

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**PERU**

**PROGRAM TO SUPPORT THE CLIMATE CHANGE AGENDA III**

**(PE-L1127)**

**LOAN PROPOSAL**

This document was prepared by the project team consisting of: David Wilk (INE/CCS) and Susana Cárdenas (INE/CCS), Project Team Co-leaders; Jaime Fernández-Baca (CCS/CPE); Ana Ríos (INE/CCS); Javier Jiménez (LEG/SGO); Fiorella Ormeño Incio (CAN/CPE); Fernando Glassman (FMP/CPE); and Ayatima Hernández-Rojas (INE/CCS).

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ELECTRONIC LINKS	
<b>REQUIRED</b>	
1.	Policy letter <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38032944">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38032944</a>
2.	Means of verification matrix <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37927979">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37927979</a>
3.	Results matrix <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37927984">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37927984</a>
<b>OPTIONAL</b>	
1.	Comparative policy matrix <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37928065">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37928065</a>
2.	Cost-benefit analysis. Adaptation measures/Marine and costal ecosystem-based project <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37966968">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37966968</a>
3.	Cost-benefit analysis. PLANGRACC adaptation measures <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37966970">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37966970</a>
4.	Safeguard screening form <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37928096">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37928096</a>
5.	Monitoring and evaluation plan <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37928187">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37928187</a>

## ABBREVIATIONS

CIF	Climate Investment Funds
COP	Conference of the Parties to the UNFCCC
ECLAC	Economic Commission for Latin America and the Caribbean
ENCC	Estrategia Nacional de Cambio Climático [National Climate Change Strategy]
FCPF	Forest Carbon Partnership Facility
FIP	Forest Investment Program
GHG	Greenhouse gases
IDB-9	Ninth General Increase in the Resources of the Bank
IPCC	Intergovernmental Panel on Climate Change
LIBOR	London Interbank Offered Rate
MEF	Ministry of Economy and Finance
MINAGRI	Ministry of Agriculture and Irrigation
MINAM	Ministry of Environment
NFPS	Nonfinancial public sector
PBP	Programmatic policy-based loan
PLANGRACC-A	Plan de Gestión de Riesgos y Adaptación al Cambio Climático en el Sector Agrario, Período 2012-2021 [Risk management and climate change adaptation plan in the agricultural sector, 2012-2021]
PRODUCE	Ministry of Production
REDD	Reducing Emissions from Deforestation and Forest Degradation
R-PP	REDD Readiness Preparation Proposal
SNIP	Sistema Nacional de Inversión Pública [National Public Investment System]
UCPS	Unidad de Coordinación de Préstamos Sectoriales [Sector Loans Coordination Unit]
UNFCCC	United Nations Framework Convention on Climate Change

## PROJECT SUMMARY

### PERU PROGRAM TO SUPPORT THE CLIMATE CHANGE AGENDA III (PE-L1127)

Financial Terms and Conditions					
<b>Borrower:</b> Republic of Peru  <b>Executing agency:</b> Ministry of Economy and Finance (MEF) through the Sector Loans Coordination Unit (UCPS).			<b>Flexible Financing Facility*</b>		
			<b>Amortization period:</b>		Single payment on 15 April 2019
			<b>Original WAL:</b>		5.72 ***
			<b>Disbursement period:</b>		1 year
			<b>Grace period:</b>		Single payment on 15 April 2019
<b>Source</b>		<b>Amount (US\$)</b>		<b>Interest rate:</b>	
<b>IDB (Ordinary Capital)</b>		25 million		<b>LIBOR</b>	
<b>Local</b>				<b>Inspection and supervision fee:</b>	
<b>Total</b>		<b>25 million</b>		***	
				<b>Credit fee:</b>	
				***	
				<b>Currency:</b>	
				U.S. dollars from the Bank’s Ordinary Capital	
Project at a Glance					
<b>Objective:</b> The objective of the program is to consolidate Peru’s efforts to create the regulatory, institutional, and technical conditions for public management that responds adequately and expeditiously to climate change and its impacts on the country’s future development. Specifically, this third and final operation in the programmatic series aims to carry out a series of policy actions to strengthen the legal and institutional framework of agencies with specific competencies and responsibilities for climate change management. This third programmatic loan is intended to fortify the interventions begun under the first and second loans (2456/OC-PE and 2625/OC-PE) and which cover the following components: (i) macroeconomic stability; (ii) institutional framework; (iii) mitigation agenda; and (iv) adaptation agenda.					
<b>Special contractual conditions:</b> The single disbursement of the loan will be contingent on fulfillment of the policy reform conditions referred to in Chapter I, section B, below, and Annex II (policy matrix).					
<b>Exceptions to Bank policies:</b> None.					
<b>Project consistent with country strategy:</b>					
		Yes [ X ]	No [ ]		
<b>Project qualifies as:</b>		SEQ [ ]	PTI [ ]	Sector [ ]	Geographic [ ] Headcount [ ]

\* Under the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency and interest rate conversions, subject in all cases to the final amortization date and the original weighted average life (WAL). The Bank will take market conditions as well as operational and risk management considerations into account when reviewing such requests.

\*\* The final original WAL will be calculated based on the date on which the loan contract is signed.

\*\*\* The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable provisions.

## **I. DESCRIPTION AND RESULTS MONITORING**

### **A. Background, problems addressed, and rationale**

#### **1. Introduction**

- 1.1 This program is the last in a series of three programmatic policy-based loans (PBPs) to support the Government of Peru. Through the first two operations and this third one, the program promotes policy reforms and legal and institutional frameworks aimed at mainstreaming the climate change approach in public management in priority sectors and improving the indexes for human, economic, environmental, and territorial development. It also promotes a series of reforms and innovations in climate change mitigation and adaptation in productive sectors and national and regional infrastructure. The first PBP in the series, Program to Support the Climate Change Agenda (loan 2456/OC-PE), for US\$25 million was approved in December 2010. The second operation (loan 2625/OC-PE) for the same amount was approved in November 2011. This third and final operation in the program proposes financing of US\$25 million from the Bank's Ordinary Capital under the Flexible Financing Facility (FFF), with a single disbursement planned for the second half of 2013, once the policy reform conditions agreed on in the policy matrix for the operation have been met.

#### **2. Macroeconomic situation**

- 1.2 Peru has been one of the most dynamic economies in Latin America, with an environment of fiscal stability, external balance, and low inflation. Thanks to solid economic fundamentals as a result of prudential economic policies and the use of countercyclical measures, the country was able to weather the international crisis of 2009 and experience strong growth in subsequent years. Growth averaged 5.7% a year between 2009 and 2012. In 2012, growth in real GDP was 6.2%, slightly shy of the figure for 2011 (6.9%). This growth was due, from the supply side, to the dynamism of commerce and services and the production of nonprimary manufactures, while the demand side grew thanks to private investment and domestic consumption. GDP is expected to grow in 2013 by about 6.0%. In short, Peru's current macroeconomic framework is propitious for carrying out the reforms proposed in this program.
- 1.3 Pressure on prices eased during 2012 and inflation returned to the monetary policy target range of between 1% and 3%. The Banco Central de Reserva del Perú [Central Reserve Bank of Peru] (BCRP) responded, first by raising the benchmark interest rates and legal reserves and then by giving monetary policy a neutral bias. By the close of 2012, annualized inflation was 2.65%. Inflation expectations suggest that the rate will remain in the target range in 2013 and 2014. In the fiscal area, in 2012 the nonfinancial public sector (NFPS) posted an economic surplus of 2.0% of GDP (1.9% in 2011). The improvement in the fiscal balance was mainly due to the convergence of higher general government current income, on account of higher tax revenues and moderate growth in current and capital spending. The

outlook for the economic performance of the NFPS is a surplus of 1.1% of GDP in 2013 and 1.3% in 2014.

