

PERU

**SUPPORT FOR THE IMPLEMENTATION OF A
WATER RESOURCES REFORM PROGRAM**

(PE-L1030)

EXECUTIVE SUMMARY

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Borrower:	Republic of Peru	
Executing agency:	Ministry of the Economy and Finance (MEF)	
Amount and source:	IDB (OC):	US\$5 million
	Local contribution:	US\$0
	Total:	US\$5 million
Financial terms and conditions:¹	Amortization period:	20 years
	Grace period:	3.5 years
	Disbursement period:	3.5 years
	Currency:	U.S. dollars from the Single Currency Facility
	Interest rate:	LIBOR
	Credit fee:	0.25%
	Inspection and supervision:	0%
Objectives:	The purpose of the Program to Support the Implementation of a Water Resources Reform Program (the "Program" or "Water Resources Sector Facility") is to provide partial support for the reforms agreed between the Government of Peru and the Bank as part of a water resources reform program to increase the efficiency, equity, and sustainability of water use through integrated and participatory management.	

¹ The interest rate, credit fee, and inspection and supervision fee mentioned in this document are established pursuant to document FN-568-3 Rev. and may be changed by the Board of Executive Directors, taking into account the available background information, as well as the respective Finance Department recommendations. In no case will the credit fee exceed 0.75%, or the inspection and supervision fee exceed 1% of the loan amount. With regard to the inspection and supervision fee, in no case will the charge exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

Components:

1. Capacity building for the National Water Authority (ANA): This component would ensure the ANA is sufficiently established, with the institutional architecture (administrative processes, human resources, and equipment) and the capacity building program, to become responsible for national integrated water resource management (GIRH) once the currently decentralized functions and authority are transferred to ANA. This component will also assist with technical, legal, and regulatory studies to determine water value at source (economic value of the water).
2. National water resources information system (SNIRH): This component would help design and implement an integrated, timely, and reliable information system that is accessible to water resources users. The system design and implementation will include studies and basic weather and hydrometeorological network data; water sources and water quality information; and flow measurements and climatic information. The SNIRH will be flexible enough to interact with existing environmental and related areas.
3. Decentralization of water resources management: The purpose of this component is to support the decentralization process initiated by the Peruvian government through training for regional governments in water resources management and the preparation of integrated water resource management plans.
4. Coordination and evaluation: Financing will be provided for consulting services and equipment for program coordination, responsibility for which will fall to the MEF's Sector Lending Coordination Unit. The Sector Lending Coordination Unit (UCPS) is the technical coordination unit of the water resources reform program and program executing unit. Financing will also cover the consulting services, equipment, studies, and training to design the methodology and collect information for use in evaluating and measuring the reform program's impact, enhance water resources management, and improve program evaluation upon completion of the programmatic operations.

Special contractual conditions:

Precedent to the first disbursement: The borrower must submit to the Bank for approval the annual work plan (AWP) for year one of the program.

Precedent to disbursement of the financing for component 1: The proceeds of component 1 are conditional upon the borrower demonstrating to the Bank the new functions of the national water authority have been approved (paragraph 3.7).

The Bank's country and sector strategy:

The program will help strengthen the institutional framework for efficient water resources management. Use of this resource is based on social and economic factors. The project will also support the strengthening of decentralized resource management bodies, enabling more direct results and better allocation of resources and responsibilities within natural resource and watershed management units.

The purpose of the Bank's integrated water resources management strategy (document GN-1908-4) is to help countries: (i) conserve water through more efficient allocation of the resource, while accounting for social equity; (ii) solve conflicts between competing uses and users, including environmental use; (iii) account for the social, economic, and environmental value of water in the sustainable development process; and (iv) increase community and private sector participation in decision-making and financing. The following instruments have been developed to achieve these goals: (i) cost recovery, capacity building, and stakeholder participation; (ii) decentralization; (iii) private sector participation and the role of the private sector; (iv) tradable water rights; (v) river basin organizations; and (vi) transboundary river basins.

Coordination with other multilateral development institutions:

This program takes into account the Bank's efforts to coordinate with the World Bank, which has participated in financing irrigation programs in Peru and initiating reforms to assist the Office of Water Resources (IRH) in its efforts to formalize water use rights. The program complements other Bank operations, such as the sanitation sector reform program, the river basin investment program, the elm investment program (all in the Bank's project pipeline and agreed during the last programming mission in November 2006), and the technical cooperation project approved for the elm program feasibility studies. The present program and the sanitation program complement one another, mainly in such areas as rates, water quality, water culture, and water rights and uses.

Environmental and social review:

The program activities are not expected to have any direct or indirect negative environmental impact. Nevertheless, by providing the country with a more efficient water quantity and water quality management structure at the national, regional, and local level, they are expected to have an indirect positive impact on the environment. The program is not expected to have any effect on indigenous peoples (Operational Policy on Indigenous Peoples OP-765). The project team recommends that this program be given a Category C rating, as defined in the Bank's Environment and Safeguards Compliance Policy (OP-703). CESI reviewed the program profile on 30 March 2007 (meeting 12-07). The Committee did not request a further evaluation; nor did it request that a project report be submitted for information purposes.

