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PERU

FOREST INVESTMENT PROGRAM

(PE-L1232 AND PE-G1003)

PROJECT PROFILE

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PROJECT PROFILE
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I. BASIC DATA

Project name:	Forest Investment Program		
Project No.:	PE-L1232 and PE-G1003		
Team:	Juan de Dios Mattos (RND/CPE) and Jaime Fernández–Baca (CCS/CPE), Team Co-Leaders; Eirivelthon Lima (RND/CBO); Ana Rios, Laura Rojas and Yolanda Valle (CSD/RND); Michael Kent and María José Carreras (VPS/ESG); Gloria Visconti and Pamela Ferro (CSD/CCS); Javier Jimenez (LEG/SGO);Allizon Milicich and Gabrielle Del Monte (VPC/FMP).		
Borrowing country:	Republic of Peru (RoP)		
Executing agency:	Ministry of Environment (MINAM)		
Financial Plan:	IDB (FIP loan)[1]:	USD	16,800,000
	IDB (FIP grant):	USD	19,500,000
	Total:	USD	36,300,000
Safeguards:	Active policies:	OP-102, OP-704, OP-761, OP-765, OP-703 (B1, B2, B3, B4, B5, B6, B7, B9, B10, B11, and B17).	
	Category:	A	

II. GENERAL RATIONALE AND OBJECTIVES[2]

A. Deforestation and institutional capacity

2.1 Peru is regarded as one of the most biodiverse countries in the world, especially in the Amazon region of the country. However, this wealth is being threatened by deforestation, among other factors. On average, nearly 120,000 hectares were lost per year between 2001 and 2014, which has resulted in almost 53 million tons of CO_2 emissions a year. Indeed, deforestation was the main source of greenhouse gas (GHG) emissions in Peru, accounting for 51% in 2012 (MINAM, 2016a). Soil use changes for crop expansion, especially in small- and medium-sized crop fields, is the primary cause of deforestation in the Peruvian Amazon. In fact, agricultural activities conducted in units smaller than 5 hectares represented, on average, 82% of the annual clearing between 2001 and 2013, while 16% of deforestation was caused by medium-scale agriculture (5-50 hectares) (MINAM, 2016b).

2.2 Studies show that the forest areas managed by native communities have lower deforestation rates (Blackman, 2015). Moreover, greater certainties regarding land ownership rights are linked to lower deforestation levels (Robinson et al., 2014). Evidence shows that native communities with greater certainty over their ownership rights and access to financing will have better probabilities of increasing the value of the forest vis-à-vis alternative soil uses. For example, studies conducted in Brazil (Silva et al., 2006) and Ecuador (Kovasic et al., 2017) show that it is possible to increase the value of the forest through sustainable practices without changing the type of soil use. In addition, in order to foster the preservation of forests and ensure a sustainable income for native and rural communities, a conditional direct transfer scheme has been implemented in Peru, in which resources are invested in production projects (MINAM, 2016c). In fact, it is possible to reduce deforestation by increasing productivity in the Peruvian Amazon (MINAM, 2016d).

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[1] The loan portion has the following CIF financial conditions: i) 40-year amortization period; ii) 10-year grace period; iii) 2% amortization installment for the first 20 years and 4% amortization installment for the last 20 years. The interest rate *(service charge)* is 0.25%.

[2] The references included in this document are available at: technical references.

2.3 In the Peruvian Amazon there are 3.5 million hectares of forest in danger of being cleared, in most cases because of their proximity to access roads and already cleared areas. Out of the total area, 1.6 million hectares are located in the regions of San Martín, Loreto and Madre de Dios (SMLMDD). Econometric analyses based on the 2012 Peruvian National Farming Census (CENAGRO) show a link between small farming activities and deforestation, especially for rural estates of less than 5 hectares, which account for 70% of the total deforestation in the SMLMDD regions (MINAM, 2017). The CENAGRO 2012 also shows that only 5% of the households in the SMLMDD regions have access to financing and technical assistance[3]. These activities use very little technology and may be replaced by more profitable forest exploitation activities for the production of timber and non-timber products.

2.4 Reducing deforestation also requires monitoring platforms to aid the decision-making process (Romjin et al., 2015; Goetz et al., 2015) and to strengthen capabilities. Although the MINAM has advanced in the design and start-up of this platform, it has not yet connected with the systems of other agencies, such as the National Forest and Wildlife Service (SERFOR) and the Rural Agricultural Property Title Regularization Office (DIGESPARC). Furthermore, the Regional Governments (GORE) need to strengthen their Agricultural Regional Offices (DRA) and their Environmental Regional Authorities (ARA), and get the local communities involved in deforestation control and monitoring activities.

