

**PROGRAM INFORMATION DOCUMENT (PID)
CONCEPT STAGE**

Report No.: AB7659

Operation Name	PERU SECOND DPL WITH A CAT DDO
Region	LATIN AMERICA AND CARIBBEAN
Country	Peru
Sector	Flood protection (60%); Public administration- Financial Sector (40%)
Operation ID	P149831
Lending Instrument	Development Policy Lending
Borrower(s)	MEF MINISTRY OF FINANCE
Implementing Agency	
	Ministry of Economy and Finance Peru Tel: (51-1) 311-5938 Fax: (51-1) 311-9900 rcaceres@mef.gob.pe
Date PID Prepared	October 22, 2014
Estimated Date of Appraisal	January 21, 2015
Estimated Date of Board Approval	March 12, 2015
Corporate Review Decision	Following the concept review, the decision was taken to proceed with the preparation of the operation.

I. Key development issues and rationale for Bank involvement

The proposed US\$400 million Disaster Risk Management Development Policy Loan (DPL) with a Catastrophic Risk Deferred Drawdown Option (CAT DDO) will support the Government of Peru (GoP) to mobilize resources during a disaster and continue to promote disaster risk reduction and climate change adaptation. The first DPL with a CAT DDO (P120860) in the amount of US\$100 million was discussed by the Executive Directors on December 9, 2010 and renewed for three years on December 9, 2013¹. The proposed operation builds on the successful achievements of this first CAT DDO and the ongoing dialogue and collaboration between the Bank and the GoP since 2007. As part of a broad disaster risk management strategy, the GoP has requested the preparation of a second CAT DDO. This new operation complements actions implemented by the Ministry of Economy and Finance (MEF), such as the creation of the Directorate of Risk Management in 2012 and increasing of the contingency funds not only through the Bank but also through other financial institutions such as the IADB, JICA and CAF².

Over the past five years the GoP has taken significant steps at the national level to reduce

¹ The Bank and the GoP agreed and established new target results under the same policy areas of the policy matrix, to be achieved by December 9, 2016.

² The contingent credits currently contracted are: US\$ 300 million with CAF, US\$300 with the Inter-American Development Bank (IADB) and US\$100 million with the Bank. A US\$100 million is under preparation with JICA.

climate and disaster risks. Peru's National Agreement (*Acuerdo Nacional*) currently has 34 National Policies. The National Policy (32) on Disaster Risk Management, approved by Executive Decree N°111-2012-PCM, aims to promote a culture of prevention and contribute directly to the sustainable development process at the national, regional and local levels³. In addition, the National Agreement Forum (*Foro del Acuerdo Nacional*) composed of the three levels of Government and the main political and social institutions of the country provides a space for dialogue and consensus building to advance the development agenda. At the national level Peru also has the Bicentennial Plan 2021, "*Plan Bicentenario el Peru hacia el 2021*", approved on March 2011 and updated by the National Center for Strategic Planning (CEPLAN) on December 2013⁴. This strategic development plan, an agreement between the major political parties in the country, has six strategic areas⁵ and the proposed operation supports area (6) Environment and Natural Resources, under which the GoP has identified adaptation to climate change as one of the five strategic priorities.

Socio-economic impacts of disasters can affect the poverty reduction and inclusive growth targets in Peru. With an estimated population of 30 million, Peru has been one of the best macroeconomic performers in Latin America over the past decade. During the period 2002-13 the average growth rate of the economy was 6.2 percent, the second highest growth rate in Latin America, and the average inflation rate was 2.8 percent, the lowest in the region⁶. Furthermore, between 2004 and 2010 about 4 million people exited poverty⁷, Poverty rates decreased from 48.6 percent (2004) to 23.9 percent (2013), based on a recent study from the National Institute of Statistics (INEI), with an estimated 7 million people living below the national poverty line⁸. Extreme poverty also decreased by almost 80 percent, from 17.1 percent in 2004 to 4.7 percent in 2013⁹. However, disparities across the country remain high, particularly between rural and urban areas. In 2013, rural poverty stood at 48.0 percent and urban poverty stood at 16.1 percent¹⁰. About 76 percent of the population lives in urban areas and 86.6 percent live in the coastal and mountain regions, which are exposed to seismic, volcanic, flood, landslide and the El Niño/La Niña phenomena, among others. Based on GoP estimates the population is expected to reach 33 million by 2021, of which an estimated 63 percent has been identified as vulnerable to heavy rainfalls, frosts, droughts and seismic activity in central and southern areas of the country¹¹.