- 1.4 Economic growth in the last five years coincided with a reduction in poverty and inequality. The total poverty rate fell by 14.6%, from 42.4% in 2007 to 27.8% in 2011. In regional terms, rural poverty fell from 74.0% in 2007 to 56.1% in 2011, while in urban areas the reduction was from 30.1% to 18.0%. Nationally, extreme poverty dropped from 11.2% to 6.3% (from 32.7% to 20.5% in rural zones and from 2.9% to 1.4% in urban ones). As well, the Gini coefficient for income distribution declined from 0.517 in 2007 to 0.481 in 2010 (ECLAC).

### **3. Diagnostic assessment of the problem to be addressed**

- 1.5 Peru's tremendous geographic, biological, and cultural diversity makes it one of the countries with the largest heritage in the world in terms of environmental goods and services. This natural endowment, coupled with a set of public policies to promote investments in the use of natural resources and to improve territorial linkage by building infrastructure, have sustained the strong economic growth in recent years. In this context, climate change poses a significant challenge for the country's sustainable development. Peru's natural and geographic diversity, its globally important ecosystems (Amazon and tropical glaciers), and key economic activities are vulnerable to climate change. In turn, persistent factors such as poverty and inequality and inappropriate land occupation heighten the challenge to sustainable growth. Therefore, effective management of climate change should go hand-in-hand with the government's priorities, such as social inclusion and sustainable development.
- 1.6 According to the United Nations Intergovernmental Panel on Climate Change (IPCC), Peru is one of the countries that will be most heavily affected by climate change,<sup>1</sup> particularly impacts on water availability and hydropower generation, owing to the retreat of the glaciers. In a setting such as Peru, with very diverse climates, climate change will have a particular effect, with differentiated impacts. The most recent model of national climate scenarios to the year 2030 shows the following trends, among others: (i) a rise in average temperatures of as much as 1.6°C; (ii) localized increases and reductions (+/-10%) in average precipitation, with changes of up to +20% on the coast and in the northern sierra, part of the central sierra, and the southern jungle, and of -20% in the northern jungle and southern sierra; and (iii) variations in the intensity and frequency of extreme events such as El Niño, heavy rains, freezing temperatures, and droughts. Recent evidence shows that between 2003 and 2007, extreme temperatures and floods had a major economic and human impact, affecting over 5.5 million people, while the annual cost of disasters associated with climate events from 2000 to 2004 was about US\$325 million. In that period, a rising trend was observed in the occurrence of

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<sup>1</sup> Contribution of Working Groups I, II, and III to the Fourth Assessment Report of the Intergovernmental Panel on Climate Change. Core Writing Team, Pachauri, R.K. and Reisinger, A. (Eds.). IPCC, Geneva, Switzerland. pp 104.

disasters, particularly floods (60%) and landslides (400%), compared to 1970-1980 and 1990-2000.

- 1.7 Various studies that examine the economic cost of climate change to the Peruvian economy unless response measures are taken estimate a potential negative impact of 1% to 4% of GDP by 2030 and between 3% and 20% by 2050 (Loyola, 2009; Vargas, 2009).<sup>2</sup> These results coincide with the figures from the study by Stern (Stern, 2006)<sup>3</sup> and similar research in the Andean subregion (ECLAC, 2010).<sup>4</sup> Through technical-cooperation operation ATN/MC-11907-PE associated with this PBP, the Bank has been supporting a detailed study to determine the economic impact on different productive activities in function of the potential effects of climate change on the dynamics and future availability of natural resources that are crucial for those activities.<sup>5</sup> The study will be disseminated as a tool for economic policy design and as an input for the Third National Communication to the United Nations Framework Convention on Climate Change (UNFCCC) planned for 2014.

#### **4. Recent progress by the government in the sector and pending challenges**

- 1.8 Through its three loans, the Program to Support the Climate Change Agenda has contributed to a gradual advance in climate policy and capacity in different spheres of government and society, allowing the country to make a more timely response to the challenges imposed by climate change. Noteworthy institutional progress has been made. The Ministry of Economy and Finance (MEF), through the Bureau of International Economic Affairs, Competitiveness, and Productivity (DGAEICP), promotes financial, tax, and budgetary instruments to steer economic policy towards the objectives of climate change mitigation and adaptation. For example, the National Public Investment System (SNIP) recently incorporated adaptation guidelines and criteria into its program for project identification, formulation, and evaluation. The municipios incorporated instruments such as catastrophe insurance and conditional transfers as risk-reduction measures, as well as tax incentives to develop low-carbon technology through public-private partnerships. The MEF plays an active role in establishing “climate funds” to channel international resources for mitigation and adaptation. The technical-cooperation project, Support for the Climate Change Unit in the MEF (ATN/OC-12529-PE), in execution since 2011, is helping to develop this agenda.

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<sup>2</sup> Loyola, Roger. 2009. *Los costos del cambio climático en el Perú. Estudios Nacionales de la Economía del Cambio Climático en Sudamérica* [The Cost of Climate Change in Peru. National Research on the Economics of Climate Change in South America] (ERECC-SA).

Vargas, Paola. 2009. *El cambio climático y sus efectos en el Perú* [Climate Change and Its Effects in Peru]. D.T. N°2009-14. Working Paper series. July.

<sup>3</sup> Stern, N.H., *et. al.* 2006. *Stern Review: The Economics of Climate Change*. Cambridge University Press, Cambridge.

<sup>4</sup> ECLAC. *La economía del cambio climático en América Latina y El Caribe* [The Economics of Climate Change in Latin America and the Caribbean]. Santiago de Chile.

<sup>5</sup> Consorcio EIECCP. 2013. *Estudio de Impactos Económicos del Cambio Climático en Perú* [Economic Impact Study of Climate Change in Peru]. Consultant's Final Report.



