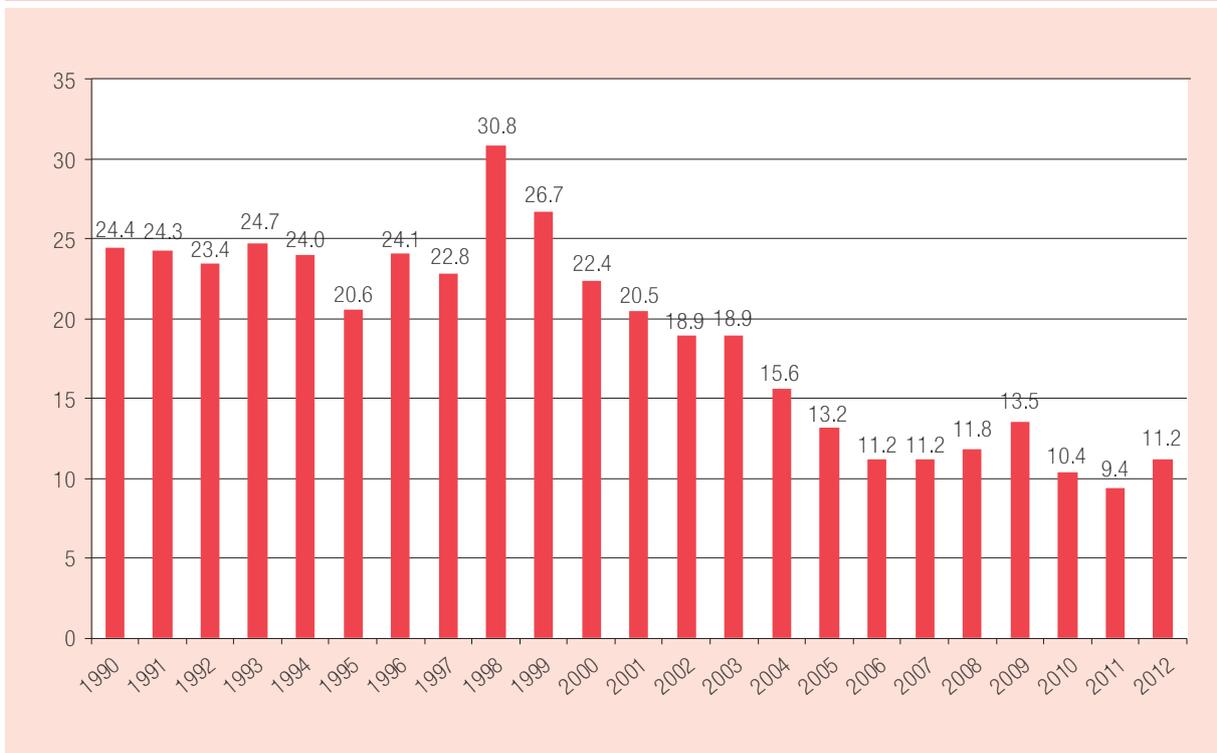
Most of Peru's main services sectors exhibit a trade deficit. The main three services categories imported in 2012 were transport, travel and other services. These are the same main three services categories imported in 1990 (see figure 9).

Figure 6. Peru's balance of trade on services, 1990–2012 (million dollars)

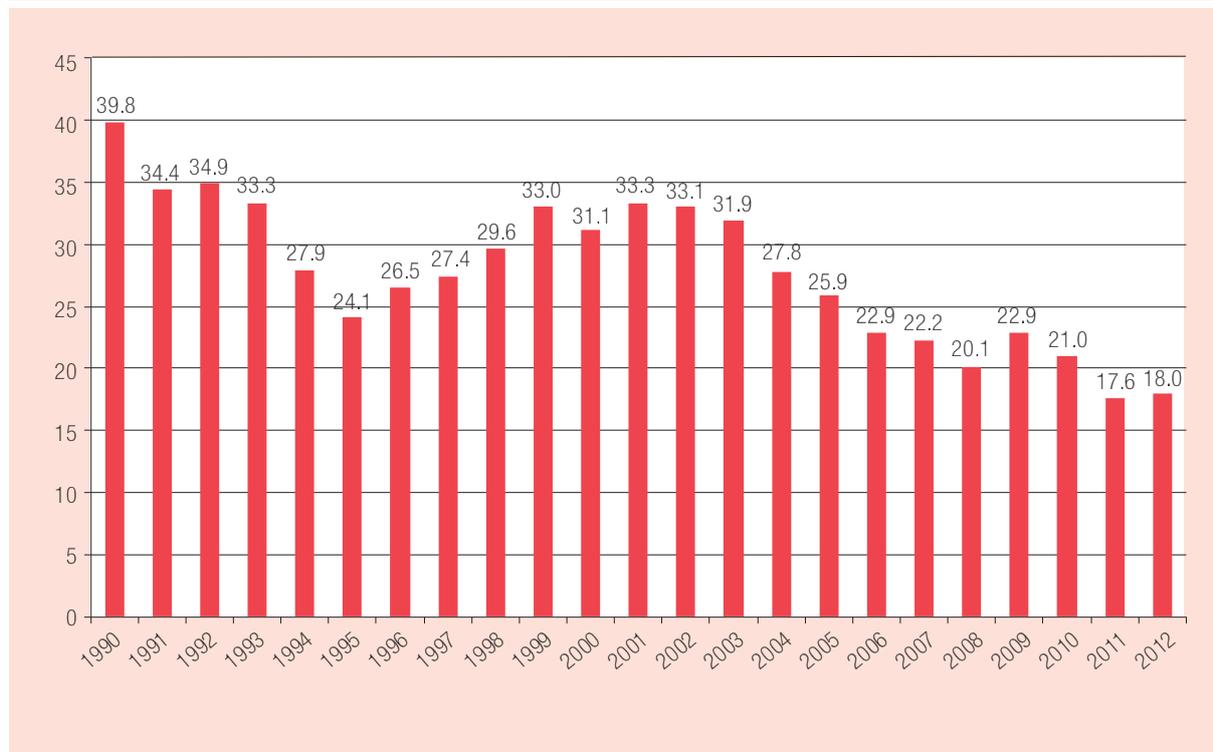


Source: BCRP.

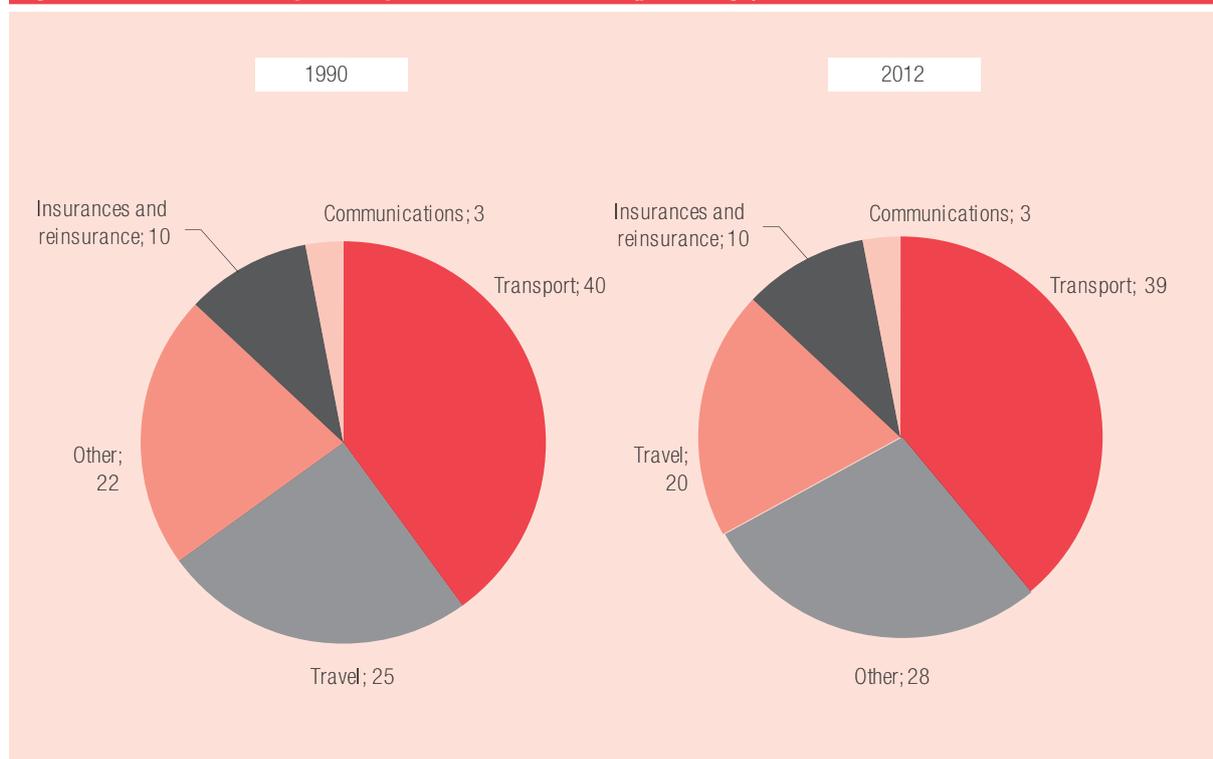
Figure 7. Participation of services exports in Peruvian exports (percentage)



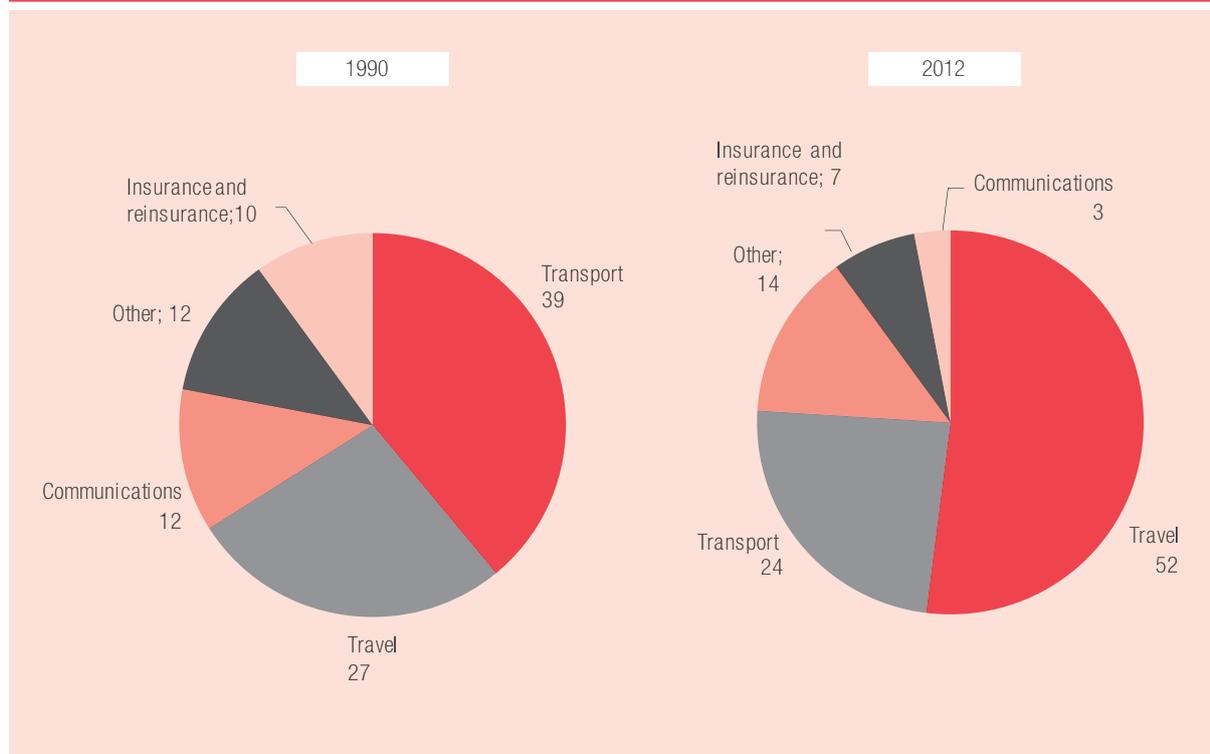
Source: BCRP.

Figure 8. Participation of services imports in Peruvian imports (percentage)

Source: BCRP.

Figure 9. Peru's services import composition, 1990 and 2012 (percentage)

Source: BCRP.

Figure 10. Peru's service export composition, 1990 and 2012

Source: BCRP.

In contrast to imports, services exports have experienced some variation since 1990 (see figure 10). While in 1990, travel services explained 27 per cent of services exported, by 2012, travel participation in export services increased to 52 per cent, thereby reducing the importance of transport, communications and insurance. At the same time, “other services” increased its participation in export services slightly, from 12 per cent in 1990 to 14 per cent in 2012.

Thanks to the favourable performance of tourism, “travel” is the only services sector to record a trade surplus (see table 5). Tourism services have grown since 1992, in terms of export earnings and in terms of percentage of total trade in services. Its export earnings are now second only to those of mining, bringing in over \$2.2 billion in 2010.

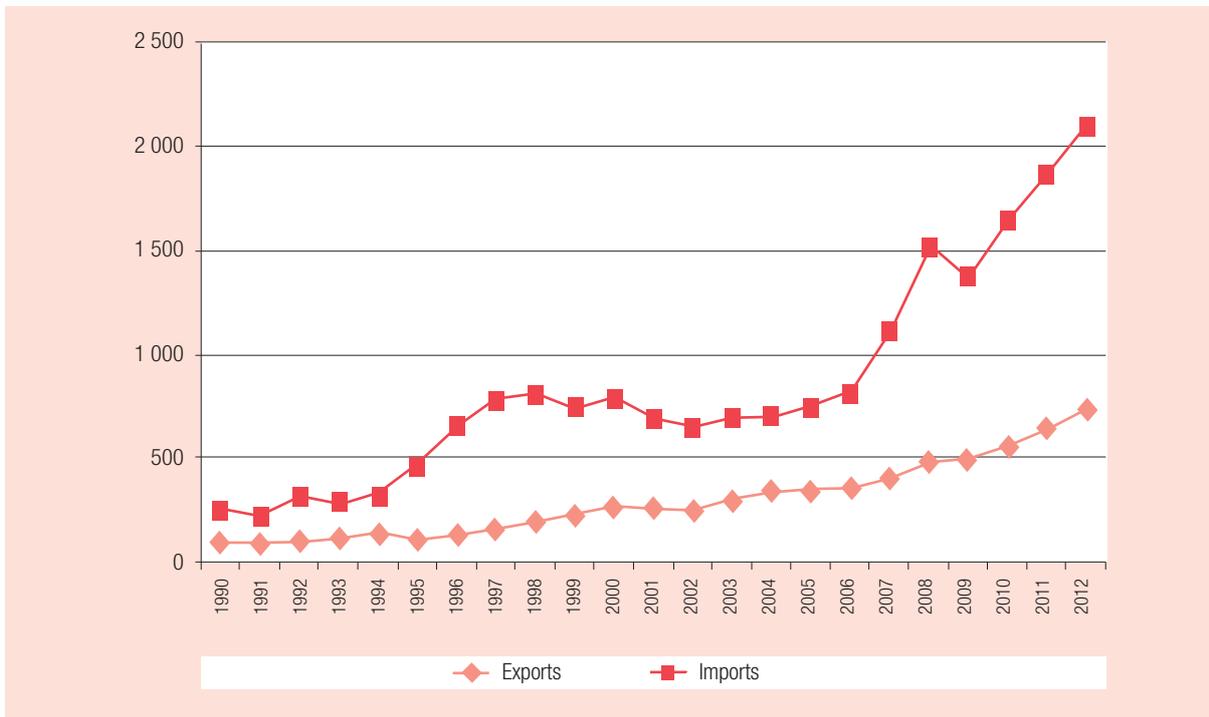
Disaggregated trade data in specific services subsectors is not available. However, some of the services subject to this study might be accounted for in the “other services” category (such as computer and business services). As shown in figure 11, imports of the category “other services” have experienced a strong growth, especially since 2006. Growth of exports has also increased, although to a lower pace, yielding to a negative balance of trade in “other services”.

B. FOREIGN DIRECT INVESTMENT AND SERVICES IN PERU

The policies undertaken to promote foreign investment have led to rapid FDI-led growth in sectors that had been liberalized and, in many cases, privatized. As can be seen from figure 12, the services sectors that attracted most investment since 2000 include communications, financial and energy. The FDI attracted in these economically crucial infrastructural services sectors allowed these to undergo a process of expansion and modernization. The construction, tourism and transport services sectors have received lower levels of FDI during the last decade.

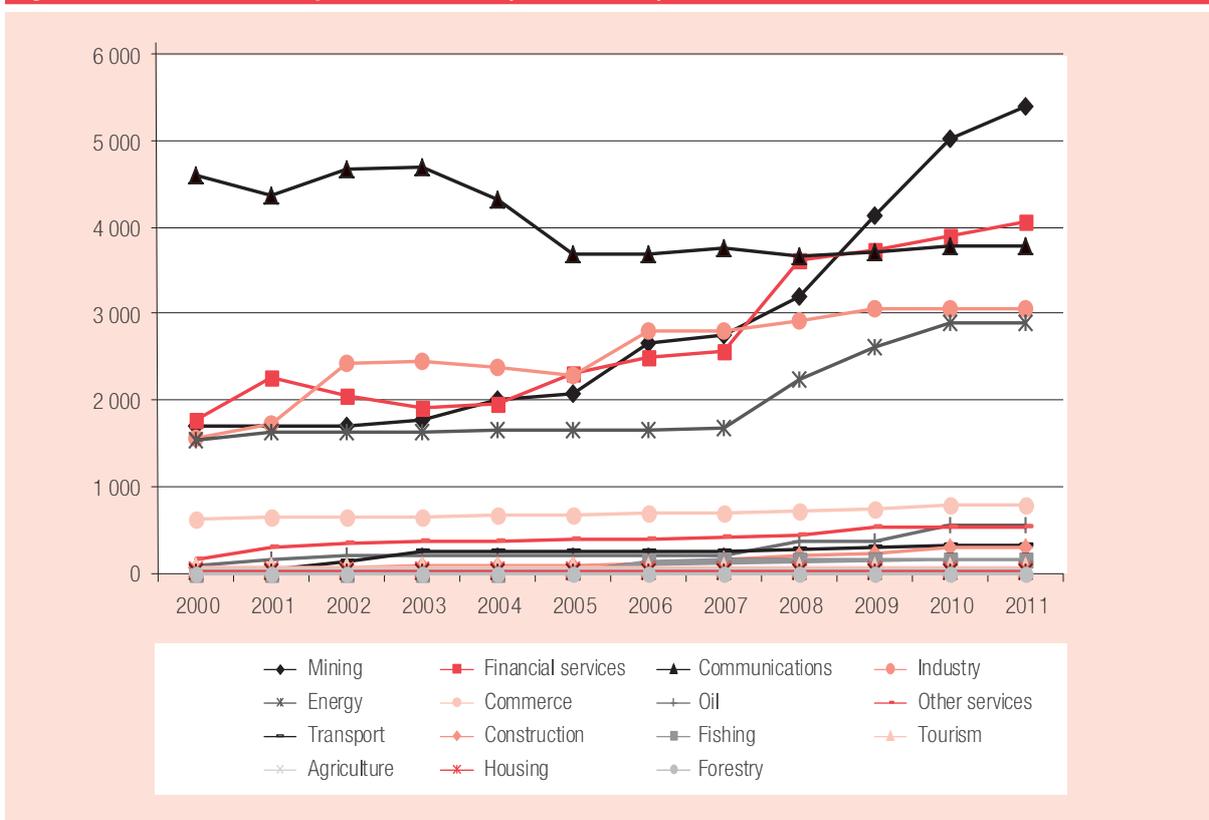
Peru has also become a source of FDI to the region. Peru's main investment destinations in Latin America include Chile, Costa Rica, El Salvador, Honduras and the Plurinational State of Bolivia. Investment is mainly concentrated in tourism and restaurant businesses and derived from expansion of operations by local companies abroad.⁵⁰

Figure 11. "Other services" trade, 1990–2012 (million dollars)



Source: BCRP.

Figure 12. Peru's inward FDI by economic sector (million dollars)



Source: PROINVERSION.

Table 5. Services balance of trade 2010–2012 (\$ millions), disaggregated per sector

	2010	2011	2012
I. TRANSPORTATION	[1 599]	[1 521]	[1 630]
1. Credit	854	997	1 223
2. Debit	[2 453]	[2 517]	[2 852]
a. Freight	[1 882]	[1 957]	[2 229]
— Credit	37	49	46
— Debit	[1 919]	[2 006]	[2 275]
b. Passengers	95	140	170
— Credit	467	552	631
— Debit	[372]	[412]	[461]
c. Other ^a	188	296	430
— Credit	350	396	546
— Debit	[162]	[99]	[116]
II. TRAVEL	740	1 008	1 168
1. Credit	2 008	2 360	2 657
2. Debit	[1 268]	[1 352]	[1 490]
III. COMMUNICATIONS	[78]	[47]	[74]
1. Credit	102	132	147
2. Debit	[180]	[179]	[221]
IV. INSURANCE AND REINSURANCE	[325]	[359]	[366]
1. Credit	166	230	361
2. Debit	[491]	[588]	[728]
V. OTHER	[1 083]	[1 214]	[1 355]
1. Credit	562	646	742
2. Debit	[1 645]	[1 861]	[2 097]
VI. SERVICES	[2 345]	[2 132]	[2 258]
1. Credit	3 693	4 364	5 130
2. Debit	[6 038]	[6 497]	[7 388]

Source: INEI, Series Nacionales 1950–2012.

^a Encompasses mainly port charges of ships and aircraft and transport fees.

C. NATIONAL POLICIES FOR THE EXPANSION OF KEY SERVICES SECTORS

1. Goal, identified obstacles and priority objectives of the Government of Peru with respect to developing the services sector

Peru seeks to develop the services sector because of its importance in terms of qualified employment, export earnings and investment. The specific objectives are

increasing progressively human capital intensity and wage levels of services workers.⁵¹

Main obstacles affecting the further growth of Peru's supply of services in general include:⁵²

- Difficulties to have access to finance, particularly for SMEs;
- Infrastructure shortcomings, particularly with respect to telecommunications and transport;
- Lack of access and absorption of technology;
- Limited cooperation between the academic, public and other institutions, including professional associations, and business sectors;

- Private sector-specific challenges related to human resources development, industrial organization and strategic planning, and affecting particularly SMEs that have a highly fragmented offer in many services sectors.

The strategic framework entitled “Peru’s Agenda for Competitiveness 2012–2013” identifies areas that are critical to overcome some of the bottlenecks in the services sector. Priority objectives identified include:

- Strengthening the policy framework with respect to science, technology and innovation and increasing financing to promote these areas;
- Developing capacities in the business sector, to increase productivity;
- Improving competitiveness in logistic services and custom procedures to take greater advantage of commercial opportunities and improve the insertion of Peru in global markets. These improvements are associated with simplified procedures and with investment and development of associated infrastructure;
- Improving the connection between (i) Government and businesses and (ii) businesses and markets.⁵³

The private sector and PPPs are crucial in the strategy to promote the services sector, particularly with regard to infrastructure development. Peruvian communities abroad are also mentioned as a key factor to understand the development of (business) services exports under the modality of consumption abroad (mode 2).⁵⁴

2. Priority objectives of the Government of Peru with respect to promoting services exports and problematic issues

Export promotion is an important pillar of the Peruvian strategy with respect to development of the services sector. This strategy prioritizes increasing value added, promoting technological upgrade and increasing participation in the global offshoring market.⁵⁵ The rationale for the latter objective is based on the past evolution of demand and forecasts for growing demand in the near future.

Besides its comparatively low level of wages, Peru identified its comparative advantage as an offshoring investment destination as including, among others, the following elements:

- The fact that it belongs to the same time zone of the biggest services market in the world;

- Its cultural affinity with the large Latino community in the United States;
- The high scalability of operations in the domestic market;
- The country’s investment-friendly policy regulatory stance, including the numerous FTAs already in place (see chapter I, section A).

Problematic issues and weaknesses identified in the context of developing services exports in Peru include:

- Gaps in some policy spheres related trade intelligence and SME-specific support policies;
- Lack of coordination among different institutions promoting initiatives to develop exports in certain services sectors;
- Private sector-specific challenges (particularly affecting SMEs) such as lack of identification of offensive interests in services trade negotiations; lack of understanding of functioning of international markets and challenges of internationalization by private companies;
- Barriers affecting services delivery through the movement of natural persons (mode 4). Such barriers take of the form of requirements related to visas, licences, nationality and lack of equivalence of titles making difficult for Peruvians to go abroad to provide, for instance, professional services.

2.1. Services export promotion efforts

PROMPERU is the Commission in charge of promoting exports and tourism in Peru. It is part of MINCETUR. In the last few years, PROMPERU has had a leading role in promoting and developing exports of some services sectors of Peru.

The main policies and activities for the promotion of export services have been established in the PENX 2003–2013, a multi-year strategic export plan and in other operational plans that prioritizes the following services sectors: health, software, engineering and consulting, management consulting and franchising.

The main objective established in the PENX is “developing the services sector as a source of new competitive and value added exportable offer”. This objective is achieved through the deployment of three policies: (i) create and increase competitiveness conditions, (ii) strengthen the institutional framework and (iii) develop an export offer and access to international markets.

In addition to the services sector prioritized in the operational plans, PROMPERU has identified other potential exportable services in the following sectors: call centres, environmental related services, repair and maintenance of ships, entertainment and cultural services, educational services, transport of passenger and cargo and international events organization.

The work of PROMPERU in strengthening the institutional framework has consisted mainly of the creation and strengthening of trade export associations. In this regard, PROMPERU is permanently working with established trade associations such as ADEX (exporters association), Cámara de Comercio de Lima, CCL (Chamber of Commerce of Lima), APESOFT (Peruvian Association of Software Producers), APECCO (Asociación Peruana de Centros de Contacto/Peruvian Association of Contact Centres), SNI (Sociedad Nacional de Industria), COMEX (Sociedad Nacional de Comercio Exterior), CPL (Cámara Peruana del Libro) and CPF (Cámara Peruana de Franquicias). Efforts have also been made to establish internet portals and directories for health (peruhealth.org), software (perusoftware.org) and franchising (cpfranquicias.com) and to build “umbrella” trademarks that identify a set of Peruvian firms in the services sector that have achieved quality certifications and can offer a differentiated service. These trademarks are: DISFRUTA, for health firms and

professionals, CREA for software firms and PROYECTA for engineering and consulting (see figure 13). It is also noteworthy to mention Peruvian efforts regarding a national trademark that has been developed with the objective of promoting investments, exports and tourism (see figure 14).

Several other activities for identifying opportunities in international markets, with a focus in Latin America, have also been deployed. Under PROMEX (International Market Programmes), two marketing tools have been combined: market intelligence and commercial promotion. PROMEX consists of a first phase of market intelligence activities (identifying market characteristics and demand and elaboration of commercial agendas), followed by commercial promotion activities (such as commercial missions, elaboration of commercial prospects and the creation of commercial promotion offices in the target market). So far, 25 PROMEX have been carried out in 10 countries (see figure 15). In addition, several other promotional efforts have been made such as commercial, prospective market and technological missions; portfolios of export offer; market studies; promotional studies; quality assurance programmes and capacity-building for export companies.

As part of these export strategies by PROMPERU, an international event, the Peru Services Summit, has

Figure 13. Export trademarks created by PROMPERU



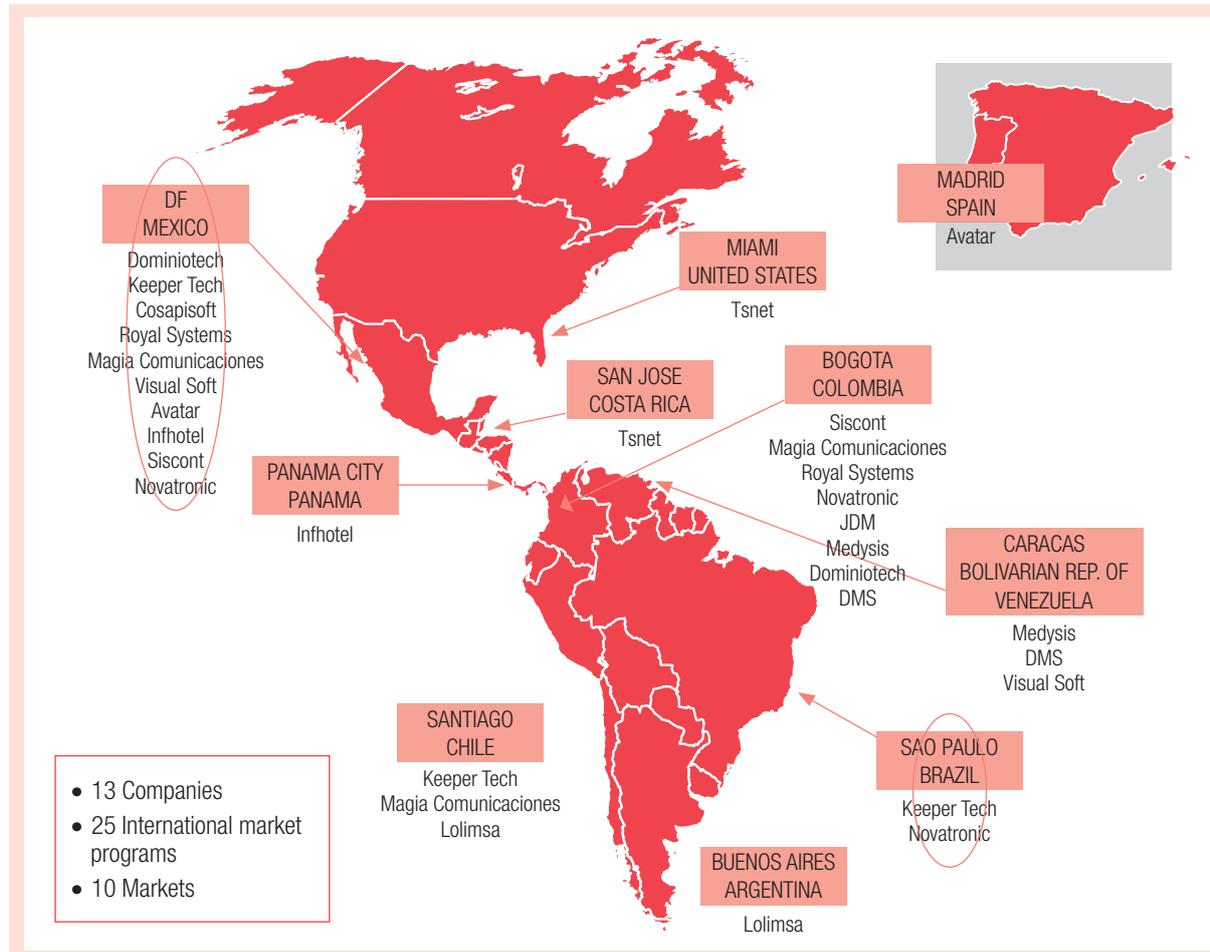
Source: PROMPERU.

Figure 14. Peru national trademark logo



Source: PROMPERU.

been carried out annually since 2011. The Summit objective is to position the country as (i) a business platform for the export of services, where demand can be met with a competitive offer of services as well as (ii) a platform for attracting new investment. Last year, the Peru Services Summit (www.peruservicesummit.com) attracted 2,500 participants, 63 exporters and 57 international firms demanding services from 15 countries, and conducted 781 business meetings. Peru Services Summit 2013 took place in June 2013.

Figure 15. Demand of services identified by PROMEX

Source: PROMPERU.

Aside from PROMPERU's promotion of export activities, perhaps the most important milestone for the export of services in Peru has been the enacting of the Law for the Promotion of Foreign Trade in Services in 2011. The next section describes and analyses this law and its recent modifications.

2.2. The Law on the Promotion of Foreign Trade in Services

The negotiation and approval of Law 29646 (Law for the Promotion of Foreign Trade in Services) published in 1 January 2011, was one of the most significant efforts made by the Peruvian Government to promote service exports.

In general, the Law was designed by MINCETUR. It was presented to the Foreign Trade Commission of Congress for its discussion. MINCETUR, PROMPERU and the Ministry of Transport (MTC) participated actively in these discussions. The MEF participated

early in the process and in the final debate of the Law.

The objective of the Law was to establish the regulatory framework for the promotion of Foreign Trade in Services in Peru. The Law declares the export services sector as of "national interest", considering it as strategic and as a priority for the Peruvian authorities. In their view, services could create more and better jobs considering that service providers generally hire a more qualified work force.⁵⁶

The policy objective sought by MINCETUR was to increase the competitiveness of services with export potential by eliminating the impact of the value added tax (VAT) either in the final price or in the cost for the procurement of goods or services subject to VAT. The basic idea was avoiding the cost disadvantage created by export taxes, similarly to the regime that already existed for the export of goods (principle of imposition at destination).

The law established three types of tax incentives:

- The Law exempted certain “export services” from application of the VAT in Peru. These export services were listed in point A and B of appendix V of the Law of General Sales Tax and Selective Consumption Tax (VAT Law) approved by Supreme Decree N° 055-99-EF;
- In cases where services are provided or consumed in Peru in favour of a foreign individual, the service provider could request the withdrawal of the VAT paid, as long as the service is listed in point C of appendix V of the VAT Law;
- Finally, the Law also established a system of tax return to help Peruvian providers recover the VAT payments made for purchases related to the provision of export services.

MINCETUR and PROMPERU made a considerable effort in identifying a group of services, which were deemed to have a clear potential to grow in the short and medium term. They identified 26 services sectors eligible for tax benefits. Annex 1 includes the list of services considered in points A, B, C and D of appendix V of the VAT Law with the specific requirements determined for each regime. It is interesting to note that such list contained services of each of the four supply modes.

One difficulty that emerged during discussions with MEF was related to the definition “export of services”. In the view of MEF this meant that the consumption of the services should be done completely outside Peru. From a trade angle, consumption in the country of export is one of four ways in which services can be exported. Discussions addressed matters such as how could a tourist seeking to undergo facial or dental surgery, take advantage of the results of these services outside Peru, considering that the service had to be consumed within the Peruvian territory.⁵⁷

Another problem was related to the use, traceability and control of services rendered by or in favour of natural persons, which could be subject to misuse and could be difficult to control, from a fiscal point of view. Finally, the discussion about whether VAT tax exemptions should be applicable to inputs (goods or services) in case of final services that were not subject to VAT was also sensitive.

Despite these discrepancies, the law was passed as it was proposed.

2.2.1. Positive outcomes of Law 29646

According to PROMPERU, the Law 29646 led to three important achievements:

- Generally reducing tax overcharges on service exports. The possibility of recovering taxes paid in the acquisition of goods and services for export activities was believed to improve the competitiveness of Peruvian professional services abroad;
- Broadening the list of services considered exempted from VAT. Services such as surgeries to natural persons, repair of mobile goods, outsourcing of accounting or in computer services, call centres, etc. were exempted from VAT;
- Creating a procedure and a proper criteria to include services in the future by permitting service providers to request MEF and MINCETUR to qualify their services as “export services” under any of the kinds listed in appendix V of the VAT Law, through the approval of a supreme decree.⁵⁸

The Law also established an institutional framework to foster the promotion of trade in services in the country that may permit a more organized inter-institutional effort to foster service exports in Peru. Some of the institutional developments observed are the following:

- Established a Multisectoral Committee for the development of foreign trade in services. The Committee is responsible for the development of a Strategic Development Plan of the Sector, an Export Promotion Plan, and Investment Attraction Plan.

The Law established that the plans must be elaborated 120 days after the installation of the Multisectoral Committee, which was meant to be installed 15 days after the publication of Law 29646.

