

PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC4399

Project Name	Peru: Investments for Environmentally Sustainable Development (P147342)
Region	LATIN AMERICA AND CARIBBEAN
Country	Peru
Sector(s)	Public administration- Energy and mining (21%), Public administration- Transportation (14%), Public administration- Water, sanitation and flood protection (11%), Urban Transport (28%), General industry and trade sector (26%)
Theme(s)	Other public sector governance (5%), Municipal governance and institution building (11%), Other urban development (35%), Environmental policies and institutions (21%), Pollution management and environmental health (28%)
Lending Instrument	Investment Project Financing
Project ID	P147342
Borrower(s)	Republic of Peru
Implementing Agency	Ministry of Environment
Environmental Category	B-Partial Assessment
Date PID Prepared/ Updated	25-Sep-2014
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Concept Review Decision	Track II - The review did authorize the preparation to continue

I. Introduction and Context

Country Context

Peru has enjoyed a period of broad-based rapid economic growth in the last decade. Sound macroeconomic management during the boom years created the fiscal space needed for countercyclical policies to soften the impact of the global economic crisis. Despite the recent global economic crisis, Peru's growth has been resilient. After rebounding sharply in 2010 to 8.8 percent, GDP grew at a rate close to 7 percent in 2011, led by strong domestic demand. In 2012, despite the weak macroeconomic external environment, GDP expanded by 6.3 percent. In 2013, real GDP

growth slowed down to 5 percent, but it is expected to grow by 6 percent in 2014. The main contributors to GDP growth were private investment and private consumption that grew by 13.6 percent and 5.8 percent, respectively. Fast economic growth has been accompanied by growth in employment and incomes, yielding an important decline in poverty rates.

Between 2005 and 2011, the poverty rate fell from 55.6 percent to 27.8 percent, while extreme poverty was reduced from 15.8 percent to 6.3 percent. The continued reduction in poverty is remarkable. However, poverty incidence remains unequal in geographic terms, with the rural poverty rate above 50 percent. While inequality of opportunity remains high, Peru has made substantial progress in addressing it, supported by increased public investments in infrastructure, water, sanitation and electricity in recent years. Despite this progress, large gaps remain in terms of infrastructure investment needs and quality.

Sectoral and Institutional Context

Peru is one of the most ecologically diverse countries in the world, comprising a large and wide-ranging territory with a considerable wealth of natural resources. The natural capital of Peru contributes 13 percent to the total wealth of the country, which is more than twice the world's average and five times more than the average of high-income countries. Approximately 15 percent of Peru's GDP depends on natural resources, given that most of the productive activities – the pillars of economic growth of the country – are linked to the direct extraction of those resources. Peru needs to strengthen its natural resources management policy to ensure that the use of natural resources fosters economic growth in a way that is consistent with ecological resilience and land-use constraints. To an important extent, this depends, on the one hand, on decision makers being able to access, in real time, high-quality information on which to base investment decisions on natural resources use and protection; and, on the other hand, on enhancing transparency on natural resources management to ensure that decision makers will be accountable for the environmental implications of their development decisions.

As far as natural resource degradation and natural disasters are concerned, a recent Bank analysis found that the GoP's interventions were successfully implemented during the last decade, particularly in: (i) land rehabilitation and drainage; (ii) flood protection and early warning systems; (iii) sustainable management of fisheries; and (iv) deforestation control and reforestation.

Additionally, the percentage of the total population in Peru with an improved source of drinking water increased from around 81 percent in 2000, to 88 percent, in 2012. In rural areas, access increased from approximately 64 percent to 77 percent over the same period. Moreover, the percentage of the population with access to improved sanitation, primarily in the rural areas, increased from around 58 percent in 2000, to 67 percent in 2012. For the period 2001-2012, exposure to outdoor PM2.5 air pollution in Lima-Callao declined by 15 percent in spite of a 27 percent increase in the population. Although these outcomes are encouraging, the Bank estimates that the annual cost of environmental degradation in Peru is in the range of 3.5 – 5.0 percent of GDP, with a mid-point estimate of 4.1 percent. The main categories of environmental degradation identified are basically similar to those in which progress has been made, namely air quality in urban areas, indoor air pollution, water and sanitation, deforestation and overfishing. This indicates that more focused efforts are necessary to further reduce environmental degradation costs in line with Peru's development of higher competitive advantages.

Shortcomings in the collection, availability, quality, reliability and timeliness of the environmental

and natural resources information for investment decisions have been identified in several studies as a barrier for environmental sustainability in Peru. Some main factors that contribute to this situation are discussed below.

