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PERFORMANCE AUDIT REPORT

PERU

**PRIVATIZATION ADJUSTMENT LOAN
(LOAN 3595-PE)**

**PRIVATIZATION TECHNICAL ASSISTANCE LOAN
(LOAN 3540-PE)**

**PENSION REFORM ADJUSTMENT LOAN
(LOAN 4134-PE)**

March 3, 2000

Operations Evaluation Department

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Currency Equivalents (annual averages) -- Currency Unit – Nuevos Soles (S/.)

1992	US\$1.00S/.1.246	1995	US\$1.00S/.2.253
1993	US\$1.00S/.1.988	1996	US\$1.00S/.2.453
1994	US\$1.00S/.2.195	1997	US\$1.00S/.2.664

Abbreviations

AFP	Private Pension Fund
Centromin	Mining Company of Central Peru
CEPRI	Special Privatization Committee
COPRI	Committee for Private Sector Investment
CPT	Peru Telephone Company (for Lima)
CV	Cedula Viva Public Employee Pension System
DDSR	Debt and Debt Service Reduction
DL	Decree Law
EFF	Extended Fund Facility
EPAL	Electricity Privatization Adjustment Loan
Entel	National Telephone Company (for long-distance and non-Lima)
ES	Executive Summary
FCRP	Pension Reserve Fund
FSAL	Financial Sector Adjustment Loan
GDP	Gross Domestic Product
IDB	Inter-American Development Bank
IPSS	Social Security Institute
IMAPRE	Peruvian Marine Research Institute
ITQ	Individual Transferable (Tradable) Quotas
MEF	Ministry of Economy and Finance
ONP	State Pension Regulation Office
OSIPTEL	Supervisory Office for Telecommunications
PAL	Privatization Adjustment Loan
PAR	Performance Audit Report
PRAL	Pension Reform Adjustment Loan
PTAL	Privatization Technical Assistance Loan
RB	Recognition Bonds
SAFP	Superintendency of AFPs
SAL	Structural Adjustment Loan
SDR	Special Drawing Rights
SEDAPAL	Water and Sanitation Company of Lima
SNP	National Pension System
SPP	Private Pension System
SOE	State-owned Enterprise
SUNASS	Regulatory Agency for Water and Sanitation
TPRAL	Trade Policy Reform Loan
UNDP	United Nations Development Program

Fiscal Year January 1 – December 31

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Office of the Director-General
Operations Evaluation

March 3, 2000

MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT

SUBJECT: Performance Audit Report on Peru—Privatization Technical Assistance Loan (Loan 3540-PE), Privatization Adjustment Loan (Loan 3595-PE), and Pension Reform Adjustment Loan (Loan 4134-PE)

This is the Performance Audit Report (PAR) on the Privatization Technical Assistance Loan (PTAL), Privatization Adjustment Loan (PAL), and Pension Reform Adjustment Loan (PRAL). The PTAL for US\$30 million and the PAL for US\$250 million equivalent were approved by the Board on December 10, 1992 and April 20, 1993, respectively. Accepting the Peruvian Government's desire to complete the privatization program and related reforms by the July 1995 presidential elections, the Bank set June 30, 1995 as the closing date for the PAL, and December 31, 1995 as the closing date for the PTAL. Not surprisingly, this timetable proved too aggressive and both the PAL and the PTAL were concluded fully two years behind schedule on December 31, 1997. While not constructed as co-financing, the PTAL funding was supplemented by Japan (\$4.5 million project preparation grants), UNDP (\$0.6 million general support and program evaluation), the Andean Development Fund (\$1 million for mining and general support) and Canada (\$0.5 million for fisheries privatization). The UNDP disbursed the PTAL (and other funds) to the Peruvian Committee for Private Sector Investment (COPRI) in a timely and efficient fashion. The single-tranche PRAL for US\$100 million equivalent received Board approval on February 26, 1997, and became effective on February 28, 1997. It was closed on March 31, 1997 following disbursements on March 6 and 14, 1997. One-half of the loan proceeds were set aside to support the Debt and Debt Service Reduction (DDSR) operation with Peru's financial creditors. Additional support for the DDSR came from a freestanding US\$ 183 million Bank credit and a US\$ 80 million credit from the Japanese Export Import Bank.

The PTAL provided technical assistance and funding to Peru's privatization program. This support was particularly vital in 1992-93 when the Peruvian Government lacked the ability to provide even small amounts of necessary resources to COPRI. More importantly, the PTAL funding made COPRI independent of the budget and shielded it from political interference. The Bank played a key role in developing the principles of Peruvian privatization and acted as a filter in selecting financial advisors and consultants, facilitating valuations, and making the bidding process transparent. The PAL provided for the establishment of sector policies, laws and regulations ahead of SOE privatization in telecommunications, mining, hydrocarbon, water and fisheries sectors. It set up what appear in retrospect to be modest quantitative targets for selling SOEs; i.e., offer for sale 30 percent (US\$1.2 billion) and actually sell 15 percent (US\$600 million) of the book value of US\$4.135 billion in SOEs outside of the banking, electrical and railroad sectors. The sector-specific privatization targets were equally modest. In selling SOEs, the Bank as well as the Government placed much emphasis on securing investment commitments rather than just maximizing the up-front purchase prices.

Despite missing the target closing dates, the PAR finds the PTAL and PAL outcomes as well as the performance of the Bank and the Peruvian Government satisfactory. In quantitative terms, Peru's privatization effort was highly successful. From 1992 to 1997, Peru sold 112 SOEs for a total of US\$8.4 billion in current proceeds and another US\$6.8 billion in investment commitments. The sector reforms preceding SOE sales were also impressive. For instance, the domestic petroleum prices were fully

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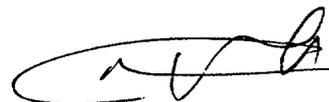
deregulated, and water and telecommunication tariffs were raised. Appropriate regulatory infrastructure was set up for the telecommunication industry and the water utility. The Government also made the right decision to sell the national oil company Petroperu and the mining companies CENTROMIN and Minero Peru piecemeal rather than en block. The PTAL and the PAL produced substantial institutional development impact by supporting an excellent institutional framework to facilitate privatization of SOEs, and by creating appropriate regulatory practices. Nonetheless, the PTAL and PAL are not rated highly satisfactory for two reasons. First, the objective of privatizing the fisheries sector was not achieved and ultimately a waiver had to be negotiated. Second, the Peruvian Government as well as the Bank did a poor job of selling the privatization program to ordinary Peruvians, resulting in some doubts about its continuation. Still, the PAR believes that the privatization program is likely to be sustained. Outright SOE sales may give way to concessions in the future. A Bank supported technical assistance project will be useful to develop the necessary skills within the COPRI.

The PRAL provided impetus for strengthening the pension reforms initiated in the early 1990s. It also sought to ensure that some of the windfall from SOE sales is set aside to meet the contingent obligations of the national pension systems CV and SNP. The PRAL succeeded in shoring up the faltering SPP system of private pension funds and in diverting US\$1 billion in privatization receipts to the Pension Reserve Fund, FCRP. It was not very successful in achieving some of the longer term objectives of pension reform such as accurately estimating and then reducing the contingent liabilities of CV and SNP, and lowering the high costs in the AFP system of private pension fund management. The lack of success in meeting the longer-term objectives is the principal reservation the PAR notes while still assigning a satisfactory rating to the PRAL outcome. Clearly, the single-tranche PRAL structure prevented effective post-disbursement monitoring which contributed to the less than desired progress in achieving some of the longer term objectives.

The PAR gives a satisfactory rating to the Bank's performance but notes that it was not very successful in lowering the high costs of the AFPs. The PAR also rates the borrower performance satisfactory and highlights the Government's high degree of commitment to pension reforms. Faced with set backs, the Government exhibited a great deal of flexibility and imagination to ensure that the CV's contingent liabilities are capped. The PAR considers the institutional development impact of PRAL as substantial given the emergence of several new institutions -- the private pension fund managers (AFPs), their supervisor (SAFP) and the Pension Reserve Fund (FCRP). While the pension reforms supported by the PRAL are likely to be sustained, the resolution of two issues will enhance sustainability: (1) how to lower the high costs of AFPs, and (2) how to streamline SAFP. Both of these issues are being addressed as a part of the recently approved Second Financial Sector Adjustment Loan (P-7293-PE).

Several important lessons emerge from PTAL, PAL and PRAL:

- Since popular support for privatization inevitably declines, conduct an aggressive campaign to publicize its benefits, give citizens a stake in the privatized SOEs, and above all privatize as rapidly as possible.
- Break up large SOEs into smaller companies to increase competition and raise buyer interest.
- Consider local conditions (such as the smaller market size) before importing pension reform models in toto from abroad as Peru did in adopting the Chilean AFP structure.



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This report was prepared by Suhas L. Ketkar (Consultant) with Anwar Shah as the Task Manager. Silvana Valle and Agnes Santos provided administrative support.

Preface

This is a Performance Audit Report on Peru's Privatization Adjustment Loan (Loan 3595-PE), the Privatization Technical Assistance Loan (Loan 3540-PE) and the Pension Reform Adjustment Loan (Loan 4134-PE). The Privatization Technical Assistance Loan (PTAL) was for US\$30 million and the Privatization Adjustment Loan (PAL) was for US\$250 million. The PTAL was approved on December 10, 1992 and the PAL on April 20, 1993. PTAL provided technical assistance to achieve the privatization and regulatory reform targets set under PAL. The Pension Reform Adjustment Loan (PRAL) for US\$100 million was approved on February 28, 1997. One-half of the loan proceeds supported the Debt and Debt Service Reduction (DDSR) operations with Peru's financial creditors.

Although the completion of PAL and PTAL was delayed beyond the initially targeted June 30, 1995 and December 31, 1995, respectively, both operations were successfully closed on December 31, 1997. The PRAL was closed on March 31, 1997, only slightly behind the scheduled completion date of December 1996.

The PAR is based upon the Implementation Completion Reports (ICRs) for the PAL/PTAL and PRAL, President's Reports for these projects, other Bank documents, including related legal documents, relevant non-Bank documents, project and country files, and interviews with Bank and IMF staff in Washington.

In addition, the consultant visited Peru in June 1999 and discussed the structural adjustments supported by the PTAL, PAL and PRAL with Peruvian officials, politicians, regulators, academics, others involved in the privatization and pension reform processes, representatives of privatized companies, and the Bank and IMF Resident Mission staff in Lima, Peru. Their cooperation and assistance are gratefully acknowledged.

Comments provided by the Peruvian Government on an earlier version of this report are gratefully acknowledged. These comments are reflected in the current version of this report and also are included as Annex A.

Ratings and Responsibilities

Performance Ratings

	<i>Privatization TA Loan (Loan 3540-PE)</i>		<i>Privatization Adjustment Loan (Loan 3595-PE)</i>		<i>Pension Reform Adjustment Loan (Loan 4134-PE)</i>	
	ES	PAR	ES	PAR	ES	PAR
Outcome	Satisfactory	Satisfactory	Satisfactory	Satisfactory	Satisfactory	Satisfactory
Sustainability	Likely	Likely	Likely	Likely	Likely	Likely
Inst. Dev. Impact	Substantial	Substantial	Substantial	Substantial	Partial (Modest)	Substantial
Borrower Performance	Highly Satisfactory	Satisfactory	Highly Satisfactory	Satisfactory	Satisfactory	Satisfactory
Bank Performance	Satisfactory	Satisfactory	Satisfactory	Satisfactory	Satisfactory	Satisfactory

Key Project Responsibilities

	<i>PTAL(Loan 3540-PE)</i>		
	<i>Task Manager</i>	<i>Division Chief</i>	<i>Director</i>
Appraisal Completion	Robert Taylor Jyoti Shukla	Susan Goldmark	Armeane Choksi Isabel Guerrero
	<i>PAL (Loan 3595-PE)</i>		
	<i>Task Manager</i>	<i>Division Chief</i>	<i>Director</i>
Appraisal Completion	Robert Taylor Jyoti Shukla	Susan Goldmark	Armeane Choksi Isabel Guerrero
	<i>PRAL (Loan 4134-PE)</i>		
	<i>Task Manager</i>	<i>Division Chief</i>	<i>Director</i>
Appraisal Completion	Edgardo Favaro Fred Levy	Daniel Morrow N/A	Paul Isenman Isabel Guerrero

==:

Detailed Performance Ratings for PTAL, PAL and PRAL

	Outcome	Sustain- ability	Institutional Development (ID)	Performance of Borrower	Performance of Bank
1. Macroeconomic Policies and Performance	S	Likely	S	S	S
2. PTAL	S	Not Relevant	S	S	S
3. PAL					
3.1 Mining	HS	Likely	S	HS	HS
3.2 Hydrocarbon	S	Likely	S	MS	S
3.3 Telecommunications	S	Likely	H	HS	HS
3.4 Fisheries	HU	Likely	N	U	U
3.5 Water	S	Likely	S	S	S
4. PRAL					
4.1 Reform of CV					
Reduce CV's Cont. Liabilities	S	Likely	S	S	S
Delink CV benefits from Civil Servant Salary Adjustment	U	Unlikely	M	U	S
4.2 Reform of SNP					
Aid migration from SNP to SPP	S	Likely	S	S	S
Reduce SNP Cont. Liabilities	MS	Likely	S	MS	MS
4.3 Reform of SPP					
Portfolio Diversification	S	Likely	S	S	S
Reduce Costs	MS	Uncertain	M	U	U
4.4 Pension A/L Management					
Increase Transparency	MS	Likely	S	S	S
Judicious Use of Resources	S	Likely	S	S	S
4.5 Capital Market Reforms	MS	Likely	M	MS	S

Rating Abbreviations

Outlook and Performance

ID Impact

Highly Satisfactory (HS)
Satisfactory (S)
Marginally Satisfactory (MS)
Marginally Unsatisfactory (MU)
Unsatisfactory (U)
Highly Unsatisfactory (HU)

High (H)
Substantial (S)
Modest (M)
Negligible (N)

1. Background

1.1 The Bank provided extensive assistance to Peru in the 1970s and early 1980s. The outstanding Bank credits to Peru reached about US\$1.6 billion by the mid-1980s. But following a moratorium on its debt service payments to the Bank, Peru's loans were placed on a non-accrual status in August 1987 and the number of active Bank projects there declined from 19 in mid-1987 to seven in 1991.

