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READINESS PREPARATION PROPOSAL ASSESSMENT NOTE

ON A

PROPOSED GRANT

IN THE AMOUNT US\$ 3.6 MILLION

TO THE

REPUBLIC OF COSTA RICA

FOR

FOREST CARBON PARTNERSHIP FACILITY REDD READINESS

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DATA SHEET

Costa Rica Forest Carbon Partnership Facility REDD Readiness

READINESS PREPARATION PROPOSAL (R-PP) ASSESSMENT NOTE

Latin America and the Caribbean – Agriculture and Rural Development

Date: July 15, 2012 Country Director: Carlos Felipe Jaramillo Sector Manager/Director: Laurent Msellati Lending Instrument: TF Grant Team Leader(s): Erick C.M. Fernandes	Risk Rating: M-I Sectors: Forestry (AT) Themes: Climate Change (81) Project ID: P123702	
Date of country selection into FCPF: July 10, 2008 Date of Participation Agreement signed by Country: October 16, 2008 Date of Participation Agreement signed by Bank: October 16, 2008 Date of R-PP Formulation Grant Agreement signature: June 29, 2009 Grant Agreement signature: June 29, 2012		
Project Financing Data:		
<input type="checkbox"/> Loan <input type="checkbox"/> Credit	<input checked="" type="checkbox"/> Grant <input type="checkbox"/> Guarantee	<input type="checkbox"/> Other, explain:
For Loans/Credits/Others: N/A Total Project Cost (US\$M): US\$7,139,500 Cofinancing: GIZ US\$1,708,500, National Government US\$155,000, Association of Agricultural Engineers US\$40,000 and Ecomarkets US\$120,000 Total Bank Financing (US\$M): US\$ 3.6 million		
Source Recipient FCPF Readiness Fund	Total Amount (US\$) 3,600,000 – for preparatory activities	
Regional FCPF Trust Fund Number: TF093616 FCPF Country Child Trust Fund Number: TF094486		
Recipient: Republic of Costa Rica Responsible Agency: Fondo Nacional de Financiamiento Forestal (FONAFIFO)		
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Project Implementation Period: Readiness preparation phase: October 2012 – May 2014		
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Note: This document was updated for publication on August 2012 to reflect changes in personnel, schedule and budget only.

ABBREVIATIONS AND ACRONYMS

ADII	<i>Asociación de Desarrollo Integral Indígena</i>
CERD	Committee on the Elimination of All Forms of Racial Discrimination
ERPA	Emissions Reductions Payment Agreement
ESMF	Environmental and Social Management Framework
FCC	Forest Certification Credit
FCPF	Forest Carbon Partnership Facility
FMT	Facility Management Team
FONAFIFO	<i>Fondo Nacional de Financiamiento Forestal</i>
GIZ	<i>Deutsche Gesellschaft für Internationale Zusammenarbeit</i> (German International Cooperation Agency)
ILO 169	International Labor Organization Convention No. 169: Indigenous and Tribal Peoples Convention, 1989
MAG	<i>Ministerio de Agricultura y Ganadería</i>
MINAET	<i>Ministerio del Ambiente, Energía y Telecomunicaciones</i>
MRV	Measurement, reporting and verification
ONF	<i>Oficina Nacional Forestal</i>
PC	Participants Committee
PES	Payment for Environmental Services
PRCR	<i>Programa de Regularización de Catastro y Registro</i>
REDD (also REDD)	Reducing emissions from deforestation and forest degradation, sustainable management of forests, and conservation and enhancement of forest carbon stocks in developing countries (also referred as REDD in this document)
RIP	Relevant Interested Party
R-Package	Readiness Package
R-PIN	Readiness Preparation Idea Note
R-PP	Readiness Preparation Proposal
RL	Reference Level
SESA	Strategic Environmental and Social Assessment
SINAC	<i>Sistema Nacional de Áreas de Conservación</i>
UNFCCC	United Nations Framework Convention on Climate Change

COSTA RICA
Forest Carbon Partnership Facility REDD Readiness

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COSTA RICA
Forest Carbon Partnership Facility REDD Readiness

I. Introduction and Context

A. Purpose of the R-PP Assessment Note

1. As part of its responsibilities for the Forest Carbon Partnership Facility, the World Bank was asked to assist Country Participants to formulate and carry out their Readiness Preparation Proposals (R-PP) and to ensure that activities supported by FCPF grants comply with World Bank Operational Policies and Procedures. The Operational Guidelines for Processing FCPF Readiness Operations were issued by SDNVP and OPCVP on March 22, 2011. Annex 2 provides additional background on FCPF operations. The purpose of this Assessment Note is to assess if and how Costa Rica's proposed Readiness Preparation Activities as presented in the R-PP comply with World Bank Operational Policies, discuss the technical quality of the R-PP, and record the assistance the Bank has provided to Costa Rica in the formulation of its R-PP. This Assessment Note also presents the specific preparation activities that would be financed under the proposed FCPF preparation grant.

B. Country Context

2. Costa Rica is an upper middle income country of about 4.5 million people, with a GDP per capita of \$5,800. It has been a stable democracy with uninterrupted democratically-elected governments and peaceful transitions of power since 1949. Several factors have contributed to this stability, including the abolition of the army after a brief civil war in 1948, the enactment of a new constitution in 1949 which founded one of Latin America's first welfare states, and the presence of effective mechanisms for social mobility. Costa Rica's government and political norms have long placed a premium on achievement of wide socio-political consensus on major policies. While this can lead, at times, to slow decision-making, it also helps create a broad social base, enhancing the sustainability of economic and social reforms and helping to maintain the credibility and accountability of public institutions. The major sectors of Costa Rica's economy/sources of income and employment are agriculture and tourism, and there is a growing manufacturing sector for high-tech products. Poverty and income inequality are lower in Costa Rica than the averages for Latin America and Central America. However, improvements are still needed as Costa Rica fares worse in some statistical categories when compared to countries with similar income levels in other parts of the world.

3. Since 1986 Costa Rica has been a global leader on environmental policy issues, pioneering innovative programs such as the Forest Credit Certificate (FCC) and Payment for Environmental Services (PES). In contrast with most tropical countries, Costa Rica has experienced net reforestation. However, some pockets of the country continue to undergo gross deforestation and forest degradation. Continuing to reduce this gross deforestation and further increasing forest cover would increase environmental services to Costa Rica's own citizens and to the world. Therefore, Costa Rica would benefit from a future mechanism under which the international community would provide incentives to countries for reducing emissions from

deforestation and forest degradation (REDD+).¹ Given its experience and commitment, Costa Rica's pioneering a REDD mechanism would also provide a learning case of global relevance.

C. Sectoral and Institutional Context

4. Costa Rica has an estimated forest cover of 2.6 million hectares, which represents 51% of the national territory. From 2000 to 2010, Costa Rica experienced a net forest cover increase of approximately 23,000 hectares per year, i.e. 0.9% annually.² However, gross deforestation still occurs and affects about 35-40,000 hectares per year.³ Forests in Costa Rica are found in individual rural private properties (50%), privately-owned protected areas (19%), indigenous peoples' communal territories (10%), and State-owned protected areas (22%).³ Forests are scattered throughout the rural landscape across the country, with some large blocks composed of protected areas and adjacent indigenous peoples' territories mostly in the south and east. There are 24 indigenous territories totaling about 64,000 and covering 7% of the national territory.

5. The major driver of deforestation on private lands is the conversion of forest to livestock and agricultural uses. In many cases, land users generate a higher annual income with agriculture or livestock-raising than with forests, conditioned by factors such as road access. This situation is sometimes exacerbated by policies favoring agricultural development. In protected areas, underfunding and lack of human resources allows the penetration of squatters and illegal loggers. Despite a relatively secure titling system, land tenure issues also play a role: in indigenous peoples' territories, non-indigenous farmers have encroached on forest lands; and in privately-owned protected areas, difficulty in obtaining clear land title prevents participation in programs such as the PES program described below.⁴

6. The PES program, still in operations, aims to directly address the economics of deforestation by providing a direct payment to private landowners and indigenous peoples' communities for protecting and/or restoring forests. The PES involves about 9,500 properties covering a total of 728,000 hectares, of which 21 indigenous territories for 66,000 hectares. The annual budget increased from USD3 million in 1997 to USD30 million in 2010. The PES involves broad participation of multiple stakeholders representing local, national, and international interests. The FCC and PES programs have allowed Costa Rica to develop a legal framework, institutions, social capital, and an improved governance scheme. These policies and frameworks, with necessary revisions and improvements, would likely serve as a cornerstone of Costa Rica's REDD strategy.

7. The leading institution for REDD in Costa Rica is the National Forestry Financing Fund (FONAFIFO), a semi-autonomous agency under the Ministry of Environment, Energy, and

¹ The full meaning of REDD+ is "Reducing emissions from deforestation and forest degradation, as well as sustainable management of forests, and conservation and enhancement of forest carbon stocks". Will be referred to as REDD in this document.

² These figures for 2000-2010 are from FAO 2010 Global Forest Resource Assessment. The R-PP indicates a lower rate of net reforestation of approximately 12,800 hectares per year from 2000-2005.

³ Costa Rica Readiness Preparation Proposal (2011)

⁴ See [Annex 4](#) on the main causes of deforestation and degradation and the potential REDD strategies currently under consideration.

Telecommunications (MINAET). The National System of Conservation Areas (SINAC) will coordinate potential activities related to forests in protected areas.

8. Since their inception in 1986, the FCC and PES programs have been financed primarily by domestic resources (e.g. a tax on the sale of fossil fuels) and two loans from the World Bank complemented by grants from the Global Environment Facility⁵, which underlines Costa Rica's sustained commitment for forest protection. On the other hand, Costa Rica now emphasizes that the global benefits of its forest protection program have not been matched by international financial transfers, and the country has been bearing the brunt of the costs on its own. Costa Rica is now seeking a new funding mechanism that would reward the carbon services it provides to the world. It is envisaged that REDD would allow Costa Rica to receive sustainable financial transfers from the international community, while consolidating, improving, and scaling-up the PES program.

D. Relationship to Country Partnership Strategy

9. Costa Rica's REDD agenda and its participation in the Forest Carbon Partnership Facility are fully in line with the World Bank Country Partnership Strategy discussed at the Board on July 25, 2008. The CPS states "Costa Rica's pioneering program of payments for environmental services has had tremendous success in promoting forest and biodiversity conservation but faces challenges of financial sustainability and increasing the participation of the poor in conservation programs." Costa Rica's REDD Readiness proposal, as described in the R-PP seeks to build upon these past successes and to achieve a financially and environmentally sustainable future.

10. Costa Rica's REDD initiative is also consistent with its own national priorities and strategies. The Government set an aspirational goal to reach carbon net neutrality by 2021. While the strategy to meet this goal has not yet been finalized, forestry and REDD will undoubtedly play a large role as an area where emissions can be reduced. Further, REDD will potentially contribute to several of the strategic goals outlined in the National Development Plan 2011-14, specifically by consolidating Costa Rica's environmental position globally, fostering participatory mechanisms, and supporting development of rural communities.

II. Proposed Project Development Objective

A. Proposed PDO

11. The overall, long-term objective of the proposed World Bank/FCPF engagement in Costa Rica is: *to help Costa Rica reduce carbon emissions from deforestation and forest degradation, sustainably manage forests, and conserve and enhance forest carbon stocks (REDD) in a socially and environmentally sound manner, while accessing international financial incentives for local forest users, thereby helping to mitigate climate change at a global level.*

⁵ The PES Program has been supported by two World Bank projects: (i) Ecomarkets I (P052009/P061314, 2000-2006); and (ii) Mainstreaming Market-Based Instruments for Environmental Management (Ecomarkets II) P093384/P098838, 2006-present.