- 1.9 As for national planning instruments, the Peruvian government conducted a successful process of mobilization and strategic development for implementing *Plan CC*—Planning for Climate Change—to promote the long-term transition to a solid “climate-compatible” economy. As part of the intersector planning effort, progress was made in establishing scenarios for greenhouse gas (GHG) emission reduction, starting with a national inventory (preliminary, using 2009 as the baseline) and abatement curves by sector. This required an active commitment by the Ministry of Environment (MINAM), the MEF, the Ministry of Foreign Relations, and the National Strategic Planning Center (CEPLAN).
- 1.10 The program also channeled development of a regulatory and institutional framework and capacities, led by MINAM, which form part of the program’s policy matrix, in particular: (i) progress in drafting the Third National Communication, with a state-of-the-art analysis of climate change in the country and recommendations for policy, institutional development, and priority interventions; (ii) a start on updating the National Climate Change Strategy (ENCC) and its appropriation by the current government, which includes restructuring of the National Climate Change Committee to boost its effectiveness, and the establishment of consultative groups (with subnational governments, international organizations, and civil society); (iii) design of a platform to manage climate change (PRONAGECC) in MINAM as a vehicle for internal strengthening and establishment of an ad hoc group to review progress in developing and implementing the ENCC;<sup>6</sup> (iv) operation of MINAM’s Climate Change, Desertification, and Water Resources Bureau; (v) formulation of scenarios and plans to mitigate GHG emissions in the long term; and (vi) promulgation of the Forests and Wildlife Act which, together with the enabling regulations drafted in 2012, establishes mechanisms for the conservation and sustainable use of forest resources. In the energy sector, which accounted for 17% of national emissions in 2009, the program promoted activities for institutional strengthening in the Ministry of Energy and Mines (MINEM), which are complemented with the PBP for the development of a new sustainable energy matrix, phase IV (loan 2487/OC-PE) and the program for efficient and sustainable management of Peru’s energy resources (ATN/CN-13202-PE), seeking to build institutional capacity and the regulatory framework for promoting projects for renewable energy, energy savings, and efficient use.
- 1.11 As for the mitigation agenda, the program helped to boost response capacity in the sectors that contribute most GHG emissions. Key initiatives were implemented in the area of land use and deforestation, such as the national forest inventory and sustainable forest management for climate change, the agenda for Reducing Emissions from Deforestation and Forest Degradation (REDD+), economic valuation of biodiversity and environmental services, programs for sustainable

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<sup>6</sup> The ENCC was approved in 2003. In 2010, a start was made on updating it based on inputs from the Second National Communication and the Mitigation and Adaptation Action Plan. The ENCC has been submitted to the National Climate Change Committee for approval.

forest development in the Peruvian Amazon, and development of the national forest plan. With the impetus provided by the Forests and Wildlife Act and its regulations, significant progress has been made in recognizing the multiple uses of forests and their different users, creating good forest governance, with forest development categories, a national forest management system (SINAFOR), and a new national forest authority, the National Forest and Wildlife Service (SERFOR). In parallel, the government has created the National Forest Conservation Program for Climate Change Mitigation (PNCBCC), which includes signed agreements for direct transfers to native communities contingent on forest conservation in heavily deforested areas, such as Amazonas, Pasco, Junín, San Martín, and Cusco. Last, the government made progress in preparing programs to gain access to international funds to reduce emissions in this sector, such as the Forest Investment Program (FIP) of the Climate Investment Funds (CIF), and the Forest Carbon Partnership Facility (FCPF), which is financing Peru's REDD Readiness Preparation Proposal (R-PP).<sup>7</sup> With these resources, Peru is arranging to establish a bioclimate fund for US\$100 million, which will introduce a system of economic incentives for sustainable use activities and conservation of the standing forest and its biodiversity. In June 2013, Bank programming with the country added the project "Climate Services Restoration Fund" (PE-L1128, US\$20 million) for enabling environment and governance initiatives aimed at reducing deforestation.

- 1.12 As for the adaptation agenda, the program contributed to the development of national programs to reduce vulnerability in priority sectors, through planning tools and operating arrangements to channel financing to different parts of the country. One important milestone embodied in the policy matrix is the risk management and climate change adaptation plan in the agricultural sector, 2012-2021 (PLANGRACC-A), which will channel 1.950 billion nuevos soles into 159 projects across the country—coast, sierra, and jungle—based on five strategic lines: research and information, emergency response, risk reduction and prevention, planning, and building local capacity. The cost-benefit analysis performed when the present operation was being prepared (see [optional link 3](#)) covered various measures, including water conservation and use, use of technology to reduce the impact of droughts and flooding on crops, and conservation of degraded ecosystems. The analysis produced internal rates of return higher than those required by the Peruvian government and the Bank. The program also permitted the Ministry of Agriculture and Irrigation (MINAGRI) to intensify its orientation and training activities through guidelines for the adoption of adaptation measures in areas such as agricultural health and agrifood safety.
- 1.13 As for MINAM's activities to promote adaptation measures, the program includes activities to expand its support for regional governments in drafting adaptation plans, integrating the development of climate scenarios, water availability, and agrometeorological characterization, as planning tools. The program laid the

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<sup>7</sup> The international resources channeled through the Bank are: US\$3.8 million from the FCPF for implementation of the R-PP and US\$50 million from the FIP.

groundwork for knowledge generation and dissemination in MINAM's 2013 work program, such as: the environmental research agenda 2013-2021, to spur the development of more and better research on the environment and climate change; the InterCLIMA 2012 forum, which brings together players from the public, private, and nongovernmental sectors to learn about the state of the art in climate change management, with a focus in its first year on adaptation and vulnerability reduction, and low-emission development strategies; and the forum *Glaciares 2013*, with presentations on the state of the art in glaciology, climatology, and hydrology, risks of glacial origin, and socioeconomic impacts. The program also highlights results in terrace recovery (ATN/OC-12201-PE), where a qualitative and quantitative inventory of terraces in 11 regions was completed and a start was made on preparing a public investment profile to promote the use of traditional production technologies adapted to climate change. A loan for the "Andean Terraces Program" (PE-L1149) for US\$20 million was added to the 2013 country programming.

- 1.14 With regard to adaptation activities in the fisheries sector reflected in the program, there was progress in incorporating a climate change adaptation perspective into policies and programs, and strengthening of regional governments, particularly aimed at more efficient use of marine resources to raise nutrition levels and contribute to food security. Reorganization of the Vice Ministry of Fisheries in the Ministry of Production (PRODUCE), particularly the Bureau of Fish Harvesting and Production for Direct Human Consumption and the Fisheries Sustainability Bureau and its Climate Change Coordination Office, has contributed to this progress. As well, the Peruvian government has obtained international resources to implement high-priority adaptation projects such as the project on adaptation to the impact of climate change in Peru's marine and coastal ecosystems and fisheries, to be financed by the Adaptation Fund through a national implementing entity. It is expected that the national implementing entity will be accredited in 2013.
- 1.15 At the end of 2014, Peru will host the Twentieth Conference of the Parties to the United Nations Framework Convention on Climate Change (COP 20), which is the highest profile multilateral venue for environmental negotiations. Hosting the conference is recognition of the country's achievements in the climate change agenda and of the government's commitment to low-carbon development. As host of the climate change summit, Peru has positioned itself as a key player in bringing about the so highly desired international climate change agreement that would be binding on the parties. The magnitude of the task of leading the negotiations through dialogue and consensus-building between COP 13 in Warsaw and COP 15 in Paris will require great diplomatic skill, solid proposals, and joint work by various government agencies, many of which are reflected in the policy matrix for the proposed program. On the request of the Peruvian government, the Bank will provide technical and financial assistance for the preparation of COP 20. The Bank and its Emerging and Sustainable Cities Initiative support the climate change mitigation and adaptation actions by producing GHG inventories, vulnerability analyses, and action plans in cities such as Trujillo. These interventions have drawn

the city's attention to priorities such as water resources for urban and agricultural uses, promotion of low-carbon transport solutions, and reduction of risk to the coastline. In June 2013, the Bank and the municipality of Trujillo presented the initial results after two years of Bank support for the local government in the field of sustainable transport solutions, with investments in pedestrian areas, promotion of non-motorized vehicles, and implementation of green infrastructure.

