



# Program Information Document (PID)

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Appraisal Stage | Date Prepared/Updated: 23-Nov-2021 | Report No: PIDA33163



**BASIC INFORMATION**

**A. Basic Project Data**

Country	Project ID	Project Name	Parent Project ID (if any)
Peru	P177765	Peru: Enabling a Green and Resilient Development DPF (P177765)	
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
LATIN AMERICA AND CARIBBEAN	12-Jan-2022	Urban, Resilience and Land	Development Policy Financing
Borrower(s)	Implementing Agency		
Republic of Peru	Ministerio de Economía y Finanzas		

**Proposed Development Objective(s)**

The Program Development Objective is to support Government policies to: (i) strengthen the foundations for a green economic recovery, (ii) build resilience and enhance climate change adaptation and (iii) support the transition towards a greener economy in selected sectors

**Financing (in US\$, Millions)**

**SUMMARY**

<b>Total Financing</b>	500.00
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**DETAILS**

<b>Total World Bank Group Financing</b>	500.00
World Bank Lending	500.00

**Decision**

The review did authorize the team to appraise and negotiate

**B. Introduction and Context**

Country Context

**Peru has been one of the best performers in Latin America and the Caribbean (LAC) in terms of growth and poverty reduction, but progress has slowed down in recent years.** For most of the 2000s, the country’s rapid economic growth, coupled with well-targeted social policies, boosted income growth among the poorest, backed by a stable macro-fiscal framework. As a result, the poverty rate fell from 59 percent in 2004 to 21 percent in 2019.<sup>1</sup> Economic growth was fueled

<sup>1</sup> Peru Policy Notes: <https://documents1.worldbank.org/curated/en/330961630045157214/pdf/Repensar-el-Futuro-del-Peru-Notas-de-Politica-para-Transformar-al-Estado-en-un-Gestor-de-Bienestar-y-Desarrollo.pdf>



by the country's abundant resources combined with favorable mineral prices which attracted large foreign investment in mining and enabled growth based on fast capital accumulation.<sup>2</sup> It was also the result of important structural reforms, such as the strengthening of the country's social protection systems and institutions, and solid macro-economic management. However, in the years prior to the pandemic (2013-2019), average growth rates declined to half of what they were in the 2000-2013 period, as productivity and job growth slowed down.<sup>3</sup>

**In the decades prior to the pandemic, there were important gains in the management of certain natural resources but for the most part economic growth came at the cost of environmental degradation.** In 2008 Peru's Ministry of Environment, and since then the Government of Peru (GoP) passed important reforms to strengthen the institutional and regulatory framework for natural resource protection.<sup>4</sup> However, low air quality still affects densely populated areas and continues to have an impact on the health of Peruvians.<sup>5</sup> Air pollution is also an issue in rural areas – with about a third of the Peruvian population cooking with solid fuels, due in part to lack of access to electricity. Between 2001 and 2019 Peru also lost more than 4 million hectares of tree cover; with agriculture expansion and changes in agriculture practices being the main drivers. Last, while representing only around 0.16 percent of global Green House Gases (GHG) emission, GHG emission per capita in Peru increased substantially between the year 2000 and 2018. GHG growth was mostly driven by the transport sector which passed from 1.07 metric tons per capita (CO<sub>2</sub> equivalent) in 2000 to 1.70 in 2018, and motorization continues to increase as cities lack efficient massive transit systems. In addition, in contrast to other countries in the LAC region, 75 percent of Peru's energy comes from fossil fuels.<sup>7</sup> Overall, environmental degradation in Peru is estimated to cost around US\$7-10 billion per year, an amount equivalent to 3.5 to 5 percent of the nation's GDP.<sup>8</sup>

