

World Bank - Grant Reporting and Monitoring (GRM) Report

Report to Donor

Ref. TF012692
Printed On: 12/02/2016

Reporting Period: 07/10/2012 to 12/31/2015
Report Type: Completion
Report Status: Approved

Assignment: TF012692

Costa Rica's Readiness Preparation Proposal Readiness Fund of the FCPF FCPFR - FOREST CARBON PARTNERSHIP FACILITY

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Summary Information	
TF Status	LCLS
Recipient Country	Costa Rica
Executed By	Recipient
Managing Unit	9272 - GEN04
Grant Start Date / End Date	07/10/2012 to 01/27/2016
Original Grant Amount	3,600,000.00
Grant Amount	3,016,860.42
Outstanding Commitments	0.00
Cumulative Disbursements	3,016,860.42 as of 12/31/2015
Disbursed 07/10/2012 to 12/31/2015	3,016,860.42
Donor	TF602001 - MULTIPLE DONORS

This GRM report includes the following sections: Overview, Components, Outcome, Program(FCPFR), Completion, Disbursements, Procurement Plan, Procurement Actuals.

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OVERVIEW

Overall Assessments

Grant Objectives:

The objective of the Grant is to assist a REDD Country Participant in the FCPF to carry out the activities proposed in the R-PP (#Readiness Preparation# phase).

Overall progress from 07/10/2012 to 12/31/2015 with regard to Achieving Grant Objectives:

Comment:

Costa Rica has made significant progress towards achieving the objectives of the FCPF REDD-plus Readiness grant. The key result of the Grant was the presentation and endorsement of the country's 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.

Overall progress from 07/10/2012 to 12/31/2015 with regard to Implementation of Grant Financed Activities:

Comment:

Costa Rica has made significant and demonstrable progress towards the implementation of Grant financed activities.

Significant achievements include:

1. Conclusion of a multi-stakeholder self-assessment process conducted by a third party, as part of the preparation of the R-Package, to assess the progress and status of the country's REDD+ Readiness in a participatory way.
2. Preparation of the National REDD+ Strategy; its public consultation is expected to conclude in 2016.
3. Preparation of an advanced draft Emissions Reduction Program Document (ERPD) submitted to the FCPF Carbon Fund Participants after a Technical Advisory Panel (TAP) review.
4. Preparation of a Strategic Environmental and Social Assessment (SESA) and Environmental and Social Management Framework (ESMF), positively reviewed by the Bank.
5. A National Forest Reference Level has been developed and submitted to the UNFCCC for technical review.
6. Establishment of the institutional arrangements for the design of the National Forest Monitoring System.
7. A strong REDD+ Secretariat has been established within FONAFIFO to lead the implementation of the National REDD+ Strategy and continuation of the REDD+ Readiness process.
8. Establishment of multi-stakeholder management arrangements to guide the implementation of the REDD+ Strategy, with a functioning Executive Committee and an Inter-institutional Committee.
9. Ongoing information dissemination, consultation, and dialogue with a variety of stakeholders, with a strong focus on the participation of Indigenous Peoples.

Grant follow-up and structure

Description and context of Grant:

This Grant is part of the support provided by the Forest Carbon Partnership Facility (FCPF) to prepare countries for REDD+ (for further information see: www.forestcarbonpartnership.org). 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 in June 2009 for the amount of 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 a future REDD+ mechanism. The overall financial envelop for carrying out these activities was estimated at approximately US\$ 7 million, supported by a number of donors in addition to the FCPF, including the Government of Costa Rica's own contribution. After responding to a number of key issues identified by the PC in a revised version of the R-PP, and 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, for the amount of US\$ 3,600,000.

Shortly after submitting its revised R-PP, Costa 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 which it obtained a (Bank-executed) preparation grant for the amount of US\$ 650,000. Consistent with this two-phase structure of the FCPF, the Readiness Preparation grant has been executed in parallel with the preparation of an ER Program under the

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Carbon Fund.