- 1.16 In short, the country has made significant progress in its institutional framework, its application of laws and regulations, and budget programming for climate management. This agenda requires a sustained effort to: (i) guarantee the generation and updating of information on future climate change scenarios and their potential impact on the dynamics of ecosystems, natural resources, and productive activities, to which end support must be provided for activities to model and update GHG inventories; (ii) consolidate competencies and responsibilities and step up coordination and collaboration among sectors; (iii) assure continuous participation by civil society, particularly rural communities, indigenous organizations, and producers in defining, implementing, and evaluating policies, plans, and programs to manage climate change; (iv) ensure that subnational planning includes the objectives of climate change mitigation and adaptation; and (v) guarantee financing from public, private, and international sources for climate change activities. The proposed operation in the programmatic series will help to lay the institutional and policy foundation for maintaining these actions over time.

**5. Program design and its contribution to the country strategy, the Integrated Strategy for Climate Change and its Action Plan, and the results framework of the Ninth General Increase in the Resources of the Bank**

- 1.17 The present operation supports the Peruvian government's innovation and reform efforts under the program framework, and simultaneously addresses three dimensions of climate change: reduction of GHG emissions, reduction of vulnerability, and adaptation to the effects of climate change. Taking account of the lessons learned from programmatic operations that take a comprehensive approach, the program promotes, among its most relevant activities: (i) establishment and consolidation of the regulatory and institutional framework; (ii) capacity-building in the lead institutions; (iii) establishment of spaces for horizontal (multisector) and vertical (integrating national, regional, and local government levels) coordination and collaboration for the planning and execution of actions; and (iv) development and use of standardized management tools. The proposed program is consistent with the country strategy with Peru (document GN-2668), which mentions the challenges posed by climate change for various priority sectors: adaptation to climate change and disaster risk management, rural development and agriculture, energy, transport, water and sanitation, water resources, and solid waste.
- 1.18 The components and actions in the present operation are fully aligned with the Bank's Integrated Strategy for Climate Change Adaptation and Mitigation and Sustainable and Renewable Energy, approved in 2011 and with its Action Plan

(document GN-2609-3), particularly the strategic lines of: (i) strengthening knowledge management; (ii) strengthening public and private sector institutions and capacity; (iii) expanding Bank technical cooperation and lending; and (iv) scaling up investments through international financing. The proposed actions are consistent with best international practices and with the strategy's recommendations. Empirical evidence from similar interventions to support climate change agendas in Mexico (loans 2047/OC-ME; 2186/OC-ME; 2959/OC-ME), Colombia (loan 3191/OC-CO), Panama (loan 2730/OC-PN), Guatemala (loans 2434/OC-GU; 2435/BL-GU), Trinidad and Tobago (loan 2650/OC-TT), and El Salvador (loan 2710/OC-ES) demonstrates their effectiveness.

- 1.19 **Consistency with IDB-9.** The program relates to the institutional priority of protecting the environment, responding to climate change, promoting renewable energy, and guaranteeing food security.

**B. Objectives, components, and cost**

- 1.20 **General objective.** To consolidate Peru's efforts to create the regulatory, institutional, and technical conditions for public management that responds adequately and promptly to climate change and its impacts on the country's future development. Specifically, this third and final programmatic operation will support a series of policy actions to strengthen the legal and institutional framework of agencies with competencies and responsibilities for climate change management. This programmatic loan is intended to fortify initiatives grouped into the following components: (i) macroeconomic stability; (ii) institutional framework; (iii) mitigation agenda; and (iv) adaptation agenda.
- 1.21 The policy matrix for this program was reviewed and agreed upon with the Peruvian government. The comparative policy matrix describes and justifies the adjustments made to the indicative commitments established in the first and second PBPs (see [optional link 1](#)). Those adjustments do not affect the original trajectory, commitments, or objectives, but instead demonstrate a positive evolution of the government's multiyear agenda, with a proactive attitude marked by: (i) progress in institutional development and consolidation of strategic and planning tools, reflecting high capacity for mobilization and maturity within the different sectors and better intersector coordination; (ii) an operational and programmatic emphasis that helps the objectives of the strategies and climate action plans to materialize by mobilizing technical assistance and investment funds based on adaptation and mitigation priorities; (iii) reinforcement of activities directed to sectors with the most weight in the agenda, through the dissemination of technologies; (iv) continued work with the subnational level, taking account of regional priorities and differentiated ecosystems, and facilitating the work of the regional governments; and (v) permanent openness to opportunities for international financing, attracting resources with the potential to catalyze climate change financing.

- 1.22 **Component 1. Macroeconomic stability.** Peru's macroeconomic framework is consistent with the program's objectives and with the guidelines established in the sector policy letter.
- 1.23 **Component 2. Institutional framework.** The objective of this component is to support the development and consolidation of the regulatory and institutional framework required to implement the climate change agenda and to promote mainstreaming of the climate change approach in key economic sectors. The operation has two specific objectives: (i) to support the formulation of climate change policies, plans, and programs on the national, subnational, and sector levels; and (ii) to support institutional strengthening for their implementation in MINAM, the MEF, and the different ministries and sector agencies with specific competencies in this field. Aspects have been included related to capacity-building and participation by regional and municipal governments, civil society, and the private sector in the design and implementation of climate change policies and programs.
- 1.24 The commitments established for this program are: (i) sector progress and inputs for the Third National Communication to the UNFCCC and the National Climate Change Strategy; (ii) the adequate operation of national institutions with responsibilities for addressing climate change; (iii) promotion of sector strategies and plans for climate change mitigation and adaptation; and (iv) regulation and application of key legislation such as the Forests and Wildlife Act.
- 1.25 The main adjustments made since the second PBP reflect a deeper process of analysis and planning with lengthier terms for reviewing and consulting about the program. New commitments have been added that indicate higher operating capacity in the government's policy and technical cadres, such as the incorporation of mitigation and adaptation criteria into the allocation of resources (SNIP methodological guide), and the training of MEF officials in the area of climate change. In the agricultural sector, the Technical Group on Food Security and Climate Change was coordinated with PLANGRACC, one of the most far-reaching plans included in the policy matrix. Also, a commitment was added to establish and operate technical groups within the Agricultural Environmental Affairs Bureau, the National Agricultural Innovation Institute, and the National Agricultural Health Service. With regard to forests, and after promulgation of the Forests and Wildlife Act, the Peruvian government has held consultations on its proposed enabling regulations, a process that is necessary for participatory validation. These adjustments do not limit, but rather help to better develop the institutional framework to address the challenges of climate change.
- 1.26 **Component 3. Mitigation agenda.** The objective of this component is to lay the groundwork to generate and maintain updated information on GHG emissions, while simultaneously promoting the design and implementation of specific sector emission-reduction programs. The component promotes: the design of measures to monitor and periodically report on emissions; implementation of measures to regulate and reduce emission levels in different sectors, e.g. changes in land use and