12. In line with the structure of the Forest Carbon Partnership Facility (Annex 1), the World Bank/FCPF engagement with Costa Rica would potentially involve two phases, generally referred to as “REDD readiness preparation” and “REDD implementation”.

- First, the REDD preparation phase would consist of analytical work and consultations. It would be supported by the proposed US\$3.6 million grant from the FCPF Readiness Fund.⁶
- Second, the REDD implementation phase would consist in performance-based payments for verified carbon emissions reductions. It *might* eventually be supported through an Emissions Reduction Payment Agreement (ERPA) under the FCPF Carbon Fund.⁷

13. The overall objective stated in paragraph 11 refers to the full, two-phase REDD process. However three key points—which result from the very innovative nature of REDD—need to be taken into consideration: (i) many of the conditions underlying the future implementation of REDD are still being discussed in the United Nations Framework Convention on Climate Change (UNFCCC) and other international negotiations; (ii) Costa Rica is among the first countries to engage in the REDD preparation phase, and there is no precedent yet of any country having completed this process; and (iii) the operational modalities of the FCPF Carbon Fund as a pilot for performance-based transactions, are still in the process of being defined.

14. In this context, the Bank’s REDD engagement in Costa Rica will focus on preparing those elements that are currently viewed as indispensable to any future agreement on REDD⁸ in a way that optimizes the likely social and environmental outcomes of REDD and emphasizes the learning and knowledge-sharing dimensions. From that perspective, the more immediate outcome of the Bank/FCPF-supported preparation phase would be: *for Costa Rica to become ready for future REDD implementation by preparing those key elements, systems and/or policies needed, generally referred to as the “REDD Readiness Package”, in a socially and environmentally sound manner.*

B. Key Results

⁶ Costa Rica already received a US\$200,000 formulation grant from the FCPF, as seed money to formulate the R-PP. This formulation grant closed in July 31, 2010. The governing body of the FCPF, the Participants’ Committee, has authorized the Bank to sign the \$3.6 million Readiness Preparation Grant with Costa Rica.

⁷ At the same time Costa Rica submitted its revised R-PP in April 2011, it also expressed interest in participating as a pilot country in the new FCPF Carbon Fund. Consistent with the two-phase structure of the FCPF, the REDD Readiness Preparation Phase (with the Readiness Fund) would proceed in parallel with the preparation of a possible Emissions Reduction Program (with the Carbon Fund). In line with the Carbon Fund rules of operations, the signature of an ERPA under the Carbon Fund is contingent upon the assessment by the Participants Committee of the Country’s Readiness Package.

⁸ Fundamental elements of a future REDD mechanism were defined at the 16th session of the Conference of the Parties to the UNFCCC in Cancun, December 2010. See Cancun Agreements, UNFCCC Decision 1/CP.16 Section C and Appendix I.

15. The key result from the proposed REDD readiness preparation grant would be the development of Costa Rica's "REDD Readiness Package" which includes the following:

- Design of REDD strategies,⁹ including an equitable benefit-sharing mechanism;
- Development of a national baseline, also known as Reference Level (RL)
- Creation of a national measurement, reporting, and verification system (MRV)
- Strategic environmental and social assessment (SESA) and preparation of an environmental and social management framework (ESMF);
- Operation of a cross-sector coordination body for REDD, and execution of a continued consultation process involving all relevant stakeholders.¹⁰

16. It is expected that these key elements will be in place at the end of the readiness preparation phase, thereby providing the foundation for a future ERPA under the FCPF Carbon Fund and/or any similar REDD performance-based transaction which Costa Rica may consider.

17. From a longer-term perspective, the key results expected from the future implementation of REDD in Costa Rica would likely include the following (though by nature, this list would need to be refined during the readiness preparation phase):

- Reductions in emissions resulting from the implementation of REDD strategies;
- Additional income accessed by participating forest owners and communities;
- Continued monitoring and mitigation of environmental and social impacts (ESMF);
- Enhanced cross-sectoral coordination in areas dealing with REDD;
- Continued consultations with, and enhanced participation of, key stakeholders, in particular indigenous peoples and *campesinos* communities and civil society, in policy-making related to REDD.

III. Project Context

A. Concept

A1. Description

18. Overall, the PES program would likely serve as a cornerstone of Costa Rica's REDD strategy, with potential improvements to be defined during the preparation phase. Other activities would complement PES. Costa Rica has outlined several potential actions to address the drivers of deforestation and forest degradation, and to enhance and conserve forest carbon stocks. These

⁹ REDD strategies can be defined as policies, programs or other interventions that reduce emissions from deforestation and forest degradation, sustainably manage forests, and conserve and enhance forest carbon.

¹⁰ The R-Package is sometimes presented as including four main elements, which basically refer to the same content (UNFCCC decision 1/CP.16 Section C, paragraph 71): (a) "A national strategy or action plan"; (b) "A national forest reference emission level and/or forest reference level"; (c) "A robust and transparent national forest monitoring system"; and (d) "A system for providing information on how the safeguards... are being addressed and respected throughout the implementation of the activities."

options, to be further analyzed and developed through studies and consultations in the preparation phase, can be seen as falling into five main categories: (i) increasing coverage, financing, and consolidation of the existing PES program; (ii) opening the PES program to areas under active management for forest resources; (iii) improving monitoring and control systems for illegal logging; (iv) supporting cadastre and land regularization programs; and (v) improving control of forest fires.¹¹

19. The specific REDD readiness preparation activities Costa Rica intends to carry out in developing its Readiness Package are described in the R-PP and include: consultations with key stakeholders, analytical work, capacity-building, and a strategic assessment of environmental and social risks and impacts. These activities would be funded by an FCPF Readiness Preparation Grant of \$3.6 million and a 1,708,500 grant from the German International Cooperation Agency (GIZ), in addition to the national government and possible other donors.¹² Activities to be financed by the FCPF will not include any physical investment or pilot projects on the ground. Annex 2 presents the proposed preparation activities and budget breakdown.

A2. Key Risks and Issues

20. **Public participation, Resource Rights, and Cross-sector Coordination.** The PES program seems to have established effective channels for fostering public participation and for respecting the rights of participating landowners. However, there are concerns – in Costa Rica and at international level – that, if not prepared with full participation of key stakeholders, REDD may not fully benefit local communities, undermine their land and resource rights, or weaken their traditional social and political structures. There is also a concern that programs designed outside the REDD arena, dealing with infrastructure and energy for example, may not be consistent with a successful REDD program.

21. These three issues—stakeholder participation, land and resource rights, and cross-sector coordination—were discussed with key stakeholders and Government agencies during the due diligence process. Overall, the Government expressed its commitment to lead a participatory REDD process, giving priority to the meaningful participation of all relevant stakeholders, to the social dimensions of REDD, and to the necessary cross-sector coordination. In addition, key stakeholders, while at times critical of Government policies, expressed increased confidence with regard to FONAFIFO as the lead agency for REDD. Still, the Government recognizes the delicate nature of REDD, particularly with respect to the adequate representation and effective participation of indigenous peoples, and has taken steps to address them. See sections *Representation and Participation of Indigenous Peoples* below.

¹¹ See Annex 4 for the major drivers of deforestation and forest degradation as identified in the R-PP and the potential REDD strategies currently being considered.

¹² The total budget for Readiness Preparation is \$7,139,500, of which \$3.6 million will come from the FCPF grant and \$ 1,708,500 from GIZ. A further \$155,000 will come from the national government, \$120,000 from the Ecomarkets project, and \$40,000 from the Association of Agricultural Engineers. The remaining amount will be funded by donors that are yet to be identified.

22. **Additionality.** There is a risk that Costa Rica's early actions in forest conservation may not be compensated under an international REDD regime if they are not considered "additional", i.e. above the baseline. The question of "additionality" needs to be followed closely, though there is a growing consensus that countries that have performed well in the past should be rewarded to avoid perverse incentives and potential international leakage into those countries if they choose to opt out of REDD. Furthermore, some areas in Costa Rica continue to undergo gross deforestation and forest degradation, and tackling this problem would increase environmental services to Costa Rica's own citizens and to the world.

23. **REDD still in progress.** In spite of progress at COP16 in Cancun, international negotiations are yet to settle the technical, legal, and operational modalities of REDD. Therefore, it may be possible that the Readiness preparation does not address all the main criteria a REDD mechanism would eventually require. However, the benefits of engaging early and supporting Costa Rica in building on its experience and providing a learning case for other countries seem to outweigh the risks of missing some future REDD requirements that may not be known today. Still, to mitigate this risk, the Bank team will help follow developments in the international negotiations and advise Costa Rica on appropriate adjustments that may be needed during the preparation process.

B. Implementing Agency Assessment

24. FONAFIFO has a successful track record of implementing a PES Program that has many of the same elements as the potential REDD strategy. Payments for forest services are highly innovative, and Costa Rica has accumulated invaluable experience in this area. In particular, FONAFIFO has developed capacity to contract landholders, make payments, and monitor compliance. This track record suggests that FONAFIFO has the critical capacity and commitment to effectively engage in a REDD program.

25. FONAFIFO also has experience in implementing World Bank-financed projects, i.e. the Ecomarkets I and Ecomarkets II projects, and it has demonstrated its capacity to implement environmental, fiduciary and social safeguards. However, given the cross-sector and countrywide nature of REDD, safeguards policies for FCPF activities will apply at more strategic level than past projects. In that regard, the Bank team has been assisting FONAFIFO to design a methodology for the Strategic Environmental and Social Assessment (SESA) process. FONAFIFO plans to recruit qualified social scientists to help design and implement the overall social aspects and social safeguards of the REDD readiness process.

C. Project Stakeholder Assessment

26. The stakeholders for REDD are extensive and diverse. FONAFIFO has initially identified a roster of 96 Relevant Interested Parties (PIR: *Partes Interesadas Revelantes*) comprising of a number of broadly defined stakeholder groups, namely: (i) government agencies; (ii) academia; (iii) international organizations; (iv) NGOs; (v) Indigenous Peoples traditional structures and organizations; and (vi) *campesino* communities and organizations. An initial stakeholder mapping exercise was carried out to identify those key stakeholder groups out of the 96 PIRs that will need to be directly and actively involved in the readiness phase. Moreover, FONAFIFO

plans to conduct a more in-depth stakeholder analysis to understand their particular roles, mandates and capacities in order to most effectively strategize their participation in the readiness process. Furthermore, the identification of key stakeholders will also become the basis for forming a follow-up mechanism for the SESA process. FONAFIFO recognizes the key role of indigenous peoples and forest dependent *campesinos* in the REDD readiness process and plans to fully engage and consult their organizations, traditional structures, associations and cooperatives.

IV. Overall Risk Ratings

The proposed overall risk rating is Medium-I (Low Likelihood and High Impact). Although REDD in Costa Rica will benefit from FONAFIFO's capacity and commitment, and from well-established and well-perceived environmental programs in most segments of society, the overall risk rating is driven up by the social risks associated with the innovative nature of REDD. As indicated by several stakeholders, there is a risk that, if not carefully prepared, REDD may not deliver the expected outcomes especially for indigenous peoples' and *campesinos* communities and may aggravate existing circumstances, especially for the most vulnerable groups. Therefore, effective stakeholder involvement will be critical. It will be particularly critical to ensure the adequate representation and meaningful participation of indigenous peoples in the REDD readiness process, as well as the continued implementation of the monitoring and management of the ESMF during implementation.

V. Technical Assistance Provided by Bank Staff to Date

27. **The Bank team commented** on a first draft R-PP produced by Costa Rica in April 2010, and conducted a technical assistance mission to Costa Rica in May 2010. Based on comments from the Bank, the Technical Advisory Panel, and the FCPF Participants Committee, Costa Rica revised and resubmitted its R-PP in November 2010.

