

## PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC17179

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| <b>Project Name</b>                     | Argentina FCPF REDD Readiness (P120414) |
| <b>Region</b>                           | LATIN AMERICA AND CARIBBEAN             |
| <b>Country</b>                          | Argentina                               |
| <b>Sector(s)</b>                        | Forestry (100%)                         |
| <b>Theme(s)</b>                         | Climate change (100%)                   |
| <b>Project ID</b>                       | P120414                                 |
| <b>Borrower(s)</b>                      | ARGENTINE REPUBLIC                      |
| <b>Implementing Agency</b>              | SAyDS                                   |
| <b>Environmental Category</b>           |   |
| <b>Date PID Prepared/ Updated</b>       | 23-Feb-2015                             |
| <b>Date PID Approved/ Disclosed</b>     | 02-Mar-2015                             |
| <b>Estimated Date of Board Approval</b> | 22-May-2018                             |

### I. Introduction and Context

#### Country Context

With a Gross Domestic Product (GDP) of more than US\$510 billion, Argentina is one of the largest economies in the Latin America and Caribbean (LAC) region. Post-crisis annual GDP growth averaged 6 percent from 2003 to 2013 -well above the 1.6 percent average witnessed from 1980 to 2000- and third in LAC behind Panama and Peru. The growth surge resulted mainly from rapid export gains as well as internal consumption and private investment. In addition, since its economic crisis of 2002, Argentina has been one of the top two performers in LAC in reducing poverty and sharing the gains of rising prosperity by expanding the middle class. Total poverty (measured at \$4-a-day) declined from 31.0 percent in 2004 to 10.8 percent in 2013, while extreme poverty (measured at \$2.50-a-day) fell from 17.0 percent to 4.7 percent. Income inequality, measured by the Gini coefficient, fell from 50.2 in 2004 to 42.5 in 2012. At the same time, the middle class in Argentina grew by 68 percent between 2004 and 2012, reaching 53.7 percent of the population.

Although Argentina is a broadly inclusive society, endowments and opportunities continue to vary for different groups in society and across regions. Poverty risks are highest among those with limited access to, and command of, human and basic infrastructure assets. The less well developed and integrated Northern provinces, for example, have poverty rates two to three times higher than the national average, and lag behind the rest of the country in social services and basic infrastructure. The main risks for sustained poverty reduction, as highlighted by the new CPS are: (a) macroeconomic vulnerability to shocks; (b) an underdeveloped asset base of individual and

households, limiting their ability to participate in economic activity; and (c) natural resource and environmental degradation.

Argentina's economy is characterized by its valuable natural resources, accounting for about 10 percent of GDP and 60 percent of all exports, and leading the country to be one of the main producers of food thanks to agriculture and cattle breeding. Argentina is one of the largest exporters of beef in the world and the top world producer of sunflower crops, yerba mate, lemons, and soybean oil. The opening of the Chinese market represents a boost in the consolidation of an export profile. Given the importance of natural and environmental resources for long-term growth, their degradation represents an important challenge going forward and poses particular risks for vulnerable and poor households.

Staff estimates indicate that the total cost of environmental degradation amounts to about 7 to 8 percent of GDP. The economic cost of damage from environmental health problems associated with urban and indoor air pollution, noise, inadequate water supply, and sanitation and hygiene are equivalent to about 3 to 4 percent of GDP. Vulnerability to natural disasters associated with extreme weather events and deforestation and the corresponding loss of biodiversity result in economic costs of about 4 percent of GDP. The increasing specter of adverse climate change impacts on Argentina's natural resources underscores the need for a sustainable and inclusive growth path, especially for the poorest households that are often the most dependent on these resources.

