



Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 11-Aug-2023 | Report No: PIDA36609



BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Peru	P179214	Peru: Enabling a Green and Resilient Development DPF II (P179214)	P177765
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
LATIN AMERICA AND CARIBBEAN	05-Oct-2023	Urban, Resilience and Land	Development Policy Financing
Borrower(s)	Implementing Agency		
Ministry of Economy and Finance	Ministry of Economy and Finance		

Proposed Development Objective(s)

The Program Development Objective is to support Government policies to: (i) strengthen the foundations for a green economic recovery, (ii) build resilience and enhance climate change adaptation and (iii) transition towards a greener economy in selected sectors

Financing (in US\$, Millions)

SUMMARY

Total Financing	500.00
-----------------	--------

DETAILS

Total World Bank Group Financing	500.00
World Bank Lending	500.00

Decision

The review did authorize the team to appraise and negotiate

B. Introduction and Context

Country Context

Following over a decade of fast economic growth which contributed to reducing poverty, Peru's GDP growth and poverty reduction slowed markedly since 2014. Driven by its comparative advantage in commodities coupled with solid macroeconomic management and well-targeted programs, Peru experienced inclusive growth in the 2004-2013 period. Economic growth averaged 6.4 percent annually in this period, which contributed to 1 million people escaping poverty



every year. However, in the years prior to the pandemic (2013-2019), average growth rates declined to 3.5 percent as productivity and job growth slowed, and poverty reduction slowed down significantly. The COVID-19 pandemic led Peru to one of the deepest recessions in Latin America in 2020 and the national poverty rate increased by 10 percentage points to 30.1 percent. The economy rebounded in 2021 recovering pre-pandemic levels, and, while poverty declined to 25.9 percent in 2021¹, it remains above pre-pandemic levels, hampered by the lower quality of employment and higher informality. GDP growth decelerated to 2.7 percent in 2022, partially affected by political tensions, and it is expected to slow down further to 1.7 percent in 2023, partly due to the absence of big mining projects and potential ravages caused by El Niño phenomenon, social unrest and the effects of high domestic and international interest rates on private spending. While the economic outlook is subject to significant uncertainty and risks, Peru's macroeconomic policy framework is deemed adequate and sustainable over the medium term.

Given the country's high vulnerability to natural hazard and climate change, it is important to advance reform efforts to strengthen its foundations for resilience. Around forty six percent of Peru's territory is classified as having high to very high vulnerability to natural hazards and one third of the population occupies and uses this space.² Earthquakes, landslides, droughts, and floods together already cause average annual asset losses of 2 percent of GDP and welfare losses equivalent to 5.2 percent of GDP, and this is expected to increase in the absence of further climate adaptation investments.³

The country has embarked on a path to economic recovery, with growth and social inclusion and equity at the center of its policy agenda. The GoP's program has a strong emphasis on supporting vulnerable populations, overcoming social exclusion, and promoting equity across regions, particularly in Peru's lagging regions and rural areas. In December 2022 the Ministry of Economy and Finance (MEF) presented the "Con Punche Peru" Plan with measures that seek to promote economic growth and further reduce poverty. The Plan included measures to boost economic recovery through household, regional and sectoral reforms. In May 2023, the GoP launched its "Con Punche Peru 2" Plan anchored in three economic policy priorities: (i) economic recovery and emergency response; (ii) promoting private investment and strengthening competitiveness and productivity of the economy (related to Pillar 1). The plan includes reforms and investments directed towards SMEs and emergency measures to respond to El Niño and the increase resilience of the economy, in addition to the three areas part of "Con Punche Peru" mentioned above. It also includes measures aimed at promoting public investment, financing the recovery from the climate and natural disaster related events, and promoting new growth engines while consolidating existing ones like mining, tourism and agriculture. The Bank is supporting GoP's efforts to enhance social inclusion through a series of proposed policy and investment lending, including pipeline operations to support basic service delivery improvements and productive development in rural areas, social protection, and economic inclusion.