28. A due diligence mission took place in January 2011. This mission involved two visits to indigenous territories and rural properties in the Atlantic and the *Pacific regions*, as well as discussions with numerous government and non-government stakeholders. The Bank Information Center (BIC) participated in the mission as official Civil Society Observer to the FCPF. The field trip report and the aide-memoire including suggestions provided by the Bank team on the R-PP, were posted online on the FCPF's website and the World Bank Infoshop, respectively. Following the mission, Costa Rica revised its R-PP and disclosed an updated version in May 2011 on FONAFIFO's website.

29. The Bank team also worked closely with FONAFIFO to help develop the SESA instrument. A national SESA workshop was held in San Jose on May 4-5, 2011, as a first effort to inform stakeholders and receive feedback on the proposed SESA methodology. A public event led by government and indigenous peoples' representatives and co-hosted by BIC and Conservation International, was held on May 11, 2011, in Washington, DC, to inform and share views with international civil society.

VI. Summary of R-PP Assessment

30. The Task Team reviewed Costa Rica's R-PP and other related documentation. Overall, it seems the R-PP represents a sufficient basis for engaging in the readiness preparation phase. The country appears to have identified the critical issues relevant to REDD and has developed processes and plans to address them during REDD preparation and implementation. The R-PP seems to contain the key elements likely to be required for a future REDD mechanism, as defined by the 16th Conference of the Parties in December 2010. Furthermore, the Government has made a good faith effort to listen to the views of key stakeholders at this stage, and has committed to incorporate them in the design of the REDD strategy. Given its experience and commitment, it appears that Costa Rica's pioneering a future REDD mechanism would provide a learning case of global relevance.

A. Technical

31. REDD strategy options. The RPP indicates that the current PES Program would likely serve as a cornerstone of Costa Rica's future REDD strategy. In line with the PES approach, the current thinking is that carbon and other environmental service rights would be linked to land ownership and to the realization of improved management practices. Benefit sharing would build upon the systems created for the PES program, with adjustments and complementary approaches where needed. The REDD strategy would also include new variants to PES in order to involve a greater quantity and diversity of landowners and further strengthen the principles of equity and transparency. A specific variant of the PES may be designed to meet the specific conditions of indigenous communities. The voluntary nature of PES would continue into the REDD program. The R-PP discusses how strategic options will be further explored and shaped by analytical studies and consultations. The R-PP foresees systematic analyses of opportunity costs for all strategy options, including the analysis of potential compensation costs in the case of loss of income or restriction of access to natural resources.

32. Reference Level. The R-PP indicates that Costa Rica has a 2005 forest cover map and research has been conducted on carbon fraction of forest types. They suggest using historical data on carbon stocks from 2005 to allow for compensation for early actions. The approach seems reasonable, and the R-PP outlines the necessary analytical work. In terms of the MRV system and the Reference Level, Costa Rica has an appropriate level of capacity to design these systems through the Readiness Preparation phase.

33. Monitoring system. Costa Rica plans to design a continuous national forest inventory to estimate biomass at 1000-2000 plots. This will be combined with remote sensing images to estimate forest carbon stocks annually. There are plans to design a participatory monitoring system for social and environmental risks and impacts.

34. REDD Management Platform. A REDD Executive Committee will be created. It would include the same members as the existing FONAFIFO Board of Directors¹³ plus two additional seats: one for the indigenous peoples, and one for a representative of rural land owners and civil society, both with alternates to allow more flexibility. The indigenous peoples' representatives would be identified through a self-selection process. A REDD Secretariat would carry out executive functions and coordination tasks, and will be hosted in FONAFIFO. The REDD Executive Committee meets the characteristics suggested by the FCPF for a REDD Working Group: multi-sector, inclusion of relevant stakeholders, and link to political processes. The ministries most directly linked to deforestation, MAG and MINAET, participate in the REDD Executive Committee. Coordination with other sectors would take place at the cabinet level. The cabinet meets every week and includes all Ministers.

35. The following issues were also identified and discussed as part of the due diligence process, and would require careful attention throughout the readiness preparation phase.

36. Representation and Participation of Indigenous Peoples. Indigenous peoples' territories are organized in *Asociaciones de Desarrollo Integral* (ADIs) as the legal structure recognized under the Costa Rican Indigenous Law. Currently, 24 ADIs hold legal title to the indigenous reserves. ADIs are composed of a voluntary membership of the indigenous peoples. Depending on the territory, ADI membership of indigenous persons is reported to be between 15 and 50 percent. Indigenous peoples sometimes perceive ADIs as externally imposed structures that do not fully take into account their traditional political structures. ADIs are sometimes perceived as unrepresentative and unaccountable administrative entities that have weakened the traditional political structures and decision-making processes of Indigenous Peoples. It seems some ADIs include non-Indigenous members that have encroached in the indigenous territory and have become *de facto* members in the ADI.

37. The degree of inclusiveness of ADIs seems to be higher in the Atlantic region than in the Pacific South. In Atlantic region the ADIs have managed to integrate some of their traditional bodies into their structure, while this does not appear to be the case in the Pacific region. It will, therefore, be necessary to identify the views of indigenous peoples by consulting with their traditional structure and/or the entire communities as well as with the ADIs. Furthermore, it seems ADIs are the sole entities recognized by the government to sign PES contracts and distribute the funds generated from PES. As far as REDD is concerned, efforts will be made to ensure inclusiveness.

38. As the responsible government agency for Indigenous issues, CONAI (*Comisión Nacional de Asuntos Indígenas*) was expected to support traditional Indigenous Peoples' structure. In practice, CONAI seems to strengthen more the role of the governmental structures. For example, it does not recognize the traditional indigenous peoples' political structures.

¹³ The FONAFIFO Board of Directors is composed of the National Bank System, the Ministry of Agriculture and Livestock (MAG), and the Ministry of the Environment, Energy, and Telecommunications (MINAET), and two seats for the National Forestry Office (ONF).

39. Given the context described above, FONAFIFO has currently identified a broad range of indigenous peoples' structures and organizations representing indigenous peoples. Some of these are non-traditional such as ADIs, regional alliances such as RIBCA and ARADIKES, and national level organizations such as *Mesa Nacional Indigena* (MNI). FONAFIFO is also committed to working with the traditional indigenous representative organizations such as *Consejos* and/or *Clanes*. In the first national SESA workshop, FONAFIFO ensured the balanced participation of indigenous peoples from different regions, from ADIs as well as other traditional structures, indigenous peoples' organizations and indigenous women. During the readiness phase, FONAFIFO plans to facilitate a process whereby indigenous peoples will propose the procedures and mechanisms for conducting a culturally adequate consultation process with all forms of representative organizations and it intends to apply the principles of free, prior and informed consent consistent with the ILO Convention 169.

40. Land Tenure. The R-PP indicates that most rural lands in Costa Rica belong to individual farmers and most of them have legal titles. However, in some regions, formal titles have not yet been issued, and in many regions there are overlapping and conflicting land claims, sometimes also with protected areas and indigenous territories. The R-PP indicates that a process is underway to facilitate land regularization and the resolution of pending cases especially through the ongoing Land and Cadastre Program. The Land and Cadastre Program may need further strengthening given its importance to resolve outstanding and conflicting land claims. The PES is supporting institutional strengthening to gradually involve small farmers who do not have titles into the program.

41. Indigenous territories were created pursuant to Article 1 of the Indigenous Law of 1976. Non-indigenous people do not have the right to property or possession in indigenous reserves. Article 5 states that non-indigenous persons who either had property or good faith possession (*poseedores de buena fe*) before the Indigenous Law was passed may be expropriated according to the procedures of the Expropriation Law and are entitled to compensation. Despite the guarantee of Article 3 of the Indigenous Law, illegal occupation of indigenous lands by non-indigenous persons persists. The government has expressed its commitment to free indigenous reserves of non-indigenous *fincas* on several occasions. However, the process has been slow and a significant number of unresolved cases persist. Cases can be divided in two basic categories. The first category consists of *fincas* that predate the Indigenous Law. The second category consists of *colonos* who settled in indigenous reserves after the Indigenous Law was passed and who have no legal right to the land (squatters). These situations limit the exercise of traditional activities and may infringe on future carbon rights.

42. Indigenous peoples hold collective title to their titled reserves through their respective ADIs and individual landownership is not recognized in indigenous territories under the Indigenous Law. Indigenous peoples who live in the reserves today continue to manage the forest under collective ownership. The collective ownership and use is however not fully recognized under the PES payment system as it is still treated as private property without recognizing traditional land holding patterns. PES payments are made exclusively to the ADIs as the only legally recognized representative of indigenous peoples.

43. The Constitutional Chamber of the Supreme Court has acknowledged that ADIs are not ideal forms of indigenous representation as they impose alien structures on indigenous peoples. However, it has upheld their legality as the only proper option available under existing law. A case filed by members of the Térraba peoples was recently admitted and remains pending before the fourth chamber of the Supreme Court. The decision could have important implications for the future of ADIs and therefore impact REDD.

44. The *Programa de Regularización de Catastro y Registro* (PRCR) may be used to facilitate the resolution of land tenure conflicts as it produces the necessary cartographic information for land demarcation which in turn, is a necessary step towards land titling. The R-PP indicates that FONAFIFO will elaborate an action plan together with the PRCR and ADIs to produce technical information and conduct pertinent legal analyses to facilitate the recovery of indigenous lands. These activities would include: (a) the request to all indigenous territories to identify non-indigenous land owners and occupants in their territories; (b) the analysis of past regularization procedures (e.g. compensation, expropriations and evictions); (c) assist indigenous territories by providing advice on what actions to take; and (d) analyze indigenous land management practices under customary law.

45. Cross-sector coordination. Cross-sector coordination is essential in REDD because (i) REDD should contribute to the overall development of rural communities, and (ii) many of the drivers of deforestation and degradation come from outside the forestry sector. In Costa Rica, there are a few functioning cross-sector bodies related to rural development and forests. First, the lead ministry for REDD, MINAET, has responsibility for environmental matters and for energy, so coordination between those two sectors should be facilitated. Furthermore, the FONAFIFO Board of Directors, which will form the basis of the REDD Executive Committee, includes the National Bank System, MAG, and MINAET, and the National Forestry Office. Most importantly, however, is the willingness, expressed at a high political level, to utilize a coordinated approach to increase environmental sustainability and enhance rural development.

46. In Costa Rica the energy sector may potentially play an important role for the success of a future REDD strategy, especially with regards to hydropower. It appears that a number of hydroelectric projects that have been in the Government's plans for several years faced expressions of dissent from several local communities. Specifically, Terraba indigenous communities complained that the proposed Diquis dam was prepared without proper consultation and would jeopardize their rights and livelihoods by flooding a portion of their forest territory. The Committee on the Elimination of All Forms of Racial Discrimination (CERD) examined the situation of the Terraba in August 2010 and March 2011. CERD also expressed its concern that according to the information it had received, the Terraba people had neither been consulted nor been invited to participate in the decision-making process. Moreover, CERD recommended that the Government of Costa Rica strengthens its efforts to protect the land tenure rights of indigenous people. It also reminded the government of its obligation to comply with a Supreme Court decision asking the government to delimitate the territories of the Terraba, Rey Curre and Boruca indigenous communities. CERD has asked the government for additional information by July 31, 2011 on the progress of the Diquis dam project and for more detailed information on how the government will try to seek the free, prior and informed consent of indigenous peoples as well as their participation in all stages of the project. The Special Rapporteur for indigenous

rights of the United Nations also visited Costa Rica in April 2011, and it is expected that a public report from this visit be issued soon. In the context of this visit, the Government confirmed its commitment to conduct an inclusive and transparent development process and to respect domestic and international laws on Indigenous Peoples' rights.

