

TC ABSTRACT

I. Basic Project Data

▪ Country/Region:	PERU/CAN - Andean Group
▪ TC Name:	Enhancing MERESE through Habitat Banks: A Dual Approach to Biodiversity Financing in the Peruvian Amazon
▪ TC Number:	PE-G1025
▪ Team Leader/Members:	BUCARAM VILLACIS, SANTIAGO JUNIOR (CSD/BNC) Team Leader; FERNANDEZ-BACA, JAIME (CSD/CCS) Alternate Team Leader; YANEZ TORRES CECILIA CONSUELO (CSD/CCS); HANSMANN JOHANNA PAOLA; MENDOZA BENAVENTE, HORACIO (LEG/SGO); CHAVEZ, ELIZABETH (CSD/CSD); ORDONEZ CASTRO, MARIA FERNANDA (CSC/ACU)
▪ Taxonomy:	
▪ Number and name of operation supported by the TC:	N/A
▪ Date of TC Abstract:	04 Jun 2025
▪ Beneficiary:	Ministry of Environment of Peru (MINAM)
▪ Executing Agency:	WORLD WILDLIFE FUND INC
▪ IDB funding requested:	US\$1,000,000.00
▪ Local counterpart funding:	US\$0.00
▪ Disbursement period:	36 months
▪ Types of consultants:	Individuals; Firms
▪ Prepared by Unit:	CSD/BNC - Biodiversity and Natural Capital Unit
▪ Unit of Disbursement Responsibility:	CAN/CPE - Country Office Peru
▪ TC included in Country Strategy (y/n):	No
▪ TC included in CPD (y/n):	No
▪ Alignment to IDBStrategy+ 2024-2030:	Sustainable, resilient, and inclusive infrastructure; Productive development and innovation through the private sector; Supports sustainable economic growth

II. Objective and Justification

- 2.1 The objective of the project is to design and institutionalize MERESE-BIO as an innovative financing mechanism for biodiversity conservation in the Peruvian Amazon, building upon Peru's successful Ecosystem Services Compensation Mechanism (MERESE). The project will develop a comprehensive framework that integrates voluntary conservation agreements with market-based instruments, implement strategic habitat bank pilots as proof-of-concept for the new mechanism, and design an external trust fund structure to ensure long-term financial sustainability. By establishing MERESE-BIO's institutional, technical, and financial architecture, the project aims to mobilize significant private and public resources for biodiversity conservation and restoration, reduce deforestation pressures, strengthen environmental governance, and create financial flows that benefit both ecosystems and communities, supporting Peru's contribution to global biodiversity targets.
- 2.2 The alarming biodiversity loss in the Peruvian Amazon—with over 1.2 million hectares of forest lost between 2010 and 2019 at an annual average of 131,520 hectares—represents not only an ecological crisis but a fundamental financing challenge with profound implications for ecosystem services provision and community livelihoods. While Peru has successfully established the Ecosystem Services Compensation Mechanism (MERESE) through Law No. 30215, this framework has primarily focused

on water resources during its decade of operation, leaving a critical gap in biodiversity conservation financing. Current funding mechanisms lack the capacity to mobilize resources at the scale required, as traditional sources including public funds and international cooperation have proven insufficient to address the magnitude of forest degradation and the urgent need for effective, long-term conservation solutions.

- 2.3 This Technical Cooperation addresses this challenge by designing and institutionalizing MERESE-BIO, a novel mechanism that integrates Peru's successful voluntary conservation agreements with market-based instruments through an external trust fund structure. The initiative represents a strategic and innovative response that directly aligns with Target 19 of the Kunming-Montreal Global Biodiversity Framework (KMGBF) and responds to Peru's recently approved National Biodiversity Strategy to 2050, which explicitly identifies "implementation of incentive mechanisms and payment for ecosystem services" as a key strategic action. Peru's regulatory environment is particularly conducive to this approach, with recent modifications to the "Law of Public Works for Taxes" (Law No. 29230) to include Nature-Based Solutions, representing a significant advancement in enabling private sector participation in conservation efforts.
- 2.4 By designing a dual approach that integrates Peru's existing MERESE regulatory framework with market-based instruments for biodiversity credits through strategically implemented Habitat Banks, the project establishes the foundation for sustainable biodiversity finance in the Peruvian Amazon. Through two carefully selected pilots serving as proof-of-concept initiatives, the project will validate methodologies and demonstrate how voluntary conservation agreements can be effectively combined with market-based mechanisms to address deforestation pressures, strengthen environmental governance, and catalyze new financial flows for conservation. This innovative MERESE-BIO framework will support Peru's contribution to the Kunming-Montreal Global Biodiversity Framework, including its ambitious 30x30 targets, while delivering measurable ecological improvements and socioeconomic benefits for local communities and indigenous peoples, ultimately creating a replicable model for sustainable biodiversity financing across the Amazon region.
- 2.5 The innovative MERESE-BIO framework that is expected to be designed through the work of this TC is expected to generate in the future biodiversity credits that will be used exclusively for offsets within the Peruvian national context, and will not be utilized for international offsetting. This restriction ensures that environmental benefits remain within the national territory, strengthening the ecological integrity of the Peruvian Amazon and ensuring that positive impacts directly benefit local ecosystems and communities.

