

SUPPORTING THE "CITIZENS PARTICIPATION PROGRAM" AND CAPITAL MARKET
DEVELOPMENT

(TC-94-05-24)

EXECUTIVE SUMMARY

EXECUTING AGENCY: Each of the three beneficiary institutions, COPRI, CONASEV, and the Lima Stock Exchange (see below), will be the executing agency for its respective subprogram. The United Nations Development Program (UNDP) will provide administrative support to all three agencies.

RECIPIENTS: COPRI, CONASEV and BVL.

OBJECTIVES: The project aims at increasing and diversifying citizens' ownership of Peruvian enterprises which have been privatized or are in the process of being privatized. The project also supports the expansion and better supervision of Peru's capital markets, thus increasing alternatives for raising capital and contributing to a more equitable distribution of the country's wealth and resources.

DESCRIPTION: MIF resources would be utilized to support three subprograms:

Subprogram I: Supporting the "Citizens Participation Program" (Programa de Participación Ciudadana) by supporting the Comisión de Promoción de la Inversión Privada (COPRI) in recruiting consulting services to: a) design the participation program and its main components; b) establish the appropriate legal framework; c) design and implement information systems for follow up and supervision and; d) design and implement education and dissemination program;

Subprogram II: Strengthening of Prudential Infrastructure (i.e. the Regulatory Framework) for Capital Markets by supporting Comisión Nacional Supervisora de Empresas y Valores (CONASEV) in: a) improving its ability to assure the transparency of information on securities; b) reviewing and improving the legal framework; c) designing a scheme to assure transparency of secondary markets operations; d) promoting securities markets as a source of financing for investment projects; e) establishing proper incentives and assure adequate oversight for the

growing mutual fund industry; f) providing related training for CONASEV staff, and g) upgrading CONASEV's information system and;

Subprogram III: Institutional Strengthening and Modernization of the Lima Stock Exchange, including: a) revision of Bolsa de Valores de Lima's (BVL) bylaws, internal exchange rules and securities prospectuses to bring them closer to the standards of the Group of 30 (G-30) industrialized countries; and b) recommend improvements in self regulation of the exchange.

FINANCING: Modality: Grant

PROJECT	MIF:	US\$1,730,500
AMOUNT:	Counterpart:	US\$1,906,500
	Total:	US\$3,637,000

ENVIRONMENTAL CLASSIFICATION: The Environmental Management Committee, at its meeting of 23 March, 1995, classified this as a Category II operation.

I. COUNTRY ELIGIBILITY

- 1.1 Peru was declared eligible for all modalities of MIF financing by the Donors Committee on December 14, 1993.

II. PROJECT

A. Background

- 2.1 The Government of Peru has been implementing since 1990 an aggressive stabilization effort aimed at eliminating most existing economic distortions, reducing the fiscal deficit and lowering inflation. Concurrent with the adjustment program, the government undertook a structural reform program, seeking to modernize the economy, reduce state participation and foster private investment. The government put in place a widespread reform plan which includes: (a) trade liberalization, (b) rationalization of government controls over economic activity, (c) renewal of normal relationships with the international financial community, and two comprehensive reforms directly related with the project proposed in this document; the financial sector reform and the privatization program.
- 2.2 The financial sector reform includes a combination of legal, regulatory and policy changes aimed at liberalizing the functioning of financial intermediaries by deregulating interest rates and credit allocation, establishing a stricter framework of prudential regulations and supervision, and reducing the role of the state in financial intermediation. Among the main elements of the reform are a new Banking Law, a new Capital Markets Law, redefining the role of securities brokers, and establishing the grounds for the expansion of the market and a new Pension System Law, privatizing the management of pension funds. Developments in the capital market have been moving fast, and recently the two stock exchanges, the Bolsa de Valores de Lima (BVL) and the Bolsa de Valores de Arequipa (BVA), have announced plans to merge; the BVL will buy out the owners of the BVA and there will be only one exchange. In other developments, eight new mutual funds were authorized by the end of January 1995 (bringing the total to 10 funds), and four new securities rating agencies will be authorized by March of this year.
- 2.3 The privatization program was initiated in 1991 by the Legislative Decree No. 674 of September 27, 1991, which established a simple and flexible framework aimed at facilitating rapid privatization, while ensuring transparency and strengthening public support for the program. According with that Decree, a central inter-ministerial commission - Comisión de Promoción de la Inversión Privada (COPRI) was established, under the direct supervision of the President, to be responsible for selecting the companies to be privatized, ensuring consistency throughout the privatization process, and resolving cross-sectoral issues. Implementation, intended to be as decentralized as possible, is carried out by

Special Committees (CEPRIs) which are designated by COPRI for either one or a group of companies.