B. Financial Management

The Bank conducted a financial management assessment of FONAFIFO, the executing agency, in accordance with OP/BP 10.02 and the FM Practice Manual¹⁴. The grant will be implemented by FONAFIFO through its current organizational structure which is adequately staffed. The flow of funds is simple, as the resources of this grant will be managed through a Trust Fund named "Fideicomiso 544" (TF 544), administered by the *Banco Nacional de Costa Rica* (BNCR). The objective of using this mechanism is to maintain a sound control environment in the administration of the grant's resources supported in the BNCR's suitable IT infrastructure. Upon FONAFIFO's request, BNCR will make payments to providers of goods and services for the expenditures categories of this grant (i.e. consultants, operating costs, and workshops). The Designated Account will be maintained within the Treasury Single Account (TSA–*Caja Unica del Estado*) of the National Treasury,¹⁵ which provides a sound control framework in managing designated accounts.

47. The assessment identified as a risk the lack of an accounting system for the grant, which creates risks such as the possibility of losing information, lack of accuracy, and limited register capacity. Although these risks are partially mitigated by the fact that the BCNR has its own accounting system for the operation of the TF544, it is deemed necessary the acquisition an automated accounting system, which should allow for the proper recording of financial transactions, including the allocation of expenditures in accordance with the respective components, disbursement categories and sources of financing. FONAFIFO is in the process of acquiring and implementing a financial management system.

48. The overall experience of FONAFIFO managing projects financed by the World Bank will be relevant for this grant. It is important to note that the last audit report received for LN7388 and TF056666, which covered the period from January 1 to December 31, 2010, presented an unqualified (clean) opinion on the financial statements of the project, but was received with a substantial delay. To prevent delays in the submission on audit reports, close monitoring of auditors contracting will be necessary. Equally important is the fact that during the last FM supervision, FONAFIFO displayed satisfactory FM arrangements for LN7388 and TF056666.

49. For reporting the use of grant's proceeds FONAFIFO will prepare the following financial information:

¹⁴ The FM Manual was issued by the FM Sector Board in March 1, 2010.

¹⁵ The National Treasury is part of the Ministry of Finance.

- Semi-annual unaudited Interim Financial Reports (IFRs) which will be prepared on a cash basis after grant effectiveness, and will be delivered to the Bank 45 days after the end of each six month calendar period.
- Annual financial statements which will be audited by independent auditors satisfactory to the Bank, in accordance with acceptable auditing standards. The external audit will be conducted according to Terms of Reference acceptable to the Bank reflecting grant's circumstances and needs, which should be clear and sufficiently detailed so that the scope of work, coverage, audit methods and expected depth of work are clearly stated. Auditors will be required to issue an opinion on grant's financial statements, as per Bank guidelines. Auditors will also prepare a management letter identifying internal control weaknesses that require management attention. The auditor's report will be submitted to the Bank no later than six months after the closing of the borrower's fiscal year.

50. Supervision strategy. The scope of FM supervision will include the review of the implementation FM arrangements and FM performance, identify corrective actions if necessary, and monitor fiduciary risk. It will take place twice every year and include (a) reviewing of IFRs; (b) reviewing of the auditors' reports and follow-up of any issues raised by auditors in the management letter, as appropriate; (c) participation in grant's supervision and (d) updating the FM rating in the Implementation Status Report (ISR).

51. Flow of funds and disbursement. The grant's flow of funds will be as follows:

- (1) The Bank will advance resources in USD into the TSA of the National Treasury, which will maintain two segregated accounts in the Costa Rican Central Bank for the Bank's grant, one in USD and the other in *Colones*.
- (2) The Treasury Unit of FONAFIFO will instruct the TF544 of BNCR to make payments to providers of goods and services by sending a text file with the information of beneficiaries.
- (3) The BNCR in turn will instruct the National Treasury to make the payments.
- (4) The National Treasury will make the payments to providers of goods and services, if the payments are due in Costa Rican *Colones*, the National Treasury will first make the currency conversions, transfer the resources into the grant's account in *Colones*, and then make the payments.
- (5) Once payments are made, FONAFIFO will prepare the Statements of Expenditures (SOE), and send them to the Bank, at least on a quarterly basis.

52. The grant disbursement arrangements¹⁶ will be as follows: (i) disbursement methods: reimbursement, advances and direct payment; (ii) supporting documentation: SOEs¹⁷; (iii) type of DA: pooled; (iv) financial institution where the DA will be opened: *National Treasury*; and (v) currency of the DA: USD.

¹⁶ For details, see the Disbursement Handbook for World Bank Clients.

¹⁷ All SOE supporting documentation would be available for review by external auditors and Bank staff at all times during Project implementation, until at least the later of: (i) one year after the Bank has received the audited Financial Statements covering the period during which the last withdrawal from the Loan Account was made; and (ii) two years after the Closing Date. The Borrower and the Project Implementing Entity shall allow the Bank's representatives to examine these records.

C. Procurement

53. Assessment of the agency's capacity to implement procurement. A full assessment of the capacity to implement procurement actions for the project has been carried out with FONAFIFO in April-May 2011. FONAFIFO has previous experience implementing Bank funded Projects. FONAFIFO is staffed with well qualified procurement specialists, who have vast previous experience applying World Bank's Guidelines, with over ten years of professional experience in procurement; they have developed manuals, guidelines and related instruments to manage the procurement function in an adequate manner; and make a customarily and adequate use of Procurement Plans.

54. The procurement plans are usually prepared in May-July of the previous year and is presented for Bank's approval before July 30 each year which results in a good practice. Based on inputs provided by the technical areas, the procurement specialist and its assistant are responsible for introducing changes to the Procurement Plan with the approval of the Administrator. FONAFIFO staffs have participated in procurement trainings delivered by the World Bank previously.

55. The technical specialists within FONAFIFO are responsible for preparing Terms of Reference and technical specifications, even though they have demonstrated good skills, the Bank must review them accordingly to ensure that FONAFIFO is not including non-restrictive criteria nor vague concepts. It is important to involve technical staff and end users in the preparation of specifications. Implementation delays and poor quality of contract deliverables has been defined as a possible risk and to mitigate it, the Bank shall agree with FONAFIFO on a training program on relevant issues.

56. Other risks identified include inadequate criteria and potential manipulation of bid evaluations, long and cumbersome dispute resolutions resulting in project delays, reduced competition, incomplete or defective bids, for which mitigation measures are included in the assessment. The complete assessment is accessible in the Procurement Risk Assessment and Management System (PRAMS).

57. Frequency of Procurement Supervision. In addition to the prior review supervision to be carried out from Bank offices, the capacity assessment of the Implementing Agency has recommended an annual supervision mission to visit the field to carry out post-review of procurement actions. Detailed provisions that include specialized review of procurement processes will be included in the Terms of Reference to be used for selecting and contracting the external audit for this trust fund.

58. Procurement for the proposed trust fund would be carried out in accordance with the World Bank's "Guidelines: Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits & Grants, January 2011" and "Guidelines: Selection and Employment of Consultants under IBRD Loans & IDA Credits & Grants by World Bank Borrowers, January 2011" and the provisions stipulated in the Legal Agreement.

59. Procurement Plan. For each contract to be financed by the Trust Fund, the different procurement methods or consultant selection methods, the need for prequalification, estimated costs, prior review requirements, and time frame are agreed between the Borrower and the Bank team in the Procurement Plan. The Procurement Plan will be updated at least annually or as required to reflect the actual implementation needs and improvements in institutional capacity.

60. FONAFIFO will develop a detailed Procurement Plan for the first 18 months of implementation. This plan has to be agreed between the Borrower and the Bank. As soon as the trust fund is declared effective, the Plan will be available in the Bank's database and on the Bank's external website. The Procurement Plans will be updated in agreement with the Bank annually or as required to reflect the actual implementation needs and improvements in institutional capacity.

61. Given the overall experience of FONAFIFO with previous Bank's funded projects, and the size of the amount of the trust fund, the overall risk for procurement is rated Moderate. However, any change on the procurement staff on the executing agency will trigger a risk reassessment. See Annex 4 for more information on Procurement methods and thresholds.

D. Social and Environmental

62. A Strategic Environmental and Social Assessment (SESA) will be conducted in line with the World Bank operational and safeguards policies. The SESA aims to integrate key environmental and social considerations into REDD Readiness by combining analytical and participatory approaches. It would allow: (i) social and environmental considerations to be integrated into the REDD strategy; and (ii) stakeholder participation in identifying and prioritizing key issues, and assessment of policy, institutional and capacity gaps. Based on the SESA, an Environmental and Social Management Framework (ESMF) will be put in place as part of the Readiness package to manage environmental and social risks and to mitigate potential adverse impacts.

63. FONAFIFO organized the first National SESA Workshop (May 4-5, 2011) with relevant key stakeholder groups nationally in order to (i) inform stakeholders about Costa Rica's revised proposal for designing a national REDD strategy; and (ii) provide the initial platform for relevant key stakeholders to raise their issues and concerns regarding the proposal. This SESA workshop carried out an issue scoping exercise based on the strategic REDD options being considered for the design of the national REDD strategy. Discussions focused on identifying the risks and benefits of each proposed REDD option from the perspective of each of the relevant key stakeholder group and in distilling the particular issues and concerns.

64. Based on the stakeholders' inputs, FONAFIFO is drafting a SESA work-plan that outlines the steps the SESA process throughout the readiness phase. This SESA work-plan will serve as a live document subject to revision as the design of the national REDD strategy evolves. A parallel communications strategy will support the information dissemination on the strategic options, risks and benefits, to strengthen participatory platforms and process, and also to raise awareness about the overall national REDD strategy. The SESA work-plan contain operational guidance on the next steps and activities, the linkages with the overall national REDD strategy

design and specific components of the R-PP, studies to be carried out, budget, institutional arrangements and timeline.

65. During the readiness phase, FONAFIFO will carry out the analytical and diagnostic studies in regards to the social, environmental, legal, and policy impacts, risks and benefits in a participatory manner based on the SESA Workplan agreed with the relevant key stakeholders. The data and findings of these analytical and diagnostic studies will be summarized in a self-standing SESA Report that will include the following key elements: (i) the consultation process with respect to the analytical and diagnostic studies; (ii) the risks and benefits of the proposed options for the national REDD strategy; and (iii) the contextual challenges that could weaken and/or enhance the long-term sustainability of the national REDD strategy.

66.

D1. Social (including Safeguards)

67. In developing the REDD Strategy, FONAFIFO plans to (i) identify all key stakeholder institutions/organizations (including indigenous peoples representative organizations and the non-Indigenous *campesino* communities); (ii) map key institutions and organizations that have the mandate, role, resources or capacities for the successful implementation of the Strategy; and (iii) put in place a mutually agreeable and equitable benefit-sharing of the carbon revenue in close consultations with the representatives of Indigenous Peoples and *campesino*.

68. In terms of the SESA, FONAFIFO plans to (i) draft and disseminate to stakeholders the SESA work-plan based on the inputs received at the national SESA workshop; and (ii) carry out the analytical and diagnostic studies related to environmental, social and legal impacts, risks and benefits in accordance to the SESA work-plan agreed with the various stakeholders during the preparation for the REDD Strategy. At the end of the preparation phase for the REDD Strategy, FONAFIFO will submit a self-standing SESA Report documenting (a) the process of consultation on the analytical work; (b) the risks and benefits of proposed REDD options; and (c) the contextual challenges that would enhance or undermine the REDD Strategy.

