

**PROJECT INFORMATION DOCUMENT (PID)
IDENTIFICATION/CONCEPT STAGE**

Report No.: PIDC73233

Project Name	Peru Subnational Implementation of EITI
Region	LATIN AMERICA AND CARIBBEAN
Country	Peru
Lending Instrument	IPF
Project ID	P160633
Borrower Name	Peru
Implementing Agency	Ministry of Energy and Mines
Environment Category	C - Not Required
Date PID Prepared	16-Sep-2016
Estimated Date of Approval	31-Oct-2016
Initiation Note Review Decision	The review did authorize the preparation to continue

I. Introduction and Context

Country Context

Peru has been one of the most prominent performers in Latin America in the last 25 years. Aside from being the fourth largest in land surface (over 1.2 million square km.) in Latin America and the Caribbean, its economy is the seventh biggest (GNI per capita US\$6,360 in 2014) and it has been the second fastest-growing in the region since 2000. Its population of about 31 million is relatively young, with more than half being under 30 years old. Peru's fast economic growth, averaging 5.3 percent since 2001 was higher than in all other LAC countries, except for Panama. Economic growth was also widely shared. The poverty incidence rate fell from 58 to 23 percent in only ten years from 2004-14 and households' incomes at the bottom 40 percent grew 50 percent faster than the national average. The fast and widely shared growth transformed Peru into an upper-middle income economy.

With the mining revenues boom, local governments received budget transfers from the central government to fuel investment and deliver better services. An effort was made to transfer a greater share of the mining revenues to districts and departments where mining activities were conducted. But transfers from the central government do not help to reduce fiscal disparities among local and regional governments. Only 4 of the 1,842 municipalities receive more than 50 percent of canon transfers, generating huge disparities in the availability of resources. The imbalance of the canon and royalties in favor of small municipalities prevent regions from taking a leading role in coordinating investments. The initial arrangements did not consider the disparities in the management capacities of the different subnational governments, and still have to address the problem of building technical capacity for decision making. Subnational governments have failed to increase citizen participation and improve the perception people have of institutions.

The lack of oversight that the Comptroller General of the Republic (General Accounting Office) has had on governments has not been enough and needs to be adequate to the needs and capacities of the territory. Citizens usually face obstacles in order to require checks and balances from their local

governments, and do not have the opportunities or the right platform to express their concerns regarding the provision of public services. Overall, the lack of oversight, the large amount of resources some municipalities have received, and a flawed local elections system; creates incentives for corruption and wrongdoing. When these acts of corruption are revealed, trust in institutions weakens further, undermining state legitimacy and good governance.

Sectoral and Institutional Context

Peru is a resource rich country. The economy has a large commodity sector. It has large reserves of ores, including copper, gold, silver, zinc, lead, iron, tin, and also oil and gas reserves. The extractives sector in Peru is key to the country's economy, representing 66% of total exports, 50% of foreign exchange, 12% of GDP and 16.8% of fiscal revenues in 2012-2014. Mining is the main export sector in Peru, accounting for 38.8 percent of exports in 2015. The sector also contributed \$8.9 billion in private investments and generated approximately 201,513 jobs in 2015.

The large number of extractives projects widely spread in Peru provides great potential for local communities to leverage the strong demand for goods, services and skills generated by the mining industry to promote growth. To date, a number of stand-alone and ad-hoc local content pilots have shown initial good results.

While investment in mining in Peru has been declining following the commodity prices downturn it is still expected to account for 32% of the US\$ 24.6 billion announced private investment projects in Peru for 2016-2017, according to the Central Bank. The mining sector in Peru is also expected to grow by 11.2% and 11.6% during 2016 and 2017, respectively, driven by a boost in copper production due to ongoing projects like the expansion of Cerro Verde, the beginning of production of Las Bambas and the expansions of Toromocho and Toquepala, according to the Central Bank. Conversely, gold production is projected to decrease due to the natural depletion of the mines deposits, in particular Yanacocha. Nevertheless, the outlook for the mining industry in Peru in the mid-term is not promising, since no new major mine development is expected after the ongoing pipeline of projects is completed.

