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Report No: 123409-CR

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT

ON AN

EMISSION REDUCTIONS PAYMENT AGREEMENT

IN THE AMOUNT OF US\$60 MILLION

TO THE

REPUBLIC OF COSTA RICA

FOR A

REDD+ EMISSION REDUCTIONS PROGRAM OF COSTA RICA

December 8, 2020

Environment, Natural Resources and Blue Economy Global Practice
Latin America and the Caribbean Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective November 16, 2020)

Currency Unit = CRC

611.59 CRC = US\$1

0.0016 US\$ = CRC 1

FISCAL YEAR

January 1 - December 31

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ABBREVIATIONS AND ACRONYMS

AFE	State Forestry Administration (<i>Administración Forestal del Estado</i>)
AFOLU	Agriculture, Forestry and Other Land Uses
BSP	Benefit Sharing Plan
CDM	Clean Development Mechanism
CENIGA	National Center for Geo-environmental Information (<i>Centro Nacional de Información Geoambiental</i>)
CERF	Contract for Emission Reductions from Forests
CFP	Carbon Fund Participants
CIAgro	Association of Agronomists and Foresters (<i>Colegio de Ingenieros Agrónomos</i>)
CO ₂	Carbon Dioxide
COOPEAGRI	General Cooperative for Agricultural, Industrial and Multiple Services (<i>Cooperativa Agrícola Industrial y de Servicios Múltiples</i>)
COP	Conference of the Parties
COVID-19	Coronavirus Disease of 2019 (also known as 2019 novel coronavirus or SARS-Cov-2)
COVIRENA	Natural Resource Surveillance Committees (<i>Comités de Vigilancia de los Recursos Naturales</i>)
CPF	Country Partnership Framework
DCC	Directorate of Climate Change (<i>Dirección de Cambio Climático</i>)
DFIL	Disbursement and Financial Information Letter
DPL	Development Policy Loan
ED	Executive Director
ERs	Emission Reductions
ERPA	Emission Reductions Payment Agreement
ERPD	Emission Reductions Program Document
ER-PIN	Emission Reductions Program Idea Note
ESMF	Environmental and Social Management Framework
FBS	Fund for Sustainable Biodiversity (<i>Fondo de Biodiversidad Sostenible</i>)
FCPF	Forest Carbon Partnership Facility
FDI	Foreign Direct Investment
FGRM	Feedback, Grievance and Redress Mechanism
FM	Financial Management
FMS	Financial Management Specialist
FMT	Facility Management Team (of the FCPF)
FONAFIFO	National Fund for Forest Financing (<i>Fondo Nacional de Financiamiento Forestal</i>)
FRL	Forest Reference Level
FUNBAM	Environmental Bank Foundation (<i>Fundación Banco Ambiental</i>)
FY	Fiscal Year
GCs	General Conditions
GDP	Gross Domestic Product
GHG	Greenhouse Gas
GoCR	Government of Costa Rica



The World Bank

REDD+ Emission Reductions Program of Costa Rica (P160368)

IBRD	International Bank for Reconstruction and Development
ICT	Costa Rican Tourism Board (<i>Instituto Costarricense de Turismo</i>)
IMN	National Meteorological Institute (<i>Instituto Meteorológico Nacional</i>)
INDER	Institute for Rural Development (<i>Instituto de Desarrollo Rural</i>)
IPs	Indigenous Peoples
IPPF	Indigenous Peoples Planning Framework
LOI	Letter of Intent
MAG	Ministry of Agriculture and Livestock (<i>Ministerio de Agricultura y Ganadería</i>)
MIDEPLAN	Ministry of National Planning and Economic Policy (<i>Ministerio de Planificación Nacional y Política Económica</i>)
MINAE	Ministry of Environment and Energy (<i>Ministerio del Ambiente y Energía</i>)
MIRI	Information, Feedback and Non-conformities Mechanism (<i>Mecanismo de Información, Retroalimentación e Inconformidades</i>)
MRV	Measurement, Reporting and Verification
MTR	Mid-Term Progress Report
NDC	Nationally Determined Contribution
NDP	National Development Plan
OECD	Organisation for Economic Co-operation and Development
OP/BP	Operational Policy/Bank Procedure
PAD	Project Appraisal Document
PAM	Policies, Actions and Measures
PC	Participants Committee (of the FCPF)
PDO	Project Development Objective
PES	Payments for Environmental Services (<i>Pagos por Servicios Ambientales</i>)
PF	Process Framework
REDD+	Reducing emissions from deforestation and forest degradation, sustainable management of forests, and conservation and enhancement of forest carbon stocks in developing countries
RPF	Resettlement Policy Framework
R-PP	Readiness Preparation Proposal
SESA	Strategic Environmental and Social Assessment
SFM	Sustainable Forest Management
SINAC	National System of Conservation Areas (<i>Sistema Nacional de Áreas de Conservación</i>)
SINAMECC	National Climate Change Metrics System (<i>Sistema Nacional de Métrica de Cambio Climático</i>)
SIS	Safeguards Information System
TAP	Technical Assessment Panel
tCO ₂ e	Tons of carbon dioxide equivalent
UN	United Nations
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention on Climate Change
WBG	World Bank Group



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DATA SHEET

BASIC INFORMATION

Is this a regionally tagged project?	Country	Project Name		
No	Republic of Costa Rica	REDD+ Emission Reductions Program of Costa Rica		
Project ID	Financing Instrument	Environmental Assessment Category		
P160368	Emission Reductions Payment Agreement (ERPA)	B – Partial assessment		
Financing & Implementation Modalities				
<input type="checkbox"/> Multiphase Programmatic Approach (MPA)	<input type="checkbox"/> Contingent Emergency Response Component (CERC)			
<input type="checkbox"/> Series of Projects (SOP)	<input type="checkbox"/> Fragile State(s)			
<input type="checkbox"/> Disbursement-linked Indicators (DLIs)	<input type="checkbox"/> Small State(s)			
<input type="checkbox"/> Financial Intermediaries (FI)	<input type="checkbox"/> Fragile within a non-fragile Country			
<input type="checkbox"/> Project-Based Guarantee	<input type="checkbox"/> Conflict			
<input type="checkbox"/> Deferred Drawdown	<input type="checkbox"/> Responding to Natural or Man-made Disaster			
<input type="checkbox"/> Alternate Procurement Arrangements (APA)				
Expected Project Approval Date	Expected Project Closing Date			
4-Dec-2020	31-Dec-2025			
Bank/IFC Collaboration				
No				

Proposed Development Objective(s)

The objective of the Emission Reductions Program (ER Program) is to make payments to the Program Entity for measured, reported and verified Emission Reductions (ERs) related to reduced deforestation and forest degradation, the enhancement of forest carbon stocks (REDD+) at the national level in Costa Rica, and distribution of ER payments in accordance with agreed Benefit Sharing Plan (BSP).

**The World Bank**

REDD+ Emission Reductions Program of Costa Rica (P160368)

Components

Component Name

Cost (US\$, millions)

N.A.

Organizations

Borrower: Republic of Costa Rica

Implementing Agency: Ministry of Environment and Energy

PROJECT FINANCING DATA (US\$, Millions)
☐ Counterpart Funding ☐ IBRD ☐ IDA Credit ☐ IDA Grant ☒ Trust Funds ☐ Parallel Financing

Total Project Cost:

60.00

Total Financing:

60.00

Financing Gap:

0.00

Of Which Bank Financing (IBRD/IDA):

0.00

Financing (in US\$, millions)

Financing Source

Amount

Forest Carbon Partnership Facility Carbon Fund

60.00

Total**60.00****Expected Disbursements (in US\$, millions)**

Fiscal Year

2021

2022

2023

2024

2025

Annual

00.00

17.00

17.00

00.00

26.00

Cumulative

00.00

17.00

34.00

34.00

60.00

INSTITUTIONAL DATA**Practice Area (Lead)**

Environment, Natural Resources and Blue Economy (ENB)

Contributing Practice Areas

Climate Change

Climate Change and Disaster Screening

No

Gender Tag

Does the project plan to undertake any of the following?



a. Analysis to identify Project-relevant gaps between males and females, especially in light of country gaps identified through SCD and CPF	Yes
b. Specific action(s) to address the gender gaps identified in (a) and/or to improve women or men's empowerment	Yes
c. Include Indicators in results framework to monitor outcomes from actions identified in (b)	No

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Rating
1. Political and Governance	● Substantial
2. Macroeconomic	● Substantial
3. Sector Strategies and Policies	● Substantial
4. Technical Design of Project or Program	● Substantial
5. Institutional Capacity for Implementation and Sustainability	● Substantial
6. Fiduciary	● Substantial
7. Environment and Social	● Moderate
8. Stakeholders	● Moderate
9. Other: COVID-19 Pandemic	● Substantial
10. Overall	● Substantial

COMPLIANCE

Policy

Does the project depart from the CPF in content or in other significant respects?

☐ Yes ☒ No

Does the project require any waivers of Bank policies?

☐ Yes ☒ No

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	✓	
Natural Habitats OP/BP 4.04	✓	
Forests OP/BP 4.36	✓	



Pest Management OP 4.09	✓
Physical Cultural Resources OP/BP 4.11	✓
Indigenous Peoples OP/BP 4.10	✓
Involuntary Resettlement OP/BP 4.12	✓
Safety of Dams OP/BP 4.37	✓
Projects on International Waterways OP/BP 7.50	✓
Projects in Disputed Areas OP/BP 7.60	✓

Legal Covenants

Article IV Sections 4.04 (Tranche A ERPA) and 4.05 (Tranche B ERPA) (a). The Program Entity, represented by MINAE, shall implement the ER Program through FONAFIFO and SINAC in accordance with their respective mandates.

Article IV Sections 4.04 (Tranche A ERPA) and 4.05 (Tranche B ERPA) (b). The Program Entity, through FUNBAM (“ERPA Payment Recipient Entity”), shall receive Periodic Payments under the Legal Agreements in accordance with Executive Decree N° 40464-MINAE of April 3, 2017 and the Law N° 8640 of July 3, 2018.

Article IV Sections 4.04 (Tranche A ERPA) and 4.05 (Tranche B ERPA) (c). The Program Entity, represented by MINAE, shall enter into a Subsidiary Agreement ("Subsidiary Agreement") with FUNBAM, to set out the responsibilities of FUNBAM, among others, regarding the receipt and use of Periodic Payments made under the Legal Agreements. The responsibilities of FUNBAM under the Subsidiary Agreement shall be limited to its role as the ERPA Payment Recipient Entity, its responsibilities related to financial oversight over the receipt and forwarding of Periodic Payments to FONAFIFO, SINAC and eligible Beneficiaries under the Benefit Sharing Plan. Prior to the execution of the Subsidiary Agreement, the Program Entity, through MINAE, shall provide a draft version to the Trustee for its review and shall not execute the Subsidiary Agreement, unless the Trustee has provided written approval of the draft Subsidiary Agreement as in form and substance satisfactory to the Trustee for the purposes of the Legal Agreements.

Article IV Sections 4.04 (Tranche A ERPA) and 4.05 (Tranche B ERPA) (d). Any Periodic Payments to be made by the Trustee under and subject to Section 4.03 (in conjunction with Section 5.03 of the General Conditions) of the Legal Agreements shall require the ERPA Payment Recipient Entity to submit a request for payment to the Trustee on behalf of the Program Entity in the form of an application for payment (electronically or otherwise) to the Trustee, in form and substance satisfactory to the Trustee, in accordance with the Disbursement and Financial Information Letter (“Application for Payment”).

Article IV Sections 4.04 (Tranche A ERPA) and 4.05 (Tranche B ERPA) (e). The Trustee shall be deemed to have fulfilled its respective payment obligation towards the Program Entity under the Legal Agreement once it has made a Periodic Payment to FUNBAM as the ERPA Payment Recipient Entity. The Program Entity, represented by MINAE, agrees that when serving as Trustee and to the extent it follows the instructions given by the Program Entity, through MINAE, the IBRD in its individual capacity and as Trustee shall not, under any circumstances, be liable for any direct or indirect loss or damage whatsoever caused to the Program Entity or the ERPA Payment Recipient Entity as a result of making the Periodic Payment to the ERPA Payment Recipient Entity.



Article IV Sections 4.04 (Tranche A ERPA) and 4.05 (Tranche B ERPA) (f). For the avoidance of doubt, despite the delegation of certain responsibilities of the Program Entity under this Agreement to FONAFIFO, SINAC and FUNBAM (through the Legal Agreements and the Subsidiary Agreement), the Program Entity shall remain fully responsible and accountable under the Legal Agreements for the way such entities carry out their respective delegated responsibilities on behalf of the Program Entity. In particular, in the event that FONAFIFO, SINAC and FUNBAM fail to observe, implement or meet all requirements contained in the Benefit Sharing Plan and Safeguards Plans provided for under the Legal Agreements (including any feedback and grievance redress mechanism provided for under the ER Program, the Benefit Sharing Plan and/or any Safeguards Plan), such failure shall constitute an event of default by the Program Entity (Event of Default) under Section 16.01(a)(vii) of the General Conditions.