- 2.4 The privatization program has been quite successful thus far, with eight Government owned companies and two Government share-holdings in other companies sold to private investors in 1992, 11 companies in 1993 and more than 17 in 1994 including in the latter: (a) the selling in February of the control of the telecommunications company Empresa Nacional de Telecomunicaciones (ENTEL) and Compañía Peruana de Teléfonos (CPT) for US \$2 billion to Telefónica in España; (b) the selling in July of two power distribution companies operating in the LIMA metropolitan area (EDELNOR and EDELSUR); and (c) the selling in July of INTERBANC, a commercial bank nationalized in the eighties.
- 2.5 The Government is now planning to broaden the scope of the privatization program by offering shares of privatized companies to the employees and to the general public, as a means to promote stock ownership on a broad, nationwide basis. The program, which is called "Programa de Participación Ciudadana en el Proceso de Privatización", will also be managed by COPRI.
- 2.6 As part of this initiative the Government of Peru approached the MIF to request financing for the Programa de Participación Ciudadana (Citizenship Participation Program). However, during the course of the negotiations it became clear that, due to the relatively low level of capital markets development in Peru, a successful implementation of the program depends upon a simultaneous implementation of the subprograms aimed at the institutional strengthening of Comisión Nacional Supervisora de Empresas y Valores (CONASEV) and the modernization of the Lima Stock Exchange.

B. Objective

- 2.7 In light of the above, the Government of Peru has requested MIF support through the Technical Cooperation Facility, for an eighteen-month program aimed at supporting the expansion of the country's capital markets and increasing and diversifying public ownership of Peruvian enterprises. A major thrust is to improve the "rules of the game" and the clarity and consistency with which they are applied. This will raise public confidence in the capital markets, and thereby increase the alternatives private sector firms have for raising funds for productive investment and facilitate the placement of Government's shareholdings among private investors. By reinforcing mechanisms to provide smaller investors with share ownership in these firms and to protect them against abuses of the system, the program will also contribute to a more equitable distribution of the country's wealth and resources.

C. Activities

- 2.8 The program comprises three subprograms to be implemented simultaneously but independently. (A table summarizing the program, including activities to be executed and expected achievements for each subprogram is presented as Annex I):

Subprogram A - "Programa de Participación Ciudadana"; Utilization of public offering of shares (POS) as a method of privatization.

Subprogram B - Strengthening of prudential infrastructure for capital markets and establishment of an appropriate legal framework by supporting Comisión Nacional Supervisora de Empresas y Valores.

Subprogram C - Institutional strengthening and modernization of the Lima Stock Exchange.

1. Subprogram A - "Programa de Participación Ciudadana"

a. Frame of reference

- 2.9 The "Citizenship Participation Program" represents a second, and more advanced step, in the Peruvian Privatization process. In the first part of the process, a controlling stake of Peruvian state-owned-companies was sold to strategic investors that, with their managerial capabilities and financial resources, are restructuring, rehabilitating and expanding the privatized companies. Now, as a sequence of the process the Government of Peru is offering its remaining shares in those companies to the employees and to the general public as a means to promote a broader stock ownership nationwide.
- 2.10 Eight companies have been selected for the program: two cement companies (Cementos Norte Pacasmayo - the first company to be offered to the public and Cemento Andino), four companies in the energy sector (the minority shareholding of EDELNOR and EDELSUR; Electronorte - a power generation company - and Petroperu -oil company), one telecommunications company (the minority shareholding of ENTEL) and the biggest commercial bank currently controlled by the public sector (Banco Continental).