- deforestation; the design of consensus-based and coordinated national actions for the reduction of emissions in priority sectors such as energy, solid waste, and sustainable housing; the country's participation in international carbon trading markets (Clean Development Mechanism and voluntary markets); and access to financial instruments to promote emission reduction.
- 1.27 The commitments are intended to support: (i) the creation of basic conditions to assure the country's access to international financing through the REDD mechanism, mainly through the formulation of the investment strategy for the CIF's Forest Investment Program (FIP); (ii) updating of information on emissions, particularly those associated with changes in land use, through the continuation of actions such as the national forest inventory; and (iii) identification of opportunities and the design of projects with emission-reduction components such as projects related to power generation from renewable sources or energy efficiency.
- 1.28 With regard to mitigation, the main adjustments made to the policy matrix of the second PBP refer to: (i) the application of methodologies and development of inventories of GHG emissions in the forestry sector, which required adjustments in validation processes, including an extension of the period for establishing the inventory network on the national level and implementation of regional pilot projects with local training; (ii) presentation of the forest investment plan to the FIP, which required an adjustment in the timetable to improve the technical quality of the inputs used to prepare the plan and ensure the involvement of the FIP board in the design and validation of the plan, which is expected to be approved during 2013; and (iii) restructuring of the program to renew the vehicle fleet to allow for greater private sector participation. The adjustments do not affect the trajectory or commitments proposed in the first and second PBPs.
- 1.29 **Component 4. Adaptation agenda.** The objective of this component is to promote the development of instruments and capacity to evaluate and reduce vulnerability and risks associated with climate change in priority sectors, including activities to strengthen hydrometeorology information systems, early warning systems for extreme events, regional models of global circulation, and comprehensive plans for watershed and water resource management, conservation and management of the marine environment and fisheries resources, preservation and recovery of fragile ecosystems, and capacity-building in priority sectors and subnational governments for the incorporation of adaptation measures into development planning processes.
- 1.30 The commitments established for this third programmatic operation are intended to: (i) lessen uncertainty about climate change and its potential impact on the sector or geographic levels; (ii) link agricultural climate change adaptation objectives and programs, implementing operational plans such as PLANGRACC on the national level; (iii) attend to productive systems, for example subsistence farming in the high sierra and fisheries, through the formulation and implementation of specific interventions, such as terrace recovery projects; (iv) expand upon the process of adopting regional and local adaptation strategies; and (v) prepare a program of adaptation measures for marine and coastal areas.

- 1.31 With respect to adaptation, the main adjustments made to the policy matrix from the second PBP relate to: (i) revision of the commitment related to use of the platform to evaluate water availability for hydropower generation in priority watersheds (HidroGIS study), which was not geared to designing adaptation measures; (ii) adjustments in the commitment to strengthen the fisheries sector and develop scenarios for climate and impact on fisheries, which was modified by creating the Oceanographic Research Bureau and the Oceanographic Modeling Laboratory of the Peruvian Institute of the Sea (IMARPE); and (iii) first draft of a methodological guide for identifying the vulnerability of road infrastructure projects to climate change. The planned adjustments do not affect the trajectory or commitments relating to adaptation originally established in the first and second PBPs.

**C. Key indicators in the Results Matrix**

- 1.32 The results matrix presents indicators for outcomes, outputs deriving directly from execution of the program's components, and the intermediate outcomes to be obtained during the three phases of the program (see required link 3). Since this operation is geared toward overall budgetary support rather than funding for a specific investment program, identifying the program's outcome and impact indicators is a significant challenge. However, there will be intermediate outcomes and outputs in terms of reduced GHG emissions and vulnerability under each of the program components.

## **II. FINANCING STRUCTURE AND RISKS**

**A. Financing instrument**

- 2.1 This loan for US\$25 million is the third in a programmatic series of three operations. Its disbursement is planned for the second half of 2013, once the respective contract is signed and the General and Special Conditions have been met (see Annex II). Financing for this third PBP will come from the Bank's Ordinary Capital under the Flexible Financing Facility. The loan was agreed on by the Government of Peru and the IDB in their annual programming exercise. The amount, equivalent to 2.2% of total expected external debt for the year, is consistent with the future profile of public financing needs, the government's overall debt management strategy, and public policy priorities shared by the country and the Bank in the country strategy with Peru 2012-2016 (document GN-2668).
- 2.2 The programmatic approach permits the IDB to support the government in a structured and gradual process of reforms and managerial capacity-building and innovation in climate change policies over a period of three to four years. The operation includes six ministries—Economy, Environment, Production, Energy and Mines, Agriculture, and Transport and Communications—which requires coordination by the national authorities. The commitments made by the Peruvian government in each sector in a differentiated and complementary fashion advance the national agenda towards objectives of climate resilience and emission reduction.



**B. Environment and social safeguard risks**

- 2.3 The proposed program does not pose negative environmental risks. On the contrary, it has a positive influence through: (i) support for environmental policies and development of managerial skills in priority sectors for climate change mitigation and adaptation; (ii) generation of key information for decision-making as it relates to climate scenarios, the effects of climate change on ecosystems, resources, and productive activities, and the development of GHG emission inventories; (iii) validation of adaptation measures in watersheds, productive sectors such as fisheries and agriculture, and production systems; (iv) coordination with other initiatives associated with climate change under the following PBPs: the new sustainable energy matrix, program IV (loan 2487/OC-PE); the program to reduce the vulnerability of the State to disasters III (loan 2544/OC-PE); and the second generation sanitation sector reform program II (loan 2604/OC-PE); and (v) the technical-cooperation operations associated with the PBP, which helped to increase and improve coordination with the executing agencies.
- 2.4 The actions promoted under the proposed PBP were designed in the context of effective participation by different stakeholders, in accordance with national legislation, such as Law 29785 – Law on the Right to Prior Consultation of Indigenous or Tribal Peoples recognized under Convention 169 of the International Labour Organization (ILO). In addition, the Bank has monitored the operation of venues for participation and consensus-building, such as the National Climate Change Committee, REDD Peru Roundtable, and the regional REDD Roundtables.
- 2.5 Given the nature of the program, which involves institutional strengthening activities, it poses no environmental or social risks. In accordance with Directive B-13 of the “Environment and Safeguards Compliance Policy” (OP-703) and based on the results of the Safeguard Policy Filter Report, this operation does not require classification.

**C. Other risks**

- 2.6 The new administration in Peru which took office in July 2011 brought in its wake a process of adjustment and validation of the climate change agenda in the country, without this representing substantial changes in the program’s policy commitments. This third operation poses a low risk as a result of the continuity and commitment shown by the administration regarding the main lines of action in the national climate change agenda defined in previous years.
- 2.7 However, there is a medium risk relating to public management and governance, given the great complexity of this operation and the highly cross-cutting and multidimensional nature of the issue of climate change and the possible splintering of responsibilities among the sectors in charge of different aspects of the climate change agenda.
- 2.8 Both risks will be mitigated by deepening the dialogue and continuing the ongoing coordination that the Bank has been carrying out with the MEF, in its capacity as

executing agency of the operation, and with each of the sectors making policy commitments.

### **III. IMPLEMENTATION AND ACTION PLAN**

#### **A. Program execution and administration**

- 3.1 The borrower will be the Republic of Peru. The executing agency will be the MEF through the Public Debt and Treasury Bureau (DGETP) and the Sector Loans Coordination Unit (UCPS). The UCPS will be responsible for technical coordination with MINAM, MINAGRI, the Ministry Energy and Mines (MINEM), PRODUCE, and the Ministry of Transport and Communications (MTC). The MEF will play a key role in the interagency coordination required for the program. Formal communication with the Bank will be the responsibility of the UCPS, which will also have the following responsibilities in its capacity as executing agency: (i) to present to the Bank evidence of fulfillment of the disbursement conditions for the financing as well as any other reports that the Bank may require; (ii) to promote actions to attain the policy objectives defined in the program; and (iii) to compile and furnish the Bank with all the information and indicators that would assist the country and the Bank in evaluating program outcomes.

