

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK
MULTILATERAL INVESTMENT FUND

PERU

CAPITAL MARKET DEEPENING

(PE-M1054)

DONORS MEMORANDUM

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BASIC SOCIOECONOMIC DATA

For basic socioeconomic data for Peru, including public debt information, please refer to the following address:

<http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata>

INFORMATION AVAILABLE IN THE MIF FILES

Preparation:

Articles of incorporation of the Bolsa de Valores de Lima, S.A. (BVL)

Memorandum on the BVL's procurement procedures

October 2007 survey on potential BVL corporate issuers

Institutional assessment of executing agency: Bolsa de Valores de Lima, S.A.

ABBREVIATIONS

AWP	Annual work plan
BCRP	Banco Central de Reserva del Perú [Central Reserve Bank of Peru]
BVC	Bolsa de Valores de Colombia [Colombian Stock Exchange]
BVL	Bolsa de Valores de Lima, S.A. [Lima Stock Exchange]
CONASEV	Comisión Nacional Supervisora de Empresas y Valores [National Corporations and Securities Oversight Commission]
PEU	Project execution unit
PFM	Pension fund manager
SBS	Superintendencia de Banca, Seguros y AFP [Office of the Superintendent of Banks, Insurance Companies, and Pension Fund Managers]
SMEs	Small and medium-sized enterprises
SNI	Sociedad Nacional de Industrias [National Council of Industry]

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EXECUTIVE SUMMARY

Executing agency:	Bolsa de Valores de Lima, S.A. (BVL) [Lima Stock Exchange]						
Beneficiaries:	Medium-sized companies, ¹ consultants, market agents, stock market investors.						
Financing:	<table> <tr> <td>MIF (nonreimbursable):</td><td>US\$502,960 (52%)</td></tr> <tr> <td>Local counterpart:</td><td>US\$470,600 (48%)</td></tr> <tr> <td>Total:</td><td>US\$973,560 (100%)</td></tr> </table>	MIF (nonreimbursable):	US\$502,960 (52%)	Local counterpart:	US\$470,600 (48%)	Total:	US\$973,560 (100%)
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Local counterpart:	US\$470,600 (48%)						
Total:	US\$973,560 (100%)						
Objectives:	The project goal is to contribute to the steady deepening of the Peruvian capital market by expanding and diversifying the universe of issuers. The purpose is to foster knowledge of the opportunities, costs, and requirements for participating in the stock market among medium-sized companies, and to promote and facilitate their access to it, achieving a demonstration effect as to the feasibility and benefits of a public security issue for such companies.						
Execution timetable:	<table> <tr> <td>Execution period:</td><td>48 months</td></tr> <tr> <td>Disbursement period:</td><td>54 months</td></tr> </table>	Execution period:	48 months	Disbursement period:	54 months		
Execution period:	48 months						
Disbursement period:	54 months						
Special contractual clauses:	As conditions precedent to the first disbursement, the following will occur, to the Bank's satisfaction: (i) delivery of the annual work plan for the first year of the project; (ii) BVL approval of the Operating Regulations; and (iii) establishment of the project execution unit (PEU).						
Environmental and social review:	The Environmental and Social Review Secretariat reviewed the project on 12 May 2008, approving it with a category "C" classification.						

¹ Medium-sized companies are nonfinancial companies that bill between US\$5 million and US\$100 million, and financial companies with assets under US\$500 million.

I. FRAME OF REFERENCE AND RATIONALE

A. Context

- 1.1 In the last six years, the Peruvian economy has combined average annual growth of over 6% with inflation in the order of 2% per year, external surpluses, and fiscal discipline, earning it an investment grade rating from the international risk rating agency Fitch. A robust, stable domestic economy, coupled with the favorable international climate, improvements in the regulatory environment, and rapid growth of pension fund managers (PFMs), have driven expansion of the capital market.² Between December 2001 and December 2007, total capitalization of the shares listed on the Lima Stock Exchange—Bolsa de Valores de Lima, S.A. (BVL)—rose from US\$17.3 billion to US\$108 billion (equivalent to nearly 100% of GDP), while the total stock of fixed-income instruments grew from US\$3.8 billion to US\$11.6 billion. In the same period, the annual trading volume in fixed- and variable-income securities rose from US\$3.4 billion to US\$13 billion.³
- 1.2 Despite these developments, access to the stock market by new businesses, particularly smaller ones, has been limited.⁴ Between 2004 and 2007, just 10 companies with sales revenue under US\$100 million issued securities on the Lima Stock Exchange (four of them had sales under US\$40 million). These new issuers offered commercial paper (6) and longer-term fixed interest instruments (4). Since 2006, and despite attractive appreciation and low rates, only three businesses in this segment accessed the market, all of them with short-term instruments.
- 1.3 This phenomenon is explained by several factors, including: (i) the resistance of mainly family-owned businesses to opening their equity and books, modernizing their corporate governance, and installing professional management equipment and systems; (ii) lack of knowledge about the financing options offered by the market, the process of going public, and the costs and internal changes entailed;⁵ (iii) the cost of preparing and floating an issue, in both time and money, which are high relative to the size of the issue;⁶ and (iv) a regulatory environment that imposes procedures perceived as slow and bureaucratic by issuers, and restrictive by investors.⁷

² The assets managed by the PFMs increased from US\$3.6 billion in December 2001 to US\$21.1 billion in February 2008.