The Government of Peru (GoP) is also committed to transition to a low-carbon economy, build resilience to natural hazards and improve the enabling environment for greener public and private investments. Among others, Peru adopted a framework law on climate change (Law No. 30754, April 18th, 2021) and established a National Registry of Mitigation Measures (RENAMI) (Supreme Decree No. 013/2019, MINAM). The Ministry of Environment also approved the National Adaptation Plan which provides a roadmap for strategic actions across key sectors (June 2021), submitted its second National Determined Contributions (NDC - December 2020) and is currently finalizing the consultation process for the updated National Strategy for Climate Change. The recently approved Strategic Plan for National Development (PEDN) outlines key objectives including achieving a more sustainable environmental management, implementing measures to tackle climate change, and having a sustainable development path.

¹ Based on Peru's national poverty line.

² MINAM (2011) Descriptive Memoir of the Physical Vulnerability Map of Peru. <http://bvpad.indeci.gob.pe/doc/pdf/esp/doc1851/doc1851-contenido.pdf>

³ World Bank (2022) Country Climate and Development Report (CCDR) Peru



Relationship to CPF

The proposed operation is aligned with the Peru Country Partnership Framework (CPF) FY23–FY27 discussed by the Board of Executive Directors on January 31, 2023 (Report No. 179046-PE) by supporting its High-Level Objectives (HLO) of improved access to quality public services across the territory (HLO2) and increased resilience to shocks (HLO3). The policy reforms supported under this operation, which are framed around enabling a green and resilient development, are also aligned with the Bank's broader strategy and approach: (i) 2021-2025 Climate Change Action Plan supporting reforms to transition in three key systems: energy, cities, and transport; and adapt through enhanced DRM, (ii) the strategic frameworks to move "From Crisis Response towards Green, Resilient and Inclusive Development" (GRID) and "Navigating Multiple Crises, Staying the Course on Long-Term Development: The World Bank Group's Response to the Crises Affecting Developing Countries", and (iii) Peru's Country Climate Development Report (CCDR). This operation also complements the Bank's ongoing and pipeline program, including the Peru Sustainable and Inclusive Growth DPF-DDO (P178591).

C. Proposed Development Objective(s)

The Program Development Objective is to support Government policies to: (i) strengthen the foundations for a green economic recovery, (ii) build resilience and enhance climate change adaptation and (iii) transition towards a greener economy in selected sectors.

Key Results

Examples of expected results include:

- Allocation reports are prepared and published, in line with Peru's sustainable bond framework
- Reduction in the average time needed to develop and approve technical dossiers of investment projects applying the Building Information Modeling (BIM) methodology (%)
- Increased schedule performance of the execution of projects that have adopted the Building Information Modeling (BIM) methodology (%)
- Increased percentage of detailed Environmental Impact Assessments (EIAs) and EIA modifications
- Increased number of people living in areas with local Emergency Operation Centers (EOCs) operating according to new guidelines
- Increased share of priority communities that have prepared community risk maps in consultation with women's social organizations, and have made them publicly available.
- Increased number of people living in cities or populated settlements with urban planning instruments that integrate disaster risk management and public spaces management.
- Increased number of sustainable housing units from Fondo MiVivienda registered in the National Registry of Sustainable Buildings and Urban Developments
- Reduction of greenhouse gas (GHG) emissions and local pollutants (PM2.5, SO2 and Nox)
- Increase in the percentage of competitive electricity auctions for regulated customers that allow the participation of non-conventional renewable energy.
- Cumulative energy savings from energy efficiency measures in the public sector (GWh)

D. Project Description

The proposed Second Enabling a Green and Resilient Development Policy Financing with a Deferred Drawdown Option (DPF-DDO) for US\$500 million, is the second operation in a programmatic series of two. The series seeks to support the GoP's reforms to: (i) strengthen the foundations for a green economic recovery; (ii) build resilience and enhance climate change adaptation; and (iii) transition towards a greener economy in selected sectors. The first operation, for US\$500 million, was approved by the World Bank's Board of Executive Directors in March 2022.



