

THE EXPERIENCE OF PERU IN IMPLEMENTING THE SOCIAL COST OF CARBON IN PUBLIC INVESTMENT EVALUATION



Peru's Ministry of Economy and Finance, through its Directorate General for Multi-Year Investment Planning (**DGPMI**), is the governing body of the National Multi-Year Investment Planning and Management System (**Invierte.pe**)

The **DGPMI** has developed general methodologies for the formulation and evaluation of investment projects as well as a methodology for the ex-post evaluation of such projects.



Project Formulating Units

- **Evaluation Units:** These units apply the content, methodologies and formulation criteria. They also produce the technical specifications and the required pre-investment studies.
- **Investment Implementing Units:** These are the bodies responsible for implementing the investment projects. In so doing, they adhere to the approved scheme's design, which is registered with Peru's Investment Bank database tool for public investment projects.
- The type of pre-investment study required depends on the project's investment amount (see below).

Tipo de estudio de preinversión	Montos
Ficha técnica simplificada	Hasta 750 UIT*
Ficha técnica estándar	Hasta 15,000 UIT
Ficha técnica	Hasta 407,000 UIT
Estudio de preinversión a nivel de Perfil	Mayores a 407,000 UIT

* Unidades Impositivas Tributarias

- These **methodologies** place an emphasis on **economic cost-benefit evaluation** and the identification of disaster risks under climate change scenarios.
- The **DGPMI** provides guidance in determining the **type of environmental impact study** that may be necessary, depending on the type of project.
- It develops the Government **Multi-year Investment Programme (PMIE)**
- It **approves the general methodologies**, taking into account the level of complexity of projects.
- It provides the bodies subject to Invierte.pe with training and technical assistance.
- It has employed a methodological approach in **developing its guides** and spreadsheets for the **identification, quantification and valuation of greenhouse gas (GHG) emissions by sector (such as electricity generation, wastewater treatment, and solid waste management)**.
- In its work, the **DGPMI** employs the **Technical Note** on the Use of the **Social Cost of Carbon** in the Social Evaluation of Investment Projects (2021).
- **This Technical Note is applicable to social evaluation methodologies: cost-benefit, cost-effectiveness and cost-utility analysis.**



- **2016** - The study *Estimation of the Social Cost of Carbon (SCC) for the Social Evaluation Projects in Peru* is published.
- **2017** - Legislative Decree No. 1252 establishes the new public pre-investment system.
- **2018** - Legislative Decree No. 1432 is published, amending Legislative Decree No. 1252.
- **2018** - The *Climate Change Framework Law* is published.
- **2020** - The *General Directive of the National Multi-Year Investment Planning and Management System (no. 001-2019.EF/63.01)* is published.
- **2021** - Supreme Decree No. 023-2021-MINAM approving the *National Environmental Policy to 2030* is published.



GENERAL GUIDE FOR THE IDENTIFICATION, FORMULATION AND EVALUATION OF INVESTMENT PROJECTS (2022)

When evaluating projects, the valuation of externalities using the **SCC** is carried out by assigning value (monetisation) with reference to the variations in **GHG** emissions (expressed in CO2 equivalent) that occur when specific types of investment projects are implemented. With this quantification and valuation, it is possible to then incorporate into the social evaluation study the effects that the projects will have in terms of the emissions they produce or reduce.

The **Technical Note on the Use of the Social Cost of Carbon in the Social Evaluation of Investment Projects** sets out a fourstep general procedure for calculating positive and negative externalities using the SCC.

- Types of projects:**
- Electricity generation
 - Rail transport
 - Mass urban transport
 - Inland water transport
 - Gas pipelines
 - Drinking water supply
 - Wastewater treatment
 - Solid waste treatment
 - Degraded forest ecosystems
 - Support for productive development involving changes to the crop mix
 - Recovery of degraded ecosystems
- All IPs with GHG emissions as externalities

STEP 1. This step is carried out in the investment project formulation and evaluation phase (**IP**):

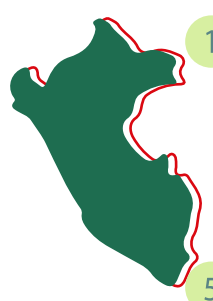
- Determine whether the production of the good or service is related to **GHG** emissions.
- Quantify supply and/or demand for the service addressed by the **IP**.

STEP 2: Quantify **GHG** emissions without the **IP**.

STEP 3: Quantify **GHG** emissions with the **IP**.

STEP 4: Value the increases (costs) or reductions (benefits) in **GHGs** in monetary terms.

Peru has developed an application that uses the Social Cost of Carbon (**SCC**), in its calculations. This Excel-based tool helps project formulators and evaluators carry out the calculations for the quantification and valuation of externalities arising from GHG emissions in the sectors of electricity generation, wastewater treatment and solid waste management.



- The **Technical Note on the Use of the Social Cost of Carbon in the Social Evaluation of Investment Projects** is mainly used for projects formulated by the Ministry of Environment (**MINAM**)
- There is no obligation to apply the **Technical Note**.
- It is important to update the technical and regulatory framework with any changes in sector-specific methodologies.
- With the support of the Economic Commission for Latin America and the Caribbean (**ECLAC**) and the Inter-American Development Bank (**IDB**), Peru has been working on updating its **SCC** since 2022.
- To promote its use more widely, the **SCC** features in development plans for 2023