1.2 Alan Garcia, who was elected president in 1985 on a populist economic platform, followed expansionary fiscal policy and instituted widespread foreign exchange controls with multiple exchange rate regimes. He also raised the minimum wage, expanded directed credit, increased subsidies, lowered the value added tax rate, and reduced public sector prices. This policy mix produced disastrous results following a short period of temporary improvement. The economy contracted by 5.4 percent in 1989-90, the annualized rate of inflation peaked at 36,000 percent in July 1990, and unemployment and underemployment in Lima surged to a staggering 75 percent. Real wages of Peruvians fell by 60 percent between 1985 and 1990.

1.3 Peru started running up arrears on its foreign debt service in 1983. In July 1985, the Garcia Government unilaterally decided to limit foreign debt payments to 10 percent of exports. Initially, it suspended public sector debt payments to private foreign banks but eventually extended the moratorium to international financial institutions as well. The IMF placed Peru on a non-accrual status in August 1986 and the Bank followed suit in early 1989.

1.4 It is against this backdrop that Alberto Fujimori was elected president in July 1990. His Government immediately embarked upon a program of economic stabilization to arrest runaway inflation and adopted structural reforms to make Peru an efficient market-oriented economy. It also resumed current foreign debt service payments in October 1990, setting the stage for the Bank's re-engagement in Peru. The Bank approved a series of three adjustment loans from July 1991 through December 1992—a Trade Policy Reform Loan (TPRL) for US\$300 million, a Structural Adjustment Loan (SAL) also for US\$300 million, and a Financial Sector Adjustment Loan (FSAL) for US\$400 million. The IDB supported Peruvian reforms with a trade policy reform loan and a financial sector adjustment loan.

1.5 Peru's recent economic stabilization program has received support from three consecutive Extended Fund Facility (EFF) arrangements. These IMF arrangements and the Bank and IDB supported structural reforms helped Peru cut the public sector deficit from 8.7 percent of GDP in 1990 to 0.5 percent of GDP in 1998.

Table 1.1: IMF Programs in Peru

<i>Type of Arrangement</i>	<i>Period Covered</i>	<i>Amount Approved (SDR million)</i>	<i>Amount Drawn (SDR million)</i>
Rights Accumulation Program	1991-1992	Not Applicable	Not Applicable
EFF	1993-1996	1,018.10	642.69
EFF	1996-1999	300.20	160.50
EFF	1999-2002	383.00	0.00

1.6 The sustainability of Peru's macroeconomic stability is not in question at present despite the impending presidential elections in April 2000. This conclusion is based upon several factors:

- First, Peru has achieved excellent economic results since the stabilization program was put in place at the beginning of this decade. For instance, real GDP growth averaged 5 percent per annum throughout the 1990s. Despite the adverse effects of El Nino and the global financial crisis, Peru still managed to produce positive growth of 0.7 percent in 1998, joining a group of a select few in Latin America. At the same time, inflation has been slashed from 7,650 percent in 1990 to 6 percent in 1998.
- Second, Peru has also normalized its relations with multilateral institutions and international banks, thereby re-establishing access to international capital markets. The net international reserves of the Central Reserve Bank have risen from US\$0.5 billion at end-1990 to about US\$9 billion at end-1998.
- Third, Peru has just signed another three-year Extended Fund Facility with the IMF covering the period from April 1, 1999 to March 31, 2002 and that bodes well for preserving policy discipline.

2. Privatization of Public Enterprises—Relevance

2.1 The state owned enterprises (SOEs) added to Peru's fiscal imbalance in the second half of the 1980s by running up current and capital account deficits. The current and overall SOE deficits peaked at 2.5 percent and 4.3 percent of GDP, respectively, in 1988 and averaged 1.05 percent and 1.9 percent of GDP, respectively, from 1987 to 1989. The Fujimori Government responded to the fiscal problems by broadening the tax base, improving the efficiency of the tax system, cutting Central Government's current spending, and raising prices of goods and services provided by SOEs. The privatization of SOEs was recognized as the lasting way of ameliorating their fiscal burden as well as making Peru a competitive and efficient economy. It was also seen as a way of channeling the much-needed investment to the SOE produced products and services.

2.2 The privatization effort got under way with the September 1991 passage of the Law for the Promotion of Private Investment in State Enterprises (Legislative Decree 674) which established the necessary legal and institutional framework. The Bank supported the privatization program in Peru with the Privatization Technical Assistance Loan (PTAL) for US\$30 million and the Privatization Adjustment Loan (PAL) for US\$250 million. The PTAL was approved on December 10, 1992 and the PAL on April 20, 1993. PTAL provided technical assistance to achieve the privatization and regulatory reform targets set under PAL.

3. PTAL—Design

3.1 The PTAL was well designed. It provided funding to the Committee for Private Sector Investment (COPRI), a small secretariat charged with implementing Peru's privatization program. This funding made COPRI independent of the budget, thereby shielding it from political interference. The Bank played a key role in developing the principles of Peruvian privatization and providing assistance to the COPRI as well as the sector and industry specific Special Privatization Committees (CEPRIs) that were set up to spearhead the privatization process. The Bank acted as a filter in selecting financial advisors and consultants, facilitating valuations, and making the bidding process transparent. The Bank also helped in setting up regulatory agencies for the sectors being privatized.

4. PTAL—Implementation and Results

4.1 PTAL was very important for providing funding to COPRI as well as CEPRI. This funding was particularly vital in 1992-93 when COPRI lacked access to even small amounts of necessary resources. Following the successful privatization in 1994 of the telecommunications industry, however, COPRI received sizable funding from its 2 percent share in the privatization receipts. It made the PTAL funding less urgent and may have contributed to the delay in closing the PTAL.

4.2 The UNDP's role in disbursing PTAL (and Japanese) funds to COPRI in a timely and efficient fashion was particularly noteworthy. The UNDP reviewed all disbursement requests from the COPRI and provided prompt advances. The Bank often provided financing retroactively as long as COPRI and UNDP followed appropriate procedures.

5. PAL—Design

5.1 The PAL was also largely well designed. It provided for the establishment of sector policies, laws and regulations ahead of SOE privatization. In the mining and hydrocarbon sectors, the emphasis was put on setting up rules and regulations for attracting private investment and for establishing exploration and development rights. In the telecommunications and water sectors, in contrast, it was necessary to clarify price-setting mechanisms. Accordingly, the PAL only sought as the first tranche conditionality the drafting of new laws for the hydrocarbon sector and the enactment of new laws for the mining and telecommunications sectors. Keeping in mind the likely administrative and political difficulties, the enactment of the necessary laws and regulations in the water sector was left to the third tranche. The PAL also recognized the differences of opinion on whether and how to privatize the national oil company, Petroperu, and postponed the decision on selling the company en block or split-up, and the likely time table to the second tranche. For details on the PAL conditionality, see Annex C.

5.2 The inclusion of conditions on revising the fisheries regime in favor of individual tradable quotas (ITQs) was a mistake. First, the fisheries industry was already in private hands. Second, there was little consensus in favor of ITQs either within the Peruvian Government or the fishing industry. Third, the Bank apparently failed to alleviate the industry concerns about the allocation and enforcement of quotas. Finally, the Bank also presented ITQs as the sole option and put the burden of coming up with an alternative sustainable regime on the fisheries industry.

5.3 Recognizing the difficulties that the privatization process would face in a country just emerging from a prolonged period of economic and political chaos, the PAL set up what appear in retrospect to be modest quantitative targets for selling SOEs. The PAL required that Peru offer for sale 30 percent (US\$1.2 billion) and actually sell 15 percent (US\$600 million) of the book value of US\$4.135 billion in SOEs outside of the banking, electrical and railroad sectors. Similarly, sector-specific quantitative targets for mining and telecommunications were also quite modest; offer for sale US\$1.2 billion including at least US\$300 million from each sector and achieve US\$600 million in actual sales. The loan conditionality did not specify the SOEs to be sold as long as the quantitative targets were met, thereby providing the Government a lot of flexibility. In privatizing SOEs, neither the Bank nor the Peruvian Government attempted to maximize revenues. In fact, much emphasis was placed upon securing investment commitments for the future. Often times, however, the impetus for evaluating bids purely on the basis of up-

front purchase price came from the investment banks whose commissions were a percent of the purchase price.

5.4 The Bank accepted the Government's desire to complete the privatization program and related reforms by the July 1995 presidential elections and set June 30, 1995 as the closing date for the PAL. The closing of PTAL was set six months later at year-end 1995. Not surprisingly, the timetable proved too aggressive and both the PAL and the PTAL were concluded on December 31, 1997.

6. PAL—Implementation and Results

6.1 Despite missing the target closing dates, Peru performed remarkably well in achieving the objectives of its privatization program. President Fujimori's support was crucial in putting the program on a fast track. The committed and competent leadership in COPRI and CEPRI was a distinct advantage in the early years of the program. In addition, the Congressional authorization to the executive branch to undertake individual SOE sales without Congressional approval helped expedite the process. In addition, following the self-engineered coup against his own Government (autogolpe) in April 1992, President Fujimori temporarily suspended the Congress. That allowed his Administration to pass the state of the arts laws in support of privatization without congressional involvement and interference, which further accelerated the execution of Peru's privatization program.

6.2 Furthermore, the Bank and the Peruvian authorities worked together seamlessly to make the privatization process smooth and the program a resounding success. Supported by the Bank, COPRI provided excellent leadership to the privatization program. The Bank played a key role in (1) creating the principles of privatization from the outset; (2) providing technical assistance in establishing appropriate regulatory agencies; and (3) acting as a buffer between COPRI and the Peruvian Government. Since its procedures were perceived to be highly transparent, none of COPRI's decisions has been challenged in the courts or even seriously questioned.

6.3 The CEPRI members initially helped move the privatization agenda forward at a fast pace. Led by high caliber volunteers from the Peruvian private sector, the CEPRI members had the right incentive structure in place. The CEPRI members were eager to complete their assigned privatization tasks as expeditiously as possible and then return to their private sector careers. That changed in 1995, however, when most CEPRI members began to get paid. As a result, a bias towards dragging out the privatization process may have emerged in later years.

6.4 In quantitative terms, Peru's privatization program was highly successful. From 1992 to 1997, Peru sold 112 SOEs for a total of US\$8.4 billion in current proceeds and another US\$6.8 billion in investment commitments. The outcome compares quite favorably against the target of offering for sale 30 percent (US\$1.2 billion) and actually selling 15 percent (US\$600 million) of the book value of US\$4.135 billion in SOEs outside the banking, electricity and railroad sectors.