Expected follow up (if any): Follow up Bank project/loan/credit/grant

Comment on follow up:

On July 2014 the FCPF Participants Committee approved an Additional Readiness Finance Grant of US\$5 million, aimed at support the country's Readiness process following its R-Package presentation and therefore ensuring a solid foundation for the implementation of the National REDD+ Strategy . Furthermore, the project is carried out in parallel with a follow-up operation consisting of a carbon finance transaction for results-based payments to Costa Rica's REDD+ Emission Reductions Program under the FCPF's Carbon Fund. A Bank Executed Trust Fund is also under implementation to support the preparation of Costa Rica's Emissions Reduction Program Document (ERPD) through targeted technical assistance. The preparation of this follow-up operation is well advanced and in June 2016 Costa Rica will be the first country in LAC and the world to formally present its REDD+ Program to the Carbon Fund Participants and, if endorsed, begin negotiations for the signing of an Emission Reductions Payment Agreement (ERPA) of up to US\$63 million.

End Date of Last Site Visit:

Restructuring of Grant:

OUTCOME

Comments on outcome achieved from 07/10/2012 to 12/31/2015

Grant Outcome Indicators

COMPONENTS

Output and Implementation by Component

Comment on planned and actual Output

Comment on component implementation progress

PROGRAM

None

COMPLETION

Overall Assessments and Lessons Learned

Main lessons learned:

Few international experience exists with the preparation of national-level strategies to reduce deforestation based on pay-for-performance mechanisms. The lessons derived from similar mechanisms which operate at the project level (such as the Clean Development Mechanism), with which the Bank has ample experience with, have limited applicability due to the difference in scale, approaches, and rules applied. Key lessons learned to date indicate the need to ensure: i) alignment of project activities with institutional priorities to ensure ownership and mainstreaming of REDD+ in regular operations of the Government and sectoral ministries; ii) strong technical assistance to and adequate staffing of the project implementation unit in order to effectively carry out project activities given their highly complex technical nature; and iii) effective coordination and collaboration among key forestry agencies (particularly between FONAFIFO, SINAC and ONF), as well as beyond the forestry

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sector (e.g. Ministry of Agriculture, Housing, Tourism, etc.) to ensure appropriate integration and appropriation of the REDD+ agenda by all institutions that are key for the successful implementation of the National REDD+ Strategy.

Overall outcome (and its Sustainability):

Comment:

Costa Rica is regarded as a world leader in conservation and has made significant achievements in recovering its original forest cover. In May 2007, the Government of Costa Rica (GoCR) announced its intention to become 100 percent carbon neutral by 2021; this intention was reaffirmed in the country's NDC (Nationally Determined Contribution) submitted prior to the Paris Climate Agreement in December 2015. Efforts are underway to begin offsetting all of the country's carbon dioxide emissions using a wide range of budgetary, legal and financial incentives including measures to promote biofuels, hybrid vehicles, clean energy, and forestry.

The FCPF engagement (including the Readiness grants and the Emission Reductions Program) in Costa Rica has been a key part of these efforts, helping to build a solid foundation for the implementation of the National REDD+ Strategy and the Emission Reductions Program, ensuring the sustainability of the grant outcomes. Costa Rica is on track to be the first country in Latin America and the Caribbean to complete the FCPF Readiness Phase and to access the Carbon Fund payments for emissions reductions results.

The outcomes of the grant are considered highly sustainable given that (i) the resulting National REDD+ Strategy builds on existing public policies and programs in the forest sector that have proven to be a successful framework for reverting historical deforestation trends; (ii) the majority of the Policies and Actions included in the National REDD+ Strategy are part of the annual operational plans and budgets of implementing agencies, ensuring strong ownership and mainstreaming on behalf of the GoCR; (iii) additional activities are focused on strengthening the existing forest governance framework and have been identified through a highly participatory SESA process with major forest stakeholders; (iv) the FCPF operation is positioned at the highest levels of strategic planning, being included in the country's National Development Plan, National Forest Development Strategy, and NDC; (v) the GoCR is committed to respecting the formal and customary rights of indigenous peoples and has made their inclusion into the Program a priority.

Bank Performance:

Comment:

The project faced some challenges initially related to in-country budgetary flow processes which delayed effectiveness until March 2013, and low disbursement rates due to inefficient approval procedures by the fiduciary agent (Banco Nacional). This resulted in an undisbursed amount of US\$ 583,139.58. The Bank did flag these issues and took corrective action, with supervision and financial teams providing intensive support in finding solutions and supporting FONAFIFO. The team's tolerance of the slow progress in disbursement was related to Costa Rica's efforts to empower indigenous people (IPs) to manage close to \$1 million of the \$3.6 grant, and the team's assessment that that these efforts were fully justified given that IP territories are exactly where forest and biodiversity are the best conserved. In addition, the task team wanted to ensure that IPs not only have the best possible opportunity to be represented and participate in REDD+ processes, but are also empowered to influence decision making and to benefit significantly from any payments for demonstrated results.

