

CONSOLIDATION AND DEVELOPMENT OF THE SECURITIES MARKET

(TC-98-05-05-5-BO)

EXECUTIVE SUMMARY

EXECUTING AGENCY: Superintendency of Pensions, Securities and Insurance (SPVS), through the Securities Administration [Intendencia de Valores].

BENEFICIARY: República de Bolivia

FINANCING: Modality: Grant - Window I

MIF:	US\$1,150,000 - 57%
Local contribution:	<u>US\$ 850,000 - 43%</u>
Total:	US\$2,000,000 - 100%

IMPLEMENTATION	Commitment:	30 months
SCHEDULE:	Disbursement:	36 months

OBJECTIVES: The principal objective of the project is to support the consolidation and development of the securities market in Bolivia, to improve resource allocation and the quality of financial intermediation services. The specific objectives would be the following: (i) facilitate the drafting of suitable rules and regulations for the operation of the securities market; (ii) provide institutional strengthening for the Securities Administration, with support for human resources training and sufficient staffing for its operations; (iii) develop control systems and electronic techniques for effective monitoring; and (iv) promote the operations of the securities market.

SPECIAL CONTRACTUAL CONDITIONS: Prior to the first disbursement of resources, the SPVS must comply with the following requirements to the satisfaction of the Bank: (i) designate a project director with the authority and availability to coordinate this cooperation project (paragraph 4.18); and (ii) commit the disbursement for the national counterpart of the project (paragraph 4.4). The contract will also provide conditions that will ensure the evaluation and follow-up of the program, the presentation of duly audited financial statements and the utilization of Bank procedures for the procurement of goods and the contracting of consulting services.

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EXCEPTIONS TO None.
POLICY OR
PROCEDURES:

I. ELIGIBILITY

A. Country eligibility

- 1.1 On October 6, 1993, the Donors Committee of the Multilateral Investment Fund (MIF) declared the Republic of Bolivia eligible for all MIF financing modalities.

B. Project eligibility

- 1.2 The financing needed for the program to strengthen the SPVS conforms to the MIF general objectives, since this project will contribute to Bolivia's efforts to implement development strategies based on sound economic policies that will promote the growth of capital markets and financial services in general, in such a way that less advantaged segments of society can have greater access to such markets and services, thereby enabling them to become part of the formal economy. The proposal is also consistent with the feasibility criteria for technical cooperation set forth in the charter of the MIF, which provides in its Article III, Section 2, paragraphs (d) and (e), that the resources of this facility shall be granted for the purpose of financing, among other things, "assistance on developing and strengthening financial systems" and to "develop sound prudential safeguards, including accounting and disclosure standards, and institutions to administer them."

II. OBJECTIVES

- 2.1 The principal objective of the project is to support the consolidation and development of the securities market in Bolivia, to improve resource allocation and the quality of financial services. The specific objectives would be the following: (i) facilitate the drafting of suitable rules and regulations for the operation of the securities market; (ii) strengthening the Securities Administration, with support for human resources training and sufficient staffing for its operations; and (iii) design monitoring systems and operating manuals that would provide and ensure effective market supervision. The appropriate operation of the securities market would foster confidence within the private sector, contribute to increased domestic savings and the financing of productive projects with long lead times with domestic resources.

III. BACKGROUND

The capital market: frame of reference

- 3.1 The Securities Law enacted on March 31, 1998 will regulate the operation of the Bolivian securities market and financial system, providing a specific and transparent legal framework that can give stability and reliability to the country's stock market operations. In addition, the Property and Public Credit Law will strengthen and streamline the financial regulatory system by merging the Superintendency of Pensions, the Superintendency of Securities and the Superintendency of Insurance into one institution to form the Superintendency of Pensions, Securities and Insurance (SPVS) as the oversight agency for all three sectors.
- 3.2 After nine years of operation, the Bolivian capital market has attained a sufficient level of maturity to support the effective growth of savings/investment activities. There are currently 15 stock exchanges operating in Bolivia, which carried out securities transactions (final sale and repurchase transactions) totaling US\$2,683 million in 1997, and a total of US\$2,767 million as of September 1998, surpassing the prior year's volume. Moreover, 14 general securities funds, three fixed income funds and 11 mixed income funds have been established, three denominated in national currency and 11 in foreign currency. Enforcement of the new laws requires enactment of the appropriate rules and regulations and strengthening of the supervisory institution. Both aspects are contemplated in this project.