Article VII Section 7.01. In addition to Section 5.01(b)(i) of the General Conditions, the Program Entity, through MINAE, shall monitor and report to the Trustee on the implementation of the Safeguards Plans and Benefit Sharing Plan (BSP) during Reporting Periods. The Program Entity, through MINAE, shall monitor and report to the Trustee on the implementation of the Safeguards Plans annually after the date of the Legal Agreements. The Program Entity, through MINAE, shall first monitor and report to the Trustee on the implementation of the BSP six (6) months after receipt of the first Periodic Payment and annually thereafter. The Program Entity, through MINAE, may coordinate the annual monitoring and reporting of the Safeguards Plans and the BSP, provided that the Program Entity notifies the Trustee and the Trustee accepts such coordinated timelines. The Trustee reserves the right to initiate a separate monitoring of the implementation of the Safeguards Plans and/or the BSP annually after the date of the Legal Agreements by an independent Third-Party monitor. Sections 9.01(g) and (k) as well as Section 9.05(d) of the General Conditions shall apply to such Third-Party monitor *mutatis mutandis*.

Conditions

Type	Description
Effectiveness of Sale and Purchase	Schedule 1 (1). Submission of a final BSP which, based on the advance draft version of the BSP provided by the date of the Legal Agreements, takes into account specific guidance to be provided by the Trustee, following consultations with Tranche A and B Participants, on the outstanding issues that need further clarification in the final version of the BSP, as may be updated from time to time with prior agreement of the Trustee;
Effectiveness of Sale and Purchase	Schedule 1 (2). Submission of evidence demonstrating the Program Entity's ability to transfer Title to ERs, free of legally recognized interest, Encumbrance or claim of a Third Party;
Effectiveness of Sale and Purchase	Schedule 1 (3). Submission of the executed Subsidiary Agreement between FUNBAM (as the ERPA Payment Recipient Entity) and the Program Entity, represented by MINAE, subject to the Trustee's prior review of and consent to the draft of such Subsidiary Agreement; and
Effectiveness of Sale and Purchase	Schedule 1 (4). The Program Entity has obtained approval of the Legal Agreements from the Comptroller General's Office (<i>Contraloría General de la República de Costa Rica</i>).



I. STRATEGIC CONTEXT

A. Country Context

1. Costa Rica is a small country, with ambitious economic, social, and environmental goals. The land area of the country covers 5,110,000 hectares, with a population of 4.9 million, seventy-five percent of which live in urban areas.¹ Costa Rica is an upper-middle income-country, with Gross Domestic Product (GDP) per capita of US\$13,876 (current Purchasing Power Parity). Costa Rica's development model is based on four key pillars: long-standing democracy, an ambitious Social Compact, an outward-oriented economy, and its celebrated Green Trademark.²

2. Prior to the Coronavirus Disease (COVID-19) pandemic, Costa Rica's model achieved many successes, including sustained economic growth rates, improvements in social indicators, environmental gains, and one of the lowest poverty rates in the Latin American and the Caribbean (LCR) region.³ Pre-COVID 19 pandemic, the country experienced shared prosperity, with strong income growth for the bottom 40 percent and the middle class making up the largest socioeconomic group at 47 percent of the population.⁴ Only 12 percent of the country was under the poverty line, less than half the Latin American average.⁵ The outward-oriented development model was successful in attracting Foreign Direct Investment (FDI) and transformed the country from a rural agriculture-based economy in the mid-1950s to one with high value-added industries that contribute to several global value chains. Per capita income had doubled over the past two decades due to openness to trade and foreign investments as well as a significant investment in human capital and institutions. Robust exports and FDI inflows in 2018-2019 enabled an increase in net international reserves from 12.4 to 14.5 percent of GDP. Access to improved water sources is at 96 percent of the population, sanitation at 94 percent, and electricity at 99 percent.⁶ The literacy rate is at 97 percent and the number of adults with no formal education has declined from 21.2 percent in 1950 to 3.4 percent in 2015.⁷ Healthcare is universal and life expectancy has increased from 61.6 years in 1960 to 79.7 years in 2012.⁸

3. Although Costa Rica had achieved impressive economic performance, its development model had underlying vulnerabilities.⁹ These included rising inequality; growing unemployment, especially among the poor and Indigenous communities; consistently high school dropout rates; increasing dissatisfaction in the quality of the health care system; rising electricity costs; a near halting of infrastructure investment; increasing air and water pollution; and the deteriorating fiscal balance. These issues are symptoms of

¹ Oviedo, Ana Maria, Susana M. Sanchez, Kathy A. Lindert and J. Humberto Lopez. 2015. *Costa Rica's Development: From Good to Better*. Systematic Country Diagnostic. Washington, DC: World Bank.

<http://documents1.worldbank.org/curated/en/215521468196163103/pdf/96280-REVISED-PUBLIC-CRI-SCD-ebook.pdf>

² Ibid.

³ Ibid.

⁴ Ibid.

⁵ Based on a US\$4 poverty line. Taking a US\$2.5 poverty line, only 4.7 percent of the population is poor.

⁶ Oviedo, Ana Maria, Susana M. Sanchez, Kathy A. Lindert and J. Humberto Lopez. 2015. "Introduction and Country Context." *Costa Rica's Development: From Good to Better*. Systematic Country Diagnostic. Washington, DC: World Bank.

<http://documents1.worldbank.org/curated/en/215521468196163103/pdf/96280-REVISED-PUBLIC-CRI-SCD-ebook.pdf>

⁷ Ibid.

⁸ Ibid.

⁹ Ibid.



deeper structural problems in the economy and the public sector. More recently, due to the impact of the COVID-19 pandemic, unemployment doubled from 12 percent in Q2 2019 to 24 percent in Q2 2020, reaching its highest level in the last decade.¹⁰ The average family labor income fell 18 percent between 2019 and 2020, representing around 80 percent of total family income.¹¹ Family incomes are 12 percent lower than in 2019.¹² The deterioration in total family income has pushed people back into poverty and left them further away from the poverty line. The incidence of poverty has increased six percentage points (from 23.9 to 30 percent), with almost 322,000 people falling into poverty between 2019 and 2020.¹³

4. Notwithstanding Costa Rica's sound external position, thanks to continued FDI inflows and financing from multilaterals, the economic impacts from the COVID-19 pandemic are becoming apparent. The Government responded quickly to the pandemic by introducing strong containment measures while reallocating spending and mobilizing revenue to create headroom to fund the response and rolled out programs to support vulnerable segments of the population. For example, due to the tax reform which began implementation in January 2020, tax collection increased 17 percent during the first quarter of 2020, compared to the same period of the previous year, supporting a strong consolidation in this period. However, these containment measures – together with the effects of the global recession – brought the recovery of late 2019 and early 2020 to a halt and resulted in a sharp contraction of the economy, with GDP projected to fall to -5.4 in 2020. Tourism revenue, which usually represents more than 19 percent of annual exports, collapsed due to border closures and travel restrictions domestically and abroad, contributing to an increase in the current account deficit to a peak of 3.7 percent of GDP. Resilient net FDI inflows (2.4 percent of GDP) and credit from multilaterals will fully finance the deficit, maintaining international reserves at 14.4 percent of GDP, and limiting exchange rate depreciation against the US dollar. A gradual recovery is expected to start in 2021 as mobility restrictions are lifted and the prospects of availability of a reliable vaccine for COVID-19 emerge. However, this outlook may change in the coming months considering the current increase in COVID-19 cases which may cause the current impacts to linger.

5. On May 15, 2020, Costa Rica was invited to become the 38th member of the Organisation for Economic Co-operation and Development (OECD), and the fourth Latin American country to join the OECD.¹⁴ The OECD accession process requires approving and implementing structural reforms in areas that also support medium-term growth prospects (such as environment, fiscal, health, education, governance, labor and finance). Costa Rica's recovery will be supported by accommodative monetary policy and reforms related to the OECD accession process and fiscal consolidation efforts.

B. Sectoral and Institutional Context

6. Costa Rica is richly endowed with forests and natural resources and biological and cultural diversity. It has a diverse topography and tropical climate that allow for remarkable biodiversity. Forests provide a wide range of economic benefits and ecosystem services of tremendous socioeconomic, cultural, and environmental value. In 2019, agriculture, forestry and fishing together contributed 4.2

¹⁰ INEC (2020), Encuesta Continua de Empleo al segundo trimestre de 2020, Resultados Generales, San Jose de Costa Rica, Agosto 2020.

¹¹ INEC (2020), Encuesta Nacional de Hogares Julio 2020, Resultados Generales, San Jose de Costa Rica, Octubre 2020.

¹² Ibid.

¹³ Data from Concept Note for Costa Rica Poverty and Inclusion Assessment (ID: P174739) (October 2020). World Bank Internal Document.

¹⁴ "OECD Countries Invite Costa Rica to Join as 38th Member." *OECD*. <http://www.oecd.org/newsroom/oecd-countries-invite-costa-rica-to-join-as-38th-member.htm>



percent of Costa Rica's GDP.¹⁵ Moreover, forests contribute goods and services to rural livelihoods that are not reflected in GDP, such as land for subsistence agriculture, medicinal plants, fuelwood, seeds, game, and clean water. In an analysis of forest specific contributions to the economy, forests contribute around two percent to the country's GDP, including returns from timber, other forest products, and economic activities that make use of forest products.¹⁶ In addition, the country's rich green landscape drew over 2.5 million tourists in 2013 alone, with many travelers visiting the national parks and protected areas.¹⁷

7. Costa Rica is also highly exposed to natural hazards and faces significant challenges from climate change. It is the second most exposed country to multiple hazards based on land area, with approximately 37 percent of the total area exposed to three or more natural hazards.¹⁸ It is estimated that 78 percent of the population and 80 percent of GDP are subject to high risk from multiple hazards. While Costa Rica has been spared by major disasters in recent years, it is not immune to the potential impacts of catastrophic events. For example, in 2010, Hurricane Thomas caused an estimated US\$292 million in damages. Furthermore, climate change projections for Costa Rica indicate up to a 32 percent decrease in overall rainfall precipitation by 2050. Temperatures are estimated to increase by 1°C to 2°C by 2050, and between 2°C and 4°C higher in 2080.¹⁹ This trend is expected to continue in the future due to climate change, possibly resulting in a greater frequency or intensity of extreme events such as storms, floods and droughts. More intense drought conditions were experienced in the tropical dry forest region as a result of abnormal weather patterns, causing vegetation stress in 2019.²⁰ These environmental challenges, which disproportionately affect the poor and vulnerable and hamper their economic growth, reinforce the need for Costa Rica's decarbonization efforts to reduce emissions from deforestation and forest degradation to address development challenges.

8. Costa Rica is a global leader in environmental management policies and accomplishments. It received the "2019 Champions of the Earth" award, the United Nations (UN)'s highest environmental honor, for its leadership in natural resource conservation and its commitment to ambitious climate policies.²¹ The Government of Costa Rica (GoCR) reaffirmed its commitment to become 100 percent carbon neutral by 2021 in the country's Nationally Determined Contribution (NDC)²² under the United Nations Framework Convention on Climate Change (UNFCCC) Paris Agreement, submitted in December 2015. The NDC submission explicitly mentioned Emission Reductions from forests as part of the proposed

¹⁵ World Bank national accounts data. <https://data.worldbank.org/indicator/NV.AGR.TOTL.ZS>

¹⁶ "Accounting reveals that Costa Rica's forest wealth is greater than expected." 2016. World Bank.

<https://www.worldbank.org/en/news/feature/2016/05/31/accounting-reveals-that-costa-ricas-forest-wealth-is-greater-than-expected>

¹⁷ Oviedo, Ana Maria, Susana M. Sanchez, Kathy A. Lindert and J. Humberto Lopez. 2015. *Costa Rica's Development: From Good to Better*. Systematic Country Diagnostic. Washington, DC: World Bank (p. 124).

¹⁸ Ibid.

¹⁹ "Costa Rica Climate Data Projections". 2020. *World Bank Climate Change Knowledge Portal*.

<https://climateknowledgeportal.worldbank.org/country/costa-rica/climate-data-projections>

²⁰ "NASA Gauges Plant Stress In Costa Rican Drought". 2019. *Climate Change: Vital Signs Of The Planet*.

<https://climate.nasa.gov/news/2901/nasa-gauges-plant-stress-in-costa-rican-drought/>.

²¹ "Costa Rica Named 'UN Champion of the Earth' for Pioneering Role in Fighting Climate Change." *UNEP - UN Environment Programme*, www.unenvironment.org/news-and-stories/press-release/costa-rica-named-un-champion-earth-pioneering-role-fighting-climate

²² Government of Costa Rica Ministry of Environment and Energy. 2015. Costa Rica's Intended Nationally Determined Contribution. Costa Rica: San José.

<https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Costa%20Rica%20First/INDC%20Costa%20Rica%20Version%202%200%20final%20ES.pdf>



mitigation efforts in the Agriculture, Forestry and Other Land Use (AFOLU) sector.

