

PRIVATE SECTOR INVOLVEMENT IN PUBLIC POLICY MAKING

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AGENDA

- 1. Capital market recent history**
- 2. Invertir Project**
- 3. Pending Issues**

**1990s ECONOMIC REFORMS AND THE CREATION OF
THE PRIVATE PENSION FUNDS SYSTEM:
A NEW ENVIRONMENT FOR PERUVIAN CAPITAL MARKET**

**LIQUID FUNDS
SUPPLY**

(pension funds +
mutual funds)

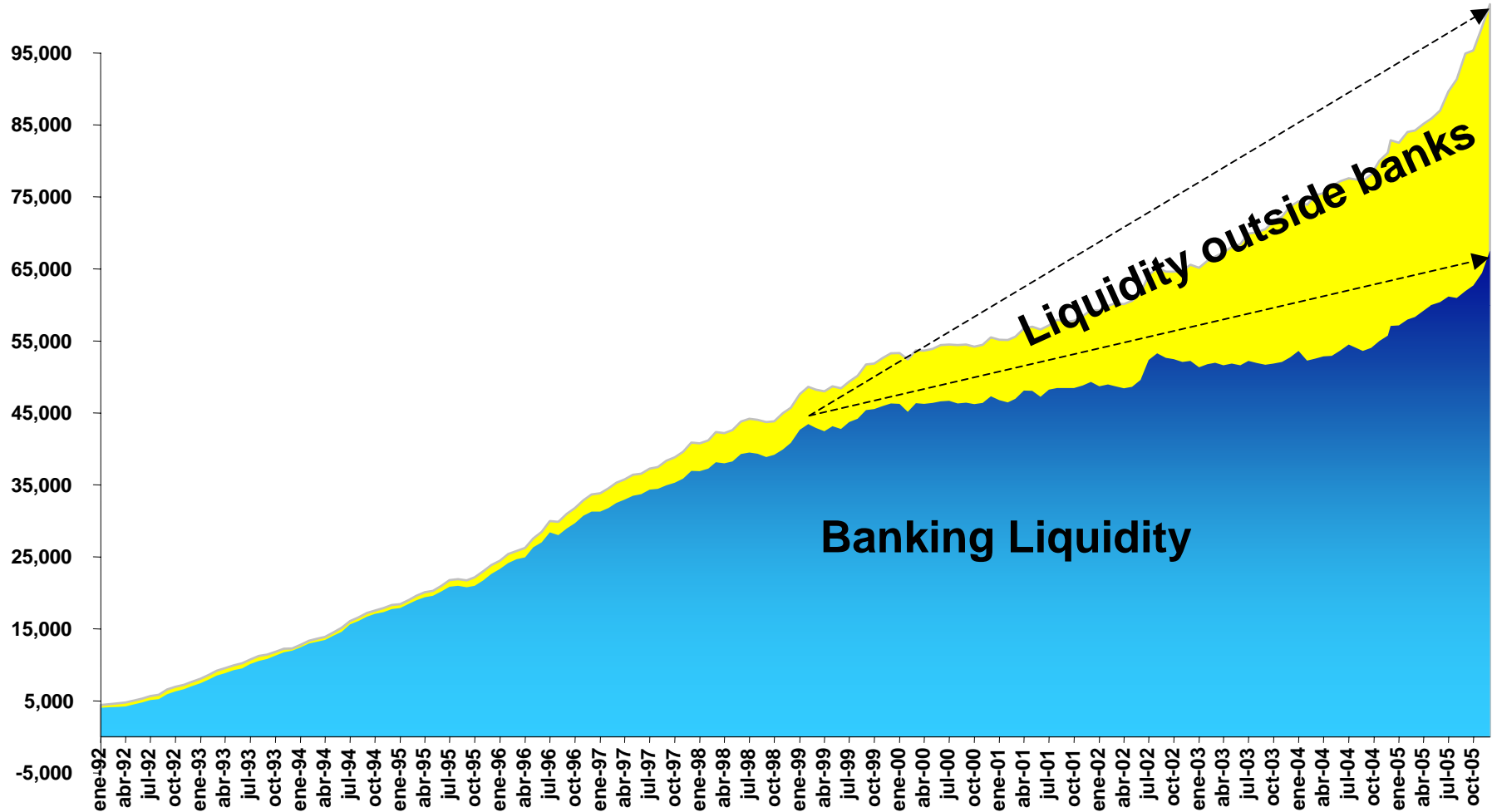


**LIQUID FUNDS
DEMAND**

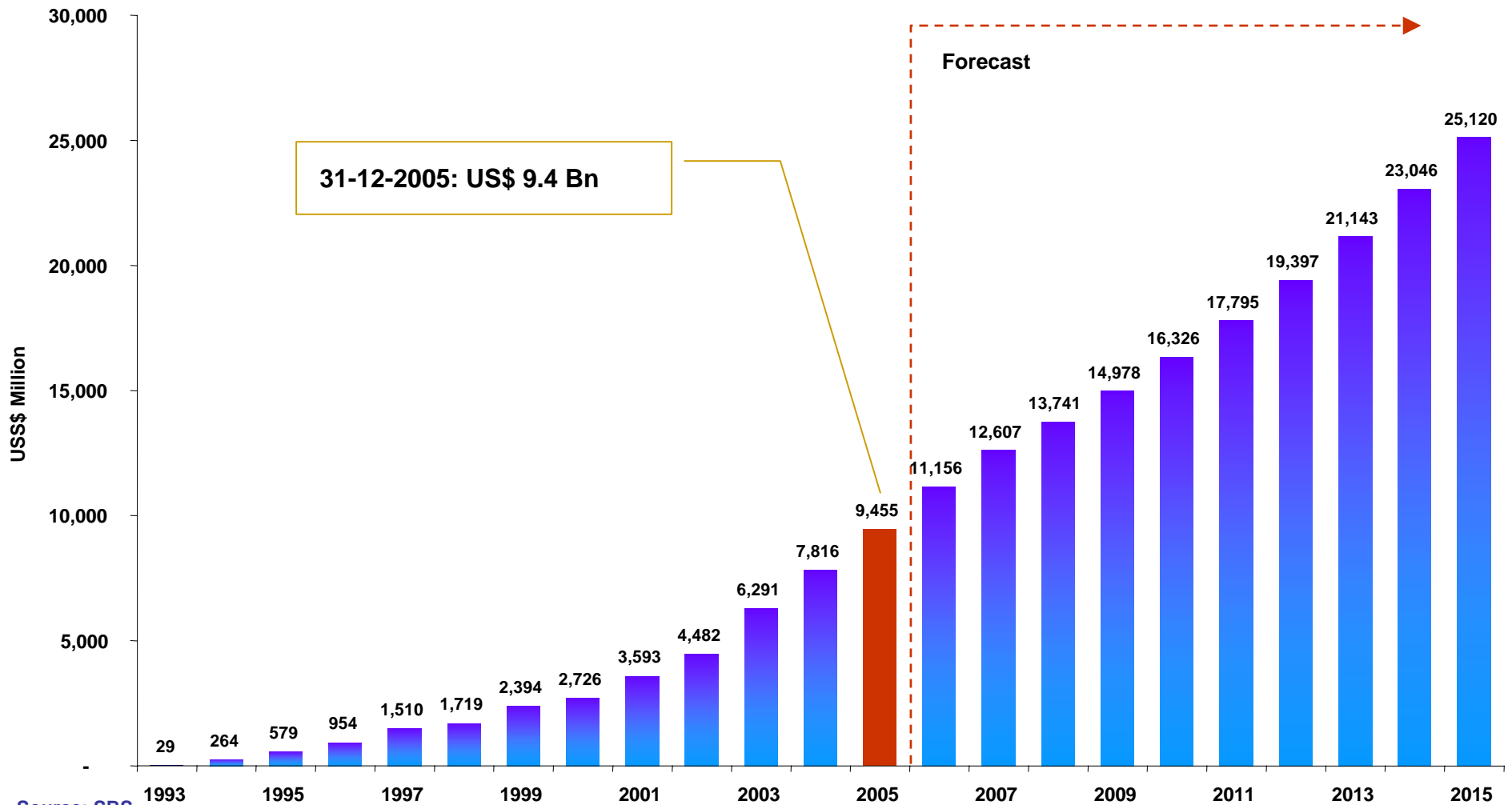
(lack of companies
with access to the
capital market)

LACK OF INSTRUMENTS
(fund managers)

Liquidity Evolution 1992 – 2005 (Soles)