The Multisectoral Committee was created by MINCETUR on 25 February 2011.⁵⁹ Unfortunately, after some initial meetings, there are still no visible outputs.⁶⁰ It is important that Peruvian authorities engage decisively in fulfilling this mandate.

- Created the Statistical Registry of Exporters and entrusted INEI for the development of a methodology for recording this information and monitoring the evolution of these companies. This registry includes natural and legal persons who export services through the four modes of supply (cross-border trade, consumption abroad, commercial presence or presence of natural persons). The activities considered in this registry include the following:

- Services provided to firms
- Telecommunication services
- Construction and related engineering services
- Distribution services
- Education services
- Environmental services
- Financial services
- Social and health services
- Tourism and travel-related services
- Recreational, cultural and sports services
- Transport services
- Other services
- Entrusted the Ministry of Education (MINEDU) in coordination with MINCETUR with the design and implementation of a national plan for education and training of foreign trade in services, aimed to high school and university students.

2.2.2. Amendments to the promotional tax regime established in the Law

Before the approval of the regulations necessary to implement the Law 29646, MEF⁶¹, approved three legislative decrees (N° 1116, 1119 and 1125), amending the promotional tax regime established in the Law. Fiscal concerns mainly motivated MEF to modify the promotional scheme. As explained earlier, the vigilance and control necessary to ensure the adequate application of the exonerations established by the Law were difficult to implement for the tax authority (SUNAT).

The above mentioned legislative decrees basically reinstated the regime existing before Law 29646. Annex 2 provides exhaustive information about the amendments introduced by the three legislative decrees to the promotional scheme established by this Law 29646. One of the main modifications of the regime consisted of MEF being thereafter the only Ministry that can propose new services to the list of sectors favoured by tax benefits. The modified regime also eliminated the possibility of tourists requesting tax returns for the VAT paid for their purchases in Peru and for the sale of goods to stores located in international zones of ports and airport.

The amendments maintained some benefits in favour of tourism services. This was the case of exonerations for:

- Hotel and host services to foreign persons, either individually or through a tourist package for a stay period not exceeding 60 days (beneficiaries must be registered in a special record at SUNAT);

- Sales to passengers and crews of ships and airplanes providing international transport services;
- Sales of goods entered the country for manufacturing and subsequent export (temporary admission);
- Food services, touristic transport, touristic guidance, folk, theatre, concerts and other events that are part of touristic packages offered by touristic companies operating in the country.⁶²

Benefits offered to tourism packages and for the service providers that offer support to maritime transportation, to cargo load, ship pilotage, and for services of transformation, maintenance and repair of ships and planes of foreign flags in favour of non-domiciled persons were also maintained.

The final outcome of this initiative showed that in Peru there are diverging views between government entities with regard to policy measures to promote more competitive service providers⁶³ and trade in services, particularly fiscal incentives.

3. Peru's participation in trade negotiations and trade agreements in services

Peru has assumed significant commitments in trade in services in its several FTAs.

3.1. Peru's stance regarding national treatment and MFN

Regarding the MFN obligation, Peru has listed as non-conforming measures the possibility to adopt or maintain any measure that accords differential treatment to countries under any bilateral or multilateral international agreement in force or signed prior to the date of entry of new agreements. For example, the treatment provided within CAN will not be extended to later agreements such as the FTA between Peru and the United States. In addition Peru has reserved the right to adopt a special treatment in the future in some sectors such as aviation, fisheries and maritime matters.

In terms of national treatment, Peru has obliged itself to avoid the adoption or maintenance of measures that impose limitations on (i) the number of service suppliers (including the application of numerical quotas, exclusive rights or economic need tests), (ii) the total value of service transactions or assets, (iii) the number of service operations or the total quality

of service output expressed in numerical units, (iv) the total number of natural persons that may be employed in a particular service sector or supplier, among others. In addition, Peru typically obliges itself not to restrict or require specific types of legal entity through which a service supplier may supply a service.

However, the Peruvian offer in FTAs generally preserves the right to maintain or adopt non-conforming measures with respect to National Treatment, MFN, and in some cases Local Presence or Performance Requirements in sectors such as: indigenous communities, peasant, native and minority affairs, fishing particularly in artisanal fishing; cultural industries such as handicraft industries, audio visual industry (to promote Peruvian cinematographic works); jewellery design; music, social services, public supply of potable water and public sewage services.

3.2. Peru's commitments on services derived from the Uruguay Round

As a result of the Uruguay Round, Peru made commitments in 7 of the 12 services sectors under GATS (namely, business services; communications; financial services; tourism and travel-related services; distribution services; recreational, cultural and sporting services; and transport services). It signed the Fourth Protocol on Basic Telecommunications, accepted the Reference Paper on Regulatory Principles in Telecommunications, and signed the Fifth Protocol on Financial Services.⁶⁴

Under GATS, Peru has made horizontal commitments on the movement of natural persons and investment. Natural persons supplying services or employed by companies in the sectors included in Peru's schedule may enter the country for a period of not more than three years, renewable for successive periods. Such persons may not comprise more than 20 per cent of the total workforce employed by the company and their remuneration may not exceed 30 per cent of the total payroll, with some exceptions. As far as investment is concerned, Peru's horizontal commitments guarantee foreign investors and companies the same rights and obligations as Peruvian investors and companies, without any exceptions other than those laid down in the Constitution and Legislative Decree No. 662.⁶⁵

The list of MFN exemptions⁶⁶ contains a horizontal exemption to the effect that the movement of nationals of a country that has a reciprocal labour agreement or an agreement on dual nationality, or of foreign personnel recruited under bilateral or multilateral

agreements concluded by Peru shall not be subject to the limitations on recruitment of foreign workers. The MFN treatment exemptions relating to specific sectors concern land and maritime transport with countries of the Andean Group; land transport with countries members of the Convention on International Land Transport;⁶⁷ and recreational, cultural and sporting services with several Latin American countries.⁶⁸ In addition, on the basis of the principle of reciprocity, Peru also has an exemption on all activities related to financial services. All the exemptions from the MFN principle are for an indefinite period.⁶⁹

According to the World Bank GATS Commitments Restrictiveness Index database (for the period 2005–2010), Peru's most liberalized sectors are financial services, followed by communications, recreational and cultural services, transport and travel. Peru's less liberalized sectors are business services and transport.

In comparison with other regions or groupings, Peru qualifies as being less trade restrictive (with respect to GATS-related trade liberalization) for all services sectors than the average of Latin America, the Andean Group, East Asia and the Pacific Group, MERCOSUR and upper-middle-income economies. However, examining the figures on a sectoral basis, Peru appears to rank as more trade restrictive in the following cases:

- With respect to communication services, than the Andean group, the East Pacific group and the upper-middle economies group;
- In financial services, than the Andean and East Asia and Pacific groups;
- Than all the groupings examined with respect to tourism and transport services.

3.3. Peru's interests and objectives in the context of the Doha Round

Developing countries in general have the following interests and objectives in the ongoing Round of multilateral negotiations: (i) ensuring appropriate flexibility in trade opening;⁷⁰ (ii) ensuring appropriate technical cooperation and capacity-building and (iii) facilitating their increased participation in international trade in services (by ensuring access for sectors and modes of interest to them).

To achieve the latter objective, identifying sectors, markets and modes of delivery of interest to developing countries is critical to ensure improved market access. In this regard, Peru⁷¹ has indicated that professional

services and mode 4 are of particular interest. An outcome consistent with this objective would imply: the expansion of commitments in categories delinked to mode 3, reducing restrictions related to work permits and visas procedures and clarifying commitments related to natural persons, in order to ensure predictability of commitments.

In accordance with the general interests and objectives mentioned above, Peru submitted, in the context of the Doha Round an initial offer in 2003⁷² and a revised offer in 2005.⁷³ These indicate areas where Peru would be willing to modify horizontal commitments and/or reduce existing restrictions. They include, among others, elimination of certain requirements concerning limitations on market access in horizontal commitments. With respect to sectors under review, it is worth noting, that:

- Accounting/auditing/bookkeeping and engineering would be opened under modes 2, 3 and 4 (subject to commitments specified in the horizontal section);
- Computer services would be opened under all modes of supply (mode 4 subject to commitments specified in the horizontal section).

In addition, in order to expand and diversify Peru's exports of services, requests have been made to the main trading partners to overcome existing barriers that presently constrain access to their markets.⁷⁴ Peru has also submitted a number of proposals regarding domestic regulation,⁷⁵ movement of persons,⁷⁶ professional services, credit for autonomous liberalization and specific sectors. Peru proposals with respect to specific sectors include tourism and computer services. The focus of Peru's proposal regarding computer services is clarifying classification related issues and promoting liberalization, through full commitments in the sector. Peru has also adhered to a collective statement, by several developing countries, to promote liberalization in the maritime transportation sector.

Peru has been actively participating, since 2012, in an informal group entitled the "Real Good Friends of Services",⁷⁷ exploring alternatives to deepen services trade liberalization among a subset of WTO members. Proposals examined by the group have included: standstill and ratchet clauses for services liberalization, possible new commitments regarding professional services and temporary movement of professionals, procurement of services by Governments, maritime services, domestic regulation and information and communication technology services.

The Doha Work Programme has been progressing very slowly due to a number of deadlocks in the various negotiating areas. It has therefore become very unlikely that agreement (even in an "early harvest mode") would be reached anytime soon on the main trade areas, including services. Other options are available for the Government of Peru to pursue trade liberalization, that is, autonomous liberalization, bilateral, regional and interregional negotiations. The analysis of implications of FTAs currently being negotiated in the liberalization of sectors being analysed in this SPR is of particular relevance.

3.4. The experience of Peru with the GATS liberalization framework

Liberalization within GATS led to changes in specific sectors, particularly in the telecoms and financial sectors.

In terms of investment, gradual opening in the telecoms sector appears to have had a positive effect. The WTO 2007 TPR Report cites, for instance that one third of FDI in 2006 was concentrated in this sector. Other positive aspects cited include: improved coverage and quality of services (in the telecommunications sector) and reduced rate of loan defaults (in the financial sector).

However, trade opening and insufficient domestic regulation have not resolved some shortcomings, including universal access (access is said to remain low in poor urban areas) and competition-related complaints in telecoms and higher concentration in the financial sector.

3.5. The experience of Peru with regional and bilateral negotiations on trade in services

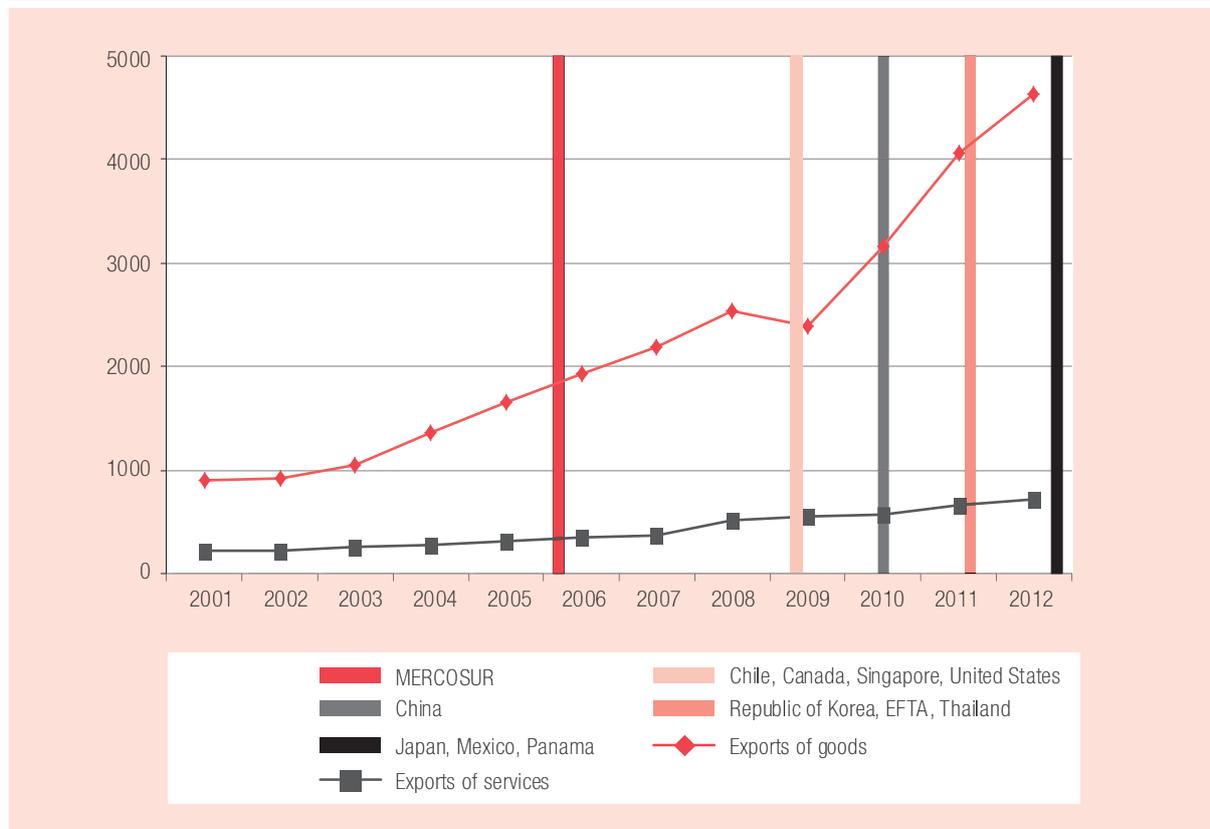
Information regarding the entry into force of Peruvian agreements (see figure 16) allows inferring visually that trade flows have been growing in most of the periods when trade agreements have entered into force⁷⁸ and that this impact is more evident with respect to trade in goods.

3.5.1. The Andean Community

Peru is a party to the CAN agreements concerning the liberalization of services. The Services liberalization process in the CAN context is defined through:

- Decision 439 (entitled "General framework of principles and rules for the liberalization of services within the CAN"), which is aimed at creating a common market of services;

Figure 16. Evolution of exports of goods and services and Peru's FTAs (million dollars)



Source: OAS database.

- Decision 659 on services sectors that will be subject to deepening of liberalization commitments and regulatory harmonization.

The liberalization process was expected to take place by creating an inventory of measures restricting services and a schedule to eliminate them gradually, following a negative list approach.

The liberalization of services is almost complete within CAN. The inventory of measures restricting services⁷⁹ identified barriers to intraregional trade of several infrastructure services for instance (postal and courier) communications, financial services and transport (particularly road transport). After the barriers were identified, a work programme was set to eliminate them. This process was completed in 2007. An asymmetric treatment applied to the Plurinational State of Bolivia in its liberalization schedule.

Pending matters with respect to liberalization of services include the treatment of financial services and open television services. These sectors were exempted from liberalization and regulatory harmonization, as

they will be subject to separate sectoral regulations to be developed at a later stage.⁸⁰

A work programme was defined by CAN for regulatory harmonization of certain sectors⁸¹ (tourism, land, air and maritime transport; telecommunications and energy) and for rules regarding accreditation and recognition of licences, certificates and professional degrees. Financial services and open television services were also exempted, for the time being, from this process of regulatory harmonization.

During the period 2002–2011, services exports from CAN to the world increased by an annual average rate of 11.2 per cent. During that same period, services imports increased by an annual average rate of 11.6 per cent. The balance of services trade has traditionally exhibited a trade deficit. Main services exported (in 2011) included travel, transport and communications. Similarly, main services imported (in 2011) included: transport, travel and communications.⁸² More specific data concerning services trade within CAN could not be accessed.

All Andean countries have prioritized in their economic strategies and policies, the promotion and development of the services sector for the domestic and foreign markets. Such policies and strategies indicate that for these countries, issues of importance in the area of services include: the development of technological innovation, improved access to financial services, promoting the role of SMEs, availability of infrastructure to facilitate the development of services activities, sustainable management of natural resources and policies related to basic services.

Peru and Colombia attach a lot of importance to strategies aimed at taking full advantage of trade agreements. Given the importance of the services economy for these countries in terms of GDP, employment and exports, these strategies and policies are likely to have an important impact in their future economic and social development.⁸³ In contrast, Ecuador and the Plurinational State of Bolivia are not as actively engaged in FTAs.

3.5.2. United States FTA

Peru and the United States concluded negotiations leading to an FTA in December 2005. The Peruvian Congress ratified the agreement on 28 June 2006. This agreement entered into force in February 2009. This agreement contains disciplines regarding investment, cross-border services, financial services, telecommunications and electronic commerce. The agreement also contains provisions regarding competition policy.

An assessment of commitments undertaken by Peru in the United States FTA is provided by Rocha (2011):⁸⁴

- Overall, the level of liberalization achieved by this agreement is higher than any other previously signed by Peru. Most commitments were undertaken on mode 2, followed by mode 1 and then mode 3;
- In sectoral terms, almost all sectors are vastly committed. The sectors with most commitments include: (i) Construction and related engineering services, (ii) Tourism and travel related services, (iii) Business services and (iv) Recreational, cultural, sporting services. The ones with fewer commitments include: Educational services, health related and social services and environmental services.

3.5.3. European Union FTA

Negotiations for an FTA between the European Union and Peru were concluded in February 2010 and entered

into force on 1st March 2013. This agreement contains a chapter dedicated to services and disciplines related to establishment and capital movements (investment). It also contains provisions regarding competition and capacity-building.

A study done in 2010⁸⁵ estimated that this agreement could result, for Peru, in increased services exports to the European Union by 52 per cent and increased imports from the European Union by 23 per cent. It also values positively opportunities to capture investment from the European Union by Peru. It also indicates that, in order to maximize (services-related) opportunities from this agreement, Andean countries and Peru should strive to improve standards of service, specialize in niches markets, undertake a more aggressive promotion of services in foreign markets, strengthening of the IP protection legal framework, ensure continued investment in human capital to develop skills and increased cooperation between research centres and businesses to promote innovation.

Computer services are identified as the sector (out of the four that form the focus of this SPR) with less favourable export potential to the European Union. The study indicates that, although this sector is in the process of gaining competitiveness in Andean countries, it is not yet competitive enough in the European market. The Andean region represents a less attractive offshoring destination compared to other countries in Latin American and Asia, due to weaknesses regarding human resources qualifications and branding strategy.

3.5.4. Other agreements

The FTA between Chile and Peru entered into force in March 2009. The agreement contained some clauses regarding investment (which refers to temporary entry of business persons), cross-border trade in services and cooperation in regard to labour and migration. The agreement foresees the negotiation of disciplines regarding mutual recognition of diplomas at a later date.

Peru is currently an associated member of MERCOSUR. MERCOSUR and Peru concluded negotiations for an FTA (in the context of the framework agreement between CAN and MERCOSUR) in August 2005. Among other objectives, this agreement seeks to promote investment and facilitate free movement of goods (and services). This agreement has been in force since January 2006. Its implementation has been basically focused on goods, although the agreement

foresees mechanisms that are to be created for the gradual liberalization of trade in services within a period to be determined. To date this has not happened.

Peru is a member of APEC, a cooperative forum that discusses policies, barriers to trade and investment with the aim to reduce barriers to trade and investment. Peru's participation in APEC has given the country projection and promoted trade relations with Asia. The objective of the services work done by APEC is to foster the development of open and efficient services markets in the Asia-Pacific. APEC's coordinates work with respect to the following sectors: telecommunications and information; transportation; tourism; and energy.

Besides disciplines on services, on mutual recognition of academic degrees and on investment, the agreement signed with Mexico (2012) contains specific provisions aimed at facilitating the entry of business persons from Peru, particularly in the area of interior design, construction, architecture and gastronomy. This interest in emphasizing disciplines aimed at facilitating entry of business persons can also be found in the agreement with the Republic of Korea (2011).

The agreement Peru-EFTA (2010-2012), contains provisions on electronic commerce, investment and foresees future negotiations aimed at the liberalization of services. It also contains provisions regarding recognition of qualifications for certain services providers.

Peru has also signed agreements containing provisions on services with the Bolivarian Republic of Venezuela, Canada, China, Costa Rica, Cuba, Guatemala, Japan, Panama and Singapore.

Peru is currently negotiating to accede to the TPP. Negotiations are ongoing with Australia, Brunei Darussalam, Canada, Chile, New Zealand, Singapore, Malaysia, Mexico, the United States and Viet Nam. The agenda of the TPP is the most ambitious one ever negotiated by Peru because it encompasses three continents and many behind-the-border impediments to trade and investment. This agreement foresees flexibility mechanisms to ensure the agreement evolves and allows other APEC members to accede in the future.⁸⁶

3.6. Assessing the benefits from trade liberalization commitments and negotiations

Few assessments were found regarding trade benefits obtained by Peru as a result of specific trade liberalization commitments assumed in its various

trade agreements, particularly regarding the four specific subsectors analysed in this study.

Although the Government of Peru is of the view that these commitments and negotiations are important vis-à-vis improving the international competitiveness of Peru's exports; it is also aware that these commitments and negotiations may provide for a temporary comparative advantage vis-à-vis its main trade competitors in the region.

In this context, a recent study focusing, on one hand, on Peru and three of its regional competitors (Chile, Colombia and Costa Rica) and, on the other hand on the largest potential export markets worldwide (China, the European Union and the United States) has shown that⁸⁷ Peru has a comparative advantage in the export of travel services (like Colombia and Costa Rica) and telecommunication and IT-related services (like Colombia).⁸⁸ Yet, according to the study, Peru's comparative advantage in the export of telecommunication and IT-related services has been declining since the 1990s, and by the late 2000s it had almost disappeared.⁸⁹

In the case of the FTAs with China, the European Union and the United States, they have provided Peru with a certain degree of preferential market access and allowed the country to level the playfield for Peruvian services exporters competing with regional neighbours. Yet, on average, China and the United States have granted a more favourable market access to Chilean services exporters than to their Peruvian and Colombian counterparts (see Rocha, 2011).

It is worth noting that stakeholders who attended the first and second workshops saw merit in undertaking assessments of the impact of trade negotiations on the evolution of trade performance of services exports, to inform policymaking and negotiating positions.

D. RELEVANT REGULATIONS GENERALLY APPLICABLE TO THE SERVICE SECTORS COVERED IN THIS ANALYSIS

Peru is broadly open to foreign services providers and investors. Peru offers non-discriminatory treatment, free access in the majority of economic sectors, free movement of capital, free competition, guarantees to private property, protection to investments

(under ICSID and MIGA). Only some investments require authorization: (i) investments located within 50 kilometres from the frontier; (ii) investments on weapons, munitions and explosives.

1. Quantitative limits to the hiring of foreign professionals

Peru limits the number of natural persons that may be employed in a particular services sector. Legislative N° 689 (of 5 November 1991) entitled “Ley para la Contratación de Trabajadores Extranjeros” established limits on the number of foreign employees that an enterprise may hire. Article 4° of the law specifies that national and foreign companies can hire foreign personnel on a proportion below 20 per cent of the total number of workers (employees and workers). Salaries of such foreign personnel shall not exceed 30 per cent of the total payroll of salaries.

To determine the compliance with the limit of foreign workers, companies shall determine the 100 per cent of workers considering the total personnel in the payroll, permanent and temporary personnel and currently working. To determine the compliance with the percentage of the total payments of the payroll, companies shall consider the total payroll of local and foreign workers, permanent and temporary under temporary contracts, of the month preceding the analysis.

Contracts of foreign personnel shall be celebrated in writing and with fixed terms, not exceeding a three year period. Such contracts can be extended for a similar term. The work contract and its amendments must be authorized by the Ministry of Labour.

Article 1 of Legislative Decree N°689 clearly established that employers shall give preference to the hiring of national workers. The employer is obliged to train local personnel for positions occupied by foreign professionals.

2. Obligation for professionals to be registered in a professional college

As explained in detail in the sections related to the accounting and to the engineering consulting service sectors, the exercise of the liberal professions is free in Peru. However, professional boards have the duty to supervise professional sufficiency and moral quality of the individuals that pretend to be part of their associations.

Professionals are required to register in one professional college to be able to exercise their profession in the Peruvian territory. To register in a professional board, the candidate must possess a professional title, be able to exercise civil rights and show that the lack of a criminal record. Professionals must have their titles certified by colleges to determine their authenticity. Colleges validate that titles have been issued by legally certified universities in such professions complying with all necessary requirements (signatures, seals and other formalities).

Foreign professionals wanting to work in Peru should obtain first a certification of their studies in the Asamblea Nacional de Rectores (in case the university of origin is located in a country having an MRA with Peru) or directly through one Peruvian university (for all other cases). With this certification, it is possible then to obtain the national Title in its profession and to apply for becoming a member of a Professional College.

It is important to note that the registration in a professional board is a domestic regulation clearly consistent with international trade agreements in services. This obligation is not considered a “non-conforming measure” in the services chapters of the FTA’s signed by Peru.

SERVICES POLICY REVIEW



PART TWO

RESEARCH BY THE
NATIONAL EXPERT TEAM:
SECTOR-SPECIFIC ANALYSIS

SERVICES POLICY REVIEW



ACCOUNTING AND BOOKKEEPING SERVICES

A. INTRODUCTION

Accounting is a key component of the functioning of businesses and the economy as a whole. At the firm level, accountancy is crucial to keep track of all transactions, enabling the analysis of operational and financial information and allowing company's stakeholders (firm owners, clients, and government entities) to make informed decisions concerning productivity and best use of assets. These services contribute to trust in transactions and are particularly relevant in the case of the financial sector in terms of enabling control, transparency and stability of the system.

Services provided by accounting firms are diverse and difficult to categorize. This is because Governments define the domain of accountancy services differently and because the boundaries between the accounting profession and other professions are not clear. The 2008 United Nations Provisional Central Product Classification (CPC) provides the following taxonomy of accounting and bookkeeping services (CPC 8222).

In addition to the accounting services mentioned before, services provided by accountancy firms often include:

- Reporting advice and reliable information to stakeholders on environmental, social and economic performance of organizations and assurance in relation to sustainability matters;
- Legal services, including preparation of legal documents, support to the general assembly, advice on corporate law and insolvency regulation;
- Administrative and human resource services, such

as preparation of employment contracts, relations with social security institutions and recruitment;

- Financial services, for instance financial due diligence, investment analysis, financial planning, debt restructuring and recapitalization and trusteeship;
- Management consultancy, for instance providing advice on strategy, on design and implementation of business IT systems, on organization of internal controls or on cash and treasury management.

The following trends have affected the accounting industry in the recent past:

- New and more complex accounting standards: After 2008, several corporate scandals revealed the need for a more strict accounting regulation and enforcement. In response to this, new, more complex and more costly standards were introduced at the global and national levels;
- Increased recourse to outsourcing: Businesses increasingly tend to outsource accounting tasks to save costs and, at the same time, increase productivity by focusing on their core business. They outsource mainly standardized processes in lower value added segments, such as accounts payable, payroll, general accounting and tax preparation;
- Increased use of technological tools in the practice of this profession: As technology expands, data collection has been automated, shifting the focus of this profession from computer to consulting.

As a result of these trends, the industry is being forced to redefine its nature and role. As accounting standards evolve towards a higher level of complexity,

Accounting services (CPC 82221)	Bookkeeping services (CPC 82222)	Payroll services (CPC 82223)
<ul style="list-style-type: none"> • Reviewing annual and interim financial statements and other accounting information. The scope of a review is less than that of an audit, and the level of assurance provided is thus lower • Compilation of financial statements from information provided by the client. No assurances regarding the accuracy of the resulting statements are provided • Preparation of business tax returns, when provided as a package with the preparation of financial statements for a single fee are classified here • Compilation of income statements, balance sheets, and the like • Analysis of balance sheets, and the like • Other accounting services such as attestations, valuations, preparation of pro forma statements, and the like. 	<p>Classifying and recording business transactions in terms of money or some unit of measurement in the books of account</p>	<ul style="list-style-type: none"> • Payroll processing, including online • Direct deposit or cheque preparation services • Remission of taxes and other deductions • Preparation, viewing and storage of payroll ledgers, reports and other documents

accountants are under increasing pressure to keep raising their knowledge, by becoming more proficient in management accounting, developing their financial skills and getting certified.

Disaggregated statistics for accountancy are unavailable, due to the lack of comparable definitions. Available data indicates that, in 2008 the largest exporter of accounting services was the Netherlands, with exports estimated at \$3.35 billion, followed by the United Kingdom of Great Britain and Northern Ireland and Luxembourg, at \$2.55 billion and \$1.33 billion, respectively. The largest importer was the United States, with imports estimated at \$2.27 billion, followed by the Russian Federation (\$533 million) and Sweden (\$533 million).⁹⁰

Demand for accounting services worldwide is poised to grow, given rising demand for accounting services, particularly in emerging and oil-rich economies, such as China, India and many countries in the Middle East. According to IbisWorld (2012), accounting services' global revenues are estimated to increase by 3.5 per cent in 2013.

B. REGULATORY AND INSTITUTIONAL FRAMEWORKS

The regulatory framework of the accounting sector in Peru comprises the following laws:

<ul style="list-style-type: none"> • Law N° 28708, General Law on the “National Accounting System “ Ley General del Sistema Nacional de Contabilidad” (2006) 	<ul style="list-style-type: none"> • Establishes the functions, objectives and structure of the private and public bodies comprising the “National Accounting System”
<ul style="list-style-type: none"> • Law N° 13253, on the professionalization of public accountants “ Ley de Profesionalización del Contador Público” (1959) 	<ul style="list-style-type: none"> • Establish the functions and duties of accounting professionals; • Establish the organization, functions and competences of main institutions related the accounting profession.
<ul style="list-style-type: none"> • Law N° 28951 that updates Law N° 13253 (2007) “ Ley de actualización de la Ley n° 13253, de profesionalización del Contador Público y de creación de los colegios de contadores públicos” (2007) 	

Source: CESEL and GMI websites.

According to Law N° 28708, the accounting profession in Peru is organized under a system comprised of a set of principles, rules and accounting procedures applicable to the public and private sector. This law forbids accounting firms from providing accounting and auditing services to the same client.

The National Accounting System comprises:

- (i) The General Directorate of Public Accounting, under the Ministry of Economy and Finance, in charge of approving accounting rules for the public and private sectors, assembling the General Account of the Republic and generating statistics based on the accounting information received.
- (ii) The Board of Accounting Standards (Consejo Normativo de Contabilidad) is responsible for the study, analysis and issuance of standards in matters for which they are summoned by the General Directorate of Public Accounting. This Board meets twice a year, is chaired by an official appointed by the Minister of Economy and Finance and is composed of one representative of each of the following entities:
 - A representative of the Central Reserve Bank of Peru (BCRP);

- A representative of the National Supervisory Agency for Companies and Securities, SMV;
- A representative of the National Supervisory Agency for Banking and Insurance, SBS;
- A representative of SUNAT;
- A representative of the National Institute of Statistics and Informatics, (INEI);
- A representative of the General Directorate of Public Accounting, DGCP;
- A representative of the Board of Deans of the Schools of Public Accountants of Peru;
- A representative of the School of Accounting Sciences universities in the country, a proposal from the Assembly of Rectors;
- A representative of the National Confederation of Private Business.

- (iii) The accounting offices in government entities and in the private sector.

The institutional framework of the accounting profession in Peru also includes the following institutions:

- Boards of Public Accountants (Colegio de Contadores Públicos). There are 25 regional

colleges of public accountants, which include approximately 70,000 accountants. The largest one is the College of Public Accountants of Lima (Colegio de Contadores Públicos de Lima), which has an estimated 61,000 affiliates. The structure of the Boards of Public Accountants includes a General Assembly, a Board of Directors and an Ethics Tribunal.

One of the main functions of the Boards of Public Accountants is to grant the title of “Contador Publico Colegiado”. Each Board determines the requirements to obtain this title. However, the main requirement for affiliation is to have an accounting degree (“Título de Contador”) from a Peruvian University. In the Peruvian education system, this degree is obtained after completing five years of graduate studies, having a high-school degree and defending a thesis.⁹¹ In addition to this requirement, payment of membership fees is required to retain membership in a Board of Public Accountants. Once admitted, members of a Board can use the professional title.

Foreign accountants (natural persons) wanting to exercise this profession in Peru should obtain first a certification of their studies in the Asamblea Nacional de Rectores (in case the university of origin located in a country that has an MRA with Peru) or directly through one Peruvian university (for all other cases). With this certification, it is possible to obtain the professional title, following the process described before.

There are no licensing requirements for accounting companies to provide their services in Peru, other than

ensuring their accounting staff (working in Peru) was granted the professional title.

- The role of the Council of Deans of Public Accountants Boards (Junta de Decanos de Colegios de Contadores Públicos del Perú) is to coordinate the work of the Boards at the national level. It also represents Peruvian accounting professionals at an international level, in particular as a member of the Inter-American Accounting Association (Asociación Interamericana de Contabilidad) and of the International Federation of Accountants.
- The Institute of Independent Auditors of Peru (Instituto Peruano de Auditores Independientes, IPAI) is a not-for-profit association comprised by the largest accounting firms, which aim to coordinate their position on accounting and auditing matters.

C. DESCRIPTION AND PERFORMANCE OF THE SECTOR

According to SUNAT, 2,248 firms are providing accounting services in Peru in 2011. Despite the apparently large number of accounting firms, the market appears to be concentrated on the supply side. According to *Peru: The Top 10,000 Companies* publication, the total market turnover of this industry in 2010 was around S/. 400 million, with four companies accounting for 56 per cent of that revenue (see table 6).

Table 6. Market share of the four largest firms in accounting, bookkeeping and tax advice, 2010

N°	Largest firms in accounting, book keeping and tax advice (CIIU Rev. 3: 7412)	2011			Participation (%)	Participation of the 4 largest firms (%)
		From (A)	To (B)	Average C= (A+B)/2		
1	PRICEWATERHOUSECOOPERS S.CIVIL DE R.L.	61	76	68.7	17.2	56.0
2	ERNST & YOUNG ASESORES S.C.R.L.	49	61	54.9	13.7	
3	MEDINA ZALDIVAR PAREDES & ASOCIADOS S.A. ^a	49	61	54.9	13.7	
4	DONGO-SORIA GAVEGLIO Y ASOCIADOS S.C. ^b	42	49	45.6	11.4	
	OTHERS	164	189	176.5	44.0	
	TOTAL ^c	365.5	435.9	400.7	100.0	

Source: *Peru: The Top 10,000 Companies*, 2010.

^a Associated to Ernst & Young.

^b Associated to PricewaterhouseCoopers.

^c Includes the average billing of the 13 largest firms in this sector (all of them of medium sized), according to ranking in Peru: The Top 10,000 Companies 2010.

Supply concentration appears to be high, even considering the dataset of INEI, which includes accounting and law firms in a single group. According to the INEI IV National Economic Census, 96 per cent of the firms in this industry are rather small, with turnovers below S/. 517,000 and less than 10 employees. This contrasts sharply with the top 4 firms in the database, that have turnovers above S/. 10 million and employ more than 200 people (see table 7).

The supply of accounting services is intensive in labour, in particular accountants. Related services, such as auditing and tax advisory, also require law and management professionals. Seventy universities offer accountancy and accountancy-related degrees in Peru. Out of these 70, 45 are privately owned and 25 are state owned. According to figure 17, law, management and accountancy are among the most demanded degrees by Peruvian students. In 2010, 5,843 students graduated in accountancy.

Despite what appears to be a fair demand for accountancy degrees by students and supply of universities that provide degrees in Peru, the interviews conducted in several accounting firms revealed that they face difficulties to obtain and retain skilled human resources.

The accounting services market in Peru is segmented between top accounting firms (the so-called “big four” accounting firms plus other players of international scope) and a large number of medium-sized to small accounting firms. The group of top accounting firms includes Deloitte, PricewaterhouseCoopers, Ernst

and Young, KPMG plus others that, in a smaller scale, are also global competitors of the big firms, such as TMF, BDO and Grant Thornton.