**The country's high physical vulnerability to disasters and climate change impact can setback hard-won development outcomes and derail future economic growth.** Peru ranks in the top 24 percent of most vulnerable countries due to the impacts of extreme weather events,<sup>9</sup> and the global sea level is expected to rise between 0.6 and 1.1 meters by 2100,<sup>10</sup> posing additional threats to coastal urban populations. Furthermore, around forty six percent of the national territory is classified as having high to very high vulnerability and one third of the population occupies and uses this space.<sup>11</sup> Cities also continue to expand without proper planning or taking into consideration exposure to natural events. Between 1990 and 2019 more than 17 million people were affected by floods, droughts, forest fires, earthquakes, landslides, and volcanic eruptions, and more than 254 thousand houses were destroyed.<sup>12</sup> In the last two decades, the economic losses linked to natural events reached more than 4 billion dollars with the damages caused by "El Niño Costero" in 2017,<sup>13</sup> exceeding US\$

<sup>2</sup> WB (2017) Peru: Systematic Country Diagnostic

<sup>3</sup> Productivity growth was close to zero between 2013 and 2019, slowing the pace of poverty and inequality reduction.

<sup>4</sup> On December 2012 SENACE was created - a specialized public technical body with technical autonomy attached to MINAM, responsible for the review and approval through the SEIA of the detailed Environmental Impact Assessments of projects with significant environmental risks.

<sup>5</sup> Transportation has been identified as one of the main causes of air quality problems; and Peru's vehicle fleet is old and poorly maintained.

<sup>6</sup> In Metropolitan Lima alone the estimated cost of local air pollution (PM<sub>10</sub>) impact on health (mortality, hospital admission due to respiratory illness and absence at work) was between 679 and 805 USD million for the year 2013 as outlined by MINAM (2013), *Estudio de Desempeño Ambiental 2003-2013. Capítulo 6.*

<sup>7</sup> Total energy consumption has also been on the rise: between 2000 and 2017 energy consumption increase by 102%.

<sup>8</sup> The highest costs come from outdoor air pollution and lead exposure in urban areas; inadequate water supply, sanitation and hygiene systems, natural disasters; indoor air pollution; and agricultural soil degradation. Most of these costs are reflected in increased morbidity and mortality, as well as decreased economic productivity. WB (2017) Peru: Systematic Country Diagnostic.

<sup>9</sup> Germanwatch – Global Climate Risk Index 2019

<sup>10</sup> IPCC report, 2019. <https://earthobservatory.nasa.gov/images/148494/anticipating-future-sea-levels>

<sup>11</sup> MINAM. 2011. Descriptive Memoir of the Physical Vulnerability Map of Peru. <http://bvpad.indeci.gob.pe/doc/pdf/esp/doc1851/doc1851-contenido.pdf>

<sup>12</sup> INDECI. 2020. Statistical compendium. <https://www.indeci.gob.pe/wp-content/uploads/2021/02/CAPITULO-III-Estad%C3%ADstica-Series-2003-2019.pdf>

<sup>13</sup> El Niño Costero differs from the El Niño basin-wide phenomenon because it was spatially confined along the coasts of Peru and Ecuador as opposed to the El Niño-related expansion of warm waters coming from the western and central equatorial Pacific.



3.1 billion, equivalent to 1.6 percent of the country's GDP. In the period from 2003 to 2017 the human losses due to disasters reached 2,682.<sup>14</sup>

**While the COVID-19 pandemic led to one of the deepest recessions in Latin America, economic activity has started to rebound.** GDP contracted 11.1 percent in 2020, one of the highest drops among the major economies of Latin America. The poverty rate (US\$5-a-day-line) increased 12 percentage points, reaching 32.6 percent in 2020. The COVID-19 pandemic also had a devastating impact on lives and livelihoods,<sup>15</sup> as Peruvian families experienced one of the largest employments and income losses in the region. The GoP actively responded to the COVID-19 pandemic through a package of policies aimed at addressing the health emergency and providing economic relief to vulnerable firms and households.<sup>16</sup> Over the past months, vaccines have become more readily available and to date more than 21 million people (more than half of the population) have received a first dose. The economy has also started to rebound with growth projected to reach 11.3 percent in 2021. Yet, the labor market recovery was uneven.<sup>17</sup>

**The country has embarked in a path to economic recovery, with social inclusion and equity at the center of its policy agenda.** The GoP's program has a strong emphasis on supporting vulnerable population, overcome social exclusion and promote equity across regions, particularly in Peru's lagging regions and rural areas. The Bank is supporting the government's efforts to enhance social inclusion through a series of proposed policy and investment lending, including pipeline operations to finance basic service delivery improvements and productive development in rural areas, but also to promote social protection and economic inclusion.

