

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

Report No.: AB4059

Operation Name	Peru Programmatic Environmental DPL
Region	LATIN AMERICA AND CARIBBEAN
Sector	General water, sanitation and flood protection sector (40%); Mining and other extractive (30%); General transportation sector (30%)
Project ID	P101471
Borrower(s)	MINISTRY OF ECONOMY AND FINANCE
Implementing Agency	MINISTRY OF ECONOMY AND FINANCE with the support of the Ministry of Environment (MINAM), the Ministry of Energy and Mines (MEM), the Ministry of Transport and Communications (MTC), and the Ministry of Production (PRODUCE)
Date PID Prepared	August 28, 2008
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1. Key development issues and rationale for Bank involvement

Peru is one of the most ecologically diverse countries in the world, endowed with a large and diverse territory and an enormous wealth of natural resources. Environmental quality and natural resource abundance are an integral part of the country's sustainable growth and the well-being of its population. However, environmental degradation and the depletion of natural resources constitute a formidable obstacle to Peru's efforts to eradicate poverty, reduce inequality, and develop a more diversified and resilient economy. The costs of environmental degradation represent more than 3.9 percent of the country's GDP, mainly due to increased morbidity and mortality and decreased productivity. Over the past five decades, Peru has restructured its legal and regulatory landscape, undertaken numerous policy initiatives, and dramatically expanded and strengthened its institutional capacity for protecting and managing the natural resources and environmental quality. However, despite these advances, the country continues to face serious environmental challenges.

Recent events have renewed public attention to the consequences of environmental degradation and depletion of natural resources. The media has provided extensive coverage of pollution from mining environmental legacies (MELs) –which have become the emblem of social conflicts in the country. Similarly, the high lead concentration levels in the blood of the population at La Oroya have raised international outcry. The devastating effect of natural disasters associated with the occurrence of El Niño in 1998, the collapse of the hake fisheries in recent years, and the challenges to the anchoveta industry have also triggered short-term institutional responses to these issues.

Over the past decade, Peru has made considerable progress in improving its institutional and legal framework for environmental management by issuing laws and regulations defining roles

for environmental licensing, strengthening the environmental framework within key sectors (including mining, energy, forestry), enhancing natural protected area management, and earlier this year, establishing Peru's Ministry of Environment. These efforts constitute the initial steps of the reforms that Peru needs to carry out to address its urgent environmental challenges and ensure that the environment is safeguarded as decentralization advances. With the creation of the Ministry of Environment and an accompanying maturing of public and private institutions, the timing of this DPL operation is very opportune for supporting policy reforms on the environmental front.

In light of the ratification of the Free Trade Agreement with the United States, President Alan Garcia proposed the creation of a Ministry of Environment in December 2007. Following a consultation process with various actors in public and private sector, academia, international organizations and NGOs, Law No. 1013 was published on May 14, 2008 establishing the new Ministry of Environment (MINAM). This concentrates within MINAM many of the environmental management functions which had previously been shared by more than a dozen agencies (including the National Council for the Environment-CONAM, the National Institute of Natural Resources-INRENA, the General Directorate for Environmental Health-DIGESA, other sectoral environmental agencies, etc.). Furthermore, environmental enforcement which had been delegated to each productive sector will now be carried out by an autonomous Office of Evaluation and Environmental Enforcement (OEFA) linked to MINAM. In addition, the National Service of Protected Areas (SERNANP) has been established as an independent agency subscribed to MINAM (rather than being a third-level institution under the Ministry of Agriculture. Furthermore, MINAM has been included (for the second round of pilots) in the Result's Based Budget of the Ministry of Finance (MEF), reflecting its priority and commitment to the sector.

The Country Partnership Strategy (CPS) for Peru for FY07-FY11 (Report PE-37913) recognizes the need to raise the profile of environmental issues in Peru, and includes a potential set of DPLs that will enhance public environmental investments and strengthen the institutional framework. These environmental DPLs contribute directly to making growth environmentally sustainable (within pillar I)¹ of the CPS by supporting the environmental management of water resources, biodiversity conservation and forest cover, enhancing control over air and water pollution, and improving the sustainability of extractive industries (such as mining and hydrocarbons) and the sustainable management of fisheries resources.

The proposed Peru Environmental DPL is the first in a planned series of three operations (programmed for FY09, 10 and 11) to support the continuing efforts of the GoP in strengthening environmental sustainability in the country. The proposed policy reforms and activities under the ENVDPL are based on two core pieces of analytical work: (i) The Environmental and Social Dimensions of the Mining Sector in Peru (2005); and the Peru: Country Environmental Analysis (CEA-2006).