Through its three pillars, this operation supports policy reforms that are part of the GoP's initiatives to enable a green and resilient development. Reforms supported through Pillar 1 aim to strengthen the foundations for a greener economic recovery by supporting: (i) a more efficient preparation and execution of public and private investments which are climate sensitive and (ii) improvements in the efficiency and quality of environmental assessments and review processes. Pillar 2 aims to build Peru's resilience to disasters and enhance its capacity to adapt to climate change, by (i) strengthening the country's DRM strategies and institutions at national and local levels, and (ii) mainstreaming DRM in urban planning instruments. Pillar 3 reforms support the shift towards a greener economy in select sectors by promoting: (i) a greener urban development through the establishment of a national registry of sustainable buildings, (ii) a greener urban transport, to facilitate a low-carbon transition of the bus fleet in the Lima-Callao transit system and encourage the expansion of non-motorized transport; and (iii) reforms in the energy sector to improve energy security and green the country's electricity grid by promoting non-conventional renewable energy (NCRE).

E. Implementation

Institutional and Implementation Arrangements

The reform agenda supported through this operation is led by the Ministry of Economy and Finance (MEF), in close partnership with other implementing agencies. As implementing entities, MEF is responsible for collecting and monitoring information related to program implementation and progress towards the achievement of results for this DPL operation. MEF is further responsible for coordinating necessary actions among the agencies involved in the reform program supported by this DPL operation. The World Bank has worked closely with MEF and relevant sectoral entities to define results indicators that are clear and measurable. The Bank will focus on monitoring progress towards the expected results of the program development objectives. The monitoring and evaluation of the operation will be also carried out through the ongoing policy dialogue during the preparation of any subsequent operations and the accompanying technical assistance projects.

F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

Policies under Pillar 1 are expected to have positive welfare effects via job creation, emissions reductions, health and productivity improvements, and increased climate resilience. PA1's low-carbon solutions for infrastructure will directly benefit Peruvian's wellbeing through the health and productivity channel. First, lower pollution will reduce the incidence of respiratory diseases, reducing the out-of-pocket expenditures. Second, less pollution and better health outcomes will increase workers productivity.

Policies under Pillar 2 are expected to help households mitigate climate change risks. Around 20 percent of the population in the lowest income quintile of expenditure and of the rural population were exposed to a disaster in 2021. With poor and rural populations being the most exposed to natural disasters, PA3's updated guidelines and new EOCs are expected to equip districts with resources to combat these risks, especially because prioritized districts are highly exposed to landslides and floods. Meanwhile, PA4, the Sustainable Urban Development Law, addresses the issue of increased urban growth in hazard-prone areas by promoting cadaster updates. This action is crucial for improving living conditions given that 45 percent of the urban population lives in slums, improvised settlements, and inadequate housing. The activities under this PA will contribute to reducing exposure to disaster-related shocks that particularly affect poor and vulnerable households because of their lack of coping and protective mechanisms, while decreasing the probability of nonpoor households falling into poverty.

Policies under Pillar 3 are expected to have positive welfare effects through better health outcomes, lower out of pocket expenditure, and higher savings With PA5's new Technical Code, water and energy efficiency improvements are expected to lead to poverty reduction. Traffic management efficiency, promoted by PA6, aims to alleviate poverty, and foster social inclusion, especially vital for Lima. In 2022, Lima was the 4th slowest city in the world to drive in and access to public transport is limited. An efficient and safe transportation is also fundamental to connecting people with essential services such as healthcare and education, especially for disadvantaged groups such as women and low-income



households. Low-carbon green transport is also expected to reduce pollution and mitigate climate change, which reduces poverty as pollution affects the poor disproportionately. PA7's promotion of renewable energy could reduce multidimensional poverty and improve health outcomes. PA8 introduces energy efficiency regulations for the promotion of energy performance standards, further fostering poverty reduction and improved welfare.

