I. Introduction and Context

Country Context

Over the past five years, Peru has made great strides in its development. Its achievements include high economic growth rates, low inflation, macroeconomic stability, reduction of external debt and poverty, and significant progress in social and development indicators. Prudent macroeconomic policies and a favorable external environment enabled an average GDP growth rate of 6.4% between 2002 and 2012. This solid economic performance drove an increase of more than 50% in Peru’s per capita income during this decade, after almost 30 years of stagnation. In 2012, public debt as a share of GDP was 19.8%, including local government debt.

Peru is the fourth largest country in South America and it is divided into three large geographical regions; the coastal plains, the Andes and the Amazon, which covers nearly 61% of the country. Peru is the second country in the Amazon Basin in extension of tropical rainforest and the fourth country with more tropical forest in the world. Largely due to the flora and fauna found in the
Amazon region, Peru is considered one of the most mega diverse countries in the world. This high biodiversity, which ranks second in South America and ninth in the World, is threatened by worrisome deforestation rates, unsound forestry and illegal logging. These trends of destruction and degradation are particularly important in Peru’s Amazonian region, which contains 73 million ha (94% of Peru’s total forest area) of still well conserved tropical forests. Increasing pressure on forests and forest related resources over the last few decades has resulted in growing social conflicts as forests are often one of the main source of revenue and income to forest dweller that are experiencing growing competition for forest resources and lands for agriculture and grazing. The exploitation of other non-renewable resources also found in the Amazon –mainly gold, oil and gas- that significantly contribute to Peru’s national GDP, are another source of deforestation threats, by extractive practices requiring dramatic encroachments on forest ecosystems. This situation is compounded by the limited capacity of communities and private industries to conduct sustainable forestry practices; and national and local government agencies to enforce regulations and promote more renewable forest uses.

**Sectoral and Institutional Context**

**Forest Sector.** According to official sources, 80.1% of the country’s total area is suitable for commercial forestry uses -or should be under conservation-, while only 5.9% is capable of holding agriculture and 13.9% livestock-grazing activities. The sector encompasses a wide range of subsistence and productive activities, including timber logging -from native forests and commercial plantations-, and extraction of a variety of non-timber forest products, including wildlife. Despite its economic relevance, the forest sector only contributes with 1.1% of country’s GDP and receives less than 0.01% of direct foreign investment.

The project area lies within the Atalaya Province, in the Ucayali region of the east central Peruvian Amazon. Atalaya is at the core of the most important productive forestry region of the country, containing 3.98 million hectares of forests; of which almost 3 million are relatively well conserved tropical moist forests. Around 64% of Atalaya’s population of about 47,000, are indigenous communities, from seven Amazoninan peoples - Asháninka, Ashéninka, Yine Yami, Shipibo–Conibo, Amahuaca, Yaminahua, Kashinahua, Chitonahua & Machiguenga- settled in approximately 50 communities that cover more than one million hectares of forest, and many of which are living in conditions of extreme poverty.

The classification of land use in Atalaya includes: (i) indigenous peoples territories totaling 1.46 million hectares, some of them still waiting for land allocation, regularization and/or titling; (ii) forty-six forest concessions under Permanent Production Forest areas, granted by the government to the private sector since 2001, and totaling 320,000 hectares (70% currently inactive or under inspection for lack of compliance with forestry laws and regulations); (iii) 6,000 hectares under irregular land holdings by 1,200 small and mid-size peasants and forest dwellers called “ribereños” and “colonos”, most of them with unrecognized land rights; and (iv) three protected areas that also contain large blocks of undisturbed forests totaling about 760,000 hectares.

