Climate Investment Funds

May 28, 2015

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

Dear Gaia 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.

The implementing arrangements are indeed complex but both the NSC and the team strongly feel that this particular configuration is required in order to ensure that the DGM investments and benefits reach the indigenous communities and will actually build some much needed capacity at this level. 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 as they expressed frustration that many development projects 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. The NSC also indicated that many of the project activities rely heavily on information that only the community itself can provide and therefore they should be directly involved in the implementation of the subcomponents. For example, the community has to provide the bulk of the information required for the preparation of the application for registration as a native community and therefore it makes sense to hire local community members to gather the information and documentation and then they will work with the project intermediaries for assistance with preparing and submitting the formal application. As the project intermediaries will be working with several communities on the registration and titling, it is also anticipated that there will be some economies of scale.

The 18 project intermediaries 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 order to support the regional indigenous organizations and federations with the preparation of the subproject proposals, the NEA will provide technical assistance to them during the preparation of the proposals and then will review the proposals prior to their submission to the NSC to ensure that they are consistent with the subproject format included in the OM (very basic outline), eligibility criteria and that the budget complies with the list of eligible expenditures included in the PAD. However, the NEA will not change the activities or ask the organizations and federations to change the priorities that have been identified by the community. The NEA will work directly with the regional organizations to finalize the proposals and then formally submit them to the NSC for final review and approval. The NSC will also have 2 technical specialists that will be contracted during the review period to ensure that the proposals contribute to the PDO and indicators, are technically sound and to monitor progress meeting the gender target.

The main justification for what seems like a very complicated implementation arrangement is to address precisely what you identify in your comments as one of the challenges for this sort of project; how to reach the intended beneficiaries who live in very remote areas and are not easily reached (and by consequence are often excluded from many development projects) and who may not have the capacity or prior experience to prepare and implement their own proposals? During preparation, this issue was discussed many times and it was felt that direct implementation by the communities via their representative federations and organizations was the most appropriate and cost effective way to ensure that the DGM actually benefits these communities and not international consultants or NGOs as is often the case. Each of the regional federations and organizations have a specific methodology for working with their member communities and

they will use this methodology to work with them to do a diagnostic of their needs and interests (in the context of community based forestry), identify a menu of potential subprojects and then develop the master proposal. They can request technical assistance from the NEA and/or other NGOs that are already working in their regions and as explained above many of them already have the demonstrated capacity and experience.

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 case, 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.
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> 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 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. A final version of the OM is a condition of effectiveness in the Grant Agreement and it will require the Bank's no-objection. 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 10th.

The social assessment indicates that there are some non-indigenous forest dependent communities in the area in which the DGM will be implemented. For example, there are an estimated 2,400 *Ribereña* communities living in the Amazon including some in the DGM Project area. These are primarily "mestizo" (mixed) communities that have settled on the banks of the numerous Amazon tributaries and rivers and they share collective ethnic and cultural ties and traditions but they do not generally self-identify as indigenous. The *Ribereña* communities frequently live very close to native communities and there is little conflict – almost all discussions regarding land and resource boundaries are peaceful and consensus based. Recently, some *Ribereña* communities have begun to self-identify as native communities and, in principle, they would qualify for support under the DGM if they are able to satisfy the criteria for formal recognition, which is a pre-requisite for native community land titling under Peruvian law. There are also *campesino* communities who would also qualify, in principle, for support under Component 2 of the DGM if they have titled lands and an approved management plan. The final group are the "*colonos*", or farmers who have migrated from the highland or coastal areas. These farmers generally settle in areas they consider to be "open" and after cutting down the forest for their plots, they cultivate the land or use it for cattle ranching. The negative impacts of these unsustainable agricultural practices were identified in both the Social Assessment and the FIP Investment Plan (PIP) as one of the major threats to Peru's forests and among the primary drivers of deforestation. Most native communities consider the "*colonos*" to be a major threat as they often invade traditional native lands –illegally and sometimes violently - and claim these lands

for their own settlement and cultivation. Data regarding the numbers or socioeconomic characteristics of the "*colonos*" is unavailable as they often live in informal and only semi-permanent settlements. As a result and because the DGM components are all collective in nature, it is unlikely that this group would be eligible for financing.

I hope we have addressed your concerns but please let's plan for a phone call either today or tomorrow 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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