**The new administration has also reinforced Peru's commitment to reduce environmental degradation, transition towards a low-carbon economy and build resilience to natural events.** Over the past years, the country improved regulations and policies to support a transition towards a greener and more resilient development model. Among others, Peru adopted a framework law on climate change (Law no. 30754, April 18<sup>th</sup>, 2021) and established a National Registry of Mitigation Measures (RENAMI) (supreme decree no. 013/2019, MINAM).<sup>18</sup> More recently, the Ministry of Environment approved the National Adaptation Plan which provides a roadmap for strategic actions across key sectors (June 2021). Peru submitted its second National Determined Contributions (NDC) on December 18<sup>th</sup>, 2020 and is currently working to update the National Strategy for Climate Change. On October 16, 2021 the new administration published the 2021-2026 General Government Policy, which identifies under Axis 7, the priority to enable a transition to a low-carbon economy, enhance climate change adaptation and reduce environmental degradation.

**The proposed operation complements the government's effort to foster social inclusion, while anchoring critical policies to support to support resilience and a green transition.** The proposed operation supports critical reforms to strengthen the foundations for a green economic recovery, build resilience and enhance climate change adaptation, and support a transition towards a greener economy in selected sectors. The reform agenda supported by the first DPL in the series prioritizes policy actions with political consensus for their implementation – as many of the reforms build on dialogue with

<sup>14</sup> DRM National Policy 2050 (2021) page 6

<sup>15</sup> Peru has the world's highest known death toll, adjusted for population. According to the Coronavirus Resource Center at John Hopkins University, as of September 7, 2021, total deaths reached 198,523, the case fatality reached 9.2%, and more than 2 million confirmed cases. <https://coronavirus.jhu.edu/data/mortality>

<sup>16</sup> According to the World Bank simulations, in the absence of emergency social transfers, the poverty rate would have risen by an additional 4pp in 2020. Similarly, *Reactiva Peru Program* helped to avoid a deeper economic contraction (growth in 2020 would have been 3.7 pp lower than in the baseline), *BCPR, Moneda No. 184, December 2020*.

<sup>17</sup> As of June 2021, labor market recovery has been slower in urban areas, with total employment being 2.6 percent lower than in 2019. Moreover, most of the employment creation since the peak of the crisis took place in the informal sector, as formal employment remains 23.6 percent lower than the pre-crisis level. Women and youth lost formal jobs disproportionately. Monthly earnings in 2021 are 16.5 percent lower than in 2019.

<sup>18</sup> Peru is also part of the United National Framework Convention on Climate Change (UNFCCC) since 1992 (ratified in 1993) and has ratified its commitment by joining the Kyoto Protocol in 2002 and the Paris Agreement in 2015. Peru is currently revising its NDC, while the current NDC was submitted in December 2020. The country is starting its long-term planning, having committed to update their current National Strategy for Climate Change this year (2021).



previous administrations. The prioritized policy actions also: (i) benefited from previous Advisory Services and Analytics (ASA) which enabled the proper identification of policy bottlenecks that needed be addressed, (ii) are well-aligned with the new administration's economic recovery efforts, and (iii) have synergies with the broader World Bank program in Peru including ongoing Investment Project Financing (IPFs) such as the *Transmission Investment Plan (PIT) to support Post-COVID 19 Green Economic Recovery in Peru*, the *National Urban Cadaster and Municipal Support Project*, and the *Lima Metropolitan BRT North Extension*.