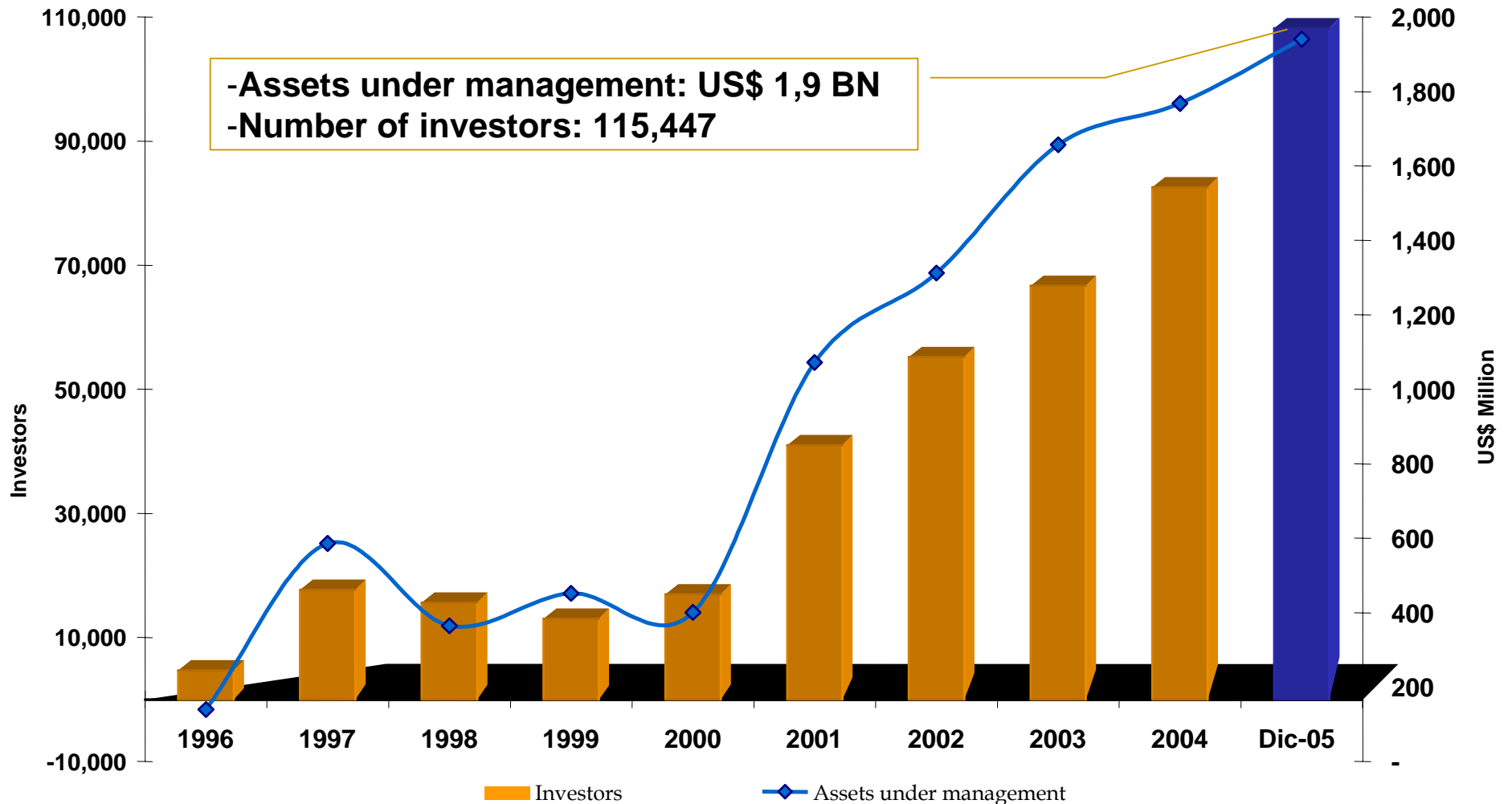


Assets under management by Peruvian private pension funds



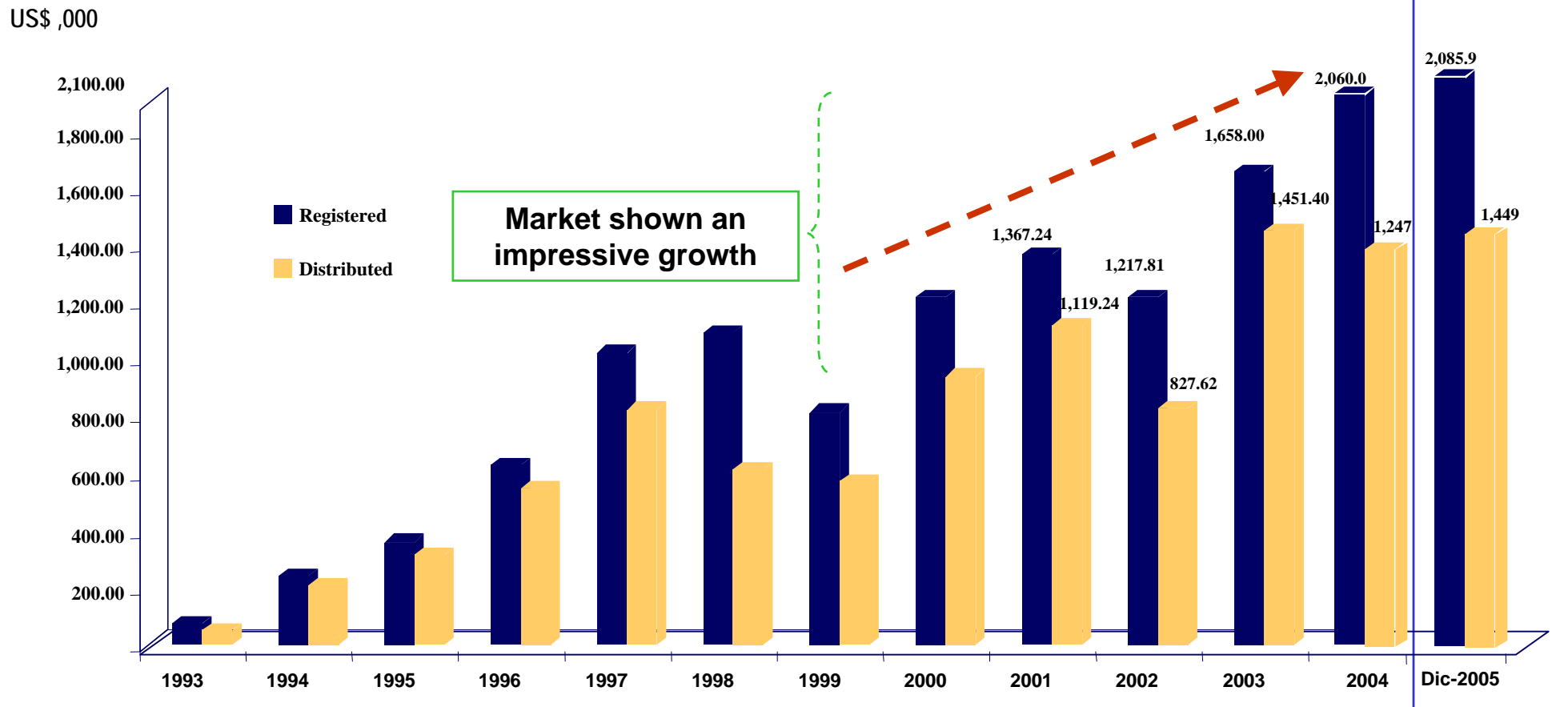
Source: SBS

Investment Funds Industry Evolution



Primary Public Offering Evolution

Securities Registered 1993 –2005 (US\$,000)



Capital market is expected to keep growing.....though there is much to do

- Although there is still ample room for improvement, capital market in Peru shown an impressive evolution.
- A new market for start ups has been created ... but only for mining companies at this stage.
- Lack of IPOs.
- Cost reduction proposals are to be prepared

Investment Management Industry at a developmental stage yet

- Regarding VC
 - Deficit of qualified investment managers
 - Venture capital culture at a developing stage.
 - Costly approach to identify investment objects.
 - Difficult to exit.

invertir

**Support to the Development of the Capital Market with
emphasis in the promotion of the Venture Capital Industry**



Legal Think Tank

Looks for the establishment of a legal framework propitiating the development of the industry

- Working closely to the National Congress, CONASEV, SBS and other government bodies proposing changes
- Publicly endorsement through the monthly magazine (Invertir)

SME's Training Programs

Aimed to develop a propitious mind set for the development of the industry among entrepreneurs, resulting in more and better investment objects

- Selection, training and individual advisory of companies with growth potential
- Provides a unique displaying opportunity through forums to entrepreneurs

Investment-Funds' Incubator

Directed to the creation of a sustainable agent for the development of the investment funds industry

- Designs and executes training programs
- Investment facility: Presentation of potential funds among investors
- Promotion of venture capital industry

Venture Capital Funds Formation

Issues

- Barriers to entry for managers: capital and guarantees structure discourage new entrants. Troublesome incorporation process.
- High transaction costs (legal framework and bureaucracy).
- Government does not pave the road for the development of the industry. Promotion agencies do not perform alike.

Initiatives

- Invertir is currently working on bills proposals to:
 - Reduce costs of the incorporation process.
 - Provide an adequate legal framework for private funds.
 - Create a special regime for institutional investors.
 - Creation of a special chapter for government effectively enabling industry promotion

Current Score: 1 Expected Score: 3

Tax treatment of investment funds

Issues

- Capital gains outside the stock market are not tax exempt.
- Tax system is an administrative burden for general partners due to its complexity
- Venture capital funds are not well represented in the tax law.
- Value Added Tax increases the tab for investors

Initiatives

- Invertir is currently working on bills proposals to:
 - Create a neat tax system
 - Provide tax incentives to venture capital investment funds.