Table 6.1: Peru's Privatization Receipts, 1992-1997 (US\$ million)

<i>Calendar Year</i>	<i>Current Proceeds</i>	<i>Investment Commitment</i>	<i>Total</i>
1992	208.9	706.0	914.9
1993	343.9	589.3	933.2
1994	3,233.1	2,050.0	5,283.1
1995	1,224.8	70.10	1,294.9
1996	2,668.7	2,695.0	5,363.7
1997	681.8	711.2	1,393.0
Total	8,361.2	6,821.6	15,182.8

Source: COPRI

6.5 For the three principal sectors covered by the PAL, the privatization effort stacks up as follows:

Table 6.2: Privatization by Sectors

<i>Sector</i>	<i>Percent Privatized</i>	<i>Sales Proceeds (US\$ million)</i>	<i>Investment Commitment (US\$ million)</i>
Telecommunications	96	3,312	1,565
Mining	70	1,146	4,567
Hydrocarbons	65	915	189

Source: COPRI

Some 90 percent of investment commitments have been met, helping raise the private investment to GDP ratio from a low of 13 percent in 1992 to 20.7 percent in 1997 and to an estimated 22.4 percent in 1998. In one important instance of the Hierro Peru iron ore mining company, acquired by China's Shougang Corporation, the investment commitment has not been fulfilled, leading to a revision in its amount from US\$150 million to US\$137 million.

6.6 *Telecommunications.* A controlling stake of 35 percent in the existing Lima phone company Entel Peru and the long-distance and non-Lima local company CPT—including a capitalization in CPT—was awarded to a consortium led by Telefonica Internacional (Spain) in 1994 for a total of US\$2.002 billion. Out of this amount, the state received US\$1.39 billion for its share while the balance of US\$0.61 billion was additional capital to be invested by Telefonica Internacional in CPT. Furthermore, the investment commitments amounted to US\$1.565 billion over five years. In July 1996, the state sold most of its remaining shares in Telefonica for US\$1.2 billion, reducing the state share in the company to 2.2 percent. The Government plans to sell these remaining shares in the course of 1999.

6.7 In accordance with the normal privatization practice in the region, the newly established Telefonica del Peru was granted an exclusivity right (monopoly) in the local and international fixed line segment. The five-year monopoly awarded in Peru is somewhat shorter than what was granted in other Latin American privatizations (six years in Chile, seven in Venezuela and Mexico, and nine in Argentina). The monopoly time period was considered essential to permit a gradual rate rebalancing and end the cross-subsidization between local and long distance calls. That having happened, the company agreed in August 1998 to relinquish its monopoly position fully one year ahead of schedule.

6.8 Since the end of the monopoly period, the provision of all telecommunications services has been open to free competition. Major international operators such as Tele2000 S.A. - Bell South and Firstcom have already established a presence in Peru and others are entering the

market due to its rapid growth and virtual open entry. Since August 1998, seventeen new licenses have been issued for long distance service and two for fixed line telephony.

6.9 According to Telefonica del Peru, the company has invested US\$2.5 billion in the sector from 1994 to 1998, and plans to invest an additional US\$1.2 billion from 1999 to 2001. A great deal of improvement in service has occurred since privatization.

Table 6.3: Improvements in Telephone Services

<i>Activity</i>	<i>1993</i>	<i>1998</i>	<i>Percent Change</i>
<i>Basic Telephones</i>			
Installed Lines (000)	754	2,012	167
Lines in Service (000)	665	1,509	127
Penetration (per hundred)	2.9	6.3	117
<i>Public Telephones</i>			
Number of Phones (000)	8	47	488
Cellular Clients (000)	21	505	2,305

Source: Telefonica del Peru S.A.A.

Some additional indicators of service improvement are as follows. The waiting period to obtain a phone connection has declined from 990 days in 1994 to 16 days in 1998. The reported service failures have fallen from 5.2 percent in 1994 in Lima (4.8 percent in the provinces) to 1.8 percent (1.7 percent). Finally, the service problems corrected within 24 hours have risen from 49 percent (74 percent) in 1994 to 99 percent (99 percent) in 1998.

6.10 At the time that the Telefonica monopoly was terminated by mutual consent, the Government secured a wider definition of local calling zones. Also, an interconnection charge of 2.9 US cents per minute was established on the basis of a sample of six companies of which three were recommended by OSIPTEL, the telecommunications regulator in Peru, and three by Telefonica del Peru. While this charge appears to be reasonable for long distance calls, it may be too high for local calls. But OSIPTEL can not move unilaterally on this front until another company attempts to negotiate for a lower interconnection charge with Telefonica, fails to obtain it, and then comes to the regulator seeking resolution.

6.11 While the telephone tariffs are higher now than they were under public ownership and management, they do not seem to be out of sync in comparison with the regional standards.

Table 6.4: Regional Comparisons of Telephone Service Charges

<i>Prices in February 1999 (US\$ - Not including VAT)</i>	<i>Argentina</i>	<i>Brazil</i>	<i>Chile</i>	<i>Mexico</i>	<i>Peru</i>	<i>Venezuela</i>
Installation Charges	150.0	26.2	98.9	224.5	129.9	186.5
Monthly Basic Charge	24.8	6.6	10.3	15.4	13.6	17.3
Per Minute Charge on:						
Local Service	0.023	0.008	0.031	0.031	0.023	0.035
Domestic Long Distance 100 to 450 KM	0.51	0.14	0.16	0.20	0.14	0.29
Domestic Long Distance More than 450 KM	0.64	0.19	0.18	0.20	0.18	0.29
International Long Distance	0.83	0.50	0.91	0.67	0.69	1.15

Source: Telefonica del Peru S.A.A.

6.12 Loss of jobs is another common complaint against the telecommunications privatization. This complaint is supported by the reduction in the number of employees from 12,063 in 1993 at Entel and CPT combined to 5,661 at Telefonica del Peru in 1998. Note, however, that the paring

down of jobs was largely voluntary and compensatory severance payments were made. Furthermore, the sector as a whole has gained jobs. Telefonica del Peru estimates total employment in the telecommunications and related industries in 1998 at 31,722 or a 2.6-fold increase.

6.13 Fortified with transparent procedures and manned with well-trained competent personnel, OSIPTEL is working well. It is believed to be the premier telecommunications regulator in Latin America. Its Board comprises five Government-appointed individuals for fixed three-year terms. Its procedures are fairly transparent: it invites public comments, holds public hearings, and explains its decisions in publications. Recently, Telefonica del Peru's representation on the OSIPTEL Board was withdrawn. This was perhaps necessary to avoid the impression that the agency was overly influenced by the Company it is supposed to regulate. There is a perception in Peru that consumers who are not always aware of their rights fail to get satisfactory resolution of their problems from the Company. OSIPTEL is aware of this perception and has established a number of activities:

- Establishment of consumer safeguards.
- Creation of an administrative court to resolve disputes. Reportedly, the administrative courts are not working well because of case overload. OSIPTEL is expected to issue new rules in the near future to address this issue.
- An educational campaign (outside Lima, in particular).
- Information via a nationwide 800 number.
- Research on what consumers want.

6.14 *Mining Sector.* Four factors facilitated the privatization of mining assets in Peru: (1) the completion of a comprehensive geological survey for obtaining, analyzing and presenting basic information to potential investors; 2) the early decision to sell the national mining assets of CENTROMIN and Minero Peru piecemeal rather than en block; (3) the establishment of an efficient system for allocating and adjudicating mining claims; and (4) the clarification of the contingent environmental liabilities. The last factor was particularly important because it capped the potential investors' liabilities arising out of the environmental excesses of the past.

6.15 Prior to selling mining sector companies, the Government announced a major program of environmental clean up, including a clear division of responsibilities between CENTROMIN (for US\$75 million) and the new purchasers (US\$40 million). It was also believed that the new foreign owners of mining companies in the CENTROMIN complex will adhere to stricter international standards, thereby contributing to environmental improvement in Peru.

6.16 The sector privatization began with the sale of the Hierro Peru iron ore mine in late 1992 and proceeded at a steady pace with the most recent privatization of the Cerro de Pasco complex occurring in mid-1999. The mining sector privatization program elicited much more in terms of investment commitments (US\$4.5 billion) than up-front sales proceeds (US\$1 billion).

6.17 *Hydrocarbon Sector.* The hydrocarbon sector reform was aimed at developing private sector oil and gas production and shifting away from controlled to market prices at wholesale and retail levels. Peru began by raising domestic gasoline prices by 3000 percent in August 1990 and then issued a decree in June 1992 formally deregulating petroleum product prices, though it kept de facto control over Petroperu's prices pending the implementation of a new sectoral legal framework. Such a framework was established under the PAL conditionality.

6.18 Although Petroperu's gas stations were sold in the second half of 1992, the opposition from senior management as well as unions (who received support from the left-of-center political parties) delayed the privatization of the rest of the company. The Government finally sold the La Pampilla oil refinery and two oil fields in 1996 and in December 1997 transferred Petroperu's oil storage facilities to the private sector through an operating concession agreement. The latter provided open access to the storage terminals owned by Petroperu and ensured competition between imported petroleum products and those supplied by the local refineries. The delay in privatizing the Talara refinery has created some uncertainty about the Government's strategy for the industry.

6.19 *Water Sector.* The PAL sought enactment of state of the arts laws to govern water and sanitary services to attract the much needed private investment to the sector. Peru complied and passed several laws from 1991 to 1994. These laws (1) incorporated SEDAPAL (the Lima Water Utility) into the privatization process (November 1991), (2) created the regulatory agency SUNASS (December 1992), and (3) defined new institutional responsibilities for the sector and established transparency, financial viability and social equity as the basic principles in setting tariffs (July 1994).

6.20 In preparation for privatization, water tariffs in Lima were raised to economic levels. Still, the urgency for concessioning SEDAPAL waned as the 1995 elections approached. This happened for four reasons:

- Privatizing water services was never a very high priority; perhaps it reflected the bad shape in which the Lima Water utility found itself at the beginning of the 1990s.
- It became clear that a SEDAPAL concession would generate new investment but not bring sizable sales proceeds.
- SEDAPAL managed to improve its services.
- Public support for privatization fell sharply following the 1995 elections, and as a result, the SEDAPAL concession is not an option being discussed at present.

6.21 Outside of Lima, Peru faces several challenges in privatizing water and sanitary utilities. First, most systems other than SEDAPAL are quite small, with only 4 of 44 having more than 100,000 connections, and that may limit investor interest. Second, Peru lacks a focal agency at the national level to facilitate private participation in the sector. Third, SUNASS is not yet an effective and efficient regulator. While it has the authority to set SEDAPAL water tariffs, it can only make non-binding recommendations to other water utilities. SUNASS also lacks adequate information systems and regulatory expertise and could benefit from appropriate Bank support.

6.22 *Fisheries Sector.* Introduction of a sustainable fisheries regime was not achieved and waivers of both the second and third tranche conditions had to be negotiated to close PAL. The failure can be attributed to the industry's opposition to the ITQ regime about which it harbored a number of reservations. The Fisheries Ministry was also not very supportive partly because ITQs cut into its domain of activities, including granting of fishing licenses. In any case, the issue attracted a lot of attention and consumed a great deal of time of the Bank staff/management and Peruvian officials. It may not have held up the loan, however, because delays in Petroperu's privatization would have prevented an on time closure in any case.

6.23 The Peruvian fishing industry's opposition to ITQs stemmed from many concerns about the proposed regime. First and foremost, there was the fear that foreign fishing interests would acquire quotas were these to be auctioned. Second, the industry had serious questions about whether and how the quotas would work given the large size (600 to 700 fishing vessels and

around 100 processing plants) and complex structure of the Peruvian industry. For instance, many fishing companies do not own processing facilities and vice versa. Who would the quotas be allocated to in this situation? Third, the industry was also not convinced that appropriate controls could be implemented given the large size of the fishing fleet. All of these concerns placed the fishing industry squarely in the camp opposed to ITQs.

6.24 The Governmental attitude towards fisheries reform began to change in 1997. The Government ceased issuing new fishing licenses, strengthened the fisheries research institute (IMARPE) and privatized the monitoring of fish catches. It is also becoming more receptive to the ITQ regime, particularly because a (private) census of fishing fleet revealed excess capacity of 25 percent or higher. Still, the Peruvian fishing industry remains adamantly opposed to the ITQ regime. It is advocating another plan in which banks, the fisheries industry and the Government will form a consortium to raise foreign loans. Such loans will then be used to buy out a portion of the current Peruvian fishing fleet. Those who remain in business will commit to service the foreign loans out of their export proceeds.

7. Pension Reform—Relevance

7.1 At the beginning of 1990s, there were two defined-benefits pension systems in Peru: (1) a very generous Cedula Viva (CV) pension system for public employees which over time had been extended to include higher salaried employees in independent state enterprises, and (2) a (successor to CV) pay-as-you-go National Pension System (SNP) covering both public and private sector employees. The two systems represented enormous unfunded contingent liabilities for the Government, posing a threat to Peru's fiscal stability in the years to come. Pension reform began in 1992 with the creation of the National Pension Office (ONP) to administer the SNP and reduce its size and costs. A fully funded defined contribution private pension system (SPP) was established in 1993 as an alternative to the pay-as-you-go SNP and the national health benefits system, IPSS, was separated from the public pension system.