b. Specific objective

- 2.11 The specific objective of the subprogram is to support COPRI in designing and implementing the "Programa de Participación Ciudadana en el Proceso de Privatización" aimed at supporting the expansion of the country's capital markets and increasing and diversifying public ownership of privatized enterprises. The program is targeted at selling majority and minority share-holdings having a total value of US\$300 million to at least 100,000 new shareholders.

c. Subprogram activities

2.12 To achieve the specific objective, MIF resources would be used to support:

- a) **Design of the program and its main components** - Under this component MIF resources would be used for the recruitment of consultants to support COPRI in: (i) **designing** the program; (ii) **designing and implementing** the marketing component; (iii) **designing and implementing** the education and dissemination component targeted to the employees of companies to be privatized; (iv) **designing and establishing** the institutional and administrative framework required to implement the program.
- b) **Establishment of the appropriate legal framework and preparation of the legal documents** - Under this component MIF resources would be used for the recruitment of legal advisers and financial sector specialists to: (i) design and establish the legal framework for program implementation and to prepare the required legal documents and regulations; (ii) prepare all the required documents related with selection and recruitment of consulting firms and investment banks to perform the evaluation of shares and other activities related with program implementation; (iii) design and implement a trusteeship and underwriting mechanism for the program.
- c) **Design and implementation of the information systems** - Under this component MIF resources would be used for the recruitment of consultants to support the design and implementation of the information systems required to implement, supervise and evaluate the program including: (i) development of a management information system to manage the selling process; (ii) development of a system to supervise the collection process and to manage the portfolio; (iii) development of a system to evaluate the program; (iv) resources will also be available for the purchase of equipment and training on systems utilization.
- d) **Education and dissemination component** - Under this component MIF resources would be used for: (i) implementation of the education and dissemination component; (ii) financing the preparation and printing of publications; (iii) recruitment and training of program disseminators; (iv) seminars and conferences to promote the program.

2.13 Due to the government's strong commitment to make stock ownership in the newly privatized companies widely and quickly available, and to avoid delays in project implementation, the Government requested, and the MIF Office agreed, that several of the activities listed above be initiated during project preparation, in particular the activities related with components (a), (b) and (c). The financing on retroactive basis is proposed for these activities in paragraph 2.30.

2.14 As a result of these activities a committee has been created, Comité Especial de Privatización (CEPRI), by Resolución Suprema 371-94, and has begun to process the transfer of shares to the public in small lots according to the approach developed by COPRI. The first company included in the program was Cementos Norte Pacasmayo and up to November 23, 1994, shares corresponding to 5% of the company's capital had been offered to the public. The success of the initial offering encouraged the Government to offer to the public additional shares corresponding to 4% of the social capital on December 10. As a result of the two offerings the Government transferred 9% of the social capital of Cementos Norte Pacasmayo to 6,600 new shareholders.

2.15 **Counterpart:** COPRI is fully committed to the program as evidenced by its allocation of counterpart resources in the form of goods, physical infrastructure and administrative staff. The total counterpart contribution is US\$ 72,100 which has been assigned as indicated in the budget following paragraph 2.25.

2. Subprogram B - Strengthening of prudential infrastructure for capital markets and establishment of an appropriate legal framework to promote public offering of shares.

a. Frame of reference

2.16 The securities markets in Peru are growing rapidly with well over three hundred issues registered at CONASEV, including 271 stocks and 44 debt or other obligations. Daily volume on the Lima and Arequipa exchanges grew from US\$2 million in 1992 to US\$8 million in 1993 and almost doubled that amount by year end 1994. Agreement has been reached for the Lima Exchange to buy out the Arequipa Exchange, and it is expected that the total volume, now concentrated on the Lima Exchange, will increase at comparable if not even greater rates. This growth is severely straining the capacity of both the exchanges and the government's oversight agency to assure that the markets are orderly and that the public is fully informed about the issues offered for trade. Specifically, the legal and regulatory framework has not kept pace with this growth; CONASEV cannot assure the timeliness and transparency of information about the securities listed on the market; mutual fund growth is straining the oversight mechanisms, and while CONASEV has recently successfully concluded its first prosecution of an insider trading case, much remains to be done to assure a fair and orderly securities market.