#### **B. Summary of results monitoring arrangements**

- 3.2 The proposed operation includes an analysis to estimate the (direct and indirect) economic benefits from implementing key activities identified in the policy matrix. The analysis integrates ex ante cost-benefit and cost-effectiveness analyses of representative programs and actions in the agriculture and fisheries sectors. In the agriculture sector, a group of key interventions contained in PLANGRACC-A was selected. The results of the economic evaluation will be taken into account by MINAGRI when channeling its investment programs. As well, cost-benefit analyses were performed of four activities in the fisheries sector proposed for intervention under the project on adaptation of Peruvian marine and coastal ecosystems and fisheries to the impact of climate change. In addition, cost-effectiveness analyses were performed for activities related to the development of hydroclimate information and the establishment of a system to monitor/predict key variables for decision-making in climate change adaptation activities (see optional links [2](#) and [3](#)).
- 3.3 A final evaluation will be performed at the end of the program (see [optional link 5](#)) containing details on sources of information, data collection, and method used. Apart from compiling the indicators established in the results matrix, the evaluation will perform an ex post economic analysis that will refine the existing analysis, on the basis of observed data. After disbursement of this third operation and in compliance with the Bank's requirements, a Project Completion Report will be prepared to include a complete evaluation of the program, including overall estimates of results. The most important indicators in the outcomes analysis will include: (i) government institutions strengthened for the design and execution of

climate change policies and programs; (ii) number of sectors generating benefits from GHG reductions; (iii) number of priority regions that have identified, designed, and implemented adaptation measures; and (iv) number of priority sectors that have identified, designed, and implemented adaptation measures.

**C. Policy letter**

- 3.4 The Bank has agreed with the Government of Peru on the macroeconomic and sector policies included in the policy letter (see required link 1). The letter describes the main components in the government's strategy, which it is currently implementing in the program's areas of action. The government has also reaffirmed its commitment to implementing the reforms and activities agreed upon with the Bank.

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives	Aligned		
Lending Program	i) Lending to support climate change initiatives, renewable energy and environmental sustainability.		
Regional Development Goals	i) Stabilization of CO <sub>2</sub> equivalent emissions (metric tons per habitant), ii) Countries with planning capacity in mitigation and adaptation of climate change, and iii) Annual reported economic damages from natural disasters.		
Bank Output Contribution (as defined in Results Framework of IDB-9)	i) National frameworks for climate change mitigation supported, ii) Climate change pilot projects in agriculture, energy, health, water and sanitation, transport, and housing, iii) Number of projects with components contributing to improved management of terrestrial and marine protected areas, and iv) Farmers given access to improved agricultural services and investments.		
2. Country Strategy Development Objectives	Aligned		
Country Strategy Results Matrix	GN-2668	Climate change adaptation and disaster risk management.	
Country Program Results Matrix	GN-2696	The intervention is included in the 2013 Country Program Document.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			
II. Development Outcomes - Evaluability	Highly Evaluable	Weight	Maximum Score
	8.9		10
3. Evidence-based Assessment & Solution	9.2	33.33%	10
4. Ex ante Economic Analysis	10.0	33.33%	10
5. Monitoring and Evaluation	7.5	33.33%	10
III. Risks & Mitigation Monitoring Matrix			
Overall risks rate = magnitude of risks*likelihood	Low		
Identified risks have been rated for magnitude and likelihood	Yes		
Mitigation measures have been identified for major risks	Yes		
Mitigation measures have indicators for tracking their implementation	Yes		
Environmental & social risk classification	B.13		
IV. IDB's Role - Additionality			
The project relies on the use of country systems (VPC/PDP criteria)			
The project uses another country system different from the ones above for implementing the program			
The IDB's involvement promotes improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality			
Labor			
Environment			
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	Yes	PE-T1238, PE-P1174, RG-T1834, and RG-T2158.	
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan			

This is a policy-based programmatic loan (PBL), focusing on improving the Government of Peru's capacity to meet its commitment to reduce GHG emissions and also to improve capacity to adapt to climate change. There is information on potential negative effects of climate change for the Peruvian economy to support the project's goals and objectives.

The Results Matrix does identify SMART indicators for outputs, however not for outcomes. There are two impacts identified, one for mitigation which has a well-specified indicator. The other is related to adaption through increased resilience, and the project is awaiting results of a study to better define an indicator for that impact. There are ex-ante cost-benefit analyses for two sub-sectors, and ex post analyses are planned, though it is unclear whether or not a sufficient time period will have passed to use the ex-ante and ex-post analyses as a basis of impact assessment.

The document clearly identifies risks, as well as mitigation measures.

## PROGRAM TO SUPPORT THE CLIMATE CHANGE AGENDA III

### POLICY MATRIX

Objectives	Commitments First programmatic operation	Commitments Second programmatic operation	Triggers Third programmatic operation	Sector responsible
<b>I. General macroeconomic policy framework</b>				
<i>Macroeconomic stability</i>	Macroeconomic framework consistent with the program's objectives and with the guidelines established in the sector policy letter.	Macroeconomic framework consistent with the program's objectives and with the guidelines established in the sector policy letter.	Macroeconomic framework consistent with the program's objectives and with the guidelines established in the sector policy letter.	Ministry of Economy and Finance
<b>II. Sector institutional framework</b>				
<i>a. National climate change policies and programs</i>	Presentation of Peru's Second National Communication to the Conference of the Parties to the United Nations Framework Convention on Climate Change.	Formulation of the Draft Third National Communication on Climate Change approved by the National Climate Change Committee.	Presentation of sector progress and partial outputs as inputs for preparation of the Third National Communication on Climate Change.	Ministry of Environment
	Launch of the process of updating the national climate change management strategy by the National Climate Change Committee.	Updating of the national climate change management strategy based on inputs from the Second National Communication and the action plan for mitigation and adaptation, and presentation to the National Climate Change Committee for approval.	National climate change management strategy approved.	Ministry of Environment
		Formulation of an options proposal for establishing an interagency platform to manage climate change.	Platform for managing climate change in MINAM established as a step preceding an interagency platform.	Ministry of Environment and Ministry of Economy and Finance

Objectives	Commitments First programmatic operation	Commitments Second programmatic operation	Triggers Third programmatic operation	Sector responsible
	Preparation and consultation of the action plan for mitigation and adaptation to climate change, containing the main projects and initiatives under way and/or being designed in the areas of: the GHG emissions inventory and systems for reporting and verification, mitigation measures, adaptation measures, and integration of both kinds of measures into decision-making processes, research, and systematic observation, building capacity, raising public awareness, and management of financing.	Implementation of the action plan for mitigation and adaptation to climate change in the stages of identification and design of the main investment projects in the areas of mitigation, vulnerability reduction, and adaptation.	Implementation of the action plan for mitigation and adaptation to climate change in the stage of execution of the main investment projects in the areas of mitigation, vulnerability reduction, and adaptation.	Ministry of Environment
	Agreement on the scope of the study, “Economic Impact of Climate Change,” which includes: identification of the most probable climate scenarios at the international and national levels, identification and description of the most probable macroeconomic scenarios for the country, determination of the degree of vulnerability of the Peruvian economy to climate change, calculation of the impact on the economy in function of the vulnerabilities identified, and identification of public policy measures for mitigation, vulnerability reduction, and adaptation.	First report on the study, “Economic Impact of Climate Change,” presented to the National Board.	Approval of the “Economic Impact of Climate Change” study.  Dissemination of the final results of the study for use in the design of economic policy to manage climate change, and as input for the Third National Communication.	Ministry of Environment and Ministry of Economy and Finance