7.2 The 1992-93 pension reforms encountered several difficulties by 1995 and brought home the need for refinements. First and foremost, enrollment into the SPP dwindled from 40,000 per month in the first half of 1994 to 5,000 per month in the first half of 1995, largely due to the competitive disadvantage of SPP over the SNP. Second, the Government was unable to close down the very expensive and distortionary CV system. Finally, the high costs of private pension funds (AFPs), set up to manage pension funds, were also becoming increasingly apparent. An additional impetus to reform came from the success of the privatization program that produced windfall revenues for the Government and created opportunity for covering some of the unfunded liabilities of public pension systems.

7.3 The competitive disadvantage of SPP in comparison to the SNP stemmed from:

- its less favorable contribution rates and retirement ages;
- the weakening of incentive provided by the Recognition Bonds, especially as time passed¹; and
- the absence of a minimum pension level in the SPP.

1. Note that following the Chilean model, the Peruvian pension reform of 1993 had offered workers, opting to switch from the SNP into the SPP, Recognition Bonds (BRs) which would pay at retirement the inflation adjusted value of their contributions to the SNP prior to 1993. Over time, however, this incentive began to lose its value since the BRs did not give credit to workers' contributions to the SNP beyond 1993.

7.4 Several past attempts to close down the CV pension system had failed because of its very attractive pension provisions. For instance, CV provided for retirement at half pay after 15 years of service and automatic adjustment of benefits to match increases in the salaries of current government employees. Not only had it proved impossible to close the CV system, but also the Congress in 1992 refused to cut back inappropriate CV expansion. Indeed, the 1993 Constitution decided to preserve all benefits under the CV system.

7.5 It also became clear over time that the private pension fund administrators (AFPs) were providing low efficiency but high cost financial intermediation. Several features of the SPP structure and design contributed to this outcome and needed reform. The AFPs did not compete on the basis of real rates of returns produced for their affiliates. Instead, they tended to have remarkably similar investment portfolios, thanks to (1) the requirement that they produce real returns within a defined band around a benchmark reference rate²; (2) the small size of the Peruvian capital market, dominated by short-dated Government paper, bank CDs and subordinated bank bonds; and (3) the limitation that each AFP offer only one fund. The high costs resulted from the heavy set-up expenses of creating a new group of financial intermediaries, AFPs, to manage private pension funds. The AFPs also used costly direct marketing methods to attract affiliates. Finally, the regulatory costs from the Superintendency of AFPs (SAFP) and the cost of death and disability insurance were also perceived to be very high. The net result was high commissions averaging around 2.35 percent of affiliate salaries and sizeable insurance premiums ranging between 1.30 to 1.44 percent of salaries.

7.6 Furthermore, the AFP commissions, ranging between 2.3 and 2.5 percent of salary, are front-loaded and make up about 22 percent of total monthly payments by affiliates, excluding death and disability insurance. Since commissions are set as a percentage of salaries, they decline over time as a percentage of total invested funds. For an affiliate with 10 years of participation, the effective annual rate is about 4.3 percent of invested funds; after 20 years of participation, the rate falls to just over 2 percent, and after 40 years to just under 1 percent. Normally, one would expect that the competition among the AFPs would lead them to reduce commissions over time, but the oligopolistic structure of the fund management industry has precluded that outcome. Hence, some innovative pricing mechanisms would be required to relate at least some of the costs to funds invested instead of contributions made. The current commission payment system has resulted in a net loss of 12 percent on the affiliates' aggregate contributions and commissions despite a cumulative 5 percent gross real annual return on funds invested in the five years since the inception of the AFP system³.

7.7 The Pension Reform Adjustment Loan (PRAL) of US\$100 million was negotiated in 1996 to address several of the above-mentioned shortcomings and to ensure that the receipts from the privatization of SOEs would not be squandered, but instead would be used to cover some of the unfunded liabilities of the CV and SNP pension systems, and of the BR issuance. The PRAL was approved on February 26, 1997 and became effective on February 28, 1997. It was closed on March 31, 1997 following disbursements on March 6 and 14, 1997. One-half of the loan proceeds were set aside to support the Debt and Debt Service Reduction (DDSR) operation with

2. The reference rate was set at the average 12-month real rate of return of all AFPs and the band was defined as deviations (up or down) from the reference rate within the lesser of 50 percent or 2 percentage points. If the actual real investment return of an AFP fell outside of the band, it either had to add to (or dip into) reserves to make up the difference.

3. These numbers are taken from the *Report and Recommendation of the President of the International Bank for Reconstruction and Development to the Executive Directors on a Proposed Loan in the Amount of US \$300 million to the Republic of Peru for a Second Financial Sector Adjustment Loan*, June 5, 1999.

Peru's financial creditors. The single tranche PRAL disbursement was dictated partly by the closing date of the DDSR operation and partly by the perceived shift in the Bank's focus away from structural adjustment loans⁴.

8. PRAL—Design

8.1 The PRAL was well designed to shore up the faltering SPP enrollments and to ensure that privatization receipts are used to cover contingent liabilities of the CV and SNP systems. Increasing enrollment in the SPP was thought to be crucial for not only to reduce the SNP's contingent liabilities but also to bring down the average AFP costs. Note that the high commissions charged by the AFPs have resulted at least in part from the heavy (fixed) set-up costs of the AFP system. The faster the growth of funds under the AFP management, the lower would be the average fixed costs. Hence, the focus on accelerating SPP enrollments was appropriate⁵. The PRAL was not as well designed to achieve some of the longer-term objectives of pension reform such as reducing the contingent liabilities of CV and the SNP and lowering the high costs of the AFPs. Politics intervened in the implementation of measures aimed at reducing the contingent liabilities of CV and SNP and the single tranche disbursement of PRAL funds proved particularly detrimental to follow-up measures aimed at lowering AFP costs and improving their efficiency. There was little post-disbursement progress on studies and reviews concerning the SNP and AFPs that were planned to further the reform process.

8.2 Equalizing the contribution rates and retirement ages for the two systems in July 1995 (Law 26504) was aimed to shore up the competitive position of the SPP against the SNP. Subsequently via Decree Law 874 of November 1996, the SNP contribution rates were set two percentage points above those for the SPP, thereby creating a distinct bias in favor of the latter. Decree Law 874 also created a new series of Recognition Bonds 1996 to give credit to the SNP members switching to the SPP for their SNP contributions from 1993 to 1996. Initially, new entrants to the labor force were enrolled into the SNP by default. But that automatic SNP enrollment mechanism has been replaced since the end of 1998 with an automatic SPP enrollment bias. The PRAL also provided for a diversion of US\$1 billion in privatization receipts to back pension obligations, including the Recognition Bonds (RBs) given to workers transferring from the public to the private pension system.

8.3 As regards the design for achieving the longer-term objectives set forth in paragraph 8.1, the principal deficiency stemmed from the single-tranche structure of the PRAL, which reduced the Bank's ability to promote appropriate follow-up measures. The timing of the DDSR operation supported by the PRAL is offered as the principal official Washington explanation for adopting the single-tranche structure. But many observers in Peru attribute the single-tranche structure to the mid-1990's shift in the Bank's focus away from policy based lending. The Bank was perceived to be less interested than before in the problems of Peru (as well as Latin America, more generally). Furthermore, the Bank management was thought to be unsure about its ability to get the PRAL approved, let alone deal with the possible failure of conditionality of a second

4. For details, see paragraph 8.3.

5. No consideration was given to bringing the sizable military pension funds into the SPP and under the AFP management. In any case, the consensus in Peru is that this would prove politically difficult, if not impossible.

tranche. Thus, many in Peru believe that the impetus for a single-tranche under the PRAL came from the Bank and that it was not necessarily dictated by the closing date of the DDSR operation.

9. PRAL—Implementation and Results

9.1 The first major objective of the PRAL was to reduce the SNP's size and costs while supporting rapid expansion of the SPP. Politics had intervened to prevent closing the SNP to new entrants. (Some in the Bank also believe that closing the SNP would have been irresponsible given the lack of a minimum pension in the SPP) Therefore, the only option for the Government was to improve the attractiveness of the SPP in comparison to the SNP, thereby encouraging the migration of employees from the SNP to the SPP. It was recognized that the SPP will not be an attractive option for employees close to retirement and hence the reform emphasized the migration of young (those below forty years in age) workers from the SNP to the SPP. The measures detailed in paragraph 8.2 helped re-establish the primacy of the SPP over the SNP, restoring the rapid growth in the SPP affiliates. As a result, the growth of the SPP affiliates has accelerated from 11.9 percent in 1997 to 14.1 percent in 1998. At present, the monthly new entrants to the SNP number about 2,000 and to the SPP about 25,000. The aggregate SNP affiliates currently total 1,290,000 of which 950,000 are active (contributing) workers and 340,000 receive benefits. The number of SPP affiliates totaled 2,094,723 on June 10, 1999. Few are currently receiving pension benefits.

9.2 Several factors are holding back the growth of the SPP affiliates at present.⁶ First, the SNP system provides for early retirement for certain class of workers if they have made contributions to the system for 20 years—mining workers at the age of 45, and construction workers, pilots and seamen at the age of 55. All other workers, whether enrolled in the SNP or the SPP, can retire at 65, provided they have contributed for 20 years. Second, the SNP guarantees a minimum pension but the SPP does not. This is an important issue for older employees earning relatively low salaries who may think that their SPP contributions would be unable to generate the minimum guaranteed SNP pensions. Indeed, the accumulated pensions in the SPP for many young, low-salaried workers may also fall short of the pension benefits in the SNP⁷. Third, the Peruvian stock market took a sizeable hit last year falling by 25.5 percent in nominal local currency terms, 29.7 percent in real local currency terms, and 35.5 percent in US dollar terms. This has adversely affected the returns produced by AFPs on their affiliates' accumulated contributions because they are allowed to invest up to 35 percent of their portfolios in the stock market. The inflation-adjusted gross returns in Nuevo Soles were roughly 1.2 percent between April 1998 and April 1999, and less than 6 percent annualized between April 1994 and April 1999.

9.3 The second principal objective of the PRAL was to close down the very expensive Cedula Viva (CV) pension system for public employees, which over time had been extended to include higher salaried employees of independent state enterprises. The PRAL also sought to reduce the contingent liabilities of this system by encouraging the transfer of employees from the

⁶ Recently, Congress and the government have taken steps to improve the situation for SPP. On December 6, 1999, Congress issued Law 27252, which allows early retirement for people who work in activities that represent a risk for their health and life, and on December 20, 1999, the Superintendencia Administradora de Fondos de Pensiones authorized pension funds to invest abroad (Resolution No. 368-99-EF/SAFP).

⁷ Currently, the Peruvian Congress is considering a bill to introduce a minimum pension for SPP affiliates. This is, of course, a double-edged sword. It will eliminate the disadvantage of SPP for older workers earning low salaries, but it will also create potentially large contingent liabilities for the Government. But an offset to this will come from the reduced cost of the SNP to the Government as more and more workers transfer to the SPP.

CV to the SPP and by auditing all claims to the CV benefits with a view to eliminating the fraudulent ones. A number of measures were adopted during 1993-1996 to achieve these goals, including a prohibition of new inscriptions to the CV, and by Decree Law (DL) 817 of April 1996 a re-registration of all the CV beneficiaries, and a cap on the CV benefits at the level of Congressional remuneration. The Constitutional Tribunal's ruling, holding certain provisions of DL 817 unconstitutional, delayed progress, but the Congress passed a new law in July 1997 to restore the most important of its provisions. Thus, the new law granted the ONP the authority to invalidate CV claims without judicial involvement as well as any time limits. It also allowed the ONP to impose benefit caps as of July 1, 1998. Considerable progress has occurred in re-registering the CV beneficiaries. The registration by name, age and address has been completed and the beneficiaries have verified the data inputs. The stage is now set for the ONP to offer amnesty to those beneficiaries who voluntarily give up their CV status. The weeding out of fraudulent claims is to begin thereafter. The ONP estimates the current CV beneficiaries at 325,000 of which 65,000 are still working and 260,953 are receiving benefits.