It is worth outlining that not all accounting firms provide outsourcing of accountancy in Peru. For example, from the “big four” companies, only PwC and Deloitte provide outsourcing of accountancy. Annex 3 presents details of 20 international and domestic accounting firms that provide different accounting services in Peru.

For top accounting firms, competition is based on the reputation of their global brand and their network of clients and accountants. International firms with local branches in Peru search for them through their global network and consequently, they are not actively advertising their outsourcing services to SMEs companies in Peru. International firms with local branches prefer to outsource their accountancy with top accounting firms because of their reputation (they know the brand and/or have worked with the branch in their home country) and their capacity to provide other value-added services (for example, tax consultancy and tax returns).

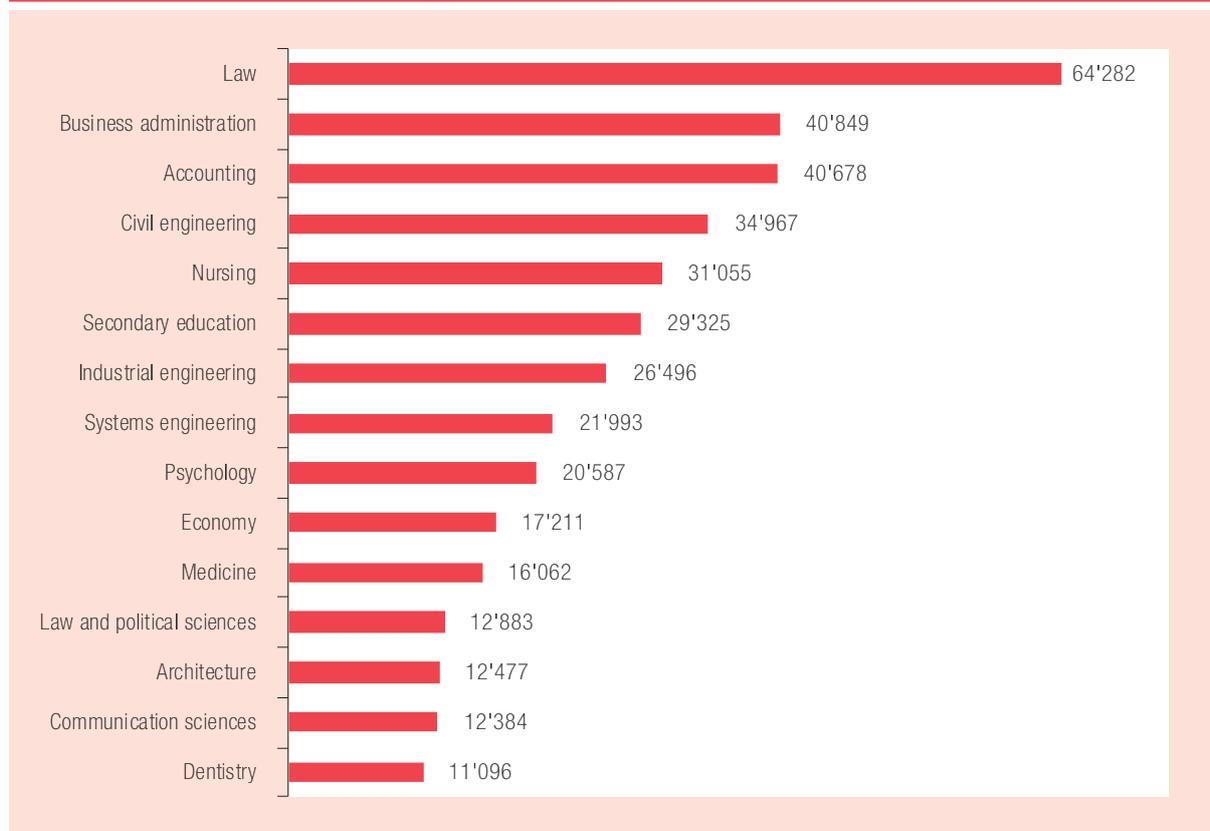
Accountancy firms in this segment are able to put together flexible teams of consultants, depending on the scope of the outsourcing project and provide several outsourcing services in addition to bookkeeping, such as payrolls, billing and treasury management. They are able to liaise with clients in languages other than Spanish (mainly English) and to manage accountancy software or systems used by their international clients.

Table 7. Accounting, auditing and legal services firms

Firms which reported in the IV National Economic Census in the law and accounting activities sector (CIU Rev. 4:69), by net sales		Firms which reported in the IV National Economic Census in the law and accounting activities sector (CIU Rev. 4:69), by number of employees	
Net sales	Firms	Number of employees	Firms
S/.517 500 or less	8 156	From 1 to 10 people	8 214
More than S/.517 500 and up to S/.2 932 500	287	From 11 to 50 people	252
More than S/.2 932 500 and up to S/.5 865 000	22	From 51 to 100 people	16
More than S/. 5 865 000 and up to S/.10 005 000	15	From 101 to 150 people	4
More than S/.10 005 000	15	From 151 to 200 people	5
Total	8 495	More than 200 people	4
		Total	8 495

Source: INEI – IV National Economic Census of 2008.

Note: According to the National Economic Census of 2008 (INEI), there are 8,495 firms in the legal and accounting firms sector (which includes auditing, accounting and law firms, among others). Fifteen of them bill more than S/ 10 million and four employ more than 201 people.

Figure 17. Number of students enrolled by professional degrees at Peruvian universities, 2010

Source: ANR (2011); Datos Estadísticos Universitarios.

In this segment of the market, a typical team for a big project is comprised of a partner (acting as a project director), a project manager, and a set of senior accountants and analysts/assistants. These firms are able to provide outsourcing services in their own facilities and/or to work at their clients' facilities.

According to one of the firms interviewed during the preparation of this study, fees for outsourcing in this segment of the market are normally billed only on a per hour basis (i.e., not fixed fee contracts), ranging from \$15–\$27/hour. Fees are not normally subject to discount, but the scale of the team could be adjusted to the client's budget (that is, instead of applying a discount to their hourly fees, accounting firms prefer to negotiate around the size of the consultant's team). Around 30 per cent of annual income of accounting firms in this segment derives from outsourced activities (mainly accountancy and payrolls outsourcing services). The remaining 70 per cent is divided between the auditing practice (40 per cent) and tax and legal practice, which includes transfer pricing consulting (30 per cent).

In this segment of the market of accountancy services, hiring and retaining highly qualified accountants may be problematic given the current market situation. Firms in this segment refer that there is a high level of rotation of personnel (accountants) as well as there is some pressure for higher salaries.⁹² Although accounting is still a very popular among students, some of the firms interviewed refer that there is a declining tendency on new students enrolments (perhaps in favour of other careers such as Economics and Business Administration, which are perceived as "more important" or "more profitable"). Accounting firms have started to look for new accountants in universities other than traditional ones, recruiting graduates from newer universities as well as in technical institutes.

In contrast to the outsourcing market served by top international accounting firms, the market for accounting outsourcing for SMEs in Peru is characterized by a large number of firms, which face strong price competition. Fees in this segment start as low as \$400 per month for outsourcing of

bookkeeping and basic accounts. One firm in this segment suggest that basic accounting outsourcing is not the main business for an accounting firms but a way to promote and provide other more sophisticated services to clients (for example, tax compliance and tax consultancy), specially to international firms with local offices in Peru.

Barriers to entry and exit in the accountancy service market are non-existent or not significant. Obtaining the professional title is relatively simple for Peruvian professionals. For international accountants, obtaining the recognition of their studies and applying for the professional title in Peru can be a lengthy process but not a complex one.⁹³

Despite the fact that no significant sunk investments are required for entering the market of accountancy services, building a reputation and expanding the client base in a manner that permits longer-term sustainability of the firm may be difficult. Personnel costs can be kept low in the beginning of operations, by hiring recent graduates and reducing markups, but this is not a sustainable strategy in the longer run, especially if the accounting firm aims to provide higher value-added services.

In addition, it is worth noting that entry to the accountancy services market can follow from other services firms providing complementary services, such as law firms, that provides tax advice services and from human resources firms, providing payroll outsourcing.

D. EXPORT POTENTIAL

A couple of studies undertaken in 2005 (see USAID, 2005 and EuropMonitor, 2010), identified that Peru was exporting accounting services under modes 1⁹⁴ and 2 of delivery. Under mode 1, services exported related to accounting, auditing and tax related advisory services. Under mode 2,⁹⁵ services exported included accounting and auditing and markets of destination included Canada, Chile, the United Kingdom and the United States.

Issues that appeared to be problematic, from the perspective of further developing the sector in Peru and increasing exports included:

- Lack of resources, particularly to develop IT solutions: Indeed, the lack of technological innovation factor was cited as a hindering factor to further develop of exports. Lack of resources

was also seen as a major obstacle to achieve the necessary investments that were necessary to gain credibility in developed country markets (by developing partnerships with the “big four” companies);

- Academic qualifications, not only in accounting, but also in systems engineering and mathematics, needed to be strengthened.

In the context of this study, despite the lack of representative information regarding Peruvian exports of accounting services, two accounting firms responded to a survey,⁹⁶ indicating they export between 2 per cent and 20 per cent of their services to South American countries, through physical mail or by sending employees to the other countries. Furthermore, they expect to continue exporting their services, mainly to Latin American countries.

The market for accounting outsourcing in Peru is expected to grow strongly following the expected growth of the Peruvian economy. One of the main drivers of this expected growth is the increasing number of new firms entering the Peruvian economy each year, which drive demand for business process outsourcing, including accounting matters. In addition to the increasing number of new entrants, the perspectives of the market for accounting outsourcing will benefit from new regulation with regard to the presentation of financial statements and to tax law enforcement, and from the adoption of new accounting standards (IFRS).

E. BOOKKEEPING AND ACCOUNTING SERVICES: AN ANALYSIS OF STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS

1. Strengths

- Some local companies (bigger ones, usually associated with transnational corporations) have succeeded in capturing outsourcing opportunities and have the capacity to compete internally. They are few and control 56 per cent of the market.
- There are no significant barriers to entry or exit in the accounting sector.

- Peru has adopted international standards for financial accounting, which makes it an attractive partner for companies seeking to offshore such activities. Given that Peru never developed its own accounting standards, but based its practices in international standards, their formal adoption did not represent a major change in accounting practices.
- The legal and institutional frameworks are well defined, identifying responsibilities of different institutions. However, there is scope for improving the roles these institutions played in the development of the accounting sector, as mentioned in weakness analysis below.
- Accountancy is among the top three most demanded degrees by Peruvian students.

2. Weaknesses

- While recognizing the importance of this sector, especially with regards transparency and accountability of firms' performance to investors, government strategies and policy objectives in the sector are close to none. Aside from efforts of PROMPERU to develop an export offer in several services sectors, there is no identifiable government policy objective or measure aimed at developing this service sector specifically. In contrast, Peru's trading partners, such as Chile and Colombia are certainly more active in providing a direct impulse to their services sectors in general.
- Most firms providing accounting services in Peru are SMEs. They focus mainly in the internal market. They are subject to strong price competition and face pressure to reduce margins, thereby compromising the accounting firms' sustainability in the end.
- Institutional weaknesses were observed with respect to the role of professional associations, affecting their capacity to articulate the interests of business and professionals in the sector. The Colegios de Contadores Públicos are not actively promoting the profession and no specific efforts were identified regarding the promotion of exports of accounting services. In addition, two professional associations coexist in Lima, engaged in a legal dispute over its legitimacy of representation since 2007.
- Main shortcomings with respect to quality of professionals in the sector include English knowledge and ICT adaptation by accounting firms, which appears to be low. They limit the possibility of entering new markets and of increasing productive efficiency. Limited adoption of ICT resources is perceived as a major obstacle to achieve credibility in developed country markets.

3. Opportunities

- The demand for accounting services is expected to grow, driven in part by the increasing number of firms entering the Peruvian market as well as the internationalization of Peruvian firms. In addition, there is certain consensus that the Peruvian economy will continue to grow, which represents an important opportunity, not only for accounting firms but also for other business services providers.
- There are good prospects for accounting firms, especially for those providing outsourcing, as Peruvian firms seek to concentrate in their core business, in order to compete globally.
- The increasing internationalization of the Peruvian economy, as verified by the growing number of FTAs, enable among other factors that international firms seek to open local branches and operations in Peru. This constitute an important opportunity for accounting firms as these local branches of international firms are likely to demand outsourcing services, especially with regard to local accountancy and tax compliancy.

4. Threats

- The link between the academic sector, businesses and policymaking bodies appears to be weak. It requires strengthening to address problems related to quality of professional in the sector, described in the weaknesses section above.
- Restrictive regulations in foreign markets, such as processes and requirements for validation of studies for Peruvian accountants, the need to register or obtain permits may also be a limiting factor for increasing exports of accounting services, particularly under temporary presence of natural persons (mode 4).
- The apparent decreasing interest of students to become accountants and general perception of reduced quality education in Peru could also limit further the development of the accounting sector in Peru.
- Competition from foreign services providers (supplying their services through mode 3 and 4) is increasing significantly.

SERVICES POLICY REVIEW



IV

ENGINEERING CONSULTING SERVICES

A. DEFINITION

Engineering services comprise establishments primarily engaged in applying physical laws and principles of engineering in the design, development and utilization of machines, materials, instruments, structures, processes, and systems (United States Census Bureau, 2008). The value chain of engineering services projects may comprise seven phases (see figure 18): conceptual design, feasibility, engineering, procurement, construction, operations and maintenance, and project management (a seventh service that may comprise interventions throughout all the already mentioned services).⁹⁷

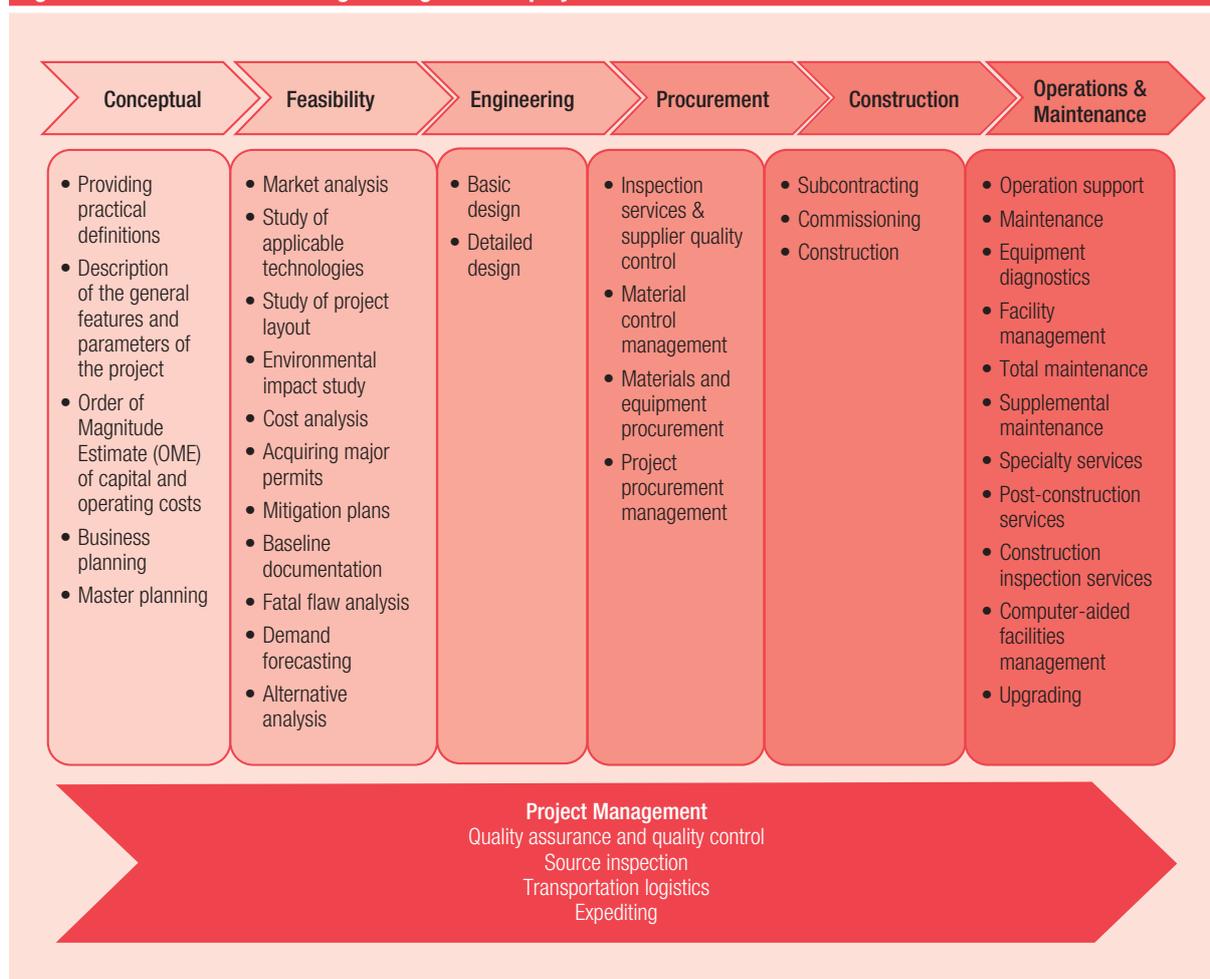
For the purpose of this analysis, engineering consultancy services comprise professional services related to engineering under engineering procurement,

construction and management (EPCM) contracts, given that Peruvian companies providing these services develop their activities under this type of contracts.

The EPCM contractor essentially provides professional services. As Loots and Henchie explain: “An EPCM contract is a professional services contract. Under an EPCM contract, other parties construct the project – the EPCM contractor is not the builder/constructor. (...) Under the EPCM model the contractor does no building or construction – rather he develops the design and manages the construction process on the Owner’s behalf.”⁹⁸ Thus, the EPCM contractor develops the design and manages the construction process on the owner’s behalf.

Important corporations such as Bechtel, Fluor, HATCH, Kvaerner, or AMEC lead the EPCM market

Figure 18. The value chain of engineering services projects



Source: CGGC.

internationally.⁹⁹ These companies are typically hired to lead, supervise and manage important projects throughout the world. These companies have been entrusted with the construction of major mining, oil and infrastructure facilities in Peru. Peruvian companies do not compete with these EPCM giants; however, they are hired by them to carry out specific stages of big projects in Peru.

B. REGULATORY AND INSTITUTIONAL FRAMEWORKS

1. Regulation regarding the exercise of this profession

According to Law 28858,¹⁰⁰ and Supreme Decree N° 016-2008-VIVIENDA, any person wishing to practice the engineering profession in Peru requires having an academic degree and professional title of Engineer, granted by a Peruvian or foreign university.

The law requires engineers to be registered in the Engineering Board of Peru (Colegio de Ingenieros del Perú, CIP), irrespective of whether they are local and foreign, of whether they graduated from local or foreign universities, of whether they work independently or as part of a firm and even if they are supplying temporary services related to the engineering profession in Peru. CIP defines, according to its bylaws, if the potential candidate can be considered a “capable professional”.

In the case of academic degrees from foreign universities, the title shall be revalidated in Peru and two alternatives are possible to achieve this:

- If degree was issued by a university in a country with which Peru has an MRA, the title can be recognized as valid in Peru by the National Deans Assembly;
- If there is no Agreement between Peru and the foreign university host country, the title should be accepted and authenticated by a local university.

In order to obtain the mandatory registration in the CIP, foreign engineers need to demonstrate that they possess permission to work in Peru. To obtain a temporary visa with authorization to work, a valid work contract is required (for up to a year of duration, signed with a company considered active before the Tax Authority and duly registered before the Ministry of Labour).¹⁰¹

As indicated earlier, Peruvian law limits the number of foreign personnel that can be hired by companies in Peru (see chapter II, section D). It is important to note that this limitation is not very significant for engineering services. Companies participating in this market and clients that require specialized professionals, (mining companies, construction companies, and the like), are usually large enterprises, so the effect of these limits to the hiring of foreign personnel may be immaterial. The law also contemplates exceptions for the hiring of very specialized professionals.

Given the perceived complexity and timeline to complete working visa requirements, companies sometimes avoid complying with them when professionals enter the country for a short period, to make urgent repairs or specific specialized work. In such cases, the professional may enter the country with a tourist visa, directly hired by a non-resident company.

Professionals shall demonstrate their “capability” to work in engineering related activities in Peru through a certificate granted by the Regional Council (Consejo Departamental) of the CIP. Accordingly, such activities encompass the development of technical studies, proposals, offers, projects, schemes, technical consulting and advice, calculations, plans, budgets, minutes, studies, or executing inspections, supervision or audits related to engineering projects.

Professionals that do not comply with legal requirements could be subject to administrative fines from 0.5 to 2 tax units (given the current tax unit level, this is equivalent to \$1,430).¹⁰² Registered engineers not considered “capable” by CIP can be punished if they are found practicing engineering activities. Sanctions can include fines or suspension, in case of repeated faults.

2. Regulation regarding government procurement of engineering services

Government procurement proceedings are regulated by Legislative Decree N° 1017 – *Ley de Contrataciones del Estado* and by Supreme Decree 083-2004-PCM (*Texto Unico Ordenado de la Ley de Contrataciones y Adquisiciones del Estado*). The Organ for the Supervision of State Contracting (OSCE) is in charge of supervising the public biddings and resolving eventual controversies arising therein.

There are several kinds of selection processes including public bidding and public contest (over S/. 400,000), public direct adjudication (over S/. 200,000), selective direct adjudication (over S/. 40,000) and low amount adjudication.

In public bidding and public contest processes, OSCE invites a number of providers to select those that comply with minimum requirements. Once suppliers are identified, the products and offers are published in an electronic catalogue. The key moments of the acquisition process are (i) the invitation (“Convocatoria”), (ii) submission of proposals; (iii) the granting of “Buena Pro”, and iv) the signing of the contract. In the selection process, it is important to be well aware of the acquisition of the forms (“las bases”) that contain the calendar, reference value, technical specifications and documents needed, among others. There is also a possibility to undertake consultations, with a view to amend “las bases”¹⁰³.

Factors considered relevant for services acquisitions include quality of the proposal, bidder experience, proposed personnel, work plan and technologic innovation, if applicable. The final financial evaluation considers the final price and the financial proposal, if applicable.

To provide engineering consulting services, domestic and foreign companies must be registered before the National Register of Suppliers (NRS), managed by OSCE, and shall not be condemned or impeded to contract with the Peruvian State. The register in NRS is valid for one year.

Providers of goods and services in bidding processes shall present a copy of their registration certificate at NRS in their proposals, and must submit a sworn statement (affidavit), indicating that they have no sanctions in force that impedes them to participate in such proceedings.

It is important to note that in decisions related to public works, OSCE has indicated it will not require for the bidding process that foreign engineers presented as part of a team of professionals be registered at CIP. However, if the bidder wins the process, the winner shall certify that such professionals have initiated the proceeding before CIP to obtain the necessary registration.¹⁰⁴

3. Professional associations

Engineers organize their professional common interest through the CIP. CIP is one of the most organized

professional associations of Peru. It participates actively in the professional exercise, providing opinions on aspects of national interest and promoting initiatives to improve the development of the profession in the country.

The Peruvian engineering consultancy companies are gathered in APC, an Association created in 1968 to reunite all the companies working in different specialties of engineering. The APC represent the interest of Peruvian companies in regional guilds such as the Pan-American Federation of Consultants and the International Federation of Consultants Engineers.

C. DESCRIPTION AND PERFORMANCE OF THE SECTOR

1. Evolution of this sector linked to investment prospects

The growth of the Peruvian market in the last decade, the dynamism of public infrastructure works (particularly with respect to roads, water supply, energy, communications infrastructure, ports) and of private projects (specifically in the mining sector) have created ample business opportunities for consulting firms in engineering services to develop their activities.

Although there are no official statistics in Peru measuring the size or evolution of the Engineering Consulting services market, the interaction with main business leaders in the course of conducting this study revealed¹⁰⁵ that the market of Engineering Consulting services in a normal year, i.e. without peak projects, can reach \$165 million annually (which represents 0.1 per cent of world market and 0.33 per cent of Peruvian GDP). From this total value, approximately 35 per cent relates to public investment and 65 per cent to private investment.

1.1. Public investment and its future prospects

The Peruvian State is an important contractor of engineering services. Public investment, which totalled only \$1.7 billion in 2003, reached \$9.1 billion in 2010, according to figures from BCRP.

The Peruvian Government requires all state entities to publish in SEACE their Contracting Annual Plans per category. According to SEACE, the category “Consultancy in Public Works”, which exceeds the scope of this sector but is the most appropriate to

measure engineering services consulting, reached in 2011 approximately \$126.2 million. This amount, however, is less than the expenses registered in 2010 as indicated in the table 8.

It is important to note that public entities while making their annual contracting plan, typically estimate the acquisition of goods, services and the execution of works that will be developed during the year. However, the plan submitted by each entity could be subject to several modifications during the year. As a reference, in 2008 47 per cent of the planned acquisitions in services were effectively carried out, while in 2009, 99 per cent were effectively carried out.¹⁰⁶

Recently, MEF countercyclical policies sought a reduction of public investment on 24.2 per cent from January to September 2011. This decision is part of the progressive withdrawal of the stimulus package offered in 2009 to ease the effects of the international financial crisis.¹⁰⁷ Notwithstanding the lesser amount of consulting services related to public works offered in 2011 by the State, the leading Peruvian companies appear to maintain a clear growth pace.

Prospects for the future evolution of public investment in Peru are promising. According to PROINVERSION, Peru has prioritized the development of infrastructure to increase competitiveness and set up a logistics hub that links South America with the Asia-Pacific region. Concessions in land, port and airport infrastructure represent investment commitments of approximately \$7,000 million. By 2016, new projects for more

than \$20,000 million (public works and PPPs) will be executed representing significant investments for contractors and operators.¹⁰⁸

The plan for development of logistic services in transport designed by MTC, has identified two axis and 20 logistics routes. Such routes are organized according to 57 logistic chains previously identified. The MTC plans to invest over \$11,000 million in the execution of 7,200 kilometres of roads. In addition, there will be significant investments in railroads (Lima Metro project with five lines approved by Supreme Decree 059-2010-MTC), hydro-roads (to maintain safe navigation conditions all year long on Ucayali, Huallaga, Marañón and Amazonas rivers); airport infrastructure (construction of the new airport for Cusco at Chincheros), ports at sea and rivers, among others.¹⁰⁹ MTC summarizes these investments as shown in table 9.

In addition, the Ministry of Housing has identified that there is a significant housing deficit in Peru estimated in 1,860,692 houses (65 per cent in urban areas and 35 per cent in rural areas considering both quantitative and qualitative aspects). In terms of water and sanitation, the deficit reaches 24 per cent and 34 per cent respectively, requiring investments of \$6,300 million approximately.¹¹⁰

To overcome these deficits, Peru expects to maintain and strengthen successful urban housing programmes such as “Mi Vivienda” and “Techo Propio”. The execution of these projects will require investments,

Table 8. Contracting annual plans in public works consultancy year 2011 (dollars)

	2010	2011
January	30 285 698	6 206 046
February	29 845 491	9 535 767
March	42 469 981	21 104 345
April	59 126 874	47 929 043
May	41 893 542	9 730 838
June	31 668 845	13 087 092
July	23 994 701	2 679 555
August	7 668 683	4 138 581
September	1 189 177	3 772 238
October	4 238 490	904 487
November	1 371 118	2 539 205
December	142 893	686 734
TOTAL	273 895 495	122 313 932

Source: SEACE-OSCE.

Table 9. Investment in transport infrastructure in Peru – projections to 2016

	2010
Road	11 000.0
Railroad	8 300.0
Airports	450.0
Ports	300.0
Waterways	46.40
Total	20 096.40

Source: MTC.

during the period 2011–2016, equivalent to \$7,800 million for housing, to \$500 million for urban land generation; to \$2,488 million for sewage system.¹¹¹

1.2. Private Investment, FDI and their future prospects

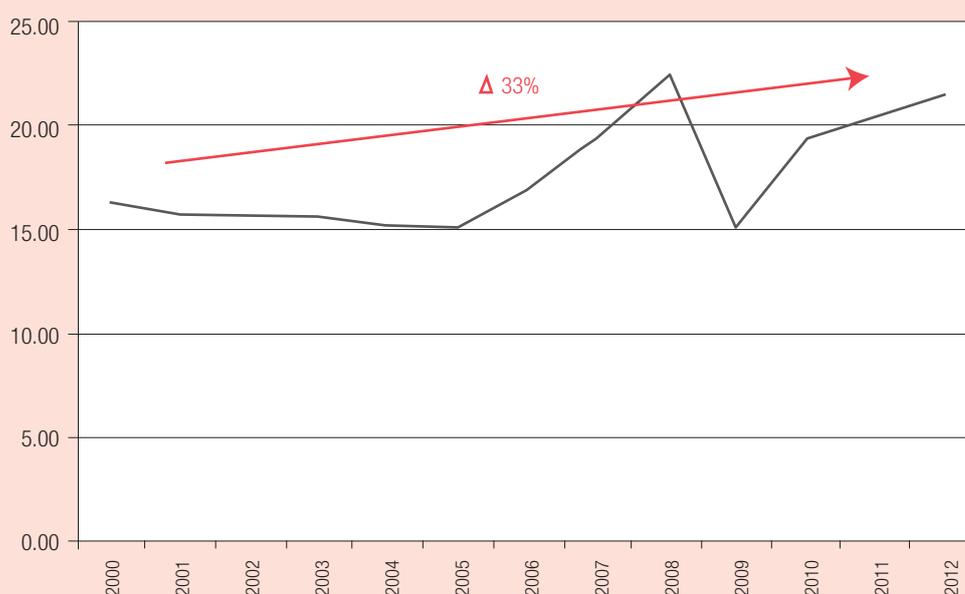
Private investment also had an impact in stimulating the market for engineering services. For example, rising commodities prices led to increased investments in mining and oil extraction,¹¹² creating opportunities for highly specialized engineering services in these areas.

Private sector investment has grown consistently. According to BCRP, private sector investment, as a

percentage of GDP, has increased 33 per cent from 2000 to 2012. In gross terms, private fixed investments have increased in 201 per cent in same period.

On the other hand, private investment is expected to expand further, but probably at a slower pace than public investment. The MEF has announced that projected private investments for the period 2013–2015 are estimated at \$45.595 million.¹¹³ Infrastructure, such as road transport networks and energy, are likely to be the main recipients for future private investment.

Another key indicator of the dynamism of private investment is FDI flows. According to BCRP, FDI

Figure 19. Private sector investment (percentage GDP)

Source: Central Reserve Bank of Peru.

flows reached \$12,240 million in 2012 (see figure 20), an amount \$4,007 million higher than the amount obtained in 2011, mainly due to reinvestment and capital contributions. Note that the component “capital contributions” was the most dynamic, reaching a total of \$4,637 million. Top five sector recipients of FDI in 2012 included mining, energy and communications (PRONVERSION).

2. Main characteristics and actors in this services sector in Peru

2.1. Domestic services providers

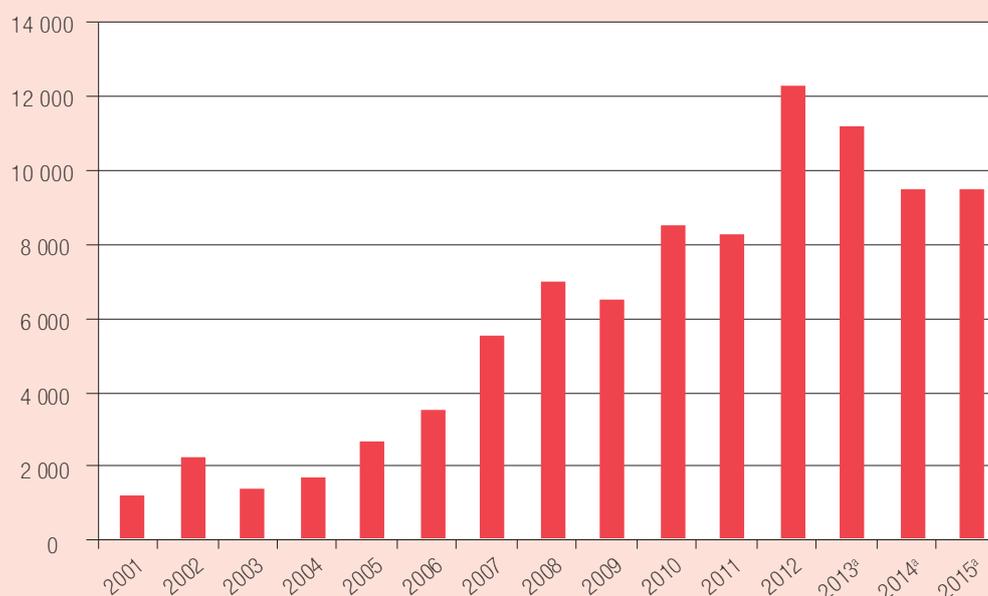
The Peruvian engineering consultancy industry has developed significant expertise during more than 30 years of continuous progress in Peru. In the last decade, the growth of the Peruvian economy created tremendous opportunities in the domestic market, enabling Peruvian companies to participate in important projects in a myriad of specialties and to gain experience and business capabilities at a high technical level. Several local companies possess quality certifications highly regarded within the industry.

Peruvian providers offer studies, designs and engineering development; perform engineering and construction supervision; and provide engineering and project management related to construction services. They participate in different stages from design, implementation to start up and subsequent operation. The Asociación Peruana de Consultoría (APC) gathers a significant proportion of providers of engineering consulting services.

Table 10 contains the leading companies participating in the engineering consulting market that are ranked among the top 10,000 companies in Peru, according to an annual business ranking of main economic actors in Peru. Two companies stand out in the ranking, with total revenues several times larger than other competitors: Graña y Montero Ingeniería (GMI) and CESEL S.A. Each of them employs more than 1,000 people.

Although the companies mentioned in table 10 show expertise in different specialties, they have in common that they are generalists providing a broad range of services rather than specializing in specific areas of expertise. This was due to the limited size

Figure 20. FDI flows and projections, 2001–2015 (million dollars)



Source: PROINVERSION.

^a Estimates based on Inflation Report by BCRP – June 2013.

Table 10. Engineering consulting companies listed in Peru: The Top 10,000 Companies

Company	Specialty	Certifications	Income US\$ thousands 2010	Ranking Top 10 000 2011
CESEL S.A.	Roads, hydraulic and irrigation, energy, mining water and sewerage, urban and rural development	ISO 9001, ISO 14001 OH-SAS 18001	33 903.99	80
GMI	Building, energy-telecom, water and sewerage, hydrocarbons, transport, environment, mining	ISO 9001, ISO 14001 OH-SAS 18001	33 719.75	796
Acruta y Tapia Ingenieros	Roads, building, sanitary works, energy, hydraulic and irrigation	ISO 9001 (2008) ISO 14001 (2004) ISO 18001 (2007)	N.A.	5 726
Alpha Consult S.A.	Roads, building, sanitary works, energy, hydraulic and irrigation environment	ISO 9001	8 866.60	5 078
Asesores Técnicos Asociados	Irrigation, buildings, agriculture, transport, energy, environment, urban design	ISO 9001 ISO 14001 OH-SAS 18001	N.A.	5 968
Gallegos Cassabone, Arango, Quesada Ing.	Roads, buildings, distribution centers, malls, ports	ISO 9001 (2008)	N.A.	5 876
HOB Consultores S.A.	Roads, transport	ISO 9001 (2008)	8 390.30	7 689
Servicio de Consultores Andinos (SERCONSULT S.A.)	Roads, hydraulic and irrigation, energy, mining water and sewerage, urban and rural development	N.A.	N.A.	7 339

Source: Peru: *The Top 10,000 Companies*, 2011.

Note: Income is reflected in gross terms.

"N.A." means that the company did not provide precise information about its income for this year.

of the Peruvian economy in past decades, which forced domestic engineering firms to evolve as multidisciplinary organizations in order to remain competitive.