#### Relationship to CPF

**This operation is in line with the Bank's COVID-19 Crisis Response to Resilient Recovery paper which lays out a broad framework and integrated approach to promote recovery and growth through green, resilient, and inclusive development (GRID).**<sup>19</sup> Furthermore, the operation is also in line with the WBG Climate Change Action Plan 2021-2025 which represents a shift from "green" projects to greening entire economies, and from focusing on inputs to impacts.<sup>20</sup> The policy reforms supported under this operation which framed around strengthening the foundations for a resilient, green, and inclusive economic recovery and supporting the transition to a greener economy in key sectors are aligned with the Bank's broader strategy and approach. This operation is also aligned with the pillars defined in the Country Partnership Framework (CPF) FY17–FY21 (Report No. 114798-PE, discussed by the Board of Executive Directors on May 2, 2017) and with the Performance and Learning Review (Report No. 135267-PE, discussed by the Board of Executive Directors on April 25, 2019), specifically with the following Obj 3. Enhance the environment for sustainable private investment, Obj 7. Strengthen the management of natural resources and Obj. 8 Improve disaster risk planning and financial management.

### C. Proposed Development Objective(s)

The Program Development Objective is to support Government policies to: (i) strengthen the foundations for a green economic recovery, (ii) build resilience and enhance climate change adaptation and (iii) support the transition towards a greener economy in selected sectors.

#### Key Results

**Through its three pillars, this operations supports policy reforms that are part of the GoP's initiatives to achieve a greener and more resilient development.** Reforms supported through Pillar 1 aim to strengthen the foundations for a sustainable and inclusive economic recovery by supporting: (i) a green financing framework and (ii) a more efficient preparation and execution of public and private investments which are climate sensitive. Reforms supported under Pillar 2, aim to build Peru's resilience to disasters and enhance its capacity to adapt to climate change, by (i) strengthening the country's Disaster Risk Management (DRM) strategies and institutions at national and local levels, and (ii) mainstreaming DRM in urban and territorial planning instruments. These are essential to improve the country's capacity to confront shocks linked to natural-hazards and is of particular importance given its high exposure to disasters and climate change impact, and the high levels of vulnerability observed in urban areas, where the majority of public and private infrastructure, and population is concentrated. Pillar 3 reforms aim to start the shift towards greener and lower-carbon technologies, by concentrating on specific actions related to two economic sectors which are currently carbon intensive, and whose GHG projections are substantially on the rise (Energy and Transport systems).

### D. Project Description

**The proposed Enabling a Green and Resilient Development DPF, for US\$500 million, is the first operation in a programmatic series of two that aims to extend World Bank support for Peru's transition to a greener and more resilient**

<sup>19</sup> WBG (2021) From COVID-19 Crisis Response to Resilient Recovery: Saving Lives and Livelihoods while Supporting Green, Resilient and Inclusive Development (GRID)

<sup>20</sup> World Bank Group. 2021. World Bank Group Climate Change Action Plan 2021–2025: Supporting Green, Resilient, and Inclusive Development. World Bank, Washington, DC. <https://openknowledge.worldbank.org/handle/10986/35799>



**economy.** This operation will support the Government of Peru (GoP) to advance a sub-set of reforms to (i) strengthen the foundations for a green economic recovery, (ii) build resilience and enhance climate change adaptation, and (iii) support the transition towards a greener economy in selected sectors. It is aligned with priorities in the country program strategy under the Country Partnership Framework (CPF) discussed by the Board of Executive Directors on May 2, 2017 (Report No. 112299-PE) Pillar III “Natural Resource and Climate Change Risk Management” and reflects broad policy consensus with the government on the criticality of climate change action. It is also closely aligned with the World Bank’s strategic framework to move “From Crisis Response towards Green, Resilient and Inclusive Development” (GRID)<sup>21</sup> and the World Bank Group 2021-2025 Climate Change Action supporting reforms to transition in three key systems: energy, cities, and transport; and supporting adaptation through enhanced disaster risk management. Moreover, it complements the Bank’s ongoing and pipeline program to promote green and resilient development and builds on the Bank’s longstanding policy dialogue to strengthen resilience in Peru, including recommendations from recently concluded analytical work, such as the flagship ASA “Building the Resilience of Local Governments to Natural Disasters” (P171251).