B. The forest investment program

2.5 The Forest Investment Program (FIP) is one of the financing windows of the Climate Investment Funds (CIF), which supports the efforts of developing countries to reduce the emissions resulting from deforestation and forest degradation. The FIP provides funds to selected countries in order for them to implement reforms and public and private investments required to address the fundamental causes of deforestation and forest degradation.

2.6 The MINAM prepared an investment plan (FIP Peru), which was submitted to and ratified by the FIP Sub-Committee in October 2013. The total funding approved amounted to US$50 million (US$26.8 million in grants and US$23.2 million in loans). Out of this amount, US$36,3 million will be provided by the IDB, while US$12,7 million will be provided by the World Bank (CIF, 2013).

C. Program objectives and description

2.7 The Program's objective is to contribute to the national goals on GHG reduction through the reduction of the deforestation of the Peruvian Amazon. This will be achieved by strengthening the capabilities to ensure a better environmental management at the local, regional and national levels. A greater capacity at the GORE and the communities, combined with greater strength on the possession of land, will generate the conditions for forest preservation incentives to translate into better living conditions and less deforestation (Porter – Bolland et al., 2011). The main results expected from the project are: (i) a reduction of GHG emissions; (ii) a reduction of deforestation; and (iii) an increase in the income of the beneficiaries. The activities will focus on Departments in the SMLMDD regions and benefit 9,000 families from native communities and Small Forest Users (PUB).

2.8 The program will be funded by means of a loan to be repaid with FIP resources and a grant to be financed by the FIP[4]. The Program will consist of two components:

2.9 **Component I. Comprehensive management of the forest (US$22 million)**. Through this component, the capabilities of native communities, PUB and local governments will be strengthened through training programs, the development of projects and the

[3] Poverty rates in the intervention area are also high, and the human development ratio is lower than the national average. The data for 2012 show that said ratio is 0.43 in the six Amazonian departments, and 0.51 at the national level (MINAM, 2017).

[4] The amounts approved by the FIP in October, 2013 remain unchanged: Tarapoto – Yurimaguas Corridor (US$12,2 million); Puerto Maldonado – Iñapari Corridor and Amarakaeri Communal Reserve (US$12 million); and Strengthening of environmental governance (US$12,1 million). For the purposes of this program, safeguards tracking, management and compliance will be included under a single task.

preparation of local development plans (such as life plans) so that they can manage their resources. These plans will be partially financed with resources from the Program (PE-G1003) by means of a forest preservation incentive fund. Complementary native community and PUB recognition, titling and demarcation activities will be financed together with the MINAGRI and the GORE. These activities will be performed in two intervention areas:

2.10 **Subcomponent I. Tarapoto – Yurimaguas Corridor, in the San Martín and Loreto regions.** 25 native communities will benefit from this subcomponent. These communities manage 250 thousand hectares and 20 PUB groups that will protect 50 thousand hectares of forest.

2.11 **Subcomponent II. Puerto Maldonado – Iñapari Corridor and Amarakaeri Communal Reserve in the Madre de Dios region.** 17 native communities will benefit from this subcomponent. These communities manage 378 thousand hectares and 1,400 PUB groups that will protect 60 thousand hectares of forest.

2.12 **Component II. Strengthening of the national forest governance (US$10.05 million).** Through this component we will set the conditions to coordinate, control and monitor natural resources. More specifically, the following will be financed: (i) the strengthening of the forest monitoring unit at the MINAM, personnel and equipment for 11 GORE with Amazon forests; (ii) setup of local control and monitoring units (equipment); and (iii) coaching and training.

