Third Grant Agreement for Costa Rica's Readiness Preparation Proposal - Readiness Fund of Forest Carbon Partnership Facility (FCPF)

FCPFR - Forest Carbon Partnership Facility

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Approving Manager: 00000253690 - Valerie Hickey

Summary Information

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This GRM report includes the following sections: Overview, Components, Outcome, Execution, Program(FCPFR), Disbursements
OVERVIEW

Overall Assessments and Ratings

Grant Objectives:
The Development Objective (DO) of this Additional Funding Grant is to assist the Recipient in carrying out its Readiness preparation activities.

Overall progress from 07/01/2019 to 06/30/2020 with regard to Achieving Grant Objectives:
Rating: Satisfactory (Previously Rated Satisfactory on 06/30/2019)
Comment:
The National Forestry Financing Fund (FONAFIFO), as Implementing Entity, continues to make progress in achieving Grant Objectives with activities supporting all major aspects of Reduced Emissions from Deforestation and Forest Degradation (REDD+) Readiness, including REDD+ strategy development, development of safeguard instruments, forest emissions reference levels, and national forest monitoring systems, and, thus, preparing the country for the Results-Based Payments phase of REDD+ under the National REDD+ Strategy.

Overall progress from 07/01/2019 to 06/30/2020 with regard to Implementation of Grant Financed Activities:
Rating: Satisfactory (Previously Rated Moderately Satisfactory on 06/30/2019)
Comment:
Implementation of Grant activities is upgraded to Satisfactory as US$4.03 million or 72% of Grant proceeds had been disbursed by the end of the reporting period (06/30/2020), increasing the cumulative disbursement rate by 25% in one year. However, the rate is still below the required level to achieve a full disbursement by the Grant closure. Activities during the reporting period supported the finalization of the National REDD+ Strategy (document published), consolidation of National REDD+ Management arrangements, finalization of safeguards instruments and consultations with Indigenous Peoples (IPs) (including inclusion of an Indigenous chapter in the National Forestry Development Plan), development of a Gender Action Plan for the National REDD+ Strategy, finalization of the first draft Benefit Sharing Plan (BSP), and improvement of the National Forest Monitoring System and methodologies. The Environmental Assessment (EA) Category remains B, and environmental and social performance has been satisfactory throughout implementation.

Nonetheless, as a result of the emergency caused by the COVID-19 pandemic, FONAFIFO's ability to meet previously set deadlines and deliver all activities to achieve the DO within the existing implementation period was compromised. Key activities impacted by COVID-19 included: (i) trainings for IPs; (ii) stakeholder consultation (primarily with IPs) on the draft BSP; (iii) field work in communities to promote Contracts for Emission Reductions from Forests (CERFs); (iv) signing additional Payment for Environmental Services (PES) contracts; (v) completion of the final BSP and the safeguards instruments, etc.; (vi) capacity building for ERs title transfer; and, (vii) expansion of the potential to generate ERs through suggested Policies-Actions-Measures (PAMs) in the REDD+ Strategy.

Considering the above, the Bank approved a Level-II restructuring for a 6-month extension of the Closing Date from June 30 to December 31, 2020. The extension was approved because it would enable the implementation of pending activities, achievement of the DO and the associated results, as well as ensure sustainability of the capacity building to manage and upgrade data and associated information systems in the medium and long term. The pending activities to be completed during the extension period were: (a) the finalizing the Emission Reductions Payment Agreement (ERPAs) for Tranches A and B (for the proposed Emission Reductions Program (ER Program), including data to reduce the uncertainty of greenhouse gas (GHG) Emission Reductions (ER) volume estimations; (b) building the capacity for ERs title transfer; (c) expanding the potential to generate ERs through suggested PAMs in the REDD+ Strategy; (d) continuing consultations with Indigenous Peoples (IPs); (e) completing the safeguards instruments, including Environmental and Social Management Framework (ESMF), Resettlement Policy Framework (RPF), Indigenous Peoples Planning Framework (IPPF), Feedback, Grievance and Redress Mechanism (FGRM) and Process Framework (PF). It is expected that by the End-Disbursement date on April 30, 2021, US$400,000 (equivalent to 7%) of the proceeds will not be utilized.
Grant follow-up and structure