**The first pillar of the operation supports reforms for a green economic recovery.** It does so by supporting the expansion of green finance to mobilize capital at scale for climate action and creating an enabling environment for public and private investments to support more effectively the economic recovery.<sup>22</sup> For public investments to support more effectively the economic recovery,<sup>23</sup> there is a need to accelerate the speed at which projects are prepared and implemented, enhance project selection to better incorporate climate-externalities, reduce bureaucratic burdens, and improve cost-efficiency. This pillar includes policy actions for: (i) the creation of a Sustainable Bond Framework, (ii) the progressive implementation of the Building Information Modeling (BIM) methodology for public works planning and execution, (iii) the incorporation of climate-externalities for public investment appraisal, and (iv) the reduction of regulatory constraints to promote more agile approval processes for Environmental Certification.

**The second pillar of the operation supports actions to increase the country’s resilience and accelerate climate change adaptation.** It does so by supporting the Government’s policy actions to reorient its Disaster Risk Management (DRM) strategies with a 2050 horizon, by better incorporating climate change risks and aiming to strengthen the capacities for DRM at the subnational and sectoral levels. It also supports the mainstreaming of disaster risk knowledge, including climate related hazards (floods and landslides), into land use planning, strengthening the urban development and territorial planning legal framework. Reducing vulnerability in cities through the better incorporation of DRM in territorial planning is key as this is where a large part of the vulnerable population, public and private infrastructure – exposed to hazards - is located.<sup>24</sup>

**The third pillar of the operation supports actions to assure a more efficient use of natural resources and accelerate the shift towards lower-carbon technologies with a focus on the energy and transport sectors.** It supports programs to transition towards lower emission vehicles and promote the development of more inclusive and efficient transit systems in cities. It also supports regulations to facilitate the expansion of renewables to close the electricity access gap in remote

<sup>21</sup> WB (2021) From COVID-19 Crisis Response to Resilient Recovery: *Saving Lives and Livelihoods while supporting Green, Resilient and Inclusive Development*. Paper for the Development Committee.

<sup>22</sup> Prior to the pandemic, Peru public investment averages between 4-5 percent of GDP (1990-2019), about 2 percentage points below the average for emerging countries. The execution rate of public investment budget is also relatively low (just over 60 percent) and there are large delays between the approval of investment projects and the preparation of technical specifications (735 days on average), preparation and approval of technical dossiers (229 days), bidding and procurement (299 days) and project execution (536 days).

<sup>23</sup> Prior to the pandemic, Peru public investment averages between 4-5 percent of GDP (1990-2019), about 2 percentage points below the average for emerging countries. The execution rate of public investment budget is also relatively low (just over 60 percent) and there are large delays between the approval of investment projects and the preparation of technical specifications (735 days on average), preparation and approval of technical dossiers (229 days), bidding and procurement (299 days) and project execution (536 days).

<sup>24</sup> The recent study “Institutions, inclusion and territory: *proposals to strengthen resilience to disasters in Peru*” (March 2021); identified three key actions to enhance resilience in Peru: (i) strengthen institutional capacity for disaster risk management by improving the regulatory framework, and processes to make it more effective, (ii) have a territorial approach, and increasing the integration of DRM into territorial and urban planning, and (iii) consolidate social inclusion measures, by improving the living conditions of the population in particular the most vulnerable.



areas and promote the greening of the electricity grid through technology neutral auctions. Last, it supports regulatory actions to promote energy efficiency in the public and private sector, including legislation so that new buildings incorporate low-carbon technologies, and architectural features that enhance climate mitigation and adaptation.

