

September 23, 2020

Dear Representatives of the COCIBOLCA Group:

The World Bank (Bank) has been copied in your letter dated August 13, 2020 regarding Nicaragua's Emission Reductions Program (ER Program) under the Bank-administered Carbon Fund (Carbon Fund) of the Forest Carbon Partnership Facility (FCPF). We would like to take the opportunity to share our technical perspective on the current status of the ER Program.

As you noted, the Carbon Fund participants decided to include Nicaragua's ER Program into the portfolio of Tranche B of the Carbon Fund in July 2019. The ER Program is intended to provide results-based payments against independently verified ERs that are generated under the ER Program through activities that are designed to reduce deforestation and forest degradation in Nicaragua. The FCPF also requires the ER Program to share the results-based payments made under the ER Program with different beneficiaries, including affected communities, through specific benefit-sharing arrangements, as documented in a Benefit Sharing Plan (BSP) that is subject to prior stakeholder consultations. The benefit-sharing arrangements under the BSP are to help incentivize and maintain community and stakeholder support for the ER Program and Nicaragua's efforts to protect its forests.

A draft BSP for Nicaragua's ER Program has been developed through broad consultations with communities and individuals in the Caribbean Coast of Nicaragua, including indigenous and Afro-descendant communities. The Republic of Nicaragua will be required to publish an advanced draft BSP prior to signing the Emission Reductions Payment Agreement (ERPA), if the ER Program is approved by the World Bank, and will be required to publish a final BSP before ERs are being transacted under the ERPA.

As indicated in your letter, deforestation is one of Nicaragua's main adverse environmental issues. Nicaragua's proposed ER Program aims to help tackle the challenges that Nicaragua faces in reducing deforestation, improving silviculture, and promoting sustainable farming practices. The proposed interventions under the ER Program are expected to help the Republic of Nicaragua in achieving its commitments under the United Nations Framework Convention on Climate Change (UNFCCC).

The World Bank is currently supporting the Republic of Nicaragua in preparing the ER Program for implementation and has not yet approved the ER Program. World Bank approval of the ER Program will be based on an assessment of the technical design of the ER Program, including from the financial, environmental, and social perspectives. Specifically, the World Bank requires that adequate measures for managing the potential environmental and social risks and impacts of the activities to be carried out under the ER Program in line with the principles and requirements of the Bank's Environmental and Social Framework.

MARENA, with the support of international organizations, has prepared a draft Environmental and Social Management Framework, which addresses, among other important aspects, Pest Management, Biodiversity Management, Forest Management, Cultural Heritage, and independent Third Party Monitoring; a Stakeholder Engagement Plan ; Labor Management Procedures ; a Process Framework; and an Indigenous People Planning Framework. In particular, the Stakeholder Engagement Plan includes a Grievance Redress Mechanism designed to promote transparency and accountability in the delivery of services and benefits as part of ER Program implementation.

Drafts of these documents are available on MARENA's website at <http://www.marena.gob.ni/Enderedd/etapas/programa-de-reduccion-de-emisiones/>. The documents will be finalized before the ER Program will complete preparation. The institutional arrangements set out in these documents will be operational before the ER Program implementation begins. If the Bank approves the ER Program, the potential ERPA will stipulate the requirements on monitoring and third-party monitoring to ensure that the measures set out in these documents are implemented.

Yours sincerely,



Kinnon Scott

Resident Representative  
World Bank, Nicaragua