- Overall, there is a disconnect between decision making and the data required to inform decision making. Data on environmental quality to establish baselines in vulnerable areas and areas of high potential for investments is insufficient. Most of the environmental monitoring is undertaken by third parties who are not rigorously supervised by the sectoral authority in both sampling and analytical capability. The information required to certify and supervise investment projects is not standardized.
- Data originated in environmental monitoring programs from different sectors is often not comparable due to the constraints in quality assurance and quality control protocols. Common standards and protocols for sampling, fieldwork, handling and transportation of environmental samples are lacking. According to MINAM, only 12 percent of laboratories are using validated methods and only 22 percent calculate uncertainty levels but the procedures used in both cases are not homogeneous. As a result, official protocols are not comparable because objectives and parameters, sampling points, frequency and other elements are different. There are five different water protocols, one for air and none for soil.
- Inadequate frequency in data collection does not allow the development of series data. For example, monitoring of air quality in most urban centers, or monitoring of water quality in the country's main basins, is not continuous and periodic. As a result, baselines and trends in water quality are not available. For example, the National Authority of Water (ANA) monitors up to 38 basins, but the frequency of monitoring is variable.
- A reference laboratory for environmental analysis is lacking. Therefore, the environmental analytical capability of existing laboratories cannot be certified and disputes cannot be resolved. As a result the quality of environmental data cannot be certified and the results of monitoring environmental programs cannot be validated.
- Data on environmental quality to establish baselines in vulnerable areas and areas of high potential for investments is insufficient. For example, the analytical capacity to assess water environmental quality standards – ECAs (105 parameters) – only reach up to 69 parameters with a great variability in the analytical capacity of laboratories that ranges from 42 to 1 parameters. Only around 20 laboratories can measure around 14 or 15 parameters. Also, only a few laboratories can measure parameters of air quality. Data on environmental quality of soils is minimal and below the parameters required by the environmental regulations.
- Great variations in generation of environmental and natural resources data between the national, regional and local levels can be found. Environmental analytical capability in regions other than Lima and Callao is limited, which impairs the ability of regional governments to monitor, control and enforce environmental regulation.

The limitations mentioned above are reinforced by limited mechanisms available for the participation of civil society in environmental management. Although mechanisms such as the Regional Environmental Committees (CARs) promote civil society participation to identify, prioritize and propose solutions to environmental issues, they are often plagued by weaknesses. In

some cases, these weaknesses increase dispersion of efforts further debilitating existing institutions. On top of that, public servants are mostly ill-prepared to facilitate an active and constructive participation of the population. Environmental complaints and grievances often do not find institutional channels for their solution, thus resulting in conflicts.

The Environmental Impact Assessment (EIA) is a key information tool for environmental and development decision making. Prior to the creation of the Ministry of Environment (MINAM), the core responsibilities for environmental management, generally, and EIAs, particularly, were shared by numerous agencies, resulting in duplication of functions, inadequate public funding, and widely varying technical and human resource capacities. The decree that created MINAM (Legislative Decree 1.013) established its organization and key functions, along with the core areas of environmental management, including environmental licensing, the review process of EIAs for large projects, and its overarching coordinating role with key sectors and regions on environmental issues.

Additional reforms also strengthened the legal framework for environmental management through the adoption of the regulations to the Law for the National Environmental Impact Assessment System (SEIA), which set forth the scope, functioning, principles, and participating entities (for example, national sectors, regional and local governments). MINAM's role as lead and administrator of the SEIA has taken the first steps in articulating national, regional, and local government levels, as well as in coordinating actions with line ministries, in order to develop common denominators and procedures for EIA across all sectors of government.

In December 2012, the National Service of Environmental Certification for Sustainable Investments (SENACE) was established as part of the SEIA. SENACE is a decentralized agency with technical autonomy, affiliated with MINAM. Its functions include: (i) the review and approval of the Detailed-EIAs (EIA-d), except those that are excluded by a Supreme Decree and the vote of approval of the Council of Ministers, at the request of the corresponding sector; (ii) the management of the National Registry of Environmental Consultants; (iii) the management of the Administrative Register of Environmental Certifications; (iv) the coordination with other environmental authorities to respond to specific requests; (v) the formulation of proposals for the continuous improvement of the EIA process, including issues that relate to government coordination mechanisms, community relations good-practice, and public participation; and (vi) the implementation of a "one-window" system for environmental certification, in order to simplify and expedite administrative procedures. Though ongoing, full implementation of SENACE requires special efforts, not just from SENACE itself, but also from other sectors, so that the expectations and conditions under which it was created can be fulfilled. Finally, the capacity of MINAM as the main articulating and coordinating institution of the GoP on environmental issues needs also to be strengthened.

Relationship to CAS

The proposed Project is consistent with the FY12-FY16 Peru Country Partnership Strategy (CPS, Report No. 66187-PE), discussed by the Executive Directors on February 1, 2012. It is also fully aligned with the CPS, supporting two of its four strategic objectives, namely:

- (i) sustainable growth and productivity, by strengthening environmental information systems, institutional capacity of the environmental authority, the recently created Environmental Certification System (SENACE), and key economic sectors including mining, hydrocarbons, energy, industry, fisheries, agriculture, tourism, transport, communications, housing, health and

defense; and,

(ii) improved public sector performance for greater inclusion by strengthening environmental capacity of subnational and local governments, and by addressing categories of environmental degradation that affect primarily the poor and other vulnerable groups.