**Shifting towards lower-carbon technologies in the energy and transport sectors is essential given their current carbon intensity and GHG growth trends but also makes sense from an economic recovery and social well-being perspective.**

Selected reforms in greening the country energy mix, improving energy efficiency, and renovating the country's vehicle fleet, and increasing the efficiency of public transport can boost the creation of green jobs, and support the development of a more efficient and productive system of cities. They also bring multiple co-benefits such as the reduction of local pollutants, the improvement of road safety and health, as well as savings in operation and maintenance.

## E. Implementation

### Institutional and Implementation Arrangements

**As implementing entities, the Ministry of Economy and Finance (MEF) is responsible for collecting and monitoring information related to program implementation and progress towards the achievement of results for this operation.**

MEF is further responsible for coordinating necessary actions among the agencies involved in the reform program supported by this operation, in particular, the Urban Transport Agency of Lima and Callao, the Ministry of Environment, the Ministry of Energy and Mines, the Ministry of Housing, Construction and Sanitation, the Ministry of Transport and Communication, the National Institute of Civil Defense, the National Bank (Banco de la Nación), the Presidency of the Council of Ministers, and the National Center for Disaster Risk Reduction Estimation and Prevention. The World Bank has worked closely with MEF and relevant sectoral entities to define results indicators that are clear and measurable, and that have realistic targets even in the context of the COVID-19 crisis. The Bank will focus on monitoring progress towards the expected results of the program development objectives. The monitoring and evaluation of the operation will be also carried out through the ongoing policy dialogue during the preparation of any subsequent operations and the accompanying technical assistance projects.

## F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

### Poverty and Social Impacts

**Pillar 1: Strengthening the foundations for a green economic recovery.** The distributional impacts of the Prior Action 1 (Sustainable Bond Framework) are likely to benefit the poor since they are more vulnerable to climate change negative impacts. However, the overall impact will also be affected by the design of the green and socially oriented projects financed through the Bonds. Prior Action 2 (BIM adoption, PUCA application, and Social Price of Carbon) is expected to have positive effects on welfare. All three measures aim to improve efficiency and speed up approval of public investments, which is a key bottleneck to effective and efficient project implementation in Peru.<sup>25</sup>

**Pillar 2: Build resilience and enhance climate change adaptation.** Prior Action 3 (National Disaster Risk Management Policy to 2050) is expected to benefit the poor and vulnerable populations. In Peru, the poor are the most exposed to disaster risk, because of the regions where they live and the precarious conditions of their homes and livelihoods. The first component of Prior Action 4 (Sustainable urban development Law) is expected to have positive impacts on vulnerable populations by reducing their exposure to natural events. 45 percent of the urban population in Peru lives in slums, improvised settlements, and inadequate housing (MINAM, 2019).<sup>26</sup> Urban growth increasingly takes place in areas exposed to natural hazards. The supported reform will on the one hand (i) limit the expansion of urban areas in zones of

<sup>25</sup> Serebrisky, Tomas, et al. "Increasing the efficiency of public infrastructure delivery: Evidence-based potential efficiency gains in public infrastructure spending in Latin America and the Caribbean." Inter-American Development Bank, Washington, DC (2017); Fay, Marianne; Andres, Luis Alberto; Fox, Charles; Narloch, Ulf; Staub, Stephane; Slawson, Michael. 2017. Rethinking Infrastructure in Latin America and the Caribbean : Spending Better to Achieve More. World Bank, Washington, DC. © World Bank. <https://openknowledge.worldbank.org/handle/10986/26390>  
License: CC BY 3.0 IGO