Among others challenges faced by the Atalaya province to move towards a more sustainable and climate smart forest landscape we find: (i) a limited capacity of government agencies to design and implement strategic land planning, in a robust and credible participatory and transparent way with all the relevant stakeholders; (ii) a limited capacity and knowledge of IPs and other forest dwellers to sustainably manage their commonly owned forest resources (e.g. limited technical capacities to prepare and operate forest management plans and permits, understand conventional forest control,
administrative and regulatory processes; and knowledge of the local markets place and negotiation of logging contracts with third parties); (ii) a lack of institutional capacity by both community institutions, producers associations and national/local governments to secure land tenure rights and enforce sustainable forest management (SFM) rules and regulations that are needed to ensure a fair articulation of indigenous communities to Peru’s mainstream market economy; and (iii) the threat of large infrastructure projects, such as the new highway that connects Atalaya with Puerto Ocopa and Lima, which is expected to trigger a wave of illegal colonization by agricultural/grazing peasants form the Andes, and cause illegal logging, deforestation and forest degradation.

Institutional Context. The Ministry of Environment (MINAM), who will be the executing agency of the project, was created in 2008 with the mandate to govern the environmental sector, including the regulation of sustainable use and conservation of natural resources, protection of biodiversity, and administration of the natural protected areas system. MINAM is the national environmental authority and focal point for all international environmental negotiations including those of the biodiversity and climate change conventions.

The Forest Investment Program (FIP) and the The Forest Investment Program (FIP) provides funding to support developing country efforts to reduce deforestation and forest degradation and promote sustainable forest management that leads to emissions reductions and enhancement of forest carbon stocks (REDD+). Peru was selected by the FIP Sub-committee as one of the first eight pilot countries to initiate its program in 2010. The country’s Investment Plan (PIP) started preparation in 2011 with both the World Bank Group and the Inter-American Development Bank (IDB) as joint delivery partners. The FIP Sub-Committee approved Peru’s PIP in October 2013, authorizing the total request funding of US$50M (US$26.8 in grant funding and US$23.2 M in loan financing).

Forest Investment Plan of Peru (PIP). This Plan is expected to strengthen the enabling conditions that would allow investments to reduce the pressure on forests and the restoration of degraded areas, as well as sponsoring activities for promoting competitiveness of the forest sector. Three geographic areas were selected for this intervention (Atalaya, Tarapoto–Yurimaguas; and Puerto Maldonado-Iñapari) based of their potential to reduce emissions of GHG and generate important social and environmental co-benefits. The three areas are also representative of deforestation and forest degradation dynamics in the Peruvian Amazon and are expected to serve as pilot areas to test climate smart landscape models to be replicated in other parts of the Amazon. Other variables common to the tree regions that were considered in this selection included the contribution of the intervention in: (i) securing forest tenure rights; (ii) improving of forest and environmental governance; (iii) enhancement of the value of environmental assets of forests and degrade areas; and (iv) innovation and market development.

PIP Projects and other related interventions. Peru’s PIP contemplates four complementary projects. The GoP has selected the Bank to assist them in preparing and executing the present operation, while IDB will be responsible for the other three projects, namely: (i) Integrated forest landscape management along the main route between Tarapoto and Yurimaguas in the Regions of San Martin and Loreto (US$ 12.7M); (ii) Integrated landscape management along the main route between Puerto Maldonado and Iñapari and in the Amarakaeri Communal Reserve and beneficiary communities in the Region of Madre de Dios (US$12.37M); and (iii) strengthening of national forest governance and innovation (US$ 12.46M) . Part of the grant allocation for this project includes a Project Preparation Grant of US$400,000.00, which will be country executed and is
under final preparation. The FIP also contemplates a special initiative - the Dedicated Grant Mechanism (DGM) - to promote involvement and participation of Indigenous Peoples in FIP and other related processes. For Peru, the FIP Sub-committee approved a US$5.5 M grant, for which local IPs invited the Bank as their delivery partner for project design and implementation. The Bank has started preparation of this project in close coordination with the present operation. Finally, the GoP has recently signed a grant agreement with the FCPF for US$3.8 M to proceed with the preparation of their REDD+ strategy. The six operations are part of an overarching strategy of the GoP to reduce GHG emissions form deforestation, forest degradation. Important efforts will be needed by the GoP, IDB and the Bank to coordinate the preparation and implementation of these projects and ensure the right consistency, complementarity and synergy among them.

