

TECHNICAL COOPERATION PROFILE

PERU

I. GENERAL INFORMATION

Project name & number:	Water Resources Management Plan for the Mashcón and Chonta Watersheds, with Emphasis on Ensuring Water Availability in the Sub-Basins Paccha, Azufre and Río Grande (PE-T1054).	
Project team:	Luis Miglino (INE/RND) (Team Leader); Efraín Rueda, Annette Killmer, Juan de Dios Mattos, Luis Martin Uribe (INE/RND); Joseph Milewski (CAN/CPE); Diego Buchara (LEG/SGO); and Giovanna Mahfouz (INE/TSP).	
Name of Trust Fund:	Japanese Trust Fund for Consultancy Services (JCF).	
Executing Agency:	Environment, Rural Development and Natural Disasters Division.	
Beneficiaries:	Local communities, government and mining operations in the Mashcón and Chonta Watersheds.	
Financing plan:	IDB (JCF):	US\$1,200,000
	Local:	<u>US\$ 300,000</u>
	Total:	US\$1,500,000
Tentative dates:	Approval:	July 2007
	Execution:	12 months
	Disbursement:	18 months

II. BACKGROUND

- 2.1 The Mashcón and Chonta watersheds, with a combined area of approximately 716 km², are located in the Department of Cajamarca, northern Peru. The two watersheds contain five sub-basins, namely Paccha, Azufre, Río Grande, Yanatotorá and Bajo Chonta. They supply water to local communities, as well as agricultural, industrial and mining activities. The city of Cajamarca, located in the Mashcón watershed, is the region's capital and has 153,466 inhabitants. A second major settlement is the Community of Combayo in the Chonta watershed.
- 2.2 Relations between major stakeholders in the two watersheds are tense, due to problems related to water management. The tension arose from competition for water between the mining sector, small scale farming needs, and urban water supply, generating conflicts over the quantity and quality of available water from surface and

groundwater sources, as well as temporal fluctuations in water availability, for consumptive and non-consumptive water use for domestic, agricultural and livestock, industrial, and mining purposes. Water is particularly scarce during the annual dry period; even though annual precipitation in the region averages 1200 mm/year, there is little rainfall between May and September. This pattern is very important for agricultural and livestock activities, which are crucial for the subsistence of the rural communities in the watersheds. The two key concerns related to water management are: (i) that water flows of surface waters are diminishing in the lower parts of the watershed, to the extent that some surface water bodies are disappearing altogether; and (ii) that the available water is not used efficiently by the various users, which in turn may generate undue pressure on the resource.

- 2.3 The absence of straightforward solutions to the current problems has exacerbated tensions. The most recent attempt to resolve the existing conflicts resulted in an agreement between the Government of Peru (GOPE), the Yanacocha Mine and the Community of Combayo, signed on September 23rd, 2006. Based on this agreement, the GOPE has solicited the involvement of the IDB, in a capacity of “Honest Broker”, in the preparation and coordination of a Water Resources Management Plan for the Mashcón and Chonta Watersheds, with emphasis on ensuring water availability in the Sub-basins Paccha, Azufre and Río Grande.
- 2.4 The Bank is also currently preparing a Water Resource Policy Program (PE-L1024, a PBL with a 1st programmatic loan of US\$200 million) in Peru. The policies and reforms contemplated by this Program include: (i) implementing the National Water Resource Management Strategy; (ii) improvements in the institutional and normative framework for the water sector; and (iii) the creation and strengthening of water management capacity at the national and regional governments’ level. The work carried out under the present TC will be coordinated with the Policy Program and it will serve as an important input in concretely applying and testing the guidelines of the National Water Resources Management Strategy. This will help to access the substantial existing resources for investment in mitigation and compensation, assigned to the Department of Cajamarca by the Fund created by the royalties paid by the Mining Sector in Peru.

III. OBJECTIVES AND DESCRIPTION

- 3.1 Goal: The goal of this Technical Cooperation (TC) is to contribute to good water resource management practices in the Mashcón y Chonta watersheds, thereby fostering a resolution of the existing tensions over water usage, as well as promoting improved sectoral and cross-sectoral planning processes and better cohesion between the public policies, legal agreements and institutional arrangements that govern the sector. Purpose: The purpose is to prepare a broadly-supported Water Resources Management Plan (WRMP) that defines the appropriate technical, economic, social, environmental, legal and institutional measures to be taken in the short- and medium-term to resolve current water management problems in the Mashcón and Chonta

Watersheds, with emphasis on ensuring water availability in the Sub-basins Paccha, Azufre and Río Grande de Chonta.