9. REDD+²³ is also featured prominently as a key program in the environment sector of the National Development Plan (NDP) 2015-2018 “Alberto Cañas Escalante.” The NDP will implement four out of six policies in the National REDD+ Strategy for Costa Rica 2015-2018.²⁴ It is also featured in the strategic objectives included in the current National Forest Development Plan 2011-2020,²⁵ a policy framework that will continue to be implemented under the Forest and Rural Development Program,²⁶ and the National Strategy on Climate Change, especially in relation to the carbon neutrality goal and in increasing ecosystem and human resilience to climate change. In addition, Costa Rica, as part of its efforts to address climate change, approved an ambitious economy-wide decarbonization plan to promote green growth and decarbonize the country by 2050. Efforts are underway to begin offsetting all of the country’s greenhouse gas (GHG) emissions using a wide range of budgetary, legal, and financial incentives, including measures with REDD+ playing a pivotal role in balancing the country’s GHG footprint through the National Decarbonization Plan 2018-2050.²⁷

10. Costa Rica is also regarded as a world leader in conservation and has made significant achievements in recovering its original forest cover. In 1950, forests covered a significant portion of the country. Pressures from a growing population and widespread conversion of forests for pasture, cattle ranching, and agricultural development resulted in extensive deforestation, reducing forest cover to 21 percent of land area by 1987.²⁸ The GoCR’s early recognition of the potential economic, environmental and global value of forests and reduced deforestation underpinned several framework laws that established the basic principles of Costa Rica’s “Green Trademark” aimed at rehabilitating forest lands and setting aside vast areas of land as protected areas.²⁹ Over the last 30 years, the country’s efforts have achieved a remarkable recovery. In 2015, forest cover was 61 percent of the country’s land surface, making it among the first tropical countries, globally, to reverse deforestation.³⁰ Today, while Costa Rica

²³ REDD+ stands for “Reducing emissions from deforestation and forest degradation, sustainable management of forests, and conservation and enhancement of forest carbon stocks in developing countries”.

²⁴ *Estrategia Nacional REDD+ Costa Rica 2015-2018*. https://redd.unfccc.int/uploads/4863_1_fon_estrategia_red_cr_lr.pdf

²⁵ MINAE (2011). *Plan Nacional de Desarrollo Forestal 2011-2020*.

https://www.sirefor.go.cr/pdfs/tematicas/Politicas_Nacionales/Plan_Nacional_Desarrollo_Forestal_2011-2020.pdf

²⁶ MINAE (2015). *Programa de Bosques y Desarrollo Rural: La Estrategia Nacional REDD+ Costa Rica*.

<https://www.forestcarbonpartnership.org/sites/fcp/files/2015/October/8-Costa%20Rica%20Borrador%20de%20la%20Estrategia%20Nacional%20REDD%20Spanish.pdf>

²⁷ <https://cambioclimatico.go.cr/wp-content/uploads/2019/02/PLAN.pdf>

²⁸ National Fund for Forest Financing (*Fondo Nacional de Financiamiento Forestal*, FONAFIFO). 2001. Reactivación de la Reforestación Comercial en Costa Rica. Proyecto REFORESTA. Propuesta de Asistencia Técnica y Financiera. MINAE-FONAFIFO. San José, CR.

²⁹ Oviedo, Ana Maria, Susana M. Sanchez, Kathy A. Lindert and J. Humberto Lopez. 2015. *Costa Rica’s Development: From Good to Better*. Systematic Country Diagnostic. Washington, DC: World Bank (p. 19).

<http://documents1.worldbank.org/curated/en/215521468196163103/pdf/96280-REVISED-PUBLIC-CRI-SCD-ebook.pdf>.

³⁰ Agresta (2015). Generating a consistent historical time series of activity data from land use change for the development of Costa Rica’s REDD plus reference level. San José, Costa Rica; Córdoba Peraza, J. (2019). *Informe final elaboración del mapa de cobertura y uso de la tierra en Costa Rica 2015*. San José, Costa Rica.



covers 0.03 percent of the earth's surface, it is one of the top 20 countries with the greatest biodiversity in the world.³¹

11. This increase in forest cover is attributed, in part, to Costa Rica's world-renowned Payments for Environmental Services (PES) (*Pagos por Servicios Ambientales*)³², which provides incentives for forest conservation and rehabilitation, covering an average of 310,000 hectares per year of government and privately-owned lands over the past two decades.³³ The PES program builds on a series of legislation making the costs of reforestation tax deductible, establishing reforestation as a legal imperative, providing fiscal incentives with certificates that reward landowners for reforestation, and allowing the forest authority to intervene in the use of forest resources.³⁴ In addition, Presidential Decree No. 32868 of 2005 ("Inaugurating and Regulating a Water Charging Scheme")³⁵ introduced a mandatory payment for ecosystem services—a water tariff structure from which 25 percent of water charges are allocated to the PES program.

12. Costa Rica has also set aside 26 percent of its land area for protected areas, including national parks³⁶, and designated seven percent of its land area to Indigenous territories³⁷. The National System of Protected Areas, introduced in the late 1980s, was followed by the creation of the National System of Conservation Areas (*Sistema Nacional de Áreas de Conservación*, SINAC) in 1994. SINAC oversees over 149 protected areas, of which 29 are designated national parks.³⁸ Costa Rica's National System of Protected Areas and PES program, together cover 35 percent of the country area and 70 percent of forests. In addition, there are 24 territories distributed among eight distinct groups. The Indigenous population of Costa Rica is currently estimated at over 100,000 and represents around 2.4 percent of the country's total population. The 1977 Law on Indigenous Peoples (IPs) provides for the establishment of Indigenous Development Associations to hold titles to these lands.³⁹ However, large proportions of some Indigenous territories are occupied or even formally owned by non-indigenous people.

³¹ Oviedo, Ana Maria, Susana M. Sanchez, Kathy A. Lindert and J. Humberto Lopez. 2015. *Costa Rica's Development: From Good to Better*. Systematic Country Diagnostic. Washington, DC: World Bank (p.19).

<http://documents1.worldbank.org/curated/en/215521468196163103/pdf/96280-REVISED-PUBLIC-CRI-SCD-ebook.pdf>

³² Established in 1996 when the Government adopted Forest Law No. 7575, which also established the National Fund for Forest Financing (*Fondo Nacional de Financiamiento Forestal*, FONAFIFO) to manage the PES, and established a new certificate for forest conservation to reward landholders for their ecosystem services.

³³ Oviedo, Ana Maria, Susana M. Sanchez, Kathy A. Lindert and J. Humberto Lopez. 2015. *Costa Rica's Development: From Good to Better*. Systematic Country Diagnostic. Washington, DC: World Bank (p. 18).

<http://documents1.worldbank.org/curated/en/215521468196163103/pdf/96280-REVISED-PUBLIC-CRI-SCD-ebook.pdf>

³⁴ Forest Law No. 4475 of 1969, Forest Law No. 6184 of 1977, Forest Laws No. 7032 of 1986 and 7174 of 1990.

³⁵ <http://www.sinac.go.cr/ES/normativa/Decretos/Canon%20por%20concepto%20de%20aprovechamiento%20de%20aguas%20Decreto%20Ejecutivo%2032868.pdf>

³⁶ Government of Costa Rica Ministry of Environment and Energy. Emission Reductions Program to the FCPF Carbon Fund. 2018. Costa Rica (p. 10).

https://www.forestcarbonpartnership.org/system/files/documents/Costa%20Rica%20ERPD%20EN_Oct24-2018_clean.pdf

³⁷ International World Group for Indigenous Affairs (IWGIA). 2020. "Costa Rica." The Indigenous World.

http://iwgia.org/images/yearbook/2020/IWGIA_The_Indigenous_World_2020.pdf.

³⁸ *Total de Áreas Silvestres Protegidas por Categoría de Manejo*. 2020.

<http://www.sinac.go.cr/ES/asp/Documents/%C3%81reas%20Silvestres%20Protegidas%20de%20Costa%20Rica%202020.xls>

³⁹ Linda Wallbott & Elena M. Florian-Rivero. 2018. Forests, rights and development in Costa Rica: a Political Ecology perspective on Indigenous Peoples' engagement in REDD+, Conflict, Security & Development, 18:6, 493-519, DOI: [10.1080/14678802.2018.1532643](https://doi.org/10.1080/14678802.2018.1532643)



13. In 2014, Costa Rica became a net sink⁴⁰ of GHG in the forest sector.⁴¹ This reflected the reality that carbon sequestration in growing forests exceeded carbon emissions through deforestation (Table 1), demonstrating the country's effective implementation of REDD+ policies and measures, including: (i) conservation of primary forests; (ii) reduction of deforestation in primary and secondary forests; and (iii) recovery of native forests, improving carbon stocks and significantly increasing carbon removals due to forest growth. The capacity of Costa Rica's forest to remove GHG and reduce emissions from/to the atmosphere increased from 1.6 million tons of carbon dioxide equivalent (tCO₂e) in 2012 to 1.9 million tCO₂e in 2013.⁴²

Table 1. GHG Emissions and Removals from the Forest Sector in Costa Rica⁴³

REDD+ Activity	Emissions/(Removals) (tCO ₂ e/year) *
Deforestation (land use change)	5,985,795
Degradation (forests remaining forests)	2,519,448
Enhancements (carbon sequestration)	(4,372,156)
Net Total	4,133,087

*Annual average during the historic reference period 1998-2011 (tCO₂e).

Numbers in parentheses indicate removals.

14. Despite these positive achievements, forests in Costa Rica continue to experience deforestation and forest degradation. Information on drivers of deforestation and forest degradation and their underlying causes showed that seven out of every 10 hectares deforested were converted to grasslands, while domestic and export crops (e.g., rice, beans, pineapple, palm oil) accounted for two out of every 10 hectares deforested.⁴⁴ With forests covering approximately 61 percent of the country's land area, and the conservation focus of the current environmental regulatory framework, there are limited opportunities for productive use of forest assets at a time when opportunity cost of land is rising due to the demand from the agriculture and housing sectors (the latter linked to tourism). Years of restrictive regulations have led to the contraction of the timber industry and paved the way for illicit activities, with Costa Rica becoming a net importer of processed and finished wood products. Despite the positive incentives established by the 1995 Forest Law, private landowners still take measures to stop natural forest regeneration so their land will not be classified as "forest".

15. Maintaining Costa Rica's "green" (forest) assets will require an integrated approach that enables both conservation by and productive use of natural assets. Such an approach would help balance the many financial and environmental trade-offs. The proposed operation will be instrumental in providing Costa Rica access to additional financial resources through a REDD+ mechanism, which will increase the value of standing forests to Costa Ricans by recognizing their role in global GHG mitigation.

⁴⁰ A carbon net sink removes/ reduces more carbon in the atmosphere at a higher rate over a potentially longer period than it releases into it, thus providing sequestration benefits.

⁴¹ https://redd.unfccc.int/uploads/4863_3_iba-2019-anexotecnicoajus.pdf

⁴² See Table 2.2.1. on p. 13 of the ERPD:

https://www.forestcarbonpartnership.org/system/files/documents/Costa%20Rica%20ERPD%20EN_Oct24-2018_clean.pdf

⁴³ REDD+ Emissions Reductions Program of Costa Rica Emission Reductions Program Document (ERPD).

https://www.forestcarbonpartnership.org/system/files/documents/Costa%20Rica%20ERPD%20EN_Oct24-2018_clean.pdf

⁴⁴ Estrategia Nacional REDD+ Costa Rica: Una Iniciativa del Programa de Bosques y Desarrollo Rural. 2015.

https://forestcarbonpartnership.org/system/files/documents/2.5%20Estrategia_REDD%20BCR%20updated.pdf



The proposed operation will support Costa Rica in addressing the drivers of deforestation and forest degradation, improve forest management and conserve forest carbon stocks, thus contributing to climate change mitigation while achieving multiple other environmental and social non-carbon benefits.

C. Relevance to Higher Level Objectives

16. The proposed operation for a REDD+ Emission Reductions Program (ER Program) of Costa Rica is fully aligned with the FY16-20 Country Partnership Framework (CPF) for Costa Rica (Report No. 94686-CR), discussed by the Board of Executive Directors on May 26, 2015, and extended through FY22 in the Performance and Learning Review of the CPF for the same period (Report No. 143466-CR) discussed on January 13, 2020. The proposed operation would contribute to Objective 6 of the CPF under the second pillar “Expanding capacity to promote climate-smart and environmentally sustainable development”, and CPF indicator 6.1 “Increased Government capacity to promote low carbon development, as measured by forest GHG emission reductions achieved.” The operation is also in line with the WBG COVID-19 Crisis Response Approach Paper – Saving Lives, Scaling-Up Impact and Getting Back on Track. The ERPA would be particularly instrumental in advancing Pillar 4: “Strengthening Policies, Institutions and Investments for Rebuilding Better.”

17. The proposed operation is part of a broader package of engagement of the World Bank, as Trustee of the Carbon Fund of the Forest Carbon Partnership Facility (FCPF), in support of Costa Rica’s forest and climate change sectors, and in line with the programmatic approach of the World Bank Group (WBG) Forest Action Plan FY16-20. This support includes technical assistance through three FCPF Readiness Grants to support preparation of Costa Rica’s National REDD+ Strategy (P123702; US\$8.8 million). The FCPF Carbon Fund provides results-based payments for emission reductions (ERs). The results-based payments are intended to provide an incentive to the recipient countries and various stakeholders—including forest-dependent IPs, other forest dwellers or the private sector—within each of its target countries to achieve long-term sustainability in financing forest conservation and management programs. The proposed operation is aligned with the corporate commitments of the WBG on Forests and Climate Change. It is also integrated into the highest level of national strategic planning, including the National Development Plan 2015-2018, the National Forest Development Plan 2011-2020, the National Strategy on Climate Change 2009-2021, and the National Decarbonization Plan 2018-2050.