Nonetheless, the two leading domestic firms, Graña y Montero and CESEL S.A., participate, to a large degree, in infrastructure development. These companies have gathered the experience required to qualify for the most complex and demanding public and private projects.

There is a fierce competition among local providers in projects where many companies have gathered significant expertise – such as roads and transport. In contrast, competition is intense with specialized foreign providers in processes where few local providers have the level of expertise required.

Local services providers use different business strategies. Some companies seek to maintain fixed teams of highly qualified professionals and support professionals while others gather teams to participate in specific projects or compete in alliance with other companies to avoid the maintenance of high fixed

costs. In case of the leading companies, partnerships and alliances with multinational engineering companies to enter in greater projects have facilitated the adoption of higher standards, equivalent to those offered by multinational companies.

2.2. Penetration of Foreign Services Providers

In the past, the presence of foreign firms was limited to a large degree to commercial offices, with services being provided from other regional centres like Chile. Under this scheme, a large number of Chilean, Colombian and Brazilian firms operated in Peru.¹¹⁴

In the last few years, a growing number of multinational engineering firms have begun to open branches in the country, to focus on exploiting opportunities in the mining, petroleum and energy sectors. Firms establishing an operational presence in Peru include for example Hatch, who in 2010 embarked on a plan to transform their commercial office in Lima to a fully functional office, and AMEC, which grew its Peruvian team from 70 to 190 people between 2007 and 2008 (*Engineering & Mining Journal*, 2008).

Several Chilean, Colombian and Spanish companies have established offices in Peru in the past few years, to participate more effectively in the local market. Among the Colombian companies, INGETEC, Consultoría Colombiana (CONCOL) and HMV (Mejía Villegas) stand out. Among the Chilean companies (or international companies with regional offices in Chile) recently working in the Peruvian market can be mentioned: R&Q, ARA (Worley Parsons), among others. Chilean companies are also exporting specialized engineering consultancy in mining projects. Among the Spanish companies, Técnicas y Proyectos TYPASA, Técnicas Reunidas and GETINSA are currently participating.

It is interesting to note that PETROPERÚ – the state-owned oil company of Peru – granted the front-end engineering design for the Talara Refinery Modernization project to the Spanish company Técnicas Reunidas S.A. More than 50 companies bid on this project including some of the biggest Peruvian companies.

Table 11 includes a list of foreign multinational companies operating in the Peru and their income levels in 2010. It is important to note that the revenues level of these international companies in Peru are quite significant, although none of them exceed those obtained by the leading two domestic companies CESEL S.A. and GMI.

The competition in the high end of the Peruvian market is clearly increasing with the arrival of these multinational foreign companies. The presence of foreign services provider has increased mainly with respect to large projects focused on infrastructure development, mining and petroleum. The two leading local companies, with international level experience, compete in the larger and more sophisticated projects, while all companies compete in roads, buildings construction water and sewage, according to their capabilities and experience.

Table 11. Foreign providers of engineering consulting companies in Peru, 2012

Company	Specialty	Income US\$ thousands 2010
MWH PERU SAC	Water treatment, wastewater treatment, water distribution, water resources and wet weather/stormwater	30 800.08
CICSA PERU SAC	Pipelines, infrastructure, piercing, housing, petrochemical, engineering, computers and structures, building	24 184.01
AMEC PERU	Energy, oil and gas	14 005.33
NIPPON KOEI LATIN AMERICA CARIBBEAN CO SUC PERU	Water, energy, transportation, environment, geosphere engineering	8 118.90
HATCH ASOCIADOS S.A.	Mining and metals, energy, oil and gas, infrastructure	N.A.

Source: Peru: The Top 10.000 Companies, 2011 and interviews with industry representatives.

Note: Income is reflected in gross terms.

“N.A.” means that the company did not provide precise information about its income for this year.

CESEL	GMI
<ul style="list-style-type: none"> • Supervision of road constructions • Route selection, topographical surveying and design of tower spotting of electrical transmission lines • Evaluation of the existing sewerage systems • Feasibility studies • Identification of construction priorities • Identification of construction priorities • Basic design, detail engineering and procurement • Technical and economic feasibility study of ports infrastructure • Project management and definitive design 	<ul style="list-style-type: none"> • Pre-investment studies. Preliminary engineering and Pre-feasibility studies • Final studies for tendering • Executive construction designs • Supervision of final studies and/or executive designs • Supervision of works • Project management and Construction management • Specialist consulting

Source: CESEL and GMI websites.

D. EXPORT POTENTIAL

The search for export opportunities by Peruvian engineering services firms has been limited due to the dynamism of the local market and to the difficulties that the service industry faces in general to find and pursue opportunities in other markets.

1. Export drivers, main exports, markets and strategies

In the last few years and partly due to increased competition in the domestic market, Peruvian firms are more proactively looking for business opportunities abroad. Some of them have succeeded in exporting to Argentina, the Bolivarian Republic of Venezuela, Chile, Colombia, Ecuador, Guatemala, Honduras, Mexico, Nicaragua and the Plurinational State of Bolivia. CESEL and GMI are examples of companies that have successfully expanded their services internationally. They report exports in the following engineering consulting services:

A survey was designed in the context of this study to obtain information about export markets of Peruvian services providers, about modes of supply used to export and about strategies to maximize business opportunities. The Services Exports Coordination of PROMPERU submitted it to several companies in the sector. Table 12 summarizes results of the survey and interviews to consulted companies.

The results of the survey revealed that the main strategies used to develop exports are (i) the setting up of branches, offices or commercial representatives in foreign markets (to seek business opportunities, find appropriate partners and establish a more permanent scheme of operation in these locations and (ii) participating in foreign biddings.

The interaction with some business leaders in the process of preparing this study revealed that, in addition to the setting up of branches abroad, Peruvian companies are also acquiring companies in other countries. This strategy seeks to strengthen capabilities and obtain further specialization in key areas of work.

Table 12. Modes of supply and strategies used in actual exports of engineering consultancy services

Company	Export Markets	Modes of supply	Strategies Used
CESEL	Several markets in South and Central America	1. Cross-border Trade 3. Commercial Presence 4. Presence of natural persons	Setting up branches and offices in several Latin American countries including Ecuador, Guatemala and Paraguay to seek business opportunities and to supply specialized project teams to different works in the region.
GMI	Several markets in South and Central America	1. Cross-border Trade 4. Presence of natural persons	Indicated only that company leaders must be proficient in at least one foreign language.
CPS de Ingeniería SAC	Several markets in South and Central America	3. Commercial Presence 4. Presence of natural persons	<ul style="list-style-type: none"> Setting up a commercial representative in target markets (the Plurinational State of Bolivia) to seek business opportunities. Looking for possible partnerships according to bidding requirements
BISA	Several countries in South America	1. Cross-border Trade 4. Presence of natural persons	<ul style="list-style-type: none"> Opening of offices in foreign markets with Peruvian personnel and gradually including local personnel. Presence in international fairs within South America.
Barriga Dall'Orto Ingenieros Consultores	Countries in South, Central and North America.	1. Cross-border trade 2. Consumption abroad 3. Commercial Presence 4. Presence of natural persons	<ul style="list-style-type: none"> Participation in international biddings financed by Multilateral Organizations (IADB, BIRF, JBIC). Membership in international entities such as the Road Federation. Shareholders and members of the Board shall participate in international entities specialized in transportation.

Source: Interviews and surveys made to companies in the sector in the context of this study.

For example, Graña y Montero recently acquired Vial y Vives Ingeniería y Construcción, a Chilean company specialized in serving the mining sector. Previously it had acquired Compañía Americana de Multiservicios Limitada specialized in electric services that work in Brazil, Colombia and Peru.

2. Problems that limit export prospects of Peruvian firms

The interaction with private sector representatives during the course of this study highlighted several obstacles and difficulties that Peruvian firms face to enter foreign markets. Most companies mentioned the lack of precise information about target markets as the main obstacle to export engineering consultancy services. They referred in particular to lack of information about business opportunities (commercial intelligence) and to fiscal policies, which affects their capacity to assess profitability of potential business ventures. Internationalization is thus, happening slowly as the establishment of offices or commercial representatives is perceived as a costly way to obtain this information.

Companies identified other obstacles such as:

- The lack of a legal framework that specifically promotes the development of the sector and its exports;
- The lack of available credit facilities;
- Difficulties to obtain timely payment, by government entities of other countries;
- Lack of knowledge of the language and culture of the target country;
- Lack of double taxation agreements.

E. ENGINEERING CONSULTING SERVICES: AN ANALYSIS OF STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS

1. Strengths

Export capabilities of a few, leading local companies: They have succeeded in capturing outsourcing opportunities in engineering and engineering consulting services in

South and Central America and provide their services mainly through modes 1 and 4, and to a lesser extent through mode 3.

The export success of these companies is based on the following factors:

- Developing a wide scope of specialties, which has allowed them to diversify risks and adapt to demand variations. This helped their internationalization process by providing them with expertise to participate in important projects in foreign countries;
- Participating in foreign biddings;
- Having relevant certifications;
- Establishing presence in foreign markets, which allows them gather relevant information about these markets.

2. Weaknesses

Lack of specialization

There is little expertise in certain specialties as the petroleum and petrochemical industry. In these dynamic segments with growth potential, local companies are increasingly competing with large and medium-sized specialized counterparts from Chile, Colombia and Spain. The analysis revealed that there is perception that foreign companies can dominate the market.

Further specialization could be an interesting path to explore, to cater for the growing needs of the domestic market and strengthen supply capacity, with a view to export engineering services. For example, Chilean companies are very specialized in the mining sector. Chile developed significant expertise in mining engineering in both open-pit and underground mining as a result of the extensive copper and gold operations in the country. In 2008, 95 per cent of Chilean exports of engineering services were related to the mining sector and 35 per cent of Chile's total exports of engineering services were aimed to Peru in the same year.

Lack of credit facilities to participate in projects abroad

The engineering consultancy business requires significant financial strength to cover all fixed costs until companies receive payment from clients (state entities). Several reasons can delay payment creating financial risks. Such reasons can be either technical or political (for example, a change in Government).

The lack of financial capacity limits the development of many local companies and puts them at a disadvantage in comparison with international counterparts. In fact, this has influenced companies' decisions to focus their operations in Peru. As projects and competition grow and companies chose to bet on the internationalization path, access to efficient financial sources becomes key for future development of the industry.

Shortcomings related to the offer and qualifications of local engineers¹¹⁵

Difficulties in finding a sufficient number of qualified engineers complicate the development of this industry in Peru. Indeed, engineering firms looking to expand their workforces are having difficulty to hire engineers locally to support expansion of operations. Labour shortages of highly skilled workers appear to be common in Peru. The field of electrical engineering appears to suffer particularly from workforce scarcity.

This scarcity is problematic due to its potential impact on wages. For example, the shortage of qualified electrical engineers in Peru has led to salary increases for these engineers of almost 50 per cent for 2006 to 2008. In certain segments, the level of remuneration of professional trained staff may be comparable with wages in the United States, especially in managerial and consulting positions.

The declining interest in engineering as a career and related undermining of the expansion of quality engineering programmes, explains partially the source of the problem. Indeed, the perceived deterioration of quality in the qualification of local engineers within the past decade seems to be the main cause of the problem. This phenomenon appears to be linked with the emergence of a large number of private universities, which do not require accreditation.

As a result, Peruvian engineering companies hire only from the few traditional universities and a number of engineering companies from Brazil and Chile relocate their staff to Peru rather than hiring local talent. This explains why quantitative limits to hiring of foreign professional are not effectively enforced.

Limited interaction between universities and the private sector at the research level further adds to this context. Indeed, research in engineering at the university level in Peru has been limited mainly due to lack of funding. There are no doctorate degrees in engineering offered in the country and only a small number of master degrees.

Another shortcoming identified relates to the career evolution of young professionals. Young professionals are not able to gain "certified work experience" since contractors require "highly experienced professionals" in consulting teams. Typically young professionals work together with more experienced ones in their projects but sometimes remain in the shadows, missing the opportunity of obtaining recognition of that experience through official certificates. This leads to situation where professionals with "real and relevant experience" in some projects cannot show "certificates" to participate directly in new biddings, creating potentially the need to increase costs.

Lack of a strategy that specifically promotes the development of the engineering consulting sector and its exports

Notwithstanding PROMPERU's efforts to promote services exports and efforts by the Government to improve overall competitiveness, the interaction with business leaders in the process of preparing this study revealed that several companies believe that it is necessary to design a strategy that specifically promotes the development of the engineering consulting sector and its exports. In view of consulted representatives in this industry, support particularly in the area of commercial intelligence, is needed to keep pace with other competitors in the region, some of which are also pursuing consistent efforts to improve the competitiveness of their services industries.

3. Opportunities

The expected (i) growth of the Peruvian economy and (ii) development of significant infrastructure create confidence in continuous growth and expansion of market opportunities in this sector in Peru. Indeed, forecasts for economic growth of the Peruvian economy, for private sector investment and for FDI are positive for 2013 and 2014, according to BCRP. New investments expected in mining projects also ensure that the dynamism of demand will continue in the coming years.

This represents opportunities not only for big consolidated firms, but also for smaller companies, who will be able to gain experience and recognition. SMEs offering engineering consultancy services could benefit from new projects that will be carried out by the State in the coming years and from the dynamism observed in the construction sector, which is expected to continue, given the lack of appropriate housing that

still exists in Peru.

The broad network of FTA agreements signed by Peru provide opportunities to participate in government procurement and private biddings in other countries without being discriminated by benefits typically offered to local firms. FTAs also provide a higher grade of security in the supply to commercial partners. Investment protection agreements (and regulations contained in FTAs) also provide positive conditions to facilitate joint ventures and alliances for projects in other countries.

According to the interviews and surveys made (see annexes), the South and Central American markets provide opportunities for Peruvian large and medium-sized companies to expand exports in this service sector.

Increasing competition from foreign services providers puts pressure on leading local providers to keep pace in adopting international quality standards, investing in innovation and organizing properly to provide world class consulting services. Such efforts, in time, will facilitate their participation in more and more markets abroad.

Increased penetration of foreign services providers, also provide opportunities for local medium-sized companies, to develop partnerships to reach complex

and more lucrative markets. Foreign companies arriving to new markets look for local providers that have relevant experience, contacts and some degree of specialization to complement their offer or help them reduce entry costs. This process can lead transfer of know-how, adoption of quality standards, and improved business strategies to gain competitiveness.

4. Threats

The entry of a significant number of foreign competitors in the market (due in part for the financial crisis), limits the ability of small enterprises to develop by reducing the number of projects in which these firms can participate.

Small companies lack experience, capabilities and management of international standards, to compete with multinational companies or foreign companies willing to participate in the Peruvian market. This will push them to less attractive markets if they do not organize, join efforts and prepare to specialize in certain areas.

The entrance of foreign companies will create further difficulties in the ability of small companies to find and retain quality personnel; will increase salaries of engineers and thus their costs, complicating their ability to remain competitive in the market or at least to remain in the lucrative part of the market (infrastructure, mining, and the like).

SERVICES POLICY REVIEW



COMPUTER-RELATED SERVICES

A. INTRODUCTION

The computer services industry is constantly changing and can be difficult to define. The current United Nations classification (CPC Ver.2 of 2008), considers that computer related services encompasses four IT services and one maintenance and repair services.

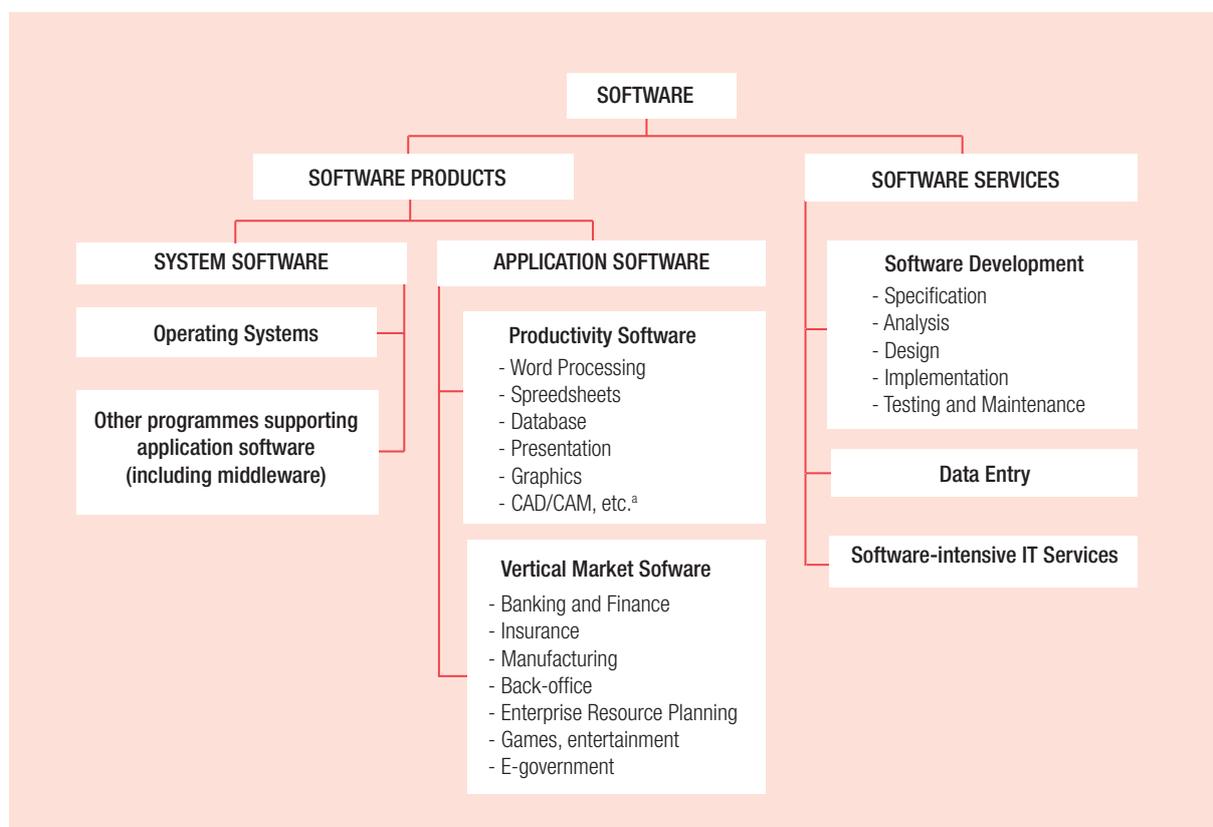
8313	IT consulting and support services
8314	IT design and development services
8315	IT infrastructure provisioning services
8316	IT infrastructure and network management services
8713	Maintenance and repair services of computers and peripheral equipment

UNCTAD *Information Economy Report* (2012) provides further clarification on services comprised in software development.

Computer and related services are important because a growing number of organizations today rely on computer and IT to conduct business and operate more efficiently. In this light, computer-related services play a critical role in supporting various industries, adding value to their products and services and also contributing to decreasing costs of operation.

Main trends regarding this sector include an increased presence of developing countries in the landscape of global trade and investment in this sector; increasing offshoring of these services and an evolution towards a one-stop solution model, whereby a single contractor provides a comprehensive set of computer services to its clients.

The following sections will analyse the characteristics, performance and perspectives of the Peruvian computer services industry, in particular of the software development and computer services outsourcing segments.



Source: UNCTAD. *Information Economy Report* 2012, p.6.

^a Computer-aided Designing and Computer-aided Manufacturing.

Box 1. The importance of developing software capabilities in developing countries

Developing software capabilities is important for several reasons:

First, software represents today a critical component in the production of almost all goods and services. Software can help firms manage their resources better, access relevant information, lower the costs of doing business and reduce time to market.

Second, for the Government to bring an efficient response it is necessary to maintain good management of information and communication technology. Greater emphasis on ICTs in the delivery of government, health care, education and other services is also raising the need for capabilities to develop customized software applications.

Third, locally based software expertise is better positioned to understand domestic needs and to adapt accordingly (that is, to develop relevant and innovative applications and content). Therefore, countries with well-developed software industries are better placed to implement their own tailored solutions.

Fourth, developing countries can increase their participation in the global software market. According to estimates from the World IT and Service Alliance/IHS Global Insight, spending on computer software and services (excluding software embedded in devices) amounted to an estimated \$1.2 trillion in 2011. Most of this (four fifths) is accounted for by developed countries. The remaining share is mainly accounted for by developing countries in East, South and South-East Asia, while the combined spending in the rest of the developing world corresponded to only 4 per cent.

Fifth, the software sector creates important job opportunities. In countries such as Argentina, Brazil, China, Costa Rica, India and South Africa, the software sector has grown significantly in recent years, generating new job opportunities, innovation and export revenue. As entry barriers are relatively low in this sector, and with the growing trend towards the outsourcing of various software-related activities, software production is potentially of interest for countries at low levels of development.

As a result developing a software industry is not only an opportunity for the private sector; it could help the public sector to improve the competitiveness of the economy as a whole and to create a source of quality employment for the population.

Source: UNCTAD, *Information Economy Report 2012*.

B. POLICY AND INSTITUTIONAL FRAMEWORKS

1. The policy framework

In contrast with what has occurred in other sectors analysed in this study, the software sector has been continuously supported by the Peruvian Government, in order to improve the capacities of software companies and promote exports. PROMPERU, with the assistance of MINCETUR, has designed a Strategic and Operative Plan for the Software Sector, to promote the development of the industry. Within this plan, PROMPERU has supported actual and potential exporters in acquiring the capacities necessary to be competitive abroad and has undertaken efforts to introduce them to other markets in several ways.

In order to develop the Peruvian offer of computer services, PROMPERU carried out the following actions:

- Supported the organization and management of APESOFT, strengthening the institutional

framework of the industry and facilitating the training and preparation of software firms;

- Encouraged and supported firms in the sector to obtain relevant certifications (for example the Capability Maturity Model Integration, CMMI), financed studies on the regulatory framework that could be developed for the sector and implemented a testing laboratory (with limited use).¹¹⁶ This was done under the Programme to Support the Competitiveness of the Software Industry (PACIS), with a Budget of \$5 million for a period of 7 years (2007–2013). These actions were undertaken jointly between PROMPERU and APESOFT;
- Created the trademark “CREA SOFTWARE PERU” to promote the Peruvian offer internationally. Under this trademark, PROMPERU has gathered a group of companies with the quality and competitiveness to compete in foreign markets seeking to obtain a synergetic and efficient offer. The CREA project facilitated the creation of partnerships and alliances with Brazilian companies to serve the Peruvian market and possibly other foreign markets;¹¹⁷

- Conducted together with MINCETUR actions directed to exclude software exports from the application of the VAT. The most important was the approval of the Law to Promote the Foreign Trade in Services (Law 29646). In the past, PROMPERU promoted the inclusion of the software and call centre sector in the Tacna Free Zone, to facilitate the production of software with broad tax exemptions;
- Maintained close contact with firms in the sector and made continued effort for their improvement and consolidation;
- Worked in improving laws and regulations necessary for the development of the sector such as the Data Protection Law.

The creation of the Software Technologic Innovation Centre (CITE Software) is another relevant effort made by the Peruvian Government to promote the development of the Peruvian offer of computer services. This initiative was undertaken by the Ministry of Production (PRODUCE), with the aim to offer services necessary to strengthen the competitiveness of software companies. Administered by APESOFT, CITE Software, has worked intensively in providing laboratory and accreditation services, training in quality certification systems, promoting the use of quality standards and organizing seminars on technological solutions for micro and small enterprises. The possibility of strengthening the interaction with the academia and public and other institutions, on the one hand, should be explored. On the other hand, the stronger collaboration with other similar centres abroad or the integration in international networks of similar organizations, may potentiate the impact of CITE Software's intervention.

To promote exports and increase foreign demand of Peruvian software products, PROMPERU has undertaken the following actions:

- Provided commercial intelligence to help companies in identifying export opportunities. In recent years PROMPERU has conducted market studies in several countries in the region including, Chile and Ecuador (software market profile), Argentina (software and computer services market profile), Spain (video games market analysis), among others. These studies comprise evaluations of the software markets, computer services and even video game markets;¹¹⁸
- Lead the design and publication of the Software

Portfolio, a document that describes the Peruvian software industry, their representative suppliers and their offer, providing some general statistics of the sector;

- Promoted the participation of the sector in a variety of commercial missions and in domestic and international fairs to make the Peruvian offer known by potential clients in target markets;
- In this context, PROMPERU has organized three editions of the "Peru Services Summit", an international fair and business round organized annually in Lima. The summit aims to help Peruvian services suppliers in meeting foreign clients. This Summit has proved to be a successful way to help companies in developing business contacts and achieving new contracts.

2. Institutional framework

As described in the previous section, PROMPERU is probably the most active government agency involved in the development of the software sector.

APESOFT was founded in 2000, with the objective of promoting the national industry of software and improving the competitiveness of its affiliates by encouraging the export of Peruvian computer programs. APESOFT is integrated by the most relevant software developers in Peru. It represents its associates before domestic and foreign authorities to foster the industry interests.

APESOFT provides a wide range of benefits including:

- Helping its associates in obtaining international certifications at less costs, by negotiating as a group;
- Participating in commercial missions and business rounds to find new markets in the region;
- Obtaining funding for research and development activities;
- Providing statistics of the sector;
- Representing the interest of its members before Peruvian authorities;
- Providing specialized training programmes to associates personnel, among others.

APESOFT coordinates closely with PROMPERU and MINCETUR to promote initiatives for the development of the sector. It frequently appears in the media providing information regarding the evolution of the Peruvian software market and the achievements of some local companies.

Box 2. Strengthening the science, technology and innovation system in Peru

The CNC includes eight goals aimed at improving the framework for science, technology and innovation (STI) in Peru:

- To strengthen the approving laws and improving the institutional capabilities of the organisms executing STI policies;
- To obtain more resources for STI institutions and public programmes, elaborating a “STI project portfolio” in regions to be financed by Energy Canon Resources and to include in the National Budget Law an increase of resources associated to public investigation centres, centres of technologic innovation and to other activities of research and development;
- To design and implement a new System of Scholarships aligned with the STI system, reforming the scholarship system and setting as priority the granting of scholarships in science and engineering;
- To increase by 20 per cent the critical mass of researchers in five priority areas of the STI National Plan (2009–2013), creating incentives to retain and obtain the return of national talents in science and engineering, using government or private resources according to demand;
- To reform the institutional framework and operative conditions of CITEs, to improve the provision of training and technological services to SMEs and to improve their productivity level and profits;
- To broaden the kind of services provided in public CITEs and to promote the improvement of those provided by private CITEs and other training centres;
- To improve the intellectual property system, attracting entities that offer services for the management of IP tools;
- To promote innovative commercial projects between universities and companies, including the encouragement of the generation of technologic companies within universities (enterprise incubators) with state financial support.

Source: CNC, Agenda de Competitividad 2012–2013.

The CCL is an important trade association that offers its associates adequate representation before government authorities to defend the industry interests, follow up of Peru’s trade negotiations, to foster commercial promotion efforts and capacity-building initiatives for SMEs. The CCL has been involved in supporting several initiatives to develop the competitiveness of the software industry in Peru.

It is important to note that the Committee on Information Technologies and Communications of the CCL gathers the leading computer services companies of the IT sector in Peru. Its associates include IBM of Peru, Hewlett Packard, Telefonica of Peru, Graña y Montero Digital (GMD), Tech Data, Microsoft of Peru, among other relevant companies that provide computer services in Peru.¹¹⁹

PROINVERSION is a Peruvian state agency engaged in the promotion of private investment in public services and other public infrastructure works, as well as in projects, state enterprises and other state activities. This agency also provides guidance and support to investors. PROINVERSION promotes sectors with comparative advantages considered strategic for Peru and has identified IT as a sector of interest.

The CNC was created, under the leadership MEF, to coordinate, among various institutions, initiatives

related to diverse policy spheres with a view to improve Peru’s competitiveness. For this purpose, it has designed a plan (the Competitiveness Agenda 2012–2013) containing goals, strategic guidelines and specific measures. Following is a brief description of policies that are clearly relevant to improve prospects for future performance of the computer services sector.

The Peruvian Government is currently strengthening the Science and Technology Fund (FYNCIT) that has allowed the financing of companies in companies and increase scientific research. FYNCIT was originally financed by a \$25 million loan from the Inter-American Development Bank and by \$11 million granted by the Peruvian Government. In its second phase, it is expected that FYNCIT will have resources equivalent to \$100 million. In addition, PRODUCE has established a Fund for Research and Development for Competitiveness with S/.200 million (\$80 million).

3. The regulatory framework

The provision of computer services in Peru is not specially regulated. However, general regulations related to the taxing regime of the activity and to the hiring of foreign personnel described earlier in this study apply (see chapter II, section D).

C. DESCRIPTION AND PERFORMANCE OF THE SECTOR

1. Software services

1.1. Local providers of software services

According to the classification of software established by UNCTAD *Information Economy Report* (2012), software and software services encompass the following categories:

Software products	Software services
<ul style="list-style-type: none"> Application software which include: <ul style="list-style-type: none"> General productivity-enhancing software Industry-specific application software System software that refers to operating systems basically 	<ul style="list-style-type: none"> Software development (analysis and design) Software implementation (deployment) Software assurance (ensuring adequate operation and maintenance) Data entry Software intensive in IT services

In the software industry, it is possible to distinguish different kinds of providers:

- Software designers that sell pre-packaged software (that is, operating systems or certain applications, such as Microsoft Office);
- Independent software vendors (ISV), that sell software manufactured by themselves or by others that must be customized to the specific needs of the client (that is, SAP providers);
- Solution integrators (S.I.), that, using software from different sources, are able to develop solutions to the specific needs of the clients;
- Services-software assurance, typically offered as on “service levels” (platinum, silver, standard), measured by how fast is the response of the supplier in the event of malfunction, coverage, among other.

Within this general classification, Peru's offer is concentrated in independent software vendors, solution integrators and other services. PROMPERU characterized the industry as follows in its Software Portfolio 2011:

“The Peruvian software industry is based mainly in the processing of commercial information,

that covers from generic administrative and accountancy systems to integrated management systems, specialized in vertical sectors. Peruvian software companies specialize in the development of applications. In some cases generic applications (horizontal segment) such as integrated management systems, in other specific applications (vertical segment), aimed to well identified market niches such as banking, mining, legal, health, tourism, environment, among other.”

Table 13, elaborated by PROMPERU, describes Peru's computer services offer by company and main specialization.

In the Software Portfolio 2011, PROMPERU identified some of the most important players in the industry, including their key products, services and quality certifications. Annex 4 contains a table summarizing this information. As this Annex shows, most of the Peruvian companies listed possess relevant certifications, including CMMI-3, an important international standard granted by the European Software Institute (ESI). The CMMI certification ensures the capacity, maturity and quality of the processes required for the production of software, certifying the application of the best practices for the development of such product.

According to a leading local provider, GMD, the granting of the CMMI-3 constitutes a landmark in the history of Peruvian enterprises of IT. This could facilitate strengthening the quality of products and services of Peruvian companies, broadening the scope of services provided to the local corporate market and competing with lower costs than BRIC countries (Brazil, the Russian Federation, India and China), but with equal quality.¹²⁰ Nevertheless, the CMMI scale goes up to a highest score of 5, so 3 is the middle level, indicating the process has been implemented but not yet optimized.

In addition, most companies have also obtained ISO 9001, and are certified partners of Microsoft, Oracle, SAP, IBM, among other world class top software developers.

1.2. Performance of the software services industry

The main difficulty to assess the performance and evolution of the computer services industry is the lack of reliable sales and export statistics. Indeed, the information obtained from official sources and leaders and representatives of the industry does not

Table 13. Peruvian offer of computer (software) services

Companies	
Specialized solutions	
Dominiotech	Mining applications/environment
Infhotel	Tourism: restaurants and hotels
JDM	Tourism: airlines and shipping
Logicenter	Financial and transactional
Lolimsa	Health: pharmacies and hospitals
Medisys International	Health: pharmaceutical industry
Novatronic	Financial and transactional
Summatec	Legal process management
Simbiosys	Mining: load measuring
Horizontal solutions	
DMS	Industry: barcode
Inexxo	Human Resources Management
Keepertech	Application: computer security
Magia Comunicaciones	Postals and Intranets
Real Sstems	Management accounting, commercial, logistics
Royas Systems	ERP
Siscont	Accounting and financial position
Soinfo	Business management
Visual Soft	Telecommunications and call management
Custom development	
Avances tecnológicos	
Avatar	
Background	
Evoi	
Hiper	
Interbissnet	
Ouiipu Technology	
TeamSoft S.A.C.	
Telefónica de gestión de servicios compartidos Perú S.A.C.	

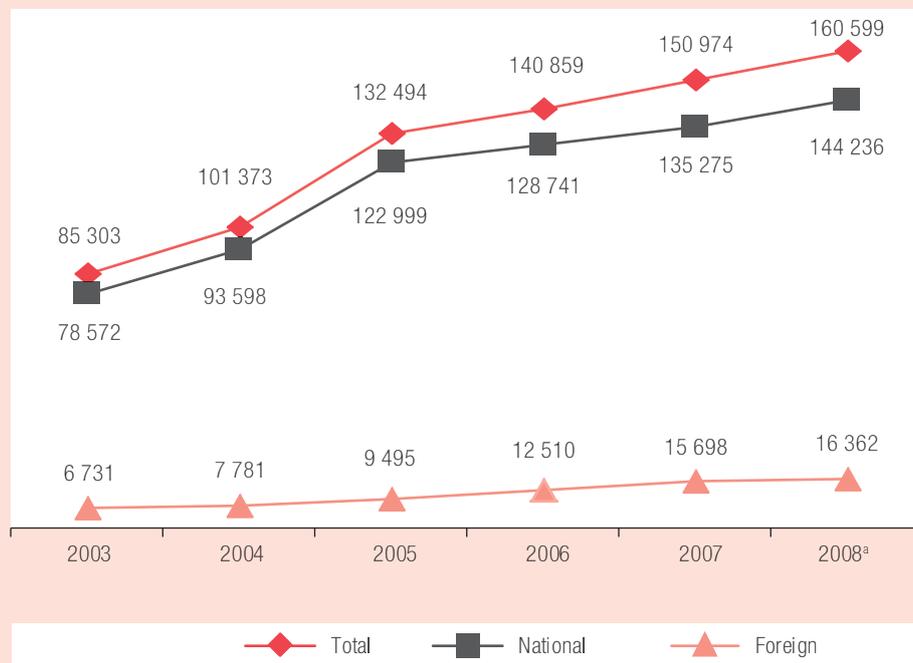
Source: PROMPERU.

allow isolating computer services as defined in this chapter. Most official studies, when referring to the performance of computer services, encompass ITO, BPO, KPO, BPM, ERP and other categories that exceed the scope of this evaluation.

One of the few studies characterizing and evaluating the performance of the software sector in Peru was done in 2008 by Quore CCR and was entitled "Peruvian Software Industry Profile".¹²¹ This study was

made for the PACIS programme and was based on direct interviews to 90 companies in the sector.

According to this study, total sales maintained a steady growth from 2003 to 2008. Although sales in the domestic market represented an overwhelming proportion of these sales, exports were growing. In 2008, total sales for this sector exceeded \$160 million. Figure 21 illustrates this evolution.

Figure 21. National and foreign sales of Peruvian software services providers, 2003–2008 (million dollars)

Source: Quore/CCR (2008), Peruvian Software Industry Profile, page 5.

^a Estimated.

This study indicated that the Peruvian market of software had, in 2008, approximately 300 companies, of which 4 per cent represented large companies, while medium-sized, small and microenterprises represented 6 per cent, 27 per cent and 63 per cent respectively. It is interesting to note that large companies made 46 per cent of total sales in 2007 and medium-sized, small and microenterprises represented 12 per cent, 20 per cent and 21 per cent respectively.

