



Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 30-Jun-2019 | Report No: 147048



BASIC INFORMATION

A. Basic Project Data

Country Republic of Peru	Project ID P160122	Parent Project ID (if any)	Project Name REDD+ Emission Reductons Program
Region LATIN AMERICA AND CARIBBEAN	Estimated Appraisal Date May 20, 2020	Estimated Board Date	Practice Area (Lead) Environment & Natural Resources
Financing Instrument Carbon Finance	Borrower(s) Ministry of Finance	Implementing Agency Ministry of the Environment (MINAM)	

Proposed Development Objective(s)

The objective of the proposed carbon finance transaction is to make payments to the Program Entity for measured, reported and verified Emissions Reductions (ER) from reduced deforestation, forest degradation and enhancement of forest carbon stocks (REDD+) in Peru’s San Martin and Ucayali regions and to distribute ER payments in accordance with an agreed benefit sharing plan (BSP).

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Project Cost	32.20
Total Financing	32.20
of which IBRD/IDA	0.00
Financing Gap	0.00

Environmental and Social Risk Classification
Substantial

Concept Review Decision



B. Introduction and Context

Country Context

1. Over the past decade, Peru has made great strides in its development. These achievements include significant growth, 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 annual growth rate of close to 6 percent during the last ten years and 4.7 percent over the last two decades. This economic performance has allowed income per capita to double over the last ten years. Between 2007 and 2017, moderate poverty fell by more than half, from 42.4 percent to 21.7 percent, while extreme poverty fell from 11.2 percent to 3.8 percent (INEI, 2018). In the same period, the real income per capita of the poorest 40 percent grew over 35.9 percent, much faster than the 19.3 percent national average increase. Despite these gains, social indicators for Amazonian indigenous peoples remain the lowest in the country, with high levels of chronic malnutrition, limited access to education and primary health care, and disproportionate levels of maternal and infant mortality. In general, some of the most vulnerable populations in Peru are those depending on forests for their livelihoods, including indigenous populations, women, small farmers, and migrants.
2. Peru is the third largest country in South America and is divided into three large geographical regions: the coastal plains, the Andes, and the Amazon, which alone covers nearly 61 percent of the country. Largely due to the flora and fauna found in the Amazon region, Peru is considered one of the most megadiverse countries in the world. Peru's extensive forests, which place the country ninth in the world in terms of forest cover and second among the Amazonian countries in terms of forest area, are threatened by deforestation and forest degradation resulting mainly from agricultural expansion, land speculation/trafficking, road infrastructure development, legal or illegal logging, as well as illegal activities such as mining and production of illicit crops. Deforestation rates have increased over the last decade with the average annual deforestation rate for 2008-2017 (147,198 ha/yr) more the 56 percent higher than the rate for 2000-2007 (94,021 ha/yr). Most deforestation (40% during 2008-2017) occurred on lands without clearly defined tenure status.
3. The majority of Peru's forest area (95%) lies in the Amazon region, which contains 68 million hectares 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 a primary source of revenue and income for forest dwellers who are experiencing growing competition for forest resources and lands from agriculture and grazing. In fact, land use change for crop expansion, particularly in small- and medium-sized farm holdings, is the primary cause of deforestation in the Peruvian Amazon. The regions with the greatest cumulative forest cover loss in the Peruvian Amazon from 2005 to 2017 were San Martin (336,759 hectares), Loreto (343,226 hectares), and Ucayali (312,733 hectares). In these three regions, deforestation has been mainly caused by agricultural expansion (primarily for coffee, cocoa, and oil palm production) and by land speculation.
4. The exploitation of other non-renewable resources also found in the Amazon – mainly gold, oil and gas – that contribute to Peru's national GDP, are another source of deforestation. These resources involve the use of extractive practices that often encroach dramatically on forest ecosystems. For example, small-scale gold mining has had a significant impact on deforestation in Peru's southern Amazon. This situation is compounded by road construction in the region, as well as 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. In addition, indirect causes of deforestation include increasing migration and population growth in the Amazon, as well as a lack of land use planning.