II. PROJECT DESCRIPTION

A. Project Development Objective (PDO)

PDO Statement

18. The objective of the Emission Reductions Program (ER Program) is to make payments to the Program Entity for measured, reported and verified Emission Reductions (ERs) related to reduced deforestation and forest degradation, the enhancement of forest carbon stocks (REDD+) at the national level in Costa Rica, and distribution of ER payments in accordance with agreed Benefit Sharing Plan (BSP).

PDO Level Indicators

19. The achievements of the PDO will be measured through the following indicators:

- (i) Volume of CO₂ Emission Reductions that have been measured and reported by the



Program Entity, verified by a Third Party, and transferred to the FCPF Carbon Fund; (tCO₂e) (Target value: 12 million tCO₂e)

(ii) Payment by the FCPF Carbon Fund for CO₂ Emission Reductions generated by the ER Program (US\$) (Target value: US\$60 million);

(iii) Emission Reductions payments distributed in accordance with agreed Benefit Sharing Plan and arrangements. (Yes/No).

20. The PDO and PDO indicators proposed for this operation are meant to reflect the nature of the Emission Reductions Payment Agreement (ERPA) as a transaction-based instrument.

B. Program Description

(i) Scope of the Instrument

21. **REDD+ is generally implemented in three phases of technical assistance, investments and results-based finance:** (i) Phase I. Readiness, where countries carry out Readiness preparation activities and develop national strategies or action plans, policies and measures, and other capacity building activities; (ii) Phase II. Implementation, countries implement national policies and measures, and national strategies or action plans; and (iii) Phase III. Results-based payments, which provides payments for verified ERs, achieved among other things, through activities supported in the second phase. In line with this phased approach, the FCPF has provided three Readiness grants to Costa Rica⁴⁵, with the objective to assist the Recipient in formulating and carrying out the Readiness Preparation Activities. The proposed ERPA with the FCPF Carbon Fund would cover Phase III of REDD+. The design of this ER Program has been informed by the lessons from an earlier project-scale ERPA signed between World Bank and Costa Rica (financed by the BioCarbon Fund).⁴⁶

22. **The proposed operation, a stand-alone Carbon Finance Transaction⁴⁷, is between Costa Rica's Ministry of Environment and Energy (*Ministerio del Ambiente y Energía*, MINAE), as the Program Entity, and the World Bank, as Trustee of the Carbon Fund of the FCPF.** The instrument for the operation is an ERPA. The ERPA is the legal document that will be signed between the seller (MINAE, representing the Republic of Costa Rica) and the buyer (the FCPF Carbon Fund through the World Bank) of GHG Emission Reductions (ERs).

23. **The Carbon Finance Transaction does not involve the direct financing of any of the underlying investments generating the ERs purchased by the Carbon Fund.** Costa Rica will generate ERs through the implementation of activities that support a combination of enabling conditions and activities that strengthen forest governance, assist vulnerable communities in participating in forest conservation, protection, and restoration, and provide an incentive to the country and various stakeholders to achieve long-term sustainability in the financing of forest conservation and management programs. A Carbon

⁴⁵ Costa Rica Readiness Preparation Proposal Project (P123702): First Grant for Readiness Formulation (TF094486) for US\$200,000 approved in June 2009 and closed in July 2010; Second Grant for Readiness Preparation (TF012692) for US\$3.6 million approved in June 2012 and closed in September 2015; and, Third Grant for Readiness Preparation (TF0A23023) for US\$5.58 million approved in June 2016, closing in December 2020.

⁴⁶ Carbon sequestration in small farms in the Brunca region - COOPEAGRI Project (P094155)

⁴⁷ A Carbon Finance Transaction refers to a commercial transaction involving delivery of and payment for ERs between a Project or Program Entity and the World Bank as Trustee of carbon funds.



Finance Transaction may include a BSP which the seller of ERs undertakes to apply part of its ER revenue for a specific purpose or group of beneficiaries. The BSP provides the details and directions for how the ER revenue should be used for such a purpose or group of beneficiaries.

24. The Carbon Finance Transaction is the result of an extensive engagement and preparation process. Interested countries, following the submission and approval of an Emission Reductions Program Idea Note (ER-PIN) receive Readiness Preparation grants from the FCPF Readiness Fund. The grants finance readiness activities, including consultation with key stakeholders, and formulation and implementation of Readiness Plans and REDD+ Strategies. The readiness activities can overlap with the preparation of an ER Program under the Carbon Fund.

25. In the context of Costa Rica, the Carbon Finance Transaction involves the delivery of and payment for ERs generated from the implementation of Costa Rica's National REDD+ Strategy. World Bank financing will pay the Republic of Costa Rica, primarily through the National Fund for Forest Financing (*Fondo Nacional de Financiamiento Forestal*, FONAFIFO) and SINAC, for GHG ERs that have been: (i) verified by an independent reviewer in accordance with the criteria and indicators of the Carbon Fund Methodological Framework⁴⁸; and (ii) confirmed by the World Bank to have been properly implemented according to the safeguard instruments and the BSP. ER results will be measured against the ER Program's baseline, which is Costa Rica's National Forest Reference Level (FRL)⁴⁹ registered with the UNFCCC in 2016. Annex 2 provides further details on the FCPF and the processing of Carbon Finance transactions within the World Bank, while Annex 3 provides a summary of Costa Rica's milestones under the FCPF and a timeline for ERPA signing.

(ii) The Government's ER Program

26. Costa Rica launched its National REDD+ Strategy⁵⁰ in July 2017, following an extensive consultation period. As part of the Strategic Environmental and Social Assessment (SESA), supported by the FCPF Readiness Preparation Proposal Project (P123702), Costa Rica engaged in a broad and extensive participatory process with the country's stakeholders, including representatives from government institutions, IPs, small farmers, academia and the private sector of the forest industry, to identify the key risks and opportunities related to the forest sector. This process resulted in the development of Costa Rica's National REDD+ Strategy, which will be implemented at the national scale. The Strategy strengthens Costa Rica's traditional policies and programs in the forest sector (i.e., PES program and SINAC's various programs on fire management, monitoring of illegal logging, and land regularization). It is expected to help continue the country's efforts towards achieving carbon neutrality, meeting its NDC commitments and enhancing resiliency to climate change.

27. The National REDD+ Strategy identifies several incremental actions based on the key priorities expressed by stakeholders through the SESA. These are organized into six policies, actions and measures

⁴⁸ FCPF (2020). Carbon Fund Methodological Framework.

<https://www.forestcarbonpartnership.org/sites/fcp/files/FCPF%20Carbon%20Fund%20Methodological%20Framework%20revised%202020%20Final%20Posted.pdf>.

⁴⁹ Reference levels, expressed as tons of CO₂ equivalent per year for a reference period, serve as a benchmark against which the emissions and removals of CO₂ from a results period will be compared, helping to assess a country's performance in implementing REDD+ activities.

⁵⁰ Executive Decree No. 40464-MINAE "Regulation for the Implementation of the National REDD+ Strategy".



(PAMs)⁵¹ aimed at reducing GHG emissions from national deforestation and forest degradation. Annex 4 provides detailed descriptions of the historic drivers and trends of deforestation and Annex 7 (Table 1) outlines how the PAMs of the Costa Rican National REDD+ Strategy intend to address them. Costa Rica has developed an “Implementation Plan for the National REDD+ Strategy”, which sets forth an operational framework for each PAM 2018 and 2025. Four of the six PAMs in the National REDD+ Strategy are in the ERPA (see Annex 5 for detailed description, cost and expected financing of the ER Program PAMs that will be implemented and responsible institutions).

28. The financing for the implementation of the National REDD+ Strategy and the underlying measures that will generate the ERs will be provided by the GoCR. The overall cost for implementing the different set of PAMs in the National REDD+ Strategy over the 2018-2025 period has been estimated at US\$1.18 billion. The estimated cost of implementing the four PAMs that are relevant for the ERPA is US\$74.3 million (see Table 2 and Annex 5). Of this cost, the FCPF preparation funds have financed US\$3.7 million, and the ERPA will finance US\$60 million, creating a financing gap of US\$10.6 million. To fill this gap, the GoCR submitted a proposal to the Green Climate Fund for an ERPA for US\$54.1 million (approved on November 10, 2020) and will explore the possibility of FCPF purchasing Additional ERs of up to 5 million ERs using the modality of a Call Option.⁵² If GoCR opts for the latter, this would result in a payment of US\$25 million (at an assumed price of US\$5/tCO₂e), which will suffice to fill the financing gap.

Table 2. Cost of REDD+ Strategy Measures included⁵³ in the Emission Reductions⁵⁴

Policy Area	GoCR Budget (US\$)	FCPF Preparation Budget (US\$)	ER Program (US\$)	Financing Gap (US\$)
Policy #2: Strengthen SINAC's programs on Protected Areas, forests and fire control	6,733,652	150,000	5,310,288	1,273,364
Policy #3: Incentives for conservation and sustainable forest management	46,994,918	580,938	41,160,000	5,254,520
Policy #4: Reforestation and Restoration of degraded lands	621,565	41,500	-	580,065
Policy #5: Engagement of IPs	13,068,363	-	10,600,000	2,468,363
Policy #6: Enabling conditions	6,863,980	2,888,174	2,929,712	1,046,094

⁵¹ Policies here do not refer to Development Policy Financing-type interventions, but rather to “strategic options” as defined in the FCPF framework. The Project Appraisal Document (PAD) maintains the terminology used by Costa Rica for consistency.

⁵² Call Option means the exclusive right, but not the obligation, of the Trustee to require the Program Entity to transfer Additional ERs to the Trustee or its nominees, as specified in the ERPA.

<https://www.forestcarbonpartnership.org/sites/fcp/files/2019/Sep/6.%20Emission%20Reductions%20Payment%20Agreement%20%28ERPA%29%20General%20Terms%20and%20Conditions%20%28English%29.pdf>

⁵³ Of the 47 policies, activities and measures (PAM) that make up the Implementation Plan of the National REDD+ Strategy, a group of them meet the following criteria to be financed by the ERPA proceeds: (i) They are executed by the two entities that lead the Costa Rica National REDD+ Secretariat, namely SINAC and FONAFIFO, per Executive Decree No.40464-MINAE. These two institutions are responsible for coordinating and executing different phases of the Strategy; (ii) PAMs which are directly associated with the reduction of emissions from the forest sector in the short term (duration of the ERPA) and are related to affordable commitments that the country can pay for and will result in emission reductions sale in a short period of time (5-7 years).

⁵⁴ See Table 32: Costs of Actions and Budgetary Source from *Estrategia Nacional REDD+ Costa Rica* (2018). https://redd.unfccc.int/uploads/4863_1_fon_estrategia_red_cr_lr.pdf



Policy Area	GoCR Budget (US\$)	FCPF Preparation Budget (US\$)	ER Program (US\$)	Financing Gap (US\$)
Total	74,282,478	3,660,612	60,000,000	10,622,406

29. To confirm its ability to sell GHG ERs, the GoCR has produced an analysis of its ability to transfer the title of the land that will generate the ERs to the Carbon Fund. This analysis establishes that the owner of the land is also the owner of the carbon and therefore the original title holder to the ERs. The legal ability of MINAE to transfer the ER title was endorsed by an independent legal opinion and reviewed, revised and accepted by the World Bank for purposes of ERPA signing. Table 3 lists the various types of land tenure and associated forest area where the GoCR seeks ownership over the carbon. At present, the GoCR has carbon rights through SINAC, FONAFIFO's PES Program, State Natural Heritage under agreements, and other forest land that do not meet the eligibility criteria for benefit distribution. The ERs generated from these land tenures and forest areas are expected to be transferred to the Carbon Fund. The GoCR plans to increase this area from which ERs are transferred during ER Program implementation through the development of a new instrument, "Contract for Emission Reductions from Forests" (CERF), which will allow additional entities, who are not part of the PES, to voluntarily participate in REDD+ activities. The addition of forest owners' organizations, private reserves, landowners not qualified for PES, and Indigenous territories would allow for up to an additional 635,000 ha of forest area to be transferred to the Carbon Fund and make up 21 percent of the total area under the program.