**Relationship to CAS**

One of Peru's 2012-2016 Country Partnership Strategy objectives focuses on sustainable growth and productivity, and on improving the capacity for environmental management by addressing environmental vulnerabilities and the impacts of climate change. With regard to the forest sector, the strategy recognizes the need to address land tenure rights and territorial planning strategies, particularly in the Amazon and to include the development of a national forest investment strategy that focuses on the links of forests and climate change.

The Project will directly support both the climate change and the shared prosperity agendas. It will support climate change mitigation by investing in capacity building necessary to empower the communities that have traditionally lived in and cared for the forests in the Peruvian Amazon and that will ensure it continues to be one of the most important land based carbon sinks for greenhouse gases (GHG) in South America. At the same time, by developing a participatory natural resource use planning model and community forest management together with capacity building, the Project will significantly enhance the livelihoods of forest communities in the Amazon, many of whom live under the poverty line and face multiple economic and social barriers. By targeting forest communities as the main beneficiaries, and by using participatory zoning and land use plans, strengthening forest tenure rights, community institutions and increasing the value added of their forest products, this project is expected to address climate change mitigation and have a strong impact on inclusive growth as outlined in the CAS.

**II. Proposed Development Objective(s)**

**Proposed Development Objective(s) (From PCN)**

The High Level Objective of Peru’s Forest Investment Plan (PIP), which is expected to generate a transformative impact within the next 10-15 years, is to reduce greenhouse gas (GHG) emissions produced by deforestation and forest degradation, and enhance carbon reserves in sustainable forest landscapes, thereby helping to reach the national target of “Declining net emissions to equivalent to zero in the category of Land Use, Land-Use Change and Forestry by 2021”. To achieve this objective the PIP is expected to generate two types of co-benefits: (i) reduce poverty of indigenous communities and other local populations, under a gender equality approach, by increasing income form management of sustainable forest landscapes and productive agroforestry mosaics; and (ii) reduce the loss of biodiversity and maintenance of forest ecosystem services.

The Project Development Objective is to improve the capacity of forest communities and government agencies to manage forest resources sustainably, strengthen forest tenure rights and
enhance forest governance leading to reduce GHG emissions from deforestation and forest degradation in the Atalaya Province.

Key Results (From PCN)

Key Results and indicators

1. Participatory land use zoning/planning and sustainable forest management instruments established and operating. Indicators: • No. of communities/area brought under: (i) participatory forestland use plans (ha/Number); and (ii) improved SFM plans, including best management practices and forest certification systems (ha/Number). (CSI Indicator)

2. Forestlands use and ownership rights strengthened: Indicators: • Target population of native forest communities with use or ownership rights recorded as a result of the project (ha/number) (CSI Indicator)

3. Forest community institutions strengthened. Indicators: • No. of community institutions (e.g. Community Assemblies, Community Forestry Enterprises [CFEs], Veedurias Forestales Comunitarias [VFC]) established and operating under sound principles of inclusion, participation, transparency and accountability (number).
• Number of vulnerable and marginalized beneficiary population (including women and young adults) who participate in decision making forums (percentage). (CSI Indicator)

4. Government institutions strengthened and forest regulations simplified/improved. Indicators: • Reforms in forest policy, legislation or other regulations supported by the project to: (i) simplify and improve forest management plans; and (ii) improve traceability schemes and chain of custody to ensure timber legality (Yes/No, Number) (CSI Indicator)
• Government institutions provided with capacity building support to improve management of forest resources (Number) (CSI Indicator)

5. Livelihoods of beneficiary communities improved from SFM: Indicators: • No. of CFEs increasing volume of sales of timber and non-timber products (number);
• No. of CFEs establishing productive alliances with private sector enterprises (number);
• No. of people employed (including women and young adults) in production and processing of forest products (number); (CSI Indicator).

6. GHG emissions reductions/avoidance/enhancement of carbon stocks (Total) resulting from project activities. Indicators: • No. of tons (millions) of CO2e emissions from reduced/avoided deforestation and forest degradation; • No. of tons (millions) of CO2e sequestered/enhanced through SFM and other related activities.