b. Specific objectives

2.17 The specific objectives of this subprogram are to (a) improve CONASEV's ability to assure the transparency of information about the securities listed on the market, (b) review the relevant legislation and regulations for discrepancies and propose specific amendments and modification as needed, (c) assure that the

operations on the secondary markets are transparent and detect abnormalities in a timely manner in conjunction with the BVL, (d) assist in the promotion of the securities markets as a source of financing for investment projects, (e) establish proper incentives and assure adequate oversight for the growing mutual fund industry, and (f) provide related training for CONASEV staff, (g) expand and modernize the information systems so to that they are able to fully support the increased workload of the agency.

c. Subprogram activities

2.18 Activities of this subprogram are divided into seven components corresponding to each of the objectives mentioned above. Consultants and software support services will be contracted to carry out these objectives as follows:

- (a) **Transparency of information about securities** - In order to improve the transparency to investors of the financial status and operations of listed companies, CONASEV will hire a consultant to recommend and implement methods for greater internal control, and better public dissemination of the large amount of information received by CONASEV from these companies. This includes not only all financial data but also information on important events occurring in the companies which could affect the value of their shares.
- (b) **Review the relevant legislation and regulations** - Because of the extreme importance of reviewing and improving the Securities Markets Law, a consultant has been hired for this purpose, and these expenses will be reimbursed from program funds. The consultant is also reviewing the "Ley General de Sociedades" and the "Ley de Accionariado Difundido" to ascertain areas of inconsistency with the Securities Law. Other areas include legislation pertaining to mutual funds, risk rating agencies, and self regulation.
- (c) **Transparency of secondary markets** - Transparency in the operation of the secondary markets itself will be enhanced by a consultant developing a data bank on the major players in the market with real time response capability in order to detect abnormal behavior and its possible causes such as the use of privileged information.
- (d) **Promoting the securities market** - Improved diffusion of information about, and promotion of the market will be attained by a consultant, providing an exhaustive analysis of CONASEV's current efforts in this area, including possible surveys of potential market participants to determine the causes of their past reticence to use the market. Proposals for changes will be made and specific recommendations for future publicity campaigns will be prepared.

- (e) **Incentives and oversight for mutual fund industry** - Given the recent explosive growth in the number of mutual funds authorized to operate in the market and the expectation of approval of additional funds, consultants will review and propose changes to the standardized reporting forms used by the funds and will design computer programs to oversee and control the actions of the funds.
- (f) **Training** - Only a few CONASEV professional staff members are fully cognizant of the agency's various objectives and the continually improving means for their implementation. In order for the majority of staff members who do not have this appreciation to better carry out their professional duties, training in agency operations will be provided.
- (g) **Upgrading information systems** - The above mentioned activities need extensive data processing support which in turn requires development of new, and modification of existing software. Outside programmers will be hired for much of the work and additional proprietary software packages will be purchased or leased.

2.19 **Counterpart:** CONASEV intends to make a major commitment of its own staff and support services to this program. As noted in the table following paragraph 2.25, counterpart resources ranging from half to almost five times the MIF funding will be provided in four out of the first six activities. (The other two activities require the use of outside consultants exclusively, thus do not incorporate any counterpart.) The final program activity, information systems, will be in support of these activities, and for this purpose CONASEV has engaged in a major expansion of its computer capacity. Approximately US\$ 1.5 million will have been expended during the period from the initial request for MIF assistance to the conclusion of the program, with \$250,000 to be expended after the project is begun. These expenditures plus the hiring of support staff and implementation of improved operating systems software represent a major commitment by CONASEV to the program objectives and are therefore included in the counterpart contribution to this subprogram. Estimates of the value of these counterpart contributions are contained in the budget presented below and include expenditures for hardware (US\$958,000), installations (US\$168,000), in-house staff support (US\$150,000), and software acquisition (US\$250,000).

3. Subprogram C - Institutional strengthening and modernization of the Lima Stock Exchange.

a. Frame of reference

2.20 As noted above, Peru is in the process of merging its two stock exchanges. The remaining exchange, the BVL, was created in 1970, but can trace its lineage back to 1860 when its predecessor began

operations as the Bolsa Mercantil. The Bolsa in Lima has reached a fair size, growing from a market capitalization of US\$ 0.8 billion in 1990 to a little over US\$ 8.2 billion by December, 1994. Listed companies number 251, and together they accounted for US\$ 3.7 billion of turnover last year. Presently, there are 35 broker/dealer members of the Exchange, but 49 memberships are authorized. Secondary trading of equities dominates the business of the Lima Exchange although it also has a money market and commodity market where fixed income instruments and commodity certificates of deposit are traded.