³ Acuerdo Nacional Unidos para crecer website <http://acuerdonacional.pe/>.

⁴ CEPLAN submitted the updated Bicentennial Plan to the PCM for approval on December 2, 2013. Source: <http://www.ceplan.gob.pe/noticias/ceplan-culmina-version-actualizada-del-plan>

⁵ Peru Bicentennial Plan strategic areas: (1) fundamental rights and people's dignity; (2) opportunities and access to services; (3) State and governance; (4) economy, competitiveness and employment; (5) regional development and infrastructure; (6) environment and natural resources.

⁶ Ibid.

⁷ World Bank ,Country Partnership Strategy (CPS) 2012-2016 for the Republic of Peru, Report 66187-PE, February 1, 2012.

⁸ Instituto Nacional de Estadística e Informática (INEI), Informe Técnico: Evolución de la Pobreza Monetaria 2009-2013, Lima Mayo 2014.

⁹ Ibid.

¹⁰ Ibid.

¹¹ The criteria used to estimate the vulnerable population: population growth rate, evolution of the population affected by disasters (2003-2012), high incidence of vulnerability of sub-groups of the population, levels of poverty. Source: Sistema Nacional de Gestión del Riesgo de Desastres, Presidencia del Consejo de Ministros, 'Plan Nacional de Gestión del Riesgo de Desastres PLANAGERD 2014-2021', Enero 2014 (36-37).

II. Proposed Objective(s)

The development objective of the proposed operation is to reduce Peru's fiscal and physical vulnerability to disasters by increasing the capacity to have resources following a disaster, creating an institutional framework for reconstruction planning and strengthening vulnerability reduction measures in infrastructure of selected sectors. This development objective will be achieved by supporting policy reforms under three operational pillars: (i) mainstreaming Disaster Risk Management into the planning process; (ii) strengthening vulnerability reduction in infrastructure for Health, Education and Housing sectors and climate change adaptation measures; and (iii) increasing the Government's capacity of post-disaster recovery and reconstruction. The overall risk for the proposed operation is low. During the preparation phase one of the risks identified is the ability of the GoP to pass certain Prior Actions, and during implementation there might be a risk associated with the upcoming elections in April 2016 which could lead to a change in government. The Bank will mitigate these risks through ongoing dialogue with key stakeholders within the Government and continuous Bank supervision.

III. Preliminary Description

1. **In 2011, the approval of the new National Disaster Risk Management System (SINAGERD) moved forward the DRM agenda in Peru from a preparedness and emergency response towards a risk management approach.** On February 19, 2011 the national congress approved Law N° 29664 to create the SINAGERD¹² and on May 26, 2011 the Regulation to implement Law N°29664 was adopted through Executive Decree N°048-2011-PCM. This law was instrumental in changing the focus from a civil defense system to one of prevention and risk management. The law states that all public institutions at all levels should include disaster risk management within their planning processes in order to avoid the creation of new risks. The Regulation implementing the SINAGERD Law also established a comprehensive framework that clarifies the role of different actors involved in disaster risk management and disaster relief, and ensures their coordination.

The development objective will be achieved by supporting reforms under three operational pillars and ten prior actions:

- ***Operation pillar 1: Mainstreaming of Disaster Risk Management into the planning process:*** this pillar is focused in reforms that allow the Government to monitor and evaluate systematically the integration of DRM policies into the planning processes under the PLANAGERD framework;
- ***Operation Pillar 2: Strengthening of vulnerability reduction in infrastructure for Health, Education and Housing sectors, and climate change adaptation measures:*** under this pillar the Government will consolidate and increase vulnerability reduction measures in infrastructure of the Health and Education sectors, supporting housing structural reinforcement of low income households,

¹² Ley del Sistema Nacional de Gestión de Riesgo de Desastres; <http://www.eird.org/imagenes/pdf/aprobacion-ley-GRD.pdf>.

and strengthen flood protection planning under the national climate adaptation strategy;

- ***Operation Pillar 3: Increasing the Government's capacity of post-disaster recovery and reconstruction:*** reforms in this operation pillar tackle the need of increasing the country's capacity to finance, operate, plan and implement public investments under post-disaster reconstruction processes;

IV. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

A Poverty and Social Impact Assessment (PSIA) is being conducted. Preliminary findings are: since poorest households are more vulnerable to suffer from shocks, the adoption of risk management policies is relevant to foster shared prosperity. Limited risk management may drive poorest households to adopt ex-post undesirable coping strategies, which may have both short and long-term consequences on poverty, inequality and human capital accumulation, potentially leading to poverty traps. Besides, risk management policies may promote development, both because they have the potential to increase resilience of the population and because they might allow people taking advantage of new opportunities for improvement (World Development Report, 2014).