<sup>26</sup> Ministerio de Ambiente, MINAM (2019) Asuntos Socio Ambientales. Estadística ambiental. In: <https://sinia.minam.gob.pe/informacion/tematicas?tematica=12>



non-mitigable risk, and (ii) support the resettlement of population living in such areas. The first is expected to shift urban growth towards more resilient development and benefit vulnerable population which tends to settle in these zones. However, the full impacts of this PA will also depend on the resettling standards used for affected populations. Existing regulation such as the *Reglamento de la Ley N° 29869, Ley de Reasentamiento Poblacional para Zonas de Muy Alto Riesgo no Mitigable* provides the framework for the resettlement process in cases of non-mitigable risks. The latter is expected to limit the potential negative effects of resettlement on affected households and enhance positive impacts. The second component of Prior Action 4 (management, protection, and sustainability of public spaces) is expected to reduce disparities within cities. Lu et al. (2021)<sup>27</sup> find that a higher ratio of green spaces across US counties has been associated with a lower racial disparity of COVID-19 infection rates. In addition, the same study summarizes a large body of literature documenting the positive impacts of public green spaces on cognitive performance and reduced mental fatigue, mental stress, physical activity, social activity and social capital, and ecological benefits such as air and water purification.

**Pillar 3: Supporting the transition towards a greener economy in selected sectors.** Prior Action 5 (Sustainable construction building code) will likely increase welfare in the long term (through increased efficiency and safety) but the positive impacts in the short term would need to be compared against any potential increases in the cost of housing. The Technical Code of Sustainable Construction will help buildings and urban development save energy and water, making constructions safer and reducing CO2. Therefore, the residents of these buildings are expected to save money on energy and water, improving their situation. Prior Action 6 (Vehicle Scrapping) could help improve population health, reduce out-of-pocket health expenditures, and increase productivity in the long term, by reducing greenhouse gas emissions and local pollutants, and improving traffic safety. Older vehicles account for a large share of greenhouse emissions and local pollutants.<sup>28</sup> Since Peru has one of the highest levels of air pollution in Latin America, incentives to remove high-emission vehicles can bring about benefits in improved air quality. Prior Action 7 is expected to reduce disparities in electricity access. Promoting access to solar energy in areas not connected to the grid will contribute to decrease inequality. The percentage of households not connected to the grid (no access to electricity) is higher among the first three deciles of income. Thus, if the policy achieves the goal of increasing electricity access in unconnected areas, it would likely be pro poor. Increased electricity access can also improve labor outcomes and reduce poverty. The distributional impacts of Prior Action 8 are not clear ex-ante, but the description of the intervention does not raise any concerns about potential negative impacts on the poor and vulnerable.

#### Environmental, Forests, and Other Natural Resource Aspects

**The policies and measures supported through this operation are expected to have a significantly positive impact on Peru's environment, forests, and other natural resources, in line with the provisions set out in the World Bank's Development Policy Financing policy (2017).** The matrix of prior actions sets out a range of policy areas to promote green, inclusive, and resilient development across a range of productive and social sectors as well as overarching policy interventions to promote fiscal consolidation and a series of specific measures to enhance environmental integrity of the national legislative framework, embed climate and disaster resilience, and promote climate mitigation outcomes. Pillar 1 focuses on advancing fundamental economic enabling conditions for a green economic recovery that are expected to have economy-wide benefits while fostering positive environmental benefits through (i) supporting a green financing framework and (ii) improving the investment management framework with a focus on efficiency and sustainability. Pillar 2 seeks to build resilience and advance climate change adaptation through a series of prior actions that aim to embed climate and disaster resilience through urban planning approaches that protect vulnerable ecosystems and incentivizes the greening of urban development in terms of open spaces but also promoting sustainable mobility solutions. Pillar 3 aims to support a green economic transition through support to policy actions that (i) support a cleaner and more efficient

<sup>27</sup> Lu, Yi, Long Chen, Xueming Liu, Yuwen Yang, William C. Sullivan, Wenyan Xu, Chris Webster, and Bin Jiang. "Green spaces mitigate racial disparity of health: A higher ratio of green spaces indicates a lower racial disparity in SARS-CoV-2 infection rates in the USA." *Environment international* 152 (2021): 106465.