Notwithstanding the different methodological approaches to measure the performance of the sector, figures that are more recent suggest that Peru's total sales of the software sector have continued growing since 2008.¹²² For instance, according to PROMPERU,¹²³ total sales increased from \$85 million in 2003 to \$239 million in 2011 (see figure 22). Other figures indicate that total sales reached \$185 million in 2010 and \$205 million in 2011.

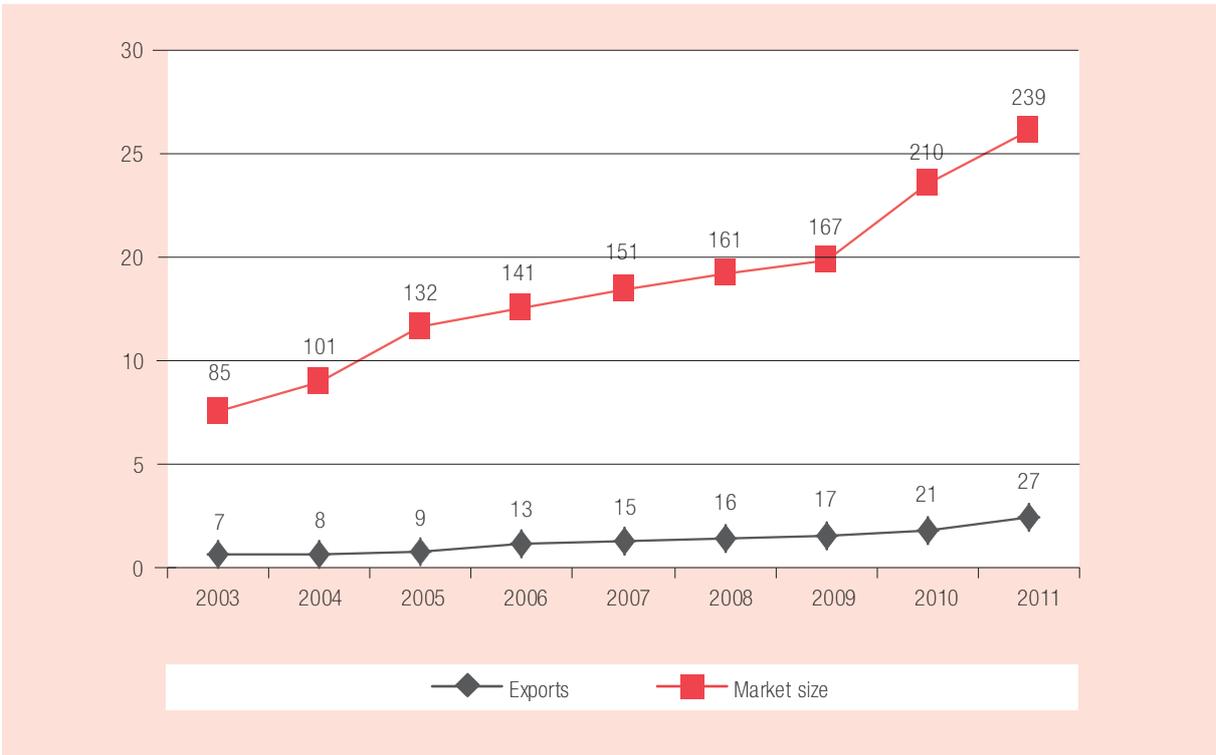
Forecasts for future performance of sales in this sector look promising too. The Peruvian software market is expected to reach \$313.3 million in 2015.¹²⁴

Peruvian exports of software development services have also grown significantly between 2003 and 2011. They were equivalent to \$7 million in 2003, to \$16 million in 2010 and to \$27 million in 2011 (see figure 22). In 2012, software exports represented 15 per cent of total sales of software, almost doubling the share achieved in the last two years.¹²⁵

The most important export markets for software and IT services are Latin American countries, Spain and the United States. Andean markets represented 30 per cent of software exports in 2011. APESOFT has indicated that the industry is interested in expanding Peruvian exports to Chile, Mexico and Central American countries.

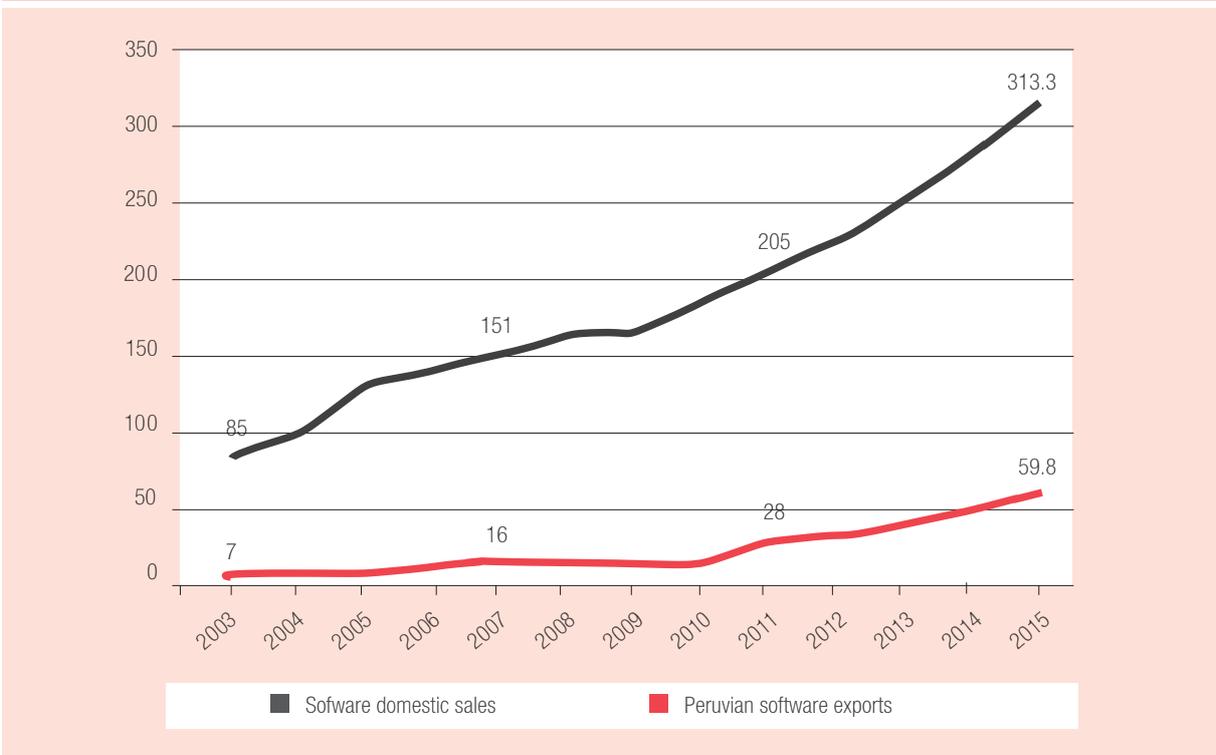
Forecasts estimate that exports will reach \$59.8 million in 2015 (see figure 23).¹²⁶

Figure 22. The Peruvian software sector – exports and market size 2003–2011 (million dollars)



Source: PROMPERU, Peru Services Summit Report 2012.

Figure 23. Peruvian software exports and domestic sales, 2012–2015 (million dollars)



Source: APESOFT / Lolimsa / WEF.

2. Computer services outsourcing

Information technology outsourcing (ITO) consists of delegating tasks related to business applications and network systems to other companies. Delegated tasks may comprise activities related to database, network and storage management, and application management, web developments, remote technical support through help desk, security services (firewall), among others.¹²⁷

The ITO market has grown significantly at the global level in the last few years. In 2011, it represented 62 per cent of the global market share for outsourcing. The ITO subsectors with highest growth rates forecasted for 2013 included: data centres (35 per cent), network systems (26 per cent), business applications (26 per cent) and desktop support (12 per cent).¹²⁸

The Latin American region has intermediate maturity in this subsector and its offer includes services of more complexity such as maintenance, support, repair of data centres and storage solutions. According to IDT, in broad terms, the IT Latin American industry will grow 10.3 per cent reaching \$140.5 billion. Hardware will concentrate 66 per cent of this growth, while software will represent 13 per cent and services 21 per cent of this increase. Mexico, Brazil and Colombia will reach the highest expansion with rates of 13 per cent, 12 per cent and 11 per cent respectively. Most importantly, Latin America will be the region with the fastest growth rate in the world, increasing 1.74 times the world average.¹²⁹

IDT estimates that the expected investments in “big data” in Latin America will exceed \$480 million, but most importantly, at the end of 2013 it expects that the majority of companies will seek to set as priority the optimization of infrastructure, as well as the organization and management of data. Cloud computer will also grow significantly. IDT estimates that public services in the cloud will grow up to 647 million at the end of 2013 and by 2016, they will represent 6 per cent of the total expenses in software and 26 per cent of the total expenses in hardware infrastructure of companies in the region.

According to PROMPERU, Peru is poised to take advantage of the growing market of outsourcing in IT. The Peruvian market for outsourcing these services have shown great dynamism. Important companies in the banking, mining and manufacture sectors have seen an opportunity in ITO outsourcing to Peru, to improve their productivity, for example:

- IBM Peru entered in an agreement Banco de Credito del Peru (BCP) in May 2012. This five-year agreement for IT outsourcing services will enable BCP to optimize its operational expenses, relying on IBM to provide IT infrastructure management services, including support, operation and maintenance of the bank’s mainframe, midrange and storage platforms. The total contract value exceeds the \$100 million. In the framework of this contract, IBM will manage the transformation of the Bank’s IT infrastructure and implement infrastructure management tools and processes, and will introduce key performance indicators to improve operational efficiency, and enhance business capabilities of the Bank;¹³⁰
- In 2011, IBM signed a project with the Yanacocha mine (the largest gold mine in South America, located in Peru) to design and implement a network based on wireless mesh technology to increase profitability through lower energy and maintenance costs. In 2007, Cisco and IBM Peru signed a major contract with Minera Barrick Misquichilca SA, the second largest gold producer in Peru. Under this contract, Cisco in alliance with IBM Peru is responsible for improving and implementing IT systems availability in Laguna Norte mine in Trujillo.

Annex 5 contains a table that lists some of Peru’s most relevant services providers in this segment, describes briefly the specific services offered by each company and indicate their certifications. Services offered by Peruvian services providers to other regional export markets include, among others, consulting in document administration, electronic banking, human resources solutions, Balanced Scorecard, process integration, networking, corporate web portals and health software design.¹³¹

Big companies such as GMD and COSAPI, have been capturing an important part of this market. Leading services providers related to ITO have obtained positive results in areas such as network and storage management and application management. GMD for example, had a total income of \$68.35 million in 2011, increasing 36 per cent compared to the level registered in 2010. Combined earnings from the BPO, IT Infrastructure, of Help Desk and Application activities reached \$49.88 million, representing a 73 per cent of total activity and a growth of 58 per cent. GMD has served Peruvian companies in international markets, providing technology support services in SAP international operations for EBEL group and helpdesk

services at regional level for BARRICK, UNIQUE and CAM. However, it is important to note that 37 per cent of these outsourced services are still supplied by small and microenterprises that jointly sell more than \$60 million.¹³²

3. Increased presence of foreign services providers

International firms in the software services industry are increasingly seeking to enter the Peruvian market because it is growing. They usually proceed through the acquisition of a local provider.¹³³ Accordingly, in recent years, COMSA acquired the local INDRA and SOFTLAND acquired OFFISIS. Such penetration will increase competition in the local market, challenging Peruvian providers to supply products with quality standards of manufacture equivalent to those offered by foreign providers.

International leading companies in the computer services outsourcing sector are also successfully entering the Peruvian market. For example, Tata Consultancy Services (TCS), one of the largest companies specializing in IT services, began local operations in 2010.¹³⁴ Although Peru is a new market for TCS in Latin America, and represents only 5 per cent of its total revenue in the region, their operations in Peru are growing very fast. In two years, TCS has worked with firms of the financial, telecommunications, mining, manufacture and retail sectors. In the next three years, TCS plans to grow aggressively at double-digit rates.¹³⁵

In the course of preparation of this study, some of the consulted stakeholders were of the view that local services providers face a disadvantage when competing with international companies because the latter have a regional or global base, which helps them manage their fix costs better.

D. COMPUTER-RELATED SERVICES: AN ANALYSIS OF STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS

1. Strengths

- The computer services sector is clearly a priority in the agenda of Peruvian policymakers. In contrast

with the situation of other services sectors, this one has been continuously supported (by PROMPERU) to improve capacities of software companies, strengthen the institutional framework, adjust – to the extent possible – the tax regime that increases costs of Peru's local offer abroad and provide the commercial intelligence needed to identify export opportunities. In addition, PROMPERU has promoted the participation of the sector in a variety of commercial missions and in domestic and international fairs to make the Peruvian offer known by potential clients in target markets. This support has contributed significantly to the good results observed in the sector and to the greater projection of Peruvian companies abroad.

- Peruvian computer services providers have achieved important certifications such as CMMI (level 2 and 3), ISO 9001 among other, which helps them demonstrate the capacity, maturity and quality of the processes required for the production of software and the provision of services. These certifications will allow improving the quality of companies' products and services and competing in similar quality conditions with some regional competitors. Efforts done by PROMPERU and APESOFT facilitate that more companies will obtain these certifications.
- Peru possesses competitive cost advantages over regional competitors. Peru has lower electricity and rental costs compared to other competitor countries. In addition, according to the Indian consultancy firm Tholons,¹³⁶ Peru offers 15 per cent to 20 per cent labour cost savings over regional competitor Colombia, 20 per cent to 30 per cent over Argentina, and 30 per cent to 55 per cent over Chile (see table 14). In addition, Peru mandates lower social security contribution rates compared to Argentina and Colombia.
- Geographic location in the same time zone as Eastern United States creates a competitive advantage against Asian competitors, since it facilitates rapid response for the provision of implementation and technical support services. This advantage has created incentives for Asian companies to create offices and seek for partnerships in South America.

Table 14. Cost comparison among outsourcing countries

Country	Entry Level BPO Salary (\$)	Entry Level ITO Salary (\$)	Electricity Costs (\$/kWh)	Rental Costs (CBD Class A, \$/square foot/month)	Social Security Contribution
Peru	400–450	650–750	0.079	13–14	9 per cent
Colombia	450–500	800–900	0.125	33–35	20 per cent
Argentina	520–650	1,100–1,200	0.049	28–29	16 per cent
Chile	600–700	1,450–1,550	0.145	20–22	0 per cent

Source: EIA, Cushman and Wakefield, World Bank, Tholons Estimates 2010.

2. Weaknesses

- Peru presents some weaknesses on the supply side in this sector. These relate to the lack of IT Infrastructure, research and development investment and lack of innovation incentives for the IT industry. For example, according to the “general index” of the WEF Global Competitiveness Report 2011–2012, Peru ranks 67 out of 142 countries. When looking at the “Innovation Index”, Peru ranks 113, obtaining very low ranks in (i) education system quality (rank 128); (ii) company expense on research and development (rank 118); (iii) quality of scientists in research institutions (rank 109); and (iv) availability of scientists and engineers (rank 102), among others.

Other deficiencies that may limit the potential growth and development of the sector include low levels of consumers and business adoption of IT and telecommunication technologies, limited capacity to innovate and lack of financing for research and development (for scientific, technological and innovative activities).

Indeed, lack of adequate financial support for research and development projects and start-ups compromises further growth in the sector. Peru has invested scarcely in STI. According to FYNCIT, Peru used in 2004 scarcely 0.15 per cent of its GDP for research and development while the average investment in Latin America was 0.6 per cent (Chile 0.67 per cent and Brazil 0.90 per cent of their GDP).

- There is lack of a good statistical base to analyse appropriately the evolution and development of this sector, and more specifically the performance of SMEs participating in the sector.
- Most of the efforts to support to the computer services sector appear to be taking place under

the leadership of one institution (PROMPERU). However, other initiatives to support the sector are currently taking place involving other institutions. Apparently, coordination to set common perspectives seems to be lacking among these different initiatives.¹³⁷ This situation leads to a lack of a systemic approach to analyse the main limitations to the competitiveness of the sector these limitations and to a lack of a common vision to address these, potentially impairing the growth and export orientation of this sector in the future.

- There is a lack of a strategic framework to support SMEs specifically, although most of the companies in the sector are small and microenterprises that require special assistance not only in technical but in management aspects.

The lack of financing resources for technologic projects has been identified as a significant limitation of the software sector in the analysis made by the PACIS programme. The experience of a company that was able to develop an important solution for the mining sector with a loan of FYNCIT illustrates how opportunities can be lost if financing programmes are not in place for SMEs.

- There is insufficient supply of engineers with the qualifications required for complex IT programming. Some industry leaders interviewed in the course of this study were of the view that the academic curricula in systems engineering careers were not adequate to create innovative professionals, increasing the learning curve of creating programmes and solutions, and thus the cost of production for software companies.

In addition, leading industry representatives believe it is very difficult to maintain talent in domestic companies, given the attractive offers of the global companies. The lack of highly

qualified professionals limits industry growth and complicates the perspectives of the sector.¹³⁸

- Poor English capability is an important obstacle for the IT sector in Peru. Proficiency in the English language is a requirement in this industry since most of the specialized literature is written in English. In addition, in order to take advantage of the United States, Canadian and some European markets, it is necessary for computer services suppliers to have more English-speaking executives and personnel.

3. Opportunities

- Peru has FTAs with its most important commercial partners including CAN, Canada, China, the European Union, Japan, MERCOSUR and the United States, among others. Most of those agreements contained modern and broad commitments in services offering security to investors interested in initiating operations in Peru and, through Peru, in the Latin American region.

The electronic commerce chapter of the Peru–United States Trade Promotion Agreement ensures that Peruvian digital products exported by electronic transmission will not be taxed with customs duties, and that those exported stored in a carrier medium will be charged according to the value of the carrier medium without regard of the cost or value of the digital product.¹³⁹ Most importantly, the chapter considers strong non-discrimination obligations in favour of digital products created or produced within member countries or by authors from another member country. In addition, the public procurement chapter ensures non-discrimination in public biddings to the parties providers in sectors comprised in the agreement. Clearly, Peru's FTA provides the computer services industry with an interesting environment to export software products and services to key markets such as the United States.

- Sustained economic growth of Peru strengthens the position of big and medium-sized companies in the country, creating demand for the acquisition of computer services. Peru's economic growth creates great opportunities for investments in computer services and particularly in IT outsourcing services. Important players in the financial, mining, manufacture and retail sectors already began to invest in a modern IT services platforms in Peru.

Other key players in these and other industries are likely to follow creating further opportunities for local and foreign computer services providers in the following years.

- Peru's stable policies provide opportunities to attract global players in the computer services industry, first to develop less complex services (less talent intensive) and later in more mature services (with higher technical and business complexity).
- The trend for increased outsourcing of computer services (to Latin America) presents opportunities for this sector in Peru to grow in the future.
- The migration of Peruvian software professionals and of highly qualified graduates from engineering careers could increase outsourcing services from Peru. In addition, Peruvian professionals, once adequately trained abroad, could also return to the country to develop their own companies, bringing new ideas and experience to the industry. Be that as it may, the development of new academic offer in the country, including at a postgraduate level, may also contribute to the qualification of professionals in the sector.
- Increasing competition could create incentives to improve quality and innovation on software development and services. It is also relevant to promote the association of local providers with the objective of improving their competitiveness.

4. Threats

- Strong competition and determination of other Latin American countries to develop their growth potential in IT services and existing asymmetries between Peru and other Latin American countries in key aspects of this sector (that is, IT infrastructure and the legal and research and development environments) can be a threat for the future development of this industry in Peru.

Indeed, Peru ranks behind several important competitors in the Latin American region in most of the indicators measured in the BSA-EIU Index 2011 (table 15). This situation may show Peru as a less attractive choice for key global players in the computer services industry.

- Insufficient availability of highly trained human resources in software development and a clear trend of new graduates to seek work opportunities

abroad may also limit growth potential in the future. Competition for scarce human resources between foreign and local companies may increase current low labour costs for Peruvian providers, forcing

them to compete with their limited scale, know how, product portfolio and experience with transnational players both in Peru and in other key Latin American markets.

Table 15. IT industry competitiveness: comparative rankings of some Latin American countries

Country	Overall ranking (out of 66)	Business environment	IT Infrastructure	Human capital	Legal environment	R&D environment	Support to IT industry development
Chile	32	6	35	35	28	52	13
Brazil	39	36	43	47	44	32	27
Mexico	44	38	47	47	36	41	31
Argentina	45	55	40	39	33	40	57
Colombia	49	42	50	55	38	43	38
Peru	55	49	54	62	51	60	53

Source: BSA-EIU Index 2011.

SERVICES POLICY REVIEW



VI

LOGISTIC SERVICES

A. INTRODUCTION

Logistics can be defined as the management of supply chains. Logistics involve an intricate network of activities aimed at ensuring the efficient movement of raw materials, intermediate inputs and finished goods between suppliers, manufacturers and consumers in domestic markets or between domestic and international markets. Efficient delivery of logistic services can be a powerful tool to reduce transaction costs and thereby increasing the competitiveness of exporting firms.

Providers of logistic services manage more than transport-related matters. Their activities can encompass, among other, supply chain consulting, transportation management, freight transportation, warehousing, border clearance, payment systems, management of customs procedures, setting up of assembly and manufacturing plants, groupage, information logistics services, transportation with a selection of carriers and negotiation of tariffs.

The increasing use of electronic means and outsourcing are the main trends in the logistics. The adoption of ICT in trade logistics has facilitated information sharing among different agents in the supply chain, enabling them to link production, warehousing and transport with consumers in real time. This has impacted positively on firms' efficiency, possibly reducing the costs of imports/exports.

Specialized logistics firms offer parts of all the services involved in the supply chain. Accordingly, some firms have opted for outsourcing one or several of these activities or services involved in the supply chain. In this sense, firms providing integrated logistics are called "third-party logistics" (3PL) and provide integrated services of transportation, warehousing, inventory control, order processing and customs brokerage. Fourth-party logistics (4PL) integrate all companies involved in the supply chain, enabling the control of the whole logistics activities.

B. POLICY, INSTITUTIONAL AND REGULATORY FRAMEWORK

Peruvian authorities have prioritized the development of this sector given its relation with improving the competitiveness of the country.¹⁴⁰ As such, it was perceived as critical in order to improve prospects

and trade opportunities for business (by reducing trade related costs and improving trade efficiency), particularly for SMEs.

The objectives of the Peruvian reform in this context include promoting the use of electronic processes associated with customs procedures; improving efficiency of transport networks and infrastructure; attracting investment; improving capabilities and business practices of local companies and modernizing the regulatory framework.

Local businesses have great expectations from ongoing reforms, for instance regarding increased efficiency in air and maritime transport, increased FDI, transfer and upgrading skills related to management practices. Sectors with most interest in the development of logistic services include the agro-industry, energy and mining. This interest was not only applicable to exports, but also imports.¹⁴¹

Ongoing negotiations related to the TPP include some areas that will probably lead, in the near future, to influence reforms in this sector in Peru. Aspects under discussion that might lead to future commitments, relate to improve coordination of regulatory practices, elimination of redundant regulation and improved interconnectivity among modes of transport.

In spite of the recognition of the importance of the development of this sector to improve Peru's competitiveness, there are no policies or legal texts that guide and institutionalize the development of logistics services in a holistic manner, through a process that includes planning, national and regional coordination, promotion and technology.

A set of specialized rules apply to specific activities, particularly to transport services (including infrastructure), which are modal oriented. As a result, there is a modal regulatory fragmentation. Annex 6 contains a list of the most important laws regulating activities in this sector.

The institutional framework of the logistics services in Peru comprises the following entities:

- Directorate General of Roads and Railways: MTC area in charge of regulating the management of the road, bridges and railways infrastructure, as well as monitoring compliance. It is responsible for the road and railway activities in the country;
- National Port Authority: Decentralized public agency of MTC responsible for the national port system. It is responsible for the development of

the national port system, the promotion of private investment in ports and the coordination of the various public and private actors involved in port activities and services;

- Directorate General of Civil Aviation: Specialized unit of MTC in charge of overseeing and inspecting all aviation activities of aircraft operators in order to ensure air safety;
- Directorate General of Water Transport: MTC area in charge of proposing transport policies on maritime, river and lake routes, except for the ones reserved to the Ministry of Defence. It is responsible for overseeing the construction, improvement, expansion, rehabilitation and maintenance of ports within the national port network;
- National Superintendence of Tax Administration: Specialized technical body under the MEF whose mission is to promote compliance with tax and customs;
- National Institute for the Defence of Competition and the Protection of Intellectual Property Rights (INDECOPI): Specialized public agency that reports to the Presidency of the Council of Ministers which, among other things, promotes fair and honest competition in Peruvian economy;
- Supervisory Agency for Investment in Public Transport Infrastructure (OSITRAN): Specialized public agency attached to the Presidency of the Council of Ministers which objective is to regulate, monitor and supervise the behaviour of public infrastructure markets, as well as to supervise the compliance of the concession contracts;
- Peruvian Corporation of Airports and Commercial Aviation (CORPAC): State owned company in charge of the operation, equipment and conservation of airports that are not under concession to the private sector. It also provides services of airport communication, broadcasting and air traffic control to airports and airfields under concession to the private sector;
- Directorate General of Captaincies and Safeguards: Responsible for regulating and ensuring the safety of human life, protection of the environment and natural resources and to repress any wrongdoing in the aquatic environment. It belongs to the Peruvian navy.

Some of the most important private sector associations of the sector in Peru include:

- Maritime Association of Peru: Association of major shipping lines of regular services (both local and foreign) which aims at promoting free competition, the development and modernization of shipping and port infrastructure and the development of maritime trade in general;
- Association of International Airlines (AETAI): Association of firms engaged in international air transport services (scheduled or non-scheduled passenger and/or cargo) with representation in Peru, operating or not. It has 19 members including KLM, Iberia, Delta and TACA;
- Peruvian Association of Airlines: Organization that belongs to the National Tourism Chamber of Peru and that aims at representing the airline industry with the authorities and defend the interests of members.

The institutional framework also presents modal fragmentation; none of the institutions mentioned above have a leading role in the promotion of the sector in holistic manner.

C. DESCRIPTION AND PERFORMANCE OF THE SECTOR

Most logistics services in Peru are provided by private companies specialized in various services within a framework of free competition.¹⁴² These services are provided based on general and specific contractual rules, which are based on the constitutional principle of freedom of contract.

There are several logistics companies operating in the Peruvian market and/or servicing Peruvian exporters in other countries (especially in the United States), among them Logistics Peru, Logwin, and Magellan Logistics. Some of the local companies operate in joint ventures with foreign companies.

Companies involved in the supply of logistic services, undertake one or several of the following activities: public or private operators of infrastructure of public use (roads, rail, ports and airports), transport firms, customs agents, operators of extra port and air terminals and logistic operators. The following sections aim to provide a picture of these different activities encompassed in the supply of logistics services in Peru and identify some of the main actors in them.

1. Road infrastructure

According to MTC, the Peruvian road infrastructure is 86,666.10 kilometres in length and includes three longitudinal axes and 20 transverse axes. Because of the geographic characteristics of the Peruvian territory and the uneven concentration of its population, the road infrastructure is unevenly developed.

The Peruvian road network is organized in three subnetworks:

- The national network represents 30 per cent of the Peruvian road infrastructure. It is the busiest and the most important network, since it interconnects the country, facilitates the internal commercial exchange, connects the production centres with consumption centres and allows the establishment of links with neighbouring countries. It is under the jurisdiction of MTC and is administered by PROVIAS Nacional, a special project with technical, administrative and financial independence, responsible for the execution of projects of construction, improvement, rehabilitation and maintenance of the national network;
- The departmental networks represent 29.7 per cent of the Peruvian road infrastructure and connect the national and rural networks. They facilitate the regional commercial exchange through the connection of provinces and capitals of departments. They are under the jurisdiction of regional governments, but they receive help from MTC through PROVIAS Descentralizado;
- The rural networks represent 40.2 per cent of the Peruvian road infrastructure. They connect the main towns and are articulated with the departmental and national networks. These networks are often unpaved and of low quality, but are very important given the characteristics of Peruvian geography. They are under the jurisdiction of local governments and they receive help from MTC through PROVIAS Descentralizado.

It is important to mention that Peru is part of the “Initiative for the Integration of Regional Infrastructure in South America – IIRSA”, which involves 12 South American countries and was established the Summit of Heads of State and Government, held in Brasilia in 2000. IIRSA includes nine integration and development axes in South America and Peru participates in four of them: the Amazonas Axis (Brazil–Colombia–Ecuador–Peru), the Brazil–Peru–the Plurinational State of Bolivia Axis, the Inter-oceanic Axis (Brazil–Chile–Paraguay–

Peru–the Plurinational State of Bolivia) and the Andean Axis (the Bolivarian Republic of Venezuela–Chile–Colombia–Ecuador–Peru–the Plurinational State of Bolivia). Of the 25 IIRSA road projects¹⁴³ in which Peru is involved, five are already finished and 11 are in implementation. Currently, 5,363.1 kilometres of roads are granted to projects that are self-sustained¹⁴⁴ and co-financed by the State.¹⁴⁵

Although the road infrastructure is one of the biggest and most developed transport infrastructures in the country, it has capacity deficits. Even though the Peruvian road network is connected, it is not dense enough: road density is equal to 0.012 kilometres of paved roads per kilometre of surface, which is a relatively low density compared to other countries in the region. In addition, the main network does not cover several destinations, so there is a high concentration of traffic flows from distant points, forcing some routes to make long detours and further increasing traffic on these roads.

There is also a shortage of connections and the quality of roads is not optimal, which forces vehicles to travel at a very low average speed and increase maintenance costs of vehicles. Most of the roads are unpaved so their maintenance is bad, while the paved network covers only the main roads between major cities and centres of consumption. All of this leads to bad conditions of the traffic generated in the country and high transport costs, which affects particularly roads that connect the Peruvian coast with the highlands and the jungle.

Another important problem of the Peruvian road infrastructure is the insufficient capacity of roads that connect the most important cities (Lima, Arequipa and Trujillo) with the rest of the country. For instance, Lima has three main access points, which are at the limit of their capacity: to the north and south of the city through the Pan-American Highway (which goes from Tumbes in the border with Ecuador to Tacna in the border with Chile), and to the east of the city through the Central Highway. Additionally, there is no concentration of flows to and from the inner city (due to lack of cargo bus terminals or urban distribution centres), which leads to an unnecessary duplication of traffic.

The agricultural sector is particularly affected by the above mentioned problems. There is a general disconnection between the major agricultural production areas of the country and the points of

consumption or foreign trade. Furthermore, the bumps on the roads cause additional losses in the transport of perishable agricultural products.

There is, nonetheless, an opportunity to improve these conditions given the investment and concessions policy of the Government of the last few years, particularly through the grants of IIRSA Norte (which facilitates the traffic between Yurimaguas and Paita) and IIRSA Sur (expected to expedite export flows to the Matarani port).

2. Rail infrastructure

The Peruvian rail infrastructure is composed of nine railway lines: five are state owned and private firms own the other four.

One of the five public lines is under concession to Ferrovias Central Andina S.A. and two other are under concession to Ferrocarril Transandino S.A. The remaining two public lines are operated by MTC through the Directorate General of Roads and Railways and the Regional Government of Tacna.

The private firms that operate railway lines are usually mining companies, which need to transport bulk commodities in large quantities. Three of them communicate extraction or production centres with Ferrocarril del Centro and the remaining one (Southern Copper Peru) is located in the southern part of the country.

The rail infrastructure is the most limited transport system in Peru, mainly because it is a disjointed network. It does not cover the main freight flows and logistic corridors. However, it covers some private interests that have been able to finance the infrastructure due to the large volumes of material to be transported, generally minerals or fuel.

3. Seaport infrastructure

Peru has 11 public seaports: three are under concession to private firms (Callao Port, Multipurpose North Pier and South Pier, and Paita and Matarani) and the National Port Company (Enapu) manages the other eight. The National Port Authority is responsible for policy guidelines concerning maritime port infrastructure.

The main port in Peru is Callao (in Lima), where most of the load (particularly imports) is concentrated. Most of the exports must be transported by road, aggravating the existing traffic congestion problems. A

lot of movement of containers is generated within the port of Callao because of the use of many extra port terminals, causing much vehicle traffic on its access roads.

The ports located in Paita and Matarani follow in importance. There is also a lot of traffic in the highways around these ports, but it is mainly located from their hinterlands to the terminal. The situation has improved recently in Paita due to the inauguration of IIRSA Norte and the same is expected in Matarani with the inauguration of IIRSA Sur.

4. River infrastructure

The 6,000 kilometres of navigable waters in the Amazon River system has enabled the development of the commercial river transport in Peru. The Peruvian waterway network includes two river ports (Iquitos and Yurimaguas) and two harbours (Pucallpa and Puerto Maldonado), as well as some piers in the Amazon River.

River transport takes place mainly between Yurimaguas and Iquitos and between Pucallpa and Iquitos. Timber trade also take place through this mode of transport, on the border with the Plurinational State of Bolivia, in the river Madre de Dios. Other river “roads” are used mainly by locals living on their margins due to the absence of other means of communication.

The Directorate General of Water Transport controls activities that take place in the river system.

5. Airport infrastructure

The national airport network is composed of a main airports (public and under concession to the private sector) and several local airfields or airports (19 of which are under concession to the private sector).

The most important airport in Peru is Jorge Chavez Airport, located in Callao and under concession to the firm Lima Airport Partners since 2001 for a period of 30 years. Furthermore, 12 airports¹⁴⁶ were granted to Aeropuertos del Peru (ADP) in 2006 and six more¹⁴⁷ were granted to Consorcio Aeropuertos Andinos del Peru (AAP) in 2010. The Peruvian Corporation of Airports and Commercial Aviation (Corpac) is in charge of the operation, equipment and conservation of airports that are not under concession to the private sector.¹⁴⁸

The freight airport network consists of 17 airports¹⁴⁹ and three airfields.¹⁵⁰ Only two of these airports (Callao

and Cusco) mobilize international cargo, while the rest of the airports and airfields transport domestic cargo.

Considering the limitations of the road infrastructure described above, as well as the long distances among cities in Peru, air transport is a valuable alternative. Nonetheless, national freight transport is not widespread in the country. The only airport with important international freight traffic is the airport in Callao, which accounts for 90 per cent of the air cargo handled at the country. An important part of Peruvian exports of medium-high and high value added are transported through this airport. Freight transport is limited in the rest of airports in Peru and they provided few international routes.

The main reason for this situation is the shortage of specialized airport infrastructure in the other domestic airports that, in most cases, is very small or non-existent. This means low productivity in the operations of these airports and risks regarding the safety of the cargo. Therefore, firms are not willing to change to air transport because entails working under low performance conditions. This leads to a vicious circle: there is no investment in regional airports because of low profitability prospects; and, without proper facilities, no freight operator is willing to transport goods by air.

For those reasons, producers who are located far from Lima (such as Paita, Piura, Chiclayo, Arequipa and Tacna) and want to export by air have to move their cargo by road to Callao. This means higher export costs, not only because of the limitations of road infrastructure, but also because there are few global logistic operators.

6. Shipping lines

Shipping lines provide sea transport services nationally and internationally. Most of them are concentrated in Callao because of the concentration of export infrastructure. There are 15 shipping lines in Callao, eight in Paita and one in Matarani. In 2010, shipping lines were the main transporters of exports in Peru, accounting for 12.7 million tons, approximately.

The main shipping lines worldwide (such as Maersk Line, Evergreen, Hamburg Süd, Hapag-Lloyd, MSC, CMA CGM, NYK, among others) and some of the most important regional shipping lines (such as Maruba, CCNI and CSAV) operate in Peru. They operate in the ports of Callao, Paita and Matarani, either through local offices or through maritime agencies that represent them.

