

Comments on Peru's Advanced Draft ERPD May 2019

Carbon Fund Participants (CFPs) commend the Peru team for presenting a strong and comprehensive ER Program Advanced Draft Document. CFPs encourage Peru to take into account the comments from the TAP and comments below as it works to finalize the ERPD.

We would first like to congratulate the Peru ERPD team for submitting a strong and ambitious ERPD proposal. We can see that a lot of work and effort has been put in to achieve this draft proposal.

Carbon Accounting:

- On a general note, and as indicated by the TAP, we encourage Peru to review values and inconsistent units used in the document.
- As mentioned, Peru has been working on a new 'direct' method to measure forest degradation. A description of this method would be welcome, particularly if it is feasible that this method will be ready to be utilized in San Martin and Ucayali in time for the first reporting period. In such a case, it should also be clear how this methodology will meet the 2018 guidance on improving uncertainty.
- Degradation proxy method: after the first year no other observations were recorded. We note that if one of the non-intact forest classes would change into another one, or would be reforested again, then this information is missed.
- The figures for degradation derived from the proxy method appear high – it would be encouraged to update and refine the method with the more direct approach. From the document it is not exactly clear how the monitoring will ensure that annual change detection will not encounter problems of double counting. In such a case, it should also be clear how this methodology will meet the 2018 guidance on improving uncertainty.
- For deforestation occurring in the monitoring period in previously degraded forest a different EF is needed, otherwise there will be an overestimation of emissions.
- The TAP assessment indicated that the emission factors differ between the ERPD and MINAM. These also differ from emission factors in the FREL due to 'small non-statistically significant errors'. More information on the differences in emission factors, possible errors and which EF have been selected for the program and why would be useful. In addition, Peru are completing their NFI. Does this mean that all the emission factors will be updated ahead of the accounting period both for the reference level and accounting?
- It appears that the forest definition includes forest plantations. This is problematic when forests are converted into plantations as emissions due to this conversion might not be properly captured. We therefore see a need to collect auxiliary data on forest plantations. Please describe any plans to improve methodology in order to separate classes of mature forest plantations from mature primary and secondary forests.
- Agree with the TAP recommendation to encourage Peru to consider the inclusion of the QA/QC procedures from the NFI in case the emission factors are updated
- As per the TAP recommendation, encourage Peru to elaborate an assessment of the relative contribution of identified uncertainties to the overall uncertainty. This also relates to the accuracy assessment for the change classes, where uncertainty also necessarily is higher than for the stable classes.

- The uncertainty numbers derived from the Monte Carlo analysis are unrealistically low (0.14%) – there seems to be methodological issues with the use of this approach that Peru may wish to look into :
 - A formula on page 15 of the McMurray et al. (2017) guidance document seems to have been misunderstood. This particular formula concerns uncertainty about the mean computed from a sample such as a Monte Carlo sample, as is explicitly stated at the top of page 15 (McMurray et al., 2017). It does not concern the uncertainty about the random variable itself. Here, sigma should not be divided by the square root of the number of Monte Carlo runs.
 - With more Monte Carlo runs one can better estimate sigma/standard deviation and the central tendency. Sigma itself is the property of interest not sigma/sqrt(n). Implications are that uncertainties expressed as percentages should be 100 (sqrt(10000)) times higher than what has been included.
- Regarding estimating emissions from biomass burning: what if not all areas have been burned? How would this affect the estimations? Would it be possible to acquire satellite data of areas burned to verify if it concerns the same areas?
- New global research findings suggest that much more peat exists in the tropics than was previously reported. This includes new peatlands in Peru mainly in the Loreto region, but also Ucayali and the Madre de Dios region seem to harbor significant peatlands. As Ucayali is part of the ER program it would be good to know if Peru/MINAM plans in the near future to include these wetland ecosystems in their national GHG accounting system / NFI considering that peatland's soil carbon pools are of major importance.
- Biomass values used Chave 2005 for allometry. Why was this chosen ? Use of Chave 2014 would increase accuracy.