IV. THE PROJECT

- 4.1 To build confidence among capital market participants, it is essential to have a market that allows savings to be channeled into financial instruments, enabling investors to own assets through ready and reliable transactions and in turn creating new sources and alternatives of production and development.
- 4.2 The financial system within this capital market has the dual responsibility of providing mechanisms for day-to-day transactions of individuals and for attracting and allocating the savings of the population as effectively as possible. This process requires rules and regulations that are sufficient for growth. Within the government's economic program, the recent adoption of the Securities Law is a fundamental step toward the strengthening of the financial system.

A. Cost and financing

- 4.3 The SPVS technical assistance project by the MIF would give priority to the above-mentioned issues. The total cost of the technical assistance program would be US\$2 million, allocated as follows:

ACTIVITIES AND COSTS (in thousands of US\$)			
Subprogram	National counterpart	MIF	TOTAL
Subprogram I: Development and modification	200	500	700
Formulation and modification of rules	80	250	330
Preparation of internal and other procedures	50	110	160
Schedule of accounts, issuers and manuals	70	140	210
Subprogram II: Training	100	250	350
Internship programs for Securities Administration officials in countries with regulatory institutions	40	100	140
Attendance at technical seminars by Securities Administration officials	30	70	100
Organization of internal courses and seminars	30	80	110
Subprogram III: Systems implementation and development	160	240	400
Inputting of documents	70	10	80
Implementation of operator monitoring systems	20	100	120
Electronic data transfer	50	30	80
Development of standardized electronic formats	10	50	60
Introduction of document data base	10	50	60
Subprogram IV: Promotion of the securities market	250	-	250
Preparation of documents on stock market education	130	-	130
Preparation and organization of stock market education seminars, workshops and publication of documents	120	-	120
Executing agency:	40	60	100
Contingencies:	100	100	200
GRAND TOTAL	850	1,150	2,000
Percentages	43%	57%	100%

- 4.4 The obligation of the Government of Bolivia to contribute the counterpart resources of US\$850,000 would be a condition of the

proposed operation, as well as the appointment by the SPVS of a technical coordinator, who would be experienced in project administration, and in planning and scheduling program activities.

B. Subprograms

- 4.5 The program consists of four subprograms, which are described below:

SUBPROGRAM I: Development and modification of the new rules of the Securities Law (US\$700,000).

Specific objectives

- 4.6 This subprogram covers the following: (i) analyze and review the Securities Market Law; (ii) cooperate on the review and preparation of amendments to provisions with reference to the new regulatory framework; (iii) prepare special regulations; (iv) prepare a schedule of accounts for issuers; and (v) draft accounting standards.

Activities and costs

- 4.7 The activities of this subprogram would consist of: (i) hiring a consultant specializing in market regulation for one year at a cost of US\$85,000, to review and modify the regulations; (ii) hiring three consultants for four months at a cost of US\$100,000 to prepare regulations on depositories, book-entry systems, safekeeping institutions and clearing and settlement of transactions; (iii) hiring a consultant specializing in external audits for securities markets for three months at a cost of US\$25,000 for external auditing firms; (iv) hiring a consultant for four months at a cost of US\$30,000 to research and prepare regulations on money laundering; (v) hiring a consultant for four months at a cost of US\$20,000 for the regulations on conflict of interest; (vi) hiring a consultant for four months at a cost of US\$45,000 to prepare regulations on economic groups and related-party transactions; and (vii) hiring a consultant for two months at a cost of US\$25,000 to develop "over the counter" market operations.
- 4.8 The preparation of internal rules and manuals for SPVS and special rules for closed-end investment funds, guidelines on securities appraisals, central data systems, rating, public offers of foreign securities and new market instruments will be carried out over 10 months by hiring two consultants at a cost of US\$160,000. Finally, the preparation of a schedule of accounts and manuals for issuers, accounting standards and supervision for intermediaries and depositories and other forms for presenting standardized financial information will be carried out by hiring two consultants for a period of 15 months at a cost of US\$210,000.

SUBPROGRAM II: Training of Securities Administration staff and other market participants (US\$350,000).

Specific objectives

- 4.9 The principal objective of this subprogram is to enhance the skills of professionals at the Securities Administration, by supplying the techniques and tools necessary for better monitoring and oversight of market transactions. In this manner, the image of the SPVS will also be strengthened. Another objective of this subprogram is to advise and educate the market participants, especially with regard to new concepts introduced by the Securities Market Law.