9.4 While some progress has been achieved in containing the CV's contingent liabilities, the ultimate success will depend upon the extent to which the fraudulent CV claims are eliminated. The jury is out on this issue because the process is still in progress. Also, the Government has failed thus far in de-indexing CV benefits from salary adjustments for the current civil servants. Although such indexation has been largely responsible for preventing the rationalization of salaries in the public sector, its impact on raising the CV's contingent liabilities should be muted by the fact that the CV benefits are capped at the level of remuneration for members of Congress.

9.5 Real returns net of expenses on the AFP-managed pension assets have been significantly lower than those on investments in CDs and the Peruvian stock market since the inception of the SPP, due in large part to the high expense base of the AFP and the lack of incentive for them to compete on the basis of portfolio quality^{8,9}. But the PRAL did not focus a great deal on expense reduction issues directly and hence produced only modest results. The high expense base resulted from the large set up costs associated with the creation of a new group of financial intermediaries (AFPs), their reliance upon direct marketing to attract affiliates, the apparent lack of competition among those who provided death and disability insurance coverage, and the heavy regulatory burden imposed by the SAFP. While the PRAL sought to cut the regulatory burden on the AFPs and prevent frequent transfers from one AFP to another, it did not take steps to increase competition for the AFPs by allowing other financial intermediaries, such as banks, to get involved in pension fund management¹⁰. It also did not address the issue of the lack of transparent relations between the insurance providers and the AFPs¹¹.

9.6 The SAFP has taken steps to reduce regulatory costs. For instance, it no longer requires AFPs to furnish a lot of information on affiliates on a daily basis. Instead, it now asks for information as and when needed. Also, filing costs are being cut by limiting the number of pages in each affiliate's file to six. Furthermore, transfer of affiliates from one AFP to another can not

⁸ Resolution No. 368-99-EF/SAFP of December 2, however, authorizes pension funds to invest abroad, thus improving their investment options and of increasing their returns.

9. For details, see Hemant Shah's "Towards Better Regulation of Private Pension Funds," Policy Research Working Paper No. 1791, The World Bank, June 1997.

10. This is a controversial issue. Banks are perceived to have two advantages over the AFPs: (1) lower cost fund management; and (2) greater credibility with public, according to Apoyo. But on the negative side of the ledger is the potential for exposing the banking system to yet another risk in so far as any problems with funds managed by banks could jeopardize the health of the banking system. Also, the banks owned many AFPs and that would have prevented the emergence of true competition. This option is now being pursued under FSAL II with the entrance of foreign financial institutions in Peru.

11. The largest of insurance companies are linked to AFPs, with MAFRI the only independent insurance provider.

be effected before four months, which should cut down upon the number of monthly transfers. The latest available transfer data for April 1999 do indeed show a decline in the number of approved transfers to 583. Year-to-date transfers through April 1999, however, totaled 24,145 or roughly 6,000 per month. The pace of transfers was about the same on a monthly basis throughout 1998 as well.

9.7 The PRAL also attempted to remove some of the impediments to the AFPs competing on the basis of portfolio quality. The Decree Law (DL) 874 of November 1996 eliminated the requirement that all AFPs earn real returns within a defined band around a benchmark reference rate, thereby weakening the incentive to produce identical investment portfolios. It did not totally eliminate this incentive, however, by retaining the requirement to earn a minimum real rate of return. Partly as a result and also because of the oligopolistic fund management structure, the various AFPs' portfolios are still quite similar as the table below shows:

Table 9.1: Composition of AFP Portfolios, April 1999 (Percent)

<i>Investment Instrument</i>								<i>SPP</i>	
	<i>Horizonte</i>	<i>Integra</i>	<i>N. Vida</i>	<i>Profuturo</i>	<i>Union</i>	<i>Mean</i>	<i>Sta.Dev.</i>	<i>SD/Mean</i>	
Stocks	36.4	36.1	36.2	35.6	36.0	36.0	0.27	0.01	
Deposits in Banks	25.3	27.0	17.4	20.2	25.9	24.5	3.93	0.16	
Corporate Bonds	16.2	13.3	16.1	20.9	16.2	16.0	2.51	0.16	
Leasing Bonds	9.0	8.3	11.9	10.0	9.1	9.2	1.32	0.14	
Subordinated Bonds	6.2	5.1	7.8	7.3	6.0	6.1	1.02	0.17	
Brady Bonds	4.8	5.2	4.9	4.9	5.0	5.0	0.14	0.03	
Central Bank Paper	0.5	2.9	0.0	0.0	0.0	1.1	0.99	0.90	
Other	1.6	2.1	5.7	1.1	1.8	2.1	1.67	0.79	

Source: SAFP.

As a part of FSAL II, the minimum real rate of return requirement has now been removed.

The currency composition of the AFP portfolios has also been diversified with the US dollar assets accounting for about 35 percent of total and the local currency assets the remaining 65 percent. These percentages were 21.5 and 78.5, respectively, in December 1996. Thus, the AFP portfolios are now much less vulnerable to a currency devaluation. The SAFP has also allowed increasing portfolio diversification over time:

Table 9.2: Composition of AFP Portfolios, 1993-1999 (Percent)

								<i>May</i>
	<i>1993</i>	<i>1994</i>	<i>1995</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>	
Stocks	0.00	14.08	18.10	31.87	34.77	32.71	35.88	
Deposit in banks	61.43	34.65	27.00	25.21	24.93	22.72	23.77	
Corporate Bonds	0.00	3.29	9.48	22.10	20.79	18.76	15.96	
Leasing Bonds	6.67	10.55	9.00	4.86	6.52	10.31	9.34	
Subordinated Bonds	0.00	9.67	12.70	13.26	10.30	8.57	6.03	
Brady Bonds	0.00	0.00	0.00	0.00	0.00	4.94	4.75	
Central Bank Paper	18.94	20.05	20.49	0.00	0.32	0.00	2.63	
Government Bonds	12.96	6.05	1.73	0.61	0.00	0.00	0.00	
Other	0.00	1.66	1.50	2.09	2.09	1.99	1.64	

Source: SAFP

9.8 Providing an appropriate framework for the pension asset and liability management was yet another objective of the PRAL. It comprised three parts: (1) require the ONP to periodically estimate the actuarial cost of pension obligations under the CV and SNP systems and from the

issuance of the BRs, (2) create a pension trust fund—Fondo Consolidado de Reservas Previsionales (FCRP)—to back pension obligations and set rules for its operations, and (3) channel some of the extra-ordinary privatization receipts into the FCRP. In February 1997, the Government transferred US\$1 billion from the Treasury to the FCRP which was set up in April 1996. The Government has also set up a regulatory regime for the FCRP. But the ONP has to date lacked the data on CV and SNP members to estimate the actuarial pension liabilities under the two systems.

9.9 Complementary capital market reforms were sought under the PRAL to expand the range of instruments available for investment of institutional investors such as the AFPs. Decree Laws 861 and 862, passed in October 1996, laid the ground work for these reforms by (1) establishing a framework for the operation of investment funds, (2) providing a solid base for securitization, (3) simplifying the regulation of mutual funds, (4) improving regulations on short-term paper and convertible bonds, (5) increasing capital requirements for financial intermediaries, (6) introducing the concept of self-regulation of the stock market, (7) establishing clearing house arrangements for financial transactions in the stock market, and (8) improving market transparency. Considerable progress has occurred in implementing these decrees and some sophisticated financial instruments, such as structured bonds, have emerged. In general, securitization of mortgages and consumer credit receivables has not been very successful for two reasons: first, it is not clear if the VAT will have to be paid when credit is transferred from banks to non-banks; and second, neither consumer nor housing credits have the long history required for securitization.

9.10 Notwithstanding the recent improvements, the Peruvian capital market still remains relatively small and illiquid. Bond issuance began in 1995, and is dominated by financial institutions. The issuance totaled US\$1 billion in 1997 as well as 1998. The average maturity has risen from 3 years in 1995 to 5 years at present. The bond market, however, is quite illiquid. The stock market capitalization fell to US\$12.139 billion by last year-end from US\$17.383 billion at the end of 1997. Of the 300 equities listed on the Lima Stock Exchange in 1998, only 70 to 80 are actively traded, and only 42 have an annual turnover of more than 80 percent of their outstanding shares.

10. Ratings for PTAL, PAL and PRAL

10.1 While the overall PAR ratings seem to match those in the ES, a direct comparison is not strictly possible because the latter provides only combined ratings for the PTAL and PAL.

Privatization Technical Assistance Loan (PTAL)

10.2 *Outcome: Satisfactory.* The PTAL assisted Peru in establishing the institutional framework to privatize SOEs in an efficient, timely and transparent fashion. The funding which COPRI received in 1992-93 out of the PTAL was vital because the Government of Peru lacked even meager resources at that time and also because it shielded the Peruvian privatization agency from political interference. This independence contributed to the early success of Peru's privatization program. Following the 1994 sale of SOEs in the telecommunication sector, COPRI received substantial additional funds from its 2 percent share in the privatization receipts. This bonanza of funds may have contributed to the delay in closing the PTAL.

10.3 *Institutional Development Impact: Substantial.* The COPRI and CEPRI, established with support from the PTAL, provided an excellent institutional framework to facilitate

privatization of SOEs. Still, the importance of good leadership in institutions such as the COPRI can not be overemphasized; e.g., the COPRI is perceived to have suffered a setback following the departure of its early leadership. Nonetheless, the institutional framework is good enough to serve Peru embark upon the next stage in its privatization program, i.e., concessions.

10.4 *Project Sustainability: Likely.* The regulatory framework created as a prerequisite for the privatization program is likely to prove sustainable. In addition, the privatization program itself, which the PTAL helped bring about, is also expected to be sustained. Of course, the institutions created to facilitate SOE sales—COPRI and CEPRI—should not be expected to last indefinitely. In fact, they should be disbanded quickly following the completion of the privatization program. At the very least, the institutions should not attempt self-perpetuation and in the process prevent a speedy conclusion of the privatization program. This may have happened to some extent in Peru.

10.5 *Bank Performance: Satisfactory.* The World Bank played a key role in developing the principles of privatization and in providing technical assistance to the COPRI and CEPRI. The Bank also helped with setting up regulatory agencies. In addition, it acted as a filter in selecting financial advisors, undertaking valuations, and conducting bidding processes. The Bank provided the necessary funding to COPRI and CEPRI with the help of the UNDP which played a highly useful role in providing timely disbursement support. The Bank, however, grossly underestimated the technical assistance requirements. Luckily, the success of the privatization program yielded substantial additional funds to COPRI from its 2 percent share in the privatization receipts and the insufficient financing did not become an issue.

10.6 *Government Performance: Satisfactory.* The Government's performance in the PTAL is deemed quite satisfactory in the early years when competent and dedicated personnel manned the COPRI and well-regarded "volunteer" business leaders who were eager to push the SOE sales expeditiously headed the various CEPRI. In the later years, however, most CEPRI members were paid technocrats whose instincts for self-preservation may have delayed the completion of the privatization program. In any case, it is remarkable that none of the SOE sales have been tainted by even hints of allegations of impropriety.

Privatization Adjustment Loan (PAL)

10.7 *Outcome: Satisfactory.* The PAL was highly satisfactory in achieving privatization in the mining sector (paragraphs 6.14-6.16), satisfactory in meeting the targets in the hydrocarbon (paragraphs 6.17 and 6.18), telecommunications (paragraphs 6.6-6.9) and water sectors, and highly unsatisfactory in establishing the ITQ regime for the fisheries sector (paragraphs 6.22-6.24). Note that the targets in the water sector were quite modest and the fisheries reform did not belong in the privatization program. Finally, while the PAL was quite successful in establishing a state of the arts regulatory regime for the telecommunications sector (paragraph 6.13), it achieved only partial success in setting up regulations for the water sector.

10.8 *Institutional Development Impact: Substantial.* The PAL's institutional impact is gauged to be substantial on the basis of Peru's enhanced dependence on markets circumscribed by appropriate regulatory practices. The establishment of an efficient system for allocating and adjudicating mining claims and the clarification of the contingent environmental liabilities preceded the mining sector privatization. The formal deregulation of petroleum product prices in 1992 fortified the reforms in the hydrocarbon sector. Appropriate regulatory regimes were established in telecommunications and water utility sectors. The telecommunications regulator—OSIPTEL—in particular, is recognized as the state-of-the-arts regulator in the region.