Environmental, Forests, and Other Natural Resource Aspects

The policies and measures supported through this operation are expected to have an overall significantly positive impact on Peru's environment, forests, and other natural resources. Prior Actions under Pillar 1, are expected among others, to strengthen the institutional basis for Peru's environmental governance system enhancing positive long-term environmental effects through further detailing the requirements of environmental assessments of investment projects to ensure an adequate management of expected risks and impacts (PA2), including climate considerations (PA1). Actions under Pillar 2 will support building resilience and enhancing climate change adaptation through the introduction of an updated National Disaster Risk Management Plan (PA3), and the regulation of the Sustainable Urban Development Law (PA4), while actions under Pillar 3 seek to support the transition towards a greener economy in construction (PA5), transport and urban development (PA6) and renewable energy access (PA7) and supply (PA8). The implementation of PA6 – accelerating the renewal of the bus fleet with low-carbon technologies – could potentially lead to negative environmental effects in the event of improper disposal of older fleet infrastructure and eventual disposal of batteries from e-mobility technologies at end-of-lifecycle.⁴ To manage any potential impacts, Peru's environmental regulation incorporates the necessary mitigation measures and is accompanied by requisite enforcement capacity to adequately manage such risks. Investments with potential adverse impacts will be managed mainly through SEIA Law N° 27446 and its Decree N° 019-2009-MINAM, which require the development of an environmental impact assessment for works or projects that may cause negative environmental impacts.

G. Risks and Mitigation

The overall risk rating of the proposed operation is assessed as Moderate. The major risks identified include: (i) political and governance and (ii) institutional capacity for implementation and sustainability. Political and Governance Risk are considered Substantial due to the frequent turnover of high-level government officials at both the executive and Ministerial levels. The mitigation measures put in place for the operation include: (i) ensuring a high-level of commitment of the administration to the proposed reforms through on-going policy dialogue; (ii) having a continuous engagement with key Government bodies to assure that new Government officials are aware of the Program's objectives and intended results; and (iii) closely monitoring potential political and governance risks related to the operation throughout implementation. The risk around Institutional Capacity for Implementation and Sustainability is rated Substantial particularly as the operation involves multiple agencies. Coordination between agencies in Peru is weak, and consensus building usually takes time which could lead to delays in implementation. To mitigate these risks, the operation is focusing on supporting reforms benefiting from long-standing policy dialogue and technical assistance by the World Bank and other donors.

CONTACT POINT

World Bank

Paula Restrepo Cadavid, Bledi Celiku, Diana Marcela Rubiano Vargas

⁴ E-waste management remains a challenge globally, including across Latin America and the Caribbean, but Peru has developed a suite of regulations based on current global best practice in this emerging field. Importantly, in terms of implementation capacity, Peruvian authorities have been receiving technical support from bi- and multi-lateral institutions, particularly from the Swiss Cooperation on developing e-waste management systems, to align it with international best practices.



Lead Urban Specialist

Borrower/Client/Recipient

Ministry of Economy and Finance

Maribel Amasifen

Direccion de credito publico

mamasifen@mef.gob.pe

Implementing Agencies

Ministry of Economy and Finance

Maribel Amasifen

Direccion de Credito Publico

mamasifen@mef.gob.pe

FOR MORE INFORMATION CONTACT

The World Bank

1818 H Street, NW

Washington, D.C. 20433

Telephone: (202) 473-1000

Web: <http://www.worldbank.org/projects>

APPROVAL

Task Team Leader(s):

Paula Restrepo Cadavid, Bledi Celiku, Diana Marcela Rubiano Vargas

Approved By

Country Director:

Issam A. Abousleiman

17-Jul-2023