Households in the bottom 40 percent are particularly more likely than the top 60 percent to suffer from natural disasters and climate change events, in comparison to other kind of shocks. In this sense, great efforts should be done to promote the adoption of ex-ante and ex-post risk management policies intended to increase resiliency of households and communities to natural hazards. In particular, the implementation of urban planning policies, quality standards for construction and overall improvements in infrastructure (schools, health facilities, bridges, roads, water systems, etc.) are key challenges to reduce vulnerability to frequent natural hazards and climatic change induced events, such as earthquakes, floods (consequence of El Niño Southern Oscillations phenomenon) and landslides ("*huaycos*"). Also, to strengthen the institutional setting and to increase collaboration between different levels of government are required to foster the access to insurance mechanisms and financial markets, particularly for the poorest population. These actions are expected to reduce vulnerability of households and communities, limiting the adoption of undesirable coping strategies, such as selling productive assets, taking children out of school or modifying food consumption patterns.

Taking into account the prior actions proposed by the DPL, the PSIA will conduct a series of analysis to assess their relevance and quantify their potential impact. For the first pillar of the DPL, two actions will be taken. Firstly, an extensive literature review will aim to establish the relevance of risk management policies to address social inclusion. This review will document the existing link between natural hazards and poverty, which both make poorest households more vulnerable to natural disasters and potentially push affected households into chronic poverty. Besides, the literature review will address negative effects of natural hazards on capital accumulation, which may hinder social inclusion, such as school drop-out and health issues. Secondly, data from the National Households Survey (ENAHO) will be used to quantitatively assess the relation existing between poverty and vulnerability to social disasters, using descriptive statistics and regression analysis. Gender and indigenous-population disaggregated analysis will be conducted when possible. Regarding the second pillar of the DPL, data for the

ENAH0 and the National Census of 2007 will be used to establish whether poorest households are more likely to live in poor-quality dwellings, which make them more likely to suffer from a natural disaster. Poverty and quality of dwelling maps will be used to this end combined with standard OLS regressions techniques. Preliminary results from the Census of School Infrastructure will be also incorporated to the analysis, aiming to assess the vulnerability of school facilities and to determine if policies are targeted to more vulnerable areas. Finally, for the third and fourth pillars in the DPL, a literature review will be conducted to gather evidence on previous experiences of post-disaster management and financial protection in Peru and other Latin American countries. This review will outline some pre-requisites and characterize previous successful strategies, which may be the basis to establish a framework for ex-post recovery and reconstruction and setting financial instruments for risk management.

Environment Aspects

Prior actions selected for the proposed operation do not entail adverse, direct and indirect, impacts on ecosystems and human health. On the contrary, there are two prior actions that can enhance proper natural resources and environmental management. Prior action consisting of establishing flood mitigation projects articulated to the PLANAGERD and climate change adaptation strategy might be a robust instrument if it mainstreams, or is connected to, specific options to revert natural resources degradation such as deforestation or loss of forest cover and water pollution in targeted watersheds. Prior action on approval of the “*Guia Metodologica para la Incorporacion de la Gestion Prospectiva y Correctiva de Desastres en los Planes de Desarrollo Concertados*” (Regional Development Plans) might also emphasize and capture the dynamics among vulnerabilities, disasters risks, inadequate natural resources management, occupation of disaster prone areas particularly by vulnerable groups and regional development outcomes set in those Regional Development Plans.

V. Tentative financing

Source:	(\$m.)
Borrower	0
International Bank for Reconstruction and Development Borrower/Recipient IBRD	400
Others (specify)	
	Total

VI. Contact point

World Bank

Contact: Fernando Ramirez Cortes
 Title: Senior Disaster Risk Management Specialist
 Tel: (202) 473-8920
 Fax:
 Email: framirezcortes@worldbank.org

Borrower

Contact:

Title:
Tel:
Email:

VII. For more information contact:

The InfoShop
The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 458-4500
Fax: (202) 522-1500
Web: <http://www.worldbank.org/infoshop>