Description and context of Grant:
Costa Rica's Participation Agreement with the FCPF was signed in October 2008. After successfully presenting its Readiness Project Idea Note (R-PIN), the country received a formulation grant (TF091486) in June 2009 for US$200,000 in order to prepare its Readiness Preparation Proposal (R-PP). Costa Rica's R-PP was subsequently approved during the 6th Meeting of the FCPF in Georgetown, Guyana, in June 2010. It identifies a broad set of activities aimed at strengthening the technical and institutional capacities of a variety of stakeholders for enabling the country to participate in future REDD+ mechanisms. Following a due diligence process by the World Bank as the Delivery Partner, Costa Rica signed a Supplementary Readiness Preparation Grant Agreement in June 2012 (TF012692) for US$3,600,000 (i.e. the original REDD+ Readiness Preparation grant). The objective of the Grant was to assist Costa Rica in carrying out its Readiness Preparation Activities as described in its R-PP. The original grant was successfully closed on September 30, 2015 with the final GRM providing a satisfactory rating. The original Grant managed to achieve its objectives, with the key result being the presentation and endorsement of the country Readiness Package during the 20th meeting of the FCPF Participants Committee on November 2015, receiving a very positive evaluation by the donors and paving the way for an Emission Reductions Payment Agreement (ERPA) under the FCPF Carbon Fund.

The results of the participatory self-assessment process carried out as part of the R-Package preparation provided an opportunity to benefit from comments from a variety of stakeholders on the country progress towards REDD+ Readiness, and to identify remaining gaps and further needs to be strengthened with the support of Additional Funding. In this context, Costa Rica’s request for FCPF Additional Funding for an amount of US$5M was approved in July 2014 during the 17th Meeting of the FCPF Participants Committee. An undisbursed amount of US$ 583,139.58 (rounded up to US$ 580,000) from the original Grant was rolled over in the proposed Additional Grant. The Grant Agreement, dated June 20, 2016, was countersigned on June 29, 2016 and declared effective on June 26, 2016. The additional US$5.58 million Grant financed implementation until its revised Closing Date of December 31, 2020. The Additional Funding reinforced ongoing processes initiated under the original grant, contributing to the consolidation of the National REDD+ Readiness process beyond the R-Package presentation. It also ensured a solid foundation for the implementation of the National REDD+ Strategy and a follow-up operation through the ERPA.

Expected follow up (if any): Follow up Bank project/loan/credit/grant
Emissions Reduction Payment Agreements (ERPAs) - (P160368 - RETFs TF0B3326 (Tranche A) and TF0B3325 (Tranche B))

Comment on follow up:
Follow-up is planned through the implementation of the Emissions Reduction Payment Agreements (ERPAs) to be approved and signed in FY21.

Shortly after submitting its R-PP, Cost Rica expressed its interest in participating as a pilot country in the FCPF Carbon Fund and submitted an Emissions Reduction Project Idea Note (ER-PIN) during the 5th Meeting of the Carbon Fund Participants (CFPs), in September 2012. After addressing the key issues raised by the CFPs, Costa Rica became the first country to include its ER-PIN in the Carbon Fund pipeline through a Letter of Intent (LOI) signed with the World Bank on September 10, 2013 for an amount up to US$60 million. Consistent with this two-phase structure of the FCPF, the Readiness Preparation grants have been executed in parallel with the preparation of an ER Program under the Carbon Fund. Costa Rica’s Emission Reductions Program Document (ERPD) was presented and approved during the 14th Meeting of the FCPF Carbon Fund Participants in Paris, France, on June 2016, conditional to the inclusion of forest degradation in the carbon accounting of the ER Program. A revised ERPD following revisions made by Costa Rica was included in the Carbon Fund Portfolio in January 2018.

The ERPAs are for a Contract Volume up to 12 million tCO2e at US$5 per ton agreed price, and an additional option to sell up to 5 million tCO2 at a price to be negotiated after the completion of the contracted Emissions Reductions (ERs). Costa Rica is the second country in Latin America to sign an ERPA. In parallel, Costa Rica also received and additional (Bank-executed) US$173,300 preparation grant (TF0B2929) to support activities of the country's Measurement, Reporting and Verification (MRV) system that will complement the implementation of the ERPAs.
End Date of Last Site Visit: 02/29/2020
During the reporting period, the team conducted two site visits. No further missions were conducted due to travel suspensions because of the COVID-19 pandemic. Field visits will be resumed once travel is authorized. In the absence of site visits, the Bank continues to conduct close supervision through regular check-ins and video conferences.