Benefit Sharing:

- We would have expected much greater detail on the benefit sharing plan at this point. When is the advanced plan expected to be finalized?
- The ERPD mentions a third-party external review of the benefit-sharing procedures which is really good, it's the first ERPD we see that commit to some sort of evaluation. It'll be good to also evaluate the effectiveness and impact of the benefit sharing programme.
- Page 232- "In most cases, the magnitude of benefits will not be based on contributions to emissions reductions, but rather on the size of the incentives needed in order to change beneficiaries' behaviour in favour of forest protection or more sustainable land use practices". How will the level of the required incentive will be determined? This is a complex assessment to make, can they provide some details on how they plan going about this?
- What "fiduciary entity" will manage the distribution of benefits? This is a key component of the benefit sharing plan. Far greater detail, including a timeline for the finalization of the design of this entity, governance, and relationship to other institutions involved in program management, is needed at this juncture.
- On page 235 it states that if one "region" is above the compensation baseline and another is not, but total reductions are above the Reference Level, the region with reductions below the reference level can sell to payers other than the Carbon Fund. This would go against the jurisdictional REDD+ principles (and nesting). FCPF would have rights to emission reductions

coming from the whole jurisdiction, and sub-regions would not have a legal right to sell (sub-par ERs) to other actors than the FCPF.

- Nesting of ongoing projects and the measures to be implemented to avoid double counting need to be clearly articulated taking into account the existing REDD+ Projects and addressing how contributions from these project will be rewarded. It would be important to receive more information about which nesting approach Peru is aiming to achieve and what the timelines and fall-back options look like. The details on nesting will need to be fully clear before ERPD approval.
- Under distribution channels on page 234 communities are not listed as beneficiaries
- At this stage we would encourage a much more developed picture of benefit arrangements and that the BSP is prioritized to be as advanced as possible before July. This will give us a better picture of how you will deal with projects (and reward them), what type of benefits you will distribute (monetary, others) and how these are attributed. Also how this is consulted in a transparent way and a timeline for this.
- Peru is currently in the process of establishing a financial mechanism/benefit sharing mechanism in the framework of the NDC process and the ongoing consultation process of the regulations for the new Climate Change law. At the same time various donor initiatives (JDI with Norway and Germany, FCPF CF) are willing to provide results-based finance for REDD+ and require a financial and benefit-sharing mechanism. Is MINAM planning to set up various mechanisms for each RBF-source or are there any plans for a harmonized approach? What will be the role of other ministries in sharing benefits (e.g. Ministry of Development and Social Inclusion; Ministry of Finance, Regional governments, etc.) especially considering the legal mandate of MINAM's PNCB program will end in 2020 (DECRETO SUPREMO N° 008-2010-MINAM)?
- Is there sufficient capacity and data at the regional government level for them to provide data on off-farm employment (via OPIPs and the Public Private Coalition)? Will this interfere with assessing this non-carbon benefit?

Safeguards

- The Environmental and Social Assessment of the ER Program, the Environmental and Social Commitment Plan (ESCP) and the Stakeholder Engagement Plan (SEP), including the grievance mechanism of the Program needs to be fully developed.
- SESA and ESMF documents do not seem to be available. They are essential for the program safeguards to be evaluated properly. What is the status?
- The ERPD states that some of the ongoing projects in the ER accounting area have no application of safeguards because they are in the process of design or it is not requested at the moment, and other projects have presented loosely some environmental management framework because of requirements from the ones executing them. The ER program needs

to develop a more tailored and in-depth proper Environmental and Social Assessment including Safeguard Plans. An ESMF would address issues like this. Again please explain why SESA and ESMF are not developed? Available?