The proposed Project will thus support the Bank's broader mission to end extreme poverty and promote shared prosperity and environmental governance, particularly through the financing of activities capable of producing sound environmental information for production activities, a one-window system for environmental certification and a streamlined environmental regulatory framework for investments. This Project is also directly aligned with the Strategic Axis of Environmental Management (Ejes Estratégicos de la Gestión Ambiental) approved by the Council of Ministries on October 10, 2012 that is the basis for the National Agenda for Environmental Action (Agenda Nacional de Acción Ambiental) approved by Ministerial Resolution (R.M. no 026-2013-MINAM).

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The project development objective (PDO) is to enhance environmental management through (i) increase the quality, availability and reliability of environmental data to decision makers and civil society; (ii) improve mechanisms to identify and address environmental priorities at the regional and national levels, and, (iii) improve mechanisms for opening up decision making on environmental aspects to public scrutiny.

Key Results (From PCN)

18. Achievement of the PDO would be measured through the following PDO level results indicators: (i) laboratories certified by the reference laboratory (number); (ii) annual report with identification of environmental priorities based on economic analysis of environmental degradation costs; and, (iii) user perception (from a survey) of environmental data & information provided by SINIA.

III. Preliminary Description

Concept Description

The ultimate goal of the proposed operation is to strengthen environmental management systems in Peru, particularly the national, regional and local governments' capacity for environmental management, with the long-term purpose of enabling: (i) the creation of an institutional and policy framework that will promote environmental sustainability of key economic sectors, thus enhancing the country's competitiveness; (ii) a national system of environmental information that supports decision making in investment and production activities; and (iii) targeted investments to bolster the demand side of good environmental governance and reduce social conflicts.

These goals will be met through an approach that combines five components: (i) investments in environmental information systems to support policy making and formulation, and production decisions in key economic sectors; (ii) investments in strengthening constituencies that can articulate demand for improved environmental governance; (iii) investments in building capacity of national, regional and selected local environmental management agencies, streamlining the environmental regulatory framework and a system of environmental certification to create a

medium and long-term sustainability framework for productive investments; (iv) investments in strengthening environmental management in regional governments aligned with national regulations and standards; and, (v) support for project implementation. Below is a summary of the components envisioned for the Project.

Component 1. Investments in the National Environmental Information System (To be determined). The main objective of this component is to set up a transparent and unbiased system for environmental management in which the environmental dimension of policy decisions, investment and production activities, and public participation are all based on scientifically-based data. This component will support the development of a reference laboratory, air and water quality monitoring networks and, a quality control assurance system for the accreditation and certification of laboratories that provide environmental analysis services in Peru.

Component 2. Investments in Demand for Good Environmental Governance (To be determined). The main objective of this component is to set up a participatory system for environmental management that gives stakeholders access to channels to voice their opinions on the implementation of policies, investment and production activities that may have effects on the environment.

Component 3. Environmental Certification for Investments in Key Economic Sectors (To be determined). It envisions the establishment of a medium and long-term framework for sustainability of productive investments anchored in (i) a system for Environmental Certification of investments; (ii) enhancement of skills in Environmental Impact Assessment capacity of staff in MINAM, SENACE, and eight sectoral ministries and regional governments; and (iii) construction or acquisition of a building as well as acquisition of equipment and vehicles to complete the setting up of SENACE.

Component 4. Organizational Strengthening (To be determined). This includes the establishment of environmental priorities at the regional level such as the in-house capacity to estimate costs of environmental degradation, benefit-cost analysis of alternative interventions and capacity to build consensus to address environmental priorities, as well as the financing of investments for environmental decentralization that satisfy the needs of each region through the implementation of regional plans in line with national requirements and standards.

Component 5. Project Implementation (To be determined). MINAM will have overall responsibility for project implementation. Mechanisms for intersectoral coordination and project implementation will be defined during project preparation.

IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01	x		
Natural Habitats OP/BP 4.04		x	
Forests OP/BP 4.36		x	
Pest Management OP 4.09		x	
Physical Cultural Resources OP/BP 4.11	x		
Indigenous Peoples OP/BP 4.10		x	

Involuntary Resettlement OP/BP 4.12			x
Safety of Dams OP/BP 4.37		x	
Projects on International Waterways OP/BP 7.50		x	
Projects in Disputed Areas OP/BP 7.60		x	

V. Financing (in USD Million)

Total Project Cost:	75.00	Total Bank Financing:	35.00
Financing Gap:	0.00		
Financing Source			Amount
Borrower			40.00
International Bank for Reconstruction and Development			35.00
Total			75.00

VI. Contact point

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