Objectives	Commitments First programmatic operation	Commitments Second programmatic operation	Triggers Third programmatic operation	Sector responsible
	Presentation of a forests and wildlife bill to Congress that explicitly recognizes the function of forest ecosystems in GHG emission mitigation and promotes implementation of initiatives for the conservation and sustainable management of forests to gain access to carbon markets.	Passage of the Forests and Wildlife Act.	Proposed regulations, including the application of mechanisms for the use of forest ecosystem services and better licensing for the use of forests, validated in a participatory process.	Ministry of Agriculture–Forests and Wildlife Bureau
		Presentation to the Vice Minister’s Office of the proposed action plan for the agricultural sector in REDD areas and participation in carbon markets.	Proposed REDD strategy for agriculture incorporated into the guidelines of the National REDD Strategy.	Ministry of Agriculture–Forests and Wildlife Bureau
	Inclusion in the Regulations to the Water Resources Act of adaptation to climate change through the promotion and coordination of actions to prevent and/or efficiently manage possible changes in water availability that can be attributed to climate change.	Formulation of a work plan to evaluate the impact of climate change on surface water resources in priority watersheds.	Implementation of the work plan and capacity-building on climate change in the National Water Authority, with the appropriate budget and staff and specific products. Operation of the area for climate change adaptation, glaciology, and extreme hydrological events in the Conservation and Water Resource Planning Office of the National Water Authority.	Ministry of Agriculture–National Water Authority
	Inclusion in the proposed strategic institutional plan for the fisheries subsector of adaptation to climate change, through the identification of specific actions to reduce its potential adverse impact on fisheries.		Preparation of a fisheries sector strategy for adaptation to climate change.	Ministry of Production–Fisheries Sustainability Bureau

Objectives	Commitments First programmatic operation	Commitments Second programmatic operation	Triggers Third programmatic operation	Sector responsible
		Implementation of an environmental training program in the fisheries sector for regional governments, including a climate change component.	Execution of an environmental training program in the fisheries sector for regional governments, including a climate change component.	Ministry of Production– Fisheries Sustainability Bureau
<b><i>b. Institutional strengthening to implement the climate change policy</i></b>	Modification of the National Climate Change Committee to permit participation by national and local government entities, civil society, indigenous organizations, and academia.	Preparation of the National Climate Change Committee's proposed work plan, which explicitly incorporates participation by stakeholders from civil society, indigenous organizations, and academia in the planning, formulation, and implementation of actions for mitigation and adaptation to climate change.	Restructuring of the National Climate Change Committee, which incorporates participation by stakeholders from civil society, indigenous organizations, and academia in the planning, formulation, and implementation of actions for mitigation and adaptation to climate change.	Ministry of Environment
	Creation and operation of a climate change bureau in the Ministry of Environment, with the necessary staff and budget.	Operation of the Climate Change Bureau in the Ministry of Environment, with the necessary staff and budget.	Operation of the Climate Change Bureau in the Ministry of Environment, with the necessary staff and budget.	Ministry of Environment
	Creation of a climate change technical unit in the Ministry of Economy and Finance.	Formalization of the operation of the Climate Change Technical Unit in the MEF for the design of policy guidelines related to mitigation and adaptation to climate change, to promote adequate allocation of resources.	Analysis of experiences in mainstreaming and introducing climate change instruments in the ministries of economy (or similar ministries) in the region, and analysis of instruments for incorporating climate change into the activities of the Ministry of Economy and Finance.	Ministry of Economy and Finance
			Issuance of operating guidelines for incorporating criteria for mitigation and adaptation to climate change into the allocation of resources.	Ministry of Economy and Finance



Objectives	Commitments First programmatic operation	Commitments Second programmatic operation	Triggers Third programmatic operation	Sector responsible
			Execution of a training program in climate change for staff of the Ministry of Economy and Finance.	Ministry of Economy and Finance
			Preparation of a feasibility study on a national GHG emissions trading system.	Ministry of Economy and Finance.
		Formulation of long-term scenarios and GHG mitigation plans.	Sector mitigation strategies in the preparation process.	Ministry of Environment
	Creation and operation of a technical task force on food security and climate change in the Ministry of Agriculture.	Approval of the update to the composition of the Technical Task Force on Food Security and Climate Change to bring it into line with the new institutional structure of the Ministry of Agriculture.	Operation of the Technical Task Force on Food Security and Climate Change (GTTSACC) in the Ministry of Agriculture and Irrigation (MINAGRI) linked to the Risk Management and Climate Change Adaptation National Plan in the Agricultural Sector, 2011-2020 (PLANGRACC-A).	Ministry of Agriculture
			Creation and operation of technical task forces in aspects of climate change in the Agricultural Environmental Affairs Bureau of MINAGRI, the National Agricultural Innovation Institute, and the National Agricultural Health Service.	Ministry of Agriculture
	Appointment of the Director General for Energy Efficiency in the Ministry of Energy and Mines and reassignment of personnel to the new office.	Approval of the institutional work plan of the Energy Efficiency Bureau.	Operation of the Energy Efficiency Bureau in the Ministry of Energy and Mines.	Ministry of Energy and Mines–Energy Efficiency Bureau

Objectives	Commitments First programmatic operation	Commitments Second programmatic operation	Triggers Third programmatic operation	Sector responsible
<b>III. Mitigation agenda component</b>				
<b>a. Promote international carbon markets and financial instruments to reduce GHG emissions</b>	Preparation and maintenance of a portfolio of projects under the Clean Development Mechanism (CDM) approved by MINAM and the executive board of the CDM.	Progress in approval of CDM projects. Design of a plan to promote programs of activities under the CDM and voluntary markets.	Progress in approval of CDM projects. Implementation of the plan to promote programs of activities under the CDM.	Ministry of Environment of
	Review and validation of project fiches in the agricultural sector to reduce GHG emissions.	Design of two projects to reduce GHG emissions.	Development of two projects to reduce GHG emissions.	Ministry of Agriculture–Rural Productive Development Program
<b>b. Sector agenda for emission reduction</b>	Creation of the national forest conservation program to mitigate climate change.	Start on designing the investment strategy for the Forest Investment Program (FIP) of the Climate Investment Funds (CIF).	FIP investment plan presented to the FIP board.	Ministry of Environment, Ministry of Economy and Finance
	Proposed legal instrument to establish a network of GHG inventories at the national level.	Proposal for implementing the network of the GHG inventories at the national level, phase I, approved by MINAM for publication for the purposes of conducting public consultation.	Presentation to the National Climate Change Committee of a draft supreme decree for operation of the network of GHG inventories on the national level.	Ministry of Environment
			Preparation of the national inventory of GHG and pollutant emissions in the transport subsector.	Ministry of Transport–Socioenvironmental Affairs Bureau
		Creation and operation of a program to renew the vehicle fleet.	Program to renew the vehicle fleet under way (restructuring in progress).	Ministry of Transport–Socioenvironmental Affairs Bureau

