



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 24-May-2019 | Report No: PIDC26802



BASIC INFORMATION

A. Basic Project Data

Country Peru	Project ID P169058	Project Name Peru - DPL with a Cat DDO III (P169058)	Parent Project ID (if any)
Region LATIN AMERICA AND CARIBBEAN	Estimated Board Date Apr 15, 2020	Practice Area (Lead) Social, Urban, Rural and Resilience Global Practice	Financing Instrument Development Policy Financing
Borrower(s) Ministry of Economy and Finance	Implementing Agency Unidad de Coordinación de Cooperación Técnica y Financiera - UCCTF		

Proposed Development Objective(s)

To support the Government of Peru to strengthen the institutional capacity to reduce and manage the impact of climate and disaster shocks at the three levels of Government.

Financing (in US\$, Millions)

SUMMARY

Total Financing	500.00
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DETAILS

Total World Bank Group Financing	500.00
World Bank Lending	500.00

Decision

The review did authorize the preparation to continue



B. Introduction and Context

1. **The proposed US\$500 million Disaster Risk Management Development Policy Loan (DPL) with a Catastrophe Deferred Drawdown Option (CAT-DDO) will support the Government of Peru (GoP) to strengthen the institutional capacity to reduce and manage the impact of climate and disaster shocks at the three levels of Government.** The proposed operation builds on the successful achievements of the first CAT-DDO (P120860) and second CAT-DDO (P149831) and the ongoing dialogue and collaboration between the Bank and the GoP on disaster risk management since 2007.

Country Context

2. **Geological and climate-related risks pose major challenges for Peru's sustainable and resilient development. Peru lies in the "Pacific Ring of Fire," a highly seismic region where about 80 percent of the world's earthquakes occur.** The high seismic hazard zones are concentrated along the coastal region, home to the nation's capital, Lima. Based on a seismic risk profile carried out by MEF in 2014, the Probable Maximum Loss (PML) for a 100-year return period could generate losses of around 10 percent of the total exposed value of Government-owned assets and infrastructure. In 2007 the earthquake in Pisco (7.9Mw) resulted in direct and indirect damages at 1.24% of GDP (S/4,000 million, approximately US\$1,270 million). Furthermore, its location on the tropical west coast of South America exposes the country to El Niño oscillations, which are typically characterized by prolonged torrential rains that primarily affect the northern coast. The El Niño events in 1982–1983 and 1997–1998 caused economic losses US\$3.3billion and US\$3.5billion respectively. Most recently in 2016-2017 the impacts from a Coastal El Niño led to economic losses estimated at US\$3.1billion. In May 2017 the government established the Authority for Reconstruction with Changes (ARCC) and has been leading the reconstruction process with reconstruction needs estimated at US\$7.8 billion.

3. **The proposed operation builds on the GoP's efforts over the last ten years to reduce disaster and climate risks to benefit the most vulnerable population.** In 2010, the first CAT DDO (P120860) for US\$100 million was approved to support policy reforms in three areas related to: (i) the Budgetary program for disaster risk reduction and emergency response PP068, (ii) vulnerability reduction actions in the priority sectors of health, water and sanitation; and (iii) implementation of the financial protection strategy. In 2011, the DRM Law was approved to establish the new National Disaster Risk Management System (SINAGERD), which signaled the government's efforts to move from an emergency response-focused system towards a more comprehensive disaster risk management system. In 2014 the National Disaster Risk Management Plan (PLANAGERD) was approved, it provided the policy framework to implement the mandates under SINAGERD. In 2014 the GoP requested a second CAT DDO (P149831) for US\$400 million, which built on the first Cat DDO and sought to advance and expand reforms along the following policy areas: (i) improve public resource allocation for DRM by aligning the DRM Budgetary Program PP068 and regional planning processes with the DRM system; (ii) expand to other sectors managing infrastructure, and include education and housing vulnerability reduction programs, and improve the design of flood protection plans at subnational level; and (iii) strengthen the national financial protection strategy against disasters, by integrating a post-disaster reconstruction framework. Both operations were complementary and supported policy reforms aimed at further consolidating the DRM program at the national level. While the previous CatDDOs were mainly focused in the reduction of the seismic risk, this operation deepens support to policy reforms aimed at managing risk from hydrometeorological hazards considering the El Niño oscillations that have had substantial impact on vulnerable populations.



Relationship to CPF

4. **This operation is consistent with the Bank's strategy in Peru and the CAT DDO instruments remain highly relevant.** The DRM and climate change agenda remain an integral part of the World Bank Group's 2017-2021 Country Partnership Framework (CPF) for Peru. The CPF is aligned with Peru's Bicentennial Plan 2021, which is the country's strategic development plan and has identified Environment and Natural Resources as one of the key priority areas. The CPF includes financial instruments, technical assistance and exchange of global experiences to contribute to the government's objectives; in DRM and CC the Bank will contribute towards building capacity to manage natural resources and disaster risks associated with climate change, with an emphasis on reconstruction following the severe damage caused by the El Niño Costero weather phenomenon in 2017.

C. Proposed Development Objective(s)

5. **The proposed operation's development objective is to strengthen the institutional capacity of the Government of Peru to reduce and manage the impact of climate and disaster shocks at the three levels of Government.** This objective will be achieved through reforms under the following pillars:

- Pillar 1. Strengthen the National Disaster Risk Management System (SINAGERD) and mainstreaming DRM at the regional and local level.
- Pillar 2. Strengthen the implementation of multi-hazard disaster risk management measures in the face of climate change in priority sectors.
- Pillar 3. Improve efficiency in public resource mobilization and allocations for Disaster Risk Management (DRM).