### **Sectoral and Institutional Context**

Argentina is well endowed with natural forest resources that are home to some of the poorest indigenous communities and serve important environmental functions and commercial purposes. Degradation of this rich but fragile resource base is a threat to its long-term economic growth and social progress. Approximately 11 percent of Argentina's continental territory is covered with natural forest, totaling approximately 31.4 million hectares. Two-thirds of this is situated in the Chaco Eco-Region (21.7 million ha), of which 60 percent is in various stages of degradation. Weak institutions, limited development opportunities, and a fragile ecosystem are exacerbating the problem. Between 2006 and 2011, more than 1.5 million ha of natural forest were destroyed (a deforestation rate of 1.2 percent). As a result, the outward migration of forest-dependent communities has accelerated, biodiversity has been lost, soil and water resources have been degraded, and carbon emissions have increased.

In Argentina, the constitution grants primary management authority over natural resources to the individual provinces. In this sense, the role of the federal government is to provide a legal and institutional framework to support the provinces in taking appropriate land management decisions. The Environmental Federal Council (Consejo Federal del Medio Ambiente, COFEMA) is the maximum environmental authority and includes the Secretariat for the Environment and Sustainable Development (SAyDS) and the environmental authority at the provincial level. Created in 1991 to address environmental issues including deforestation, the SAyDS is the institution responsible of overseeing the management of natural forests at a federal level. Plantation forests fall under the purview of the Ministry of Agriculture, Livestock, and Fisheries (MAGyP). Historically, the level of coordination between the two institutions has not been adequate. Communication between Secretariats and Ministries has proven to be especially crucial because the drivers of deforestation and degradation in Argentina come predominantly from the agricultural and livestock sectors.

Implementing native forest management proved challenging for SAyDS, due mainly to a lack of

reliable information, an unclear policy framework, a lack of public awareness, limited capacity and resources, and poorly articulated federal and provincial institutions. In 1997, SAYDS was able to make some progress through the Bank-financed Native Forests and Protected Areas project. Under this project technical assistance was provided to improve institutional dialogue, clarify policy and strengthen the legal framework in the sector. Assistance was also provided to fill information gaps through a forest inventory and applied research program. As a result, SAYDS established a forest cover monitoring system, together with models for sustainable forest management. Above all, it was successful in having Law 26.331 promulgated in 2007 (Presupuestos Mínimos de Protección Ambiental de los Bosques Nativos) which provided a framework to control deforestation, promote land use planning, implement sustainable forest management and strengthen ties with the provinces. The Law also provided for a sizable increase in budget to make this happen. In 2009 GoA invested US\$ 27 million in incentives for forest conservation and to implement the program. By 2010, 12 million hectares were covered by the incentives coming from the Law and resources have increased to US\$50 million in 2010 to US\$ 65 million in 2011. SAYDS reported 60% reduction in deforestation in the Chaco region one year after the Law became effective (R-PP, 2010).

However, implementation of the law continues to face serious difficulties that remain unresolved, as highlighted in a recent report of the General Auditor's Office. Significant progress in the effective application of the law needs to be made in order to reduce deforestation rates and achieve emissions reductions at scale, in particular with regards to the institutional capacities and capabilities at the provincial and municipal levels. Supporting this process will be an important element of the REDD+ strategy which will need to provide additional incentives and tools to provincial governments for aligning their planning process with REDD+ and setting ambitious targets for reducing deforestation.

The GoA has also focused on the climate change agenda and has created a Climate Change directorate under the SAYDS. As part of the strong commitment of the country on the topic, a Governmental Committee on Climate Change was created in 2009 to support the formulation of a National Climate Change Strategy and the action plan for short, medium and long term. In addition, the third national communication to the UNFCCC is being prepared. In this regard, the REDD+ agenda will be an important element to support national climate change efforts especially regarding mitigation actions.

Despite the progress, much still remains to be done, and further support is needed to implement sustainable forest management in the field, strengthen links with climate change activities and with MAGyP, improve compliance and sharpen public awareness. Under previous Bank projects, SAYDS has demonstrated a commitment to sustainable forest management, openness to dialogue and a readiness to embrace innovation. However, experience has also shown that SAYDS's implementation capacity is rudimentary, that its influence in the provinces is limited, and that time is needed to build capacity and change attitudes in the sector. It has also shown that the financial and economic aspects of forest degradation and deforestation are complex, and that unclear forest tenure can undermine local participation and commitment. Argentina has proposed a series of activities and processes to better understand and develop methods to address these issues during REDD+ Readiness.