III. Description of Activities and Outputs

- 3.1 **Component I: Mechanism Design and Structure - Integration and Enabling Conditions.** Develops MERESE-BIO framework defining robust biodiversity measurement methodologies, adapting international standards to Peru's context using existing baseline data, creating institutional arrangements, and designing monitoring systems. Market strategy will identify potential buyers from national corporate entities and investors interested in conservation. Outputs include integration framework, operational guidelines, and validated market analysis.
- 3.2 **Component II: Implementation and Operationalization of Strategic Pilots Amount.** Implements two habitat bank pilots demonstrating MERESE-BIO's viability and serving as case studies for Trust Fund design. Pilots demonstrate potential for perpetual biodiversity credits, with sustainability requiring continuous financing from future Trust Fund operationalization. Outputs include operational pilots, management plans, monitoring systems, and guidelines informing the financial mechanism beyond project timeline.

- 3.3 **Component III: Scaling-up MERESE-BIO and Designing the Trust Fund Framework Amount.** Establishes MERESE-BIO as a scalable mechanism and designs (not implements or capitalizes) the trust fund structure, including governance arrangements, selection criteria for the fund manager, and MINAM's role. Develops fiduciary structure, legal instruments, and operational mechanisms. Implementation and funding will occur in a subsequent phase. Outputs include operational framework, trust fund design documentation, protocols, and capacity building materials.

IV. Budget

Indicative Budget

Activity/Component	IDB/Fund Funding	Total Funding
Mechanism Design and Structure - Integration and Enabling Conditions	US\$150,000.00	US\$150,000.00
Implementation and Operationalization of Strategic Pilots Amount	US\$700,000.00	US\$700,000.00
Scaling-up MERESE-BIO and Designing the Trust Fund Framework Amount	US\$150,000.00	US\$150,000.00
Total	US\$1,000,000.00	US\$1,000,000.00

V. Executing Agency and Execution Structure

- 5.1 The project will be executed by WWF Peru as the Executing Agency, with direct supervision by the Natural Capital and Biodiversity Unit (CSD/BNC) of the Inter-American Development Bank. WWF Peru will leverage its extensive experience in conservation finance, biodiversity mechanisms, and community-based conservation initiatives in the Peruvian Amazon to ensure effective project implementation.
- 5.2 A Technical Group will be established to provide technical advice on the identification and implementation of the Habitat Bank pilot projects. This group will help avoid duplications with other initiatives and promote synergies instead. The Ministry of Environment (MINAM) of Peru will lead this group, which will include the National Service of Natural Areas Protected by the State (SERNANP) and other relevant stakeholders to the location of the Habitat Bank pilots, such as regional and local governments, NGOs, indigenous organizations, and cooperation agencies. This participatory structure ensures that project activities are informed by local knowledge and priorities while maintaining institutional coordination across sectors.
- 5.3 WWF Peru will establish dedicated project management unit with specialists in biodiversity finance, habitat banking, community engagement, and monitoring systems. The organization will manage all fiduciary responsibilities, technical implementation, and coordination with stakeholders. Clear operational protocols will be established between WWF Peru and the Technical Group to ensure effective governance and decision-making. The IDB's CSD/BNC unit will provide technical supervision, ensuring alignment with international best practices in biodiversity finance and maintaining quality standards throughout implementation.
- 5.4 The execution structure is designed to facilitate knowledge transfer, capacity building, and the institutionalization of MERESE-BIO within Peru's environmental governance framework, creating the necessary conditions for long-term sustainability beyond the project's completion. Regular monitoring and evaluation mechanisms will be implemented to track progress, identify challenges, and apply adaptive management approaches throughout the 36-month execution period.
- 5.5 The selection of WWF Peru as the Executing Agency represents an optimal institutional arrangement that combines proven technical capacity in biodiversity

conservation finance with extensive field experience in the Peruvian Amazon. WWF Peru has a strong track record in implementing innovative financial mechanisms for biodiversity conservation through their dedicated Finance for Conservation team, which includes experts in conservation finance, biological monitoring, and community engagement.