Shipping lines in Peru transport goods from hook to hook, that is, they transport containers from the deck to the gantry crane for their removal and landing. As a result, shipping lines cannot offer additional services, such as transportation to the recipient's door, which are included in the freight operations but are outsourced to extra port terminals and/or related logistics operators. This generates shipping lines regularly interact with extra port terminals and maritime agencies, in fact, in some cases all of them belong to the same business group. Annex 7 presents two tables that provide examples of vertical and commercial relations among shipping lines and maritime agencies.

7. Airlines

Airlines provide air transport services nationally and internationally. They accounted for 288.8 thousand tons in 2010, much less than what was transported by sea.

Airlines provide two types of transport service: mixed (passengers and freight) and exclusive (only freight). In 2010, the first one amounted for 54.5 per cent of the total freight transported by air, due to the low size of the goods.

Considering information of 2010, the main airlines that offer mixed transport services in Peru are LAN Peru (38 per cent), LAN Airlines (13 per cent), Iberia (11 per cent), KLM (9 per cent), Delta Airlines (7 per cent), Taca (4 per cent) and Avianca (4 per cent). Other 13 airlines account for the remaining 13 per cent of the market.

Among the firms that operate in Peru providing only freight airline transportation, there is Atlas Air (20 per cent), Tampa (16 per cent), LAN Cargo (14 per cent), Cielos del Peru (14 per cent), Centurion Air Cargo (13 per cent) and Transportes Aereos Bolivianos (6 per cent). Seven firms accounted for the remaining 17 per cent of the freight that was transported in 2010.

It is important to mention that the exports transported by air are twice as big and four times as valuable compared to imports transported by air. For this reason, airlines do not operate direct flights but there is a network of regional air cargo.

Regarding the domestic market for air cargo, flights connect mainly the airports of Lima, Iquitos, Pucallpa, Tarapoto and Cusco. Seventy four per cent of the volume transported by air in 2010 was done in mixed flights. LAN Peru and Star Up are the main firms in this market.

8. Customs agents

Customs agents provide agency services and customs clearance, both for imports and exports.

In the case of exports, in 2010 five firms concentrated 60 per cent of market operations. Agencia Afianzadora de Aduanas J.K.M. and Agencias de Aduanas Ransa are the firms which represented the highest values in customs.

In the case of imports there is no clear concentration, with 24 firms representing 60 per cent of market operations in 2010. The most important ones are AUSA Aduanas, Agencias Ransa, Interamerican Service, Beagle Agentes de Aduanas, Aduamérica, Casor Aduaneros and Tecniaduana.

In 2011, the four biggest custom agencies accounted for 25.7 per cent of the imports (\$ CIF) and 53.3 per cent of exports (\$ CIF), as can be seen in tables 16 and 17.

9. Freight agents

Also known as freight forwarders offer an integrated management of the mobilization of the cargo. Their

offer encompasses different activities, from the negotiation of ocean freight on behalf of the client to organizing deliveries of goods at destination. Most of freight agents are concentrated in Lima and Callao because these centres centralize external trade operations.

Some of the most important multinational freight agents operating in Peru are DHL Freight Forwarder, Panalpina, Khune & Nagel, DB Shencker and UPS. Among the Peruvian freight agents, there is Gamma Cargo, Ransa Agenciamiento de Carga and Neptunia Agenciamiento de Carga.

Services offered by freight agents include:

- Freight services (listing and trading of freight and booking on shipping lines and airlines for international freight transport);
- Customs procedures;
- Transport from and to the client's gate;
- Storage;
- Distribution to final clients.

Table 16. Market shares of the four main custom agents, by imports, 2011

N°	Custom agents	Imports (million US\$ CIF)	Market share (%)	Market share of the top four firms (%)
1	AUSA ADUANAS S.A.	3 452	10.8	25.7
2	AGENCIAS RANSA S.A.	1 933	6.0	
3	BEAGLE AGENTES DE ADUANA S.A.	1 576	4.9	
4	INTERAMERICAN SERVICE CO. S.A.C.	1 253	3.9	
	OTHER ^a	23 755	74.3	
	TOTAL	31 968	100	

Source: SUNAT.

^a Includes 309 custom agents.

Table 17. Market shares of the four main custom agents, by imports, 2011

N°	Custom agents	Exports (million US\$ FOB)	Market share (%)	Market share of the top four firms (%)
1	AGENCIA AFIANZADA DE ADUANA J.K.M. S.A.C.	9 159	20.5	53.3
2	AGENCIAS RANSA	8 290	18.5	
3	BEAGLE AGENTES DE ADUANA S.A.	3 983	8.9	
4	JOSE V MOLFINO S.A.	2 415	5.4	
	OTHER ^a	20 899	46.7	
	TOTAL	44 745	100.0	

Source: SUNAT.

^a Includes 293 custom agents.

10. Extra port and air terminals

Extra port terminal were developed for freight storage until shipment or delivery to final customers because of the growing traffic problems in the port of Callao. Most of these terminals (both extra port and air) are concentrated in Callao and their location does not obey any strategic planning for urban development, which further increases traffic problems in the area. There are 14 firms dedicated to this activity, some of which also offer complementary logistic services (such as distribution in Lima and the rest of the country).

There are also air terminals near Jorge Chavez Airport that offer services related to entry, clearance of air cargo and storage under temporary storage. In some cases, they also organize transport from and to the client. These terminals are also present in the port of Paíta and specialize mainly in external trade.

According to SUNAT, in 2011 the top four firms providing storage services accounted for 33.2 per cent

of exports (\$ FOB, see table 18). Table 18 shows the total amount exported by storage firms, it includes the exports of firms that do not provide storage services to third parties, but use their storage facilities only to facilitate the firm's import/export activities. Therefore, the market share of the top four storage firms may be larger.

Additionally, according to *Peru: The Top 10,000 Companies*, in 2010 the four top firms that offered storage services concentrated 60.8 per cent of the turnover of the 29 firms of this sector included in the ranking (see table 19).

11. Motor carriers

Motor carriers are firms that move cargo in the country or to international destinations, using their own vehicle fleet or outsourced vehicles.

In 2010, there were 137,407 trucks in Peru, 44 per cent of which were concentrated in Lima. Other

Table 18. Market share of the top four storage firms, by exports, 2011

N°	Custom agents	Exports (million US\$ FOB)	Market share (%)	Market share of the top four firms (%)
1	TALMA SERVICIOS AEROPORTUARIOS S.A.	8 515	18.5	33.2
2	SWISSPORT GBH PERU S.A.	3 743	8.1	
3	NEPTUNIA S.A.	1 463	3.2	
4	TRABAJOS MARITIMOS S.A.	1 539	3.3	
	OTHER ^a	30 741	66.8	
	TOTAL	46 001	100.0	

Source: SUNAT.

^a Includes 72 firms, which may provide storage facilities to third parties or may use their storage facilities for their own import/export activities.

Table 19. Market share of the top four storage firms,^a by turnover, 2010

N°	Warehouses and storage firms	Turnover (million PEN)			Participation (%)	Participation of the 4 largest firms (%)
		From (A)	To (B)	Average C= (A+B)/2		
1	RANSA COMERCIAL S.A.	325	363	344	20.7	60.8
2	NEPTUNIA S.A.	247	286	267	16.0	
3	TRABAJOS MARITIMOS S.A.	247	286	267	16.0	
4	UNIMAR S.A.	125	143	134	8.1	
	OTHER ^b	605	700	653	39.2	
	TOTAL	1 549	1 778	1 664	100.0	

Source: SUNAT.

^a Includes 72 firms, which may provide storage facilities to third parties or may use their storage facilities for their own import/export activities.

departments concentrating a large quantity of trucks include La Libertad (13 per cent), Junín (7 per cent), Lambayeque (6 per cent) and Cusco (5 per cent).

Companies or individuals usually own these trucks. There is a high level of fragmentation: firms who have maximum four trucks own 92 per cent of the total vehicle fleet. This situation is common in the highlands and in the jungle, where virtually all carriers are individuals who own one or two trucks.

The average age of trucks is 18 years according to official data, though some analysts say that the average age is 25 years.

It is important to mention that it is not usual to formalize trade relations through signed contracts when using these services. In most cases, speech contracts are used and trust is rewarded. In this context, the most widely used price fixing method is direct negotiation between the customer and the client.

There are five types of services offered by motor carriers:

- Transportation services from the port of Callao to extra port terminals and vice versa;
- Transportation services from extra port terminals to the customer's warehouse and vice versa;
- Urban distribution services in Lima;
- Transportation services from Lima to the provinces;
- Transportation services within and between provinces.

12. Logistic operators

Logistic operators are firms that offer services related to the management of the supply chain and cargo handling, using their own infrastructure or leased infrastructure. Their services include handling domestic suppliers and positioning local products in all the points of sale and/or consumption. For this, they use information systems related to inventory management and interconnectivity with its clients.

Services offered by logistic operators in Peru include:

- Foreign trade;
- Storage;
- Cross-docking;
- Transportation and distribution;
- Picking and packing.

There are only a few firms offering these services. The main ones are Ransa, Dinet and TLI. They are big firms that work mainly with big international consumer firms. They are also concentrated in Lima, which limits their capacity to work with some local firms. For instance, big Peruvian retailers such as Wong, Makro and Inkafarma have decided to internalize their logistic processes.

It is important to mention that there are nearly 660 firms providing port logistic services authorized by the National Port Authority. Furthermore, according to SUNAT, there are 1,707 firms authorized to provide transport and customs logistic services (see tables 20 and 21).

Table 20. Port logistic services firms authorized by the National Port Authority

Authorized firms	Number
Storage	5
Docking and undocking	26
Victualling of ships	107
Diving	20
Pilotage	38
Pick up of waste	45
Towing	41
Transport of persons	55
Fuelling	38
Maritime stevedoring	83
River stevedoring	13
Shipping companies	147
River agencies	41
Lake agencies	1

Source: National Port Authority.

Table 21. Logistic services firms authorized by SUNAT

Authorized firms	Number
Customs agents	461
Freight agents	651
Customs warehouses	305
Shipping agents	222
Maritime shipping companies	68

Source: SUNAT.

It is important to note that the characteristics of the markets involved in the logistic process of exporting and importing goods in Peru, particularly by sea, may facilitate the presence of anticompetitive practices in the sector (see box 3).

D. LOGISTIC SERVICES: AN ANALYSIS OF STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS

1. Strengths

The ongoing process of reforms in Peru affecting different subsectors within logistic services and

relevant infrastructure for providing these services, has achieved positive results in terms of overall improved performance in the sector. The relative positioning of Peru in the global market for logistic services appears to be consistent with its overall condition as a middle-income Latin American country (Arvis et al., 2012).

According to the Logistics Performance Index (LPI) developed by the World Bank, Peru performed relatively well in terms of domestic logistics costs and timeliness of shipments in 2012. According to LPI figures, in 2012 Peru was ranked 60 among 155 countries. It was ranked below Argentina, Brazil, Chile and Mexico but ahead of Colombia. The Agility Emerging Markets Logistics Index 2012 situates ranks Peru as 23 out of 41 countries, in a better position than the Bolivarian Republic of Venezuela, Colombia, Ecuador, Paraguay

Box 3. Alleged anticompetitive practices in the logistic services sector in Peru

The characteristics of the markets related to the process of transporting goods by sea in Peru may facilitate the presence of anticompetitive practices. In fact, there have been several complaints to the competition authority, INDECOPI.

For example, in one of the latest cases analyzed by INDECOPI entailed a complaint by Juan Carlos León Siles against Cosmos Agencia Marítima S.A.C. and other maritime agents and extra port terminals. He accused them of allegedly fixing price and market conditions, conditioning contracts to the acceptance of supplementary obligations, taking parallel or concerted actions in maintaining the free days of storage and fixing prices of services provided in the Callao Port.

According to the analysis of INDECOPI, this sector presents several factors that may facilitate the presence of the alleged practices, such as:

- The services provided by maritime agencies and extra port terminals are homogeneous;
- The market of maritime agencies is moderately concentrated;
- The market of extra port terminals is highly concentrated;
- There are strategic barriers to entry that prevent the entry of potential competitors;
- Even though maritime agencies and extra port terminals have asymmetric market shares, they have symmetric cost structures;
- There is no significant technological innovation processes in the sector;
- Demand is continuously growing;
- Participants in these markets interact frequently.

Nonetheless, according to the analysis of the INDECOPI, there was no evidence of the presence of the alleged anticompetitive practices, so the complaint was unfounded. The Tribunal of INDECOPI confirmed this decision.

Source: Resolution 008-2010/CLC-INDECOPI, Resolution 1645-2011/SC1-INDECOPI.

and the Plurinational State of Bolivia. In turn, according to this ranking Argentina, Brazil, Chile, Mexico and Uruguay are in a better position than Peru. The good performance of the logistic sector in Peru can also be appreciated through figures on container port traffic, which are higher for Peru, compared to other developing countries of similar levels of GDP and trade.¹⁵¹

Furthermore, Peru appears to be improving overall performance in this sector. Indeed, according to the LPI 2012, Peru improved seven positions with respect to the situation in 2010 (see table 22). This improvement is reflecting the perception of increased efficiency in customs, ease to agree on shipments at low prices, quality of logistics services, the capacity to follow and track shipments and the frequency with which shipments arrive on schedule.

The Agility Emerging Markets Logistics Index 2012 also notes an improvement: Peru improved two positions with respect to the previous year.

Specific positive results achieved from the ongoing reforms include:

- The extensive process of privatization and regulatory reform attracted significant amounts of private investment and boosted productivity and has led to some infrastructure improvements regarding port and airport (transport) infrastructure has in these areas;
- Regulatory changes have induced increased efficiency (reduced time) in custom procedures. The implementation of the latest version of the Customs Law has had a very positive impact regarding sea transport operations. Indeed, it led to implementation of advance clearance of goods, which in turn diminished significantly the

time required for import operations. Changes introduced as a result of this Law also included the creation of a one-stop shop (VUCE) based on an internet platform to undertake all procedures related to Customs. Although still in an initial phase of implementation, VUCE has led to very positive results in terms of reduced time of procedures and reduced need for additional extra port terminals. It is also noteworthy to mention the adoption of the authorized economic operator model, promoted by the World Customs Organization (WCO), to facilitate risk management control processes, and the adoption of the procedure to promote the development, automation and harmonization of customs processes (Tránsito Aduanero Internacional de Mercancías CA-ALADI);

- Entry of foreign providers in certain segments of logistic services allowed a certain degree of competition. The entry of two major port operators has introduced gantry cranes in the port of Callao. The presence of those cranes have implied greater efficiency in receiving and clearing goods, as larger ships can now arrive and be unloaded in less time.

2. Weaknesses

The lack of an adequate infrastructure is perceived as one of the main weaknesses in the sector. In view of some service operators, one of the main obstacles for the development of logistics providers in Peru is the lack of access roads to seaports and storage facilities.¹⁵²

In some cases, this infrastructure is lacking. This is the case for example of train transportation networks, which are limited to zones of mineral extraction. This network is not connected to production centres and consumption centres of other types of products.

Table 22. Logistic Performance Index in Peru, 2010 and 2012

Indicators	2010		2012		Var
	Score	Rank	Score	Rank	
Logistics Development Index	2.8	67	2.9	60	7
Customs	2.5	64	2.68	58	6
Infrastructure	2.66	56	2.73	67	[11]
International shippings	2.75	93	2.87	66	27
Logistics quality and competition	2.61	71	2.91	56	15
Tracking and tracing	2.89	70	2.99	60	10
Punctuality	3.38	79	3.4	62	17

Source: World Bank (2012). Connecting to Compete 2010.

In other cases, the infrastructure is concentrated in Lima, generating important bottlenecks in Lima and uneven coverage of services in the rest of the country. This is the case for example of air and maritime operations. The concentration of extra port and air terminals in Callao (without any strategic planning for urban development) illustrates the high degree of concentration of transport by sea and air in this area. The operations of these extra port and air terminals have generated traffic problems and lack of order in the area. Ongoing reforms have reduced the need for these terminals to a certain extent. However, it is likely they will remain in the medium term because of structural rigidities (such as the size of importers, access roads to the port terminals, the lack of space in the premises of importers, and the like).

In the case of air transportation, the shortage of specialized airport infrastructure outside of Lima leads to a situation where the Lima airport concentrates approximately 90 per cent of the air cargo. Maritime operations are also concentrated in Lima, generating an important logistic bottleneck, although the situation is less serious than in the case of air transport, given the freight mobilized through the ports of Paita and Matarani. Nonetheless, both ports are less attractive to shipping lines since they lack gantry cranes.

Insufficient investment is the main explanation for infrastructure shortcomings. Furthermore, investment appears to be lagging behind the fast increase in economy growth.

Road transport services providers also present deficiencies. Road transport operators have deficiencies related to the aging truck fleet, informality of transport contracts and high level of fragmentation (that is, the predominance of companies with a maximum of four trucks). They perceive their operations are affected by the lack of security when transporting goods. It is worth noting that during the first stakeholders' workshop, the lack of a domestic offer of road transport services was identified as an important weakness affecting trade with neighbouring countries (Brazil, Ecuador and the Plurinational State of Bolivia), in spite of the fact that the infrastructure was already in place (through IIRSA).

Firms in the sector also mentioned, as a weakness of the logistics sector in Peru, the complexity and length of customs procedures and the lack of transparency on the fees charged by the different agents along the logistics supply chain. This lack of transparency

was identified not only vis-à-vis consumers, but also by policymakers, who lack quantitative information on costs of logistics services and their impact on competitiveness.

3. Opportunities

During the last few years, the participation of Peru in supply chains has expanded because of sustained growth rates of the Peruvian economy and due to FTAs signed with some of the country's main commercial partners. The growth forecasts for the economy of Peru and the fact that several trade agreements are under negotiation suggest the participation of Peru in supply chains will continue to grow, providing opportunities for development of this sector.

Ongoing reform and plans to develop infrastructure also represent opportunities for the future development of the sector. For example, the National Port Development Plan foresees the expansion of moorings, the deepening of dredging and the implementation of a logistics activity zone in the medium term. All three changes would improve the efficiency of the port, and the latter would contribute to the reorganization of storage and transport functions in and around the port.

Furthermore, investment and concessions are expected to continue in the context of IIRSA in the coming years, leading to potential improvements in the road transport systems with neighbouring countries particularly through IIRSA Norte and IIRSA Centro.

There are also plans to develop air infrastructure in important production centres for goods that are exported, that is, in the north (Chiclayo) and in the south (Arequipa) of the country. This would mean lower transportation costs, since the freight would not have to be transported to Lima in order to be exported.

4. Threats

The high degree of concentration and vertical integration observed in the markets involved in the logistics processes for exporting and imports in Peru raises concerns regarding the presence of anticompetitive practices in the logistics sector and how these will impact the future development of this sector.

Some concerns have been raised regarding the functioning of concessions for infrastructure development in Peru, particularly regarding the increasing trend for renegotiation of contracts, leading

to increased risks and costs and to a perception of lack of transparency regarding rationale and grounds for these renegotiations. This aspect could be considered as threat, given link between investment shortcomings

(as a cause for infrastructure weaknesses that impact on the development of this sector) and the role of concessions in Peru to attract investment for infrastructure development.

SERVICES POLICY REVIEW



VI

RECOMMENDATIONS

The recommendations outlined below stem from the findings drawn from the SPR research and the consultative engagements with key stakeholders (stakeholders' interviews and first and second stakeholder workshops held in Lima, on 10–11 of October 2012 and on 22–23 April 2013 respectively), which underpinned the development of this SPR report.

The recommendations are separated into general recommendations, applicable to the services sector as a whole, and sector-specific recommendations for each of the services sectors that form the focus of this SPR.

A. CROSS-SECTORAL RECOMMENDATIONS

1. Policy framework

The negotiation and enactment of Law No. 29646 in 2011 was the most important initiative of the Peruvian Government, in recent years, to promote the services sector, and services exports in particular. However, the legislative decrees enacted thereafter considerably reduced the scope of fiscal incentives, limiting the impact of the Law.

Although the current policy framework supports services development and seeks to promote these exports, contradictory views exist among different institutions within the Peruvian Government, regarding policies and measures necessary to promote this sector.

Government entities in charge of trade and trade promotion consider this initiative favourably. In contrast, government entities in charge of economic and fiscal policies are opposed to fiscal incentives to support supply-side capacity-building and export development in services sector: they believe each sector's competitiveness should be based on their competitive advantage and, following the line of thought, providing fiscal incentives (or any type of incentive) implies supporting artificially sectors that might never be competitive. Nevertheless, discussions during the second stakeholder workshop revealed that similar incentives currently exist to support goods exports. Stakeholders interviews and discussions during the second workshop highlighted the opposition to fiscal incentives is also due to

methodological constraints to measure services, and ensure that these incentives are not abused.

As indicated earlier, Peru has developed a vision regarding export promotion with respect to key services, markets and promotional activities and initiatives promote exports. However, a similar strategy to build supply-side capacity in key services sectors and tools to achieve this, appear to be lacking. Thus, the first recommendation regarding the policy framework for the services sector is to develop a consensus strategy to build supply capacity in key services sectors, including tools to achieve this.

It is therefore recommended to complement the current trade promotion strategy with a strategy encompassing supply-side measures to support the development of a competitive offer in services, with special attention to the smooth integration with other policies such as industrial development, competition, consumer protection or intellectual property. The strategy for the development of a competitive offer in services needs to encompass policies that are clearly differentiable from plans and actions aimed at promoting exports and production of goods, as services have different economic and technological characteristics.

Fiscal incentives for services activities are one aspect that this strategy should address. To overcome the current incoherency, it is recommended to review of the applicable tax regime for service exports, to discuss the competitive impact the including indirect taxes in services exports and the feasibility of creating a relevant export offer with the current tax regime. These discussions require encompassing ways to control the correct use of fiscal benefits and to address the fiscal concerns of MEF and SUNAT. Controversial issues such as designing ways to avoid the export of taxes in services (VAT mainly), while ensuring adequate controls to avoid tax evasion, can also be discussed. A study of measures that exist in other countries to avoid taxing services exports, and of the control systems applied to that end, could be highly relevant in this context.

This strategy also needs to address other factors identified in this study that are affecting further growth of the services sector in Peru. These include weaknesses concerning general and specific infrastructure; human capital deficiencies; lack of an appropriate framework to support to services-oriented SMEs; burdensome

administrative processes; weak capital markets and low capacity to absorb technology and generate innovation.

With respect to human capital shortcomings, the need to **adopt education policies at the university level to produce well-prepared professionals, aligned with the current needs of service industries** shall be a priority. To this end, the strategy could encompass:

- The creation of more effective linkages with employers through private sector–academia collaborations;
- Targeted training programmes for graduates with private sector-designed curriculums (also known as finishing schools), that cover technical aspects and the development of “soft skills” (for example, problem solving, customer service orientation, teamwork, research for innovation);
- Creating competitive postgraduate programmes in certain services industries that are of high priority to Peru,
- Encouraging students to become proficient in foreign languages.

Regarding the lack of an appropriate framework to support to SMEs, it is suggested to establish programmes to facilitate commercial intelligence tasks, to access financial support and improve understanding of effective trade and fiscal factors affecting their export potential.

Commercial intelligence tasks could be facilitated by strengthening trade associations, enabling them to offer improved services to their associates through advice in key aspects for capacity-building including certification, branding initiatives and matchmaking. Participation in Platforms such as CONNECT AMERICAS could be beneficial in this regard. CONNECT AMERICAS is an initiative by the Inter-American Development Bank consisting of a regional electronic platform providing a unified, articulated, and integral services and information offering to SMEs for their internationalization of the could be helpful in this regard.

Information gaps were identified with respect to some of the topics suggested for this strategy. It is recommended to **further investigate on the following challenges, with a view to finding ways to overcome them:**

- Estimating the impact of the infrastructure gap affecting the development of specific services sector that are of high priority to Peru;
- Assessing the skills gap that affects the development of specific services sector that are of high priority to Peru;
- Estimating the impact of barriers limiting the adoption of technology and innovation in certain services industries that are of high priority to Peru.

It is suggested to develop this strategy through an inter-institutional effort. MINCETUR could take the lead in its elaboration, coordinating with several stakeholders. The MEF needs be involved since its inception, given its recognizable role in shaping national policies, its particular view regarding the promotional policy tools that should be implemented and its decisive role on the adoption of fiscal incentives. Given the broad range of issues involved, it is recommended that several entities participate in the discussions, in particular, PROMPERU, PROINVERSION, MINEDU, MTC, PRODUCE and CONCYTEC. Extensive efforts should be made by MINCETUR to put services in the top of the agenda and for articulating this strategic plan with strategic and operational plans of other entities.

The ongoing conceptualization of strategic framework for the PENX 2014–2021 and its subsequent activities could be a far-reaching and promising institutional framework for the development of this framework. Indeed, the updating of the PENX provides a broader policy setting that could facilitate an integral view on the role of services exports in the commercial policy of the country.

2. Institutional framework

This study revealed that coordination is weak in the process of formulating policies to develop the services sector in Peru and that there is need to improve the monitoring of results of policies in the services sector and the collection of services statistics.

Indeed, the study captured the perception of stakeholders that trade promotion initiatives in services sectors are perceived to happen in a disconnected manner from supply-side capacity-building. Trade promotion is also perceived to take place under the leadership of one institution (PROMPERU), which generally acts in isolation from other government entities. It is worth noting in this respect that PROMPERU recognized, during the second stakeholders’ workshop, that in order to

provide additional support for the development of services sectors, they required additional collaboration and engagement from other institutions.

This study also found weaknesses with respect to recording the development of key export sectors and impact of ongoing initiatives in this regard, but also to assess results achieved through services negotiations and to inform policymaking in the services sector. The need for closer monitoring performance and impact assessment of initiatives undertaken in services was identified during the interaction with stakeholders, and particularly with the representatives from the private sector. It was not possible to identify a single document with an assessment of the PENX and other trade promotional activities, while conducting this study. The interaction with stakeholders revealed a perception of underutilization of opportunities derived from trade agreements, suggesting the need to further promote awareness on them and promoting their use, and to undertake an assessment of opportunities that have been created by trade agreements, from the perspective of Peruvian service providers.

With respect to the collection of services statistics, the data currently compiled by BCRP was deemed to be too aggregate and the one compiled by PROMPERU insufficient (due to lack of response by the private sector) to duly inform policymaking in the services sector and allow appropriate monitoring of results and achievements.

It was therefore suggested to strengthen the inter-institutional framework to address these three shortcomings. Although an inter-institutional committee was created by the Law for the Promotion of Trade in Services in 2011, at the time of the second stakeholders workshop (in April 2013) it had never met nor undertaken any initiative. In discussions held during the second stakeholder workshop, participants suggested that the multisectoral committee created by the Law of 2011 could be a natural starting point for improved intersectoral discussions. There the concrete recommendation consists of putting the existing committee into action.

Regarding the way to organize the future work of such a committee, it was suggested it could be responsible for analysing and recommending **policies regarding horizontal aspects (common to all services sectors) related to their development and improved competitiveness**, in areas such as:

- Investment attraction in services sectors;
- Infrastructure development to further promote services sectors;
- Development of SMEs and entrepreneurship spirit in services sectors.

It is worth noting that during the second stakeholder workshop, some participants were of the view that needs related to promotion and development in specific services sectors should also be part of the agenda of this committee.

It is suggested to **use this committee to improve collection of services statistics** by:

- Articulating strategies for capacity-building in this area;
- Designing a methodology to complement the collection and analysis of statistics done by BCRP. Additional sources could derive from closer monitoring of trade associations and key industrial players;
- This closer monitoring could be carried out by PROMPERU. During the second stakeholder workshop, participants discussed about the possibility of mandating PROMPERU to compile this information through surveys to the private sector. Some stakeholders were of the view that such surveys should be mandatory (although not used for fiscal control purposes) and, in this scenario, penalizing lack of response could be envisaged. It is important to note that some actors were of the view that such an activity does not fall within the current mandate and activities of PROMPERU nor BCRP and therefore an institutional setting from the private sector could be envisaged to undertake this closer monitoring role, with a view to compile necessary data.

It is recommended that the committee is entrusted with a consultative and monitoring role with respect to policymaking related to the services sector. It is recommended that, in performing this role, it undertakes two assessments of results achieved in terms of impact on services export, with a view to identify areas of improvement:

- On the effectiveness of ongoing trade promotion strategies and, in general, the aforementioned horizontal aspects of services sector development with an impact on trade;
- On the utilization of opportunities derived from services trade commitments in FTAs.

An additional suggestion on the organization of work of this multisectoral committee emerged from discussions during the latest stakeholders' workshop: in its deliberations, the committee needs to consider the experience of other countries in designing a meaningful policy to foster services development and exports and to learn from specific experiences in the various sectors. To this end, this committee should analyse in detail the policies and strategies used by countries that have succeeded in terms of developing their services sectors and world-class providers and in attracting investments. This analysis could consider what capabilities have been developed based on these policies and assess if Peruvian companies would be able to compete with their foreign peers in the absence of such specific policy framework. Best practice research should also encompass the identification of the underlying mechanisms explaining the success observed in other countries. It must also analyse the context in which the observed successful practice was implemented as this is crucial to apply or adapt it in the Peruvian context.

This study revealed there is a perception that services providers are lacking information regarding key issues related to internationalization. It is suggested to increase the scope of the new platform of trade counsellors (recently launched by MINCETUR and PROMPERU) **to ensure they gather information to promote the internationalization of companies in markets of interests and to facilitate a competitive access to such markets**, for example on:

- Fiscal regime and taxes applicable to services activities;
- Eventual restrictions to the activities of foreign providers and regulatory barriers;
- Successful experiences in other countries regarding policies to support development of sectors of interest and to promote export opportunities, as an input for PROMPERU and MINCETUR, to consider their implementation in Peru;
- Competition conditions for trade in services of priority interest to Peru.

Cooperation funds (for example from European Union ECO Trade and other), could be used for capacity-building measures targeting commercial attaches abroad, to strengthen their capacity to compile this key information.

3. Regulatory framework

In discussions during both stakeholders' workshops, having very few double taxation agreements was identified as an impediment to trade and investment expansion in the services sector. Referring to the specific case of consulting engineering services, they indicated that lack of information regarding the taxing systems of potential markets creates uncertainty to participate in projects abroad. In these cases, companies bear the risks of misinterpreting tax regulations, facing additional taxes to those originally expected and eventual fines for not compliance with said regulations. Referring to the same sector, they also mentioned unclear information on ways to recoup the taxes paid in the host country while paying taxes in Peru, as a factor limiting export initiatives.

Peru has double taxation agreements only with Brazil, CAN, Canada and Chile. The use of these double taxation agreements is not clear for the private sector. Companies see its application as complicated, adding further to uncertainties faced while deciding to seek opportunities in foreign markets.

It is therefore recommended to:

- Promote negotiations of double taxation agreements with all FTA partners (with existing partners and in future negotiations);
- Provide support to businesses, in the advance study of characteristics of the tax regulations in potential markets for services of export interest to Peru;
- Strengthen their implementation, by providing means to ensure that companies know how these agreements work and how they can benefit from them in their export operations.

B. BOOKKEEPING AND ACCOUNTING SERVICES RECOMMENDATIONS

1. Policy framework

The lack of a clear strategy for the sector or an answer to the question: "what is the vision of the Peruvian Government or of the private sector for the future development of this service sector?" appears to be the main gap in terms of policy framework. This topic was widely debated during the second Stakeholder Workshop, held in Lima between the 22 and 23 April 2013.

On that occasion, consultants highlighted the fact that, from the interviews they conducted, they had concluded accountants and accounting firms were not necessarily aware and actively pursuing export possibilities. In this context, consultants asked participants if this sector was sufficiently mature or developed to be prioritized through export promotion initiatives. After listening to the findings and diagnosis of this study, participants indicated that this does not seem to be the case.

Still, participants believed there was room to improve performance in this sector, particularly with regard to SME-specific challenges and problems. The design a specialized support strategy, aimed at promoting partnerships with bigger accounting firms, was deemed useful.

Examples for possible future actions could include:

- Supporting business development in the sector, aggregating the services offer of SMEs and building their supply-side capacity;
- Capacity-building programmes, in order to increase (i) capabilities with respect to the adoption of ICT and (ii) the use and knowledge of foreign languages. Those capacity-building initiatives were considered important to maximize opportunities from outsourcing in the accounting sector and for moving up to higher value activities;
- Promoting matchmaking with (bigger) local companies or between SMEs, so that SMEs can capture greater outsourcing opportunities, in the local market, regarding lower value-added activities first (such as bookkeeping functions) and then moving up the value chain, as capacity develops;
- At a later stage, preparing the ground for future internationalization, by increasing awareness of SMEs regarding export opportunities and supporting them with market intelligence and commercial promotion strategies aimed at facilitating their entry in international markets.

2. Institutional framework

Strengthening the institutional framework that articulates professional and business interests appears to be an important step to develop both the sector and trade-related opportunities. To achieve this, the following strategies and actions are suggested:

- Strengthening the role of academic boards, as they have an important role in regulating the profession and in enabling the entry of new accountants in the market. A first step will be to solve the legal dispute existing between the two Boards of Accountants in Lima and improving their corporate governance. A second step will be developing a working programme with the boards, with emphasis in building the capacity for advising their members. A third step could relate to providing these boards with a legal mandate for a more proactive role in ensuring quality of academic offer;
- Promoting the participation of academic representatives related to this sector in the Inter-institutional Services Committee;
- Improving university curricula in accounting (but also in related careers such as systems engineers and mathematics).

3. Regulatory framework

To overcome difficulties to expand accounting services exports through mode 4 due to restrictive regulations in foreign markets, the following actions were suggested:

- Including, in future trade agreements, clauses to overcome mode 4 barriers (such as visas and licensing requirements), for example temporary licensing schemes or quotas;
- Promoting MRAs in this sector with existing FTA partners, prioritizing key markets of interest to Peru.

C. ENGINEERING CONSULTING SERVICES RECOMMENDATIONS

1. Policy Framework

Surveys and interviews with companies revealed they perceive that the lack of a strategic framework to promote the development of the sector and its exports is one of the main limitations to take further advantage of export opportunities.

It is therefore recommended to **develop a policy framework to strengthen domestic supply and exports of engineering services, particularly in most dynamic segments**, where growth is expected, such as engineering services associated with civil construction and mining/oil exploration.

This framework should encompass financing to support participation of domestic services providers in international bidding processes.

To overcome the scarcity of highly qualified workforce it is suggested to increase the academic offer through the following means:

- Investing to improve education programmes in science and engineering and encouraging the development of postgraduate programmes connecting these two areas, to provide further specialization to Peruvian engineers and promote innovation. Interesting initiatives and examples can be drawn from the experience of regional partners like Chile and Colombia;
- Promoting the establishment of highly recognized universities in engineering (or partnerships with these universities), particularly in specialties where Peru has a clear deficit, for example, in the mining and energy sectors (gas, petroleum and electricity). It is also suggested to do the same in the area of civil engineering because Peru's offer of engineers could be insufficient if the market grows and companies seek for new opportunities abroad;
- Incorporating, as part of education programmes for engineers, training or activities aimed at developing cultural awareness and languages, as this is an essential element for working in international projects with multicultural teams and clients.¹⁵³ For example, promoting professional or academic temporary exchanges, for example bringing highly qualified professionals to develop local capacities in the sector.

2. Institutional framework

The study found that the insufficient number of qualified professionals in this sector is mainly due to the perceived deterioration of quality in qualifications, which in turn is attributed to lack of quality control in the academic offer, particularly from private universities. It is therefore recommended to **strengthen the institutional framework related to quality assurance of education programmes of the engineering profession**. To this end, the mandate and capabilities of the Boards of Engineers should be strengthened to broaden their scope of action beyond their current procedural (registration) role. They should be more proactive in terms of developing the academic offer, ensuring its quality and certifying

professional skills in the sector.