69. Based on the SESA report, an Environmental and Social Management Framework (ESMF) will be prepared for managing downstream impacts once the national REDD strategy is being implemented. The ESMF will form one of the specific outputs needed for the R-Package. Any identified gaps to manage risks and potential impacts in relation to relevant World Bank's safeguard policies will be identified along with the strategy options to feed into the preparation of the ESMF. The ESMF will provide a framework to manage and mitigate the potential environmental and social impacts related to specific projects and activities (such as investments and carbon finance transactions, in the context of the future implementation of REDD).

70. Indigenous Peoples policy (OP 4.10). FONAFIFO plans to carry out the required social assessment and to prepare an Indigenous Peoples Planning Framework (IPPF) in close consultations with indigenous peoples' communities, as a specific chapter of the ESMF in compliance with the Indigenous Peoples policy. OP4.10 requires broad community support from concerned Indigenous Peoples based on free, prior and informed consultation during the preparation phase. Costa Rica also confirmed its determination to comply with applicable

national and international law, especially the ILO Convention 169 which includes the principle of free, prior and informed consent by Indigenous Peoples.

71. Involuntary Resettlement policy (OP 4.12). The Government has indicated that participation in REDD activities will continue to be based on the voluntary approach build in the PES program. FONAFIFO will prepare the required Resettlement Policy Framework (RPF) and the Process Framework (PF) in close consultations with the representatives of indigenous peoples, *campesino* communities, and private land owners. The RPF would address the potential relocation and compensation of private land owners currently living in protected areas. The PF would help manage the potential risk of restriction of access to natural resources, for example in protected areas. The RPF and PF will be prepared as a specific chapter of the ESMF.

D2. Environment (including Safeguards)

72. Environmental Assessment (OP/BP 4.01). Since the explicit goal of the REDD strategy is to promote the reduction in rates of deforestation and degradation by rewarding measures to protect and conserve forests, the environmental impacts of the strategy are expected to be mostly positive. As forest cover improves so too will the associated benefits associated with forests. Not only as a sink for carbon but also for the many environmental services forests provide such as watershed protection, provision of important habitats, sustainable source of NTFP and other forest based livelihoods. The REDD strategy itself would not finance the harvesting or conversion of forests so there is little to no direct adverse impact associated with activities planned as part of the strategic options.

73. The principal risk from REDD would arise in the event that the strategies fail to achieve their objectives thereby creating unexpected indirect adverse impacts through the unintended creation of incentives to clear forests for other purposes. This could occur, for example, if PES schemes failed to provide sufficient monetary incentive to retain areas under forest cover. Similar risks could occur for example if lack of land tenure security were to undermine commitment to maintain land under forest cover for long time periods.

74. For these reasons, and due to the critical nature of strategic options and choices being considered, OP 4.01 is applicable to the R-PP activities. The principal instruments to document the environmental benefits and risks of the REDD strategy will be the Strategic Environmental and Social Assessment (SESA). SESA will assess key social and environmental risks and potential impacts associated with REDD, and will develop a management framework (ESMF) to manage and mitigate any possible risks and potential impacts during the implementation phase.

75. Natural Habitats (OP/BP 4.04). Given that the REDD strategy will likely work both within existing protected areas as well as other forest habitats of varying significance, OP 4.04 will apply. If the REDD strategies are successful, the impacts on critical forest habitats are expected to be positive, nevertheless SESA will evaluate the possible risks associated with strategic options on forest habitats within PA as well as other sensitive forest habitats under private or communal control. During the formulation of the REDD strategy and throughout its implementation consultations will be carried out with key stakeholders to identify potential issues of concern. During the implementation phase monitoring activities will be established to

ensure that critical natural habitats are not adversely affected. It is expected that the ESMF will include provisions to assess possible impacts prior to any actions being undertaken on the ground.

76. Forests (OP/BP 4.36). Due to the importance of REDD as part of Costa Rica's long term forest and environmental management programs and due to the importance forests play in the livelihoods of many communities, this policy will apply. The REDD Strategy itself will build largely on the experience of FONAFIFO with the Payment for Environmental Services program. During the preparation phase, these and other forestry and rural development initiatives will be evaluated in order to ensure lessons are incorporated early in the design and key social and environmental risks and potential impacts associated with REDD are considered in the ESMF. The REDD strategy itself would not finance the harvesting or conversion of forests. It is expected that the REDD strategy would promote the use of third-party forest certification.

77. Physical Cultural Resources (OP 4.11). Given the uncertainty regarding the exact locations of activities to be carried out under the REDD Strategy, this policy is triggered. Some forests or landscapes concerned by the REDD strategy might be considered to have historical or cultural significance such as spirit forests, sacred valleys or other features of the natural landscape. The ESMF would include specific provisions to assess the possibility of such impacts prior to any activities being undertaken on the ground.

78. Pest Management (OP 4.09). At present it is not envisioned that the REDD strategy would finance or lead to an increased use of pesticides or other agricultural chemicals. However, it is conceivable that some forest management practices used at plantations could utilize silvicultural practices involving pesticides. The SESA will evaluate the potential for such use of chemicals in forest management and, if necessary, appropriate guidelines and analytical approaches would be defined in the ESMF. Based on the above, the policy is triggered.

D3. Consultation, Participation, and Disclosure

79. REDD preparation includes multiple sectors and stakeholders nationwide at various levels (national, regional and local). Adequate consultation is essential to take stakeholders' views into consideration, generate support, increase the chance of achieving the multiple benefits expected from REDD, and reduce the risk of generating unintended negative impacts. For Costa Rica, the main objectives as well as challenges for carrying out a consultation process include: (i) a multi-sectoral and multi-stakeholder consultation process based on existing structures that strengthens social capital; (ii) a process that will enhance good governance by strengthening meaningful participation of stakeholders at the decision-making level in reference to the design of the national REDD strategy; and (iii) a process that could facilitate the conversion of joint vision for the design of the national REDD strategy that is shared by all stakeholders.

80. Experience to Date. FONAFIFO has held numerous information dissemination sessions since 2008 about Costa Rica's proposal to design a national REDD strategy and, in particular, the elaboration of the R-PP. For the formulation of the R-PP (2009), about 80 civil society organizations, NGOs and government entities participated. A working session was organized to discuss REDD with civil society and academia such as University of Costa Rica, *Universidad*

Nacional de Costa Rica, Instituto Tecnológico de Costa Rica, CATIE, INBio, and Fundecor. Information dissemination packages, including the R-PP, were distributed to a wide range of government entities, civil society organizations, indigenous peoples' and campesino organizations including Oficina Nacional Forestal, Junta Nacional Forestal Campesina, Asociación Coordinadora Indígena y Campesina de Agroforestería Comunitaria Centroamericana, Fecon, ARADIKES, Mesa Nacional Indígena, Coordinadora ADII-Caribe, and Red de Reservas Privadas.

81. With regards to indigenous peoples, FONAFIFO has been engaging with ADIs and indigenous peoples' organizations through bilateral dialogues, information dissemination and early planning meetings to understand their issues and concerns. Visits and meetings were held with ADIs in Talamanca and other indigenous peoples' organizations, such as RIBCA, in the Atlantic region from 2009. Initial meetings were also held with ADIs in the Pacific-South and other indigenous peoples' organizations such as ARADIKES. FONAFIFO supported a series of planning workshops organized by indigenous peoples themselves in the Atlantic region to specifically discuss the R-PP, the proposal for the design of a national REDD strategy and what it means to them. FONAFIFO has provided information on REDD to Indigenous Peoples primarily through the ADI structure and to *campesinos* in a limited manner. However, most recently, the national SESA workshop (May 4-5, 2011) gathered indigenous peoples representatives from the Atlantic and Pacific region, from ADIs and traditional structures, grass roots indigenous peoples organizations and local indigenous women's organization, such as ACOMUITA. In addition, a public event sponsored by the Bank Information Center and Conservation International was held in Washington, D.C. on May 12, 2011, for FONAFIFO to present their vision for the national REDD strategy.

82. Proposal Going Forward. The REDD consultation process will build on existing channels and networks of communication, and human and social capital that were gradually developed along two decades of testing and implementing incentive environmental programs in Costa Rica. The Consultation will also aim to open new avenues and help expand social capital further, especially with regards to indigenous communities. It would aim to improve governance by involving interested parties in the policy-making process, and to allow Costa Rica to present a REDD strategy backed by a shared vision from all interested parties.

83. The Consultation Plan will be further elaborated with regards to specific contents, target groups and methodologies, as an immediate priority at the start of the REDD preparation phase. In developing the REDD Strategy, FONAFIFO plans to carry out adequate and culturally appropriate consultations with the identified key stakeholders. The active participation of indigenous communities and their representative organizations as well as the *campesinos* would be critical in ensuring an open, transparent and credible consultation process. With respect to *campesinos*, FONAFIFO plans to analyze the socio-economic profile of forest dependent *campesinos* and, based on an adequate consultation process, propose measures to address their issues. Forest dependent *campesinos* are a demographically large group in Costa Rica, and they are generally among the poorest. FONAFIFO will continue to provide information to members of Indigenous communities that are not members of the ADI structure and organizations, associations and cooperatives representing other local non-indigenous communities. At the same time, FONAFIFO plans to collaborate with the institutional structure to ensure the participation

of representative indigenous institutions and *campesinos* in the various levels of the structure, including decision-making, implementation, monitoring and evaluation.

84. As a first step, FONAFIFO plans to conduct a stakeholder mapping and analysis to understand their particular roles, mandates and capacities in order to most effectively strategize and operationalize the consultation process during the readiness phase tailored to the particular profiles of each stakeholder group specifying women as a distinct stakeholder subgroup. The specific consultation plan will be designed with the following guidelines: (i) meaningful inclusion of all relevant stakeholders in reaching a national consensus on REDD; (ii) design and implementation of consultations with and based on strong support from stakeholders; (iii) dissemination of appropriate information through the adequate channels of communication depending of the particularities of each stakeholder group; (iv) ensure outcomes that are equitable, especially for the forest-dependent *campesinos* and indigenous peoples; (v) design of appropriate indicators for monitoring and evaluating impacts.

85. The consultation process plans to pay special attention to women to understand their specific issues and concerns. For example, many indigenous peoples in Costa Rica practice a matriarchal system where land is inherited along the female line and where women play a paramount role in community decision making. Their role in resource management and use as well as in the decision-making process is critical and any potential impacts to their role will need to be assessed.

86. The consultation process makes specific focus on indigenous peoples and forest-dependent *campesinos* to actively participate in the design of the consultation process that is most appropriate in order to encourage their greater participation during the readiness phase. The process intends to facilitate the strengthening of their local and regional organizations to be in a better position to identify and articulate issues that affect them. The consultation strategy will take into account indigenous peoples' traditional as well as non-traditional structures, their own decision-making process, and socio-cultural channels of communication and deliberation. Additionally, FONAFIFO will support a self-selection process to identify the indigenous peoples' representative for the Board of FONAFIFO.

87. Grievance mechanism. The grievance mechanism will be managed by the existing entity of the FONAFIFO's *Contraloría de Servicio* that is established by law and is responsible for receiving and processing complaints on behalf of each specific government agency. For the specific case of handling grievances and complaints regarding REDD, it is intended that the REDD Executive Secretariat (within FONAFIFO) will receive and communicate the grievance and/or complaint to the *Contraloría de Servicio*, that will coordinate with the relevant department and/or departments within FONAFIFO to prepare the appropriate institutional response. The REDD Working Group will either communicate the institutional response to the complainant and/or provide further advice on responding to questions regarding the implementation of the R-PP and the design of the national REDD strategy. The grievance mechanism will include specific procedures for receiving, documenting, follow-up, investigation and reporting that will be managed by the *Contraloría de Servicio* facilitated by the Executive Secretariat of the REDD in coordination with the advice of the REDD Working Group.