- 3.2 Peru's mining sector is of highest economic importance¹, yet the associated environmental and social problems are a growing concern, having resulted in serious conflicts in various areas. It is expected that, if this initiative is successful, it could be replicated in other problematic mining areas in Peru. For this reason, the GOPE has awarded this TC the highest degree of priority. This approach could also be replicated in other Latin American and Caribbean countries.
- 3.3 This TC finances the selection and contracting of a consulting firm to develop three major components: (i) WRMP for the Mashcón and Chonta Watersheds; (ii) Project to Ensure Water Availability in the Sub-basins Paccha, Azufre and Río Grande; and (iii) the implementation of a Public Consultation Program. The Water Resources Management Plan will, at a minimum, contain the following elements:
 - a. Detailed analysis of the current, past and future situation regarding the availability and use of water resources (supply and demand) in each of the watersheds, and the identification of critical problems.
 - b. Evaluation of alternative solutions for each of the critical problems identified and definition of the required actions, considering both structural and non-structural measures and including mechanisms for conflict resolution.
 - c. Design of mechanisms to ensure the proposed management scheme's long-term sustainability.
 - d. Development of a broadly-supported WRMP that includes institutional, legal, environmental, social, cultural, technical and economic aspects, and takes into account relevant national, regional and local policies and strategies.
 - e. Definition and design of the institutional and operational structure required to implement the Water Resources Management Plan, including development of an Implementation Plan to guide the transition to the new governance structure for the water resources sector in the basins, as well as the preparation of detailed budgets and timelines for the implementation of the WRMP.
- 3.4 The Project to Ensure Water Availability in the Sub-basins Paccha, Azufre and Río Grande will contain, at a minimum, the following:
 - a. Preparation of a broadly-supported Project, developed to the level of a Feasibility Study, including the engineering designs of the hydraulic structures to ensure water availability in the Sub-basins Paccha, Azufre and Río Grande. This document will comply with the requirements of the Peruvian System of Public Investment (SNIP).

¹ In 2006 the total value of exports in the mining sector was US\$14.71 billion. This represents about 62% of the of Peru's total exports.

- b. Preparation of detailed budgets and timelines for the implementation of the Project for the Sub-basins Paccha, Azufre and Río Grande.
- 3.5 As part of both the WRMP and the Project for the Sub-basins, the TC will finance the implementation of a Public Consultation Program to ensure the informed participation of all stakeholders and the development of solutions that directly address their concerns and particular needs.
 - 3.6 The consulting team hired to carry out this TC will include experts in surface and groundwater hydrology, geology, geomorphology, ecology, environmental engineering, hydraulic engineering, mining engineering, water quality control, water resource management, and public consultation of rural communities, as well as, specialists in economics, financing mechanisms, institutional arrangements, and legal aspects related to the water sector.

IV. COST AND FINANCING

- 4.1 The development of the WRMP has an estimated total cost of US\$1.5 million, of which US\$1,200,000 is to be financed by the Japanese Trust Fund for Consultancy Services (JCF), and US\$300,000 comes from local counterpart funding.

PRELIMINARY BUDGET (IN US\$)

Product / Type of Expense	Person-Months	Avg. Cost/Month	JCF	Local Counterpart	TOTAL
Preparation of a Water Resources Management Plan (honoraria)	52.5	8,000	370,000	50,000	420,000
Development of Water Availability Project (honoraria)	50	6,000	250,000	50,000	300,000
Administrative Costs & Materials (travel, rent, supplies, maps, photographs, equipment, etc)			190,000	200,000	390,000
Overhead			270,000	0	270,000
Auditing			45,000	0	45,000
Contingencies			75,000	0	75,000
TOTAL			1,200,000	300,000	1,500,000

V. EXECUTING AGENCY AND EXECUTION STRUCTURE

- 5.1 Due to the requirement of the JCF the Bank will be the executing agency of this TC. This is in line with one of the major agreements reached with the communities and other stakeholders. Technical and basic responsibility for the project rests with the Environment, Rural Development and Natural Disasters Division, (INE/RND), specifically with Luis Miglino [e-mail: luismi@iadb.org; telephone: (202) 623-1778]. Additional support will be provided by the Bank's Country Office in Peru

(CAN/CPE), specifically by Joseph Milewski [e-mail: josephm@iadb.org; telephone: +511 215-7800].