¹ The Bank's program of activities to support the GoP in reaching these objectives is organized around three pillars and six clusters, as follows. *Pillar (i) Economic Growth*: 1. Maintaining macro stability and reducing vulnerabilities; 2. Accelerating growth and widening its base; 3. Making growth environmentally sustainable. *Pillar (ii) Social Development*: 4. Meeting Basic Needs; 5. Promoting a new social contract in education, health and nutrition. *Pillar (iii) Modernization of the State*: 6. Modernizing state institutions.

The selection of key sectors and priority areas to be addressed under the proposed ENVDP result from a series of consultations led by MEF with the inputs and active participation from the following government agencies: (i) MINAM; (ii) the National Council of the Environment (CONAM); (iii) the National Institute of Natural Resources (INRENA); (iv) the General Directorate for Environmental Health (DIGESA); (v) the Ministry of Production (PRODUCE); (vi) the Ministry of Energy and Mines (MEM); and (vii) the Ministry of Housing (VIVIENDA). In addition, consultations have taken place with the Inter-American Development Bank (IDB), the Andean Development Corporation (CAF), the United Nations Development Program (UNDP), and the Peru-Canada (PERCAN) Initiative, to avoid duplication of efforts and ensure compatibility and synergies in agendas.

Despite an initial demand to address a wide range of environmental issues (e.g. renewable energies, forest policy, indoor air pollution), the core sectors and themes to be supported by this DPL were selected based on the following (i) a level of national priority agreed on by MEF and MINAM²; (ii) supplementary support from other loans/grants³, and (iii) level of sectoral support and commitment. Consequently, the final selection of sectors to be supported (mining, fisheries, transport and fuels related to air quality improvements) reflect a cohesive strategy which would: (i) promote principles of sustainability and address core environmental issues in two natural resource-based and leading export sectors (mining and fisheries) which have largely grown in the past decade; (ii) address air quality which has been identified as the leading cause of morbidity and mortality in the country (particularly in large cities); and (iii) strengthen the overall environmental institutional and policy framework in order to support MINAM's new tasks regarding: (i) policy making; (ii) biodiversity conservation; (iii) regulating the environmental licensing process; and (iv) environmental enforcement.

2. Proposed objective(s)

The overarching objectives of the proposed Environmental DPL program aim to support the government's efforts to achieve the following: (i) improve the efficiency and effectiveness of environmental governance and institutions in Peru; and (ii) mainstream sustainability principles in the development agenda of key sectors to improve the management of the mining sector, improvements in air quality, and enhance the fisheries sector. The ENVDP is one of the key pillars of the 2006 Country Partnership Strategy for Peru and of the government's strategy to strengthen its sustainable development policies, and will contribute to Peru's efforts towards the achievements of the Millennium Development Goals (MDGs).⁴

This operation, under preparation for over a year, will be presented for Board approval in December 2008 and expected to be disbursed in the first quarter of 2009. The two subsequent ENVDP loans for the environment sector (ENVDP 2 and ENVDP 3) are currently planned

² For example, natural disasters and indoor air pollution, which were identified as prominent contributors to costs of environmental degradation in the CEA, will not be addressed by this operation.

³ Issues such as water resource management (identified as critical in the Peru CEA) are not included in the proposed ENVDP as they are already being addressed by two separate IDB DPLs and an upcoming World Bank TA loan, and forest policy is being covered within the framework of the FTA and through an Andean Development Corporation (CAF) loan.

⁴ The proposed ENVDP would contribute to the attainment of MDG's Goal 7 which seeks the attainment of environmental sustainability, and Target 9 which promotes principles of sustainable development in country policies and programs.

for 2009 and 2010. The timing of this DPL program is opportune given Peru's economic growth, the promising outlook for key sectors in which environmental issues are receiving government attention, the recent creation of a Ministry of Environment, as well as the approval of the Free Trade Agreement with the USA that includes requirements on environmental issues.

3. Preliminary description

The specific policy areas and the actions within these that are supported by the Peru Environmental DPL are outlined in the policy matrix. These policy actions are aimed at strengthening institutional and environmental governance; mainstreaming principles of sustainable development in key sectors including mining, fisheries, and those supporting improved air quality.