### **Relationship to CAS**

The proposed Project is closely aligned with the Country Partnership Strategy (CPS) FY15-18 for the Argentine Republic (Report No. 81361-AR), discussed by the Executive Directors on September

9, 2014. The CPS comprises nine results areas set within three broad strategic themes. The proposed Project is aligned with the CPS' strategic theme of "Reducing Environmental Risks and Safeguarding Natural Resources" and is expected to contribute to the following CPS Result Areas: "Improving natural forest cover in the Chaco Eco-Region for which the project would contribute to reducing the annual deforestation rate of natural forests in critical areas of the Chaco, Salta, and Santiago de Estero provinces, from 0.56 percent to 0.28 percent. The proposed Project is also aligned with CPS cross-sectoral portfolio management indicators related to increasing the share of WBG financing directed to, governance (strengthening institutions to reduce emission from deforestation), and gender (through gender mainstreaming and disaggregated data collection).

Support for Argentina's "green" agenda has been built on ongoing operations in Sustainable Natural Resource Management (IBRD) and Biodiversity Conservation in Productive Forestry Landscapes (GEF). As a follow-up to its previous Native Forests and Protected Areas operation, the Bank financed a two year, US\$3.7 million Native Forest and Biodiversity component under the Sustainable Natural Resources Management Project (SNRM). The component finished its implementation recently (December 2014), and it helped prepare a larger pipeline project (Forest and Communities; P132846) which focuses on social inclusion, poverty reduction and sustainable management of forests and other natural resources in Northern Argentina.

The project would complement and reinforce other WBG's operations supporting the CPS' focus on sustainable natural resources management and lowering deforestation rates in Northern Argentina. In particular, the Project would complement and build on: (a) the ongoing Sustainable Natural Resources Management Project (P100806, closing date September 30, 2015), which works across three agencies of GoA with responsibility for forest protection, sustainable production and biodiversity conservation; (b) the GEF financed Rural Corridors and Biodiversity Project (GEF, P114294, pipeline) that aims to increase protection of vulnerable natural areas and conserve biological diversity including in the Chaco Eco-Region; and (c) if approved, the above mentioned project Forest and Communities (pipeline, P132846).

## **II. Proposed Development Objective(s)**

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The Project Development Objective is to support Argentina's REDD+ readiness efforts, in particular those activities focusing on management arrangements, REDD+ Strategy development, and Strategic Environmental and Social Assessment.

### **Key Results**

The key results expected from the proposed REDD+ readiness grant are:

- i. REDD+ Management arrangements have been strengthened through the establishment and functioning of Executive and Advisory Committees.
- ii. REDD+ strategic options are consulted and designed
- iii. A participatory SESA (Strategic Environmental and Social Assessment) and an ESMF (Environmental and Social management Framework) are prepared with feedback from key stakeholders.

## **III. Preliminary Description**

### **Concept Description**

Argentina was selected into the FCPF on October 2008, and the Participation Agreement signed on January 2009. The Argentine Readiness Preparation Proposal (R-PP) was approved during the ninth meeting of the FCPF Participants Committee on June 2010, pending a series of key issues to be reflected in a revised version. Such version was submitted and verified for completeness by the FCPF Facility Management Team (FMT) in January 2014. The R-PP identifies a broad set of activities aimed at strengthening the technical and institutional capacities for the GoA to participate in a future REDD+ mechanism. The overall financial envelope for carrying out these activities is estimated at approximately US\$12 million.

Argentina also became a partner country to the UN-REDD Program in October 2009. At its 12th Policy Board meeting held on July 2014 in Lima, Peru, an allocation for the amount of USD 3,591,000 was approved by the Program to support the country's REDD+ Readiness activities based on a revised version of the R-PP. The task team is closely coordinating with the UN-REDD and SAYDS teams to ensure that adequate collaboration mechanisms and synergies are established at the technical and administrative level. At the same time, most task team members preparing this grant are also engaged in preparing the Forests and Communities project (P132846) which is in the final stages of preparation to ensure complementarity and potential synergies with the REDD+ readiness activities.

