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# FOREST CARBON, MARKETS AND COMMUNITIES (FCMC) PROGRAM

INTEGRATED REDD+ ASSESSMENT OF PERU  
EXECUTIVE SUMMARY



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COVER PHOTO: Deforestation and changing land use between Alerta and Planchon, Madre de Dios, along new international highway connecting Brazil to the Pacific Ocean. Courtesy of Dr. Janis Alcorn.

## **DISCLAIMER**

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# EXECUTIVE SUMMARY

The UN Framework Convention on Climate Change (UNFCCC) and various voluntary carbon offset mechanisms have catalyzed global interest in the use of forests to meet climate change mitigation objectives through REDD+.<sup>1</sup> Though the rules for a REDD+ global mechanism are still under development, and the international market for carbon is plagued by uncertainty, governments, domestic and international nongovernmental organizations (NGOs) and private sector actors are engaged in policy preparation and pilot activities.

Peru is on the cutting edge of REDD+ in comparison to most countries in the world. Peru's 72 million-hectare forest estate has the potential to contribute to meeting international REDD+ objectives, as well as conserve biodiversity. In 2010, Peru accounted for one-third of global supply of forest carbon credits, and projects have been developed across a variety of Peruvian landscapes. Peru has also demonstrated leadership on nested REDD+, whereby individual project activities operate within a larger national or sub-national accounting framework. The global process envisions a national three-phased approach of 1) national readiness, 2) demonstration and pilot activities, and 3) performance-based payments of verified activities. While pilot activities are underway and domestic and donor financing is flowing to support national readiness, there are numerous capacity and policy gaps that must be filled over the coming years.

To promote increased investment in forest carbon and to meet international readiness criteria, Peru will need to develop and implement national- and regional-level policy and guidance in technical areas, and to build the capacity of a wide variety of stakeholders to make informed decisions on participating in REDD+ opportunities. This has begun to happen to some degree, albeit in an ad hoc fashion, through internal initiatives and multiple partnerships with international organizations and donors. With targeted technical and financial support and political will, Peru can provide replicable lessons of national, regional and project-level activities for REDD+ to inform other developing countries in the near future.

The USAID/Peru Mission requested that the USAID Forest Carbon, Markets and Communities (FCMC) Program conduct an integrated REDD+ capacity assessment for Peru that includes social and environmental soundness; finance and carbon markets; and measurement, reporting and verification (MRV). This report is the result of that effort. This executive summary reports the greatest gaps in capacity, and opportunities for improvement, informed by this integrated assessment, which was undertaken, in-country, from 8-26 August 2011 by a team of Peruvian and international experts. The following summary represents key opportunities organized within the assessment's three thematic areas. Additional opportunities under each thematic area are listed in the main chapters.

## KEY OPPORTUNITIES FOR REDD+ IN PERU

This assessment identified two crosscutting challenges for REDD+ in Peru: the **lack of a national REDD+ strategy** to guide a common direction for the Peruvian REDD+ system; and **the need for more effective coordination and communication** within government at the regional and national levels and among local national and international stakeholders.

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<sup>1</sup> REDD+ is "reduced emissions from deforestation and forest degradation in developing countries, and the role of conservation, sustainable management of forest and enhancement of forest carbon stocks in developing countries."

There is currently no national REDD+ strategy in Peru. REDD+ is a multi-sectoral undertaking, and to date, national ministries and regional governments have had varying involvement. As a result, the roles and responsibilities of relevant governmental agencies are presently unclear, leading to inconsistent guidance and a lack of authority. Peru's REDD Readiness Proposal (R-PP) to the Forest Carbon Partnership Facility (FCPF) begins to suggest a framework for institutional roles and coordination in implementing REDD+, but this needs to be further formalized. The development of a national REDD+ strategy should be consistent with overall national development priorities and with relevant sector strategies, particularly related to forestry, agriculture and mining. The strategy must lay out a pathway to address issues related to meeting the UNFCCC social and environmental safeguards for REDD+, as well as MRV guidance for emissions and social and environmental soundness. It is important that the process for developing a national strategy be as inclusive as possible (the R-PP process has been criticized as non-transparent), and it should include a mechanism to ensure strong coordination among key institutions, as promoted in the R-PP by the creation of an *Oficina Coordinadora de Bosques y REDD+* (OCBR).