Table 3. Land Tenure Expected to Participate in the ER Program by Type

Land Tenure		Forest Area (ha)	%
SINAC		678,735	21%
FONAFIFO	PES Program	400,000	13%
Private owners	Forest owners' organizations	50,000	2%
	Private Reserves	25,000	1%
	Landowners not qualified for PES	390,000	12%
	Indigenous territories	170,000	5%
State Natural Heritage under agreements		25,000	1%
Other forest land that do not meet the eligibility criteria for benefit distribution.		1,422,602	45%
Total		3,161,337	100%

30. The ERPA term is expected to run from a retroactive date of January 1, 2018 to December 31, 2025, unless terminated earlier. The ERPA Term Sheet⁵⁵ sets out the commercial terms (e.g., volume, price, conditions of effectiveness, options, advance payments, etc.) of the transaction negotiated between the two Parties which are incorporated into the ERPAs. The monetary value of the ERPAs is defined by the Contract ER volume and the unit price. There are two tranches of the Carbon Fund, Tranche A and Tranche B. Each Tranche enters into an ERPA. The two ERPAs are for *pro rata* (proportional) shares of the Contract ERs and Additional ERs generated and verified under the ER Program for each Reporting Period, after

⁵⁵All commercial terms in the ERPA are negotiable and agreed in the ERPA Term Sheet which precedes the ERPA. The General Conditions (GCs) of the ERPA constitute the legal underpinning of the transaction and are non-negotiable. The GCs were approved at the 18th meeting of the FCPF Participants Committee (PC) on November 1, 2014, as per FCPF Resolution PC/18/2014/2. The GCs provide for general rules and procedures for the sale and payment of ERs generated under the ER Program and are incorporated into the ERPA for reference.



deducting the ERs that are set aside as Buffer ERs in the ER Program Buffer. The *pro rata* share of Tranche A in the overall contracted ER volume is approximately five percent (corresponding to Tranche A's *pro rata* share in the overall contributions to the Carbon Fund), while that of Tranche B is approximately 95 percent (corresponding to Tranche B's *pro rata* share in the overall contributions to the Carbon Fund). Under the Tranche A ERPA, a full transfer of Tranche A's Contract ERs and any Additional ERs will be made by the Program Entity to the Trustee. Under the Tranche B ERPA, the Trustee commits to re-transfer to the Program Entity all of Tranche B's Contract ERs and any Additional ERs. The Program Entity will be allowed to use these re-transferred Contract ERs and Additional ERs under the Tranche B ERPA only to meet its NDC commitments⁵⁶ under the Paris Agreement.

(iii) ER Payments

31. A payment of US\$60 million is expected from the two ERPAs (Tranche A and Tranche B) after verification and transfer of at least 12 million tCO₂e. The monetary value of the ERPA is calculated based on the expected volume of ERs that will be purchased (Contract ER volume) and the unit price in the ERPAs and ERPA Term Sheet. The expected Contract ER volume and value represent forecasted estimates based on assumptions of the ER Program's effectiveness in generating ERs. The actual Contract ER volume available to be transacted and resulting payments will depend on the actual effectiveness of the ER Program in generating ERs as reported and verified after each monitoring period. To assess feasibility of the transaction, historical observations were considered to estimate the country's ER potential. Accordingly, the National REDD+ Strategy implementation is estimated to generate a total ER volume of 42,602,399 tCO₂e between 2018 and 2024 (see Table 4 and more details in Annex 6). After accounting for uncertainties, transferability of ER titles, and risk that some of the expected ERs may not materialize due to natural disturbances and human activities (i.e., risk of reversal⁵⁷), the expected transferable ER volume is estimated at 20,358,248 tCO₂e. This estimation confirms that the purchase of 12 million Contract ERs should be feasible and, based on an agreed unit price of US\$5 per tCO₂e, correspond to a Contract ER value of US\$60 million.

Table 4. Estimate of Contract ERs

ER Volume	tCO ₂ e
Total ER Volume expected by the ER Program	42,602,399
Uncertainty Buffer ERs (0%)	-0
ER Volume Net of Uncertainty Risk	42,602,399
Transferable ER Volume with ER Title (55%)	23,431,319.4
Reversal Risk Buffer ERs (13%) for 12 million tCO ₂ e	3,046,071.5
Transferable ER after Reversal Risk discount	20,385,247.9
Contract ERs	12,000,000
Call Option volume	5,000,000
Contract ERs + Call Option	17,000,000
Additional ER volume available after Contract ERs and Call Option volume	3,385,247.9

⁵⁶ Costa Rica's NDC commitment: "a reduction of 25% of GHG emissions by 2030 compared to 2012 levels, representing a maximum of 9,374,000 tCO₂e emissions in 2030." <https://climateactiontracker.org/countries/costa-rica/pledges-and-targets/>

⁵⁷ The Carbon Fund Methodological Framework defines a Reversal as "A situation where the cumulative monitored and verified ERs are less than the currently transferred ERs, i.e., at any point in time, more ERs have been transferred than is warranted by the underlying reported and verified results of the ER Program."



32. If Costa Rica exceeds expectations with regards to implementing the National REDD+ Strategy, the country could achieve a higher level of payment. This would require the country to further reduce deforestation than expected according to the REDD+ strategy and secure its ability to transfer ER titles over a larger percentage of land. If this materializes, Costa Rica can negotiate a “Call Option for Additional ER” volume with the parties of up to 5 million ERs that would be transacted at a price that is negotiated when the ER volume is verified. Assuming a price for Call-Option ERs that is equivalent to the unit price per Contract ER (i.e., US\$5/ER), an additional US\$25 million payment could be added to the Contract ER value of US\$60 million, generating a total ER value of US\$85 million.

(iv) The Benefit Sharing Plan

33. The BSP supports the implementation of a set of priority ER Program Measures that have been identified in consultation with stakeholders. Results-based payments (also referred to as ERPA proceeds) received by Costa Rica through the ER Program will be distributed in accordance with a BSP satisfactory to the World Bank. An advance draft of Costa Rica’s BSP document was accepted by the FCPF Facility Management Team (FMT) on June 18, 2020, and the FCPF Carbon Fund Participants (CFP) provided a no objection on July 3, 2020. Preparation of a final version of the BSP is a condition of effectiveness of the ERPA. The World Bank’s oversight responsibilities on the BSP end when the final ERPA payment is made to Costa Rica or when the ERPA terminates, whichever occurs earlier.

34. The results-based payments will be received and administered by the Environmental Bank Foundation (*Fundación Banco Ambiental, FUNBAM*). MINAE will sign a subsidiary legal agreement with FUNBAM to clarify roles and responsibilities of both agencies. FUNBAM will be responsible for financial oversight over the receipt and forwarding of periodic payments to FONAFIFO, SINAC and eligible beneficiaries under the BSP. For beneficiaries who are not part of the PES program, the arrangements will involve the new CERF instrument, with FUNBAM supporting the implementation of ER PAM. The BSP also identifies lands that will not be eligible to receive ER Program benefits. Figure 2 in Annex 1 illustrates the proposed institutional arrangements for the operation of the BSP, while Table 2 in Annex 7 provides a preliminary outline of the PAMs to be supported by the BSP, and Annex 8, the non-carbon benefits expected to be generated. Prior to the first periodic payment, MINAE and FUNBAM will prepare and adopt a BSP Operational Manual, satisfactory to the World Bank, detailing the specific rules and procedures for the disbursement of funds and operation of the CERF instrument, including eligibility and prioritization criteria, contract forms, distribution and payment amounts, financial management and monitoring arrangements⁵⁸.

C. Project Beneficiaries

35. Project Beneficiaries of the ERPA proceeds will include owners of private forest lands (i.e., small farmers and Indigenous communities) as well as public lands (i.e., SINAC and other public entities). The private landowners and Indigenous communities will receive monetary benefits through the PES program and CERF respectively. Communities and families living around protected areas and other public lands will

⁵⁸ A Subsidiary Agreement between MINAE and FUNBAM will be signed, as a Condition of Effectiveness, to set out responsibilities of FUNBAM related to the financial oversight over the receipt and forwarding of Periodic Payments. The BSP Operations Manual will be aligned with the Agreement and be adopted prior to the first periodic payment.



receive non-monetary benefits through the implementation of the National REDD+ Strategy (Annex 8 identifies non-monetary benefits of the ER Program). Public agencies will receive additional resources to strengthen their programs for the sustainable management of the country's natural resources. The ER Program will improve beneficiaries' livelihoods by reducing soil erosion, increasing timber and non-timber products, improving hydrological services, and strengthening adaptation to climate change (see Annex 8, Non-Carbon Benefits). The ER Program will also generate benefits for the larger community by enhancing the delivery of global environmental services, such as reversed biodiversity loss, and increased carbon sequestration.

D. Rationale for Bank Involvement

36. The World Bank brings significant value to the ER Program given its long-standing engagement in the country's forest sector. The World Bank was engaged in two closed loan operations (Ecomarkets Project - P052009, and Mainstreaming Market-Based Instruments for Environmental Management Project -P093384) that supported the implementation of FONAFIFO's PES program. The World Bank also has experience with the implementation of a small-scale afforestation/reforestation ERPA under the Kyoto Protocol's Clean Development Mechanism (CDM) in the country (Carbon Sequestration in Small Farms in the Brunca Region Project, P094155). It also has more than a decade of experience working with the National REDD+ Secretariat in the implementation of three grants for the Costa Rica Readiness Preparation Proposal Project (P123702). The World Bank is supporting similar initiatives in other jurisdictions in Africa, Asia and Latin America through the FCPF, Global Environment Facility, and BioCarbon Fund, and has gained unique expertise in providing technical assistance to support the design and implementation of large-scale (national and subnational) ER Programs for which there are few other references worldwide.

E. Lessons Learned and Reflected in the Project Design

37. Results-based finance instruments for REDD+ require clarity on upfront financing and investments needs to address the drivers of deforestation and forest degradation. Countries that receive the payments need to have appropriate capacity and systems in place, including safeguards, fiduciary, and Measurement, Reporting and Verification (MRV) that can give reasonable confidence that results have been achieved and risks are being managed appropriately.⁵⁹ The work under the FCPF REDD+ Readiness grants helped ensure due assessment and build capacity, estimate financing and investment needs, and establish a robust systems for safeguards, fiduciary and MRV that informed the design of this operation.

38. The novelty of a Carbon Finance project can lead to frequent changes in methodology and delays. Experiences from General Cooperative for Agricultural, Industrial and Multiple Services (*Cooperativa Agrícola Industrial y de Servicios Múltiples*, COOPEAGRI)⁶⁰ revealed that the long registration process with CDM results in transaction costs and implementation delays. The REDD+ ERPA is reducing this risk by approving, in advance, a methodological framework applicable to all participating countries.

⁵⁹ See "Early Lessons from Jurisdictional REDD+ and Low Emissions Development Programs"; "Results-based finance for REDD-plus: Lessons learned from the FCPF and the BioCarbon Fund"; "Harvesting Knowledge on REDD-plus: Early Lessons from the FCPF Initiative and Beyond", available at: <https://www.forestcarbonpartnership.org/redd-strategies>.

⁶⁰ World Bank Group. 2020. *Costa Rica - Carbon Sequestration in Small Farms in the Brunca Region: COOPEAGRI Project* (English). Washington, D.C.: World Bank Group. <http://documents.worldbank.org/curated/en/406571596605825755/Costa-Rica-Carbon-Sequestration-in-Small-Farms-in-the-Brunca-Region-COOPEAGRI-Project>



Furthermore, all ERs will be registered in the FCPF Registry System to ensure all countries follow a common methodology, process and standards, and market participants have confidence in their quality and validity.

39. Drawing on insights from COOPEAGRI BioCarbon Fund Project (P094155), it is important to manage the opportunity cost of engagement. To effectively address this challenge, the current operation is being implemented at the national scale, and the benefits from the ERPA include both monetary and non-monetary benefits. Through inclusion of non-monetary benefits, the aim is to increase the benefits to farmers engaged in reducing emissions. In addition, the ER Program includes a list of preliminary indicators to measure the generation of priority co-benefits, including hydrological and biodiversity co-benefits in the short and medium term. These indicators are complementary to the performance indicators for each PAM included in Annex 7, as well as those monitored through the MRV system.

40. Building on an existing system for scale up and sustainability. Costa Rica's PES proved to be a valuable learning laboratory for all the parties involved in the FCPF ERPA design. This ERPA will implement a CERF, which is a modality of the PES tested in the COOPEAGRI project. The REDD+ ERPA is now strengthening the PES and extending the model to CERFs, supporting the replication of the PES modality from project level to a national scale to maximize the positive outputs in climate change projects. Moreover, the ER Program itself addresses one of the major challenges of the PES program by providing carbon finance as an additional source of funding to support its long-term sustainability.

41. Integrated institutional arrangements. Key lessons learned indicate the importance of: (i) the alignment of proposed measures with the institutional priorities of key sector agencies (i.e., FONAFIFO, SINAC) to ensure mainstreaming of REDD+ in their regular operations; (ii) the need for strong technical capacity and adequate staffing of the National REDD+ Secretariat; and (iii) broad and effective consultation with key stakeholders, in particular IPs, in order to build ownership and trust in the REDD+ process, and manage expectations. These lessons have been incorporated in the design of the ER Program through the institutional arrangements established for its implementation and formalized through a ministerial REDD+ decree.