18. The FCPF operation will focus on a subset of activities specified in the R-PP, structured around three components as listed below. These activities have been selected after technical discussions with the SAYDS, taking into account the following criteria: (i) the priority needs for conducting the REDD+ Readiness process in Argentina, (ii) the World Bank's comparative advantages and (iii) the complementarity with support provided through ongoing WB initiatives, other financial partners, and the government.

Component 1 (US\$0.55M): REDD+ Management arrangements and Grievance Redress (RPP 1a 6). This component will assist the GoA in: (i) strengthening the Project Implementation Unit responsible for the day-to-day operations of the project by hiring additional human resources dedicated to the FCPF operation; ii) strengthening the institutional arrangements for REDD+ Readiness by supporting the establishment and operation of a Steering Committee (SC), functioning as high level decision-making body for REDD+, and an Advisory Committee for REDD+, composed by civil society organizations and functioning as a supporting body to the SC; iii) develop and test a Feedback, Grievance and Redress Mechanism (FGRM) for REDD+; v) support the Monitoring and Evaluation of the project's implementation.

Component 2 (US\$ 2.8M) Support for the development of the REDD+ strategy (RPP 2a, 2b, 2c). This component will assist the GoA in: (i) strengthening the capacity to implement the Native Forest Law 26.331 in the context of REDD+; ii) supporting at least 3-6 key provinces in strengthening their capacity for REDD+; iii) conducting analytical work to explore the linkages and synergies between the forestry and agriculture sectors in the context of climate change and REDD+; and iv) conducting technical evaluations and design of REDD+ strategic options.

Component 3 (US\$ 0.45M): Strategic Environmental and Social Assessment (SESA) (RPP 2d). This component will assist the GoA in: (i) conducting a participatory SESA, in line with the stakeholder consultation and participation plan developed by SAYDS; ii) carrying out diagnostic studies to assess key risks and opportunities of strategic options as part of the SESA; and iii) developing an Environmental and Social Management Framework (ESMF).

The activities to be financed by the FCPF will not include any physical investment or the implementation of any REDD+ program on the ground. The FCPF support is limited to analytical studies, capacity building, and consultation processes at the national and sub-national levels. Through the Readiness Program, the GoA is expected to identify priority investments needed to achieve the goals of REDD+. These investments will be financed by public and private donors and investors and the Government itself, and not by the FCPF Readiness Grant. Such future REDD+ investments are expected to draw upon the SESA and ESMF prepared under this project but will undertake site specific assessment and consultations with respect to social and environmental impacts.

#### IV. Safeguard Policies that might apply

| <b>Safeguard Policies Triggered by the Project</b> | <b>Yes</b> | <b>No</b> | <b>TBD</b> |
|--|------------|-----------|------------|
| Environmental Assessment OP/BP 4.01                | ✗          |           |            |
| Natural Habitats OP/BP 4.04                        | ✗          |           |            |
| Forests OP/BP 4.36                                 | ✗          |           |            |
| Pest Management OP 4.09                            |            |           | ✗          |
| Physical Cultural Resources OP/BP 4.11             | ✗          |           |            |
| Indigenous Peoples OP/BP 4.10                      | ✗          |           |            |
| Involuntary Resettlement OP/BP 4.12                | ✗          |           |            |
| Safety of Dams OP/BP 4.37                          |            | ✗         |            |
| Projects on International Waterways OP/BP 7.50     |            | ✗         |            |
| Projects in Disputed Areas OP/BP 7.60              |            | ✗         |            |

#### V. Financing (in USD Million)

| Total Project Cost:                                      | 3.80          | Total Bank Financing: | 0.00 |
|--|---------------|-----------------------|------|
| Financing Gap:   | 0.00          |                       |      |
| <b>Financing Source</b>                                  | <b>Amount</b> |                       |      |
| Borrower   | 0.00          |                       |      |
| Readiness Fund of the Forest Carbon Partnership Facility | 3.80          |                       |      |
| Total  | 3.80          |                       |      |

#### VI. Contact point

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