Potential benefits:

The present program will permit implementation of the reforms agreed under the water resources reform program. The reform program would significantly and sustainably help increase the volume of nontraditional exports by creating a framework to expand the agricultural frontier, thus fostering the necessary private investment. The success of this program will permit integrated water resources management, and promote better use of water, a scarce resource, particularly in the country's coastal areas. It will also lead to the use of high-technology irrigation, increased land productivity, and fewer conflicts between users and watersheds, while contributing to sustainable growth. In this sense, a strengthened and decentralized institutional framework, with a national authority responsible for sustainable water management (ANA) and an information system to improve decision-making capacity, will reduce transaction costs between authorities and users and ensure greater efficiency in the allocation of a relatively scarce resource.

Potential risks:

The risks inherent to this program have to do with the possibility that the reforms introduced under the water resources reform program are not implemented in a timely manner due to:

- a. **Institutional complexity:** Institutional complexity poses the risk that coordination efforts will delay the implementation of reforms. Several different institutions currently participate in water management. They include the Office of Environmental Health (DIGESA), a branch of the Ministry of Health, with responsibility for water quality, and the National Meteorological and Hydrological Service (SENAMHI), which provides water information. The decentralization process has resulted in the transfer of functions, responsibilities, and large water infrastructure works to regional governments. This has led to institutional complexity, which is mitigated for purposes of the

program because the MEF is working toward water resources management reforms with significant technical and financial requirements. The Bank will support the Peruvian government through this program to ensure that the proposed reforms are implemented in a timely manner, providing the necessary additional financing for the structural reforms. The MEF has a broad capacity to carry out this type of reforms in different sectors, even under complex conditions, especially since the program will cover some of the financing requirements. Lastly, the Peruvian government has the coordination mechanisms to monitor compliance with program policy conditions.

- b. **Stakeholder resistance:** Consolidation of GIRH structural reforms could meet with resistance from water resources users, particularly irrigation user boards. Peru's current Water Act (LGA) was passed in 1969 and previous legislation dates back to the early twentieth century. The deep-seated interests that have been in place for decades could create some resistance to the proposed reforms. The Peruvian government has advanced a broad program for stakeholder participation in order to build consensus on the reforms, which should minimize potential problems. The water resources reform program also lays out a phase-by-phase approximation through three different programmatic operations that will make it possible to adjust the goals. It also includes a component to change the water culture, with a focus on its economic, environmental, and social value and the importance of sustainable resource use. This should create the conditions for continuing with efforts to pursue and consolidate the remaining reforms.

Poverty-targeting and social sector classification:

This operation does not qualify as a social equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704). Furthermore, this operation does not qualify as a poverty-targeting investment (PTI).

Procurement plan and schedule and international competitive bidding amounts:

The selection and engagement of consulting services and the procurement of goods for the program will be carried out in accordance with the Bank's procurement policies and procedures, as set out in documents GN-2349-7 and GN-2350-7. When a contract is equal to or exceeds US\$250,000 in the case of goods and US\$350,000 in the case of consulting services, the bidding and calls for proposals will be subject to international competitive bidding.

Key performance indicators and monitoring benchmarks:

- a. National integrated water resources management plan (GIRH) in implementation.
- b. National information system designed and in implementation.
- c. One hundred professionals and specialists from all regions of Peru responsible for watershed management planning have received training.
- d. Two watershed management plans in implementation.
- e. Fifty members of the ANA staff have received training.
- f. Plan of operations for the five-year period prepared and being implemented.
- g. Operating manuals prepared and being implemented.
- h. Necessary hardware and software provided.
- i. Data capture network (hydrometeorological stations and water control every km²) expanded in two pilot watersheds by the end of 2009.
- j. Two watersheds connected to ANA in real time through an automatic information transmission system by the end of 2009.
- k. Information from Peru's Water Resources Quality Monitoring Program incorporated into the SNIRH.
- l. Watershed management plans for two watersheds prepared and agreed with stakeholders.
- m. GIRH training program for at least two watersheds prepared and established for regional governments.

Reporting, monitoring, and evaluation

Program monitoring will focus on verifying the attainment of the specific outputs, which will require the necessary operational inputs (bidding, engagement of consulting services, and equipment purchase). This is the main responsibility of the UCPS, which has the tools to verify outputs and inputs such as monitoring reports and financial statements.

The program evaluation will focus mainly on the indicators for the final program evaluation that are directly related to the outputs. These outputs aim to generate the desired results and impacts with regard to the program's purpose and objectives. At the government's request, the methodology will be generated and impact outcomes and

indicators collected by the UCPS with the help of the institutions that generate or collect such data, as specified in the logical framework. The UCPS will collect, file and store all the information, indicators, and parameters, including AWP, monitoring reports, and financial reports, which will be used by the Bank to prepare the project completion report (PCR).