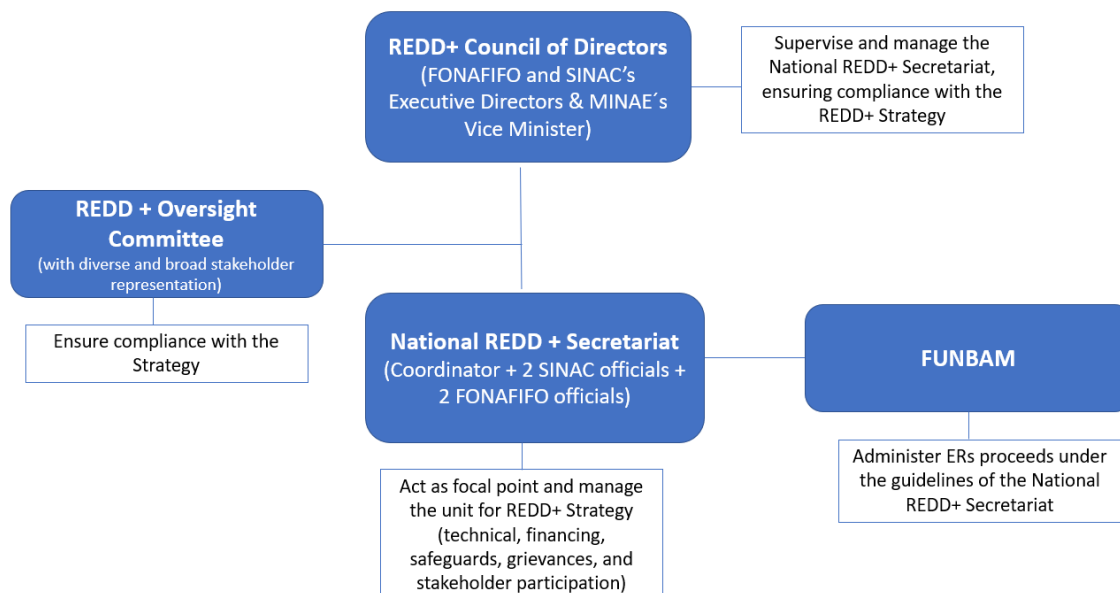
III. IMPLEMENTATION ARRANGEMENTS

A. Institutional and Implementation Arrangements

42. MINAE is Costa Rica's national entity in charge of the country's environmental policy and the governing body of FONAFIFO and SINAC. MINAE's Executive Decree No. 40464-MINAE, published in July 2017, determines the institutional arrangements for the governance of the ER Program, building on the existing legal and institutional framework of the Costa Rican forest sector. It states that the execution of the ER Program will be carried out through a REDD+ Council of Directors, a National REDD+ Secretariat and a REDD+ Oversight Committee (See Figure 1). The role of the REDD+ Council of Directors is the supervision and political direction of the National REDD+ Secretariat, the negotiation of reductions, and ensuring compliance with the National REDD+ Strategy. It is comprised of the Executive Director (ED) of SINAC, the ED of FONAFIFO and the Vice Minister of MINAE.



Figure 1: ER Program Institutional Arrangements



43. The National REDD+ Secretariat is composed of two officials from SINAC and from FONAFIFO, and a National Coordinator. They will be designated to facilitate the day-to-day oversight and coordination for the implementation of the REDD+ Strategy, including technical issues, financing, safeguards, grievances, and stakeholder participation, among others. The Secretariat will be the primary interface with the World Bank for supervision and reporting purposes. The National Coordinator, currently housed in FONAFIFO, will develop an action plan to institutionalize these functions within the two institutions and to assess any gaps in capacity that will have to be sourced externally. The National REDD+ Secretariat will also collaborate with any other agency of MINAE, as needed, in order to support the National REDD+ Strategy, and specifically with the National Meteorological Institute (*Instituto Meteorológico Nacional*, IMN) on GHG measurement and reporting issues, and with the Directorate on Climate Change (*Dirección de Cambio Climático*, DCC) on the development of a GHG Registry.

44. The REDD+ Oversight Committee's function is to ensure compliance with the National REDD+ Strategy through diverse and broad stakeholder representation. This Committee will be composed of: two representatives of IPs, two representatives of small forest producers, two representatives of environmental non-governmental organizations, two representatives of the forest industry, two representatives of academia, one representative of the College of Agricultural Engineers, and one representative of the associations of forest professionals in the country. The Committee is coordinated by the National REDD+ Secretariat, which will provide the necessary collaboration for its operation. Representatives in the Committee will be self-selected by their constituencies and will be convened by the REDD+ Secretariat on a regular basis as set out in its statute.

45. The Program Entity (MINAE), through FONAFIFO and SINAC, will carry out the overall operational planning, implementation and monitoring of the activities under the ER Program in a manner consistent with the current public policy and planning process. FONAFIFO currently oversees the ERs generated under Costa Rica's PES program. SINAC will also be responsible for implementing the ER



Program, as instructed by MINAE since it oversees the ERs generated under Costa Rica's National System of Protected Areas.

46. FUNBAM is the entity to receive and administer REDD+ results-based payments (also called "Periodic Payments" in the ERPAs). The administration of these proceeds is regulated by the Decree 40464, which stipulates that said funds will be deposited and managed by FUNBAM under the guidelines defined by REDD+ Council of Directors and monitored by the National REDD+ Secretariat. FUNBAM is a non-profit legal entity independent from the Ministry of Finance. FUNBAM will guarantee the management of the resources that are placed under its custody to ensure they reach the selected stakeholders, according to instructions given by the National REDD+ Secretariat. FUNBAM will establish a budgeting, accounting and payment system. The BSP budget will be incorporated in FUNBAM's budget, based on input provided by the National REDD+ Secretariat. FUNBAM will be staffed with a financial specialist/accountant, treasury assistant and internal auditor with appropriate skills and experience under terms of reference acceptable to the World Bank. Annex 1 provides additional information on implementation arrangements.

B. Results Monitoring and Evaluation

47. ERs generated through the implementation of the ER Program will be measured in tCO₂e/year and represent the key metric for receiving results-based payments under the ERPA signed with the Carbon Fund in line with the PDO indicator. ERs will be monitored through the measurement, collection, compilation and recording of all relevant data and parameters necessary for estimating ERs generated within the ER Program area, in accordance with a Monitoring Plan and in compliance with the Carbon Fund Methodological Framework. Costa Rica's Monitoring Plan is efficient as it relies solely on satellite imagery for the collection of activity data (i.e. land use changes), while it relies on the National Forest Inventory for fixed emission parameters (i.e. carbon density). It also builds on the National MRV system for REDD+ wherever possible, which is still under development. The Plan is described in detail in Annex 9.

48. The ER Program's FRL will constitute the benchmark (i.e., baseline) against which the results of the ER Program will be measured, in tCO₂e/year, as it may be updated from time to time in order to allow for improved data and methodological approaches. It was calculated as the net average of national annual GHG emissions and removals from deforestation, forest degradation and carbon stock enhancement during the historical period of 1998-2011, including all carbon pools except soil organic carbon.

49. The Program Entity (MINAE), through FONAFIFO and SINAC, will be responsible for coordinating the monitoring and reporting of ERs during regular Reporting Periods specified in the ERPA (there are expected to be at least three during the ERPA term). ER results will be reported in the form of ER Monitoring Reports and shall be subject to verification by an independent reviewer, after which respective payments (i.e., disbursements) will be made. The ER monitoring template will be in the standard format agreed by the CFP. The independent verification will be commissioned by the World Bank based on international best practices in the carbon accounting industry. Additional elements covered in the ER Monitoring Report (i.e., implementation progress, safeguards, benefit sharing) will be reviewed by the World Bank. The expected monitoring and Reporting Periods are presented in Table 5.



Table 5: Monitoring and Reporting Periods, Expected Contract ER Volumes and Payment Schedule

Monitoring Events	Reporting Period	Expected Submission of Verification	Expected Volume of Contract ER (tCO ₂ e)	Payment Schedule (US\$)
1	01/2018 – 12/2019	06/2021	3,400,000	17,000,000
2	01/2020 – 12/2021	06/2022	3,400,000	17,000,000
3	01/2022 – 12/2024	06/2024	5,200,000	26,000,000
Total			12,000,000	60,000,000

50. Each ER transaction between MINAE (as the Program Entity) and the World Bank (as the Trustee of the FCPF Carbon Fund) will be registered to avoid double accounting/issuing or double selling/claiming of any ERs from REDD+ activities under the ER Program. For this purpose, an ER Transaction Registry based on Indicators 38.1-38.4 of the Carbon Fund Methodological Framework has been designed and established by the World Bank/FCPF. It is already operational and can share data and documents with the country's registration system when ready. The functions of the ER Transaction Registry will be to document and record, among others, the issuance, serialization, acquisition, holding, retirement, cancellation and/or transfer of ERs generated under the ER Program. Costa Rica has decided to use the FCPF ER Transaction Registry while it develops its own national registry as part of the National Climate Change Metrics System (*Sistema Nacional de Métrica de Cambio Climático*, SINAMECC). Should Costa Rica opt to use the national registry once it is operational, its functions will be certified by an international audit with the report made available to the public prior to its use for the ERPA. Once the national registry is operational, the GoCR will only recognize, including for purposes of reporting to the Trustee, authorization and/or corresponding adjustments units that are duly registered in the national registry. The GoCR will make all reasonable efforts to ensure that the national registry component of SINAMECC incorporate all features necessary to enable communication and operational compatibility between SINAMECC and the FCPF ER Transaction Registry.

51. Interim Progress Reports will report progress made with the implementation of the ER Program, safeguards compliance, and operation of the BSP (at least annually) and supervised through regular World Bank implementation support missions (including virtual missions). ER Monitoring and Interim Progress Reports will also include information on the ER Program's efforts to generate and/or enhance non-carbon benefits, such as biodiversity conservation, hydrological functions, and other ecosystem services. Annex 8 provides a list of non-carbon benefits prioritized by the ER Program and proposed monitoring indicators.

C. Sustainability

52. The proposed operation is a large-scale pilot aimed at testing results-based payments for reducing GHG emissions from deforestation and forest degradation (REDD+) at a national level. If successful, this operation could pave the way for a new instrument to be deployed in the forest sector with the potential to unlock large sources of finance through the Paris Agreement's market and non-market mechanisms, the Green Climate Fund, bilateral donors, and other avenues including the private sector (several private sector players already participate in the Carbon Fund).



53. Costa Rica's REDD+ Program has several design elements to support its sustainability and replicability: (i) its interventions are based on existing public policies and programs in the forest sector that have proven to be successful in reverting historical deforestation trends and delivering results; (ii) the majority of ER Program interventions are part of the annual operational plans and budgets of the key implementing agencies (i.e., FONAFIFO and SINAC) in the forest sector, ensuring strong ownership and mainstreaming of REDD+; (iii) the ER Program design is based on broad and extensive consultations with the main forest sector stakeholders, in particular placing IPs as a key priority; and (iv) the ER Program is positioned at the highest levels of strategic planning, being included in the country's National Development Plan; National REDD+ Strategy; National Forest Development Plan; the National Decarbonization Plan and the NDC. The cost of implementing the policies, measures and activities proposed to reduce emissions and increase removals of GHG from the forest is imbedded in the GoCR's annual budget. The cost will be covered with the GoCR's own fiscal budget and with payments received from the transfer of the ERs. There is a financing gap of US\$10,622,406, which is expected to be covered by the Green Climate Fund ERPA approved for US\$54.1 million on November 10, 2020. Another possible source is using the Carbon Fund ERPA Call Option volume, which has the potential for up to 40 percent Additional ER contract volume.

IV. PROJECT APPRAISAL SUMMARY

A. Technical, Economic and Financial Analysis

(i) Technical

54. Costa Rica's REDD+ Program is designed to comply with the international requirements of the FCPF Carbon Fund Methodological Framework, as well as the UNFCCC REDD+ rules. The Methodological Framework includes a series of technical criteria and indicators focused on: (i) level of ambition; (ii) carbon accounting; (iii) safeguards; (iv) sustainable program design and implementation; and (v) ER Program transactions. The UNFCCC REDD+ rules include a set of interrelated decisions from the Warsaw Framework⁶¹ on guidelines and procedures for the technical assessment of submissions on proposed forest reference emission levels and/or forest reference levels and modalities for measuring, reporting, and verifying emissions and removals. The technical design of the ER Program was also supported by a series of technical studies during the preparation phase, including a SESA, an analysis of the drivers of deforestation and forest degradation, legal analysis on land tenure and carbon rights, and extensive consultations with a broad range of forest stakeholders, with a focus on IPs.