10.9 *Project Sustainability: Likely.* It is unlikely that Peru will reverse course and renationalize the recently privatized companies. For one thing, the privatized companies are providing superior product/service. They are also meeting and often exceeding their investment commitments and in the process creating jobs. In addition, the regulatory infrastructure that has been established should be able to safeguard consumer interests in the future. Hence, there should be no need to throw the baby out with the bath water. Furthermore, some 400,000 Peruvians have gained a stake in the privatized companies via the "Citizen's Participation Program". Finally, the EFF is also promoting privatization and has set a target of US\$800 million for 1999. For all these reasons, it seems unthinkable that Peru will renationalize privatized companies and go against the regional trend. Nonetheless, there are concerns that arise out of the apparent public opposition to the privatization program. The public opinion surveys done by the Apoyo consulting company show steady erosion of support for privatization from a high of 62 percent in 1992 to 29 percent in May 1999. The opposition to privatization is even more pronounced at 73 percent in the poorest socioeconomic (D) class. A number of factors are believed to have caused the observed decline in the support for privatization despite the unquestionable improvement in the availability and quality of the product/service:

1. In the minds of many consumers, the increases in the prices of telephones, petroleum, water (and electricity)¹² are associated with privatization, causing resentment against the program. These increases were necessary, however, to bring prices to their economic levels. Indeed, as paragraph 6.11 shows, the Peruvian telephone prices are not out of line with prices charged by other telephone companies in the region. Petroleum prices now reflect the evolution of international oil prices and electricity prices are set to provide an acceptable rate of return to private investors in that sector. Still, the elimination of subsidies has raised prices and the consumers (incorrectly) blame this on privatization.
2. The political enthusiasm for privatization has also waned on the back of dwindling public support. The perceived decline in the Bank's interest in Peru's adjustment program after 1995-1996 may have sent a wrong signal, contributing to the political apathy. Also, Peru may have become a victim of its own success. As time went by, there was no longer a crisis atmosphere which had earlier supported rapid policy response. In addition, the extra resources generated by privatization became progressively less valuable in the Government's calculus. As the political support for privatization fell, the popular opposition to it grew.
3. Perhaps most importantly, the Government did a very poor job of selling the privatization program to the Peruvian public. Few studies were undertaken to assess the true costs and benefits of privatization and little was done to disseminate their findings.¹³ For instance, the loss of jobs argument could have been countered by quantifying jobs gained in the privatization induced activities as Telefonica del Peru is doing (see paragraph 6.12). Similarly, the benefits of privatization in terms of enhanced access and improved quality could also have been quantified and disseminated aggressively. In hindsight, the Bank could have provided funding for such studies and/or COPRI could have retained a larger than 2 percent share in the privatization proceeds to finance such studies and to fund visible social projects.¹⁴

The concerns expressed above are not meant to discredit Peru's rather significant achievements in privatizing SOEs. Having completed sales of most major SOEs and postponed others like the

12. The electricity sector privatization, supported by the Electricity Privatization Adjustment Loan (EPAL), is not covered in this Performance Audit Report (PAR).

13. Fritz Du Bois, formerly with the Ministry of Economy and Finance (MEF) and now at the Instituto Peruano de Economia, is currently engaged in doing just such a study.

14. More social projects funded with privatization receipts would have been good public relations.

Mantaro-Restitucion hydroelectric complex for political reasons, the country now appears to favor concessions over asset sales. Correctly done, there is little practical difference between selling assets versus transferring effective management control via long-term concessions. But Peru lacks the necessary skills in this area and would benefit from technical assistance from the Bank.

10.10 *Bank Performance: Satisfactory.* The World Bank's performance was generally quite satisfactory except that the inclusion of conditions on revising the fisheries regime in favor of ITQs was a mistake. The Bank was misled into believing that ample support for the ITQ regime prevailed in the Peruvian Government as well as the fishing industry. Since that was not the case, a waiver had to be eventually sought when it became clear that the proposed reforms would not be achieved. A considerable amount of senior management time was reportedly wasted both in Lima and Washington. Leaving aside the fisheries sector, however, the Bank's performance was very good. The Bank worked hand-in-glove with the Peruvian Government to establish appropriate sector policies, laws and regulations ahead of SOE privatization, as detailed in paragraph 5.1. It provided the Peruvian Government with a lot of flexibility by setting modest and general quantitative targets. It organized seminars, seconded Bank-group staff, and found other sources of funding such as the Japanese grants. The Bank accepted the aggressive June 30, 1995 closing date for the PAL mainly because the Peruvian authorities wished to complete the privatization program and related reforms by the July 15, 1995 presidential elections.

10.11 *Government Performance: Satisfactory.* The Peruvian Government's performance in the design and execution of the PAL was also satisfactory. The credit for the PAL's success goes to President Fujimori who supported the program in its early stages, and to the dedicated individuals at the MEF, COPRI and the various industry-sector specific CEPRI's. The Bank-supported decision of the Peruvian Government not to maximize current revenues in selling SOEs played an important part in obtaining sizable investment commitments, which are even now contributing to Peru's economic growth. The Government also showed a great deal of imagination and flexibility in devising responses to the perceived shortcomings. For instance, it introduced the Citizen's Participation Program to permit 400,000 poor Peruvians to purchase shares in the privatized telecommunication and power companies, thereby aiding the grass roots support for the privatization program. Finally, the Government also set up sound rules, regulations and laws to improve the functioning of hydrocarbons, telecommunications, mining and water sectors. Several current, but more particularly past, government officials in Peru regret not pushing the privatization program even more aggressively than they did. The omission allowed the opposition to gain ground and prevented the completion of the program in the hydrocarbon sector in particular. The Government also failed to quantify and publicize the benefits of privatization, and that too contributed to the loss of the program's momentum. This last issue was addressed more fully in the sustainability paragraph 10.9 above.

Pension Reform Adjustment Loan (PRAL)

10.12 *Outcome: Satisfactory.* Like the ES, the PAR considers the overall PRAL outcome satisfactory. The PRAL was successful in providing support to Peru's DDSR operation and diverting US\$1 billion in privatization receipts to the FCRP to cover the contingent pension obligations, including the RBs given to workers transferring from the SNP to the SPP. But it was only partially successful in achieving the program's long-term objectives; i.e., accurately estimate and then reduce the contingent liabilities of CV and the SNP, and lower the high costs (and raise the low efficiency) of the AFPs. For instance, the progress to date in weeding out the fraudulent CV claims has been partial. In addition, the PRAL has been less than fully successful in reducing the attractiveness of the SNP in favor of the SPP for the reasons elaborated in paragraph 9.2. The

PRAL also provided less than adequate attention to the issue of the AFP costs and efficiency as detailed in paragraphs 9.5 to 9.7. Some progress was also made in promoting capital market reforms but efforts at securitizing mortgages and consumer credit have not been very successful. The absence of post-disbursement monitoring (due to the single-tranche nature of the PRAL) contributed to the less than desired progress in meeting the above long-term goals. It is unclear whether the impetus for the single-tranche structure came from the Bank or the Peruvian authorities. But many in Peru believe that it came from the Bank. See paragraph 8.3 for details.

10.13 *Institutional Development Impact: Substantial.* The private pension fund managers (AFPs), their supervisor (SAFP), and the Pension Reserve Fund (FCRP) are all new institutions that have developed to privatize Peru's social security system and thereby raise domestic savings and strengthen the medium-term fiscal outlook. The regulator (ONP) of the public pension systems CV and the SNP is losing ground in the process. Of the new institutions, the FCRP has been funded with its resources earmarked for covering the contingent public pension obligations via the issuance of Recognition Bonds (BRs). The AFPs have suffered from high costs and low efficiency and the SAFP from lack of influence due to its poor relations with other government agencies, particularly the MEF. Many of the problems of AFPs and SAFP are, however, soluble and are being addressed in the Bank's Second Financial Sector Adjustment Loan approved in June 1999.

10.14 *Project Sustainability: Likely.* The pension reforms in Peru are likely to be sustained, but further reinforcements are crucial. The containment of CV and SNP contingent liabilities requires accurate estimates of the actuarial costs of their pension obligations as well as a willingness to weed out the fraudulent CV beneficiaries from the system. The latter would require a lot more political resolve than the country has historically demonstrated. In the 1990s, however, Peru has shown a remarkable perseverance in cutting back the CV regime despite political setbacks and that bodes well for sustainability. While the measures adopted to improve the competitiveness of the SPP in relation to the SNP should sustain the rapid growth of the SPP affiliates in the near term, other incentives may be required in the future. These would include another BR issue, suspension/postponement of the plan to raise the SPP contributions to 10 percent of salary from 8 percent at present, and a reduction in the cost as well as an improvement in the returns produced by the AFPs. In the ultimate analysis, there is no substitute to making the AFPs highly efficient and low cost providers of fund management services.

10.15 *Bank Performance: Satisfactory.* Like the ES, the PAR also assigns a satisfactory rating to the Bank's performance but with some reservations. The Bank played a key role in keeping pension reforms on track, preserving the growth of the SPP, capping the liabilities of the CV, and obtaining a US\$1 billion set-aside of revenues to fund future pension (including BR) obligations. But the Bank was only partially successful in anticipating problems and devising solutions. One wonders if the Bank could/should have argued against the 1993 creation of the AFP system for private pension fund management. One also wishes that the Bank were more aggressive in devising early solutions to overcome the high costs of the system. It certainly did not focus a great deal on reducing the AFP expense base. In retrospect, the Bank seemed a bit slow in devising solutions to the problems encountered in the transition from the CV/SNP to the SPP. That may simply reflect the complex and the politically charged nature of pension reforms. In any case, some of the requisite reforms are now being addressed in the Second Financial Sector Adjustment Loan currently in execution. Over the years, the Bank has had excellent relations with the MEF, but the same can not be said of its relations with the SAFP. Regardless of who is responsible, the establishment of good working relations with all facets of the Government will be useful for the success of the various Bank activities in Peru.

10.16 *Government Performance: Satisfactory.* Like the ES, the PAR also views the government's performance as satisfactory. The government did show a high degree of commitment to pension reforms. For instance, when the Constitutional Tribunal in April 1996 invalidated certain provisions of DL 817 that would have helped limit the fraudulent CV claims, the government persuaded the Congress to pass new measures as detailed in paragraph 9.3. On the negative side of the ledger, however, are the MEF's strained relations with the SAFP (recognized in the ICR) and the inadequate progress until now in completing the post-disbursement studies of SPP and SNP reforms. But these shortcomings are not serious enough to warrant a less than satisfactory rating.

11. Lessons from PTAL, PAL and PRAL

11.1 Lessons from the PTAL are:

- *Keep political interference at bay as much and as long as possible.* Peru did this quite successfully in the early years partly by providing budgetary independence to the COPRI. Although this budgetary independence has continued, politics began to influence decisions because of the loss of critical top-level political support.
- *Avoid paid bureaucracy in the privatization program.* Business leaders volunteering their talent and time initially led the CEPRI. This was the right incentive structure to achieve rapid results because these private sector individuals were interested in completing their tasks as quickly as possible and then returning to their private sector responsibilities. It is important to tap high quality individuals for leadership positions so as to ensure that the privatization mission is accomplished not just promptly but also competently. The use of paid CEPRI personnel since 1995 may have contributed to the observed slowdown in the pace of privatization.
- *Provide adequate resources to the privatization agency to facilitate quick and painless restructuring of SOEs prior to their sale.* Not having adequate resources delayed the restructuring and sale of Sider Peru.
- *Provide a Technical Assistance (TA) loan in conjunction with an adjustment loan.* PTAL funds provided resources early on not only to the Ministry of Economy and Finance but also to the Ministries of Mining and Energy and of Transport and Communications to fund sector reform studies, thereby solidifying their support for the privatization program.
- *Create a buffer between the privatization agency and the Government* as the PTAL (along with UNDP) did, thereby easing the execution of privatization projects by the COPRI.

11.2 Lessons from the PAL are:

- *Privatize as rapidly as possible* because political opposition builds up even when the privatized entities provide improved services. The advocates of privatization in Peru regret that they did not proceed more swiftly, although Peru did execute its program much more rapidly than most other countries.
- *Endeavor to build popular support for privatization.* This could have been done in Peru through a variety of mechanisms such as (a) provision of resources (from PTAL funds or privatization receipts) to study and disseminate the benefits of privatization; (2) creation of a fund to finance social projects as show cases for privatization proceeds at work; and

(3) expansion in the scope of the citizen's participation program to give common Peruvians a stake in the privatized SOEs.

- *Break up large SOEs* into smaller companies to increase competition and raise buyer interest. Peru followed this strategy in the context of Centromin's mining assets as well as Petroperu with good results.
- *Eschew conditionality for reforms only tangentially related to the principal task.* Conditionality in the fisheries sector in Peru used up a lot of time of the Bank and Peruvian officials, and contributed to the delay in completing the PAL. In addition, the Bank may have locked itself into an ITQ regime too early in the process without getting either Peru's Government or the fishing industry on board.
- *Preserve continuity in the Bank staff and management.* While such continuity prevailed, the relations were excellent between the Bank and Peru. Frequent changes in the Bank staff/management in 1995 and particularly 1996 may have had an adverse impact on Peru's relationship with the Bank and slowed the overall reform process.