While Peru has been seen as a global leader in bringing stakeholders together to address key REDD+ challenges through the (mostly) NGO-led REDD+ roundtables, there is a need for additional spaces for coordination and communication at a variety of levels. Nationally, the OCBR may be empowered to fill this space for internal coordination among ministries, though if the OCBR is led by the Ministry of the Environment, it is not certain that it will be able to maximize coordination and inclusiveness goals. A particular opportunity and challenge in Peru is the strong focus on decentralization. On the one hand, effective decentralization can lead to empowerment and better distribution of information to the local level; however, it also creates a major coordination challenge. Regional governments are anticipated to be active in the OCBR, but their relative power in this forum is uncertain. Of equal value is the need for sharing of experiences among regions, as some, like San Martin and Madre de Dios, have developed valuable lessons with project and regional REDD+ efforts. Donors are channeling significant investments into Peruvian readiness from funding research to capacity building to pilot activities. The donor Green Table (*Mesa Verde*) has been somewhat inactive over recent years and could be revitalized through an increased focus on REDD+. Finally, coordination and communication with the private sector and local stakeholders has been a significant challenge to establishing local buy in and learning lessons from the business sector. Supporting spaces to bring these stakeholders together and share information will reduce conflict; lower the risk of default; and establish confidence in the opportunities available through REDD+ to improve governance, empower regional governments, strengthen the rights of stakeholders and realize opportunities for economic growth.

## **MEASUREMENT, REPORTING AND VERIFICATION**

Peru has made solid strides in various technical aspects of MRV through internal efforts and support from international donors and universities. For example, the Ministry of the Environment (MINAM) is developing national deforestation and vegetation maps and aerial light detection and ranging surveys for biomass estimation. Upcoming activities via the Group on Earth Observations (GEO), SilvaCarbon and others should offer opportunities for comparative studies of the methodologies for analysis of remotely sensed data. Likewise, MINAM is collaborating with the Food and Agriculture Organization of the United Nations (FAO)-Finland and the US Forest Service (USFS) on *in-situ* forest inventories. Better coordination among agencies and these donors should be facilitated.

As noted above, the focus of decentralization on empowering regional governments creates challenges and opportunities for building the capacity of actors at the regional level, potentially with the support of national and international academic institutions. In addition, more advanced training of young scientists to ensure a long-term high level of capacity is necessary, as at present, capacity is highly dependent on too few professors and projects. This could include international scholarships on various technical skills needed for an effective MRV system.

Most importantly, and not limited to MRV, is the need for a national REDD+ strategy that defines a vision for REDD+ MRV and GHG inventories going forward. It should be recognized that this is not simply a

technical challenge, but involves political decisions that are made both in-country and through international negotiations. For example, international negotiations may define a base year, or particular reference-level approach that constrains MRV options. However, to date approaches that are flexible to national circumstances have been championed. In this case, national decision makers will be charged with developing a MRV framework that project- and regional-level activities will nest within. Key opportunities in MRV are related to facilitating the development of a functional MRV system and capacity building. High priority opportunities in the area of MRV the need to:

### **International Coordination**

- Facilitate coordination among donors, and work with MINAM/MINAG to develop a capacity needs assessment table so donors can see where they provide support and avoid overlaps.

### **National Framework and Coordination**

- Facilitate coordination between regional governments and national governments including MRV-related initiatives (e.g., National Forest Inventory development, GHG inventory development, and capacity building).
- Facilitate integration of efforts between national and regional governments and among institutions including MINAM, MINAG, the *Oganismo de Supervisión de los Recursos Forestales y de Fauna Silvestre* (OSINFOR) and academia.

### **National- and Regional-level Capacity Building**

- Support methodological comparisons on technical components of MRV (e.g., satellite and aerial monitoring of land cover change and biomass).
- Support the creation of capacities in regional governments to design and implement a functional MRV system able to measure carbons stocks changes and to monitor the performance of the REDD+ initiatives within its territory.

### **Integration with GHG Inventories and Planning**

- Support the development of a robust forest database where spatial information and carbon data is accessible for relevant stakeholder.

## **SOCIAL AND ENVIRONMENTAL SOUNDNESS**

The key social and environmental soundness issues encountered in Peru on REDD+ activities revolve around stakeholder rights and responsibilities, governance, and knowledge and capacity. With respect to rights, vulnerable populations whose rights may be affected by REDD+ include indigenous peoples, *riberños*, *campesinos* in unregistered communities and colonists. Furthermore, gender issues have been particularly neglected to date in the Peruvian approach to REDD+, which is not unusual for REDD+ countries. Lack of clear rights and responsibilities have contributed to conflicts over natural resources and led to a public demand for social inclusion in the Amazon region. REDD+ has the potential to exacerbate conflicts as new values are given to forest/land resources, unless a wide variety of local stakeholders are engaged in activities that strengthen their rights, clarify overlapping rights, and increase factual information about the opportunities and risks of REDD+. Ideally communities will have a concession or title, a *contrato de cesion en uso*, and have these rights registered to participate in REDD+. In practice, this may not be feasible at present and mechanisms to strengthen rights while beginning the process of engaging in REDD+ activities should be considered. This highlights the need for the procedural rights of populations to participate in REDD+ to be clarified and strengthened.

In terms of governance challenges, social and environmental soundness must be institutionalized, through the development of REDD+ safeguards and systems for social and environmental soundness monitoring and

reporting. This is currently being explored in the region of San Martin, which is considering following the REDD+ Social and Environmental Standards Initiative to develop appropriate indicators. With respect to linking local, regional and national governments, regional governance will be a key aspect of implementing a nested REDD+ approach. Regional governments are relatively new and are responsible for titling and REDD+ implementation activities. Given their nascent state of evolution, they require significant support as noted above.

