

BIC Response to World Bank Comments

Peru Case Study

General

Overall, the World Bank contends that the two DPF operations in Peru coupled with a long list of other World Bank Group assistance aimed at climate change and environmental governance, does support the right incentives for low carbon development.

This paper specifically focuses on investment incentives contained within the World Bank's policy and institutional reforms supported by the Public Expenditure and Fiscal Risk Management Development Policy Financing and the Boosting Human Capital and Productivity Development Policy Financing, as well as any Bank technical assistance related incentive/policy recommendations that are linked to the DPF operations and have been adopted by the government.

In order for the World Bank to get the incentives right for a low-carbon transition, the Bank must understand what kinds of investment incentives are most effective for renewable energy projects while at the same time ensuring subsidies are not being created and granted to fossil fuel projects, especially coal.

Most of the World Bank's specific comments on the Peru Case Study have been addressed within the paper itself, either by revising/strengthening or deleting sections in the paper. The following are specific comments that required more follow up.

Specific Comments

From Bank Comment 2: "The BIC report argues that the new framework could have a potential negative impact on the environment by citing a number of public-private partnership (PPP) projects in Peru that were completed before the reforms supported by these two DPFs were enacted (e.g., the South Gas Stream Pipeline). Unfortunately, the reforms cannot be applied retroactively to contracts that were already signed and therefore have no connection to them."

BIC Response: In the case of reforms contained in Law 30230 stipulated by Prior Action 6 of the Boosting Human Capital and Productivity DPF, the Bank is incorrect that the reforms took place after the Southern Peru Gas Pipeline project was completed. In fact the contract for project had not even been signed.

The paper rightly points out: Law 30230 was enacted on July 11, 2014 just days before the contract for the Southern Peru Gas Pipeline was signed on July 23, 2014. The Southern Peru Gas Pipeline project is still struggling with securing the necessary finance. As such reducing the financial risks associated with noncompliance of environmental regulations, which Law 30230 does, boosts the bankability score for potential lenders.

While it is true that three PPP energy projects listed in the report were approved prior to the enactment of the new DPF-stipulated PPP framework, this paper argues that these projects have not reached

financial closure and thus, according to the new PPP regulations, an existing PPP contract can be renegotiated and be amended. PPP contractual amendments are most often due to changes requested by lenders to address bankability issues. This is particularly relevant to the Southern Peru Gas pipeline as it is still currently unable to secure all the necessary financing.

From Bank Comment 4: *The new PPP framework adopted by the GoP strengthens governance of PPPs by ensuring that the good investment management practices that are applicable to all public investments in Peru, will also apply to investments financed through PPP transactions. This stronger regulatory and governance framework for PPPs is likely to help reduce potential negative impact on environment, forests and natural resources by enabling better scrutiny of investment projects financed by the PPPs.*

BIC Response: The BIC report does not argue that none of the DPF-supported reforms provide improvements to certain governance elements. It specifically points out where the DPF-supported policies pose risks. For example, the DPF-supported new Law 30230, which was opposed by the Peruvian Environmental Ministry and the United Nations on grounds that it weakened Peru's environmental governance and the protection of indigenous peoples.