Sectoral and Institutional Context

5. Although Peru's forests are extensive, development of the forestry sector falls far short of its potential in terms of surface area. Peru is in fact a net importer of forest products, given low levels of industrialization and value-added processing. The area under commercial plantation is still very low, and less than half of the exploitable forest area is under operating concession. The value of wood and wood products in 2017 (\$800 million, according to Luxbacher, 2017¹) contributed to less than 0.5 percent to the GNP or the total value of exports, despite the fact that forests occupy about 55 percent of the national territory. Political attention to forests has been lacking, resulting in inadequate forestry budgets, deforestation and emissions, and the conversion of forests into focal points of poverty, illegality, and social conflict.
6. The undervaluation of this resource is resulting in accelerating deforestation and forest degradation, which are responsible for a large share of GHG emissions. Deforestation in the Amazon, estimated at 125,301 ha/yr for the period 2000-2017, but 147,198 ha/yr during 2008-2017, is responsible for almost all of national deforestation and 51 percent of the country's total GHG emissions.² Under the business-as-usual scenario used in Peru's Nationally Determined Contribution (NDC) reported to the UNFCCC, national as well as Land Use, Land Use Change, and Forestry (LULUCF) sector emissions are estimated to increase by more than half between 2015 and 2030. At the same time, mitigation of 53.6 MtCO₂e/y of emissions from the LULUCF sector is expected to contribute to two-thirds of Peru's expected emission reduction goal of 30 percent in 2030,³ almost all of which will have to come from the Amazon.
7. Within this context, the ER Program focuses on two large political jurisdictions in the Peruvian Amazon, where deforestation has historically been greatest: the regions of San Martín and Ucayali⁴ (see Annex 1). Together, both regions have a territory of 16.2 million hectares (5,125,300 hectares in San Martín and 11,041,000 hectares in Ucayali), equivalent to about 21 percent of the total area (77,535,300 hectares) of the Amazon, and contain about 12.7 million hectares (3,365,916 hectares in San Martín and 9,362,764 hectares in Ucayali) of Amazonian forests (a total of 68.6 million hectares in 2017). However, they are responsible for a disproportionately higher rate of deforestation (35 percent of deforestation in the Amazon between 2008 and 2017) than their area would suggest. By the end of 2017, accumulated deforestation in the accounting area contributed to 30 percent (2.31 million hectares) of deforestation in the Amazon (7.5 million hectares). San Martín was the region with the greatest deforestation in the country, with 1.43 million hectares of cumulative deforestation, while Ucayali was the third most deforested region, with 0.88 million hectares of cumulative deforestation. Forest loss in the two regions was greatest on lands with unassigned rights, accounting for about 47 percent of forest loss during the 2008-2017 period.⁵
8. The ER Program will contribute to Peru's national development priorities. The ER Program's emphasis on reducing deforestation in the Amazon will make it a major contributor to Peru's NDC goals, since the LULUCF and agricultural sectors contribute to the majority of Peru's GHG emissions. The ER Program is also consistent with and contributes to the implementation of the following national environmental policies, laws, and actions: (i) the National Agreement, integrating environmental policy into planning for sustainable development; (ii) the Bicentennial Plan (targets 3 – governance, 4 - economy, competitiveness and employment, and 6 - natural resources and environment) for the sustainable use and conservation of natural resources; (iii) the National Environment Policy, which links ecosystem conservation with livelihoods and sustainable development; (iv) the new Forestry and Wildlife and Climate

1 Luxbacher, K. 2017. Wood and Wood Product Trade in Peru Remains Strong. Global Agricultural Information Network GAIN Report. USDA Foreign Agriculture Service. Dec. 2017.

2 Peru's nationally determined contributions (NDCs) reported to the UNFCCC (2015).

3 MINAM (2015). <http://www.minam.gob.pe/wp-content/uploads/2015/06/contribucion-NDC21.pdf>

4 A region is a political jurisdiction equivalent to a state or department. Regions are divided into provinces and provinces into districts.

5 It is noteworthy that the two regions show opposing trends, as deforestation has tended to decrease in San Martín since 2010 while it has been increasing in Ucayali since 2007.