- 5.6 WWF Peru has led successful initiatives such as the "Peru's Natural Legacy" model, utilizing the Project Finance for Permanence (PFP) approach that has mobilized public, private, and international funding to protect over 17 million hectares of protected areas. Their successful implementation of the Debt-for-Nature Swap mechanism between Peru and the United States and the development of their Financial Model for Regenerative Cattle Ranching program demonstrate their capacity to design and implement innovative conservation finance mechanisms at scale.
- 5.7 Particularly relevant to this project, WWF Peru has developed a 10-year landscape vision for the Madre de Dios region consisting of 5 nature-based solutions to leverage natural systems while providing measurable social and ecological benefits. This strategy included designing a strong monitoring system and measuring a comprehensive baseline using various technological tools to assess land productivity, carbon levels, and biodiversity improvements. Their extensive work with the MERESE system, focusing on watershed conservation and measuring water quality and ecosystem resilience, provides direct experience with the mechanism that MERESE-BIO will build upon.
- 5.8 At the global level, WWF's network provides extensive expertise in biodiversity finance through specialized teams. This includes successful development of biodiversity credits in diverse regions: WWF Mexico led biodiversity credits development in Calakmul implementing a performance-based model for community compensation, while WWF France's Nature Impact initiative uses biodiversity certificates for forest protection through corporate partnerships.
- 5.9 WWF Peru's institutional strengths align directly with project objectives: deep understanding of Peru's environmental regulatory framework, proven ability to engage with indigenous peoples and local communities, established relationships with MINAM and government agencies, technical expertise in biodiversity monitoring systems, and demonstrated capacity to manage complex multi-stakeholder conservation finance initiatives. Their experience creating sustainable financing solutions through thematic bonds and biodiversity performance-based payment mechanisms positions them uniquely to develop the innovative MERESE-BIO framework.
- 5.10 This execution arrangement ensures operational efficiency and technical excellence while maintaining oversight through IDB supervision and the multi-stakeholder Technical Group. WWF Peru's combination of local knowledge, technical expertise, and global network support provides the optimal foundation for developing and institutionalizing MERESE-BIO as a sustainable biodiversity financing mechanism for the Peruvian Amazon.

VI. Project Risks and Issues

- 6.1 The implementation of MERESE-BIO through habitat banking faces a complex risk landscape requiring comprehensive management.
- 6.2 Institutional risks emerge from potential changes in MINAM leadership or shifting priorities that could impact MERESE-BIO development. The project will address this by establishing technical foundations within MINAM and SERNANP, embedding core elements in institutional procedures, and developing documentation aligning

MERESE-BIO with Law No. 30215. The external trust fund will ensure operational independence while regulatory misalignment risks will be managed through legal analysis and coordination with financial regulators to ensure compliance with both market requirements and MERESE principles.

- 6.3 Social risks arise as indigenous peoples and local communities may perceive MERESE-BIO and market mechanisms as threats to their land rights, particularly given experiences with carbon markets. The project implements a social engagement strategy upholding voluntary participation and equitable benefit-sharing, beginning with thorough consultations and Free, Prior and Informed Consent processes. The architecture deliberately separates voluntary conservation agreements from market mechanisms to protect community rights, while capacity building programs enhance local participation and integrate traditional knowledge into management plans.
- 6.4 Financial risks stem from the nascent nature of biodiversity credit markets, creating uncertainty about investor appetite and pricing. The project adopts a phased approach separating MERESE-BIO development from financial instrument issuance, providing flexibility to adjust to market conditions. Standardized measurement protocols, verification procedures, and transparent reporting will be developed while early engagement with potential investors will inform both MERESE-BIO and trust fund design. Multiple financing channels will be explored to reduce dependence on any single market segment.
- 6.5 Technical challenges arise from coordinating between voluntary mechanisms and market-based instruments. These will be managed through operational protocols and clear responsibility delineation between MERESE-BIO administration and trust fund operations. Comprehensive guidelines will bridge voluntary agreements with market requirements while regular monitoring and adaptive management will enable early resolution of operational challenges. Data management systems and verification protocols will ensure credibility of conservation outcomes.
- 6.6 Biodiversity market development faces additional challenges: site-specific interventions require clear policies and resolved land tenure issues; standardizing biodiversity measurements is complex due to ecological intricacies and additionality requirements; and robust social implementation necessitates equitable benefit-sharing. The project addresses these through high-integrity principles, stakeholder engagement, scientific monitoring, transparent governance, and independent verification systems that collectively build market confidence while maintaining ecological integrity throughout the Peruvian Amazon.

VII. Environmental and Social Aspects

- 7.1 In attention to the Environmental and Social Policy Framework (ESPF), the operation was classified as Category "undefined".