Key Results

6. **Continue strengthening the DRM system at national level and substantially increase capacity at subnational levels,** to implement risk reduction investments and interventions, actively promote an integrated approach to manage hydrometeorological risks,¹and expanding financial protection including the exploration of market-based risk transfer solutions such as the recently executed catastrophe bond.

D. Concept Description

7. This objective will be achieved through reforms under the following pillars:

- Pillar 1. Strengthen the National Disaster Risk Management System (SINAGERD) and mainstreaming DRM at the regional and local level.
- Pillar 2. Strengthen the implementation of multi-hazard disaster risk management measures in the face of climate change in priority sectors.
- Pillar 3. Improve efficiency in public resource mobilization and allocations for Disaster Risk Management (DRM).

¹ Floods are the most recurrent and most impacting events in the country, particularly during the rainy season (December - March). Moreover, a frequent meteorological event is the frost (high Andean areas) and friaje (jungle), produced by sudden drops in temperatures that occur mainly between the months of April to September of each year. In 2017, the Multi-Sectoral Plan for Frost and Friaje 2017 was generated with an estimated budget of S/107'388,698.00 (Presidencia del Consejo de Ministros 2017).



8. **Pillar 1. Strengthen the National Disaster Risk Management System (SINAGERD) and mainstreaming DRM at the regional and local level.** Reforms in this policy area focus on strengthening and supporting the operationalization of the DRM system which connects all levels of government and supports implementation of DRM at the subnational level. The government is advancing efforts in this line; however, challenges remain in the operationalization of the system and articulation across the three levels of government. At subnational level one of the challenges is the lack of technical capacity and human resources available to implement interventions and investments focused on risk reduction. This was further exacerbated after the impacts from the 2017 Coastal El Niño as the reconstruction process has faced delays in implementation. Regional and local governments have a large share of the responsibility to execute the reconstruction budget sources. To accelerate the process, in May 2018 the national government modified the Reconstruction plan to give municipalities a larger share of the reconstruction budget - 49% of the total budget compared to 16% in 2017. Subnational governments are making progress and as of May 2019 had an average budget execution of 16.2% compared to a 9.8% budget execution by the national level.

9. **Pillar 2. Strengthen the implementation of multi-hazard disaster risk management measures in the face of climate change in priority sectors.** Reforms in this policy area focus on supporting disaster risk reduction through the implementation of comprehensive approach for flood control including the integration of nature-based (or green infrastructure) solutions. Furthermore, this pillar will support government efforts to implement the Multisectorial Plan against Frost and Friaje 2019-2021 in order to reduce the impact of frost in the high Andean areas and friaje in the jungle areas - where sudden temperature reductions between April to September affect people's livelihoods and wellbeing. Finally, in consideration of the seismic risk, the continued implementation of the National Program for School Infrastructure (PRONIED) reduces of the vulnerability of the existing school infrastructure.

10. **Pillar 3. Improve efficiency in public resource mobilization and allocations for Disaster Risk Management (DRM) including Adaptive Social Protection programs targeted to the most vulnerable.** This pillar seeks to strengthen the financial protection capacity of the government by supporting both the mobilization and execution of the DRM resources. The primary financial mechanism established by the GoP for this purpose is the Fund for disaster risk management (FONDES). FONDES, approved through Law 30458 in 2016, was created to manage financial resources for post-disaster recovery and reconstruction activities. Under the DRM law MEF is assigned the strategic role of defining and implementing a national financial protection strategy against disasters. The resources requested from the second CAT-DDO (US\$70 million) as a result of the national declaration of emergency after the 2017 Coastal El Niño were disbursed in February 2018 and were allocated under FONDES. The first and second CAT-DDO operations were part of the GoP's national financial protection strategy against disasters. In addition, the GoP is seeking to target support to vulnerable population through the formulation of an Adaptive Social Protection Strategy for Emergencies and Disasters

E. Poverty and Social Impacts and Environmental Aspects

Poverty and Social Impacts

11. **The government policies supported by Peru's Third CAT-DDO are expected to have a positive poverty and social impact.** In line with this operation's objective and policy reforms supported under this program, positive impacts are expected given the strong links between poverty and vulnerability to disasters. Under Pillar 1: Strengthen the National Disaster Risk Management System (SINAGERD) and DRM at the regional and local level, the program is expected to contribute toward the boosting sharing prosperity because of the improvement of the actions to manage risks at different territorial levels, in particular at the local where the impacts affect the most vulnerable people. Under the Pillar 2: Strengthen the implementation of measurements to enhance the reduction multi-hazard disaster risk management in the face of climate change in priority sectors, the program strengthens implementation of infrastructure projects aimed at



limiting the negative effects of floods, frost and friajes, particularly for poor rural households. Likewise, quality standards for construction, and overall improvements in infrastructure (schools, rainwater drainage, housing, etc.) are key challenges to reduce vulnerability to frequent natural hazards and climate change (induced events a consequence of El Niño phenomenon) such as floods, landslides, in addition to geologic hazards, namely earthquakes. Under Pillar 3: Improve efficiency in public resource mobilization and allocations for Disaster Risk Management (DRM), development of new risk financing measures, including an adaptive social protection strategy, are expected to help achieve positive poverty and social impact.

Environmental Impacts

12. **Prior actions are not likely to cause significant effects on Peru’s environment, forest and other natural resources.** Under Pillar 2, the policies support the development and the implementation programs at national and subnational level would reduce the vulnerability of the population, while also supporting the development of integrated watershed management, including the concept of “nature-based solutions” (NBS), or “green infrastructure” that have emerged as a good alternative or complement to traditional “grey” (hard) approaches.

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APPROVAL

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