88. Communications/outreach. The Government recognizes that developing and implementing a communications strategy for REDD is vital to provide appropriate information to stakeholders, to strengthen the participatory nature of the REDD process, and to ensure transparency. FONAFIFO carried out a series of early information dissemination workshops and has engaged in initial dialogue on REDD with a variety of stakeholder groups, including Indigenous Peoples in the Atlantic and Pacific areas. A new set of communications actions will be undertaken to ensure information dissemination is culturally appropriate and reaches the relevant stakeholders. It was agreed that FONAFIFO will: (i) establish institutional agreements for the communications work, mobilize the necessary human and financial resources, and develop and implement a comprehensive communications strategy, starting with a communications baseline survey. The communications strategy will also support the consultation and SESA processes.

89. Disclosure. The R-PP was posted on the FCPF website in June 2010 and on the FONAFIFO website in July, 2010. After several revisions, the final version was disclosed in May 2011. Information materials were also widely distributed. During the readiness preparation phase, special attention will be paid to dissemination of materials in indigenous languages.

D4. Safeguard Policies triggered

90. The table below presents the safeguards policies which are being triggered at Concept Stage. The environmental safeguards category proposed at Concept Stage is: B.

Safeguards	Yes	No	TBD
Environmental Assessment (OP/BP 4.01)	X		
Natural Habitats (OP/BP 4.04)	X		
Forests (OP/BP 4.36)	X		
Pest Management (OP 4.09)	X		
Physical Cultural Resources (OP/BP 4.11)	X		
Indigenous Peoples (OP/BP 4.10)	X		
Involuntary Resettlement (OP/BP 4.12)	X		
Safety of Dams (OP/BP 4.37)		X	
Projects on International Waterways (OP/BP 7.50)		X	
Projects in Disputed Areas (OP/BP 7.60)		X	
Piloting the Use of Borrower Systems to Address Environmental and Social Safeguard Issues in Bank-Supported Projects (OP/BP 4.00)		X	

VII. Proposed Team Composition, Schedule, and Budget

91. Team. The proposed team composition is as follows:

Erick C.M.Fernandes, Team Leader, LCSAR
Laurent Debroux Adviser, Adviser, LCSAR
Mi Hyun Miriam Bae, Social Development Specialist, LCSSO
Stefano Pagiola, Sr Environmental Economist, LCSSD
Navin Rai, Adviser, Indigenous Peoples, SDV
Glenn Morgan Regional Safeguards Adviser, LCSDE
Julius Thaler Counsel, LEGEN
Jimena Garrote, Counsel, LEGLA
Yoanna Kraus Elsin, Consultant, Forest and Carbon Economics, LCSAR
Carolina Hoyos Consultant, Communications, LCSEA
Ricardo Hernandez, Senior Environmental Specialist, LCSEN
Jeannette Ramirez, Operations Officer, LCSAR
Diana Rebolledo Program Assistant, LCSAR
Leonel Iglesias, Consultant, ENVCF
Fabienne Mroczka, Financial Management Specialist, LCSFM
Tomas Socias, Procurement Specialist, LCSPT

92. Schedule. The tentative schedule would be as follows:

Review of R-PP Assessment Note	June 2011
Signature of Readiness Preparation Grant Agreement	June 2012
Readiness Preparation Phase	October 2012-Dec 2013
Review of Country Readiness Progress Report	August 2013
Review of Readiness Package	December 2013

93. The REDD preparation phase is tentatively expected to take about two years. However, given the pilot nature of the process, this duration may vary depending on progress made by the country with the preparation activities as well as progress in international negotiations on REDD.

94. Sequencing with Carbon Fund. At the same time Costa Rica submitted its revised R-PP to the Bank and the FCPF, it also expressed interest in participating as a pilot country in the new FCPF Carbon Fund. Consistent with the two-phase structure of the FCPF, the REDD Readiness Preparation Phase (supported by the Readiness Fund) would proceed in parallel with the preparation of an Emissions Reduction Program (with the Carbon Fund). In line with the Carbon Fund rules of operations, the signature of an ERPA under the Carbon Fund is contingent upon the assessment by the Participants Committee of the Country's Readiness Package.

95. Budget. The budget needed to provide technical assistance to Costa Rica and ensure compliance with World Bank operational policies throughout the REDD Readiness Preparation phase, is estimated \$100K per year. See paragraph 93 for the duration of the preparation phase.

VIII. Annexes

Annex 1: Additional Background on the Forest Carbon Partnership Facility

Annex2: Tentative REDD Readiness Activities for Funding under the FCPF Preparation Grant

Annex 3: Main causes of deforestation and degradation and potential REDD strategies

Annex 4: Procurement

Annex 1: Additional Background on the Forest Carbon Partnership Facility

The FCPF became operational in June 2008. The FCPF is a global partnership facilitated by the World Bank. It is, focused on reducing emissions from deforestation and forest degradation, and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks (a set of activities collectively referred to as “REDD”).

The World Bank fulfills three different functions in the FCPF: Trustee, Secretariat, and Delivery Partner.

The FCPF has the dual objectives of (i) assisting tropical and subtropical forest countries in developing the systems, policies, and capacity for REDD (Readiness Mechanism) and (ii) testing a program of performance-based incentive payments in some pilot countries, on a relatively small scale, in order to set the stage for a larger system of positive incentives and financing flows in the future. Two separate mechanisms have been set up to support these objectives:

1. **Readiness Mechanism:** The FCPF’s initial activities relate to strategic planning and preparation for REDD in IBRD and IDA member countries in the tropics across Africa, East Asia and the Pacific, Latin America and the Caribbean and South Asia. Specifically, countries prepare for REDD by (i) assessing their situation with respect to deforestation, forest degradation, conservation and sustainable management of forests and relevant governance issues; (ii) identifying REDD strategy options; (iii) assessing key social and environmental risks and potential impacts associated with REDD, and developing a management framework to manage these risks and mitigate potential impacts; (iv) working out a reference level of historic forest cover change and greenhouse gas emissions and uptake from deforestation and/or forest degradation and REDD activities, and potentially forward-looking projections of emissions; and (v) designing a monitoring system to measure, report and verify the effect of the REDD strategy on greenhouse gas emissions and other multiple benefits, and to monitor the drivers of deforestation and forest degradation, as well as other variables relevant to the implementation of REDD. These preparatory activities are referred to as ‘REDD Readiness’ and create a framework for future REDD investments (e.g., those supported by bilateral programs or the Climate Investment Funds’ Forest Investment Program) or performance-based payments (e.g., under the Carbon Fund, as described below). REDD Readiness activities can be supported in part by the Readiness Fund of the FCPF, as well by other partners. The Readiness Fund does not finance implementation of REDD activities on the ground (e.g., investments or pilot projects). The Readiness Fund has been in operation since June 2008.
2. **Carbon Finance Mechanism:** It is expected that five to ten countries that will have made significant progress towards REDD readiness will participate in the Carbon Finance Mechanism and receive financing from the Carbon Fund, through which the Facility will implement and evaluate pilot incentive programs for REDD based on a system of compensated reductions. The selected countries, having demonstrated ownership on REDD, progress in the design of an adequate monitoring framework, and preparation of credible reference scenarios and options for reducing emissions, will benefit from performance-based payments for having verifiably reduced emissions from deforestation and/or forest

degradation through their Emission Reductions Programs. The structure of these payments will build on the options for REDD that are currently being discussed within the UNFCCC process, with payments made to help address the causes of deforestation and degradation. Within the Carbon Finance Mechanism, payments will be made to countries that have signed Emission Reductions Payment Agreements (ERPAs) and achieve measurable and verifiable emission reductions. The Carbon Fund is expected to become operational in June 2011.

Together, these two mechanisms seek to learn lessons from first-of-a kind operations and to develop a realistic and cost-effective significant new instrument for tackling deforestation, to help safeguard the earth's climate, reduce poverty, manage freshwater resources, and protect biodiversity. However, the Facility is not a panacea to "save the world's forests". Rather, the lessons generated from the FCPF's methodological, pilot implementation and carbon finance experience will provide knowledge for all entities interested in REDD. The FCPF thus seeks to create an enabling environment and a body of knowledge that can facilitate development of a much larger global program of incentives for REDD over the medium term.

Overall, thirty-seven countries participate in the FCPF Readiness Fund: 26 of them have formulated their R-PP, and only three have accessed the \$3.6 million Readiness Preparation Grant which is hereby proposed for Costa Rica (the first preparation grant was signed on March 24, 2011).