Despite the slow disbursements, the Project managed to make significant progress towards achieving its development objective, with the key result being the presentation and endorsement of the country's Readiness Package during the 20th meeting of the FCPF PC on November 2015, ensuring a solid foundation for the implementation of the Emission Reductions Program and the National REDD+ Strategy.

However, while the Bank focused sufficiently on making significant progress with the PDO despite slow disbursements, it ultimately underestimated the capacity of the implementing agency to properly address these shortcomings and could have been more proactive in its supervision; quality of supervision is therefore rated moderately satisfactory.

Additional Assessment

Development / strengthening of institutions:

Comment:

The preparation of Costa Rica's National REDD+ Strategy focused on strengthening the existing forest sector policies and institutions that have provided a successful framework for reverting deforestation and increasing forest cover during their last twenty years in the country. In addition, the Government of Costa Rica is planning to implement additional measures identified through a participatory Strategic Environmental and Social Assessment (SESA) conducted with key sector stakeholders, aiming

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at addressing the current deficiencies of the forest sector, strengthening the effectiveness and equity of forest governance, and addressing the drivers of deforestation and degradation that lie beyond the forest sector.

To this end, Costa Rica made substantial efforts in establishing solid institutional arrangements for managing the national REDD+ Readiness process, ensuring the ample and informed participation of a variety of stakeholders and sectors through the establishment of REDD+ specific platforms. These include an Inter-institutional Committee, with more than 18 state agencies participating from several ministries; and an Executive Committee created by Ministerial Decree and functioning as a consultative body with representation of all relevant stakeholders selected through a democratic process. In addition, a REDD+ Secretariat was established to strengthen FONAFIFO's capacity as the REDD+ Focal Point in planning and implementing the grant activities, with specific technical and administrative consultants recruited for this purpose. These arrangements are now functional, with the Executive Committees meeting regularly.

In addition, FONAFIFO as the Recipient of the Readiness grant has made significant and demonstrable progress in addressing identified gaps in staffing numbers, capacity of staff, fiduciary and procurement capacities and arrangements with the national government agencies and other stakeholders. Specifically, the upgrading of capacity has involved a multitude of approaches such as an internal re-organization, additional hiring of key consultants, outreach to other national agencies and functional networks involving staff with relevant and nationally extensive experience to ensure not only the FCPF readiness activities but also the scientific assessments and national inter-agency consultations to obtain consensus on outputs and to get Costa Rica's Emissions Reduction Program finalized and submitted to the Carbon Fund for consideration on June 22, 2016. Furthermore, FONAFIFO has worked closely with the Bank in strengthening its procurement capacity by sending key staff on WB training courses and close monitoring (with Bank supervision) of the current procurement processes.

Mobilization of other resources:

Comment:

REDD+ is generally considered to be implemented in three phases: I. Readiness; II. Implementation; and III. Results-based payments. The phases are not purely sequential but can instead overlap to a large extent based on national circumstances. In phases I and II, the national REDD+ strategy is being developed and implemented through the facilitation and improvement of enabling conditions (legal framework, capacity building, governance structures and monitoring and verifications systems) and early investments in results-based demonstration activities. Phase III provides payments for verified emission reductions, achieved among other things through activities in the second phase. In line with this phased approach, the FCPF has provided two Readiness grants to Costa Rica (a follow-up Additional Funding Readiness Grant is being finalized), with the objective to assist the Recipient in carrying out the Readiness Preparation Activities (Phase I). A significant amount of resources have been mobilized by the Ministry of Environment to support its REDD+ Readiness efforts from a variety of donors, including UN-REDD, GIZ, USAID and NORAD. As the National REDD+ focal point, FONAFIFO has been actively coordinating activities funded by other donors.

The proposed ERPA with the FCPF Carbon Fund for an amount of up to US\$63 million would cover Phase III of REDD+, with the objective to reduce net GHG emissions from REDD+ activities at the national level in Costa Rica. Phase II of the REDD+ Strategy will be covered mostly through national budgetary resources channeled through the Ministry's Programs (approximately US\$100 million per year). The GoCR is considering options for increasing the level of ambition of its proposed Program through, inter alia: scaling up investment finance (a request for a US\$100M loan has been submitted to the World Bank for a Productive Rural Landscapes Program), proposals submitted to the Green Climate Fund, and potential bilateral partnership agreements. FONAFIFO is developing a detailed financial plan up to 2025 to project and develop a financial strategy to mobilize the necessary resources to cover the full costs of implementing the National REDD+ Strategy.