- A detailed road map and a timetable should be included that will guide safeguards monitoring arrangements as they apply to the ER Program
- MAC (FGRM) is still under development and many questions still are unanswered around consultation, responses to complaints and how information is evaluated and treated.
- The sections on Benefit Sharing and Safeguards Plans in the ERPD contains no references to the FGRM procedures that will apply to them.
- Related to the Land Tenure Challenges described in page 105 it is said that it is complex due to the number of steps to be followed. How does this affect the ability of the ER program to contribute to the land titling completion for Indigenous Peoples. The program needs more details and explanations around how do you address:
 - Land conflicts or disputes (legally) – what dispute resolution mechanisms be applied for the ER-program?
 - Simplification of procedures
 - Ensuring the inclusion, participation and involvement of counterparts in the processes
 - Legal recognition of rights
 - FPIC
- On non-carbon benefits, p244 the ERPD mentions the three priority non-carbon benefits: habitat conservation/fragmentation and connectivity (environmental), institutional coordination (institutional), and job creation in green industries (socioeconomic). Will the other non-carbon benefits listed in table 16.1 still be supported in some way?
- For the indicators and means of verification for MAC-ER Program (table 14.3.1), please explain what an «accountability event» is as it is a means of verification for a transparency mechanism, but does not appear to be explained elsewhere in the ERPD.
- Provide further explanation as to the rationale for a virtual FGRM platform in San Martin but only face-to-face in Ucayali (p. 227). Are the plans intended to make all forms accessible in all areas?
- Gender seems to come up primarily as part of the mitigation measures for addressing risks of the ER program. Are there plans to create any more systematic inclusion of culturally appropriate gender integration into the ERP?
- Provide further information regarding the monitoring and evaluation process, as there is limited information available in the ERPD (p132)

- Peru's safeguards plan is based on a pre-existing national safeguarding program and a law called the Law of Prior Consultation of Indigenous Peoples, which derives from the national constitution and seems to both be good institutional tools, but it's not clear how they work together. Please provide further context on this linkage.
- Table 14.1.3 summarises the negative impact, risks and mitigation activities. The mitigation activities are described very generally and it's hard to assess whether they are appropriate. There is more work to do in terms of assessing the risks and how to mitigate them (the TAP report concluded the same). In addition, as there are many risks identified, I think it will be helpful to introduce some sort of rating to risks so mitigation activities can be prioritised.
- Monitoring of the safeguards system is discussed but no mention of evaluation, which is important in order to assess the impact of the mitigation activities and generate knowledge useful for future learning.

ER Program Transactions

- There is confusion around the legal nature and ownership of the ERs and the ER Program doesn't present the legal provision that establishes the competence and legal ability of the ER Program entity to transfer title.
- No legal provision for MINAM to have the authority to enter into an ERPA. How would this be resolved?
- The National Registry of Mitigation Initiatives (NRMI) design is expected to be completed by April 2019 (p255) for the registry to be implemented in February 2020. Has the design been completed?
- The ER-PD identifies two potential paths to demonstrating the right to enter into an ERPA with the Carbon Fund. What is the timeline for the selection of one of these paths, and what is the timeline associated with the completion of each of these options? The lack of clarity on the ability to enter into an ERPA is a major risk.
- Very little detail is provided on how the right of the program entity to transfer title will be made clear. (This is different than the ability to enter into an ERPA.) How will Peru ensure that the right to transfer title to ERs is clear? What is the associated timeline? This is also a major risk.

Data management and Registry

- How will the four projects referenced be nested into the ER-Program – this includes accounting, benefit sharing, as well as participation in registries. As these projects will contribute about half of expected ERs, this is a critical question, and should be fully clear before ERPD approval. (December 2019 is expected to be after consideration of the ERPD, including the RL.)

- How would these projects «use their baselines» until 2020? Would the resulting ERs be subtracted from ER program accounting, or is another accounting approach envisioned? If the latter, how will consistent accounting be applied throughout the ERPA-period?
- Will the National Registry of Mitigation Measures meet FCPF requirements for a transaction registry? Far greater detail on the functions of this system is needed.
- Has the design of the NRMM been completed (expected April 2019)?