³ Sources: World Federation of Exchanges, CONASEV.

⁴ The increase in market capitalization in the last six years is accounted for almost exclusively by the rise in value of securities, given that only one initial public offering (IPO) was made during that period.

⁵ A 2007 BVL survey of 89 small and medium-sized companies showed that only 29% knew the requirements for listing securities on the exchange.

⁶ A recent report by the Central Reserve Bank of Peru (BCRP) notes that the total cost of floating a US\$5 million bond issue is 2.26% of the issue (plus 0.81% annual maintenance costs), and the equivalent figures for a US\$50 million issue are 0.44% and 0.18%, respectively.

⁷ PFMs, for example, can only invest in shares with risk levels declared acceptable by the Office of the Superintendent of Banks, Insurance Companies, and Pension Fund Managers (SBS), which bars them from investing in small issues and initial public offerings.

- 1.4 Regarding this last point, the Peruvian government made it a priority to improve access to financing for small and medium-sized enterprises, and has established a task force led by the Ministry of Economic Affairs and Finance, with representatives of the Central Reserve Bank of Peru (BCRP) and the Office of the Superintendent of Banks, Insurance Companies, and Pension Fund Managers (SBS), to make recommendations on capital market reform. The new administration of the National Corporations and Securities Oversight Commission (CONASEV) has set the goal of shortening processing times and facilitating procedures related to stock market issues.
- 1.5 Despite the current restrictions, there is reason to believe that it will be more feasible in future for smaller companies to access the public stock market. The demand for securities is significant and growing. In addition to PFMs, mutual funds, which face fewer regulatory restrictions and have less conservative risk profiles, have already amassed more than US\$4.8 billion in their investment portfolios (150% more than 18 months ago), while insurance companies manage portfolios in excess of US\$3 billion. The recent risk rating upgrade of Peru's long-term debt in foreign currency should help to boost the interest of foreign investors in Peruvian paper. Also, as yields on Peru's public debt fall owing to less perceived risk, incentives are created to make investment requirements for the PFMs more flexible so they can further diversify their portfolios and increase their exposure to higher-risk assets.
- 1.6 On the supply side, the higher appreciation and lower rates resulting from growth in the demand for securities should prompt companies to consider the capital market as a financing option. The proliferation of private equity funds—17 as of end-2007 with assets of US\$650 million—should also help new companies to get listed on the exchange, to the extent that they introduce professional management systems and better corporate governance standards and seek alternative outlets for their investments. The economic boom in recent years has strengthened a considerable universe of companies whose size (US\$5 million to US\$100 million in sales) makes their access to the stock market feasible. The Lima Stock Exchange estimates that there are approximately 500 businesses in this segment in Peru, and a survey conducted last year of 89 of them showed that 21.3% were willing or very willing to go public, and more than half of the 78.7% that were less, somewhat, or not willing to do so said it was due to a lack of knowledge or information about the market and the process of becoming listed.
- 1.7 In this context, the BVL has decided to follow a more aggressive strategy for education and promotion among companies in this target group, to deepen their knowledge of the benefits, costs, and obligations entailed in accessing the stock market. A key part of this strategy is to provide companies interested in accessing the market with training, assistance, and support in the process of preparation and internal transformation they must undergo to be successful. The objective is to nurture a cohort of new issuers and create a demonstration effect of the feasibility

of this avenue of financing for smaller companies and the attractiveness of this paper to institutional and individual investors.

B. Rationale

- 1.8 This program seeks to promote the deepening of the Peruvian capital market by enabling smaller companies—with incremental emphasis on the smallest and giving priority to those located outside Lima—to gain access to financing through the stock exchange. The program has been designed to address some of the key constraints currently faced by those companies in gaining access to the market, such as the lack of knowledge and being unwilling or unable to undertake the internal changes and preparations necessary for a successful issue. Participating in the stock markets would permit those companies to extend the term and reduce the costs of their financing, diversify their sources of capital, and gain access to a wide array of financial instruments tailored to their particular requirements. At the same time, the process of going public creates positive externalities for companies, since it spurs them to modernize their corporate governance and professionalize their management, contributing to faster and more orderly and sustainable growth of their productive activity. This, in turn, helps to invigorate and diversify a key segment for job creation and the national economy as a whole.
- 1.9 The MIF has supported other stock markets in the region in their efforts to deepen capital markets and facilitate access by companies. The most noteworthy example is the project being carried out with the Colombian Stock Exchange (Bolsa de Valores de Colombia, BVC) (ATN/MT-9452). The design of the present project builds on the pioneering work done in Colombia (indeed, two members of the project execution unit will travel to Bogotá to learn first-hand about what the Colombian Stock Exchange is doing). It also includes certain innovations, such as an emphasis on smaller companies and companies located outside the capital city, and coordination with the Inter-American Investment Corporation (IIC) to support issues by firms participating in the program with potential partial guarantees or underwriting. The IIC's support for new issuers would not simply help to make their offerings feasible and therefore contribute to the success of the program; it would also create new clients and demand for its products.
- 1.10 In Peru, the MIF is supporting an operation with Sociedad Nacional de Industrias (SNI) (ATN/ME-10782-PE) that includes a component to assist family companies to improve their corporate governance and management. Activities under the present project in this area will coordinate closely with that operation, to ensure complementarity. This project also complements the support provided by the MIF for the “Invest Program” of the Asociación de Empresas Promotoras del Mercado de Capitales (PROCAPITALES) [Association of Capital Market Development Companies] in Peru (ATN-MT-8244-PE). While the former took an approach more centered on venture capital as a source of financing for smaller companies, the latter seeks to help make the public stock market a viable financing alternative for this business segment and an outlet for private equity funds that will encourage those

companies to increase their activity levels and enable them to “recycle” their resources and invest them in new companies.