To this end, the following actions could be considered by the engineering (professional) boards:

- Having a proactive role in encouraging local universities to improve their programmes and obtain international certification and appropriate accreditation;
- Certifying the experience and skills of young engineers;
- Improving collaboration with universities that have engineering programmes to raise awareness about opportunities that the market can bring to highly qualified graduates with postgraduate studies and skills in foreign languages.

Some information gaps were identified in surveys, which appear to be limiting export prospects, in particular for medium-sized companies in this sector. Problematic issues include: access to information about (i) business opportunities abroad (commercial intelligence), particularly through international procurement processes and tenders and (ii) regulatory, tax, and other conditions in target markets. It is therefore recommended to **strengthen the institutional framework related to trade promotion activities** to overcome these problematic issues.

To address these difficulties, the following recommendations could be considered for action by MINCETUR and PROMPERU:

- Improving awareness and dissemination, in the private sector, of existing procurement related e-platforms of MINCETUR and existing procurement manuals;
- Promoting the inclusion of studies to assess the regulatory and tax regimes applicable for public biddings (in the most attractive markets for these services) in the coming updates of POMs, already developed for several key markets in the region;
- Indeed, a company is unlikely to bid in foreign markets if it lacks accurate information on the applicable tax regime and on how regulations affect commercial presence and other modes of supplying these services. Aspects of the regulatory and tax regime that could be relevant from the perspective of carrying out engineering projects through bidding processes could relate to the creation of branches in the destination country; personnel contracting regimes; use of income

taxes paid in the country of execution as credit for taxes paid in Peru, among others;

- Requesting the recently reorganized commercial offices abroad to support the private sector by providing relevant information in real time about bidding processes. For this purpose, a permanent source of information disseminating “alerts” could be implemented with information about regulatory and taxation aspects applicable to these services in markets of interest;
- Organizing trade rounds to introduce local services providers (interested in participating in foreign biddings) to international agencies with high demand for engineering consulting services.

D. COMPUTER-RELATED SERVICES RECOMMENDATIONS

There is a greater wealth in policies and institutional frameworks to support this sector, in contrast with others being analysed in this study. Several policies appear to work well and thus Peru should continue in this path. The following recommendations are aimed at strengthening further some aspects that present challenges for the future development and exports of this industry.

1. Policy framework

Developing a plan aimed at further enhancing capabilities in the sector, focused on promotion of innovation and technological upgrade

The study revealed some difficulties of firms in the sector for scaling up and reaching productivity, efficiency and innovation levels to remain competitive and stay in business. Several factors were identified and discussed with stakeholders, amongst which lack of qualified human resources and of entrepreneurial skills and insufficient access to finance for new and growing firms. To overcome these difficulties, the competitiveness of local providers and their capacity to provide higher value-added services should be enhanced. Spheres for action in this regard include promoting: quality and affordability of ICT infrastructure, access to relevant human resources and capital, an enabling legal framework and business infrastructure and links with (software) networks in the rest of the world.

In addition, the low level of ICT development and of IT adoption by consumers and business (in comparison with regional levels) suggests, that although the local market has grown and continues to grow, its potential remains underexploited. In order to take greater advantage of the market, policies aimed at promoting use and adoption of IT and computer services by businesses, consumers and Government should be prioritized. Therefore, actions to promote interactions between domestic software producers and users should be prioritized.

It is recommended to develop a plan for the upgrade of the sector, focused on promotion of innovation and technological upgrade. Clearly, the efforts to strengthen the ICT system, as per the recently drafted National Competitiveness Agenda 2012–2013 could improve the conditions of the computer services sector in Peru and reduce some of the weaknesses identified above. MINCETUR has to seek an open discussion with other agencies to achieve a common view regarding the national strategies needed for the enhancement of this specific sector.

Specific instruments that could be included to nurture local capabilities in the computer related services sector include:

- Cluster development policies and technological parks, to gather the Peruvian software providers and enhance their capacities. During the stakeholder workshops held during this project in Lima, PROMPERU explained how companies that invested in the Free Trade Zone of ZOFRATACNA (in the southern city of Tacna) and CETICOS Ilo (Moquegua region), were successfully supplying services to the mining industry. PROMPERU's effort to create software and IT services clusters must continue. It is important to support and encourage these efforts, by providing venture capital to support start-ups and incubators and considering expanding the number of technological parks;
- Strengthen the services provided by a centre of technological innovation for software. On the one hand, the quality, certification, laboratory and accreditation services should keep on being provided. On the other hand, there is an opportunity to expand the interaction with the academia and public and other institutions, to collaborate with other similar centres abroad and to seek the integration in international networks of similar organizations;

- Alliances with foreign leading companies. It is important to encourage the association of local companies with international companies in the sector to bring know-how and new capabilities to the market. It is also important that Peruvian companies seek alliances with firms from target markets to combine capabilities. Peruvian and Colombian firms have taken initial steps in this regard with good results;
- Promotion of the use of (local) computer services in government procurement applications.

Further developing export promotion activities for the sector

PROMPERU has done significant efforts to show the Peruvian offer abroad in regional international trade fairs and to organize the software and IT services providers. However, currently export potential remains underexploited as most of companies engage in the supply of services destined to the local market. The export promotion efforts of PROMPERU could be further developed.

To achieve it is suggested that PROMPERU and MINCETUR develop POMs for this sector and include in these plans interlinkages with services that are growing and that demand computer services (that is, retail services), to identify further opportunities for the sector.

Improving the collection of relevant statistics:

It is important to develop an adequate, updated and constant statistical base in this sector to understand the performance and evolution of different subsectors encompassed in the computer service sector and the evolution of the local market and exports. The existence of adequate statistics is essential for policymaking and for the evaluation and refinement of the strategies adopted.

To achieve this, the following actions are recommended:

- Sharing of statistical information that is relevant for the analysis of the evolution of the sector and measuring effectiveness of ongoing promotion measures could become mandatory;
- The BCRP and APESOFT should develop a collaborative initiative for the compilation of key statistics. It is recommended that BCRP includes software exporting companies in their mandatory surveys to monitor the situation of computer services exports in a permanent way.

This collaborative initiative should also address statistics about employment and about domestic sectors demanding computer services, as these would be very useful to inform policymaking decisions in the future.

2. Institutional framework

Improving articulation between the efforts made by the different ministries and agencies involved in the development of this industry

Different initiatives are ongoing in this sector and it appears that they are not necessarily coordinated. A key problem in Peru seems to be the lack of awareness among different agencies of the efforts carried out by each one of them to support the sector. Recently created institutional frameworks (such as the Services Multisectoral Committee and the CNC, led by the MEF) should be utilized extensively to address this problem.

Discussions of the CNC related to improving the competitiveness of the country from the science, technology and innovation angle could particularly be relevant to this effect. This is because the Council is expected to review policies that could have a direct impact in the computer services industry.

Strengthening the link between academic sector, businesses and policymaking bodies, to develop skills that are relevant to provide higher value-added computer services

This link appears to be weak. It requires strengthening to address problems related to (1) insufficient number of professionals in the sector and (2) quality of professionals in the sector.

Peru's competitive advantage in the sector currently appears to be based on low wages, which facilitates the attraction of low-end IT services and other activities where the technical knowledge needed is limited. The availability of highly skilled professionals in programming and software development, could allow Peru to move into high-end ITO services like research and innovation. Chile is following this path successfully.

The bottleneck in the case of Peru relates to the lack of IT engineers capable of doing higher value added tasks (that is, advance programming) due to

insufficient number of professionals and brain drain. Therefore, Peru must work in improving its talent pool by improving above all the quality of its education system, and designing a focused strategy for improving the institutions that source technicians and professionals to the IT services industry.

To achieve this, it is suggested to undertake the following actions:

- Creating Master or postgraduate programmes that provide further specialization to Peruvian IT professionals and technicians;
- Promoting alliances with foreign universities, to undertake academic exchanges at masters' degree level;
- Promoting English capabilities, as this is the language of main literature/research and journals presenting trends in the sector. It is important to create further incentives to promote English learning among students of IT related careers, including by promoting the idea that proficiency in English is key to access higher paid jobs;
- Improving interaction between business leaders, professional associations and APESOPT to strengthen the academic curricula of careers related to computer services. To this end the following strategies could be considered:
 - Improving interaction between local universities with relevant IT providers to develop career programmes aligned with the current and future needs of the industry;
 - Promoting international accreditations for local universities in systems and software engineering careers;
 - Creating a dialogue between MINCETUR, PROMPERU and MINEDU to promote the creation of specific programmes to develop capabilities required in specific high-end ITO services.

Strengthening the institutional framework to support small and microenterprises

Most of the local providers of computer services in Peru (providing 37 per cent of the total offer) are small and microenterprises. They require technical and administrative support and developing entrepreneurship skills to manage their business and stay competitive.

It is therefore suggested to develop a specific policy framework to maintain a meaningful and effective support for small and microcompanies in the sector,

focusing on development of entrepreneurship skills and financing for start-ups.

In order to achieve this, the following actions are recommended:

- Improve resources and capabilities of APESOPT to support SMEs in the sector and to seek for alliances as a way to improve the competitiveness of local software designers. It is important to ensure adequate leadership in the industry and to establish coordination between the different associations, consulting those regarding strategies for the development the sector;
- Strengthening financing programmes and involving actively APESOPT to explore alternatives targeting small and microenterprises;
- Ensure financing made available under FYNCIT and under the Fund for Research and Development for Competitiveness reaches small and microenterprises making feasible research and development projects;
- Facilitate cooperation efforts to upgrade capacities of small and microenterprises of the sector as partners, maximizing their participation in clusters promoted by PROMPERU.

3. Regulatory framework

Despite Peru's comparative advantages offered by a stable economy, low credit risks and reliable investment regime, coupled with the close location to important markets, these were not sufficient to attract global players to offshore operations related to computer services to Peru. This aspect could be problematic if Peru seeks positioning itself as a platform for outsourcing computer services in the region.

Considering the aggressive promotion regimes established by other competitors (in and outside the region), some participants believed the taxing and fiscal regimes have an important impact in decision to offshore these services.

In this sense, they saw merit in further analysing tax incentives and tax exemptions for exports in these services. To this end, it was suggested to us the dialogue and cooperation frameworks with APEC, the European Union and the United States to obtain information on impact analysis of fiscal/tax-related policies in building supply-side and export capacity in computer services.

E. LOGISTIC SERVICES RECOMMENDATIONS

The Government of Peru attaches great importance to the development of logistic services given its relation with improved trade facilitation and competitiveness. Thus, it has taken various initiatives to strengthen it further. As a result, the overall performance of the sector has improved in recent years. However, the future development of the sector still presents challenges for Peru.

1. Policy framework

Several developing countries have successfully embarked on policy reforms to promote this service sector. These countries have in common that they designed policies aimed at integrating several services when considering the development of the logistic value chain and that they prioritized improvements to interconnectivity among different modes of transport.

ECLAC analysis¹⁵⁴ suggests that South American countries have not yet embarked on a structured development approach considering all transport modes. Following this path holds great potential in the region as facilitating modal change can reduce transfer costs considerably. Improved inter-modal connectivity can also lead to a more efficient usage of existing capacity reserves. To develop the logistic sector in this manner, these policy reforms need to encompass measures to develop, in parallel, legal, organizational, information, regulatory, and infrastructure systems.

In the case of Peru, no policy guidance currently indicates a clear vision on the development of the logistic services (in a unified manner), which makes it impossible for logistic services to face the challenges of a globalized economy. Consequently, **there is a need to develop an adequate long-term plan for the development of this sector, changing the traditional modal orientation for a comprehensive view, which includes not only transportation, but also infrastructure, services and logistics.**

It is therefore recommended to develop:

- A policy framework to promote the logistics sector that emphasizes intermodal connectivity (particularly supporting changes in mobility between the road and maritime transport modes) for improving internal and external trade;

- A policy framework to enhance local capacity in logistic services, particularly regarding road transport carriers and cargo operations in ports.

Examples from these can be drawn strategies used by the following developing countries. China, for instance, implemented a strategy based on the selective use of subsidies to develop certain segments of the logistics value chain. China specifically provided financing to develop insurance services associated with maritime operations and invested in overseas oil-related extraction and production activities in the Eurasian region through strategic partnerships and acquisition deals.

The Republic of Korea offers an interesting example regarding the strategic development of key services clusters (P&I clubs), encompassing financial services providers (banks and insurance companies, law firms and other marine service providers). The Philippines experience, in turn, offers an interesting example of policy measures implemented that led to enhance skills and academic qualifications of key services operators successfully, to become competitive at a global level. The United Arab Emirates' strategy consisted of developing its expertise in the sector by establishing a local presence of their operators abroad, focusing on new port projects and capacity expansions in Africa, Asia, Europe and South America. Thus expanding supply through offshoring of services associated with specific operations (cargo handling, transit and transshipment services).

2. Institutional framework

The institutional setting for the logistic services is also fragmented: there are many actors involved in logistic services and no institutional setting or process encompassing the planning, coordination promotion of the logistic sector as a whole. Therefore, it is recommended to **create an institutional setting to improve national and regional interaction among different actors involved in logistic services.**

3. Regulatory framework

The main obstacle impeding the development of the logistics sector in the country is the lack of adequate infrastructure. Furthermore, this obstacle is poised to increase in its importance given prospects for increased economic and trade growth in Peru. In order to improve the logistics sector it is important to continue closing the infrastructure gap identified

as a weakness. To achieve this this, it is suggested to strengthen the process of privatizations, increase concessions and promote public–private partnerships for infrastructure development, under the right legal framework and pace.

Indeed, UNCTAD experience based on research and expert meetings suggests that ensuring positive economic and social outcomes from privatization presuppose meeting some key prerequisites. These include the existence of coherent domestic services and development strategies; adequate regulatory, institutional and competition frameworks; a plan for handling the transition to privatization, as well as the necessary institutional capacity.

A checklist of issues has been put forward in UNCTAD expert meetings as a means to facilitate sound decision-making regarding the use of privatization and PPPs to attract investment or introduce competition in infrastructure services. This list includes issues such as:

- Whether the private company had the best management capabilities;
- Whether the State retained the ability to discipline or regulate the sector;
- Whether privatization was the best way to access capital;
- How risks were allocated between the private company and the Government;
- Whether the regulator had the ability to design and implement adequate incentives to achieve public policy objectives;
- Whether the reform would be financially and socially sustainable;
- Whether the regulator had the capacity to manage post-privatization politics in the sector;

- Whether there was a conflict of interest between needs in the public accounts and the public interest in the sector;
- Whether the privatization would effectively introduce competition;
- What skills were required in the sector – entrepreneurship or risk taking?¹⁵⁵

Stakeholders raised concerns regarding the functioning of concessions for infrastructure development in Peru. They perceived (i) increased risks and costs due to renegotiation of contracts and (ii) a perception of lack of transparency in this regard. To assuage these concerns, **institutional and regulatory improvements may be needed in order to reduce the investment risk in large infrastructure projects**. For example, tariff and access regulation to public transport infrastructure might need to be reviewed, concession contracts might need to be redesigned and institutional frameworks might need to be reassessed in order to attract investments (for example, recently some functions of the National Port Authority have been passed to the Directorate General of Captaincies and Safeguards).

In view of competition-related concerns regarding tariffs of certain operators, it is also recommended to **strengthen competition oversight in the sector** and develop new regulations and strategies for promoting competition.

To overcome other concerns identified in this study, it is suggested to **design mechanisms to improve transparency regarding logistics costs and developing a consumer protection framework to protect users of logistics services**.

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ENDNOTES

- ¹ UNCTADStat (for GDP figures) and databank by World Bank (employment figures)
 - ² This figure actually underestimates the true magnitude of global trade in services, as most services exports delivered under mode-3 are non-registered.
 - ³ See, for example, UNCTAD 2012, Mashayekhi et al. 2011, and WTO 2011
 - ⁴ It is worth noting that the crisis affected services sectors in different ways. Demand contracted more in income-sensitive services sectors – including tourism and travel, financial services, construction, retail and services related to merchandise trade, including transport – than in energy, health, education, telecommunications and some business and professional services sectors.
 - ⁵ The eventuality of expropriation was envisaged in rare cases of national security or public necessity. Owners had to be compensated in cash.
 - ⁶ The key piece of legislation aimed at FDI promotion was the “Ley de Fomento a las Inversiones Extranjeras” (Decreto Legislativo N° 662 de 1991).
 - ⁷ http://www.sice.oas.org/ctyindex/PER/PERBits_e.asp
 - ⁸ The Ley de Privatización (D.L. N°674) set the legal framework of the privatization programme.
 - ⁹ EIU, 2008
 - ¹⁰ WTO (2007). Trade Policy Review of Peru: Report by the Secretariat
 - ¹¹ Brandes, Eduardo. “Peru: Política de Negociaciones Comerciales, Internacionales. Junio 2010
 - ¹² The framework Agreement for the constitution of the Pacific Alliance was subscribed in the IV Presidential Summit of Paranal –Chile in June 2012, by Chile, Colombia, Mexico and Peru as member countries, and by Costa Rica and Panama as observer States.
 - ¹³ APEC’s Bogor Goals Progress Report. APEC Policy Support Unit. August 2012. P. 65
 - ¹⁴ The MEF has strongly defended its tariff-reducing policy, in its statement of tariff policy enacted by Ministerial Decree N° 005-2006-EF/15 - “Lineamientos de Política Arancelaria” (2006).
 - ¹⁵ Apoyo Consultoría (2011). *Estudio de proyecciones del PBI de largo plazo y la demanda de potencia y energía de principales proyectos 2011-2022*. Report prepared for COES SINAC.
 - ¹⁶ In an optimistic scenario GDP growth would average 6.6 per cent and in a pessimistic scenario the country average growth would be about 4.2 per cent.
 - ¹⁷ WEF, 2012
 - ¹⁸ MEF, 2012 and MMM 2013-2015.
 - ¹⁹ See Tarun 2010, Tarun 2011, WEF 2012 and MMM 2012-2014
 - ²⁰ Peru’s remarkable poverty reduction in the late 2000s was not due to an exceptionally high rate of economic growth. In fact, Peru’s average GDP growth rate in 2005-2011 (4.78 per cent) was only marginally higher than that of the Latin American region as a whole (4.3 per cent) (Source: WDI 2012).
 - ²¹ See MMM 2012-2014 and ECLAC, 2011. The latter publication shows that the poverty rate of Peru was 31.3 per cent, while the Latin American average was 31.3 per cent in 2010. The rate of extreme poverty of Peru was below the regional average (9.8 per cent versus 12.3 per cent).
 - ²² Figures and estimates on poverty and poverty reduction have been subject of controversy (see Matuk, 2012)
 - ²³ However, modest progress was recorded in expanding access to clean water and sanitation facilities and in reducing malnutrition (see United Nations 2012).
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- ²⁴ See UNDP, 2011 and MMM 2012-2014
- ²⁵ Ibid
- ²⁶ Mia et al, 2007.
- ²⁷ The infrastructure gap is estimated with respect to a counterfactual theoretical situation that would allow achieving one or more developmental goals. For instance, the infrastructure gap estimated in Perotti (2011) for Latin America as a whole refers to the infrastructural investment that would be required to achieve a regional GDP growth rate of 3.9 per year in the 2006-2020 period (see Fan Yin 2011 and Gosselin 2009).
- ²⁸ Instituto de Economía y Desarrollo Empresarial, IEDEP
- ²⁹ See RPP Noticias Economía 2012
- ³⁰ “Dualism theories assume a split of economic and social structures of different sectors so that they differ in organization, level of development, and goal structures. Usually, the concept of economic dualism differentiates between two sectors of economy. The traditional subsistence sector consists of small-scale agriculture, handicraft and petty trade, has a high degree of labour intensity but low capital intensity and little division of labour whereas the modern sector of capital-intensive industry and plantation agriculture produces for the world market with a capital-intensive mode of production with a high division of labour.” (Kuhnen, 1986)
- ³¹ See EIU 2008, EIU 2012a
- ³² See MMM 2012 and WEF 2012
- ³³ See section on “The pending agenda, for Peru, to maximize benefits from trade agreements”, available at: http://www.acuerdoscomerciales.gob.pe/index.php?option=com_content&view=article&id=48%3Alo-que-debemos-saber-de-los-tlc&catid=44%3Alo-que-debemos-saber-de-los-tlc&Itemid=78
- ³⁴ EIU, 2008
- ³⁵ Celfin Capital is a Santiago-based financial services firm created in 1988 comprised of securities brokerage, asset management, wealth management, international funds, corporate finance, and research departments. The latter produces daily and weekly company reports, as well as quarterly economic and technical reports on global markets. Celfin manages some \$11 billion in private wealth and third party assets. It also operates subsidiaries in Colombia and Peru. In 2012, Celfin Capital was acquired by Brazil’s biggest investment bank, BTG Pactual.
- ³⁶ EIU, 2008
- ³⁷ MEF, 2012 and EIU, 2008
- ³⁸ World Bank, 2005
- ³⁹ Desarrollo Peruano: Noticias sobre el desarrollo económico y social del Perú (2008) “*El Peru en el Ranking Latinoamericano: Índice Gini*”. Available at: http://desarrolloperuano.blogspot.ch/2008/06/el-per-en-el-ranking-latinoamericano_08.html
- ⁴⁰ According to ECLAC 2011, Peru is the fourth least unequal country in Latin America.
- ⁴¹ ECLAC. Social Panorama of Latin America 2011
- ⁴² MMM 2013-2015, p. 8
- ⁴³ The Directive Council of the CNC approved the Competitiveness Agenda (Agenda de Competitividad) 2012 – 2013 on February 9, 2012.
- ⁴⁴ Term used to refer to the development of the tertiary (service) sector and the growing proportion of employment (both of men and, particularly, of women) represented by this sector as compared with the primary and secondary sectors.
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- ⁴⁵ According to INIE estimates, employment in services was about 57 per cent of the total in 2010. Yet, this estimate is likely to refer to formal employment (see INIE 2012). Moreover, most of the informal employment (corresponding to about 60 per cent of the total) is also concentrated in services activities (see EIU 2008).
- ⁴⁶ Sanchez Rocha, Cristina (2011). Op. cit. p.8
- ⁴⁷ Ibid.
- ⁴⁸ The definition of the “commerce” sector in Peru’s national statistics is different from that of “commercial services” in the WTO. The latter includes all services minus government services.
- ⁴⁹ Semana Economica 2011
- ⁵⁰ Sanchez Rocha, Cristina (2011). Op. cit. p.12
- ⁵¹ According to the Law on the Promotion of Foreign Trade in Services (Law No. 29646), 2011
- ⁵² International Trade Centre (ITC), 2005. “Análisis de la Capacidad en el Comercio de Servicios: Peru”. Proyecto para promover la participación de los países en desarrollo en el Acuerdo General sobre el Comercio de Servicios (AGCS); UNCTAD (2008) “Evaluación de los Servicios en el Comercio de Servicios en los Países Andinos, vol. II and Triveño, Gladys y Niño, Jaime (2005) “Promoción de Exportación de Servicios en el Perú” (USAID)
- ⁵³ Other components of a possible strategy aimed at enhancing services exports could be also fiscal, customs and financial incentives, such as total or partial exemption from VAT charges, mechanisms aimed at avoiding double taxation, refunds of custom duties, and credit facilitations (see Sanchez Rocha, 2011).
- ⁵⁴ ITC (2005), op. cit.
- ⁵⁵ PROMPERU (2011). Presentation on the Plan for Export Promotion in Services (March 2011) available at: <http://www.peruembassy.se/docs/PlanDePromocionDeExportacionesParaLaComisionMultisectorial.pdf>
- ⁵⁶ This information was obtained from interviews with current and former government officials of different sectors (see list contained in annex 9)
- ⁵⁷ Interviews with current and former government officials of different sectors (see list contained in Annex 9)
- ⁵⁸ PROMPERU. Ley de Fomento del Comercio Exterior de Servicios. Departamento de Exportación de Servicios.
- ⁵⁹ The importance of this Committee was highlighted by the Peruvian News Agency: <http://www.andina.com.pe/espanol/Noticia.aspx?id=WTSxAIjE1kw=>
- ⁶⁰ According to Peru’s authorities, PROMPERU has already subscribed an agreement with INEI to establish the statistical record of exporters. This would be the only new development on this mandate.
- ⁶¹ Using powers delegated by Congress on tax matters (by-law 29884 of 06.09.2012)
- ⁶² Article “El Nuevo Tratamiento de la Exportación de Servicios”. Instituto Pacífico. N° 261. August 2012.
- ⁶³ According to Maximixe Consult, three ingredients are necessary to trigger the expansion of service exports: a fiscal arrangement that eliminate the anti-export bias in services, investment in science, technology and innovation and the establishment of a university/college education system that promote competition in quality of education. Source: Andina de Noticias: <http://www.andina.com.pe/espanol/Noticia.aspx?id=Y6tFikDhLCI=>
- ⁶⁴ WTO (2007). Trade Policy Review of Peru: Report by the Secretariat.
- ⁶⁵ Ibid.
- ⁶⁶ Peru’s final list of Article II (MFN) exemptions appears in WTO documents GATS/EL/69 of 15 April 1994 and GATS/EL/69/Suppl.1 of 26 February 1998.
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- ⁶⁷ Argentina, Brazil, Chile, Paraguay, the Plurinational State of Bolivia and Uruguay.
- ⁶⁸ Argentina, Brazil, the Bolivarian Republic of Venezuela, Chile, Colombia, Costa Rica, Cuba, the Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, the Plurinational State of Bolivia and Uruguay.
- ⁶⁹ WTO (2007). Op. cit.
- ⁷⁰ Through fewer sectors, fewer transactions and attaching conditions.
- ⁷¹ WTO. Communication from Brazil, Chile, China, Colombia, Cuba, the Dominican Republic, Ecuador, Egypt, Guatemala, India, Indonesia, Mexico, Nicaragua, Pakistan, Peru, the Philippines, the Plurinational State of Bolivia and Thailand. "Review of Progress as established in Paragraph 15 of the Guidelines and Procedures for the negotiations on trade in services (S/L/93)". Document No. TN/S/W/19 dated 31 March 2004
- ⁷² WTO. TN/S/O/PER. Initial Offer of Peru, dated 12 September 2003
- ⁷³ WTO. TN/S/O/PER/Rev.1 Revised Offer of Peru, dated 28 June 2005
- ⁷⁴ WTO. Trade Policy Review of Peru. Report by the Government of Peru. WT/TPR/G/189, dated 12 September 2007
- ⁷⁵ For instance, regarding licensing and qualifications requirements and procedures and SDT
- ⁷⁶ For instance on parameters to assess mode 4 commitments, on ways to enhance commitments under mode 4, by removing Economic Needs Tests, defining treatment per categories of natural persons and creating new categories)
- ⁷⁷ This Group is composed of : Australia, Canada, Colombia, Costa Rica, European Union, Hong Kong (China), Israel, Japan, Mexico, New Zealand, Norway, Pakistan, Peru, the Republic of Korea, Switzerland, Taiwan Province of China and the United States.
- ⁷⁸ This information does not however allow deepening the analysis of impact of post-liberalization in a robust way since it does not consider other factors
- ⁷⁹ Decision 510 identifies such measures (per sector)
- ⁸⁰ Decision 718 stipulated that this exemption was to be extended to December 2011
- ⁸¹ Decision No. 659 of 14 December 2006
- ⁸² Secretaria de la Comunidad Andina. Resumen Ejecutivo - Compendio de Series Estadísticas 2012.
- ⁸³ Toche, Fatima and Roo, Elba (2011). "El mercado integrado de servicios en la Comunidad Andina". Chapter included in the Book "Estrategias Economicas, Productivas y Comerciales de la Comunidad Andina", published by Andean Community Secretariat, in collaboration with the Spanish Agency for International Cooperation (AECID)
- ⁸⁴ Sanchez Rocha (2011). Op cit.
- ⁸⁵ Europmonitor 2010. Op. cit.
- ⁸⁶ http://www.acuerdoscomerciales.gob.pe/index.php?option=com_content&view=category&layout=blog&id=105&Itemid=128
- ⁸⁷ The study adopts a methodology based on the calculation of indexes of Revealed Comparative Advantage (RCA) and of the Implicit Preference Margins (IPM). RCA indexes are calculated based on each country's sectoral trade structure. IPMs are synthetic estimates on the degree of preference in market access offered by its trade partners through their commitments undertaken in bilateral FTAs.
- ⁸⁸ The growth of Peru's exports of telecommunication and IT-related services was mainly led by booming exports of call centres services.
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- ⁸⁹ This sentence is to be taken with a pinch of salt. As it is the case in any quantitative study, the results obtained by Sanchez Rocha are the product of the specific methodology that she chose (see Sanchez Rocha, 2011, graph 7. and Note 132). They are interesting in their own right, but cannot be interpreted as a definitive and comprehensive evaluation of the prospects of export-oriented telecommunication and IT-related services in Peru.
- ⁹⁰ WTO, 2010
- ⁹¹ Some universities also permit to present a Professional Report after having worked at least three years after obtaining the high school degree or by undergoing an updating program in Accounting (for individuals who have leave the university long time ago).
- ⁹² According to Marks Sattin, a specialist financial recruitment agency, with offices in Europe and South America, Peru appears to have the highest median net monthly income for accountants adjusted by purchase power parity (PPP). Peru's median net monthly income for accountants (PPP adjusted) is \$3,741, followed by Brazil (\$3,671), the Republic of Korea (\$3,517), United States (\$3,370) and the United Kingdom (\$3,333). See <http://www.markssattin.co.uk/60-per-cent-surge-in-accountancy-jobs-in-brazil>. Accessed: 12/31/2012
- ⁹³ The average time to obtain the Title of Contador Público Colegiado in Peru varies depending on the country where the accountant studied. If the country has an agreement with Peru, the international accountant only has to present his degree certificate with an *apostille* in ANR and he will obtain the Title of Contador Público Colegiado in 3-6 months. However, if the country does not have an agreement with Peru, the process may take 6-12 months, since the international accountant must revalidate his degree in a local university before presenting it to ANR (times are consultants' estimations).
- ⁹⁴ Companies cited included Estudio Hernandez Rosello, Estudio Rodrigo, Elías y Medrano
- ⁹⁵ Companies cited include Dongo Soria, Gavelio y Asociados Price Waterhouse Coopers Peru
- ⁹⁶ One of these firms employs 21-50 people and has an annual bill of approximately \$100,000; while the other one employs 11-20 people and has an annual bill of approximately \$750,000.
- ⁹⁷ Fernandez-Stark et al (2010). Engineering Services in the Americas.
- ⁹⁸ Loots, Phil and Henchie, Nick (2007). "Worlds Apart: EPC and EPCM Contracts: Risk issues and Allocation". pp. 1-2.
- ⁹⁹ Global leading EPCM firms in the mining sector includes: South Africa-based TWP, Jacobs Engineering, DRA, MDM Engineering Group, HATCH, Technip and AMEC. See Paul Moore article "EPCM Engineering Delivering the Possible" at <http://www.infomine.com/library/publications/docs/InternationalMining/Moore2011.pdf>
- ¹⁰⁰ Law that complements Law N° 16053, authorizing the Architecture and Engineering Bars of Peru to Supervise professionals in Architecture and Engineering in the Republic.
- ¹⁰¹ The full requirements can be found in the following web page: http://www.digemin.gob.pe/servicios_inmigracion_visas_temporales.html
- ¹⁰² Supreme Decree N° 016-2008-VIVIENDA, Article 7. Article 5° of the Decree also mentions that engineers not complying with legal requirements could be punished under article 363 of the Criminal Code.
- ¹⁰³ ICEX. El mercado de Consultoría en el Perú. Pp. 72-75.
- ¹⁰⁴ Decision 025-2012-DSU. Gobierno Regional de Piura. Licitación 004-2011-GOB.REG.Piura.
- ¹⁰⁵ Interview to Mr. Raul Delgado, President of CESEL
- ¹⁰⁶ http://www.mef.gob.pe/cont_estado/documentos/Reporte_Anuual_de_Contrataciones_2009.pdf
- ¹⁰⁷ A Strong Performer. Op Cit. pp. 29.
- ¹⁰⁸ PROINVERSION. Why invest in Peru?

