

# CLIMATE INVESTMENT FUNDS

June 1, 2015

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Peru: Dedicated Grant Mechanism  
Response from IBRD to comments from the United States

Dear Katie and colleagues –

Thank you very much for reviewing the project documents for the Saweto DGM Peru. We very much appreciate the thoughtful comments and will try to address them here. We are also available to discuss by phone if it might help address any other questions or concerns.

As you indicate, the Project's OM will include many of the details regarding implementation. As with all Bank projects, the Project's OM is being prepared by the executing agency and a first draft has been reviewed by the Bank and the NSC. We have made extensive comments and they are currently being incorporated. A final version of the OM acceptable to the Bank is a condition of effectiveness in the Grant Agreement. We would be happy to share the draft OM although a new version incorporating the comments from the Bank and the NSC should be available in time for negotiations which are tentatively scheduled for June 10<sup>th</sup>.

Forest governance is complicated and as you indicate capacity at the community level is challenging. The design of this Project is predicated on an assumption that building the capacity at the community level is critical for the long term sustainability of these communities and the forests on which they depend. During preparation, the NSC expressed frustration that many development projects that are intended to benefit the community are implemented at such a high level that the community only receives a small portion of the investment and/or are often completely excluded from the capacity building (and decision making) that accompanies the implementation of a project. As a result, while the implementing arrangements for this Project are indeed complex, both the NSC and the team strongly feel that this particular configuration will help ensure that the DGM investments and benefits actually reach the indigenous communities. It is felt that the only way to really build capacity in these communities is by ensuring that they are directly participating in the prioritization and preparation of the proposals for the subprojects and the implementation of these subprojects. It is a "learning by doing" approach that we expect will have benefits far beyond this Project.

Early in the preparation process, the NSC indicated that a competitive approach to allocating the subgrants is not culturally appropriate nor do they think it would be equitable given the high variation in capacity among the beneficiary communities. Instead, they suggested an approach that would allow the communities themselves to prioritize their needs and for the communities themselves to decide which subprojects to put forward under each of the components. They further decided to have these grouped into 18 master proposals that would be facilitated and fostered by the 18 regional indigenous organizations and federations. In this way, the DGM will benefit all communities in some way rather than only benefiting those communities with high capacity and prior experience (and probably who already have access to funding from other sources). Ensuring this equity will of course be challenging as some of the subprojects will proceed at a faster pace and others will need a disproportionate amount of support but the NSC did not feel that a demand driven allocation would result in the capacity building and sustainability that they feel is imperative at this point.

In terms of conflict of interest, this is also a very important element to consider especially given the nature of the DGM design in general and the reality of legitimate indigenous representation in Peru. Given that the members of the NSC need to be authorized representatives of the beneficiary communities, it is not surprising that they are also members of regional organizations and federations and, in some cases, of the beneficiary communities themselves. This is unavoidable but as outlined in the PAD, the conflict of interest risk is being mitigated by a significant amount of work done during preparation to clearly define the eligibility criteria, identify the regional organizations and federations that will be presenting proposals and outline the conflict of interest rules and guidelines. The risk is further mitigated by the 2 technical levels between the beneficiary communities – the regional indigenous organizations and federations and the NEA – and the NSC as the primary decision making body. I am including a translation of the section on conflict of interest from the OM below for your review and comments.

From page 14 of the draft Operational Manual (translated from Spanish):

Members of the NSC during the implementation phase of the project must maintain professionalism, impartiality and objectivity, without any consideration regarding future work arising from the implementation of the project. Also, maximum importance should be given to the interests of the MDE program and be above private interests.

Guidelines for identifying a conflict of interest:

- A conflict may exist when project related decisions are affected by the particular interests of any member of the NSC or when any of the following is present:  
Member of the NSC is directly involved in the project contract, agreement or conflict or have a direct interest in the same;
- Family members of a member of the NSC or people who have a close relationship with the members of the NSC, are involved in the project activity, conflict resolution or receive any benefit or direct grant under the program;
- If the CRC is a member of bias in a trial to be taken in relation to the implementation of the program, such as membership and / or representative of the beneficiary community.
- Hiring a consultant or vendor that is family/ relative or person who has close relationship with a member of the NSC;
- If any member of the NDC is part of the organization receiving funds from the DGM or participates as part of board (governing body) of that organization;
- If a provider/consultant offers to any member of the NSC gifts that cost more than \$ 50 US dollars.

When any conflict of interest is perceived or could be perceived between members of the NSC, they are obliged to inform the other members of the NSC through the NEA, or, where appropriate, the Director/Coordinator of the DGM project in writing. The NSC or the Project Director/Coordinator will be required to analyze the case and recommend the most appropriate decision in accordance with the DGM Operational Framework, NSC Regulations and this OM and

recommend whether the member should abstain from participating in the decision in which they have a conflict of interest.