11.3 Lessons from the PRAL are:

- *Flexibility of means but unwavering commitment to goals* is crucial to the success of complex and politically sensitive pension reforms. The Peruvian Government met this challenge when it responded to the Constitutional Tribunal's adverse ruling on DL 817 by passing a new law in July 1997. This law restored the most important provisions of DL 817 and preserved the prospects of reducing the contingent liabilities of the CV.
- *Consider local conditions (such as the smaller market size) before importing reform models in toto from abroad* as Peru did in adopting the Chilean private pension fund system and established the AFPs to manage private pension funds. Unlike Chile, Peru was not in a position to require universal participation in the SPP, leading to slower asset growth and higher fund management costs.
- *Create smooth working relations among the various players in the reform process.* While the relations between the Ministry of Economy and Finance (MEF) and the Bank have been excellent over the years, the same can not be said about the MEF and the SAFP. As a result, the pace of regulatory reform has slowed.

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COMMENTS RECEIVED FROM THE BORROWER

*Superintendencia de Administradoras
Privadas de Fondos de Pensiones*

San Isidro, 16 de febrero de 2000

OFICIO N° 104-2000/SAFP.4

Señor
RUBEN LAMDANY
Gerente
Evaluación de países y relaciones regionales
Departamento de Evaluación de Operaciones
Banco Mundial
Presente.-

De mi consideración:

Me dirijo a usted con relación a su carta de enero 21, 2000 en la cual se adjunta el Informe de Auditoría, elaborado por el Departamento de Evaluación de Operaciones (OED) del Banco Mundial.

Al respecto, es grato alcanzar a usted el Informe Técnico con los comentarios de esta Superintendencia sobre el mencionado documento.

Esperamos que la relación de trabajo entre nuestras instituciones se vea cada vez más fortalecida.



Atentamente,

(Handwritten signature)
AUGUSTO MOUCHARD RAMÍREZ
Superintendente



Adj.: lo indicado

INFORME TÉCNICO

INFORME DE AUDITORÍA DE RENDIMIENTO ELABORADO POR EL DEPARTAMENTO DE EVALUACIÓN DE OPERACIONES DEL BANCO MUNDIAL

El Informe de Auditoría de Rendimiento ha sido elaborado por el Departamento de Evaluación de Operaciones (OED) del Banco Mundial con el objetivo de evaluar el cumplimiento de los objetivos previstos en la asignación de un grupo de créditos, entre los que se incluye *Pension Reform Adjustment Loan* (PRAL), directamente relacionado con el sistema previsional peruano. En efecto, el PRAL permitió la canalización de US\$100 millones con los objetivos de mejorar las afiliaciones en el Sistema Privado de Pensiones (SPP) y reducir las deudas contingentes del Sistema Nacional de Pensiones (SNP) y el régimen de Cédula Viva.

1. Base previsional



El informe menciona que las medidas correctivas introducidas en los últimos años han contribuido a incrementar la base previsional, pero especifica una serie de factores que aún dificultan un incremento más significativo del número de afiliados en el SPP (capítulo 9.2):

- 1) La presencia de esquemas de jubilación anticipada dentro del SNP para cierta clase de trabajadores, lo cual hace poco atractiva la afiliación al SPP.
- 2) La inexistencia de una pensión mínima en el SPP.
- 3) Los problemas del mercado de valores peruano, los cuales afectaron la rentabilidad de las inversiones realizadas por las administradoras.



Al respecto, cabe señalar que efectivamente existe una serie de factores que limitan el crecimiento de la base previsional en su conjunto, estando los principales relacionados con el desempleo y la informalidad del mercado laboral peruano. En la medida en que los problemas macroeconómicos del país evolucionen favorablemente, se espera que el número de afiliados en el SPP se incremente, lo cual tendrá como consecuencia la consolidación del sistema hacia un nivel de mayor escala.

Acerca de las limitaciones mencionadas, se debe señalar que se han estado realizando estudios orientados a superarlas, los cuales, en algunos casos, han derivado en cambios normativos:

- 1) *Ley No.27252*. El 6 de diciembre de 1999, se promulgó la ley que establece el derecho de jubilación anticipada para los trabajadores afiliados al SPP que realizan labores que implican riesgo para la vida o la salud. En este momento, se vienen realizando los estudios orientados a definir el esquema de jubilación y la publicación del reglamento respectivo, cuya responsabilidad compete al Poder Ejecutivo.
- 2) *Proyecto de evaluación de una pensión mínima en el SPP*. La Superintendencia de AFP viene analizando la factibilidad de la implementación de una pensión mínima y elaborando un sistema técnico para el cálculo respectivo. Resulta conveniente recordar que su reglamentación depende de la emisión de un Decreto Supremo.
- 3) *Resolución No.386-99-EF/SAFP*. El 20 de diciembre de 1999, se aprobó la resolución que permite la inversión de fondos en el extranjero. Esto permitirá que las administradoras incursionen gradualmente en mercados internacionales, lo cual facilitará la adecuada diversificación del riesgo de las inversiones en el largo plazo.

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2. Retorno de las inversiones

El informe menciona que las tasas reales de retorno de las inversiones realizadas por las AFP han sido pobres, sobretodo considerando el nivel de las comisiones que cobran por la administración (acápite 9.5).

El primer aspecto que se puede comentar es que la afirmación aparentemente se realiza sobre la base de la tasa de rentabilidad neta de los costos que enfrenta el afiliado, tales como el pago de la comisión por administración y la prima de seguros. Si bien esta Superintendencia reconoce la necesidad de evaluar constantemente la estructura de costos de las AFP, también considera que esta evaluación debe realizarse sobre la base de indicadores adecuados que permitan cuantificar la real dimensión del problema. En tal sentido, la comisión responde a la administración de los fondos y por tal razón resulta consistente restarla de los rendimientos para obtener el indicador propuesto; ello, no es el caso de la prima de seguros, pues no guarda relación con el negocio de la administración y no se relaciona con la rentabilidad que los fondos puedan obtener. En efecto, la función del cobro de la prima se deriva de la necesidad de cubrir un riesgo específico dentro de los afiliados: invalidez y fallecimiento, pagando esta suma para obtener eventualmente una cobertura por acontecimientos adversos, mas no para obtener mayores rendimientos.

Por otro lado, se debe mencionar que un análisis de la situación de la estructura de costos de las administradoras que utilice la tasa de retorno neta, debe contar con la especificación de la metodología empleada, de tal forma que se pueda determinar las ventajas y las limitaciones de su uso. Como se menciona en el informe del Banco Mundial, el tiempo de vida del sistema afecta significativamente el valor del indicador, por lo que se le debe utilizar con discreción en la comparación con respecto a otras alternativas de inversión. Con todo, parece más adecuada la utilización de otro tipo de indicadores, sobretodo en las etapas iniciales de los sistemas, tales como la rentabilidad real observada y la tasa de reemplazo esperada que se deduce de ella como beneficio para los afiliados.

En segundo lugar, se menciona que uno de los factores que limitan el nivel de la rentabilidad de las inversiones es el hecho de que las administradoras inviertan únicamente en un fondo. Al respecto, se debe señalar que esta Superintendencia viene estudiando los beneficios de permitir que las AFP administren varios fondos simultáneamente, lo cual posibilitaría la diferenciación de las carteras y de las tasas de rentabilidad, favoreciendo la competencia. Dado que el actual marco legal no admite esta posibilidad, la inversión en fondos diferenciados implicaría la promulgación de una norma con una jerarquía legal que supera el ámbito de funciones de esta Superintendencia.

En tercer lugar, el informe relaciona la baja rentabilidad de los fondos con las limitaciones que persisten en el mercado de capitales peruano. Si bien la mayoría de medidas orientadas a solucionar estos problemas están fuera del ámbito de acción de esta Superintendencia, se espera que la Resolución No.386 99-EF/SAFP, la cual permite la inversión de fondos en el extranjero, favorezca la adecuada diversificación del riesgo de las inversiones en el largo plazo.

Por último, se debe mencionar que si bien existe espacio para promover un incremento en el retorno de las inversiones de los fondos de pensiones, la tasa de rentabilidad obtenida hasta la fecha ha sido satisfactoria. En efecto, si asumiéramos que la tasa registrada a la fecha se mantiene en el tiempo (la tasa real anualizada de los 72 meses medida a enero del 2000 ha sido 7,44%), un trabajador con una

trayectoria de aportación de 30 años alcanzaría pensiones mayores al 100% de la última remuneración percibida.

3. Participación de los bancos en la administración de los fondos

El informe sugiere se estudie la posibilidad de que otros intermediarios financieros, específicamente los bancos, participen en el manejo de los fondos de pensiones (acápito 9.5). Al respecto, se debe señalar que existen factores que apuntan a favorecer la participación de empresas de giro exclusivo y de administración de fondos de pensiones especializada:

- *Protección frente a crisis bancarias.* La separación entre las AFP y los bancos permite salvaguardar los intereses de los afiliados en una eventual crisis bancaria, cuya ocurrencia no es extraña ni lejana en la historia económica latinoamericana.
- *Conflicto de intereses.* La existencia de empresas especializadas en la administración de fondos de pensiones evita el conflicto de intereses que los bancos inevitablemente enfrentarían al tener que optar entre el derecho de los afiliados a una administración rentable con el menor nivel de riesgo posible y el objetivo del grupo económico de maximizar los beneficios mediante operaciones que lo favorezcan, dada la existencia de depósitos a plazo, bonos y acciones de las empresas bancarias en la cartera de los fondos de pensiones.
- *Giros de negocio distintos.* La administración de los fondos de pensiones no consiste solamente en el manejo de los recursos de los afiliados en el mercado de capitales, sino implica la vigilancia de una cantidad importante de cuentas individuales. Esto implica una serie de procesos específicos, necesarios para velar por los derechos de los afiliados y el cumplimiento de los objetivos previsionales.
- *Procesos especializados y disímiles.* Las AFP tiene bajo su responsabilidad la recaudación de los aportes que realizan los empleadores, la identificación de los mismos en cada cuenta individual y la inversión en instrumentos; esta secuencia posibilita la provisión de los beneficios que el SPP otorga a sus afiliados. Estas etapas implican una serie de procesos específicos, tales como la cobranza administrativa y judicial, los trámites para la obtención del bono de reconocimiento, la asistencia a los empleadores, así como la orientación al afiliado en los procesos de jubilación y los trámites de calificación de invalidez ante los comités médicos. La naturaleza de estos procesos no corresponde, en esencia, a una de giro bancario o exclusivamente financiero.



En todo caso, cabe mencionar que, en principio, esta Superintendencia no es opuesta al análisis y la evaluación de esquemas que incorporen a futuro la participación de otros intermediarios financieros, tal como podría ser la figura del fideicomiso; ello, claro está, bajo regulaciones específicas que apunten a preservar los objetivos previsionales y cuando las condiciones de desarrollo y expansión de la masa crítica de los fondos de pensiones así lo ameriten.

4. El rol de la Superintendencia de AFP

El informe aporta un interesante análisis acerca de la Superintendencia de AFP, en términos de los resultados obtenidos por sus acciones y las principales limitaciones que enfrenta.

4.1 Acciones de la Superintendencia

El reporte menciona que las acciones de la Superintendencia de AFP han sido muy limitadas en el objetivo de reducir los costos previsionales, señalando específicamente

el impacto negativo de las solicitudes de información hacia las administradoras y de la nueva estructura del proceso de traspasos (ver acápite 9.6).

Acerca de la solicitud de información, se debe señalar que la propia sistematización de las operaciones realizadas por las administradoras les permite la producción de informes periódicos que no representan un costo adicional significativo, toda vez que se trata de procedimientos ordenados y debidamente automatizados. En experiencias internacionales con sistemas de inversión que también implican operaciones financieras, la supervisión también contempla la producción de informes periódicos por parte de las empresas, en el entendido de que son el resultado natural de una administración ordenada. Además, no se debe dejar de tener en cuenta que la información resulta fundamental para una supervisión adecuada y eficaz, toda vez que la administración de fondos en Perú no ha estado exenta de problemas.

Por otro lado, se debe mencionar que la Resolución No.055-99-EF/SAFP de fecha 24 de febrero de 1999 dispuso el marco normativo necesario para que las AFP y la propia Superintendencia ingresen a un manejo de tecnología de avanzada en el tema de la documentación, a través de la adopción de microformas digitales. La utilización de tales esquemas abre la posibilidad para que las administradoras y la Superintendencia cuenten con un servicio de información centralizado y seguro, el cual significaría una reducción importante de costos para el sistema en su conjunto.