II. THE PROGRAM

A. Objectives and description

- 2.1 The project *goal* is to contribute to the steady deepening of the Peruvian capital market by expanding and diversifying the universe of issuers. The *purpose* is to foster knowledge of the opportunities, costs, and requirements for participating in the stock market among medium-sized companies, and to promote and facilitate their access to it, achieving a demonstration effect as to the feasibility and benefits of a public security issue for such companies.

B. Components

- 2.2 **Promotion and awareness-raising of potential issuers (MIF: US\$242,150; Counterpart: US\$113,700).** The purpose of this component is to increase knowledge of the benefits, opportunities, costs, and challenges associated with access to financing through the stock market, particularly among the target segment of medium-sized companies. A secondary purpose is to build awareness among market agents (consultants, brokerage firms, investment bankers, lawyers, institutional investors, etc.) of the business opportunities that exist in the niche of smaller issuers.
- 2.3 This component includes the following activities: (i) design and production of specialized information materials on the stock market and the program, and its publication in printed form and on the Internet; (ii) a series of publicity activities including a targeted campaign in the media, involving the major newspapers and business magazines, an event to launch the program, periodic press conferences, activities to establish relationships with market agents, business associations, and investors, and a direct marketing strategy targeted to some 500 companies in the segment that the BVL views as potential issuers; and (iii) a program of conferences and workshops in Lima and provincial capitals with companies from the target group interested in learning more about the stock market.
- 2.4 The cycle of conferences will include four annual events, two in Lima and two in the provinces, during the first two years of the program, and one annual event in Lima and another in the provinces during the second two years (the six events outside the capital will be held in different provinces). The conferences will deal with general topics related to the program and the stock market and will present success stories of issuers in Peru. Presenters will include international and national experts in capital markets, representatives of the BVL and CONASEV, consultants and other relevant market agents, typical institutional investors and shareholders, and senior executives from companies that have successfully issued securities on the BVL.

- 2.5 The workshops will be smaller and will include more detailed treatment of the opportunities, risks, and obligations associated with accessing the stock market. They will examine the importance of finding the optimal financing structure, which is fundamental for understanding the special needs of each company, as well as the legal structure and information, management, and corporate governance systems that every company wishing to list should have. To make the workshops a success, experts such as specialists in investment banking, consultants, and lawyers will give presentations. The participants will be given detailed materials on the subjects discussed. These seminars will be held twice a year and target companies that have expressed an interest in learning more about the stock market as a financing alternative and about the processes entailed.
- 2.6 The expected outcomes of this component are: (i) compilation of a database of companies in the target group and the preparation and publication of a series of promotional and technical materials on the stock market; (ii) contact with and distribution of information to approximately 500 companies; (iii) attendance by at least 300 companies at the program's conferences in Lima and the provinces; (iv) attendance at the workshops by at least 100 companies; (v) by the end of year two, some 50% of the companies in the target group will understand the requirements for listing securities on the BVL (compared to approximately 29% at present), and the figure will rise to 75% by the end of the program.
- 2.7 **Support for new issuers (MIF: US\$217,320; Counterpart: US\$259,900).** The purpose of this component is to enable medium-sized companies not previously listed on the BVL to float fixed- or variable-income securities on the public stock market, through a process of training, advisory services, support, and incentives.
- 2.8 This component includes the following activities: (i) the evaluation and selection of program participants following objective criteria established in advance; (ii) preparation by the project execution unit (PEU), with support from a qualified consultant, of a diagnostic study of the operational, legal, and financial situation of each participating company and a work plan for internal changes and steps to be followed to make a future issue; (iii) identification and prequalification (based on their suitability, experience, and interest) of market agents (brokerage firms, consultants, investment bankers, lawyers, etc.) to work with the project;⁸ (iv) signature of letters of commitment with the selected companies in which they undertake to carry out the changes and processes necessary for the issue; (v) holding of eight match-making events⁹ with prequalified advisors and market agents; (vi) support and advisory services by the PEU for participating companies in implementing their work plans for a potential issue; and (vii) payment of a

⁸ The program will pursue agreements with the prequalified market agents, to obtain discounts on their standard fees and other benefits for the participating companies that contract their services.

⁹ Match-making events enable participating companies to make contact with structureres, lawyers, consultants, and other market agents and find out whether their needs for advisory services match what those firms can offer them.

US\$10,000 “prize” to the first 17 participating companies that successfully go public on the BVL during the program execution period.