Activities

- 4.10 The principal activities of this subprogram are: (i) sending Securities Administration officials on internships to countries in the Latin American region with more developed markets and solid regulatory institutions; (ii) sending 30 SPVS and Securities Administration officials to courses in the Latin American region; and (iii) organizing internal courses and seminars. The cost of these activities has been estimated at US\$350,000, of which US\$100,000 will come from national counterpart funding.
- 4.11 Internships for Securities Administration officials will be for a period of 12 months, starting in March 1999. Technical seminars and courses for officials of the SPVS will start in June 1999. Finally, the organization of internal courses or local seminars will take place during project execution (30 months).

SUBPROGRAM III: Systems development and implementation (US\$400,000). Specific objectives.

- 4.12 The specific objective of this subprogram is to implement an electronic system of continuous data at the Securities Administration and at the SPVS, which will have a data base providing timely access to market-generated information. It will also seek to implement an effective system of analysis to process the information on a consistent and continuous basis.

Activities

- 4.13 The principal activities of this subprogram are: procurement of equipment and integrated software and hardware for a computer network with market operators and the procurement of software programs for additional SPVS internal uses. The activities receiving support will be: (i) inputting of documents and implementation of operator monitoring systems; (ii) electronic data transfer; (iii) development of standardized electronic (software) formats; and (iv) introduction of document data base software. The cost of this subprogram would be financed by the MIF (US\$240,000) and by the national counterpart (US\$160,000).

- 4.14 The development and implementation of this component will take 18 months.

SUBPROGRAM IV: Market promotion (US\$250,000). Specific objectives

- 4.15 The principal objective of this subprogram is to promote the securities market through a process of stock market education directed at users as a whole, so that the public would achieve a more favorable securities market culture. This would not only help develop the financial/stock market sector but would also give the public access to the benefits offered by this sector. For this purpose, documents on stock market advice and education will be prepared, and seminars and conferences will be organized.

Activities

- 4.16 The principal activities under this subprogram would be: (i) hiring a technical consultant to prepare the documents on stock market education for three months at a cost of US\$30,000 for educational booklets and other documents; (ii) hiring two consultants for six months at a cost of US\$120,000 to plan and organize seminars and workshops; and (iii) defraying the cost of seminars and events and document publication (US\$100,000).
- 4.17 The preparation of documents on stock market education is expected to last three months. The preparation and organization of workshops will last 12 months. The cost of the subprogram would be US\$250,000, to be financed in full by the national counterpart.

ORGANIZATION AND IMPLEMENTATION

- 4.18 The SPVS, through the Securities Administration and the executing agency, will be responsible for implementing the program. The SPVS will appoint a director, as a condition precedent to disbursement, to coordinate the work of the unit, with the following duties: (i) hiring consultants; (ii) handling bidding for the purchase of equipment and services; (iii) managing subprogram operations; (iv) reporting on program operations to the SPVS and the Bank; (v) supervising the preparation of program accounting and operating records; and (vi) conducting the final program evaluation. The cost of the executing unit will be defrayed in full initially by the MIF (US\$60,000). Subsequently, the SPVS will gradually take responsibility for financing the unit (US\$40,000). The procurement of goods and services and the presentation of audited financial statements for the program will take place in accordance with Bank policy and procedure. A revolving fund will be set up in the amount of up to 10% of the financing.
- 4.19 The Bank is examining another technical-cooperation operation for the SPVS, to be implemented by the Pension Administration in parallel to this one, for social security reform. Although both operations would fall under SPVS responsibility, they would be

executed by two different administrations, with different objectives and functions.

V. PROGRAM RATIONALE

- 5.1 The proposed program conforms to the government's development strategy, which focuses on an integrated program of macroeconomic reform, with a long-term view aimed at increasing economic competitiveness. In addition, one of the areas in Bolivia of priority to the Bank is institutional strengthening, in line with the reform process and State modernization. The Eighth Replenishment establishes the requirement that the Bank support the modernization and strengthening of financial and legal institutions in its borrowing member countries. Therefore, the proposed operation is consistent with the Bank's program in the country.