Current Score: 2 Expected Score: 4

Minority Shareholders and Corporate Governance

Issues

- Regulator is not able to enforce the law due to limited resources.
- 20% representation to call a general meeting.
- Controlling parties loyalty: Law does not make clear the duties of controlling parties.
- Class action is being discussed as a mechanism to sue controlling parties.

Initiatives

- Corporate Governance practices are constantly discussed through monthly magazine, forums, etc by Invertir.
- Relevant proposals on corporate governance have been presented to regulators.
- CONASEV is working on its own to revamp the system. Invertir would approach CONASEV to work together
- Procapitales, UPC and CAF are organizing a Corporate Governance contest

Current Score: 1 Expected Score: 4

Restrictions on Institutional Investors

Issues

- Investment funds' formation legal framework requires more than one institutional investor as LP
- Insurance companies are not allowed to invest in VC funds
- Lack of understanding of VC concepts by local investment managers. Short term view of investment managers

Initiatives

- Invertir lays bridges between institutional investors and general partners.
- Invertir offers training programs designed to improve the market knowledge on VC: Programs target GPs as well as LPs.
- Invertir's fund incubator will bring together institutional investors and general partners
- Invertir is working on a regulatory proposal that would enable insurance companies investments in VC.

Current Score: 3 Expected Score: 4

Intellectual Property Rights

Issues

- Peruvian law includes rights to protect intellectual property.
- Enforcement is the main problem

Initiatives

- The competitive commission's plan consolidates a series of policies to improve the intellectual property protection system.
- INDECOPI is currently working to improve enforcement

Outside Invertir's scope

Bankruptcy Procedures, Creditors' Rights and Partners' Liability

Issues

- Misuse of the system: Peruvian chapter 11 has loops that permits deviations
- Creditors rights are still limited.

Initiatives

- Amendments proposed include measures to revamp bankruptcy system.
- Amendments proposed to the law in order to get easier execution of guarantees.

Current Score: 1 Expected Score: 3

Capital Market Development and Feasibility of Exits

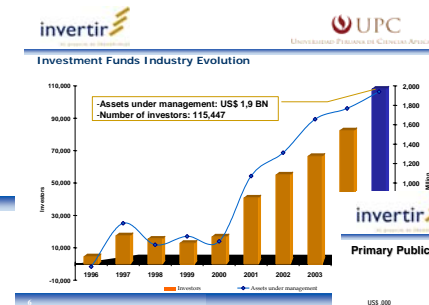
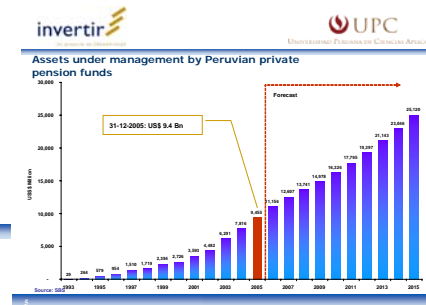
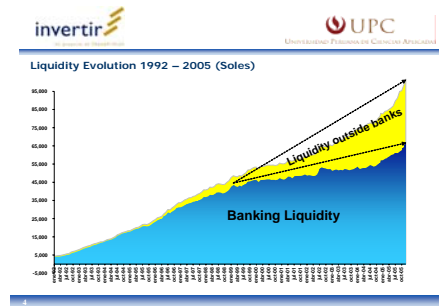
Due to recent history and current developments.

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LIQUID FUNDS SUPPLY
(pension funds + mutual funds)

LIQUID FUNDS DEMAND
(lack of companies with access to the capital market)

LACK OF INSTRUMENTS
(fund managers)



There are great expectation of future development of the market in Peru.

Current Score: 1 Expected Score: 3

Strength of the Judicial System

Issues

- Lack of qualified professionals for specific subjects
- Corruption still an issue

Initiatives

- Maintain and expand the newly created commercial courts
- Arbitration as an alternative to crack the deadlock situation



Current Score: 1 Expected Score: 2

Perceived corruption

Issues

- High litigation costs
- Unexpected trial results

Initiatives

- The competitive commission's plan consolidates a series of policies to eradicate corruption from the country.

Outside Invertir's scope

Accounting Practices

- International Standards have been used in Peru for many years at the companies discretion.
- Since January 2006 its use is mandatory.

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