Figure 1. Key milestones in the basic FCPF Business Process

Basic FCPF Business Process

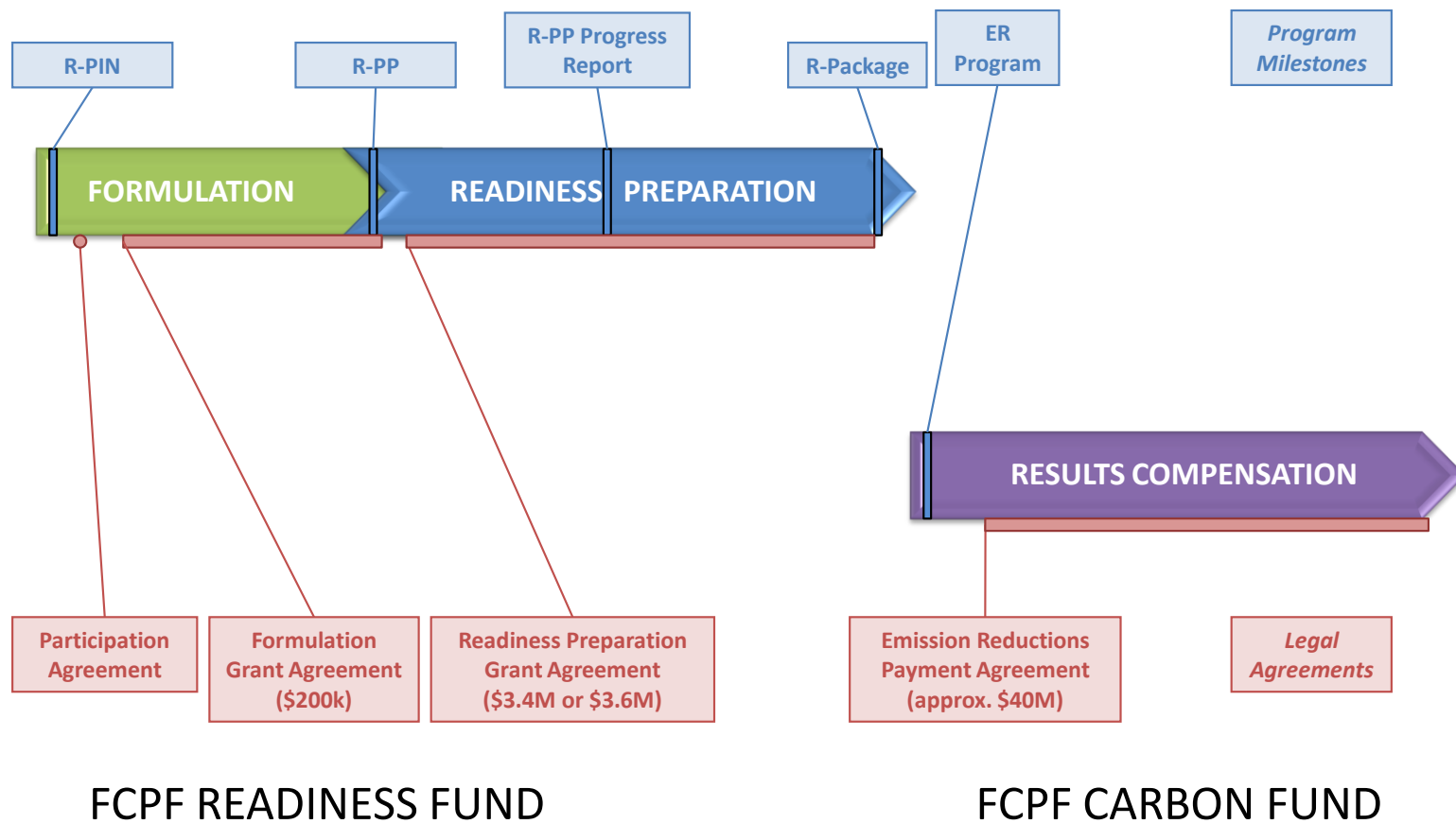
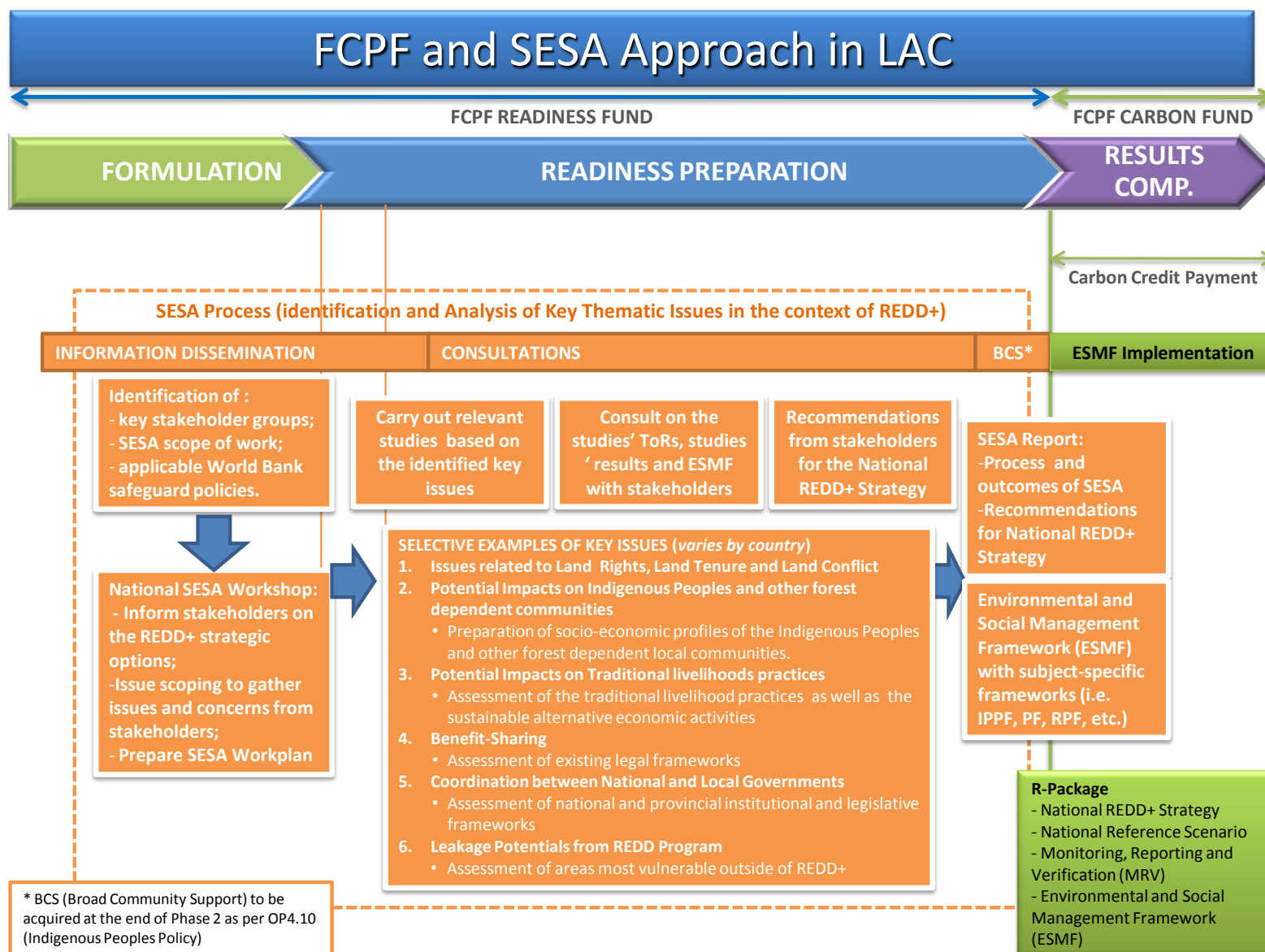


Figure 2. Key steps in the SESA process and corresponding milestones in the FCPF business process



Annex2: Tentative REDD Readiness Activities for Funding under the FCPF Preparation Grant

1. **R-PP Component 1: Organization and Consultation. FCPF \$1,338,500.** The FCPF grant would support the dialogue and coordination with stakeholder groups, within and outside government, necessary to achieve a successful outcome for REDD.

1a: National Readiness Management Arrangements. FCPF \$420,000. The FCPF grant would finance operating costs, workshops, and consultancies supporting a REDD Executive Committee and REDD Secretariat including a communication strategy. The grant may also finance the purchase of some goods (e.g. office supplies). This activity will also support Indigenous Peoples' organizations in a process of self-selection for representation on the Committee.

1b: Stakeholder Consultation and Participation. FCPF \$918,500. The FCPF grant will support consultations and workshops with relevant stakeholders and facilitates their participation in all REDD readiness preparation activities, in accordance with the Consultation and Participation plan. The risks and advantages of all potential REDD strategy options will be discussed with the relevant stakeholders. Special attention will be given to Indigenous Peoples in line with the principle of free, prior and informed consent embedded in the RPP. This activity will be closely articulated with the carrying out of the strategic environmental and social assessment (SESA) and the preparation of the environmental and social management framework (ESMF) under component 2d.

Grievance Redress Mechanisms. FCPF \$200,000. The FCPF grant will support the assessment of existing feedback and grievance redress mechanisms and, if deemed necessary by the World Bank, reinforcing and/or creating said mechanisms, satisfactory to the World Bank, to meet the needs of people who may be affected by REDD.

2. **R-PP Component 2: Development of the REDD Strategy. FCPF \$1,347,700.** The FCPF grant would help to further analyze the drivers of deforestation and to design policies and programs to combat them, while putting in place the necessary institutional and legal framework, and environmental management frameworks to make them effective.

2a: Assessment of Land Use, Forest Policy, and Governance. FCPF \$70,000. The grant would finance studies to further assess land use, forest policy, and governance, including the dynamics of land uses, forest degradation and restoration, and opportunity costs of alternative land uses.

2b: REDD Strategy Options. FCPF \$1,032,700. The FCPF would finance consultancies, workshops, and operating costs of studies and other analytical work in the design of potential REDD interventions. The grant will finance a stock-taking exercise on the PES program, to draw lessons and identify options for adjustments and improvements, for example in the area of indigenous communities' participation. The grant will also finance the assessment of cost/benefits and analysis of opportunity costs of the strategy options under consideration.

2c: REDD Implementation Framework. FCPF \$55,000. This activity would help set out credible and transparent institutional, economic, legal and governance arrangements that may be needed for a successful REDD program in Costa Rica. The grant would finance operating costs for a new national registry for environmental service rights, to address situations where overlapping land claims may cause confusion in owner rights, and for a new unit in charge of monitoring and prevention of fraudulent environmental services transactions. Purchase of some goods (e.g. office equipment) may also be required.

2d: Social and Environmental Impacts. FCPF \$190,000. The grant would finance consultancies, workshops, and operating costs related to the Strategic Environmental and Social Assessment of risks and potential impacts of the proposed REDD strategies. It will also finance consultancies, workshops, and operating costs needed to prepare the Environmental and Social Management Frameworks (ESMF) including the Indigenous Peoples Framework (IPF), in line with World Bank safeguard policies. This activity will be coordinated with the Consultation and Participation plan supported under component 1a.

3. **R-PP Component 3: Develop a Reference Level.** FCPF \$150,000. The grant would finance consultancies, workshops, and operating costs of studies and field work necessary to generate an RL for carbon stocks under a business-as-usual scenario. This would include finalizing a forest cover map for 2010 and undertaking biomass estimations for various forest types. This data would be compiled into a carbon stock change projection. The reference level would also address technical policy issues such as leakage.
4. **R-PP Component 4: Design a Monitoring and Verification System.** FCPF \$563,800. The grant would finance consultancies, workshops, and operating costs to design a system to measure, report, and verify forest carbon stock changes and co-benefits of REDD, and a baseline assessment of social and environmental impacts of the PES Program. This would include the design of a national forest inventory and the development of allometric equations.

Table A2.1. Synopsis of proposed Readiness Preparation activities, and budget breakdown in US\$.

REDD Readiness Preparation Activities	FCPF	GIZ	Other sources*	Gap	Total
Component 1: Organization and Consultation	1,338,500	256,000	0	66,000	1,660,500
<i>1a: Readiness Management Arrangements</i>	<i>420,000</i>	<i>73,000</i>	<i>155,000</i>	<i>60,000</i>	<i>708,000</i>
<i>1b: Stakeholder Consultation and Participation</i>	<i>918,500</i>	<i>183,000</i>	<i>0</i>	<i>6,000</i>	<i>1,107,500</i>
<i>Grievance Redress Mechanisms</i>	<i>200,000</i>		<i>0</i>		<i>200,000</i>
Component 2: Develop the REDD Strategy		411,000	0	1,080,000	2,838,700

	1,347,700				
<i>2a: Land Use, Forest Policy, and Governance</i>	<i>70,000</i>	<i>9,000</i>	<i>0</i>	<i>30,000</i>	<i>109,000</i>
<i>2b: REDD Strategy Options</i>	<i>1,032,700</i>	<i>364,000</i>	<i>120,000</i>	<i>1,050,000</i>	<i>2,566,700</i>
<i>2c: REDD Implementation Framework</i>	<i>55,000</i>	<i>10,000</i>	<i>40,000</i>	<i>0</i>	<i>105,000</i>
<i>2d: Social and Environmental Impacts</i>	<i>190,000</i>	<i>28,000</i>	<i>0</i>	<i>0</i>	<i>218,000</i>
Component 3: Develop a Reference Level	150,000	162,000	0	70,000	382,000
Component 4: Design a MRV System	563,800	879,500	0	300,000	1,743,300
Total	3,600,000	1,708,500	315,000	1,516,000	7,139,500

*Other sources include: National Government (155,000), Association of Agricultural Engineers (40,000) and Ecomarkets (120,000)

Note: This budget was updated for publication on August 2012.

Annex 3: Main causes of deforestation and degradation and potential REDD strategies

The following table lists the main drivers of deforestation and forest degradation identified in Costa Rica's R-PP. The R-PP further specifies potential actions to directly address these drivers, which will be further analyzed and developed through studies and consultations in the preparation phase. The evaluation of these strategies, and identification and mitigation of risks will be closely tied to the SESA process. Table A4.1 relates to options for reducing deforestation and forest degradation, which Table A4.2 relates to conserving and enhancing forest carbon stocks.

