

## CF READY IN PERU



Planting new trees in the Peruvian highlands. The country's forests are essential for climate protection, but also for conserving biodiversity and the livelihoods of the communities.



## Water stress in a booming economy

Peru: Financing adaptation and mitigation at the foot of the Andes

An impressive image greets you when you fly into Lima: on one side of the Peruvian capital you see the deep blue Pacific Ocean, and on the other, the suburbs that cling to the foothills of the Andes, the “Sierra”. Beyond the mountains, the forests that cover 60% of the country – from the partially tropical mountain forests of the Andes valleys to the dense rainforests of the Amazon basin – begin. Many national parks and reserves conserve the unique biodiversity of these regions, which support the tourism industry and are ecologically important as well.

Over 50% of the Peruvian population lives along the “costa”, the narrow, dry coastline that comprises less than 10% of the country's total surface area. South of Lima, it turns into a coastal desert with extremely low precipitation. With around 9 mm of precipitation per year, Lima is one of the most arid cities in the world and the second-largest desert city after Cairo.



### CITY OF MILLIONS ON A GLACIER-FED DRIP

“Because of its location, Lima has to struggle with a colossal water shortage,” explained Ursula Fernandez-Baca, a Peruvian climate finance expert. Almost the entire water supply of the city with a population of 9.6 million depends on meltwater from the Andean glaciers. This means that climate change, which is leading to changes in the melting cycle, is a major threat. In the long term, the glaciers in the Andes will lose ever more mass and with it, their role as a reliable water supplier. At the same time, the economically flourishing country is growing thirstier. Peru, which scientists consider to be South America's most water stressed country, has one of the fastest growing economies in the world. Its growth is driven by mining and the export of mineral resources – an industry that is

already one of the main water users in Peru and has an extremely adverse effect on water quality.

Peru's water resources are actually immense. In the Andes, which rise to around 5,000 meters just behind the coast, it rains a lot from December until May. But 98% of the rivers that originate in the Andes flow into the Amazon basin and continue on to the Atlantic and not the Pacific. Climate change also goes hand in hand with an increase in precipitation variability. This means that periods of drought will be longer and more frequent, while the frequency of flooding after periods of extreme rainfall will increase. In future, precipitation anomalies and water shortages will also present challenges to Peru's electricity supply, almost half of which is now generated in hydroelectric power plants. In addition, Peruvian fisheries will probably be affected by climate change. Anchovy, sardine and mackerel fishery has a long-standing tradition in Peru and is vitally important to its economy, however an increase in sea water temperature will lower productivity of the Peruvian marine-ecosystems – causing significant effects on local economies.



#### GROWING ENVIRONMENTAL AWARENESS

These are only the most significant consequences of climate change that are confronting this Andean country. This is why it has joined the international negotiations for ambitious climate protection goals with a group of other Latin American countries. "Peru established its Ministry of the Environment in 2008, but even before that the country was developing ever more awareness of the issues of climate protection and the environment," said Fernando León Morales, the GIZ expert who works closely with the Ministry of Environment on a day-to-day basis. "To be truly successful in climate protection, however, one prerequisite

is the creation of institutional arrangements between the different public and civil society organisations here." He works for the ProAmbiente Programme of the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) on behalf of the German Federal Ministry for Economic Cooperation and Development, which supports the Peruvian government in achieving its environmental goals and implementing an effective environmental policy management system.

Laura Würtenberger of the CF Ready Team – employee of the Climate Finance Readiness (CF Ready) Programme, which closely cooperates with Pro Ambiente – adds: "Experience has shown us that it is very important to keep the political environment of financing activities related to climate change in view. Ministries and institutions whose competencies and areas of responsibility often overlap are involved. In Peru, for example, the Ministry of the Environment and the Ministry of Economy and Finance are key stakeholders in climate finance. By facilitating cooperation between the two ministries, CF Ready also supports close coordination among all of the parties involved." Since spring 2014, Ms Fernandez-Baca, who works for Pro-Ambiente, has been collaborating with CF Ready in order to provide the Peruvian ministries with direct consultation and ensuring that information flows between the ministries.

Thanks to the flourishing economy, the national budget has funds available for adaptation to climate change and the reduction of carbon emission. However, according to Mr León Morales, the activities aimed at adapting to climate change would deliver results more quickly with additional international funding. The GIZ expert points out that within the past five years, Peru has been able to acquire financial resources from a variety of bilateral, multilateral and international providers of funding and NGOs. For example, the Peruvian Trust Fund for National Parks and Protected Areas (PROFONANPE) is accredited for direct access to the UN Adaptation Fund. "As part of this fun-



**Location:** neighbouring Ecuador and Colombia to the north, Brazil to the east, Bolivia to the southeast, and Chile to the south. To its west, it faces the Pacific Ocean.