VI. MAJOR ISSUES

- 6.1 There has been an on-going conflict between the local communities and the Yanacocha Mine since the latter started operating in the area in 1993. Due to expansions in gold production, tensions have recently worsened, leading to the creation of Roundtable mediated by the IFC's Office of the Ombudsman. Yet, discussions terminated in 2006 without resolving the conflict. Based on a tripartite agreement by the GOPE, the Community of Combayo and the Yanacocha Mine, the GOPE solicited the Bank's assistance with developing the WRMP. The present TC directly responds to the government's request.
- 6.2 Given the current lack of trust between major stakeholder groups, the Bank is adopting a very participatory and transparent approach for this TC. Due to these efforts, all parties recently agreed on the scope and contents of the TOR to be used in hiring the consultancy firm to prepare the Plan.

VII. ACTION PLAN

- 7.1 The Bank has recently contracted specialized consultants to revise the draft Terms of Reference for the WRMP in light of the comments received from major stakeholder groups, and to develop an adequate public consultation and participation plan, to be executed as part of the present TC. The Bank has already received the donor's approval notice from the JCF (dated June 11th, 2007) and the letter of no-objection from the "Agencia Peruana de Cooperación Internacional" (dated July 10th, 2007).

VIII. ENVIRONMENTAL AND SOCIAL IMPACTS


- 8.1 Given that this TC finances the development of a Management Plan by means of a strongly participatory process, the current project is not expected to have any negative or social environmental impacts. Indeed, the project is the first step in addressing current conflicts over water usage in the area and in improving sectoral and cross-sectoral planning processes and cohesion between the public policies, laws and institutional arrangements that govern the sector. Based on this assessment, the project team proposes that this TC be classified as a category "C" project.
- 8.2 The Bank has already hired a Peruvian expert in participatory and consultation processes to draft the TOR for the Public Consultation Program, which will be in compliance with all Bank policies on public participation. This Program will be executed as part of this Technical Cooperation.

IX. RECOMMENDATION

- 9.1 Luis Miglino, designated team leader for the project of the reference, recommends the approval of this operation and the use of resources from the totaling up to US\$1.2 million in order to finance the corresponding project.

X. CERTIFICATION

- 10.1 I hereby certify that this operation was approved for financing under the Japanese Trust Fund for Consultancy Services (JCF) through a memorandum dated June 11, 2007 and signed by Keisuke Nakamura (Deputy Manager, RE2/FSS). Also, I certify that resources from the Japanese Trust Fund for Consultancy Services (JCF) are available for up to US\$1.2 million in order to finance the activities described and budgeted in this document. This certification reserves resources for the referenced project for a period of eleven (11) calendar months counted from the date of signature below. If the project is not approved by the IDB within that period, the reserve of resources will be cancelled, except in the case a new certification is granted. The commitment and disbursement of these resources shall be made only by the Bank in US dollar. The same currency shall be used to stipulate the remuneration and payments to consultants, except in the case of local consultants working in their own borrowing member country who shall have their remuneration defined and paid in the currency of such country. No resources of the Fund shall be made available to cover amounts greater than the amount certified herein above for the implementation of this Plan of Operations. Amounts greater than the certified amount may arise from commitments on contracts denominated in a currency other than the Fund currency, resulting in currency exchange rate differences, for which the Fund is not at risk.


Carmen San Miguel, a.i. Chief
VPC/GCM

Date:

7/23/07


Goro Mutsuura
VPC/GCM

Date:

7/23/07

XI. APPROVAL



Date:

7/24/07

Roberto Vellutini, Manager
Infrastructure & Environment Department



Presidencia del Consejo de Ministros



BANCO INTERAMERICANO
DE DESARROLLO

*Año de Conciliación Democrática 2006 SEP 7 AM 10 43

Miraflores, 6 de Setiembre de 2006

RECIBIDO

FIRMA

Oficio N° 352 -2006-PCM/DM

Señor
CHRISTOF KUECHEMANN
Representante del BID en el Perú
Presente.-

De mi consideración:

Es grato saludar a usted y a través de la presente, solicitarle tenga a bien evaluar el apoyo del Banco en el financiamiento del estudio de afianzamiento hídrico de las cuencas involucradas en la operación de Minera Yanacocha, en el departamento de Cajamarca.

A efectos de mayor información al respecto, mucho estimaré realizar las coordinaciones que sean pertinentes con la doctora María del Rocío Vesga, quien estará a su disposición para poder viabilizar mi solicitud.

Reconocido por la atención que dispense a lo solicitado, quedo de usted.

Atentamente,


JORGE DEL CASTILLO GÁLVEZ
Presidente del Consejo de Ministros