With respect to information and communication, REDD+ projects and programs are not following shared standards, safeguards or benefit-sharing patterns. While this is to be expected in a project-focused system, as national coordination of REDD+ increases, more clarity and standardization will be necessary. Existing processes such as REDD+ roundtables have provided valuable forums for sharing information but have not yet been able to effectively engage a broad swath of civil society. On the whole, there are gaps in the availability of information to achieve REDD+ social and environmental soundness. Thus information sharing and cross-scale communication is important for coordination at all levels, and there is a need to develop studies of progressive and innovative cases that can be shared to help new projects build on lessons learned. High priority opportunities include:

### **Stakeholders Rights and Responsibilities**

- Support the titling of indigenous and *campesino* territories.
- Support study of rights under the Forestry and Wildlife Law.
- Support land use planning.
- Support population studies for social baselines.
- Support the evaluation of options for carbon ownership or rights.
- Support evaluation of procedural rights.

### **Governance Opportunities**

- Support the development of REDD+ safeguards, standards and benefit distribution guidance.
- Support the development of a national strategy for forestry and a national agriculture strategy, including public discussions with stakeholders.
- Support gender inclusion.

### **Knowledge and Capacity for REDD+**

- Support case studies and learning from the San Martin region model.
- Support the investigation options for REDD+ program for national protected areas.
- Support the assessment of the flow of communication at the a) implementer-community nexus, and b) government-civil society nexus.

## **FINANCE AND CARBON MARKETS**

Maximizing Peru's REDD+ potential requires implementing an "investment-grade" financial architecture. This could catalyze capital markets to dramatically increase the funding of REDD+ activities by providing attractive, long-term, risk-adjusted returns. This could shift the risk-reward balance in favor of REDD+ investments, lowering the cost and increasing the competitiveness of Peruvian REDD+ offsets. Peru has already demonstrated the ability to provide high-quality offsets to the global market through privately funded projects in a variety of landscapes. Despite uncertainty in the global demand for REDD+ credits, Peru is poised to develop a reputation for high-quality/low-risk credits, and thus create a niche for sustainable growth of the sector. To realize this opportunity, the Peruvian government should invest in developing standard operating procedures and business templates for the forest carbon industry. Additionally there is a need to work to ensure clear roles and responsibilities for the Peruvian government agencies, particularly

within the Ministry of Economics and Finance, and clarify rights and responsibilities for local stakeholders. Such activities should also begin to bring the Peruvian financial services industry into the public dialogue around REDD+.

Peru presents valuable opportunities for testing approaches to nested REDD+, which will move Peru from an independent project-based system to a system where projects are nested within a national framework. The supply and demand policy drivers for land use change as a mitigation option exist, and the potential affordability of REDD+ offsets make the sector an attractive investment opportunity. As a result, the following high priority opportunities are largely based on activities that will encourage increased investment:

### **Government, Donor, Civil Society and Private Sector Coordination**

- Support multilaterals, Peru and donors in the capitalization of a seed capital-feasibility fund and a working capital-project implementation fund.
- Support multilaterals, Peru and donors to provide structural finance support to the REDD+ industry.

### **Economic Drivers of Deforestation**

- Support analyses of direct and indirect deforestation drivers.

### **Administrative Processes and Agency Roles**

- Support Peru's application of international finance best practices.
- Assist SMV and MEF in issuing national registry guidelines.
- Encourage SUNAT to make clear REDD+ taxation accrual and REDD+ business permitting issues.

### **Land and Natural Resource Tenure and Carbon Ownership**

- Encourage or support Peru to explicitly define an "offset" as a financial instrument service agreement.

### **Nested REDD+**

- Encourage or support Peru to require financial feasibility studies for all projects.

## **CONCLUSION**

Though the compliance market for REDD+ credits at the international scale is bleak in the near to mid-term, REDD+ remains very attractive to international investors and donor countries. Peru's existing experience with forest carbon has provided lessons to learn from, and the challenges facing REDD+ readiness are clear. Most of the activities suggested in this assessment represent "no regrets" opportunities, actions that would be beneficial even if the global forest carbon market does not expand dramatically in the short term. The activities proposed strengthen the rights of rural populations and provide them with information to make land use decisions. They build the capacity of the Peruvian central government to coordinate internally on cross-sectoral issues, and they strengthen the ability of regional governments to implement and enforce rules and regulations. They identify opportunities to mobilize capital and bring a greater proportion of the Peruvian population into the formal economy. Challenges certainly exist, particularly with respect to the tradeoffs between extractive industries and REDD+/forest conservation in the Amazon, longstanding distrust and lack of effective information sharing between rural stakeholders and government, and the need to rapidly build capacity within regional government. However, if international investment for REDD+ readiness is coordinated and targeted effectively over a sustained period, Peru can realize measurable economic growth, biodiversity conservation and emission reduction benefits from REDD+.

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