VI. PERFORMANCE BENCHMARKS AND EVALUATION OF RESULTS

- 6.1 The criteria on which the project performance will be evaluated will be based strictly on quality and the timely completion of anticipated outputs as a result of the activities to be carried out in the various components. A description of these results/outputs is included in the logical framework (Annex 1). The degree of progress of the program, as well as the successful completion thereof, will be evaluated by analyzing the annual and final reports to be filed by the executing agency.

VII. BENEFITS AND RISKS

- 7.1 The program is important to the development of the Bolivian securities market inasmuch as the strengthening of this market's regulatory system will help provide responsible technical oversight of stock market activities and sound, sustainable, open and competitive growth. Its development will also help create a financing alternative as much for the productive sector as for the construction and housing development sectors. It will also permit more efficient allocation of savings and investments.
- 7.2 One of the major risks with respect to the project would be an insufficient number or inadequate skills of Securities Administration officials. To counter this problem, the SPVS has undertaken to assign and maintain a sufficient number of skilled personnel to participate in the program. Moreover, amendments to the Securities Market Law or changes to the current supervisory structure could delay the attainment of the project's objectives.

However, the national government has declared its commitment to maintain the current legal and administrative framework.

VIII. EXCEPTION TO POLICIES OR PROCEDURES

- 8.1 This project does not require any exception to the policies or procedures in effect for this type of operation.

IX. ENVIRONMENTAL AND SOCIAL IMPACT CONSIDERATIONS

- 9.1 The profile was forwarded to the CESI on June 19, 1998, for information, and no comments were received.

**SIMPLIFIED LOGICAL FRAMEWORK
CONSOLIDATION AND DEVELOPMENT OF THE SECURITIES MARKET**

GENERAL OBJECTIVE

consolidation and development of the securities market to improve the allocation of resources and the quality of financial intermediation services.

SPECIFIC OBJECTIVES

the preparation of adequate rules and regulations for the operation of the securities market; (b) strengthen the Securities Administration; (c) develop monitoring systems and promote the operation of the securities market.

Subprogram	Activities to be carried out	Results/Outcome
Development and modification of the new regulatory framework	<p>Hiring technical consultants for:</p> <p>(a) Review and revision of rules and regulations of the Securities Law.</p> <p>(b) Preparation of regulations on depositories, book-entry systems, safekeeping, clearing and settlement of transactions, external auditing, money laundering, conflicts of interest, economic groups and related-party transactions, and over-the-counter operations.</p> <p>(c) Preparation of special regulations and internal rules and manuals for the SPVS.</p> <p>(d) Development of schedule of accounts and manuals for issuers, accounting standards and control.</p>	<p>Adequate rules and regulations completed and in operation (18 months).</p> <p>Regulations issued and implemented (18 months).</p> <p>Internal rules, manuals and special regulations completed and implemented (10 months).</p> <p>Schedule of accounts and manuals concluded and implemented (15 months).</p>
Training	Training of Securities Administration and SPVS professionals by means of: internships, seminars, internal and external courses.	Securities Administration and SPVS professionals trained (30 months).
Equipment development and implementation	Implement continuous and analytical electronic data systems to process market data, through the procurement of equipment and programs.	Electronic systems purchased and in operation (18 months).
Promotion	Promote the securities market by (i) hiring technical consultants; (ii) organizing seminars and workshops; and (iii) publishing documents.	Actions concluded and image of the securities market enhanced (15 months).
Monitoring agency	Administration of the project, preparation of evaluation reports, formulation and presentation of financial statements and other operational aspects of the program.	Successful performance and monitoring, conclusion of project and involved and effective implementation of program activities (30 months).

PROPOSED RESOLUTION

**BOLIVIA NON REIMBURSABLE TECHNICAL COOPERATION FOR A CAPITAL
MARKET CONSOLIDATION AND DEVELOPMENT**

The Board of Executive Directors

RESOLVES:

That the President of the Inter-American Development Bank, or such representative as he shall designate, is authorized, on behalf of the Multilateral Investment Fund, to enter into such agreements as may be necessary with Superintendencia de Pensiones, Valores y Seguros (SPVS), and to take such additional measures as may be pertinent for the execution of the plan of operations incorporated in the donors memorandum referred to in Document MIF/AT-_____ with respect to a technical cooperation program, for a capital market consolidation and development.

That up to the amount of US\$1.150.000, or its equivalent in other convertible currencies, is authorized for the purpose of this resolution, chargeable to the resources of the Technical Cooperation Facility of the Multilateral Investment Fund.

That the above mentioned sum is to be provided on a non-reimbursable basis.