- 2.21 The BVL is beginning to realize economies of scale as its volume and liquidity grow. The Exchange is offering a wide variety of services such as securities registration, clearing and settlement, custody and transfer through the Caja de Liquidaciones (CADELI) and the Caja de Valores (CAVAL). Recently the Exchange has diversified the banks which it uses to carry out these settlements. The Exchange has also recently installed electronic trading and information systems that allow brokers to monitor trading and enter orders from a remote location on a real time basis. Such improvements to these and related systems (i.e. automated clearing and settlement, automated custody and transfer, netting and the movement toward de-materialization) are a significant step toward achieving the standards for clearing and settlement of the industrialized countries, commonly referred to as the Group of Thirty standards. ^{1/} The project would provide limited expert guidance to the BVL in support of its own efforts to achieve these standards. (As the BVL will have absorbed the Arequipa stock exchange by the time the program is approved, no separate technical assistance is planned for the latter institution.)

b. Specific objective

- 2.22 The major objective is to support improvements to the clearing and settlement procedures at the BVL so as to be able to attain the Group of Thirty (G-30) standards. Also, recommendations for better market self regulation will be made along generally recognized international standards.

c. Subprogram activities

- 2.23 This subprogram has two components as follows:

- (a) Provide the BVL with a clearance and settlement expert to prepare a checklist of G-30 clearance and settlement standards for a Central Securities Depository and to

^{1/} The Group of Thirty is a private sector group consisting of 30 of the world's largest financial institutions. In March 1989 they issued a series of recommendations for harmonizing clearing & settlement practices for markets around the world.

certify what standards have been met and what objectives remain to be completed. The consultant would work with members of the exchange to ensure a timely implementation of the standards.

- (b) Provide the BVL with a securities lawyer to examine the bylaws, internal exchange rules and securities prospectuses to ascertain, in the context of the CONASEV regulations, that generally recognized international standards have been met and what objectives remain to be completed.

- 2.24 **Counterpart:** It should be noted that the BVL will have to expand its computer capacity to handle the business drawn from the BVA and to meet the additional reporting and analysis demands resulting from the improvements to clearing and settlement and self regulation implemented as part of this program. These costs will be born entirely by the BVL and will represent the bulk of its counterpart contribution to the program. Other counterpart expenditures include the hiring of additional staff and purchase of new software.

d. Cost and financing

- 2.25 A detailed budget for the MIF Financing is presented in Annex II. A summary of the projected cost of each component, showing the portions to be financed with MIF and counterpart resources respectively is presented below:

PROJECT (US\$)			
ACTIVITIES	MIF	COUNTERPART	TOTAL
A. Citizenship Participation Program.			
Design of program/main components	228,000.0	15,000.0	243,000.0
Design legal framework/legal doc.	110,000.0	16,000.0	126,000.0
Design/implement. of infor. syst.	128,000.0	27,800.0	155,800.0
Education and dissemination	193,000.0	13,300.0	206,300.0
Contingencies	65,000.0	-	65,000.0
TOT. SUBPROGRAM A	724,000.0	72,100.0	796,100.0
B. Prudential Infrastructure/Legal Framework			
Information transparency	62,000.0	43,200.0	105,200.0
Market Legislation & Regulations	100,000.0	-	100,000.0
Transparency of Market Operations	110,000.0	144,000.0	254,000.0
Promotion of Securities Markets	30,500.0	-	30,500.0
Improvements to mutual funds	75,000.0	43,200.0	118,200.0
Training program	22,000.0	108,000.0	130,000.0
Information system	300,000.0	1,476,000.0	1776,000.0
Contingencies	95,000.0	-	95,000.0
TOT. SUBPROGRAM B	794,500.0	1,814,400.0	2608,900.0
C. Institutional Strengthening of the stock exchanges			
Preparation checklist and implementation of G-30 standards for development of Central Securities Depository for BVL	38,000.0	-	38,000.0
Design and implementation of an appropriate self-regulatory framework for BVL	38,000.0	-	38,000.0
Upgrading staff capacity	-	20,000.0	20,000.0
Contingencies	7,000.0	-	7,000.0
TOT. SUBPROGRAM C	83,000.0	20,000.0	103,000.0
Administrative Support Unit	80,000	-	80,000
Substantive Monitor (part-time consultant)	49,000	-	49,000
TOTAL	1,730,500	1,906,500	3,627,000