Program Design

- Many of the sources of finance for the implementation of the ER-program are project and programs that have been ongoing for many years. Are the sums of finance discounted for the years that they have been already operative?
- FIP, GEF, USAID etc have already implemented much of their activities, and do not have many years left to implement after ERPA signature. How is this dealt with?
- We want to particularly back the TAP recommendation to link the drivers assessment more closely with the ER program interventions to solidify the theory of change.
- How does Peru propose to fill the budget deficit & financial gaps in the programme (outlined in table 6.2.2)?
- The institutional deficit of 11.7 million says it will be solved by R-PP funding of 5 million. Please explain in detail.
- The financing plan seems to revolve around the reliance on the private sector investment in returns from forest and non-forest products. Are there current plans underway at this level of investment and if not, what are the alternatives for financing?
- On the inclusion of the private sector, we see that there is a strong understanding and links between planned activities and underlying drivers, including on 'sustainable rural economic development' which has a clear focus on intensification of agri crops. We appreciate the linkage and clear prioritization of activities (Comment; not a question) How will the risk of double financing with th FIP be avoided?
- p.81. 15.4 MtCO₂e of the 26.8 MtCO₂e expected to be saved from the interventions is attributed to 1.1. assigning rights to forest (unassigned forests + untitled indigenous communities). It has been assumed that land tenure interventions have a direct effect on avoiding deforestation and emission reductions.

Assumption 1) "Direct effects of avoided deforestation on emissions reductions are based on differences in rates of deforestation associated with the status quo (i.e. the rate associated with a given land tenure category) and a new rate associated with an "improved" land use category (e.g.

the effect of assigning rights to forest without rights is to change the rate of deforestation of forests with unassigned rates to that of forestry concessions)."

Land tenure interventions are the enabling conditions which remove barriers to regulatory, enforcement and incentive-based activities which directly reduce deforestation. Thus, land tenure interventions have an indirect impact on reducing deforestation. This raises attribution and optimism bias issues which the current emissions calculations of 1.1. interventions as they may be capturing emissions savings from interventions outside of the programme. Moreover, this could lead to double counting with other interventions in the programme.

1. What evidence, besides from the comparative deforestation rates, do they have to support the expectation that land classification and titling directly leads to avoided deforestation?
2. Have they considered the potential of double counting in their calculations of emission reductions and what interventions have been put in place to mitigate this?

In addition, there are questions whether land tenure interventions always do reduce deforestation. The literature and evidence suggest that the relationship between land tenure (land registration and land titling) is ambiguous and its impact is mixed and dependant on context. For instance, land titling has had positive outcomes in indigenous land¹. However, deforestation rates have been found to increase with land titling of individual producers with large plots (>100ha).²

3. Have the potential "rebound" effects of land titling been considered and the potential of emissions increasing as a result of titling been explored as a risk?

p.113. 1.3% of the budget has been provided to 1.1., the activity which is expected to achieve over half the emissions savings. With only \$2,846,551 they are aiming to assign rights to 1,367,159 ha. Given that land tenure issues, specifically land titling, are deep rooted and complex issue combined with the reliance of the programme for the emissions savings.

4. Please can you provide a further information to confirm that this is enough resource to be realistically and feasible?

Annex 5. The emissions reductions calculation are expecting a significant amount of progress in the first year of the programme:

- 1.1a. 378,722 of 518,722 classified in the first year
- 1.1b. 254,818 of 495,796 titled in the first year

5. Linked to the above, given the complex nature of these issues, the fast rate of progress could be perceived to be overly optimistic. Please can you provide an explanation of why so much progress is expected in the first years compared to the later years of the programme.

¹ <https://www.wri.org/news/land-matters-how-securing-community-land-rights-can-slow-climate-change-and-accelerate>

² Araujo, C., Bonjean, C.A., Combes, J.L., Motel, P.C. and Reis, E.J., 2009. Property rights and deforestation in the Brazilian Amazon. *Ecological economics*, 68(8-9), pp.2461-2468.

QUESTION to the TAP: Why is indicator 3.3 marked no, if emissions from degradation are accounted for using proxy methods (allowed in the MF)?