Objectives	Commitments First programmatic operation	Commitments Second programmatic operation	Triggers Third programmatic operation	Sector responsible
	Approval of a guide to good practices for the efficient use of resources and for implementation of environmental prevention and/or mitigation measures in one industrial process in small and medium-sized enterprises (SMEs).	Preparation of a guide to good practices for the efficient use of resources and for implementation of environmental prevention and/or mitigation measures in one additional industrial process in SMEs.	Approval of guides to good practices for two additional industrial processes in SMEs.	Ministry of Production– Environmental Affairs Bureau
		Identification of opportunities for carbon market financing in energy efficiency projects in artisanal brickwork.	Development of opportunities for carbon market financing in energy efficiency projects in artisanal brickwork.	Ministry of Production– Environmental Affairs Bureau
	Environmental training program for regional governments.	Environmental training program in the industrial sector for regional production offices and regional government managers.	Environmental training program in the industrial sector for regional production offices and regional government managers.	Ministry of Production– Environmental Affairs Bureau
	Approval of the project for the national forest inventory.	Preparation of a methodological proposal to develop a forest inventory in forests used for permanent production, as an input for the national forest inventory.	Validation of the methodology for developing carbon inventories in forests used for permanent production through field work involving pilot projects in two regions.  Training in regions for the preparation of GHG inventories in forests used for permanent production.	Ministry of Agriculture–Forests and Wildlife Bureau
		Formulation of a technical proposal to determine carbon stocks associated with agricultural activities at the national level.	Design of the carbon inventory system for different types of soil and plant cover at the national level.	Ministry of Agriculture–National Agricultural Innovation Institute

Objectives	Commitments First programmatic operation	Commitments Second programmatic operation	Triggers Third programmatic operation	Sector responsible
	Identification of the potential for generating energy from renewable sources.	Prioritized portfolio of energy efficiency and power generation projects using renewable resources.	Priority projects for power generation from renewable sources under way.	Ministry of Energy and Mines–Energy Efficiency Bureau, Electricity Bureau, and Rural Electrification Bureau
<b>IV. Adaptation agenda component</b>				
<b><i>a. Development of instruments for the evaluation and reduction of vulnerability and risks associated with climate change in priority sectors with a view to strengthening sustainable regional and municipal development</i></b>	Preparation of three thematic maps of vulnerability to climate change on regional and district levels.	National map of physical vulnerability officially presented and available to the public.	Application of the findings of the climate change vulnerability map to regional and subnational strategies and plans for risk management and adaptation to climate change.	Ministry of Environment
	Preparation of a climate scenario at the national level and climate scenarios for the Piura, Santa, Mayo, and Mantaro river watersheds.	Preparation of climate scenarios for the Urubamba river watershed and expansion of the scenario for the Mantaro river to the year 2100.	Preparation of climate scenarios in three additional watersheds, such as the Moquegua, Ica, and Tacna watersheds.	Ministry of Environment
	Identification and prioritization of fragile ecosystems for studies on vulnerability to climate change.	Preparation of a study to identify vulnerability to climate change in a priority agricultural area.	Design of pilot measures for adaptation in agricultural areas in a priority valley.	Ministry of Agriculture–Environmental Affairs Bureau and National Agricultural Health Service
		Formulation of an orientation matrix on measures to adapt to climate change in agricultural health and agrifood safety for preparation of a guide to monitor changes in the behavior of pests and diseases as a result of climate variability and climate change.	Approval of an orientation guide on climate change adaptation measures in agricultural health and agrifood safety.	Ministry of Agriculture–National Agricultural Health Service

Objectives	Commitments First programmatic operation	Commitments Second programmatic operation	Triggers Third programmatic operation	Sector responsible
		Creation of multisector committees to draw up national research plans for livestock and crop farming and forestry.	Proposal for a national agricultural research plan for climate change mitigation and adaptation.	Ministry of Agriculture–National Agricultural Innovation Institute
		Preparation of a situation analysis of risk management and adaptation to climate change in the agricultural sector.	Approval and implementation of the GRACC.	Ministry of Agriculture–Agricultural Environmental Affairs Office
	Preparation of qualitative scenarios on ocean climate change off the Peruvian coast to identify the main impacts of climate change on marine ecosystems and fisheries resources.	Design of a conceptual framework and work plan to develop quantitative scenarios for ocean climate change and design of adaptation measures as part of the project to be submitted to the Adaptation Fund.	Preparation of a project on adaptation to the impact of climate change in Peru’s marine and coastal ecosystems and fisheries, to be submitted to the Adaptation Fund.	Ministry of Production–Peruvian Institute of the Sea
		Institutional strengthening of the Peruvian Institute of the Sea in assessment of the economic impacts on fisheries.	Creation of the Oceanographic and Climate Change Research Bureau (DGIOCC) and the Oceanographic, Ecosystem, and Climate Change Modeling Laboratory in the Peruvian Institute of the Sea.	Ministry of Production–Peruvian Institute of the Sea
		Preparation of an evaluation of future water availability for hydropower generation in the watersheds of the Rímac, Santa, and Mantaro rivers.	Use of the water availability assessment tool (HidroGIS).	Ministry of Energy and Mines–Energy Efficiency Bureau and Rural Electrification Bureau

Objectives	Commitments First programmatic operation	Commitments Second programmatic operation	Triggers Third programmatic operation	Sector responsible
<b><i>b. Analysis and incorporation of adaptation measures in development processes</i></b>	Preparation of guidelines for designing regional climate change strategies.	Support for the formulation of climate change strategies for the Apurímac, Ayacucho, and Cusco regions.	Support for the preparation of at least three additional regional strategies.	Ministry of Environment
	Adaptation measures identified for the Piura river watershed.	Prioritization of adaptation measures in the Santa, Mayo, and Mantaro watersheds by the regional governments, in coordination with the Ministry of Environment.	Process of appropriation and development of adaptation measures with a multisector platform, led by local governments.	Ministry of Environment
	Formulation and approval of a demonstration project for terrace recovery as a means of adaptation to climate change.	Preparation of a baseline for the pilot terrace recovery project.	Formulation of preinvestment studies for the national terrace program.	Ministry of Agriculture– Productive Rural Development Program
	Identification of actions to reduce vulnerability to the effects of climate change in water resources and land for agricultural use in the Andes.	Design of a pilot project that includes adaptation measures for the conservation and sustainable management of land and water resources for farming in the high Andes.	Implementation of adaptation measures for the conservation and sustainable management of water resources for farming in the high Andes.	Ministry of Agriculture– Productive Rural Development Program
			Formulation of a methodological guide to identify the vulnerability to climate change of road infrastructure projects.	Ministry of Transport– Socioenvironmental Affairs Bureau

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-\_\_\_/13

Peru. Loan \_\_\_/OC-PE to the Republic of Peru  
Program to Support the Climate Change Agenda III

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Peru, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a program to support the climate change agenda III. Such financing will be for an amount of up to US\$25,000,000 from the Ordinary Capital resources of the Bank, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on \_\_ \_\_\_\_\_ 2013)

PE-L1127  
LEG/SGO-37960701-13