e. Organization and Execution

- 2.26 The Three Executing Agencies - Each of the three institutions of COPRI, CONASEV, and the Lima Stock Exchange will be the executing agency for its respective sub-program.
- 2.27 The Administrative Support Unit The Lima office of United Nations Development Program (UNDP) will be retained to assist the three executing agencies in the contracting, logistical coordination, and payment of the consulting and other services needed to carry the project activities. The UNDP will also provide an administrative link between the Bank and the three executing agencies in questions pertaining to program administration. (A private consulting firm to provide administrative support would be inappropriate for this program due to the conflict of interest inherent in CONASEV's position as supervisor of all private enterprises in Peru. Under these circumstances, the UNDP is the most adequate institution to provide such administrative services. Furthermore, the UNDP has been selected because of its experience in providing administrative support to Bank programs.)
- 2.28 In addition to providing accounting and other administrative support services, the UNDP will hire a part-time professional expert in privatization and capital market oversight issues. This individual will be expected to provide substantive assistance to the recipient agencies and the Bank in developing detailed terms of reference, selecting consultants, monitoring their progress, and preparing a final ex-post evaluation report.
- 2.29 Disbursement - The technical cooperation will be disbursed in accordance with Bank procedures and after evidence has been presented that:
- (a) a working plan for program execution and an implementation schedule of activities have been agreed to with the Bank, and
 - (b) a contract has been signed between the specialized multilateral agency and the three beneficiaries, satisfactory to the Bank in substance.
- 2.30 Retroactive financing - Due to the government's strong commitment to make stock ownership in the newly privatized companies widely and quickly available, several of the activities of the COPRI subprogram have already been initiated. A committee has been created (Comité Especial de Privatización - CEPRI) and has begun to process the transfer of shares to the public in small lots according to the approach developed by COPRI. Thus, some of the design aspects and legal framework have been completed (see paragraphs 2.12 and 2.13). Financing will also be made available to CONASEV to cover costs incurred by a legal expert who was hired to address pressing issues in the Securities Market Law (see paragraph 2.18 (b)). As these activities have been carried out according to Bank policy, i.e. subsequent to the receipt of the

formal request from the government (Letter from Minister of Economics and Finance, Jorge Camet to President Enrique Iglesias of 25 March, 1994), it is proposed that the associated costs up to a maximum of US\$ 600,000, should be financed retroactively from the proceeds of the MIF grant, following Bank policy for recognition of retroactive payments. After the financing is approved, the beneficiary will submit the necessary documentation to verify that Bank procedures have been followed and to qualify it for reimbursement. It should be noted that part of the counterpart resources are also being recognized retroactively.

f. Monitoring

- 2.31 The monitoring of the program will require the preparation of three reports by the Executing Agencies, at intervals of six months. The first two reports will include a review of program implementation to that date with particular attention to the achievement of the measurable targets presented at annex I, and may propose any modifications considered necessary in any one of the subprograms. They may also include, for the approval of the MIF Office, recommendations for any required reallocation of resources among the items of the budget. The final report will include the project evaluation and recommendations to the Government on the long term management of the program.

g. Viability and risks

- 2.32 The support program was designed to include all the activities required to ensure the achievement of the proposed objective and adequate flexibility has been built into the execution of the program in order to ensure its successful implementation.

III. COMPLIANCE WITH PROJECT ELIGIBILITY CRITERIA

A. General Criteria for Project Eligibility

- 3.1 The proposed project is fully consistent with the general purpose of the MIF which is to increase private investment and expand the private sector, thereby accelerating economic and social growth and development. The project is innovative and ultimately should stimulate growth of the capital markets and allow for a more equitable distribution of Peru's corporate wealth.