Sobre el nuevo esquema de traspasos, se debe mencionar que los cambios introducidos no han tenido el objetivo de afectar los elementos de competitividad del sistema, sino, por el contrario, buscar que las administradoras liberen recursos (humanos, administrativos, comerciales) dedicados a promover traspasos y los orienten hacia la competencia en la captación de nuevos afiliados, de tal forma que se amplíe la base del sistema con nuevos afiliados. La evidencia hasta ahora obtenida apunta a indicar el logro de este objetivo.

4.2 Limitaciones de la Superintendencia

El reporte menciona la falta de influencia de la Superintendencia, debido a sus pobres relaciones con otras agencias gubernamentales, particularmente con el Ministerio de Economía y Finanzas (MEF). Del mismo modo, el informe señala que las excelentes relaciones del Banco Mundial con MEF no se han proyectado hacia la Superintendencia de AFP, comentándose la importancia de promover un acercamiento con esta institución.

Al respecto, consideramos necesario promover cada vez más el acercamiento con el Banco Mundial, toda vez que las reformas en el sistema previsional deben ingresar a un segundo estadio.

Sobre el particular, la Superintendencia de AFP viene estudiando una serie de proyectos orientados a mejorar la eficiencia del SPP, entre los que se pueden mencionar los siguientes:

- *Autorregulación en el SPP.* Este proyecto está orientado a promover una participación más activa de las administradoras en el proceso de supervisión, especificando el ámbito en el que podría desarrollarse. Se espera que un esquema de autorregulación tenga dos efectos fundamentales: 1) la liberación de recursos económicos en la industria, tanto de supervisor como de supervisados, y 2) una mejora significativa del nivel de calidad de la regulación.
- *Comisiones en el SPP.* Se analizarán las ventajas y las limitaciones del actual esquema de comisiones, el cual se establece como porcentaje del ingreso de los

trabajadores. Sobre la base de una evaluación de esquemas de retribución alternativos, se analizará la viabilidad de alcanzar una propuesta de modificación.

- *Multifondos en el SPP.* Se vienen estudiando los beneficios de permitir que las AFP administren dos o más fondos simultáneamente, lo cual posibilitaría la diferenciación de las carteras y de las tasas de rentabilidad, favoreciendo la competencia.
- *Ampliación de la cobertura previsional.* Este proyecto determinará las posibilidades de incorporación al sistema de aquel segmento de población que aún no participa de los beneficios de un sistema de capitalización individual, sobretudo en lo que se refiere a trabajadores independientes.
- *Mecanismos de cobro centralizado.* Se espera contar con un sistema centralizado que facilite la recaudación de los aportes, de tal forma que se reduzcan los costos de transacción asociados tanto para los empleadores como las administradoras.
- *Servicios informáticos comunes.* Consideramos necesario se inicien estudios tendientes a que las AFP cuenten con servicios informáticos comunes para el almacenamiento de archivos relacionados con los registros de afiliados, microformas y carpetas individuales, así como para los procesos informáticos, lo cual se realizaría sin perjuicio de los resguardos y la seguridad que requiere el desarrollo de los procedimientos involucrados. Se espera que este tipo de mejoras tecnológicas contribuyan a disminuir de manera significativa los costos previsionales.



En conjunto, los proyectos expuestos apuntan a promover un sistema de pensiones cada vez más eficiente, con un mayor grado de competitividad y con la capacidad suficiente para proponer escenarios de calidad en la cobertura previsional de la población. Esto, hacia el mediano plazo, garantizaría retornos de mayor alcance a los afiliados, sobretudo por el lado de las retribuciones que cobran las AFP por la administración de los fondos de pensiones, en beneficio de los trabajadores de nuestro país.

Por último, es importante señalar que si bien las asesorías realizadas por consultores externos acerca del SPP proporcionan elementos de juicio adicionales para una adecuada supervisión, la falta de especialización en temas previsionales ha significado una limitación en el nivel de calidad de los informes preliminares hasta ahora presentados y un incentivo en los consultores para una simple recolección de argumentos, a modo de inventarios, por parte de las administradoras, sin un análisis riguroso subsecuente.

Basic Data Sheet

PRIVATIZATION TECHNICAL ASSISTANCE LOAN (LOAN 3540- PE)

Key Project Data (amounts in US\$ million)

	<i>Appraisal estimate</i>	<i>Actual or current estimate</i>	<i>Actual as % of appraisal estimate</i>
Total project costs	43.3	97.8	225.9
Sources of Finance			
- IBRD	30.0	30.0	100.0
- Government of Peru	6.8	61.7	907.3
- Other	6.5	6.1	93.8

Cumulative Estimated and Actual Disbursements (amount in US\$ million)

	<i>FY93</i>	<i>FY94</i>	<i>FY95</i>	<i>FY96</i>	<i>FY97</i>	<i>FY98</i>
Appraisal estimate	4.5	9.0	9.0	7.5	--	--
Cumulative estimate	4.5	13.5	22.5	30.0	--	--
Actual	--	2.9	6.2	8.2	4.3	8.4
Cumulative actual		2.9	9.1	17.3	21.6	30.0
Actual as % of Estimate (Cum)		21	40	58	72	100
Date of final disbursement:						

Project Dates

	<i>Original</i>	<i>Actual</i>
Identification (Executive Project Summary)	04/06/92	04/06/92
Preparation	05/11/92	05/11/92
Appraisal	06/29/92	06/29/92
Negotiations	10/15/92	10/15/92
Board approval	12/10/92	12/10/92
Signing		04/21/93
Effectiveness		09/24/93
Closing date	12/31/95	12/31/97

Staff Inputs (staff weeks)

	<i>Actual Weeks</i>
Preparation to appraisal	18.0
Appraisal—Board	9.9
Negotiations through	
Board Approval	3.3
Supervision	76.3
Completion	3.0
Total	110.

Basic Data Sheet

PRIVATIZATION ADJUSTMENT LOAN (LOAN 3595-PE)

Key Project Data (*amounts in US\$ million*) Not Applicable

Cumulative Estimated and Actual Disbursements (*amount in US\$ million*)

	<i>FY94</i>	<i>FY95</i>	<i>FY96</i>	<i>FY97</i>	<i>FY98</i>
Appraisal estimate	75.0	75.0	100.0	--	--
Cumulative estimate	75.0	150.0	250.0	--	--
Actual	75.0	--	75.0	--	100.0
Cumulative actual	75.0	75.0	150.0	150.0	250.0
Actual as % of estimate (Cum)	100	50	60	60	100

Project Dates

	<i>Original</i>	<i>Actual</i>
Identification	03/17/92	04/06/92
Preparation	05/11/92	05/11/92
Appraisal	10/26/92	10/26/92
Negotiations	12/11/92	12/11/92
Letter of Development Policy		03/24/93
Board Presentation	04/20/93	04/20/93
Signing		04/21/93
1 st Tranche release	05/31/93	05/07/93
2 nd Tranche release	05/94	08/94
3 rd Tranche release	05/95	01/98
Closing date	06/31/95	01/30/98

Staff Inputs (staff weeks)

	<i>Actual Weeks</i>
Preparation to appraisal	79.8
Appraisal—Board	15.3
Negotiations through Board	
Approval	22.4
Supervision	233.4
Completion	3.0
Total	353.9

Mission Data (*Loan 35-40-PE and 3585-PE combined*)

	<i>Dates (Month/Year)</i>	<i>Number of Persons</i>	<i>Days in Field</i>
Through appraisal	05/92	6	11
Appraisal to Board	06/92	4	11
Supervision I	09/93	5	12
Supervision II	11/93	5	2
Supervision III	01/94	3	6
Supervision IV	03/94	2	9
Supervision V	05/94	1	11
Supervision VI	08/94	1	6
Supervision VII	03/95	4	7
Supervision VIII	05/95	1	3
Supervision IX	01/96	1	9
Supervision X	07/96	1	10
Supervision XI	05/97	1	5
Completion	03/98	1	13

Other Project Data (*Loan 35-40-PE and 3585-PE combined*)*PRECEDING OPERATIONS*

<i>Operation</i>	<i>Purpose</i>	<i>Year of Approval</i>	<i>Status</i>
3489-PE Financial Sector Adjustment Loan	Reform of banking sector including privatization of banks	06/92	Closed

FOLLOW UP OPERATIONS

3811-PE Lima Water Sector Modernization	Raise efficiency and expand coverage	11/94	In execution
3810-PE Electricity Sector Privatization Adjustment Loan	Power sector reform and privatization	11/94	In execution
3610-PE Energy and Mining TA Project	Technical assistance to reform the energy and mining sectors	06/93	Closed

Basic Data Sheet

PENSION REFORM ADJUSTMENT LOAN (LOAN 4134-PE)

Key Project Data (amounts in US\$ million)

	<i>Appraisal estimate</i>	<i>Actual or current estimate</i>	<i>Actual as % of appraisal estimate</i>
Total project costs	100	100	100
Sources of Finance (1)			
IBRD (PRAL)	100	100	100
IBRD (DDSR)	183	183	100
JEXIM Bank	80	80	100

(1) The DDSR loan of US\$183 million together with US\$50 million set aside under the PRAL and JEXIM Bank's US\$80 million were used to support Peru's commercial bank debt reduction program.

Cumulative Estimated and Actual Disbursements (amount in US\$ million)

	<i>FY95</i>	<i>FY96</i>
Appraisal estimate	--	100
Actual	--	100
Actual as % of estimate (Cum)	--	100
Date of final disbursement:		

Project Dates

	<i>Original</i>	<i>Actual</i>
Preparation	10/93	11/95
Appraisal	1995	09/96
Negotiations	09/96	11/96
Letter of Development Policy	10/96	11/96
Board Presentation	11/06/96	02/11/97
Signing	11/96	02/26/97
Effectiveness	11/96	02/28/97
Disbursement	11/96	03/06/97, 03/14/97
Completion	12/96	02/28/97
Closing date	12/96	03/31/97

Staff Inputs (staff weeks)

	<i>Actual Weeks</i>
Preparation to appraisal	54.6
Trust Funds (1)	36.4
Appraisal – Board	12.1
Trust Funds	--
Negotiations to Board Approval	5.9
Trust Funds	--
Supervision (2)	4.4
Completion	--
Total	77.9

Mission Data

	<i>Dates (Month/Year)</i>	<i>Number of Persons</i>	<i>Days in Field</i>
Through appraisal	11/95	3	32
	03/96	1	3
	03/96	1	5
	08/96	1	5
	09/96	5	10
Appraisal to Board Approval	10/95	1	6
Supervision	03/97	2	3

Other Project Data*PRECEDING OPERATIONS*

<i>Operation</i>	<i>Purpose</i>	<i>Year of Approval</i>	<i>Status</i>
3427-PE Trade Policy Reform Loan	Support medium-term trade policy reforms	02/04/92	Closed
3452-PE Structural Adjustment Loan	Support macroeconomic stabilization and broad-based structural reforms	03/26/96	Closed
3489-PE Financial Sector Adjustment Loan	Support financial reform with focus on banking and capital markets	06/17/92	Closed

FOLLOW UP OPERATIONS

7293-PE Financial Sector Adjustment Loan II	Complete financial sector reform, including second-generation pension and capital market reforms	1999	In Execution
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Annex 2: Privatization Adjustment Loan Conditionality

	Action taken at Effectiveness	Second Tranche	Third Tranche
Privatization (General)	Legal/institutional framework in place	Offer US\$450 million in SOE assets for sale, including US\$275 million from mining, teleco and hydrocarbons	Offer US\$1.2 billion for sale, including US\$300 million from mining and telco; sell US\$600 million
Telco. Reforms	New law enacted, tariffs raised, sector opened to competition regulator reorganized	Prepare a new competition regime, tariff structure and privatization plan	Implement the plan completed at the second tranche
Mining	New law enacted to promote private sector investment in mining	Issue regulations for the mining law	
Hydrocarbon	Petroperu's monopoly on downstream activities eliminated, private contracting of upstream-operations facilitated, prices raised and new hydrocarbons law drafted	Submit the draft law to Congress draft a new law for petroleum sector tax regime and draft regulations for both laws	Enact hydrocarbons law and legislate the new tax regime
Fisheries	New fisheries law by a task force prepared	Send draft law to Congress and draft regulations	Enact new law and issue regulations for the fisheries management regime
Water	Raised water tariffs, started work on a new law to set new legal and regulatory framework and a committee was formed to prepare Sedapal for privatization	Submit the draft water law to Congress and prepare draft regulations	Enact new law, issue regulations and establish a regulatory agency