



1. Project Data :			
OEDID:	L3595		
Project ID:	P008047		
Project Name:	Privatization Adjustment Loan (PAL)		
Country:	Peru		
Sector:	Financial Adjustment		
L/C Number:	L3595		
Partners involved :	None		
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Date Posted :	08/03/1998		

2. Project Objectives, Financing, Costs and Components :

This summary covers the Peru Privatization Adjustment Loan (PAL) and Privatization Technical Assistance Loan (PTAL), which had a common objective and largely involved the same project team . The objective of both operations was to support the privatization program and related sectoral policy, legal, and regulatory reforms . The PTAL provided US\$30 million to finance consultants and investment banks to assist in the development of regulatory regimes and in the sale or liquidation of state enterprises . US\$4.5 million in cofinancing from Japan and small amounts from UNDP, the Andean Development Fund and Canada supplemented the PTAL . The PAL provided US\$250 million in three tranches to support implementation of regulatory reform and privatization . The tranche releases were linked to the carrying out of a reform program . This included maintaining sound macroeconomic policy, preparation and enactment of laws and regulations governing the hydrocarbons, mining, telecommunications, water and fisheries sector, and privatization targets involving the book value of public enterprise assets offered for sale and actually sold.

3. Achievement of Relevant Objectives :

Almost all the objectives of the project were achieved . The targets for privatization were exceeded . The PAL called for 30 percent of the book value of SOEs targeted for privatization under this operation to be offered for sale and 15 percent to be sold by release of the third tranche . By loan closing at the end of 1997, 75 percent had actually been sold. Basic laws and regulations were designed and adopted for the hydrocarbons sector, opening the country to private sector exploration and development and ending price controls . Mining sector reform included a geological survey clarifying mining claims and an adjudication system . Environmental and safety standards were also adopted . Telecommunications reform included a new rate schedule ending cross subsidization and rationalizing the sector structure. A single, comprehensive water law was passed, a regulatory agency was installed and Lima water tariffs were raised to economic levels.

4. Significant Achievements :

Privatization has resulted in a sale of SOEs that had been losing US\$ 2.5 billion a year for US\$7.5 billion. Sectoral reforms and privatization are leading to increased investment and improvements in basic infrastructure .

5. Significant Shortcomings :

The only significant shortcoming was in the fisheries sector . The resource management regime recommended by the Bank proved to be unacceptable to the industry . This seems to have reflected inadequate involvement of the industry in the search for solutions to the problem of over fishing . The discussions and negotiations on this issue absorbed an inordinate amount of staff time . It became a major point of contention between the Bank and Government and lack of resolution required waivers for release of both the second and third tranches of the PAL .

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Satisfactory	
Institutional Dev .:	Substantial	Substantial	

Sustainability :	Likely	Likely	
Bank Performance :	Satisfactory	Satisfactory	
Borrower Perf. :	Highly Satisfactory	Highly Satisfactory	
Quality of ICR :		Satisfactory	

7. Lessons of Broad Applicability :

The most important lesson to be drawn is that privatization programs should proceed rapidly when there is an opportunity, because opposition tends to build up early as the short term costs in terms of job losses and rate increases are more evident than longer term benefits . A well-organized public relations campaign can be useful in blunting emerging opposition.

8. Audit Recommended? ☐ Yes ☒ No

9. Comments on Quality of ICR :

The ICR is satisfactory.