B. Facility Criteria for Project Eligibility

- 3.2 The proposal is also fully consistent with the criteria for MIF financing under the Technical Cooperation Facility, Article 3, Section 2 of the MIF Agreement, which establishes, among other criteria, that financing shall be provided to Governments to finance advisory services required to implement plans which are part of a comprehensive reform program aimed at improving the environment for investment. The Agreement further establishes that financing should also be provided to stock exchanges to finance assistance on developing and strengthening financial systems to expand capital markets by more direct, transparent, and up-to date information systems.

IV. CONSISTENCY WITH THE BANK'S COUNTRY PROGRAM

- 4.1 According to the Bank's Country Paper for Peru, the proposed operation is consistent with the corresponding strategy. Strengthening CONASEV and the exchanges to improve the capital market capacity is crucial in view of the expected rapid increase in private economic activity.

V. AVAILABILITY OF MIF RESOURCES

A. Funding Modality

- 5.1 The project is expected to be financed through a grant based on the following considerations: (i) Peru was declared eligible for all modalities of financing under the MIF by the Donors Committee and complies with the criteria of eligibility for obtaining grant

resources at the country level (Article 3, Section 5b of the MIF Agreement); (ii) the proposed project will have a catalytic impact on the flow of investment funds as required by Article 3 Section 5 (a) of the MIF Agreement as its objective is to improve Peru's capital markets, thereby increasing alternatives for raising capital and; (iii) MIF financing for the project will accelerate the implementation of a policy reform aimed at private sector development.

VI. EVALUATION

- 6.1 The results of this technical cooperation will be evaluated by the substantive project monitor subcontracted by the UNDP, under the supervision of the project team. The evaluation will assess the degree to which the specific objectives have been met and will be presented in the Project Completion Report.

ANNEX I

MIF - FACILITY I PERU - Supporting Capital Market Development		
Project General Objective Expand public ownership of Peruvian enterprises and improve the country's capital markets thereby increasing alternatives for raising capital and contributing to a more equitable distribution of the country's wealth and resources.		
Project Specific Objective Increase the public offering of shares in newly privatized enterprises and strengthen the securities markets and related prudential infrastructure.		
Sub-programs	Activities to be executed in each sub-program	Measurable targets
Support for "Programa de Participación Ciudadana"	Design of the program and its main components including marketing, education and dissemination component;	Program design concluded within 6 months of contract signature
	Establishment of the appropriate legal framework and preparation of the legal documents	Legal framework established within 6 months
	Design and implementation of the information systems to manage, supervise and evaluate the program and purchase of equipment and training on system utilization.	Information systems prepared within 9 months
	Education and dissemination component including printing of publications; training of program disseminators; and seminars and conferences.	Implementation initiated within 6 months
Strengthening of prudential infrastructure for capital markets	Improve CONASEV's ability to assure the transparency of information about securities listed on the markets.	Timely processing of information within 6 months
	Review relevant legislation and regulations for discrepancies and propose specific amendments and modifications .	Specific proposals for needed amendments within 6 months
	Assure transparent operation of secondary markets and detect abnormalities in a timely manner.	Measures implemented in 12 months

	Assist in the promotion of securities markets as a source of financing for investment projects.	Promotional material developed and disseminated within 12 months
	Establish proper incentives and assure adequate oversight for the growing mutual fund industry.	Specific proposals within 9 months
	Provide related training to CONASEV staff	Training completed within 18 months
	Information systems support	New software implemented in twelve months
Institutional strengthening and modernization of the capital markets	Provide the BVL with guidance in meeting G-30 standards with regard to its Central Securities Depository.	CSD implemented consistent with G-30 standards within 18 months
	Design and implement self-regulatory frameworks for the exchange.	Frameworks in place within 18 months

ANNEX II

DETAILED BUDGET (in US\$) OF MIF FINANCED ACTIVITIES

SUBPROGRAM A "Programa de Participación Ciudadana"

Component (a). Design of the program and its main components	228,000
Design of the program (12 professional months)	72,000
Design of the promotion component (12p/m)	48,000
Design of the education and dissemination components (12p/m)	36,000
Design and establishment of the institutional and administrative framework required to implement the program (24p/m)	72,000
Component (b). Design of the appropriate legal framework and preparation of the legal documents	110,000
Establishment of the legal framework . . .	50,000
Preparation of document for the bidding .	40,000
Design and implementation of a trusteeship and underwriting mechanisms	20,000
Component (c). Design and implementation of the information systems	128,000
Management Information system	38,000
Collection supervision system	30,000
Evaluation system	20,000
Equipment purchase	30,000
Training	10,000
Component (d). Education and dissemination component	193,000
Consulting services to implement the program (6p/m)	12,000
Publications	75,000