- 2.9 To be eligible to participate in the program, companies must meet the following requirements: (i) not to have issued any securities through the BVL; (ii) have been operating for at least three years; and (iii) be legally incorporated and domiciled in Peru. In addition, to encourage smaller companies to enter the program and gain access to the market with greater facility, caps will be placed on sales/assets for eligible companies, and these will be gradually lowered.¹⁰ For nonfinancial companies wishing to participate in the program, maximum annual sales will be US\$100 million in year one of the program, US\$80 million in year two, US\$60 million in year three, and US\$40 million in year four. Maximum assets for financial companies will be US\$500 million in year one, US\$400 million in year two, US\$300 million in year three, and US\$200 million in year four.
- 2.10 Companies meeting the eligibility criteria that wish to apply for a place in the program must submit the following documents to the BVL: (i) the company’s incorporation papers and a letter from its legal representative, applying for the program; (ii) financial statements for the last two years; and (iii) a document up to five pages in length that includes: (a) basic information on the company (year founded, main activities, sector, and main shareholders); (b) a brief description of the objectives of financing through the BVL and the uses planned for the funds obtained; and (c) as applicable, efforts or measures taken so far to facilitate listing on the exchange.
- 2.11 The documentation submitted by the companies will be evaluated by the PEU and will serve to select an average of about 15 companies each year as program participants and beneficiaries of the advisory and support services offered under this component. The PEU will select the participating companies based on criteria presented in Annex V, which measure such aspects as financial feasibility and level of commitment. Additional points will be awarded to smaller companies, companies located outside Lima, and companies that have taken steps to facilitate an offering, such as preparing audited financial statements or opening their equity to an institutional investor (private capital fund, etc.).
- 2.12 Since the companies eligible for the program correspond to the IIC’s target market segment,¹¹ the program will serve as a conduit through which the IIC can explore options for potential financial support of their issues. This potential backing would help to make the offerings feasible by improving credit/risk profiles. Although it is difficult for the IIC to determine the features of a facility or program to provide support a priori, before demand has been demonstrated, it has shown interest in joining the project and is willing to sign a memorandum of understanding with the

¹⁰ “Junior” mining companies interested in listing in the Venture Capital Segment of the BVL will not be eligible to participate in the program.

¹¹ The IIC focuses on nonfinancial companies with sales under US\$100 million and financial institutions with assets under US\$500 million.

- BVL giving it access to information on the participating companies and the option, on a “best efforts” basis, to support offerings under the program with a partial credit guarantee or partial underwriting.
- 2.13 The “prize” of up to US\$10,000 is intended to motivate the program participants to make a successful offering of securities on the BVL. This prize or incentive, to be paid in equal parts by the BVL and the MIF, consists of a cash reimbursement of a portion of the costs incurred in relation to the offering process (advisory support, registration and placement costs, etc.). According to BCRP estimates, the reimbursement will be equal to approximately 9% of the cost of a typical corporate bond issue of US\$5 million.¹² The smaller the company and the smaller its offering, the greater the relative magnitude of the reimbursement.
- 2.14 The reimbursement will be available to the first 17 companies participating in the program that float an issue of shares, bonds, or other financial instrument through the BVL during the program execution period, and are able to place at least 65% of the tranche offered on the market.
- 2.15 The expected outcomes of this component are: (i) 80 applications to participate in the program (30 in the first two years); (ii) 50 companies selected as program participants using selection criteria agreed on with the IDB (15 in the first two years); (iii) a list of at least 20 market agents/advisors prequalified to assist the participating companies; (iv) 45 diagnostic studies and work plans produced by specialized consultants and the BVL team (13 in the first two years); (v) 40 letters of commitment signed by companies and the BVL regarding their participation in the program (11 in the first two years); and (vi) 15-20 new medium-sized companies successfully offering issues on the BVL, including at least five smaller firms and three domiciled outside Lima (5 new medium-sized issuers in total in the first two years of the program).
- 2.16 **Dissemination of outcomes and lessons learned (MIF: US\$16,490; Counterpart: US\$13,000).** The purpose of this component is to disseminate the outcomes and lessons learned from the project by producing and publishing a compendium of case studies of companies involved in the program, a summary of the outcomes, lessons learned, and recommendations for future actions. A forum will be held attended by companies that issued securities, other companies interested in making initial public offerings, bankers, advisors and institutional investors, specialized journalists, and other opinion leaders.

III. COST AND FINANCING

A. Budget

- 3.1 The total cost of the project is US\$973,560. Of that amount, US\$502,960 (52%) in nonreimbursable resources will be provided by the MIF, and US\$470,600 (48%) by

¹² The BVL will establish a list of expenditures that can be recognized and a schedule of maximum unit costs that can be paid at a rate of not more than 80% of the total cost incurred.

the local counterpart, which will be contributed by Bolsa de Valores de Lima, S.A. Approximately 98% of the local counterpart contribution will be in cash.¹³ Annex II presents the itemized budget.

Components	MIF contribution	Counterpart			TOTAL	%
		In cash	In kind	Total		
I Promotion and awareness-raising of potential issuers	242,150	113,700	-	113,700	355,850	37%
II Support for new issuers	217,320	259,900	-	259,900	477,220	49%
III Dissemination of outcomes and lessons learned	16,490	13,000	-	13,000	29,490	3%
Administration	-	39,000	10,000	49,000	49,000	5%
Audits	15,000	-	-	-	15,000	1%
External evaluations	12,000	15,000	-	15,000	27,000	3%
Contingencies	-	20,000	-	20,000	20,000	2%
TOTAL	502,960	460,600	10,000	470,600	973,560	100%
	52%	47%	1%			

B. Financing

- 3.2 The sustainability of the project is guaranteed because the BVL intends to keep the area to promote and attract issuers in the Sales Manager's Office active and will include it in its operating budget. This decision by the BVL's board of directors will be made official at its next meeting. This area has been created for execution of the present program, and is composed of the four people who will form the PEU. In future, they will be able to leverage their work on the materials and processes designed and implemented by the program, the relationships they develop with companies and market agents as part of it, and the experience and lessons learned during its execution.