Table A3.1. Potential strategy options, from Costa Rica's R-PP to be further developed during the readiness preparation phase

Causa de la deforestación o degradación	Opción Estratégica	Actividades
Inadecuada vigilancia de los parques nacionales y las reservas biológicas ante la amenaza de precaristas, madereros ilegales, cazadores y mineros	Integrar la captura de carbono en parques nacionales y reservas biológicas a la estrategia REDD.	Actualizar y recertificar la propuesta de proyecto PAP
Falta de competitividad del Sector Forestal frente a otros usos alternos	Mantener la cobertura del Programa de Pago de Servicios Ambientales	Determinar la rentabilidad financiera y ambiental de los sistemas agroforestales
		Diseñar un PSA para territorios indígenas (SAF, Manejo Forestal Sostenible, Regeneración natural, etc).
		Realización de talleres con altos funcionarios de gobierno para mantener la agenda REDD al más alto nivel
Desbalance entre protección/producción en el sector forestal. Políticas que restan competitividad a la actividad forestal frente a usos alternos. Sobre-regulación y veda administrativa del manejo forestal sostenible de bosque natural (primario y secundario). Liquidación temprana e inadecuada reposición de las plantaciones forestales.	Ampliar la cobertura del PSA para bosques de Viejo Crecimiento incluyendo Manejo de Bosque Natural	Evaluación del costo de oportunidad de la tierra bajo diferentes condiciones
Desbalance entre protección/producción en el sector forestal.		Evaluación del costo de oportunidad de la tierra bajo diferentes condiciones
Políticas que restan competitividad a la actividad forestal frente a usos alternos. Liquidación temprana e inadecuada reposición de las plantaciones forestales.	Ampliar la cobertura del PSA para inducir la regeneración natural y el establecimiento de plantaciones forestales	Diseñar el PSA para la inducción y retención de la regeneración.
Desbalance entre	Ampliar la cobertura del PSA para	Identificación de los esquemas de PSA

protección/producción en el sector forestal.	retener la regeneración natural y para promover el manejo de bosques secundarios	más eficientes sobre deforestación y degradación
Políticas que restan competitividad a la actividad forestal frente a usos alternos.		Evaluación del costo de oportunidad de la tierra bajo diferentes condiciones
Sobre-regulación y veda administrativa del manejo forestal sostenible de bosque natural (primario y secundario).		Diseñar el PSA para la inducción y retención de la regeneración.
Lento y costoso proceso de titulación de tierras en ASP. Falta de competitividad del uso forestal frente al uso alterno.		Apoyar al Sinac, a través de la Comisión de Sostenibilidad, para la definición y oficialización de pautas claras para la gestión y manejo de bosques secundarios.
		Apoyar al Sinac en el proceso de implementación del manejo forestal sostenible en bosques en ASP de dominio privado donde la legislación lo permita (reservas forestales, refugios de vida silvestre).
Falta de competitividad del uso forestal frente al uso alterno.	Fomentar la producción y consumo de madera sostenible de bosques naturales (primario y secundario) y reforestación.	Apoyar al Sinac, a través de la Comisión de Sostenibilidad, para el establecimiento de los principios y criterios de manejo de bosque natural por pueblos indígenas.
		Desarrollar un programa de fomento a la reforestación comercial y manejo sostenible de bosques naturales (primarios y secundarios) dirigido por ONF.
		Desarrollar un programa de eliminación de barreras culturales, legales, tecnológicas y de formación que desalienten el uso masivo de la madera, dirigido por la ONF.
Debilidad del Estado en la implementación de mecanismos de control de la tala ilegal	Fortalecer la gestión del SINAC en control de tala ilegal e incendios forestales	Desarrollar de un sistema digital de información forestal que apoye el chequeo rápido en campo de control y vigilancia, la cadena de custodia y la preparación de informes de labores del Sinac.
		Reactivar la Estrategia para el Control de la Tala Ilegal del Sinac, para reforzar la presencia institucional mediante operativos de carretera en puntos problemáticos.
		Establecer un esquema financiero sostenible que garantice una fiscalización adecuada de la actividad forestal por parte del CIAgro y el Sinac.
		Brindar apoyo financiero a la Estrategia de Control de Incendios del Sinac.

	Fortalecer la gestión fiscalizadora del CIAgro	Dotar al CIAgro de la logística necesaria para atender el rezago de inspecciones de rutina y poner al día la atención, tramitología y seguimiento de denuncias
Recursos insuficientes para cubrir la demanda de PSA nacional.	Crear fondos frescos, predecibles y de largo plazo para financiar la implementación de la estrategia REDD	<p>Establecer un esquema financiero sostenible que garantice una fiscalización adecuada de la actividad forestal por parte del CIAgro y el Sinac.</p> <p>Estimar la reducción de emisiones por deforestación atribuibles a acciones tempranas.</p> <p>Diseñar proyectos subnacionales de deforestación evitada.</p> <p>Certificar antiguos proyectos subnacionales de deforestación evitada.</p> <p>Establecimiento de la plataforma tecnológica para el Registro Geográfico Nacional de Derechos de Servicios Ambientales</p> <p>Establecimiento legal del Registro Geográfico de Derechos de Servicios Ambientales</p> <p>Establecimiento y oficialización de una unidad de control de transacciones y del marco regulatorio de transacciones de reducción de emisiones por mejora de las reservas y deforestación evitada</p> <p>Desarrollo de la Línea Base</p>
Lento y costoso proceso de titulación de tierras en ASP.		Desarrollo e implementación del Sistema de Monitoreo, Reporte y Verificación
Falta de competitividad del uso forestal frente al uso alternativo.	Disminuir la tasa de deforestación en bosques regenerados y de Viejo crecimiento o antiguos	<p>Diseñar la arquitectura jurídica necesaria para que quienes posean bosques tengan acceso a incentivos positivos.</p> <p>Determinación de dinámica y causas de la degradación y la regeneración.</p> <p>Estudio detallado con metodología de clasificación, categorías de uso y tratamientos pre y post procesamiento uniformes.</p> <p>Taller para definir deforestación bruta y neta oficialmente, para ser utilizada en el contexto de la Estrategia REDD.</p> <p>Identificación de esquemas de PSA más eficientes sobre deforestación y degradación</p>
Falta de competitividad del uso forestal frente al uso alternativo. Políticas que restan competitividad a la actividad forestal frente a usos alternos.		<p>Determinación de dinámica y causas de la degradación y la regeneración</p> <p>Diseñar un PSA para territorios indígenas.</p> <p>Diseñar el PSA para manejo de bosques naturales (primarios y secundarios).</p>

Inadecuada vigilancia de los parques nacionales y las reservas biológicas ante la amenaza de precaristas, madereros ilegales, cazadores y mineros	Coordinar y apoyar la iniciativa de Catastro y Regularización de	Diseño e implementación de un plan de acción con análisis jurídico para emprender acciones orientadas a la recuperación de tierras forestales
Invasores titulan irregularmente tierra en los territorios indígenas	Áreas Bajo Regímenes Especiales; entre ellas, los terrenos indígenas.	Desarrollo de un Plan de Acción Indígena
Debilidad del Estado en la implementación de mecanismos de control de estas áreas.		Solución a la problemática nacional de tenencia de la tierra en áreas de dominio público y territorios indígenas

Table A3.2. Potential strategy options for conserving and enhancing forest carbon stocks, from Costa Rica's R-PP

Opciones estratégicas	Líneas de acción
<i>PARQUES NACIONALES Y RESERVAS BIOLÓGICAS</i>	
Mejorar el control de incendios en parques nacionales y reservas biológicas.	Apoyo financiero a la Estrategia Nacional de Manejo del Fuego del Sinac dentro de un plan nacional de control de incendios.
Gestionar recursos por mantenimiento y mejora de las reservas de carbono en los parques nacionales y reservas biológicas para financiar la compra de tierras expropiadas.	Actualización, recertificación y venta de la PAP.
<i>ÁREAS SILVESTRES PROTEGIDAS</i>	
Gestionar recursos por mantenimiento y mejora de las reservas de carbono en las áreas silvestres protegidas para financiar la compra de tierras expropiadas.	Actualización, recertificación y venta de la PAP.
Focalizar la inducción de regeneración en las áreas silvestres protegidas	Diseño del PSA para la inducción y retención de la regeneración.
Mejorar el control de incendios en las áreas silvestres protegidas.	Ampliación de la cobertura de la Estrategia Nacional de Manejo del Fuego del Sinac dentro de un plan nacional de control de incendios.
<i>TERRITORIOS INDÍGENAS</i>	
Focalizar la inducción de regeneración en territorios indígenas deforestados.	Adecuación del PSA a la realidad de tenencia de los territorios indígenas.
Gestionar recursos por mantenimiento y mejora de las reservas de carbono en territorios indígenas	Actualización, recertificación y venta de la PAP.
<i>BOSQUES DE PROPIEDAD PRIVADA</i>	
Ampliar la cobertura del PSA para consolidar los Corredores Biológicos (GRUAS II) y la Red de Reservas Privadas.	Diseño del PSA para la inducción y retención de la regeneración.
Mejorar el control de incendios en bosques privados.	Ampliación de la cobertura de la Estrategia Nacional de Manejo del Fuego del Sinac dentro de un plan nacional de control de incendios.
Poner a disposición de propietarios de terrenos de aptitud forestal en conflicto de uso, incentivos positivos para inducir la regeneración y el establecimiento de plantaciones forestales.	Diseño del PSA para la inducción y retención de la regeneración.

Annex 4: Procurement

Thresholds for the use the different procurement methods and recommended thresholds for World Bank prior review are given in Table 1

Table A5.1. Thresholds for Procurement Methods and for Recommended Bank Review

Estimated Value Contract Threshold	Procurement Method	Bank Prior Review
<u>Works:</u> >=US\$3,000,000 <US\$3,000,00 and >=US\$250,000 <US\$250,000 Any Estimated Cost	ICB NCB Shopping Direct Contracting	All First Two First Two All
<u>Goods and Non-consulting Services:</u> >=US\$250,000 <US\$250,000 and >= US\$25,000 <US\$25,000 Any estimated Cost	ICB NCB Shopping Direct Contracting	All First Two First Two All
<u>Consulting Firms:</u> Any Estimated Cost >=US\$200,000 <US\$200,000	SS QCBS, QBS, FBS, LCS, CQS QCBS, QBS, FBS, LCS, CQS	All All First for each method
<u>Individual Consultants:</u> Any Estimated Cost >=US\$50,000 <US\$50,000	SS IC IC	All All First Two, others agreed in the PP

ICB = International Competitive Bidding.

SS = Sole Source.

QCS = Quality-Based Selection

LCS = Least-Cost Selection

IC = Individual Consultant.

NCB = National Competitive Bidding.

QCBS = Quality- and Cost-Based Selection

FBS = Selection under Fixed Budget

CQS = Selection Based on Consultant's Qualifications

Procurement of Works: No works contracts are foreseen to be financed with Loan proceeds

Procurement of Goods: Procurement of goods would be done using World Bank's SBD for all ICB processes; procurement of goods under NCB and Shopping procedures shall be done using SBD agreed with, or satisfactory, to the World Bank.

Procurement of Non-consulting services: Non-consulting services would include logistics for capacity-building events, printing of training materials and related services. Procurement would be done using SBD and simplified formats agreed with, or satisfactory, to the World Bank for ICB or NCB and Shopping procedures, respectively.

Selection of Consultants: Selection and employment of consultant firms and individual consultants: Short lists of consultants for services estimated to cost less than US\$200,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines. Regardless of the method used or the estimated cost of the contracts, selection and contracting of consultant firms would be done using the World Bank's Standard Request for Proposals (SRfP). Selection and contracting of Individual Consultants would be done using a simplified request for curriculum vitae (CVs) and a contract model agreed with, or acceptable, to the World Bank.

Operational Costs: Operating costs refer to the incremental expenses incurred during implementation, including office ,equipment and supplies, vehicle operation and maintenance, communication and insurance costs, office administration costs, utilities, travel, *per diem*, and supervision costs of locally contracted employees. All these activities would be procured using the implementation agencies' administrative procedures, which were reviewed and found acceptable to the World Bank.

The Procurement plan would define the contracts that are subject to World Bank prior review based on the recommended thresholds given in Table C.1.

Short lists of consultants for services estimated to cost less than US\$200,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.