- ¹⁰⁹ MTC. Infrastructure for Integration.
- ¹¹⁰ Cornejo Diaz, René (2011). Oportunidades de Inversion en el Peru: Potencialidades en el Sector Vivienda y Saneamiento. Presentation by Rene Cornejo Diaz, Minister of Housing and Sanitation, 22 Nov. 2011. Available at: http://www.vivienda.gob.pe/popup/Documentos_presentaciones/07_22112011_Oportunidades_Inversion.pdf
- ¹¹¹ Ibid.
- ¹¹² “Ministro Merino destaca avances y desafios de la gestion de inversiones en su sector para el desarrollo nacional”. 12 December 2013. Ministry of Energy and Mining of Peru.
- ¹¹³ “MEF: Anuncios de inversion privada en septiembre sumaron USD 45.595 millones”. El Comercio.PE, October 2013
- ¹¹⁴ Fernandez-Stark et al (2010). Op.cit
- ¹¹⁵ This section is based on Fernadez-Stark et al (2010).
- ¹¹⁶ ADECSO, Apoyo Consultoría and PROSPECTA (2010). “Estrategia para el Desarrollo de la Industria de Servicios IT y BPO en el Peru”. Inception Report UPDATE. February 2010. Pp 37.
- ¹¹⁷ PROMPERU (2012). Report of the Peru Service Summit 2012, which can be found at: http://www.peruservicesummit.com/repositorioaps/0/0/jer/-1/Memoria%20PSS2012_ultimos.pdf
- ¹¹⁸ These studies can be found at: http://www.siicex.gob.pe/siicex/portal5ES.asp?page_812.72400#anclafecha
- ¹¹⁹ The list of members of the IT and communications Committee can be found at: http://www.camaralima.org.pe/raizespanol/ccl_listacomites_detalle.aspx?cod=10
- ¹²⁰ www.gmd.com.pe
- ¹²¹ Cuore CCR (2008). “Perfil de la Industria Peruana de Software”. Informe Parcial de la Industria Peruana de Software IS1578C-1. Estudio elaborado para PACIS. Febrero de 2008.
- ¹²² Tomas, Juan Pedro. “*Exportaciones de software alcanzan USD 25 millones en 2011, segun APESOFT*”. Article from BN Americas, published on 10 January of 2012
- ¹²³ PROMPERU (2012). Op. cit.
- ¹²⁴ Figure provided by the Director of LOLIMSA, Mr Rolando Liendo, in El Comercio 27.10.2012. “El Potencial Exportador de Software se Trunca por Carencias Académicas”.
- ¹²⁵ Ibid
- ¹²⁶ Figures cited by the Director of Lolimsa, Mr. Fernando Liendo, in El Comercio. Op. cit
- ¹²⁷ Mauricio Velasquez. Andi. The 2000 Latin American Outsourcing Summit.
- ¹²⁸ PROMPERU (2012). Op. cit. p. 24.
- ¹²⁹ Information Data Corporation (IDC). IDC Releases. January 11, 2013. “*Predicciones 2013: Latinoamérica será la Región de Crecimiento más rápido en el mercado de TI en el Mundo, según el reporte IDC Latin America Predictions 2013*”
- ¹³⁰ IBM web page: <http://www-03.ibm.com/press/us/en/pressrelease/37652.wss>
- ¹³¹ “Software Peruano tiene gran oportunidad de negocios en el mercado Colombiano”. ComexPeru.
- ¹³² Ederly, David. “Oportunidades para el Desarrollo de la Industria del Software Peruano”.
- ¹³³ El Comercio 27.10.2012. El Potencial Exportador de Software se Trunca por Carencias Académicas.
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- ¹³⁴ Ankur Prakash, TATA Consulting manager in the region. <http://gestion.pe/empresas/aventura-india-tata-consultancy-services-busca-triplicar-su-negocio-peru-2058367>.
- ¹³⁵ <http://gestion.pe/empresas/aventura-india-tata-consultancy-services-busca-triplicar-su-negocio-peru-2058367>
- ¹³⁶ IDB-Tholons (2011). Peru: Building the Foundations for Tomorrows Service Industry. p. 31.
- ¹³⁷ ADECSO (et al). Op Cit. p 70.
- ¹³⁸ Industry leaders were interviewed by the newspaper “El Comercio” and their responses are quoted in the article “*El potencial Exportador de Software se Trunca por Carencias Académicas. Se requieren mas profesionales capacitados en Innovación y técnicas especializadas de programación*”. October, 27, 2012. Available at: <http://xa.yimg.com/kq/groups/2049176/820327199/name/Potencial+exportador+de+software+EL+COMERCIO+121027.pdf>
- ¹³⁹ Peru–United States FTA. Electronic Commerce Chapter. Article.15. 1–4.
- ¹⁴⁰ CNC (2012). Competitiveness Agenda 2012-2013
- ¹⁴¹ Revista de la Cámara de Comercio Exterior de Lima, Septiembre 2004 “Los servicios logísticos en Perú están en constante crecimiento”
- ¹⁴² Advanced Logistics Group (2011). *Plan de Desarrollo de los Servicios Logísticos de Transporte*. Parte A – Diagnóstico Integral. Informe preparado en el marco del Programa de Mejoramiento del Nivel de Transitabilidad de la Red Vial Nacional suscrito por el Gobierno del Perú con el Banco Interamericano de Desarrollo.
- ¹⁴³ Includes new works (paving of roads), as well as the expansion of road capacity, rehabilitation of roads and structures and the construction and rehabilitation of bridges.
- ¹⁴⁴ Red Vial 4, Red Vial 5, Red Vial 6, Autopista del Sol, IIRSA Centro Tramo 2.
- ¹⁴⁵ Eje Multimodal IIRSA Norte, Carretera Interoceánica IIRSA Sur, Programa Costa Sierra.
- ¹⁴⁶ Anta, Cajamarca, Chachapoyas, Chiclayo, Iquitos, Pisco, Piura, Pucallpa, Talara, Tarapoto, Trujillo and Tumbes.
- ¹⁴⁷ Arequipa, Juliaca, Puerto Maldonado, Racna, Ayacucho and Andahuaylas.
- ¹⁴⁸ Atalaya, Breu, Caballococha, Chimbote, Ciro Alegria, Cusco, El Estrecho, Galilea, Huánuco, Ilo, Iñapari, Intuto, Jaén, Jauja, Juanjui, Juliaca, Mazamari, Moyobamba, Nazca, Pampa Hermosa, Patria, Piura, Puerto Esperanza, Requena, Rioja, Rodriguez de Mendoza, Saposoa, Tingo María, Tocache, Uchiza, Vilcansijaman and Yurimaguas.
- ¹⁴⁹ Callao, Iquitos, Cusco, Tacna, Pucallpa, Tarapoto, Arequipa, Juliaca, Puerto Maldonado, Piura, Ayacucho, Cajamarca, Chachapoyas, Chiclayo, Pisco, Trujillo and Tumbes.
- ¹⁵⁰ Anta, Jauja and Talara.
- ¹⁵¹ UNCTAD (2011). Review of Maritime Transportation.
- ¹⁵² *Empresas y Negocios*. Year 12, N° 570. p.14.
- ¹⁵³ Fernandez-Stark, et al (2010). Op. cit. p. 14-15.
- ¹⁵⁴ ECLAC (2013). Maritime Bulletin, August 2013.
- ¹⁵⁵ UNCTAD (2013). Trade, services and development: The regulatory and institutional challenges. Page 4.
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SERVICES POLICY REVIEW



ANNEXES

ANNEX 1

SERVICES EXPORT WITH EXEMPTIONS OF VAT AS ESTABLISHED IN LAW 29646

	Requirements	Services Included
Appendix A: Export of Services (Untaxed) (Articles 10° and 12° of the Law)	<ol style="list-style-type: none"> 1. Realized for pecuniary interest, which must be shown with the appropriate payment voucher, issued in accordance with the regulations of the matter and recorded in the Register of sales and revenue. 2. The exporter is a person domiciled in the country. 3. The service user or beneficiary is a person not domiciled in the country. 4. The use, operation or utilization of the services by the non-resident takes place abroad. 	<ol style="list-style-type: none"> 1. Consulting and technical assistance services 2. Property leasing. 3. Advertising, market research and public opinion polling services 4. Data processing services, application of software and the like, which include: <ul style="list-style-type: none"> • Design and development of generic and specific software, web design, design of networks, etc. for specific use of a customer; • Supply and operation of online computer applications as well as the infrastructure to operate information technologies; • Consulting services and technical support in information technologies issues; • Management services of computer networks, data centres and help desks. 5. Placement and supply staff. 6. Financing operations, etc.
Appendix B: Export of Services (Untaxed) (Articles 10° and 12° of the Law)	<ol style="list-style-type: none"> 1. Realized for pecuniary interest, which must be shown with the appropriate payment voucher, issued in accordance with the regulations of the matter and recorded in the Register of sales and revenue. 2. The exporter is a person domiciled in the country. 3. The service user or beneficiary is a person not domiciled in the country. 	<ol style="list-style-type: none"> 1. Management of investment portfolios in the country. 2. Complementary services needed to carry out the service of international freight referred to paragraph three of Appendix II of the Law if carried out in the primary zone of Customs, and which are provided to international cargo carriers not domiciled in the country or individuals not domiciled in the country. 3. Alteration, repair, maintenance and preservation of ships and aircraft of foreign flag for subjects domiciled abroad, provided that their economic use takes place outside the country. 4. Business support services provided by companies of shared services outsourced by professionals domiciled in the country, such as accounting, treasury, computer/technology support, logistics, contact centres, laboratories and the like. 5. Food services, transportation, tourist guide, entry to national folklore shows, theatre, music concerts, ballet, operetta, which make up the tour package provided by tour operators domiciled in the country, registered in the registry set for this purpose, etc.

	Requirements	Services Included
Appendix C: Export of Services (VAT Return) (Articles 10° and 12° of the Law)		1. Public transport. 2. Services sale of food and beverages. 3. Tour guide. 4. Human health services, dentistry and aesthetic human body. 5. Live entertainment, theatre, operetta, classical music concerts, opera, operetta, classical music concerts, opera, operetta, ballet, circus and national folklore.
Appendix D: Export of Services (Fiscal Tax Credit refund) (Articles 10° and 12° of the Law)		

Source: Law 29646 and General Sales Tax Law (Supreme Decree N° 055-99-EF).

ANNEX 2

MODIFICATIONS TO THE PROMOTIONAL SCHEME

Services	Effect of the amendment	Legal basis	Possible reason
Extraterritorial professional services provided by individuals	Independent professionals that provide services with physical presence in a foreign market had under Law 29646 the benefit of reimbursement of the VAT paid for acquisitions made for the provision such services. Such benefit was eliminated.	With Legislative Decree 116, articles 22.A and 34.A of the VAT Law were abrogated	The service was not affected by VAT, so it was not necessary to provide reimbursement
Services provided by Peruvian companies in Peru to foreign individuals	A foreign individual acquiring services consumed in Peru to a Peruvian service provider could request the reimbursement of 18% VAT before SUNAT when leaving the country. This benefit has been eliminated.	Legislative Decree 1116 modifies article 76 of VAT Law and eliminated point C of Appendix V of the VAT Law. Legislative Decree 1119 abrogated article 33.A of the VAT Law.	Apparently it was difficult for SUNAT to control these tax benefits.
Extraterritorial services provided by Peruvian companies	Law 29646 considered as service export, services provided for a Peruvian company completely in a foreign territory, allowing the use of fiscal credit for the VAT paid for acquisitions made for this kind of services. This benefit has been eliminated.	Legislative Decree 11116 modified article 18 of VAT Law and eliminated point D of Appendix V of the VAT Law.	The export service was not affected by VAT, so it was not necessary to provide fiscal credit for expenses related to the provision of such service.
Transborder trade services	Services provided by Peruvian companies from Peru to foreign clients located in territory of other countries. This service was included in point A f the Appendix V and thus was not affected by VAT since it was considered "service export". Companies benefitted from fiscal credit for the VAT paid in acquisitions made for the provision of such transborder services	Legislative Decree 1119 modifies the scheme abrogating article 33.A of the VAT law. As a result were eliminated all points of Appendix V and the law reinstated the regime existed before the approval of law 29646.	For fiscal concern, MEF decided to eliminate the detailed lists of services included in Appendix V. It left the general description contained in the VAT law before the approval of Law 29646.
Services provided by Peruvian persons in Peru to foreign individuals	Services provided by Peruvian persons to foreign individuals in Peru, were considered as "service exports" and as a result not affected by VAT. Peruvian providers could seek for reimbursement of VAT paid and use as tax credit the VAT paid for the acquisitions made for the provision of such services.	Legislative Decree 1119 modifies the scheme abrogating article 33.A of the VAT law. As a result point B of Appendix V was eliminated and the law reinstated the regime existed before the approval of law 29646.	For fiscal concern, MEF decided to eliminate the detailed lists of services included in Appendix V. It maintained only services for business support provided in Peru to foreign companies.

Source: Article "El Nuevo Tratamiento de la Exportación de Servicios. Instituto Pacífico. No. 261. August 2012.

ANNEX 3

SAMPLE OF DOMESTIC AND INTERNATIONAL FIRMS PROVIDING ACCOUNTING SERVICES IN PERU

FIRM	SERVICES
Deloitte	<ul style="list-style-type: none"> • Financial advisory services • Tax & legal • Audit • Consulting • Enterprise risk services • Outsourcing
Grant Thornton	<ul style="list-style-type: none"> • Audit & assurance • Tax & legal • Advisory • Outsourcing • Inventory • Information technology • Employer solutions • International Business Centre – IBC
Geneva Group International	<ul style="list-style-type: none"> • Audit • Management of assets and inventories, conciliation and recovery • Business advisoryTax & legal • Certification Support • Outsourcing • Transfer pricing • Financial services • Transformation service of Financial reports from national to international standards. Application of IFRS, IAS • Corporate governance
MLV Contadores	<ul style="list-style-type: none"> • Accounting service • Payroll serviceAccounting diagnosis • Tax diagnosis • Accounting advice • Tax administration • Physical inventory of stocks • Accounting training • Accounting recruitment • Companies valuation
Gabe y Gave Consultores	<ul style="list-style-type: none"> • Accounting services • Management consultancy • Administrative consultancy • Information Systems Consulting • Personnel consultancy • Training of personnel • Legal adviceTaxation
Lima Outsourcing	<ul style="list-style-type: none"> • Financial servicesBusiness advisoryAudit
Mazars	<ul style="list-style-type: none"> • Audit • Accounting outsourcing • Tax & legal • Internal controls • Transactional services • IFRS Services

FIRM	SERVICES
PriceWaterhouse Coopers	<ul style="list-style-type: none"> • Assurance • Tax & legal • Business consulting • Employer solutions • Business training programme
FICE Consultores	<ul style="list-style-type: none"> • Advice on the issuance of financial statements • Assistance in audits • Accounting outsourcing • Administrative outsourcing • Payroll outsourcing • Inventory outsourcing
Brenta	<ul style="list-style-type: none"> • Accounting advice • Tax & legal • Registration • Investments
Khronos	<ul style="list-style-type: none"> • Tax & legal • Labour law • Mining law • Administrative procedures • Real estate restructuring • Accounting outsourcing
AFISCA	<ul style="list-style-type: none"> • Tax advice • Tax reviews • Administrative and judicial procedures • Accounting and administrative outsourcing • Legal adviceCorporate governance advice • Management
BDO Peru	<ul style="list-style-type: none"> • Audit • Tax & legal • Business and financial organizational consulting • Information technology • Internal audit • Risk management • Search and selection of professionals • Administrative and accounting outsourcing • Employment counselling • Public serviceHuman talent consulting
Moore Stephens Peru - Vizcarra y Asociados	<ul style="list-style-type: none"> • Financial and operational audit • Accounting outsourcing • Professional training • Transfer pricing • Tax & legal • Business management consulting • Consulting in human resource management • Business training
C y V Outsourcing	<ul style="list-style-type: none"> • Accounting outsourcing • Accounting advice • Bookkeeping • Tax advice • Employment counselling • Payroll • Audit of financial statements

FIRM	SERVICES
Telsec Peru	<ul style="list-style-type: none"> • Accounting outsourcing • Tax outsourcing • Labour outsourcing
IACCSAC Outsourcing	<ul style="list-style-type: none"> • Accounting services • Tax & legal • Corporate finance • Business management • Productivity of talent
LIDERCONTAB	<ul style="list-style-type: none"> • Accounting advice • Tax advice • Employment counselling • Payroll administration • Business formation
Symbolos Asesores y Consultores	<ul style="list-style-type: none"> • Accounting advice • Accounting outsourcing • Employment counselling • Tax advice • Advice on costs and budgets • Computer consultingn
HMC Estudio Milan	<ul style="list-style-type: none"> • Accountant • Tax • Audit • Corporate civil law - labour

Source: Companies webpages.

ANNEX 4

SERVICES, CERTIFICATIONS AND MARKETS OF MAIN DOMESTIC SOFTWARE SERVICES PROVIDERS

COMPANY	SERVICES	CERTIFICATIONS	TYPICAL MARKETS
Avances Tecnológicos S.R.L. (1993)	BPM: Customized software design, Document management. B. Outsourcing. Consulting.	<ul style="list-style-type: none"> • Microsoft Gold Certified Partner • IBM Premier Business Partner • Oracle Gold Partner 	Banking/finance, industry, commerce & government.
TSNET (EVOL)	ERP – Implementation of integrated systems and software design. MS software factory, SAP, Oracle, etc.	<ul style="list-style-type: none"> • Microsoft: Gold Certified Partner • Oracle: Advantage Certified Partner • SAP: Service Partner • CMMI-2: In process • ITIL • PMI 	Offices in Mexico and Peru.
Dominio Tech (1995–2000)	ERP for Environmental management, Social responsibility management, Health, Work security, etc.	<ul style="list-style-type: none"> • ISO 9001:2000 • Microsoft Gold Certified Partner • Oracle Partner 	Mining, oil and gas, energy sectors.
INDRA PERU (part of Indra Group)	Software development (ERP), Consulting, Outsourcing, data processing, business intelligence, etc.	<ul style="list-style-type: none"> • ISO 9001:2000: Project Management, software development (among other). • CMMI – Level 2 – Software Factory Projects 	International company.
INEXO (2000)	Software factory, Human Resources, outsourcing, infrastructure	<ul style="list-style-type: none"> • Microsoft Gold Partner ISV – Vmware Solution Provider – Riverbed Channel Partner – Citrix Partner 	Telecommunications, industry, mining, utilities, retail, education.
LOLIMSA (1987)	ERP 2. Specialized in developing solutions for hospitals, laboratories, pharmacy chains, etc.	<ul style="list-style-type: none"> • Certification Commission of Health Information Technology (CCHIT), Certification ISO 9001:2000 Certification CMMI • Level 3 	Exports to more than 10 countries in Latin America.
MAGIADIGITAL	Content management for web Portals (intranet systems, Cloud Infrastructure Computer, online surveys.	<ul style="list-style-type: none"> • ISO 9001 (since 2006 certification • MoProSoft NTP 291,100 • Gold partner de Microsoft for Portal proficiency, Collaboration, ISV, and web development. 	
MEDISYS (1994)	Information and management systems for pharmaceutical laboratories.	<ul style="list-style-type: none"> • ISO 9001:2008 • Microsoft Certified Partner 	Exports to 4 countries in Latin America.
NOVATRONIC (1998)	Transactional solutions, payment systems, attention channels, on line information systems, system integration; Distribution systems	<ul style="list-style-type: none"> • CMMI level 3 • ISO 9001 • Microsoft Gold Certified Partner and Oracle Gold Partner. 	Exports to Andean countries (the Bolivarian Republic of Venezuela, Ecuador and the Plurinational State of Bolivia).
OFFICIS (1993)	Business information & management systems (ERP).	<ul style="list-style-type: none"> • First to obtain Microsoft Gold Certified Partner; CMMI (Capability Maturity Model Integration), for implementation of business information systems and for systems development. • Oracle partner. • Symantec registered partner 	In 2012 was absorbed by Softland Group (world leader in ERP business).
Royal Business SAC (1997)	Customized ERP Systems. Accounting, Logistics, Budgets, Commerce, Human Resources, Maintenance, etc.	<ul style="list-style-type: none"> • Certificate ISO 9001:2008, • Certificate CMMI 	Implemented solutions in 11 countries in Latin America and the Caribbean.

ANNEX 5

LEADING PROVIDERS OF COMPUTER SERVICES OUTSOURCING IN PERU ACCORDING TO PERU TOP 10,000 COMPANIES

Company	2010: Total Revenue (thousand dollars)	Certification	Main Activities
IBM DEL PERU S.A.C.	156 836.16	ISO 9001 e ISO 27001	<ul style="list-style-type: none"> • Data storage • Maintain business operations, comply with industry and government and get the disaster recovery capability • Supporting and optimizing the entire user environment, including platforms, devices and end user experience • Design, implementation and management of integrated communications environments and networks in order to increase collaboration, flexibility and growth of the company • Maintenance and support • Middleware: allows an uninterrupted flow of information stored applications for business processes across the enterprise • Security services • Servers management • Data center • IT strategy and architecture • Outsourcing: services for Business process management
GDM S.A	44 798.66	ISO 9001	<ul style="list-style-type: none"> • Process Outsourcing (BPO): Commercial management; Electoral management; Document management; Billing and office management; Operational and support processes; Electronic brokerage • Technology: Communication across multiple platforms such as Windows, Apple (iOS), Android and Blackberry (OS); Contact center; Functional support SAP and Oracle; Functional helpdesk (first level); IP telephony; Server, storage and communication consolidation; Server, desktop and applications virtualization; Disaster recovery; Backup; Clustering high availability active - passive / active-active applications; database replication at the level of software and/or hardware, clustering; Storage and backup; Perimeter security, access control and network database; activity auditing database, antivirus system, implementation of secure remote connection
SAP PERU S.A.C	27 973.81	• ISO 9001	<ul style="list-style-type: none"> • Analysis and optimization of business details: improve data quality, risk management and compliance goals based on a metric analysis • Risk management: combination of consulting, support, training services and reviews and quality controls • Software deployment: analysis, implementation and optimization of SAP applications. Using methodology useful life cycle of the solutions. • Efficiency in handling applications: link strategy and execution, and optimizing business processes • Customizing software by industry: development of solutions that have the capabilities, flexibility and functionality as the industry to which the company belongs
SISTEMAS ORACLE DEL PERU S.A.	23 319.13		<ul style="list-style-type: none"> • Application development and system integration: business process management; Embedded; IPv6 Compliance; Java Open source and open standards; Service-oriented architecture; Windows and net • Cloud computing • Data management: big data; Data warehousing; Database migration; Information Lifecycle management • Infrastructure: Oracle optimized data center; Enterprise architecture; High availability; Linux; Modernization; Oracle optimized solution; Platform for SaaS; Security

Company	2010: Total Revenue (thousand dollars)	Certification	Main Activities
GRUPO SYPSA S.A.C.	21 335.10		<ul style="list-style-type: none"> • High availability solutions • Systems integration and management • Technical support “on-site” • Systems engineering support in coverage 24 hours x 365 days, unlimited hours of care • Commissioning and setting parameters for optimum system performance • Monthly visits to perform systems checks
CR SERVICE S.R.L.	21 195.89		ND

Source: *Peru: The Top 10,000 Companies* (2012).

ANNEX 6

LAWS REGULATING LOGISTIC SERVICES IN PERU

- Law N° 27943, “Ley del Sistema Portuario Nacional” (2003). This law regulates the activities and services provided by private and public parties in terminals, infrastructure and facilities located in the sea, rivers and lakes, as well as everything that is involved and included in the national port system.
- Law N° 29370, “Ley de Organización y Funciones del MTC” (2009). This law regulates the powers, functions and basic organizational structure of MTC.
- Law N° 28583, “Ley de reactivación y promoción de la Marina Mercante Nacional” (2005). This law establishes mechanisms to promote the national merchant marine (by sea, river or lake), as well as the naval shipbuilding and repair industry, in a context of free competition.
- Supreme Decree N° 055-99-EF, “Texto Unico Ordenado de la Ley del Impuesto General a las Ventas e Impuesto Selectivo al Consumo”. This law establishes regulations for the application of the general sales tax and the excise tax.
- Supreme Decree N° 021-2007-MTC, “Reglamento de Organización y Funciones y el Cuadro de Asignación del Personal – CAP del MTC” (2007). This decree contains the basic organizational structure and specific functions of each one of the bodies within MTC.
- Supreme Decree N° 010-2009-EF, “Reglamento del Decreto Legislativo N° 1053, Ley General de Aduanas”. These regulations apply to all customs activities in Peru and are applicable to all people, goods and means of transport within the customs territory.
- Supreme Decree N° 115-2012-PCM, “Reglamento de Organización y Funciones de la SUNAT” and its modifications.
- Legislative Decree N° 1053, “Decreto Legislativo que Aprueba la Ley General de Aduanas” (2008). It regulates the legal relationship established between the SUNAT and natural and legal persons involved in the entry, stay, transfer and export of goods to and from the customs territory.
- INTA-PE and INTA-PG Procedures. Set procedures to guide clearance through customs (include topics such as final export, drawback, transfer, duty free, among others).

Supranational regulations (CAN Decisions)

- Decision 288 - Freedom of access to Cargo Originated in and Intended for Shipment by sea within the Subregion.
- Decision 314 – Policies for the development of maritime merchant fleet in the Andean region.
- Decision 390 – Mechanisms, for CAN countries, to act against discriminatory practices by third party countries against sea transport companies.
- Decision 487 – Maritime guarantees and preventive ship embargo
- Decision 422 – procedure for the application of the reciprocity principles in maritime transport
- Decision 398 Passenger transport
- Decision 399 Cargo transport
- Decision 467 International road transport of goods
- Decision 491 – Andean technical standard regarding weights and sizes of vehicles for the international road transport of passengers and cargo
- Decision 272 – Criteria for qualifying transport companies and determine the minimum load capacity
- Decision 300 Templates for use by national authorities and transport companies
- Decision 297 Establishment of a policy of open skies
- Decision 360 Definition of schedules and non-schedule flight base don OACI directives
- Decisions 320 and 361 – Multiple designation of airport transportation in the Andean Region
- Decisions 331 and 393 – Regulates the multimodal operation in the Andean region
- Decision 477 – International Customs transit
- Decision 425 – Procedure for the registry of multimodal transport operators

ANNEX 7

RELEVANT ACTORS PARTICIPATING IN LOGISTIC SERVICES RELATED TO MARITIME TRANSPORTATION

1. Vertical integration between maritime agencies and extra port terminals

Maritime agency	Extra port terminal
Trabajos Marítimos S.A.	Ransa S.A.
Cosmos Agencia Marítima S.A.C.	Neptunia S.A.
Maersk Portuaria S.A.	Maersk Peru – Alconsa
Agunsa Peru	Inversiones Marítimas Universales Peru S.A.
Greenandes Peru S.A.C.	Terminales Portuarios Peruanos S.A.C.
Imupesa	Agencias Universal del Peru

Source: Resolution 007-2008-INDECOPI/CLC.

2. Commercial relations among agents participating in activities of transport by sea

Extra port terminal	Maritime agency	General agency	Shipping line
TRAMARSA	Shipping	Consorcio Naviero Peruano	<ul style="list-style-type: none"> CSAV Libra
NEPTUNIA	Nautilus	Peruned	<ul style="list-style-type: none"> P&O Nedlloyd
	Cosmos	Hamburg Süd	<ul style="list-style-type: none"> Hamburg Süd Crowley
		La Hanseática	<ul style="list-style-type: none"> Hapag-Lloyd Maruba TCA
		Transmeridian	<ul style="list-style-type: none"> NYK Line D'Amico
		Amerandes	<ul style="list-style-type: none"> APL
		Tecnapo	<ul style="list-style-type: none"> MOL
		Navinter	<ul style="list-style-type: none"> TMM
	Likes Peru	<ul style="list-style-type: none"> Likes Lines 	
Broom Portuaria	Broom Peru	<ul style="list-style-type: none"> CMA CGM J. Lauritzen A/S China Shipping 	
Océano	Transtotal	<ul style="list-style-type: none"> TBS Transmares T/O 	
LICSA	Portuaria Taylor	Mediterranean Shipping Company	Mediterranean Shipping Company
ALCONSA		Ian Taylor	
	Maersk Portuaria	Maersk Peru	Maersk
IMUPESA	Agunsa	Agunsa	CCNI
		Kawasaki del Peru	"K" Line
		Navinter	Interocean American Shipping
	M. Woll	Greenandes Peru	Evergreen

Source: ALG (2011).

ANNEX 8

TEMPLATE QUESTIONNAIRE USED TO OBTAIN PRIMARY INFORMATION FROM KEY STAKEHOLDERS IN THIS STUDY

ENCUESTA PARA LA IDENTIFICACION FORTALEZAS, OPORTUNIDADES, DEBILIDADES Y AMENAZAS PARA LA EXPORTACIONES DE SERVICIOS DE _____

La presente encuesta busca obtener una percepción de la estructura y desempeño del sector de servicios de _____ con el objetivo de identificar propuestas para la exportación de servicios. La encuesta se enmarca dentro del estudio denominado Revisión de la Política de Servicios del Perú financiado por la UNCTAD. Agradecemos su participación.

1. DATOS DE CONTACTO

1.1	Nombre del Encuestado	
1.2	Empresa	
1.3	Dirección	
1.4	Nº teléfono	
1.5	Email	
1.6	Página web	

2. CARGO, EMPRESA Y PERFIL EXPORTADOR

2.1	¿Cuál es su cargo en la empresa?	Director o Gerente General	Gerente o Jefe de Exportaciones	Personal administrativo o de soporte	Otro (indicar):	
2.2	¿Cuántos años lleva trabajando en la empresa?	Menos de 5 años	5 a 10 años	10 a 15 años	16 a 20 años	Más de 20 años
2.3	¿Es su empresa una filial de otra(s) empresa(s)? Si la respuesta es Si por favor indique en que país se encuentra la empresa matriz:			Sí	NO	
2.4	Si exporta, ¿Cuántos años lleva exportando su empresa?	1 año o menos	1 a 2 años	2 a 3 años	3 a 4 años	5 a mas años
2.5	Nº de empleados	1 – 10	11 – 20	21 – 50	51 – 100	101 – 250
2.6	Volumen de facturación en el último ejercicio					Nuevo soles
2.7	Cuál es el porcentaje de sus ventas fuera del Perú en proporción al volumen de ventas total de su empresa en el último año					%
2.8	Si alguna vez ha efectuado exportaciones de servicios, qué modalidades de las siguientes ha empleado en la exportación de servicios (indique con una X la o las modalidades empleadas):					
a)	El servicio se elaboró en el Perú y se envió al extranjero a través de un medio físico (Comercio Transfronterizo).					
b)	El cliente del extranjero vino al Perú a comprar el servicio y luego lo utilizó en el extranjero (Consumo en el extranjero)					
c)	Abrí un sucursal de mi empresa en el extranjero (Presencia comercial)					
d)	Envíe personal de mi empresa a efectuar el servicio en el extranjero (Presencia de personas físicas)					

2.9 Por favor, indique con una X el o los países a los que ha exportado servicios:	
<p>AMERICA DEL SUR</p> <p>Argentina..... _____</p> <p>Bolivia (Estado Plurinacional de)..... _____</p> <p>Brasil..... _____</p> <p>Chile..... _____</p> <p>Colombia..... _____</p> <p>Ecuador..... _____</p> <p>Paraguay..... _____</p> <p>Perú..... _____</p> <p>Uruguay..... _____</p> <p>Venezuela (República Bolivariana de)..... _____</p> <p>AMERICA CENTRAL</p> <p>Costa Rica..... _____</p> <p>Cuba..... _____</p> <p>El Salvador..... _____</p> <p>Guatemala..... _____</p> <p>México..... _____</p> <p>Nicaragua..... _____</p> <p>Panamá..... _____</p> <p>AMERICA DEL NORTE</p> <p>Canadá..... _____</p> <p>Estados Unidos de América..... _____</p> <p>Otros (especificar):..... _____</p>	<p>EUROPA</p> <p>Alemania..... _____</p> <p>Dinamarca..... _____</p> <p>España..... _____</p> <p>Federación de Rusia..... _____</p> <p>Francia..... _____</p> <p>Italia..... _____</p> <p>Portugal..... _____</p> <p>Reino Unido de Gran Bretaña e Irlanda del Norte..... _____</p> <p>Otros (especificar):</p> <p>ASIA</p> <p>Especificar:..... _____</p> <p>AFRICA</p> <p>Especificar:..... _____</p> <p>OCEANIA</p> <p>Especificar:..... _____</p>

3. Estructura y desempeño del mercado

3.1 Considera que en la oferta de servicios de en el Perú: (Marcar con una X solo una opción)		
a) Hay muy pocos competidores (por ejemplo, si solo uno o dos proveedores controlan la oferta de servicios)	<input type="checkbox"/>	<input type="checkbox"/>
b) Hay muchos competidores y ninguno controla la oferta de servicios	<input type="checkbox"/>	<input type="checkbox"/>
c) Ni lo uno, ni lo otro	<input type="checkbox"/>	<input type="checkbox"/>
3.2 Considera que en la oferta de servicios de en el mercado internacional: (Marcar con una X solo una opción)		
a) Hay muy pocos competidores (por ejemplo, si solo uno o dos proveedores controlan la oferta de servicios)	<input type="checkbox"/>	<input type="checkbox"/>
b) Hay muchos competidores y ninguno controla la oferta de servicios	<input type="checkbox"/>	<input type="checkbox"/>
c) Ni lo uno, ni lo otro	<input type="checkbox"/>	<input type="checkbox"/>
3.3 Nombre hasta tres de sus principales competidores en el mercado internacional		
1.		
2.		
3.		
3.4 Nombre hasta tres de sus principales competidores en el mercado peruano		
1.		
2.		
3.		

3.3 Considera usted que la provisión de servicios de es: (Marcar con una X solo una opción)			
a)	Intensiva en capital físico (pe, inmuebles, maquina, equipos) pero no en capital humano especializado	<input type="checkbox"/>	<input type="checkbox"/>
b)	Intensiva en capital humano especializado pero no en capital físico	<input type="checkbox"/>	<input type="checkbox"/>
c)	ni lo uno ni lo otro	<input type="checkbox"/>	<input type="checkbox"/>
3.4 Para competir exitosamente en la provisión de servicios de debo invertir altas sumas de dinero en:			
a)	la publicidad y marketing de mis servicios y marcas	SI	NO
b)	la investigación y desarrollo de nuevos servicios	SI	NO
c)	la capacitación de mi personal	SI	NO
d)	Otros (especificar):		
3.5 En el mercado de servicios de en el Perú es frecuente observar (Marcar con una X solo una opción):			
a)	Una alta rotación de empresas (entran y salen del mercado nuevas empresas constantemente)	<input type="checkbox"/>	<input type="checkbox"/>
b)	Una alta permanencia de empresas ya establecidas	<input type="checkbox"/>	<input type="checkbox"/>
3.6 En el mercado internacional de servicios de es frecuente observar (Marcar con una X solo una opción):			
a)	Una alta rotación de empresas (entran y salen del mercado nuevas empresas constantemente)	<input type="checkbox"/>	<input type="checkbox"/>
b)	Una alta permanencia de empresas ya establecidas	<input type="checkbox"/>	<input type="checkbox"/>
c)	No conozco el nivel de rotación en el mercado internacional de servicios de		
3.7 En promedio, en el mercado local de servicios de es posible obtener márgenes de utilidad neta (anual) de: (Marcar con una X solo una opción):			
a)	Menos del 10%	<input type="checkbox"/>	<input type="checkbox"/>
b)	Entre 10% y 20%	<input type="checkbox"/>	<input type="checkbox"/>
c)	Entre 20% y 30%	<input type="checkbox"/>	<input type="checkbox"/>
3.8 En promedio, en el mercado internacional de servicios de es posible obtener márgenes de utilidad neta (anual) de: (Marcar con una X solo una opción):			
a)	Menos del 10%	<input type="checkbox"/>	<input type="checkbox"/>
b)	Entre 10% y 20%	<input type="checkbox"/>	<input type="checkbox"/>
c)	Entre 20% y 30%	<input type="checkbox"/>	<input type="checkbox"/>
d)	Más de 30%	<input type="checkbox"/>	<input type="checkbox"/>
e)	No conozco los márgenes de utilidad neta obtenibles en el mercado internacional de servicios de		
3.9 Con el fin de establecer contacto con clientes externos, ¿tiene su empresa una estrategia de exportación de servicios?			
Si la respuesta es Si, describir la estrategia (Ejemplos: cuentan con representantes legales u oficinas en el extranjero, efectúan publicidad en medios internacionales o en el país de destino de exportación, existe la obligación de que el personal de su empresa domine el idioma extranjero como mínimo, etc.)			
3.11 ¿Existe la posibilidad de que su empresa haya perdido un negocio real o potencial negocio en el extranjero?			
Sí, por un valor aproximado de S/.....			
No			

3.12 Si la respuesta es afirmativa, indicar con una aspa (X) las TRES principales razones por las que habría perdido un negocio real o potencial en el extranjero:		
Por no conocer el idioma y la cultura de los países demandantes		
Por no tener capacidad financiera para hacer frente a las necesidades de capital de trabajo		
Por dificultades para la obtención de visas		
Por la falta de convenios de doble tributación		
Por no tener acceso a información sobre demandas de servicios del exterior e inteligencia de negocios		
Por no tener los recursos humanos del nivel y especialización necesarios para hacer frente a las demandas de servicios del exterior		
Por no tener acceso a infraestructura física y tecnológica adecuadas		
Porque no existe un marco legal específico que promueva el desarrollo de mi sector y que promueva la exportación de mis servicios		
Porque la competencia de proveedores internacionales (incluidos los del país de destino) es muy intensa		
Porque no tengo no tengo una o algunas certificaciones internacionales		
Por restricciones legales o regulatorias en el país de destino		
3.12 Además de las anteriores, ¿existen otras razones que a su juicio limitan la exportación de sus servicios al exterior? (especificar):		
a)		
b)		
c)		
3.12 ¿Tiene su empresa intención de empezar a exportar en algún otro mercado fuera del país	SI	NO
Si la respuesta es SI, ¿en qué país(es)/ región(es)?:		
<p>AMERICA DEL SUR</p> Argentina..... _____ Bolivia (Estado Plurinacional de)..... _____ Brasil..... _____ Chile..... _____ Colombia..... _____ Ecuador..... _____ Paraguay..... _____ Perú..... _____ Uruguay..... _____ Venezuela (República Bolivariana de)..... _____	<p>EUROPA</p> Alemania..... _____ Dinamarca..... _____ España..... _____ Federación de Rusia..... _____ Francia..... _____ Italia..... _____ Portugal..... _____ Reino Unido de Gran Bretaña e Irlanda del Norte..... _____ Otros (especificar):	
<p>AMERICA CENTRAL</p> Costa Rica..... _____ Cuba..... _____ El Salvador..... _____ Guatemala..... _____ México..... _____ Nicaragua..... _____ Panamá..... _____	<p>ASIA</p> Especificar:.....	
<p>AMERICA DEL NORTE</p> Canadá..... _____ Estados Unidos de América..... _____ Otros (especificar):.....	<p>AFRICA</p> Especificar:.....	
	<p>OCEANIA</p> Especificar:.....	