- Change laws; (v) the law of Sustainable Use of Natural Resources which promotes conservation of natural resources and the environment and their sustainable economic use; (vi) the law of Conservation and Sustainable Use of Biological Diversity which fosters the conservation of biodiversity and the just and equitable distribution of benefits resulting from its use; (vii) the National Environmental Action Plan, which aims at reducing the deforestation rate on 54 million hectares of primary forest, incorporating forests with undefined rights into the forestry classification system, and reducing the vulnerability to climate change; and (viii) the Law of Informed Prior Consultation (Law 29785), based on ILO Convention 169, which establishes the rights of indigenous peoples to be consulted regarding activities that affect their lands or natural resources.
9. The Program operationalizes the National Climate Change Strategy (ENCC) in the forest and land use change sector and is a major contributor to the implementation of the National Forest and Climate Change Strategy (ENBCC), which includes the national REDD+ Strategy. The ER Program and the ENBCC will thus help the country achieve greater consensus regarding the use of forests and climate change and their importance for development. At the regional level, the ENBCC and ER Program will contribute to the decentralization of forest and natural resource governance and will help operationalize the PDRCs (Regional Concerted Development Plans) and the protection-production-inclusion (PPI) development strategy of the Amazonian regional governments via the implementation of low emissions development practices, regional branding, and increasing competitiveness in emerging markets that incorporate and value elements of environmental sustainability.
 10. Peru has made significant progress towards establishing an enabling environment for REDD+. Peru has put in place strong analytical and participatory processes to develop its ENBCC, with the aim of designing a set of mitigation and adaptation measures for the forest sector in line with the country's needs and international commitments. The ENBCC was developed by MINAM's National Program for Forest Conservation and Climate Change Mitigation, based on the results of a number of analytical studies funded by an FCPF Readiness grant. The ER Program represents an important mechanism and learning experience for implementing the Strategy over large areas of Peru's national forests in the Amazon. Implementation will test hypotheses related to causes and potential solutions of deforestation, the fine-tuning of management structures and intervention activities important for REDD+, including those related to enabling conditions, policies, institutional coordination, safeguards, benefit distribution, capacity strengthening, improvements in productivity, and market development; the identification of unforeseen gaps and needs; and in general, the improvement of the ENBCC design and future interventions.

Relationship to CPF

11. The ER Program is aligned with Peru's FY17-21 Country Partnership Framework (CPF), Report No. 112299-PE, dated April 4, 2017, and in particular with Objective 8 on strengthening the management of natural resources under the Natural Resources and Climate Change Pillar (Pillar III). This Objective recognizes the need to decrease the annual rate of deforestation and forest degradation in the Amazon region, as well as the importance of land tenure and sustainable use of forests and biodiversity. The CPF acknowledges not only the costs of land and forest degradation, but also the importance of forests as an essential source of income and livelihood, as well as forests' important role in mitigating and adapting to climate change. The ER Program is also aligned with the Bank's Climate Change Action Plan and the Bank's Forest Action Plan for FY16-20. The underlying activities that will generate ERs under the Program are fully consistent with the focus areas of the Bank's Forest Action Plan, namely sustainable forest management and forest-smart interventions in other sectors. These focus areas aim to strengthen the foundations for positive forest outcomes, including climate change and resilience, rights and participation, and institutions and governance.

C. Proposed Development Objective(s)

12. The objective of the proposed carbon finance transaction is to make payments to the Program Entity for measured, reported and verified Emissions Reductions (ER) from reduced deforestation, forest degradation and enhancement



of forest carbon stocks (REDD+) in Peru's San Martin and Ucayali regions and to distribute ER payments in accordance with an agreed benefit sharing plan (BSP).

Key Results (From PCN)

13. The achievement of the PDO will be measured against the following indicators:
 - a) Volume of CO₂ Emission Reductions measured and reported by the Program Entity, verified by a Third Party, and transferred to the FCPF Carbon Fund (tCO₂e);
 - b) Amount of payments made by the FCPF Carbon Fund for CO₂ Emission Reductions generated by the Program (US\$); and
 - c) Emission Reductions payments distributed in accordance with agreed Benefit Sharing Plan (Yes/No).

D. Concept Description

14. The ER Program's Carbon Finance Transaction has two components: (1) ER Verification – verification of and payment for measured and reported ERs generated by the Government's ER Program; and (2) Benefit Sharing – distribution of the ER Payment Agreement (ERPA) payments according to a BSP.
15. **Component (1): ER Verification.** The objective of this component is to verify the ER Program's performance in reducing emissions. The component provides results-based payments for reduced emissions from land use change. ERs are expected to result from implementation of the underlying activities of the ER Program (the activities described in the ER Program Document (ERPD) that are expected to ultimately generate ERs), which will support a combination of enabling conditions and sector and cross-sectoral activities, with a focus on forests. These activities are organized along four inter-related, strategic lines of action that respond in an integrated fashion to different conditions and drivers of deforestation and include: 1) Increasing conservation and the value of forests; 2) Increasing productivity, sustainability and competitiveness of climate friendly production systems; 3) Promoting investments and employment creation by green business; and 4) Improving institutional enabling conditions. A detailed description of the ER Program and its underlying activities is presented in Annex 2.
16. The basis for payments under the ERPA are verified ERs reported by the Program Entity⁶ (MINAM). In the draft ERPD that has been submitted by the Government to the FCPF, in advance of the Carbon Fund Participants meeting in July 2019, Peru has provided a detailed approach to measure emissions in the ER Program jurisdiction. This approach is consistent with the methodology for estimating baseline emissions and has been rigorously assessed by an independent TAP against the requirements stipulated in the Carbon Fund Methodological Framework.⁷ The same methodology will form the basis of future emissions monitoring. The Program Entity will submit periodic ER monitoring reports⁸ during the term of the ERPA, which will be independently verified. If deforestation/degradation is reduced across the entire ER Program area compared to baseline emissions, the verified volume of ERs, combined with the negotiated unit price agreed in the ERPA, will then translate into corresponding payments. As part of this transaction, ERs will be transferred from the Program Entity to the FCPF Carbon Fund via Peru's national registry of verified emissions to a centralized carbon registry managed by the Climate Change Group.⁹