Restructuring of Grant:
A 6-month extension of the Grant closing date until December 31, 2020 was requested by the Recipient (letter of April 2020). The additional time was approved to allow the achievement of the project commitments and maximize the disbursement rate.

OUTCOME

Comments on outcome achieved from 07/01/2019 to 06/30/2020
The Project supports implementation of REDD+ Readiness activities as per the Readiness Preparation Plan submitted to and approved by the FCPF. The key results achieved and continued to be strengthened upon project completion are:

i. Strengthening management arrangements for transitioning from Readiness to Implementation of the National REDD+ Strategy.

ii. Consolidation of the consultation and capacity building process with key stakeholder groups.

iii. Strengthening the implementation framework of the REDD+ Strategy, including through increasing the involvement of the private and public sector and making targeted adjustments to the Payment for Environmental Services (PES) program.

iv. Developing a Reference Level for the inclusion Sustainable Forest Management and Forest Degradation in the National REDD+ Strategy.

v. Consolidation of the National Forest Monitoring System, including through strengthening the forest information systems of FONAFIFO, National System of Conservation Areas (SINAC), and CIAgro.

More specifically during the last months of the reporting period, the achievements reached are:

i. Continued with the consultation on the Benefit Sharing Plan (BSP). The National REDD+ Secretariat has carried out 15 workshops with 80 municipalities, Ministry of Environment and other key actors. Initiation of consultation process with IPs on the last version of the BSP is pending guidance by Ministry of Peace and Justice;

ii. Continued with the promotion of the Contracts for Emission Reductions from Forests (CERFs) drafted by the National REDD+ Secretariat;

iii. Advanced on the promotion of the opportunities for the signing of the contracts for PES; and

iv. Completed most of the safeguards instruments.

As part of the completion of the preparation activities of the ER Program, the Ministry of Environment and Energy (MINAE) carried out these activities:

i. Completed the discussions about the Emission Reductions Purchase Agreements (ERPAs) Tranche A and B, including the data to reduce the uncertainty of the estimations of the volume of the Emission Reductions (ERs) of GHG.

ii. Developed the capacity to transfer titles of ERs. For this purpose, MINAE submitted evidence of the legal base to transfer titles of ERs, along with a legal opinion about the validity of the interpretation of the respective laws.

iii. Carried out an initial assessment of the ERs. The initial estimation of the quantity of ERs that Costa Rica can generate for the first reporting period is higher to the original calculations. The National REDD+ Secretariat must continue expanding the potential to generate ERs through the Policies, Actions and Measures (PAMs) included in the National REDD+ Strategy.

Grant Outcome Indicators
Grant outcome indicators are listed below.

Consolidation of the National REDD+ Readiness phase
Baseline Value: REDD+ Readiness advanced
Progress to Date: REDD+ Readiness mostly completed. [The four pillars of REDD+ have been completed REDD+ Strategy, Forest Reference Level, National Forest Monitoring System, and Safeguards (with the REDD+ registry still pending completion).]

Date: 06/29/2016

Baseline Value: Arrangements for REDD+ Readiness in place

Date: 06/29/2016

Target Value: REDD+ Readiness completed

Date: 12/31/2020

Strengthening management arrangements for transitioning from Readiness to Implementation of the National REDD+ Strategy.

Baseline Value: Arrangements for REDD+ Readiness continue to be in place.

Date: 05/12/2020

Target Value: Arrangements for REDD+ implementation in place

Date: 12/31/2020

Consolidation of the consultation and capacity building process with key stakeholder groups

Baseline Value: Stakeholder platform in place and consultation ongoing

Date: 06/29/2016

Target Value: Permanent stakeholder platform and consultation finalized

Date: 12/31/2020

Strengthening the implementation framework of the REDD+ Strategy, including through increasing the involvement of the private and public sector and making targeted adjustments to the PES program.

Baseline Value: Draft National REDD+ Strategy available

Date: 06/29/2016

Target Value: National REDD+ Strategy has been finalized and implementation framework strengthened

Date: 12/31/2020

Developing a Reference Level for the inclusion Sustainable Forest Management and Forest Degradation in the
National REDD+ Strategy.