55. As part of the Carbon Fund business process, a Technical Assessment Panel (TAP) assessed Costa Rica's ER Program against the Methodological Framework criteria and indicators. The assessment process started in September 2015 and included several desk reviews. Carbon Fund donors also conducted a desk review of the Costa Rica's ER Program and in June 2016, the ER Program was approved by the CFP, conditional on the inclusion of forest degradation in the ER Program's carbon accounting boundary. A revised Emission Reductions Program Document (ERPD) was submitted by Costa Rica in July

⁶¹ The 19th session of the Conference of the Parties (COP), held in Warsaw, Poland, adopted the 7 decisions of the Warsaw Framework for REDD-plus, providing further clarity on methodological requirements for countries: <https://unfccc.int/topics/land-use/resources/warsaw-framework-for-redd-plus>



2017 and approved by the CFP on a no-objection basis on December 29, 2017. In addition, as part of the Warsaw Framework, Costa Rica submitted its National FRL to the UNFCCC Secretariat in January 2016 for it to be assessed by the AFOLU Roster of Experts. The assessment, which lasted approximately 15 months, was completed in April 2017 with positive remarks by the Assessment Team.⁶²

(ii) Economic Analysis

56. While a traditional economic and financial analysis of investment projects is not applicable to the proposed operation⁶³ it is evident that the operation is expected to generate several benefits. Based on the World Bank's *Guidance Note on Shadow Price of Carbon in Economic Analysis*, the economic benefits of the GHG ERs generated by the ER Program would be in the order of US\$420 million by 2024⁶⁴, far greater than the US\$60 million financing provided for the operation. It is also reasonable to conclude that the ER Program generates significant net benefits. PES payments themselves are a transfer (via gasoline tax). The opportunity cost of land placed under conservation is potentially the largest cost of the ER Program, especially in PES areas where conservation is voluntary. As options for economically viable alternate land uses are limited in some areas, even without the ER Program, it is reasonable to assume that the opportunity costs are zero in parts of the ER Program area. Concomitantly, a reasonable assumption is that as the ER Program expands and improves the existing PES approach, cost-effectiveness will be achieved, as expanding protected areas is prohibitively costly in financial terms as it would require compensating landholders for the full value of their land upfront. Improving the targeting of the PES towards areas under higher threat of deforestation would also increase the cost-effectiveness of the ER Program, as a greater amount of environmental services would be generated per hectare conserved.

57. By supporting and expanding the coverage of the national PES program and by strengthening the country's protected areas system and other programs managed by SINAC, the ER Program is likely to generate substantial (local, national and global) benefits in terms of improved hydrological services, biodiversity conservation, and carbon sequestration. Earlier efforts to quantify these benefits and the productive values of forests include those reflected in Costa Rica's forest accounts, which reveal that forests contributed to nearly two percent of GDP.⁶⁵ This is in sharp contrast to industry figures from national accounts that only consider timber extraction, which alone added just 0.2 percent to GDP in 2011, and just half of that amount in 2013. Further expansion of efforts to strengthen the country's protected areas and forest programs will only increase the value of Costa Rica's forests considering also its potential for tourism⁶⁶ (further details on the non-monetary benefits are described in Annex 8).

⁶² Both the TAP's Assessment of the ER Program and the UNFCCC Technical Assessment of Costa Rica's FRL are included as supporting documents.

⁶³ This is because the financing instrument consists of a Carbon Finance Transaction based on commercial terms negotiated between the FCPF Carbon Fund donors and Costa Rica.

⁶⁴ Based on an estimate of 12 million tCO₂e generated by the ER Program during the ERPA term as included in the ERPA Term Sheet, and on a conservative steady shadow price of US\$35/tCO₂e for 2020-2030 as per the World Bank Guidance Note on the Shadow Price of Carbon in Economic Analysis (2017). <http://pubdocs.worldbank.org/en/911381516303509498/2017-Shadow-Price-of-Carbon-Guidance-Note-FINAL-CLEARED.pdf>

⁶⁵ In 2016, the Central Bank of Costa Rica and MINAE released forest accounts, with the support of the Wealth Accounting and the Valuation of Ecosystem Services (WAVES) partnership and the World Bank. *Banco Central de Costa Rica* (2016). *Cuenta de Bosques: Documento de Trabajo. Área de Estadísticas Ambientales. Departamento de Estadística Macroeconómica. División Económica*. May 30, 2016.

⁶⁶ SINAC reported that the Protected Wildlife Areas have received 2,142,580 visitors in 2018 and 2,332,806 visitors in 2019.



58. Although programs like Costa Rica's PES are not designed to be poverty reduction programs, the frequently high spatial correlation between areas that supply environmental services and poor areas create opportunities for the ER Program to contribute to this objective, particularly in indigenous territories. Studies on biological corridors in the country—some of which overlap with watersheds targeted by the PES—found them to be among the poorest areas in Costa Rica⁶⁷. Studies of the impact of the PES program on participants have been *ad hoc* and unsystematic to date, making it hard to determine the impact. As participation is entirely voluntary, however, there is no reason to expect any substantial adverse economic impacts.

B. Fiduciary

59. The World Bank financial management (FM) policies for Investment Project Financing do not apply to Carbon Fund Operations as these do not involve direct Bank financing of the underlying activities or investments but only payments for ERs generated under such operations. However, the operation also requires Costa Rica to distribute such ER payments (i.e., the ERPA revenue) in accordance with the BSP. Therefore, Costa Rica should have a payments system acceptable to the World Bank, and a certain level of due diligence on fiduciary aspects, as the payment process requires managing risks.⁶⁸ World Bank Procurement Regulations will not apply to this operation, as the World Bank funds will only finance payments to the Program Entity for generated ERs, and thus, there will be no procurable activities under this operation.

60. FM Assessment and Mitigation Measures. The World Bank completed in February 2020 a FM Assessment of FUNBAM, which is responsible for the fiduciary aspects of the payment system of the Carbon Finance operation and concluded that FUNBAM has limited FM arrangements, which may cause delays in implementation. A series of mitigation measures will be implemented to ensure the satisfactory performance of FM functions within FUNBAM. These include: (i) establishing an administrative financial management unit within FUNBAM; (ii) setting up and maintaining a budgetary, accounting and payment system to administer the ERPA funds; and (iii) including internal controls and procedures in the FM section of the BSP Operational Manual to ensure adequate management and monitoring mechanisms over the funds.

61. FUNBAM will establish a budgeting, accounting and payment system. Prior to the first ER payment, the BSP budget will be incorporated in FUNBAM's budget, based on the input provided by the National REDD+ Secretariat. Transactions will be recorded following institutional accounting policies. FUNBAM will prepare and submit semi-annual BSP financial reports in US Dollars to the World Bank; and on an annual basis, FUNBAM will prepare BSP financial statements that will include explanatory notes of resources administered and will be audited and submitted to the World Bank. The FUNBAM unit will be

⁶⁷ Ferraro, Paul. J., Hanauer, Merlin M., & Sims, Katharine R. (2011). Conditions associated with protected area success in conservation and poverty reduction. *Proceedings of the National Academy of Sciences of the United States of America*, 108(34), 13913–13918. <https://doi.org/10.1073/pnas.1011529108>

⁶⁸ As per the World Bank's Bank Guidance on Emission Reduction Crediting (formerly Carbon Finance) Projects issued on June 2, 2020.



staffed with a financial specialist/accountant, treasury assistant and internal auditor with appropriate skills and experience (hired or assigned⁶⁹) and under terms of reference acceptable to the World Bank.

62. ER Payments will follow the World Bank's disbursement guidelines, as described in the Disbursement and Financial Information Letter (DFIL). Upon third party verification of the ER Monitoring Report, in a manner satisfactory to the World Bank, the National REDD+ Secretariat will instruct FUNBAM to submit an ER Transfer Form to the World Bank for the pre-authorization of the ER Payment. The World Bank will be able to disburse the ERPA proceeds using the ER Payment method upon submission of an Application for Payment form by FUNBAM. FUNBAM will receive the ERPA Payments from the World Bank in a segregated bank account (Operational Account) to be opened at the National Bank of Costa Rica and will disburse them following the BSP proposed funds flow. ER Payment for the retroactive period (2018-2019) has been considered for the operation. The flow of funds is summarized in the table and figure below.

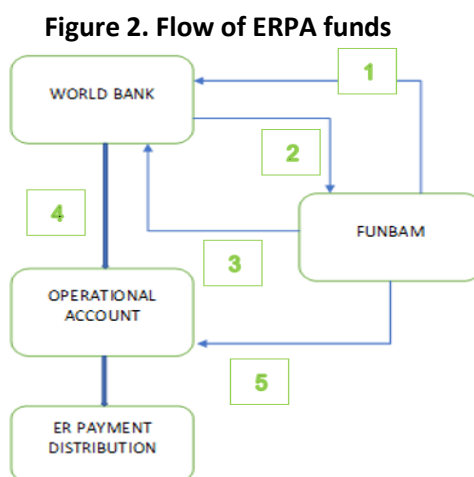


Table 6. Flow of ERPA Funds Process

Step 1	FUNBAM sends "ER Transfer Form" (Schedule 3 of the ERPA) to the World Bank
Step 2	World Bank sends "Confirmation to Authorize Payment" form (Attachment 2 of the DFIL) to FUNBAM
Step 3	FUNBAM sends "Application for Payment" in accordance with the DFIL
Step 4	World Bank sends ER Payment to an Operational Account operated by FUNBAM at the National Bank of Costa Rica
Step 5	FUNBAM executes ERPA proceeds in accordance with the BSP, based on the instructions provided by the REDD+ Council of Directors and monitored by the National REDD+ Secretariat

⁶⁹ A Subsidiary Agreement between MINAE and FUNBAM will be signed, as a Condition of Effectiveness, to set out responsibilities of FUNBAM related to the financial oversight over the receipt and forwarding of Periodic Payments. To strengthen FUNBAM's financial oversight functions, staff will be provided by FONAFIFO via a Memorandum of Understanding between FONAFIFO and FUNBAM which will be signed prior to the first periodic payment.



C. Legal Operational Policies

	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

D. Environmental and Social

63. World Bank safeguards approach to ERPAs. The various governing documents of the FCPF, including the Charter, establish a commitment to apply World Bank Safeguard Policies to FCPF operations. As per the guidance on the safeguards approach for FCPF ERPA operations, this includes the following elements: (i) differentiated responsibility for the supervision of safeguard compliance depending on who is financing the underlying activities and whether or not they are included in the Government Program; (ii) comprehensive assessment of environmental and social risks associated with ER Programs (i.e., SESA) and formulation and adoption of relevant safeguard frameworks and/or plans to address such risks (i.e., Environmental and Social Management Framework (ESMF), and others as applicable); (iii) capacity assessment of the Program Entity to implement agreed safeguard frameworks and/or plans; (iv) preparation and adoption of a safeguards action plan, where applicable; (v) the Program Entity's self-monitoring and reporting along with independent third party monitoring and reporting on the implementation of safeguard instruments; (vi) continuous operation of a feedback and grievance redress mechanism; and (vii) the World Bank's oversight of effective implementation and compliance of the Program Entity with the agreed safeguards management system. As such, World Bank supervision will focus mainly on interventions implemented in the areas from which ERs will be bought by the FCPF based on the GoCR's ability to transfer PES lands (including Indigenous territories), protected areas, and other private and public lands under a sub-agreement with the Program Entity.

64. Environmental and social impacts and mitigation measures. According to the policy on Environmental Assessment (OP 4.01), this operation is classified as Category B (Partial Assessment) and triggered a number of Operational Policies (OPs). No large scale, significant and/or irreversible direct, indirect, or cumulative negative impacts are expected. The PAMs to be implemented are expected to have net positive environmental and social impacts by reducing the secondary effects of deforestation and forest degradation such as erosion, slope destabilization, landslide formation, and the incremental reduction of GHG emissions. In terms of climate co-benefits, it is expected that the National REDD+ Strategy will support forest cover improvements and forest health that in turn will bring associated co-benefits not only as a sink for carbon, but also for watershed protection, provision of important (biodiversity) habitats, provision of a sustainable source of non-timber forest products, and support of other forest based livelihoods that are essential components of landscape resilience in the face of climate change. These would constitute permanent and cumulative positive impacts. Potential adverse environmental impacts are expected to be mainly temporary and minor and may include the use of pesticides and herbicides at subproject sites as part of an effort to make forest activities more efficient and economic. Such impacts can be avoided, minimized, managed or mitigated through application of the ER Program's safeguards management instruments, as outlined below.

65. Safeguards instruments. A participatory SESA was carried out following FCPF guidelines, and in accordance with the requirements of OP 4.01 on Environmental Assessment, in order to identify, avoid,



and manage the potential environmental and social risks associated with the National REDD+ Strategy. The SESA process was initiated in 2011 with a national stakeholder consultation workshop, which set a precedent in the country in terms of strategic environmental assessments. The risks identified in the SESA were considered in the preparation of the National REDD+ Strategy and its ESMF. The package of instruments also includes a Resettlement Policy Framework (RPF), a Process Framework (PF) and an Indigenous Peoples Planning Framework (IPPF). These frameworks provide an analysis of the Costa Rican legislation and the requirements of the World Bank's safeguards policies as well as national environmental and social requirements with respect to the ER Program activities. These activities include impact screening criteria and processes as well as institutional arrangements and responsibilities. They are intended to ensure that social and environmental risks are factored into the design and implementation of the PAMs of the National REDD+ Strategy.

66. Safeguards capacity. As part of its OECD accession agenda, Costa Rica is strengthening its regulations for environmental assessment and management to mirror international best practice. Clear and comprehensive environmental legal instruments and technical standards for forest management are already available and will be applied during the implementation of the National REDD+ Strategy. The GoCR has ample experience, and is familiar, with World Bank social and environmental operational policies due to the completion of two investment projects in the forest sector (Costa Rica Ecomarkets Project - P052009 and Mainstreaming Market-Based Instruments for Environmental Management Project - P093384), as well as three FCPF Readiness grants, and has made substantial efforts during the REDD+ Readiness phase to ensure a broad and informed consultation process with a variety of stakeholders and sectors for the design of the National REDD+ Strategy through the establishment of REDD+ specific platforms. The National REDD+ Secretariat included a social and environmental team with relevant specialists that was responsible for the preparation of applicable World Bank safeguard instruments (ESMF, IPPF, RPF, PF). For the implementation phase, the National REDD+ Secretariat will have to strengthen its capacity for applying such instruments and identify the relevant agencies and staff with specific responsibilities.