IV. PROGRAM EXECUTION

A. Executing agency

- 4.1 The executing agency is the Lima Stock Exchange—Bolsa de Valores de Lima, S.A. (BVL)—founded in 1971 and established as a corporation on 1 January 2003. Its principal corporate purpose is to facilitate the trading of registered securities, providing services, systems, and mechanisms for fair, competitive, orderly, ongoing, and transparent intermediation in public securities, derivatives, and other financial instruments, as established in the Securities Market Act and its associated rules and/or implementing regulations.

¹³ The nearly full-time commitment of the four members of the PEU to the project will be counted as a contribution in cash: a project leader (90% commitment), a legal coordinator (70%), an administrative/accounting/financial coordinator (100%), and an operations assistant (80%).

B. Project execution and management

- 4.2 **Execution mechanism.** The BVL has a trained technical and administrative team to execute the project and has established a specialized project execution unit (PEU) to perform the work. The PEU, created especially for this project and designated as the area to promote and attract issuers in the Sales Manager's Office of the BVL, is composed of a project leader, a legal coordinator, an administrative/accounting/financial coordinator, and an operations assistant. These people, contracted by the BVL following its selection and hiring criteria, will work on the project virtually full-time while it lasts. The BVL will pay their remuneration, which will be charged against the counterpart contribution based on the percentage of the total time each of them devotes to the project. The PEU will report to the Sales Manager who, in turn, reports to the General Manager of the BVL.
- 4.3 Broadly speaking, the PEU's functions will be to: (i) prepare and execute the annual work plans (AWPs), including advisory services for the participants, organization of promotion and awareness-raising activities, and the preparation of publicity materials; (ii) procure and supervise procurement of goods and services in accordance with Bank policies and procedures; (iii) conduct day-to-day business with the companies participating in the program, market agents, and others important for the success of the project; (iv) supervise the timely and effective execution of the project components; (v) submit disbursement requests to the Bank; (vi) prepare and present statements of account and management reports to the General Manager of the BVL and the Bank; and (vii) monitor the performance indicators established in the logical framework.
- 4.4 **Conditions precedent to the first disbursement.** As special conditions precedent to the first disbursement, the following will occur, to the Bank's satisfaction: (i) delivery of the AWP for the first year of the project; (ii) BVL approval of the Operating Regulations; and (iii) establishment of the PEU.
- 4.5 **Results-based disbursements.** The project disbursements will be conditional on meeting the milestones agreed upon by the executing agency and the MIF, as verified by the agreed means. Meeting these milestones does not relieve the executing agency of its responsibility to achieve the project goals. The milestones will be set for the entire life of the project in the first AWP, based on the performance indicators established in the project logical framework. The milestones may be revised.

C. Execution period and disbursement timetable

- 4.6 The program execution period will be 48 months, and the disbursement period will be 54 months. The Bank will establish a revolving fund of up to 20% of the MIF contribution.

D. Procurement

- 4.7 The BVL will conduct its procurement and contracting processes in accordance with Bank policies (documents GN-2349-4 and GN-2350-4) and the MIF guidelines, following established private-sector practices. The procurement plan (see Annex IV) will be reviewed annually. Procurements will be subject to ex post review, based on the risk analysis that showed BVL's strong institutional capacity and a low level of risk in its expenditure and procurement management.
- 4.8 **Recognition of expenditures against the local counterpart.** The Bank may recognize against the local counterpart resources up to US\$25,000 equivalent in expenditures made from 7 April 2008 onward under the following budget lines for Component I in relation to the project launch, provided that requirements substantially similar to those established in the relevant technical cooperation agreement were met: (a) press events and participation in specialized media; (b) public relations activities; (c) development of information materials on the project; (d) development of database on target companies; (e) design of workshops and conferences; and (f) holding conferences.

V. MONITORING AND EVALUATION

A. Evaluation

- 5.1 The Bank will contract external consultants directly with funds from its own contribution to perform midterm and final evaluations. The midterm evaluation will be performed 24 months after the project begins, or once 50% of the MIF contribution has been disbursed, and will be based on the indicators in the logical framework. Based on the report, the Country Office and project team will determine what adjustments are required to make the project more effective, or whether it should be suspended or cancelled. The final evaluation will be performed once 95% of the MIF resources have been disbursed. The BVL will conduct an ex post evaluation three years after the end of the project, and deliver the findings to the Bank.