Baseline Value: Draft Forest Reference Level for deforestation and enhancement of carbon stocks

Date: 06/29/2016

Progress to Date: Forest Reference Level for all five REDD+ activities being finalized. [The reference level for the FCPF already includes degradation forest. Although the reference level for SFM has already been prepared, its inclusion is being analyzed in accordance with the strategy for the country.]

Date: 05/12/2020

Target Value: Forest Reference Level for all five REDD+ activities established

Date: 12/31/2020

Consolidation of the National Forest Monitoring System, including through strengthening the forest information systems of FONAFIFO, SINAC, and CIAgro.


Date: 06/29/2016

Progress to Date: National Forest Monitoring System is in place. [The first monitoring report 2016-2017 has already been made and 2018-2019 is being finalized. Systems on improvement of forest plantations, forest fires, and timber traceability information systems - SIREFOR and CIAgro - have been designed and began implementation in 2020 by SINAC.]

Date: 05/12/2020

Target Value: National Forest Monitoring System established and operational

Date: 12/31/2020

COMPONENTS/OUTPUTS

Output and Implementation by Component (as of 6/30/2020)

Component 1: Readiness Organization and Consultation for REDD+

Implementation: Satisfactory
Rating: Under implementation
Status: Under implementation

Planned Output:
(i) staffing of REDD+ Secretariat; (ii) REDD+ Decree published; (iii) consultations on the National REDD+ Strategy finalized; (iv) stakeholder platforms established

Actual Output:
(i) REDD+ Secretariat staffed; (ii) REDD+ Decree published; (iii) consultations with IPs is well advanced; (iv) meetings with stakeholder platforms carried out.

Component 2: REDD+ Strategy Preparation

Implementation: Satisfactory
Rating: Under Implementation
Status: Under Implementation

Planned Output:
(i) National REDD+ Strategy finalized; (ii) Implementation Plan finalized; (iii) ESMF finalized; (iv) draft BSP developed; (v) ToRs for Registry developed

Actual Output:
(i) National REDD+ Strategy finalized; (ii) Implementation Plan finalized; (iii) ESMF (including IPPF and RPF) prepared; (iv) draft BSP developed; (v) Registry under development

Component 3: Reference Emissions Level/Reference Levels
Comment on planned and actual Output

Comment on component implementation progress

As of the end of the Reporting Period (6/30/2020):

Under Component 1, (i) FONAFIFO has maintained the REDD+ Secretariat fully staffed and integrated within the institution; (ii) REDD+ Decree establishing the governance for the implementation of the strategy has been published; (iii) the consultation process in Indigenous Territories is well advanced; (iv) stakeholder dialogue has continued and documents such as the ESMF and the FGRM have undergone consultations.

Under Component 2, (i) The National REDD+ Strategy was finalized and published, after a long consultation process; (ii) assessments on land use, land use change, forest law, policy and governance have been carried out; (iii) REDD+ Strategic Options have been advanced; (iv) an Implementation Framework has been finalized; (v) social and environmental impacts have been examined, along with the preparation of the RPF, IPPF and ESMF; (vi) a Gender Action Plan was developed and consulted, and an Indigenous Peoples chapter was included in the National Forestry Development Plan.

Under Component 3, Costa Rica implemented a methodology to account for forest degradation which was included in the REDD+ Forest Reference Level, with technical improvements ongoing. The updated and adjusted Reference Level was presented in the Costa Rica’s ERPD for the proposed ER Program.

Under Component 4, Costa Rica has continued to make improvements to its forest monitoring methodologies and finalized the design of a National Forest Monitoring System, which was consulted with relevant institutions. The National Center for Geo-environmental Information (CENIGA), as the official national entity that will house the National System for Monitoring Land Use and Coverage and Ecosystems (SIMOCUTE), and the National Environmental Information System (SINIA), which will house the Safeguards Information System (SIS), have been strengthened. Progress also includes: (i) development of the methodology and protocols for the multi-temporal visual assessment for determining forest degradation and determining baseline data; (ii) classification system for land use, coverage and ecosystems for Costa Rica in SIMOCUTE has been standardized; (iii) the Costa Rican Forest Resources Information System (SIREFOR), which is the official platform for the forestry sector and seeks to improve forest product management, quality and legality verification, has been strengthened; (iv) institutional agreements for the generation and delivery of information on the implementation of the REDD+ Strategy are in place; (v) the platform where the SIS will operate and a series of possible indicators to consider have been defined; and (vi) proposal for multiple benefits that can be monitored in the Strategy, was prepared.
EXECUTION