**Capital:** Lima  
(Inhabitants: about 9.6 m.)

#### Country context of Peru

- WORLD BANK GDP RANKING: 51 / 214
- TRANSPARENCY INTERNATIONAL CORRUPTION PERCEPTIONS INDEX: 83 / 177
- POPULATION: 30.4 m. (2013)
- POPULATION DENSITY: 24/km<sup>2</sup> (2013)
- CHILD MORTALITY: 14.1 infant deaths per 1,000 births (World average: 35)
- FERTILITY RATE: 2.4 births per woman (2012) (World average: 2.5)
- BIRTH RATE: 20 births per 1,000 people
- 29.4 % of total population living in cities (2013)
- 23.9 % (2010) of total population is living below the national poverty line
- ACCESS TO (% compared to total population)
  - Electricity: 90 % (2011)
  - Clean Water: 87 % (2012)
  - Sanitation: 73 % (2012)
- ECONOMY (2013, shares in GDP)
  - Agriculture: 6 %, mainly coffee, cocoa, cotton, sugarcane;
  - Industry: 38 %, mining, steel and metal fabrication, petroleum; fishing;
  - Services: 56 %
- CO<sub>2</sub> EMISSIONS PER CAPITA (in metric tons): 2.00 (2010), ranking 161/198 countries (World average: 4.88)



ding landscape, future access to the international Green Climate Fund (GCF) for Peruvian institutions represents an important building block,” said Mr León Morales. However, to make this happen, some obstacles need to be overcome.



## CLOSING THE GAP

In cooperation with CF Ready, Peru and other countries would like to increase their chances of receiving direct access to the GCF. GIZ and KfW Development Bank implement the CF Ready programme on behalf of the German Federal Ministry for Economic Cooperation and Development. During the planning phase of CF Ready’s activities, the Peruvian delegation asked the programme to tackle the issue of the national implementing entity (NIE). The NIE will be responsible for accessing and administering GCF funding for Peru. The country must have suitable institutions accredited by the GCF. This is why Ms Würtenberger and her colleagues from GIZ visited the country in June 2013 to carry out an extensive scoping mission that focused on in-depth discussions with Peruvian ministries and organisations. In the middle of 2013, the GCF did not yet have a detailed requirement profile for the NIEs. However, it was important for the representatives of Peru to start with this process, so CF Ready began analysing the basic strengths and weaknesses of three promising Peruvian institutions with support of The Nature Conservancy (TNC): COFIDE, the Peruvian national development bank; PROFONANPE, the Peruvian trust fund for national parks and pro-



*Impressions of a water stressed country: 98 % of the rivers that originate in the Andes (picture above) flow into the Amazon basin with its rainforests (below).*





*The coastal regions, where over 50 % of the population lives, struggle with water shortages.*



tected areas; and FONAM, the Peruvian environmental fund. CF Ready and TNC examined the latter in detail to determine the new organisational structure FONAM would require to be able to take on a stronger role in the national climate finance architecture. The analysis targeted improvements in its business model and internal standards, and offered FONAM the opportunity to prepare itself for the option of taking on new areas of responsibility.

With the help of these studies, CF Ready was able to assess the potential of the three institutions and support the ministries' decision-making process, which must take many aspects into consideration. The process will require a certain amount of time, particularly because the departments responsible must turn their full attention to the preparations for the December 2014 international climate summit in Lima – and in future, will be a co-chair of the GCF Board. The fact that Peru is taking over these responsibilities illustrates the country's commitment to climate management, but diverts capacity at the same time. As a means of supporting the Peruvian conference participants, the CF Ready team is creating an overview of the country's activities related to climate finance.

At the same time, the Peruvian partners wanted to introduce the topic of climate finance to the political debate. At the Ministry of the Environment's conference on climate change in 2013, GIZ supported a day devoted to the theme. "That certainly has made a contribution to clarifying exactly how important

it is to integrate financing aspects," said Ms Würtenberger. KfW Development Bank is supplementing the Climate Finance Readiness activities with the advancement of initial project pipelines for the GCF.



#### THE NEXT STEPS TOWARD CLIMATE FINANCE

An important next step for Peru is to set incentives that direct investments to the renewable energy sector: so far, the potential of wind and solar energy in particular has remained largely untapped. Mr León Morales has also identified forestry as an emerging topic: "With regard to mitigation, I consider forest conservation to be a key theme. After all, changes in forest use are responsible for the largest share of Peru's carbon emissions." The country's forests are not only essential for climate protection, but also for conserving biodiversity and the livelihoods of the Amazonian communities while generating better conditions for adaptation to climate change.

The national climate strategy has already gone through a consultation process. However, it does not contain a detailed finance plan yet. The first discussions are in progress and the Peruvians are highly interested in having an analysis of where the funding for individual activities could come from and what could be funded nationally or internationally. It seems clear, however, that this activity must wait until after the climate conference.

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