6 Program Entity is defined as the party or parties specified as such in the ERPA, who enters into an ERPA with the World Bank as the trustee of the Carbon Fund.

7 <https://www.forestcarbonpartnership.org/sites/fcp/files/2016/July/FCPF%20Carbon%20Fund%20Methodological%20Framework%20revised%202016.pdf>

8 Frequency of reporting and verification will be agreed as part of negotiations.

9 A carbon or REDD+ registry functions like retail bank, i.e. it has accounts linked to each program to which ERs can be debited and credit. In



17. **Component (2): Benefit Sharing.** The revenue from ER payments will be shared according to an agreed BSP, that is being designed in accordance with the criteria in the Carbon Fund Methodological Framework and in a manner that is acceptable to the World Bank. The BSP will be based on the principles described in the ERPD to be reviewed by Carbon Fund Participants, and describes benefit sharing arrangements, including the distribution mechanism, funds flow and rules of allocation of ERPA payments and benefits to agreed beneficiaries. In the development of benefit sharing arrangements, the Government will consider the most effective way to reach the diverse group of stakeholders that are likely to contribute most directly to reducing emissions, ways to incentivize these stakeholders, and recognition of historical and continued sustainable land use. Given these considerations and stakeholder consultations to date, indigenous peoples and small and medium producers have been prioritized as beneficiaries. Other beneficiaries will include regional government institutions, private sector enterprises and NGOs that operate in the ER Program area and contribute to the program objectives through public-private or public-private-community alliances promoting low-emissions development. Benefits will take the form of project or activity funding for investments in sustainable, low emission development, but are not expected to involve direct cash payments to beneficiaries. The modalities for distributing ER payments are still under consideration and are expected to draw from existing mechanisms in San Martin and Ucayali, such as Development Funds (FONDESAM), public investment projects, and the dedicated grant mechanism for indigenous peoples (DGM-Saweto), among others.
18. At the time of ERPA signing, at least an advanced draft BSP needs to be submitted by the Government, reviewed by the Bank through a Quality Enhancement Review (QER), and publicly disclosed (once acceptable to the Bank). A final BSP is required no later than prior to the first ERPA payment.¹⁰ As per the ERPA General Conditions,¹¹ the Program Entity shall share a significant part of the monetary and non-monetary benefits achieved in connection with the implementation of the ER Program with relevant stakeholders, which have been identified as communities, government institutions, and private sector.
19. **Carbon Finance Aspects.** The ER Program is expected to generate a total of 26.774 Mt CO₂e of emission reductions from the accounting area during the 2020-2024 accounting period. Excluding the calculated 15 percent uncertainty factor and the 24 percent buffer for reversals, the net ex-ante estimated ERs amount to 16.332 Mt CO₂e over five years. This represents an average emission reduction of 15.5 percent compared to the annual reference level of 34.473 Mt CO₂e associated with an average deforestation of 51,656 ha/yr (23.941 Mt CO₂e), forest degradation (9.846 Mt CO₂e), and other non-CO₂ greenhouse gases (0.686 Mt CO₂e). Peru expects to transfer 6.44 Mt CO₂e of these ERs to the Carbon Fund.
20. In terms of carbon mitigation impact, forest interventions are expected to produce about 19.069 Mt CO₂e of ERs, intensification of production systems about 7.518 Mt CO₂e of ERs, and investment and employment promotion about 0.187 Mt CO₂e of ERs. From a carbon emissions reduction standpoint, land classification and titling is the most efficient intervention, followed by protected areas conservation, improved community forest governance, transitioning subsistence or migrant farmers to more commercial and sustainable agroforestry systems, sustainable forest management, and intensification of coffee and cocoa. Each of these interventions cost less per ton of carbon emissions reduced than a payment equivalent to US\$5/tC.
21. **Environmental and Social assessment.** For the purposes of the proposed ER Program, a full assessment of the environmental and social impacts and benefits of the Program's underlying activities will be carried out prior to appraisal. It is expected that MINAM will develop a complementary ER Program ESMF and corresponding specific guidelines that will help further develop the draft ESMF that has been prepared for its National Strategy on Forests Climate Change (ENBCC). In this respect, the ER Program ESMF will provide means for safeguarding only those