Bank project related to the grant

Project ID / Name: P123702 - Costa Rica FCPF REDD Readiness
Project Status: Lending
Global Focal Area: Climate change
Product Line: CN - Carbon Offset (to be changed to RE in FY21)

Implementing agency and contact details

Agency: National Forest Financing Fund (FONAFIFO)
Contact: Jorge Mario Rodriguez Zuniga (Executive Director)
Address: San Vicente, Moravia-San Jose, Costa Rica
Phone: 800-3662-3436    Email: jrodriguez@fonafifo.go.cr
Website: www.fonafifo.go.cr

PROGRAM

Program Specific Questions

1. Describe progress in how the Grant activities are being coordinated with other REDD+-related initiatives, including those funded by others.
   FONAFIFO has actively coordinated activities with other donors providing support to the REDD+ Readiness process such as UNREDD, GIZ, USFS, and NORAD, among others. UNREDD in particular has been actively supporting the design of the non-carbon benefits monitoring indicators as well as activities related to the private sector; and USFS has provided significant expertise on MRV, while support from GIZ phased out. In addition, the REDD+ readiness phase activities were used by FONAFIFO to prepare the submission with UNDP to the Green Climate Fund for Emission Reduction Payments for emissions predating 2018.

2. Describe any important changes in the technical design or approach related to the Grant activities.
   No significant changes in the technical design have been made.

3. Describe progress in addressing key capacity issues (implementation, technical, financial management, procurement) related to this Grant.
   The REDD+ Secretariat is fully operational and integrated by staff from key national institutions (FONAFIFO and SINAC). The Bank has been providing continued guidance to improve financial management and procurement aspects and ensure a due closure of the Grant.

4. Describe progress in addressing social and environmental issues (including safeguards) related to the Grant. Is the SESA conducted in accordance with the Common Approach?
   Social and environmental issues have been addressed through a Strategic Environmental and Social Assessment (SESA) following FCPF guidelines. The final SESA report was approved by the Bank as part of the R-Package development and was the basis for identifying the REDD+ policies and actions that were included in the National REDD+ Strategy.

5. Is the ESMF prepared in accordance with the Common Approach?
   Based on the SESA and the National REDD+ Strategy, a final draft of the ESMF was generated following Bank procedures and was disclosed prior to ERPA negotiations. In addition to the ESMF, other Safeguards instruments were prepared and disclosed for the proposed Emission Reductions (ER) Program to respond to the triggered Safeguard Policies. These are: RPF, IPPF, PF and FGRM.
These efforts were led by the technical team of the REDD+ Secretariat and contributed to the strengthening of the institutional capacity on environmental and social safeguards of several entities that are part of the REDD+ Secretariat and that will be responsible to supervise the environmental and social management of the ER Program.

6. Describe progress in stakeholder consultation, participation, disclosure of information, and the FGRM related to this Grant.

Significant progress has been made with regards to social aspects and IPs consultation, including the following: (1) many consultation workshops and participatory activities with all stakeholder groups identified during the SESA; (2) Analytical Studies; (3) a specific consultation plan for IPs; (4) Communication Strategy; and (5) FGRM. The National REDD+ Strategy has been fully consulted with all stakeholders, including with IPs.

Furthermore, as part of the implementation of the consultation plan for REDD+, 150 cultural mediators were trained. This capacity building was needed to facilitate the consultation process with IPs. The consultation with IPs was based on the five special themes proposed by them: (1) Recovery of lands; (2) PES for indigenous territories; (3) Protected Areas and indigenous territories; (4) Conceptualization of forests from the indigenous cosmovision perspective; (5) Monitoring and Evaluation Mechanism with a participatory approach and indigenous leadership. FONAFIFO, with its own resources and strengthened capacity, will complete in CY2021 the consultation process for the final BSP and the execution of institutional agreements and mechanisms required for the implementation of the environmental and social safeguards of the ER Program.

### DISBURSEMENTS

#### Disbursements Summary in USD

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