DETAILED BUDGET (in US\$) OF MIF FINANCED ACTIVITIES

Recruitment and training of program disseminators	56,000	
Seminars and conferences	50,000	
Subtotal: Subprogram activities		659,000
Contingencies		65,000
SUBTOTAL SUBPROGRAM A		724,000
 SUBPROGRAM B: Strengthening of prudential infrastructure for capital markets		
Component (a). Information Transparency		62,000
Specialist in Market Supervision (1.5 p/m)	\$30,000	
Accounting Specialist (1 p/m)	17,000	
Travel & Perdiem	15,000	
Component (b). Market Legislation and Regulations		100,000
Legal expert in Market Legislation (2 p/m)	45,000	
Legal expert in Market Regulations (1.8 p/m)	35,000	
Travel & Perdiem	20,000	
Component (c). Transparency of Market Operations		110,000
Specialist in Market Supervision (4.5 p/m)	90,000	
Travel & Perdiem	20,000	
Component (d). Promotion of Securities Markets as Financing Source		30,500
Specialist in Communications (1.5 p/m)	25,500	
Travel & Perdiem	5,000	

DETAILED BUDGET (in US\$) OF MIF FINANCED ACTIVITIES

Component (e). Improvements to Mutual Fund Oversight		75,000
Specialist in Mutual Fund		
Supervision (3 p/m)	60,000	
Travel & Perdiem	15,000	
Component (f). Related Training for CONASEV		
Staff		22,000
Training Specialist (1 p/m)	17,000	
Travel & Perdiem	5,000	
Component (g). Information Systems Support for Improved Transparency and Mutual Fund		
Supervision:		300,000
Information Systems Design and Programming Services	300,000	
Subtotal: Subprogram Activities		699,500
Contingencies		95,000
TOTAL SUBPROGRAM B		794,500

DETAILED BUDGET (in US\$) OF MIF FINANCED ACTIVITIES

SUBPROGRAM C: Institutional strengthening and modernization of the stock exchanges

1.1 Component (a). Professional services		
firm		38,000
a) Clearing and settlement expert for BVA		
(1.5 p/m)	30,000	
b) Travel & Perdiem	8,000	
2.2 Component (b). Design and implementation		
of an Appropriate Self-Regulatory		
Framework		38,000
a) Legal expert (1.5 p/m)	30,000	
b) Travel & Perdiem	8,000	
Subtotal: Subprogram Activities		76,000
Contingencies		7,000
TOTAL SUBPROGRAM C		83,000

ENTIRE PROGRAM

Subtotal: All Program Components	1,601,500
General Program Administrative/Support	80,000
Consultant to provide substantive	
monitoring/oversight	49,000
<u>GRAND TOTAL</u>	1,730,500

PROPOSED RESOLUTION

PERU. NON-REIMBURSABLE TECHNICAL COOPERATION TO FINANCE THE CITIZENS PARTICIPATION IN PRIVATIZATION AND CAPITAL MARKETS DEVELOPMENT PROGRAM.

The Donors Committee of the Multilateral Investment Fund

RESOLVES:

1. That the President of the Inter-American Development Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Multilateral Investment Fund, to enter into such agreements as may be necessary and to take such additional measures as may be pertinent for the execution of the project referred to in document MIF/AT- with respect to a technical cooperation with the Comisión de Promoción de la Inversión Privada (COPRI), la Comisión Nacional Supervisora de Empresas y Valores (CONASEV) y la Bolsa de Valores de Lima (BVL), de Perú, to develop a Citizens Participation in Privatization and Capital Markets Development Program.

2. That up to the amount of US\$ 1,730,500 is authorized for the purpose of this resolution, chargeable to the resources of the Technical Cooperation Facility of the Multilateral Investment Fund.

3. That the above-mentioned sum is to be provided on a nonreimbursable basis.