addition to debits and credits, a REDD+ registry performs additional transactions, such as the management of a portion of ERs as an 'insurance' against natural calamities (e.g., fires that can reverse previous achievements).

¹⁰ If a final BSP is not provided at the time of ERPA signature, it becomes a condition of effectiveness of the ERPA.

¹¹ <https://www.forestcarbonpartnership.org/erpa-general-conditions>



activities under the ER Program umbrella, in line with the requirements of the Bank’s ESF, and will constitute a key complement of the final version of the ENBCC ESMF, which will provide the instruments for safeguarding all the other REDD+ actions, in line with the requirements of REDD+ safeguards.

- 22. **Stakeholder engagement.** During the preparation of the draft ENBCC ESMF, a broad stakeholder engagement process was initiated and formalized, under a process called DIALOGUEMOS led by MINAM. The ER Program and the Stakeholder Engagement Plan (SEP), to be prepared by MINAM to accompany the ER Program’s preparation and implementation phases, will build upon this continuous engagement. Consultations and communication will be done at three layers: 1) a general ER Program SEP for the Program as a whole; 2) SEP required for individual underlying activities after ERPA signing (as required for the ERP’s ESMF implementation); and 3) FPIC for the Process Framework and corresponding activities. The stakeholder engagement process will begin as early as possible and will guide the ER Program through implementation.
- 23. **Grievance Redress Mechanism.** MINAM is developing a Citizen Attention Mechanism (MAC) to receive and address stakeholder concerns, suggestions, and complaints and use the feedback for continuous improvement of ER Program interventions and their implementation. The design of MAC is based on earlier prototypes developed at national level in the process of modernizing public management in Peru and establishing a model of open government based on dialogue with citizens that responds to their needs and interests and facilitates collaboration and transparency in decision-making.
- 24. **World Bank’s Grievance Redress Service.** Communities and individuals who believe that they are adversely affected by a World Bank–supported project may submit complaints to existing project-level grievance redress mechanisms or the World Bank’s grievance redress service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project-affected communities and individuals may submit their complaint to the World Bank’s independent inspection panel which determines whether harm occurred, or could occur, as a result of noncompliance with World Bank’s policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank’s attention, and Bank management has been given an opportunity to respond. For information on how to submit complaints to the World Bank’s corporate Grievance Redress Service (GRS), please visit: <http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Summary of Screening of Environmental and Social Risks and Impacts

The ER Program is expected to generate benefits for local communities through the adoption of sustainable and productive land uses, as well as significant positive impacts on forest conservation, as it aspires to tackle the main direct drivers of deforestation and forest degradation to promote emissions reductions. However, the specific underlying activities over which the overall ER strategy is based, pose potential direct, indirect, and in some cases cumulative, social and environmental risks and impacts that need to be adequately addressed and mitigated.



The Environmental and Social Screening identified that the ER Program’s underlying activities will generate overall positive impacts related with landscape restoration and promote sustainable and resilient land use practices. However, there is a high social risk that some individuals may not be able to receive a share of project benefits, may be adversely impacted by program activities, or suffer disproportionality from land use change. These risks are coupled with a high environmental risk related to activities that could promote land use change, degradation of forests and natural resources, and conversion of natural and critical natural habitats.

Note To view the Environmental and Social Risks and Impacts, please refer to the Concept Stage ESRS Document.

CONTACT POINT

World Bank

Angela Armstrong
Senior Natural Resource Management Specialist

Borrower/Client/Recipient

Ministry of Environment
Laura Secada
General Director of Climate Change and Desertification
lsecada@minam.gob.pe

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: <http://www.worldbank.org/projects>

APPROVAL

Task Team Leader(s):	Angela Armstrong
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Approved By

Practice Manager/Manager:	Valerie Hickey	26-Jun-2019
Acting Country Director:	Boris Utria	26-Jun-2019



The World Bank

Republic of Peru REDD+ Emission Reductions Program (P160122)