B. Monitoring

- 5.2 The PEU will prepare and deliver progress reports to the Bank within 30 days after the close of each six-month period, and a final report within 90 days after the last disbursement. The reports will follow a format agreed upon in advance with the project team, and will discuss project activities and finances and outcomes measured using the indicators and parameters established in the logical framework. The project team will use these reports to track progress in project execution and to prepare a project completion report within three months after the last disbursement. A closing workshop will be scheduled for the end of execution to evaluate the outcomes achieved and actions required to heighten the project's impact.
- 5.3 The executing agency will establish and will be responsible for maintaining effective financial accounting, internal control, and record-keeping systems for the

project. The project financial statements will be prepared by the executing agency at the end of project execution. The executing agency will commission independent auditors (firms or individuals) to audit those financial statements immediately after the periods indicated. The auditors will also perform periodic ex post reviews of the procurement processes and the supporting documentation for disbursement requests on an annual basis. The type and timing of the reviews may be modified by the MIF based on the findings and/or subsequent risk analyses conducted by the MIF during the project. The cost of the audits and the ex post reviews will be financed out of the MIF contribution in accordance with Bank procedures.

VI. BENEFITS AND RISKS

A. Beneficiaries

- 6.1 The beneficiaries will be small and medium-sized companies, structureres, consultants, brokerage firms, and other market agents, and investors in the Peruvian stock market.

B. Risks

- 6.2 The following main risks to the operation's success have been identified: (i) there may not be enough companies in the target segment willing to share their financial information, open their equity, and take the other actions entailed for a securities issue; (ii) consultants and market agents may not become actively involved with this business segment; and (iii) economic and market conditions may deteriorate internationally and in Peru, affecting demand for new securities issued on the BVL.
- 6.3 To mitigate the first risk, the project includes a systematic and comprehensive strategy for information, communications, training, and advisory services targeted to managers and shareholders of companies in the target group, to "educate" them about the benefits, challenges, and steps required to float an issue, and a monetary incentive for companies that do so. In addition, market agents consulted and the recent survey by the BVL indicate that the expected demand will materialize, and the risk that this will not occur is small.
- 6.4 Regarding the second risk, the project provides for a close relationship with market agents, to inform them about the program and bring them into it, as well as match-making events to put them in contact with potential clients among the participating companies.

VII. ENVIRONMENTAL AND SOCIAL REVIEW

- 7.1 The Environmental and Social Review Secretariat reviewed the project on 12 May 2008, approving it with a category "C" classification.

**CAPITAL MARKET DEEPENING
(PE-1054)
LOGICAL FRAMEWORK**

SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
GOAL			
To contribute to the steady deepening of the Peruvian capital market by expanding and diversifying the universe of issuers.	Three years after the end of the project, 45 new medium-sized companies ¹ issuing fixed- or variable-income securities have joined the Lima Stock Exchange (BVL), including 15 smaller companies ² and 10 outside Lima.	<ul style="list-style-type: none"> Register of companies listed on the BVL Financial statements of companies listed on the BVL 	<ul style="list-style-type: none"> Favorable economic conditions are maintained. The stability of international and national capital markets is maintained.
PURPOSE			
To foster knowledge of the opportunities, costs, and requirements for participating in the stock market among medium-sized companies, and to promote and facilitate their access to it, achieving a demonstration effect as to the feasibility and benefits of a public security issue for such companies.	<p>By project end:</p> <ol style="list-style-type: none"> 15-20 participating companies are listed on the BVL (5 by the end of year 2). <ul style="list-style-type: none"> 5 smaller companies 3 from outside Lima 75% of all companies in the target group know about the requirements for listing on the BVL.³ <ul style="list-style-type: none"> 50% at the end of year 2. 	<ul style="list-style-type: none"> Register of companies listed on the BVL Survey of a representative sample of the universe of companies in the target group 	<ul style="list-style-type: none"> The country's economy performs well. International capital markets are stable. The BVL and the market agents actively promote new issuers.

¹ Medium-sized companies (the “target group”) are nonfinancial companies with sales revenue between US\$5 million and US\$100 million (excluding junior mining companies from the venture capital segment of the BVL), and financial companies with assets under US\$500 million, in both instances in the calendar year prior to the initial offering. Baseline: 10 new medium-sized issuers in 2004-2007.

² Smaller companies are nonfinancial companies with sales revenue between US\$5 million and US\$40 million, and financial companies with assets under US\$200 million in the calendar year prior to the initial offering. Baseline: 4 new smaller issuers in 2004-2007.

³ A 2007 BVL survey of 89 medium-sized companies found that just 29.2% were aware of the requirements for listing on the BVL.

SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
COMPONENTS			
1. Promotion and awareness-raising of potential issuers	<ul style="list-style-type: none"> 500 businesses contacted receive materials and information on the project and the stock market. 300 companies have attended the conferences/seminars (120 in year 1; 80 more in year 2; 60 more in year 3; and 40 more in year 4) 100 companies have participated in workshops (10 in year 1; 20 in year 2; 30 in year 3; and 40 in year 4). 	<p>For all components:</p> <ul style="list-style-type: none"> Project progress and final reports by the executing agency External evaluations BVL internal documents <p>Component 1:</p> <ul style="list-style-type: none"> Project materials and BLV website Copies of press releases Copies of releases/articles Agendas and records of attendance at project public events 	<p>Component 1:</p> <ul style="list-style-type: none"> Companies are interested in learning about the stock market and the project.
2. Support for new issuers	<ul style="list-style-type: none"> 80 applications received to participate in the project (30 in the first 2 years). 50 companies selected using selection criteria agreed upon with the IDB (15 in the first 2 years). Letters of agreement on the project with prequalified market agents/advisors. 45 diagnostic studies and work plans produced by prequalified consultants and the BVL team (13 in the first 2 years). 2 match-making events per year to put participating companies in contact with prequalified advisors/market agents. 	<p>Component 2:</p> <ul style="list-style-type: none"> Copies of applications <ul style="list-style-type: none"> Letters of agreement with the participants Register of prequalified consultants Copies of studies and work plans <ul style="list-style-type: none"> Agendas and records of attendance at project public events 	<p>Component 2:</p> <ul style="list-style-type: none"> Companies are willing to share financial information and go public. There is sufficient demand for new issues by national and international investors. The regulatory framework does not impose material disincentives on securities issues.

SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
	<ul style="list-style-type: none"> 40 letters of commitment signed by companies and the BVL on participation in the project (11 in the first 2 years). Event to present prizes to new issuers. 	<ul style="list-style-type: none"> Letters of commitment 	
3. Dissemination of outcomes and lessons learned	<ul style="list-style-type: none"> Publication and distribution of 5 success stories. Publication of outcomes and lessons learned. 100 attendees at the closing conference (companies, agents, investors). 	Component 3: <ul style="list-style-type: none"> Copies of project documents Agendas and records of attendance at project public events 	
ACTIVITIES			
Component 1: Promotion and awareness-raising of potential issuers 1.1 Preparation of a communications plan. 1.2 Project launch event 1.3 Preparation and implementation of the public relations activities defined in the communications plan. 1.4 Mini-site for the project on the BVL's website. 1.5 Development of a database of companies in the target group.	<ul style="list-style-type: none"> A communications plan agreed on with the IDB. Conference to launch the project and five press releases. Operation of the project's mini-site. Database of approximately 500 target companies. 	For all activities: <ul style="list-style-type: none"> BVL internal documents Project progress reports Agendas and records of attendance at project public events Materials prepared Cooperation agreements with other entities Invoices for expenditures Letters of agreement between participants and market agents 	For all activities: <ul style="list-style-type: none"> The project execution capacity of the BVL team is strong. The market agents have sufficient capacity and cooperate with the project. Medium-sized companies remain interested in learning about and participating in the stock market. The quality of the consultants' work is adequate.

SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>1.6 Preparation and distribution of brochures and e-mailings on the project to market operators, potential participants, national and local business associations, potential investors.</p> <p>1.7 Coordination agreements with other organizations involved in promoting the participation of medium-sized companies in the capital market, including the Sociedad Nacional de Industrias, PROCAPITALES, and CONASEV.</p> <p>1.8 Development of technical and specialized materials for the topics included in the communications plan.</p> <p>1.9 Relationships with market agents, oversight bodies, participants, and business associations.</p> <p>1.10 Design of workshops and conferences.</p> <p>1.11 Holding conferences/seminars with the target companies.</p> <p>1.12 Holding workshops with potential issuers.</p>	<ul style="list-style-type: none"> • Copies of documents and distribution list. • Letters of agreement. • Distribution of materials. • Letters and/or minutes of meetings. • 2 conferences/seminars in Lima and 2 in the provinces (years 1 and 2). 1 conference in Lima and 1 in the provinces (years 3 and 4). • 2 workshops per year with the participation of local and/or international experts, market agents, and companies with experience issuing securities. 		
<p>Component 2: Support for new issuers</p> <p>2.1 Training for the project execution unit in specialized topics and market deepening processes in other countries.</p>	<ul style="list-style-type: none"> • Visit to the Colombian Stock Exchange. • Training sessions by the consulting firm that prepares the diagnostic studies and work plans. 		

SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>2.2 Preparation of terms of reference for consultants to prepare the diagnostic studies and work plans for participating in the capital market.</p> <p>2.3 Qualification and contracting of the consulting firm to prepare the diagnostic studies the work plan.</p> <p>2.4 Identification and qualification of market agents/advisors who can support the participants in the internal changes and processes necessary to issue securities on the capital market.</p> <p>2.5 Evaluation and selection of companies based on criteria and processes identified in the Operating Regulations.</p> <p>2.6 Preparation of diagnostic studies and work plans.</p> <p>2.7 Signature of letters of commitment with the companies selected to implement their work plan.</p> <p>2.8 Signature of an agreement with the Inter-American Investment Corporation (IIC).</p> <p>2.9 Match-making events between participants and market agents/advisors and institutional investors.</p> <p>2.10 Monitoring and advisory support of the BVL team in implementing company work plans.</p> <p>2.11 Verification that requirements have been met for the prize.</p> <p>2.12 Presentation of prizes to new issuers (US\$10,000).</p>	<ul style="list-style-type: none"> • Terms of reference agreed upon with the IDB. • Contract with the qualified consulting firm. • List of qualified market agents/advisors. • Selection of 50 companies. • 45 diagnostic studies and work plans. • 40 letters of commitment signed. • Agreement between BVL and IIC establishing the process for exchange of information participating companies and the requirements for potential financial support of their issues. • 2 match-making events held each year, as necessary • 15-20 prizes presented. 		

SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>Component 3: Dissemination of outcomes and lessons learned</p> <p>3.1 Preparation and delivery of internal progress reports on the project.</p> <p>3.2 Midterm and final project evaluation (external).</p> <p>3.3 Preparation of 5 case studies on companies participating in the project.</p> <p>3.4 Preparation of a compendium of lessons learned.</p> <p>3.5 Closing event to present the project outcomes.</p>	<ul style="list-style-type: none"> • Semiannual project monitoring reports. • Midterm evaluation report. • Publication of 5 case studies before the end of the project. • Compendium of cases and lessons learned published. • 100 attendees at the conference to present the project's outcomes and achievements. • Final evaluation presented 3 months after the end of the project execution period. 		

ITEMIZED BUDGET (US\$)
CAPITAL MARKET DEEPENING (PE-M1054)

COMPONENTS	MIF	COUNTERPART		TOTAL	%
		KIND	CASH		
COMPONENT I. PROMOTION AND AWARENESS-RAISING OF POTENTIAL	242,150	-	113,700	355,850	36.6%
1. Communications plan. Publicity and promotion	242,150	-	113,700	355,850	36.6%
a. Participation by specialized media	24,000		16,000	40,000	4.1%
b. Public relations activities (conference to launch project, etc.)	23,630		11,200	34,830	3.6%
c. Development of technical and specialized information materials on the project	30,500		12,000	42,500	4.4%
d. Database development and selection of target companies			2,500	2,500	0.3%
e. Relationships with market agents, participants, and business associations	8,400		14,000	22,400	2.3%
f. Design of workshops and conferences			6,000	6,000	0.6%
g. Holding conferences/seminars for target companies	119,620		24,000	143,620	14.8%
h. Seminars/workshops with potential issuers	36,000		28,000	64,000	6.6%
COMPONENT II. SUPPORT FOR NEW ISSUERS	217,320	-	259,900	477,220	49.0%
2. Selection of potential companies	-	-	3,800	3,800	0.4%
a. Definition of the minimum selection requirements				-	0.0%
b. Acceptance of applications				-	0.0%
c. Evaluation (scoring) and selection			3,800	3,800	0.4%
3. Coordination with IIC on potential support for participants	-	-	-	-	0.0%
a. Signature of an agreement between BVL and IIC				-	0.0%
b. Sharing information on the selected companies with the IIC				-	0.0%
c. Presentation to participants of eligibility criteria for IIC financial support				-	0.0%
d. Facilitation of direct contracts between the companies and their advisors and the IIC				-	0.0%
4. Advisory services/linkages with market agents	126,600	-	168,500	295,100	30.3%
a. Training of PEU to advise companies			12,500	12,500	1.3%
b. Preparation of diagnostic study and work plan for each company	103,000		80,000	183,000	18.8%
c. Definition of selection criteria for the pool of market agents to participate in advisory support to potential issuers (experience, clients, etc.)			2,000	2,000	0.2%
d. Identification and selection of market agents/consultants to participate in the advisory program. Prenegotiation of fees			4,000	4,000	0.4%
e. Letter of commitment with the selected companies to implement their work plans				-	0.0%
f. Match-making between agents/consultants and potential companies	23,600			23,600	2.4%
g. Monitoring and advisory services by the PEU team for plan implementation			70,000	70,000	7.2%
5. Prize for listed companies	90,720	-	87,600	178,320	18.3%
a. Verification that the requirements for the prize have been met			1,100	1,100	0.1%
b. Organization of a media event to present the prizes	5,720		1,500	7,220	0.7%
c. Presentation of prizes (US\$10,000)	85,000		85,000	170,000	17.5%
COMPONENT III. DISSEMINATION OF OUTCOMES AND LESSONS LEARNED	16,490	-	13,000	29,490	3.0%
6. Dissemination of the lessons learned	16,490	-	13,000	29,490	3.0%
a. Preparation of case studies (5)	12,500		10,000	22,500	2.3%
b. Closing event to present project outcomes and achievements	3,990		3,000	6,990	0.7%
MANAGEMENT AND EVALUATION	27,000	10,000	74,000	111,000	11.4%
a. Preoperating expenses		10,000	4,000	14,000	1.4%
b. Administrative expenses			20,000	20,000	2.1%
c. Semiannual progress reports			15,000	15,000	1.5%
d. External evaluations	12,000		15,000	27,000	2.8%
e. Audits	15,000			15,000	1.5%
f. Contingencies			20,000	20,000	2.1%
TOTAL US\$	502,960	10,000	460,600	973,560	100.0%

TIMETABLE OF ACTIVITIES
PERU. CAPITAL MARKET DEEPENING (PE-M1054)

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DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK
MULTILATERAL INVESTMENT FUND

PROPOSED RESOLUTION MIF/DE-___/08

Perú. Nonreimbursable Technical Cooperation ATN/ME-____-PE
Deepening of Capital Markets

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 Bank, as Administrator of the Multilateral Investment Fund, to enter into such agreements as may be necessary with the Bolsa de Valores de Lima S.A., and to take such additional measures as may be pertinent for the execution of the project proposal contained in document MIF/AT-___ with respect to a technical cooperation for a deepening of capital markets.
2. That up to the amount of US\$502,960, or its equivalent in other convertible currencies, shall be authorized for the purpose of this resolution, chargeable to the resources of the Multilateral Investment Fund.
3. That the above-mentioned sum is to be provided on a nonreimbursable basis.

LEG/SGO/PE-1467727-08
PE-M1054