Knowledge exchange:

Comment:

The Readiness Grant supported significant knowledge exchange through two avenues: development of analytical work, and a communication and information sharing strategy. As part of the development of the National REDD+ Strategy, FONAFIFO commissioned a series of technical and analytical studies to elaborate the technical specifications of the policies and actions identified through the SESA. Significant knowledge products included the development of a time series on land use changes between 1987-2013 and a follow-up study on the drivers of deforestation and forest degradation; the development of a National Forest Reference Level submitted to the UNFCCC; a legal analysis of the land tenure regime in the country and its possible implications for the potential transfer of Titles to Emission Reductions to third parties such as the Carbon Fund participants under an ERPA; design of innovations to the traditional PES Program, such as the development of a specific PES module for Indigenous Peoples and one for campesinos, and the development of a spatial model for improving the targeting of

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PES incentives to area under higher threat of deforestation; a dialogue with the private sector at the national level for finding ways to increase the use of domestic timber products as a way to ensure the sustainability of standing stocks and promote green growth, among others. In addition, Costa Rica engaged on a thorough process of early dialogue and information dissemination with key stakeholders since the initial stages of R-PP formulation. As a product of this early dialogue, a Stakeholder Participation and Consultation Plan was developed with strong links to the SESA and ESMF development process, based on a robust stakeholder map. This process is supported by a comprehensive Communications strategy which includes media, information products, and an ad-hoc website (www.reddcr.go.cr); as well as a Feedback, Grievance and Redress Mechanism currently in pilot phase.

Client's policy / program implementation:

Comment:

Costa Rica's National REDD+ Strategy and Emission Reductions Program (supported through the Readiness Preparation Grant) are integrated at the highest level of national strategic planning. They have been included as one of the key programs to be implemented by the current administration in the environment sector in the National Development Plan 2015-2018 #Alberto Cañas Escalante#. In addition, the Program will support other strategic objectives included in the National Forest Development Plan 2011-2020, and the National Strategy on Climate Change, both in mitigation and adaptation, especially in relation to the Carbon Neutrality goal and in increasing ecosystem and human resilience to climate change. The ER Program is explicitly mentioned in the country's Nationally Determined Contribution submission as part of the mitigation efforts in the AFOLU Sector, together with other key sectors such as energy and transport. Historically, Costa Rica has been a key player in international negotiations on forests and climate change. Together with Papua New Guinea, the country was instrumental in inserting REDD+ as an agenda item under the UNFCCC in 2005, which successfully concluded after 10 years of negotiations at COP21.

Efficiency:

Comment:

The Grant was successfully closed on September 30, 2015 with a satisfactory rating. The project faced some challenges initially related to low disbursement rates due to inefficient approval procedures by the fiduciary agent (Banco Nacional), and to delayed effectiveness due to in-country budgetary flow processes which made the funds available to FONAFIFO only in March 2013. As a result, on June 10, 2013, FONAFIFO requested an extension of the closing date for one year from December 31, 2013 to December 31, 2014. By June 2013 the World Bank team, in close cooperation with FONAFIFO, put in place alternative fiduciary and financial flow arrangements and as a result disbursement rates increased substantially. On July 22, 2014, FONAFIFO requested a further extension of the preparation grant to September 30, 2015, to ensure the effective completion of the activities under the original grant. In May 2015, FONAFIFO requested an additional extension of the grant to December 2015. Based on the slow progress and low disbursement rate at the time and to avoid triggering a VP review, the task team requested FONAFIFO that they significantly speed up disbursement and provide significant evidence of progress in the R-Package prior to a further extension of the grant. As these were still in progress by August the team was unable to request a further exception for extension to December 2015. As a result, FONAFIFO still had an unexpended balance of 583,139.58K at the end of September 2015. These funds have been returned to the FCPF. In subsequent discussions with the FCPF Secretariat, it has been agreed that FONAFIFO will receive the unexpended balance of US\$583,139.58 (rounded up to US\$500,000) as an addition to the Additional Funding (US\$ 5 million) that has been granted by the FCPF so that they can fully complete the full suite of activities planned under the original US\$ 3.6 million grant. Despite the slow disbursement, the Project achieved its objectives, with the key result being the presentation and endorsement of the country's Readiness Package during the 20th meeting of the FCPF PC on November 2015, where a very positive evaluation by the donors paved the way for an ERPA under the FCPF Carbon Fund.