Policy actions under ENVDP I for environmental governance include the following:

- To *strengthen the legal and institutional framework for environmental management*, the operation supports the approval of the law creating, organizing, and establishing key functions of the Ministry of Environment; and the modification of law for the National System of Environmental Impact Assessment. Support will also be provided to as assessment and strategy to strengthen MINAM's financial and administrative performance.
- For *biodiversity conservation*, this operation will support the issuance of supreme decrees which approved a regulation establishing functions of the National Service of Natural Protected Areas (SERNANP), including the Strategy for Natural Protected Areas.
- To strengthen the framework for *environmental quality standards and better monitoring*, this operation will support the issuance of various supreme decrees to set these standards as well as maximum permissible levels for air and water, and for fishmeal processing plants.

Policy actions under ENVDP I to support the mainstreaming of sustainable development in key economic sectors in Peru include the following:

- For the *mining sector*, this operation supports policy actions to improve information and capacity to remediate mining environmental liabilities by: (i) supporting a methodology to update the MELs inventory and assess priority sites; and, (ii) by supporting the government's efforts to strengthen environmental and social governance in this sector through the issuance of a decree defining public and community participation during various stages of the mining process.
- For *improving urban air quality*, this operation supports policy actions in two areas: (i) improving fuel quality, through the issuance of a supreme decree to promote vehicle conversion to natural gas and establishing supply stations; and the enactment of a law to reduce the content of sulfur in diesel by 2010; and (iii) improving vehicle performance through actions to enhance the vehicle inspection and maintenance system.
- In the *fisheries sector*, this operation supports the government's program to reduce overcapacity in the anchoveta fleet and mitigate social impacts relating to displaced workers. This includes the regulation of anchoveta fishing quotas per vessel, and the

implementation of the funding mechanism for FONCOPES and the pension fund for workers.

Looking forward, the Bank will support the GoP in implementing the reforms relating to environmentally sustainable improvements in these areas. The Bank's value added lies in its convening power, the provision of global expertise in this highly specialized field, and leverage in resource mobilization.

4. Environment Aspects

The provisions of OP8.60 on Development Policy Lending apply to ENVDPL. The policies and reforms supported by this operation are expected to have a positive effect on the country's environment, by supporting improved environmental governance and management. As the main objective of this environmental DPL is to help the government mainstream environmental concerns in a number of key sectors (such as mining, fisheries, energy), the design of the operations are catered towards internalizing environmental and social safeguards issues at the macro level. The operation seeks to achieve a dual objective of incorporating environmental considerations in key productive sectors of the economy, and by improving the effectiveness and efficiency of the environmental management process. Consequently it is expected that the policies supported under this operation are unlikely to cause significant negative effects, and will instead have positive effects on Peru's environment, forests and other natural resources.

The government's commitment to improved environmental governance is evidenced by the creation of a new Environment Ministry in May 2008, and the allocation of its operating budget (more than twice the yearly budget of CONAM) as approved in August 2008. The government's efforts at strengthening environmental governance through policy reforms are supported by this DPL operation. Positive impacts on the environment are expected to derive from improved environmental management at the national and local levels, in which the program places particular emphasis in assuring improved transparency and accountability with respect to governmental oversight and decision-making processes. The conservation of biodiversity and natural protected areas in Peru will also be enhanced through various reforms and activities being undertaken by GoP to strengthen institutional capacity and financial sustainability; while the approval of environmental quality standards and maximum permissible emission levels for air and water, supported by this operation, is expected to strengthen environmental monitoring.

Key analytical work such as the CEA and the Mining Study has supported the integration of environmental concerns into sectoral policy development for energy, transport, mining, and fisheries. This has also facilitated the policy dialogue, the inter-institutional agreements and commitments among various stakeholders to address the respective environmental concerns (e.g., urban air quality, mining contamination, etc.). In the *mining sector*, government reforms aimed at updating the MEL inventory and assessing priority MELs in key watersheds is expected to improve government actions towards remediation of environmental impacts. Furthermore, various government actions supported by this operation to overcome the shortcomings of the EIA system, especially for large-scale and complex mining operation is expected to improve the overall quality of the EIAs process and strengthen the overall licensing framework. Improvements in *urban air quality* are another significant environmental effect of government actions in the energy and transport sector enhanced through the support of this operation. These include actions to encourage the availability of cleaner fuels, shift vehicles to clean natural gas,

and scrap older polluting vehicles. In the *fisheries sector*, this operation will support government efforts at boosting sustainability in this sector through regulations relating to the size, capacity, and catch quotas.

The proposed operation incorporates actions to improve the effectiveness and efficiency of environmental management processes. The benchmarks that have been realized by the GoP indicate that the country is headed in the right direction with respect to protecting the environment and improving environmental quality.

5. Tentative financing

Source:	(\$m.)
International Bank for Reconstruction and Development	25.0
Borrower	00.0
Total	25.0

6. Contact point

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