2.13 **Strategic alignment**. The program is consistent with the Update of the Institutional Strategy 2010-2020 (AB-3008). The program is strategically aligned with the development challenges of: (i) social inclusion and equality; and (ii) productivity and innovation by (i) increasing the income of vulnerable peoples; and (ii) financing business plans to improve the productivity of native communities and PUB through technical assistance or the transfer of technologies, and/or the improvement of conditions for the applicable business environments. The program is also in line with transverse areas of: (i) gender equality and diversity; (ii) climate change and environmental sustainability; and (iii) institutional capacity and the Rule of Law, by means of (i) business plans for native communities; (ii) reduction of deforestation and GHG emissions; and (iii) institutional strengthening of the MINAM. The Program is also in line with the EBP (GN-2889) through the environmental sustainability and climate change division, and will contribute to the Corporate Results Framework (CRF) 2016-2019 (GN-2727-6) through: (i) the reduction of CO_2 emissions; and (ii) beneficiaries that make a better use of natural resources. Moreover, the program is consistent with the Agriculture and Natural Resources (GN-2709-5), Environment and Biodiversity (GN-2827-3) and Climate Change (GN-2835-3) Management Sector Frameworks.

III. TECHNICAL ASPECTS AND KNOWLEDGE OF THE SECTOR

3.1 **Execution plan.** The unit in charge of implementing the Program will be the National Program for Forest Preservation and Climate Change Mitigation (PNCBMCC). The PNCBMCC is a unit that specializes in the implementation of public investment projects and has experience in the management of loans from multilateral financial agencies. The SERFOR and the MINAM's Climate Change Directorate will be the main technical counterparties, together with the Agricultural Regional Offices (DRA) and the Environmental Regional Authorities (ARA) of the GORE. A steering committee will be created to direct and support the implementation of the Program, as well as a consulting committee with representatives from native communities, and regional coordination committees. An institutional and fiduciary analysis of the PNBCC will be carried out during the design stage to determine strengthening needs.

3.2 The Bank has backed the MINAM through operations ATN/FP-14403-PE and ATN/SX-14924-PE, which have facilitated the coordination and preparation of the program. Internal MINAM coordination problems and a low execution capacity have been observed during the implementation of these projects. Such problems should be solved during the program's design stage. The PNCBMCC must approve a new structure in line with that of an executing unit.

3.3 **Coordination with other government agencies.** The Ministry of Agriculture and Irrigation (MINAGRI) is in charge of the titling and demarcation activities. Through loan 3370/OC-PE, the Bank is supporting the MINAGRI in the titling of over 400 native communities. This experience will be included in the design of the program, which will be also coordinated with the projects financed by the FIP (PE-L1232 and PE-G1003) and the Norwegian Fund (PE-G1005).

3.4 **Forest preservation incentives.** The Bank is experienced in the design and financing of preservation incentives (2415/BL-NI and 2223/BL-BO). Jones et al. (2016) and Börner et al. (2016) found that preservation incentives linked to the strengthening of communities have had positive results and been cost-effective. Based on such experiences, we must develop a transparent and swift implementation mechanism based on the demands of the communities.

3.5 **Coordination with the World Bank and the FIP.** Part of the program is being designed by the World Bank and is included in the proposal approved by the FIP in October, 2013. Actions must be coordinated and the MINAM must be duly supported during the design stage for both designs to remain within the original proposal.

IV. ENVIRONMENTAL RISKS AND FIDUCIARY ASPECTS

4.1 Based on the information available and the Environmental and Safeguards Compliance Policy (OP-703) this program has been classified as a Category “A” program, with a low disaster risk. The main social and environmental risks and impacts are associated with challenges for the titling of native communities’ lands, the existence of social conflicts in the area of the Program, and the interventions in protected areas. A Strategic Environmental and Social Assessment (EASE) is currently being conducted to assess the impacts and risks of the program, design an Environmental and Social Management Plan (ESMP) with the required mitigation measures, and strengthen positive impacts. A broad consultation and participation process has also been carried out with regional authorities and the native, environmental and productive organizations within the intervened areas. This process must conclude with a final consultation on the ESMP measures and the procurement of agreements with major native organizations. The Environmental and Social Strategy (annex III) describes in detail the potential risks and impacts of the program, and the applicable mitigation measures.

4.2 The PNBCC has no prior experience in loan operations and in implementing the Bank’s fiduciary policies. The SECI analysis will contribute to the identification of fiduciary process flows (financial and procurement management), potential actions for strengthening fiduciary relationships, and the regulations to be included in the program’s operating manual.

V. RESOURCES AND PREPARATION SCHEDULE

5.1 Annex V details the proposed approval schedule, the resources needed for the preparation of the program, and the landmarks required for the submission of the POD and its annexes to the QRR on September 25, 2017. The preparation of the Program requires US$88,648 for the financing of missions. Preparation studies were financed through ATN/SX-14924-PE. The Board of Directors is expected to approve the loan proposal and the grant agreement by April 2018.