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| 1. Project Data : | |
| OEDID: | L4134 |
| Project ID: | P008064 |
| Project Name: | Pension Reform Adjustment |
| Country: | Peru |
| Sector: | Other Non-sector Specific |
| L/C Number: | L4134 |
| Partners involved : | none |
| Prepared by : | David Greene (consultant), OEDCR |
| Reviewed by : | Roger Robinson |
| Group Manager : | Ruben Lamdany |
| Date Posted : | 07/22/1998 |

2. Project Objectives, Financing, Costs and Components :
Peru's reform program has been supported by five IBRD adjustment operations totaling US\$ 1.4 billion since 1992. The Bank's involvement with pension reform began with the FSAL of 1992, which supported the establishment of a fully funded, defined contribution private social security fund (the SPP) to replace the existing pay as you go, public, defined benefit schemes (NPS and CV). The Pension Reform Adjustment Loan provided US\$ 100 million in a single tranche to continue the process of pension system reform. Fifty percent of the loan amount was set aside to finance Peru's Debt and Debt Service Reduction operation with its commercial bank creditors. The program supported by this operation was designed to deepen pension reform, improve the efficiency of capital markets and earmarking part of privatization receipts to back pension obligations.

3. Achievement of Relevant Objectives :
All the agreed actions required to achieve project objectives were taken before loan approval. This included (1) capping benefits of the old scheme, prohibiting new inscriptions and undertaking the steps necessary to identify ineligible recipients; (2) changing contribution rates and retirement ages under the National Pension System (SNP) to equalize them with the SPP; (3) permitting competition among pension and administrators on the basis of quality of portfolio, (4) depositing one billion dollars of privatization receipts in a Pension Reserve Fund and (5) enacting a new capital markets law authorizing new financial instruments and improving securities regulation.

4. Significant Achievements :
The project, along with the FSAL, has supported essential steps toward pension reform with conversion from a public, pay as you go, defined benefit scheme to a private, defined contribution scheme. This change should have important long-term benefits, contributing to increase domestic savings and strengthening public finances.

5. Significant Shortcomings :
Post disbursement steps in the program have taken longer than anticipated. The single tranche operation did not provide support for follow up measures, which might have ensured continuation of the rapid pace of reform.

| 6. Ratings: | ICR | OED Review | Reason for Disagreement /Comments |
|----------------------------|--------------|-------------------|--|
| Outcome: | Satisfactory | Satisfactory | |
| Institutional Dev.: | Partial | Modest | |
| Sustainability: | Likely | Likely | |
| Bank Performance: | Satisfactory | Satisfactory | |
| Borrower Perf.: | Satisfactory | Satisfactory | |
| Quality of ICR: | | Satisfactory | |

7. Lessons of Broad Applicability :
Single tranche adjustment operations may still be a valid approach even when it is evident that the reforms to be

supported by Bank operations will take a period of time to accomplish and /or can only be done in stages . In these cases, the Bank's strategy should include a series of operations, including the proposed timing and conditions of each. The prospect of a series of single tranche operations can help ensure the required long -term government commitment to the reform process.

8. Audit Recommended? Yes No

9. Comments on Quality of ICR :

The ICR is satisfactory.