<sup>28</sup> [https://theicct.org/sites/default/files/publications/ICCT\\_HDVreplacement\\_bestprac\\_20150302.pdf](https://theicct.org/sites/default/files/publications/ICCT_HDVreplacement_bestprac_20150302.pdf)





transport sector (with resulting environmental benefits in terms of air quality)<sup>29</sup>; (ii) setting standards for sustainability in the construction sector to promote greener, more inclusive urban development; (iii) decarbonize the energy matrix through the promotion of renewable energy; and (iv) promote energy savings and reduced GHG emissions in public and private sectors.

As such, the body of policy reforms supported through this operation are expected to have a significantly positive impact for Peru's environment, forests, and natural resources, in addition to resulting in several co-benefits in terms of human health (particularly from air quality) and climate change. In the unlikely event any unforeseen or unanticipated negative environmental impacts arise, the GoP has institutional capacity to monitor environmental performance and manage risks effectively, and this capacity will be bolstered by several the policy areas supported in the current operation. MINAM was created in 2008 and since that time the GoP has adopted several policy measures to curb environmental degradation, address environmental vulnerabilities, and expand natural protected areas. At the same time, Peru has invested in developing institutional capacity to monitor and enforce compliance with national environmental legislation through MINAM and the Environmental Assessment Control Agency, including through previous and ongoing World Bank support, to more than adequately promote beneficial outcomes and manage any negative impacts, in the unlikely event they were to arise.

### G. Risks and Mitigation

**The overall risk rating for the proposed operation is assessed as Substantial. The major risks identified include: (i) political and governance, (ii) institutional capacity for implementation and sustainability and (iii) other risks – related to the COVID-19 pandemic and natural hazards.** In terms of Political and Governance Risk over the past years, there has been a frequent turnover of high-level government officials at both the executive and Ministerial levels. In addition, an important number of the reforms supported under the first DPO in the series, were approved by the previous administration. There is thus the risk of a slower implementation speed of reforms, and/or a lack of continuity of government programs due to a shift in priorities. The mitigation measures put in place for the project include: (i) assuring a high-level of commitment of the new administration to the proposed and prioritized reforms, in particular those approved by the previous administration; (ii) having a continuous engagement with key government bodies to assure that new government officials are aware of the Program's objectives and intended results; and (iii) closely monitoring potential political and governance risks related to the Project by the WB throughout implementation.

In terms of the risk around Institutional Capacity for Implementation and Sustainability, the implementation of some of the proposed reforms requires a high level of coordination among line-ministries and with regional and local governments to succeed. The coordination between agencies in Peru is weak, and consensus building usually takes a long time which could lead to delays in implementation. In addition, the still ongoing efforts to respond to the COVID-19 pandemic, have increased the pressure to prioritize the use of public expenditures for the short-term economic recovery. To mitigate these risks, the operation is focusing on supporting reforms benefiting from long-standing policy dialogue and technical assistance by the World Bank and other donors. The government has also ensured funding for the implementation of some of the reforms, such as the approval of the public budget for disaster risk management.

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<sup>29</sup> Peru has an adequate institutional capacity to implement and enforce adequate waste management for any wastes generated from the scrappage program. The program is likely to result in a high degree of circularity, with metal reuse and repurposing, and thus overall low levels of residual waste. For any residual waste arising from the program, MINAM's Environmental Assessment and Control Agency, with offices nationally, has adequate capacity to monitor and supervise waste disposal in line with the series of national decrees and laws which align with international practice in the field.



Other risks, in particular risks related to the COVID-19 pandemic and to other natural hazards, are Substantial. While the health situation has considerably improved in Peru, the COVID-19 pandemic and its impacts on the global economic landscape are still evolving. There remains a high degree of uncertainty as to the duration of the pandemic, and a deterioration of sanitary conditions or the occurrence of a high-impact natural event, which could cause the Government to redirect its efforts from economic recovery and long-term reforms towards immediate emergency response. The Government program – including policies supported in this operation – is focused on strengthening resilience to further shocks which contributes to mitigate the potential impact on achieving the operation’s development objectives.

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