Replicability:

Comment:

Costa Rica has been at the forefront of global efforts to pursue sustainable human development, leading by example for many decades through the pioneering of innovative programs. Its Payment for Environmental Services Program led by FONAFIFO since 1997 is the best known program of this type in Latin America, if not the world. The country continues to pioneer on environmental policy issues: in 2005, it was pivotal for putting REDD+ as an agenda item in UNFCCC negotiations; in 2010, it declared its commitment to become a carbon neutral economy by 2021, reaffirming its commitment in its recently submitted NDC. Amongst the 47 REDD+ countries participating in the FCPF, Costa Rica has been established as a recognized pioneer, being

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the first country to submit an ER-PIN, sign a LOI, submit and undergo a technical evaluation of its draft ERPD under the Carbon Fund; as well as the second country to have its R-Package endorsed by the FCPF Participants Committee. Given its historic experience and commitment, Costa Rica's pioneering REDD+ Program would also provide a learning case of global relevance.

Main recommendations to stakeholders:

The process of developing a REDD+ strategy in Costa Rica supported by a sound social and environmental safeguards framework required the participation and inclusion of all actors that have a stake in forests and land issues in the country, with particular attention to those groups that might be affected by the eventual implementation of REDD+ programs and activities, specifically indigenous peoples and their territories. The Readiness phase represented a high level of complexity given the multiple actors involved in the process and its innovative participatory process, thus requiring strong social and communication leadership on behalf of FONAFIFO, and close assistance on behalf of the Bank team to ensure consistency among the different consultation and participatory schemes, including the analytical work applied in a programmatic manner, timely delivery of project outputs, and complementarity with other donor parallel operations. A number of processes have been set up under the Readiness grant to ensure broad and effective stakeholder participation in the development of the National REDD+ Strategy, including: a Stakeholder participation and Consultation Plan; a SESA and ESMF; a Communications strategy; an FGRM; Indigenous Peoples Action Plans related to land tenure. All these processes will continue to be reinforced through the additional funding grant to ensure that the interests of key stakeholders are aligned with the National REDD+ strategy.

Main recommendations to Bank Management:

Costa Rica has been at the forefront of environmental stewardship, leading by example for many decades. With the support of the REDD+ Readiness Grant, Costa Rica is now moving towards a new era for the stewardship of its natural capital driven by an ambitious national carbon neutrality goal by 2021, as confirmed by its recently submitted Nationally Determined Contribution (IDC). This goal is critically dependent on the successful outcomes of performance-based REDD+ instruments to both sustain and expand its world renowned Payments for Environmental Services (PES) program as well as its vast system of Natural Protected Areas under a vision of integrated management of the country's landscapes to ensure the permanence of its forest carbon stocks. For the World Bank this is a very strategic involvement in a country that is already considered a model by the rest of the world for relying on its forestry sector in contributing to the international commitment of holding global warming to less than 1.5oC by 2100. The Bank is involved in REDD+ in more than 45 countries through the FCPF and Costa Rica has been established as a recognized pioneer, being the first country to sign a Letter of Intent with the Carbon Fund, and the first one to submit an advanced draft Emissions Reduction Program Document (ERPD) and undergo a thorough Technical Assessment process. Costa Rica is on track to be the first country in Latin America and the Caribbean to complete the FCPF Readiness Phase and to access the Carbon Fund payments for emissions reductions results!

DISBURSEMENTS

Disbursements Summary in USD

Date From	Date To	Planned Cumulative	Planned Period	Actual Cumulative	Actual Period
07/01/2012	12/31/2012	0.00	0.00	375,000.00	375,000.00
01/01/2013	06/30/2013	0.00	0.00	375,000.00	0.00
07/01/2013	12/31/2013	0.00	0.00	480,936.85	105,936.85
01/01/2014	06/30/2014	0.00	0.00	854,133.65	373,196.80
07/01/2014	12/31/2014	0.00	0.00	1,956,779.22	1,102,645.57
01/01/2015	06/30/2015	0.00	0.00	2,285,166.72	328,387.50
07/01/2015	12/31/2015	0.00	0.00	3,016,860.42	731,693.70
01/01/2016	06/30/2016	0.00	0.00	3,016,860.42	0.00

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PROCUREMENT PLAN

None

PROCUREMENT ACTUAL

None