In addition to a tough international environment, the mining industry in Peru faces other significant challenges such as lack of trust from communities and social conflict as well as a complex permitting framework. Peru has adopted some of the strictest Environmental Quality Standards (ECAs) for mining, including citizen engagement rules (which many LAC countries do not have). Formal mining activities have to comply these standards, including the certification of mining operations, and obtaining permits to use land surface and water. However, as the extractive industries sector has grown, Peru has experienced continued tensions (the cause of over 60% of all social and environmental conflicts reported in 2015) that delay and/or stop extractives projects such as Tia Maria (Southern Peru), Minas Conga and Cerro Quilish (Yanacocha), Quellaveco (Anglo American), La Granja (Rio Tinto).

Resource-revenue transfers (canon, sobre canon and royalties) are distributed according to their point of origin, and as municipalities receive the bulk of these transfers, fiscal inequality is especially pronounced at the municipal level. For example, over 25 percent of canon mining-revenue transfers go to just 1 percent of municipalities. Moreover, district municipalities receive more than 50 percent of resource-revenue transfers in each region where an extractive industry is located. As a result, the wealthiest provincial municipality spends 80 times more, per capita, than the poorest provincial municipality, while the wealthiest district municipality spends 250 times more than its poorest counterpart.

In this context, the Extractive Industries Transparency Initiative (EITI) has been welcomed in Peru as a means to promote dialogue and build trust. In June 2015 Peru reached a milestone by

publishing its 10th EITI report, the first under the new EITI Standard. A compliant country since February 2012, Peru has also piloted EITI subnational implementation in the Piura and Moquegua regions. In the current context of economic downturn, transparency will be fundamental to build trust so that people know that resource-revenues would be used in the best possible way.

Relationship to CAS/CPS/CPF

The grant proposal is linked to one of the Bank's overall mandates to help advance transparency, improve the governance of extractive industries and accountability of natural resource rents by helping Peru lead the deepening of the EITI process both at a national and at a sub-national level. The proposed project strongly aligns with the World Bank Group's current Peru Country Partnership Strategy (CPS) 2012-2016. More specifically, this project fits with the CPS' 3rd and 4th strategic objectives: promoting sustainable growth and productivity and improved public sector performance for greater inclusion.

The proposed grant supports several results areas of strategic objective 4 ("Improved public sector performance for greater inclusion") of the Country Partnership Strategy 2012-2016. It does so by supporting the continued implementation of an activity – EITI – that aims at broadening engagement with civil society to identify and strengthen mechanisms of social accountability in the extractives sector through strengthening transparency and accountability systems at all levels of government to increase citizens' political awareness of the contribution of mining and oil and gas activities.

Furthermore the proposed grant supports results area 4.2., namely, strengthening sub-national management capacity, by supporting the application of the EITI process to five Peruvian regions, providing the local governments with a better understanding of the contribution of mining and oil and gas activities, key to strengthening sub-national capacity for enhanced responsibility, accountability and investment management/performance.

II. Project Development Objective(s)

Proposed Development Objective(s)

Foster transparency and accountability in extractive industries and increase trust among key local stakeholders around extractive industries in 5 regions, by i) influencing key extractive industries stakeholders to become more transparent and responsive, and ii) enabling local organizations and individuals to demand information. The grant will contribute towards the establishment of an inclusive regional information and dialogue platform for addressing issues of local public concern in relation to extractive industries.

Key Results

Sub-national EITI Reports produced and disseminated in accordance with the EITI Standard;
Public access to extractives information is improved at the regional level and the findings of EITI reports and complementary products are widely and effectively communicated to the public;

III. Preliminary Description

Concept Description

IV. Safeguard Policies that Might Apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
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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:	0.5	Total Bank Financing:	0
Financing Gap:	0		
Financing Source			Amount
Extractives Global Programmatic Support			0.5

VI. Contact point

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