As you highlight, the implementing arrangements are indeed complex. Several alternatives were considered during preparation but the National Steering Committee was very much committed to pushing the actual implementation down to the community level for the reasons outlined above. Page 17 of the PAD indicates that there will be a mid-term review at the end of Year 3 to assess progress with implementation and to make any necessary adjustments. Generally, a mid-term review will look at all aspects of implementation including implementing arrangements, level and pace of disbursements, implementation of safeguard measures and make recommendations regarding any adjustments that should be made. Adjustments/changes would fall into 2 broad categories depending upon their nature and these categories would determine which level of management would need to approve them. A mid-term review was specifically included in this Project as a way to ensure that any issues or problems are identified relatively early so they can be promptly addressed. The end of Year 3 was chosen as a natural point for this review as it will be the point in which the Bank, NEA and NSC will decide whether implementation is going well enough to take on the higher risk timber projects.

With regard to the timber subprojects, the eligibility criteria is outlined on page 19 of the PAD. As explained above, the DGM will only finance small scale, community based timber subprojects during Phase II after a successful mid-term review and these subprojects will require the following: i) Titled community lands that have an approved natural resource management plan that includes timber activities (subproject will need to be consistent with the management plan); ii) Community has no outstanding debts with SUNAT; iii) Direct implementation of the subproject by the community (no third party or company outsourcing); and iv) Clear and demonstrated access to a viable timber market. The DGM will only finance 5 of these subprojects and only \$50,000 per project has been allocated. As with all activities financed by the World Bank, these subprojects will need to comply with the operational policies of the Bank and guidance regarding how to manage and mitigate any potential negative impacts is included in the ESMF that is currently available on the Bank's Infoshop. I am attaching a copy here for ease of review.

The 18 project intermediaries (PIs) are the regional level indigenous organizations and federations. These are well established representative organizations that operate at the subnational, regional level and most indigenous communities in the Amazon are affiliated with one or another. The mandate of these organizations varies according to the needs of their members but generally they are responsible for representing their members at the national level – in the various roundtables or as a partner to the Ministry of Culture - and they work to improve health, education, housing, land rights and cultural survival. Many of the regional organizations have been actively working on native community registration and land titling for decades and have been active participants in the process to define the various methodologies that are currently being used to prepare the applications, demarcate lands and register titles. As might be expected, their capacity varies greatly with some of them having extremely high capacity with decades of experience managing development projects and working with international donors and

organizations as well as a high profile at the national level and others being fairly incipient in terms of their experience managing projects and other development initiatives. It is expected and the budget accordingly allocated for the NEA to provide more support to the latter organizations and potentially using cross fertilization with the organizations with higher capacity. All the project intermediaries identified for the DGM Peru have some degree of legal personality and most are registered with ARPI which allows them to receive international grants. CDD rules regarding procurement and financial management have been allowed in order to avoid excluding those that may not have as much experience and they will be supported during early project implementation to put all the requisite financial management policies and procedures in place before they receive funds from the DGM. In addition, the NEA has primary responsibility for project related reporting and this will allow those organizations with lower capacity to focus on project implementation. One of the strongest of the regional organizations is FENAMAD in Madre de Dios. As indicated on their website, they represent 33 communities that belong to 9 ethnic groups. They recently provided technical assistance and support to the Ministry of Culture for a prior consultation process with their member communities that is required by the Prior Consultation law. They also have a fairly significant focus on recognizing and fostering the role of women in education, health, political affairs and cultural survival. They have a website: <http://www.fenamad.org.pe/> and a Facebook page: <https://es-es.facebook.com/FENAMAD>.

In terms of responsibility for ensuring compliance with the eligibility criteria, this is indeed a joint responsibility among all the levels of the implementing arrangements. The PIs will provide technical assistance to the potential beneficiaries and will help ensure that their proposals comply with the basic eligibility criteria that you refer to in paragraph 40. This includes ensuring that the budgets and timelines are realistic and reflect the approved expenditure categories and the general objectives of the FIP/DGM. In addition to reviewing proposals for the above, the NEA will also have the responsibility for ensuring that the proposals are technically sound and contribute to the PDO for the Saweto DGM. As indicated in paragraph 46, the NEA and the NSC are jointly responsible for monitoring progress toward the gender target. Finally, the NSC will review all the proposals formally submitted for overall quality, economic feasibility, consistency with the FIP Investment Plan and FIP objectives and potential for meeting the Project indicators. Finally, the Bank, as part of the general Project implementation support, will review all aspects of project implementation including compliance with the eligibility criteria during the regular supervision missions that will be undertaken jointly with the NEA and the NSC.

I hope we have addressed your concerns but please let us know if a phone call is also required in order to further clarify or in case there are additional issues that we have not covered.

Thank you in advance

Kristyna Bishop on behalf of the task team for the DGM Peru

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