III. Preliminary Description

Concept Description

Component 1. Strengthening of forest tenure/use rights and forestland use planning (US$2.0M grant; US$2.6M loan). The objective of this component is to work with national (e.g. Ministry of Agriculture [MINAGRI], Property Registry Agency [SUNARP]) and sub-regional governments (e.g. Regional and Municipal land regularization and forestry agencies), indigenous and other forest dependent communities and their organizations to: (i) support local efforts to secure forest land ownership and use rights (e.g. community “reconocimiento”, registration, land titling, legal demarcation, regularization, and allocation of additional forest lands to indigenous communities); and (ii) conduct a broad and inclusive land use zoning and planning process aimed at building a low carbon emissions strategy at landscape scale. These interventions would also contribute to create the necessary institutional capacities to make land use planning processes inclusive, operational, and foster sustainable forest management leading to reduce deforestation and forest degradation rates in
Atalaya’s productive landscapes.

Component 2. Support forest governance and law enforcement (US$1.0M grant; US$1.6M loan). This component will support current efforts of the Peruvian government to decentralize key forest sector activities by assisting regional and sub-regional forest authorities (e.g. Ucayali Regional Environmental Authority [ARAU], Executive Forestry Agency of Atalaya [Direccion Ejecutiva Forestal de Atalaya], and Supervisory Body for Forest and Wildlife Resources [OSINFOR]) and other local government agencies in improving forest law enforcement and governance through: (i) Strengthening sub-national government agencies in-charge of forest law enforcement and streamlining regulatory approval processes for forest management plans, annual harvesting operational plans, and forest and transportation permits; (ii) strengthen the operation and coordination of the community forestry units within OSINFOR and the Forestry Executive Direction of Atalaya; (iii) strengthen the capacity and local governance practices of indigenous federations/organizations (e.g. Federación de Comunidades Nativas de la Provincia de Atalaya [FECONAPA], Coordinadora Regional de los Pueblos Indígenas de AIDESEP en Atalaya [CORPIA], its federations, the Union Regional de los Pueblos Indígenas de la Amazoñía de la Provincia de Atalaya [URPIA]), and OIRA (Regional Indigenous Organization of Atalaya - Organización Indígena Regional de Atalaya) to understand conventional forest control administrative and regulatory processes; (iv) Through Veedurías Forestales Communitarias and other community-based institutions, support strategic and fair alliances between indigenous community and private forestry industry to ensure sound environment practices, fair forest products benefit sharing and prevent illegal logging; and (v) sponsor a landscape-based forest stakeholder dialogue through existing local institutions and participation platforms (e.g. Mesa Indígena REDD+ of Atalaya and the Forest and Wildlife Management Committees) to ensure government and civil society transparency and accountability.

Component 3. Sustainable community-based forest management (CBFM) (US$1.0M grant; US $2.2M loan). To strengthen the technical and managerial capacities of indigenous communities to improve sustainable forest management practices; promote and assist in the identification of new market opportunities and establishment of productive alliances with “anchor” private sector enterprises, leading to develop value chains for their timber and non-timber forest products; and reduce the negative environmental impact of productive forestry activities along the supply chain of forest products. The component will focus on supporting: (i) small scale community-based commercial forestry operations based on sound sustainability principles; (ii) productive strategic alliances between community enterprises and private forest companies; and (iii) best management practices and third-party certification in community forestry operations (e.g. low impact logging, improved logging road construction, reduced-emissions timber processing).

Component 4. Project management, monitoring and evaluation (US$1.8M grant). This component will support MINAM’s capacity for the technical execution and administration of project proceeds, including: (i) establishing of a Project Implementation Unit (PIU) based in Atalaya, and to include a Project coordinator and a 4-6 technical/fiduciary team; (ii) designing and implementing a Stakeholder Involvement Plan (PIA), to include a differentiated approach for indigenous peoples, a communications campaign, and will be consistent with Peru’s new consultation laws and regulations; (iii) performs fiduciary and safeguard responsibilities; and (iv) establishes a robust monitoring and evaluation strategy, consistent and possibly nested within other monitoring systems currently being designed by MINAM (e.g. MRV for REDD+, and other systems to assess LULUCF).
IV. Safeguard Policies that might apply

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V. Financing (in USD Million)

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VI. Contact point

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