67. Safeguards monitoring and reporting. In addition to the self-assessment by the Program Entity and due diligence from the World Bank, the ER Program will have independent third-party monitoring that will provide information on the implementation of the ESMF, so that the necessary corrective measures can be taken. The World Bank, as Trustee, will consider the results of the third-party monitoring before making any payment. The National REDD+ Secretariat will prepare compliance reports twice a year, which will be sent to the World Bank, reporting on the environmental and social performance of the activities performed under the ERPD. Costa Rica will also report on the UNFCCC Cancun safeguards for REDD+ (Dec.1/CP16) through its National Communications, based on a Safeguards Information System (SIS).

68. Safeguards application for the retroactive period. The ESMF and other safeguards instruments apply to all activities related to the implementation of the measures included in the Emission Reduction Program during its implementation period (2018-2025). The instruments are applicable not only to the period after the signature of the ERPA, but also to the retroactive period (2018-2019). Information on compliance with the safeguards in the retroactive period will be systematized by FONAFIFO and SINAC through self-reporting of safeguards, and its compliance will be verified by the World Bank to determine whether retroactive payments should be made under the ERPA once the results monitoring report is available.



69. Indigenous Peoples (OP4.10). The Indigenous population of Costa Rica is estimated at 114,000 people, equivalent to 2.4 percent of the total population. The population is divided into eight distinct peoples: *Bribri, Brunca, Cabécar, Chorotega, Huétar, Maleku, Ngöbe and Téribé or Terraba*. There are 24 legally established Indigenous territories covering 6.7 percent of the national territory, with 91 percent of the Indigenous population concentrated in three cantons. There are non-IPs in all the territories, some with titles that pre-date the 1977 law on IPs. The situation varies greatly: according to the SESA, in *China Kichá*, 97 percent of the territory is occupied by non-indigenous people, whereas the corresponding figure in *Coto Brus* is only 20 percent. OP 4.10 has been applied and an IPPF developed since most Indigenous territories still have significant forest cover and IPs are potential beneficiaries of the National REDD+ Strategy.

70. Involuntary Resettlement (OP 4.12). As part of the draft ESMF, a PF has been prepared for managing the potential restriction of access of local communities to natural resources. Additionally, a RPF has been prepared to address the possible resettlement of private landowners currently living in Natural Protected Areas and in the territories of IPs.

71. Land Tenure and ownership of ERs. Costa Rica carried out a legal analysis of the different types of land tenure in the country and the implications for the ownership of the ERs generated across the country. The analysis recognizes the rights of private landowners to the carbon in their land, establishing an inextricable link between carbon ownership and land tenure. As such, the ability of the GoCR to transfer title of ERs to the FCPF Carbon Fund will be limited to public lands (mainly protected areas), and private lands (including Indigenous territories) under a contractual relationship with FONAFIFO or any government agency which is part of or recognized by the Program Entity, either through the PES program, or through a new instrument under development specifically for REDD+, called CERF.

72. Benefit Sharing. A significant amount of ERPA proceeds is expected to be distributed through the PES program to private landowners and eventually to some Indigenous territories, by adapting and simplifying existing modalities and designing additional ones, such as the CERF mentioned above. In addition, the BSP is expected to support several of SINAC's programs, generating non-monetary benefits to communities living in and around protected areas. The World Bank cleared the BSP advance draft designed as per FCPF guidelines on June 4, 2020. A final BSP is expected to be submitted to the World Bank as a condition of effectiveness of the ERPA.

73. Feedback, Grievance and Redress Mechanism (FGRM). FONAFIFO, in collaboration with the National Comptroller's Office, has designed and piloted a FGRM specific to the National REDD+ Strategy which provides the opportunity to interested stakeholders to raise any concern, grievance, or complaint related to the implementation of the REDD+ Strategy via a specific form available through a diversity of channels and formats (i.e., physical, digital, telephone). The mechanism builds on existing procedures, establishing that all grievances be addressed within 5-15 working days, depending on the case type, from the reception of the form by the Comptroller's Office. In the case of IPs, this mechanism will be supported by the cultural mediators, members of the community who have received training on the different aspects of the National REDD+ Strategy and who act as mediators with national agencies. For information on how to submit complaints to the Program Entity, participants may visit <http://reddcr.go.cr/es/mecanismo-de-informacion-retroalimentacion-e-inconformidades>.

74. Citizen Engagement and Consultation. Costa Rica put a strong emphasis on the participation of IPs and low-income forest users and smallholders during the REDD+ Readiness process, with the aim of



identifying potential risks and ensuring broad community support for the National REDD+ Strategy. FONAFIFO has carried out extensive consultation activities through more than 300 workshops at the national and regional level with IPs, small forest owners, civil society, the private sector and other key stakeholders in order to discuss and validate the National REDD+ Strategy. Through the consultation process with IPs, an agreement was reached to include a chapter in the National REDD+ Strategy (PAM #5. Inclusion of IPs), addressing each of the five issues identified by IPs related to REDD+. The consultation process was finalized in July 2017 with the issuance of the Executive Decree No. 40464-MINAE “Regulation for the Implementation of the National REDD+ Strategy.”

75. Gender. Based on analysis that was done during REDD+ Readiness, Costa Rican women face a number of gender gaps related to recognition, procedures, and distribution of resources in natural resource management that are limiting their participation in initiatives to reduce deforestation and forest degradation. For example, women own fewer and smaller farms, the poverty rates are higher among women producers, women producers have less access to information and receive less technical and extension services support for their farms, and the number of women-owned farms included in PES has been declining in recent years. Within the Benefits Sharing Plan, seed funds were included for the creation of the Inclusive Sustainable Development Fund and the Green Business Fund within the ER Program. An example of an action is the inclusion of a gender approach in the potential prioritization systems for integrated farms and production units that will receive institutional support. This and other identified actions are expected to address priority gender considerations in the forestry sector and establish strategic alliances between different government institutions, NGOs and women’s groups for their implementation.

76. Disclosure. All documents related to the National REDD+ Strategy including the safeguard instruments are publicly available through an ad-hoc website (www.reddcr.go.cr). Initial versions of the SESA, ESMF, RPF, PF, IPPF, National REDD+ Strategy, Implementation Plan, and the BSP, were disclosed on January 09, 2018 through said website and by direct emails to stakeholder representatives. The latest safeguards package and the BSP, cleared by the World Bank, including updated ESMF, RPF, PF and IPPF, were disclosed in July 2020.⁷⁰ The safeguards instruments have also been disclosed at the WBG external site.⁷¹

V. GRIEVANCE REDRESS SERVICES

77. Communities and individuals who believe that they are adversely affected by a World Bank supported project may submit complaints to existing project-level grievance redress mechanisms or the World Bank’s Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the World Bank’s independent Inspection Panel which determines whether harm occurred, or could occur, as a result of World Bank non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought to the World Bank’s attention, and World Bank’s Management has been given an opportunity to respond. For information on

⁷⁰ Safeguards instruments at Program Entity website: <http://reddcr.go.cr/es/centro-de-documentacion/paquete-de-preparacion-para-el-erpa>

⁷¹ Spanish versions of ESMF, IPPF, RPF and PF are available at: <https://projects.bancomundial.org/es/projects-operations/document-detail/P160368>. Spanish version of FGRM is available here: <http://reddcr.go.cr/es/mecanismo-de-informacion-retroalimentacion-e-inconformidades>.



how to submit complaints to the World Bank's corporate GRS, please visit <http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service>.

For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

VI. KEY RISKS

78. The overall risk rating for the ER Program is substantial. The following paragraphs explain the key risks (risk category rated substantial) and outline appropriate mitigation measures.

79. Political and governance (substantial). There is a substantial governance risk of potential policy reversals given the pressure to increase food and timber production because of the reduction in touristic activities as a result of the COVID-19 pandemic. Forest based tourism is worth two percent of the GDP but is now considerably below that number because of the national shutdown. If tourism doesn't return to normal levels soon, conversion of forests for food and timber production for income could occur. This risk is mitigated by Costa Rica's strong political commitment to reducing emissions and conserving forests, which has been reflected in its environmental legislation, sectoral and cross-sectoral goals. Costa Rica confirmed its intention of achieving carbon neutrality and included forests as an important part of the National REDD+ Strategy. The ER Program was also validated by MINAE to show buy in.

80. Macroeconomic (substantial). Costa Rica has been particularly affected by the COVID-19 pandemic. As the effects of the pandemic fade and output gradually recovers, the economy is projected to improve driven mainly by solid economic fundamentals and structural reforms related to OECD accession. Given the large uncertainty related to how long the crisis will last, the adverse effects on growth and trade could worsen. Any fiscal austerity measures and structural reforms made could have impacts for public resources available across the board. Costa Rica's economic and health sector strengths coupled with the Government's able policy making process and the support of the international community are expected to help mitigate some of these risks. The risk of availability of public resources will be partially mitigated by increased revenue from the implementation of government reforms under the recently approved First Fiscal and Decarbonization Management Development Policy Loan (DPL) (P171912), the proposed second Fiscal and Decarbonization Management DPL (P174786), and with access to other multilateral funding, including, potentially, an arrangement with the International Monetary Fund. The World Bank will continue to monitor the macroeconomic performance of the country during project implementation to anticipate any risks arising from fiscal imbalances.

81. Sector Strategies and Policies (substantial). Achieving the PDO depends substantially on the GoCR's securing political will to maintain and implement the sectoral policies that promote green and ecosystem-oriented land use practices. While risk of reversals in sectoral policies are moderate, the risk rating reflects concerns regarding the impact of COVID-19 on resources for implementation, due to the funding of the operation relying on the GoCR's existing budgetary resources funding 90 percent of the budget for the implementation of the REDD+ Strategy's PAMs. To mitigate the risk, the World Bank will monitor the levels of resource allocation during program implementation and will assist the Program Entity in identifying additional sources of financing as needed.

82. Technical Design of ER Program (substantial). The technical design risk is related to: (i) the innovative nature of results-based operations and the high technical complexity of REDD+, which requires a high degree of technical knowledge on carbon accounting and hinges on effectiveness of program



interventions in generating the ER results. To mitigate these risks, external consultants have been used to address methodological issues, and during implementation, the key institutions (FONAFIFO, SINAC, IMN) will internalize the technical knowledge and MRV protocols developed and be able to apply them independently during the ERPA Reporting Periods. In addition, the potential to generate ERs including after considering assumptions on reversal were used to confirm feasibility of the transaction.

83. Institutional Capacity for Implementation and Sustainability (substantial). The success of the Carbon Finance transaction requires effective coordination and institutional capacity. To mitigate risks associated with the current complex institutional arrangement, there are: (i) implementation of Decree No. 40464-MINAE “Regulation for the Implementation of the National REDD+ Strategy”, which provides a framework for assigning roles and responsibilities among the key agencies; and (ii) the implementation of certain PAMs requires establishing a dialogue and coordination with key agencies outside the scope of MINAE, such as the MAG, and the Institute for Rural Development (INDER). Coordination is taking place through inter-agency working groups established under existing agreements between the involved institutions (i.e. coordination agreement between FONAFIFO and INDER, and cooperation agreement between MAG and MINAE). The World Bank will also closely monitor inter-institutional coordination during implementation to ensure the cooperation mechanisms mentioned above are being applied. In addition, a portion of the ERPA proceeds is expected to be used to enhance the implementation and supervision capacity of FONAFIFO for the CERFs and of SINAC for the programs in conservation areas.

84. Fiduciary (substantial). From the FM side, the main risks are: (i) FUNBAM’s limited FM arrangements, (ii) FUNBAM’s lack of prior experience implementing World Bank-financed projects; (iii) complex implementation arrangements of the BSP which may cause delays in the BSP implementation; and (iv) lack of an operational manual to operate the BSP. The mitigation measures to ensure adequate performance of FM functions and to be met prior to the first ER payment⁷², include: (i) hiring an FM expert/accounting and treasury analyst; (ii) setting up an accounting system with adequate internal controls; (iii) adopting an operational manual for the BSP satisfactory to the World Bank which will include an FM section; (iv) establishing a subsidiary agreement between MINAE and FUNBAM detailing roles and responsibilities including related to funds administration; and (iv) hiring the external auditor within the first six months after ERPA’s effectiveness.

85. Other – COVID-19 Pandemic (substantial). The pandemic is expected to lead to the deepest global recession in decades. Despite fiscal consolidation efforts and the 2018 fiscal reform and revenue mobilization measures in Costa Rica, a larger recession will add significant spending pressures and undermine revenue mobilization capacity. This could lower the GoCR’s capacity to invest and the financing gap to implement the PAMs could be higher than expected. To mitigate the risk, the GoCR has included additional Call Option volume for up to 5 million ERs, which could represent a potential additional income of at least US\$25 million beyond the contract volume. This could cover any unexpected gap higher than the current estimate (US\$10 million).

⁷² A Subsidiary Agreement between MINAE and FUNBAM will be signed, as a Condition of Effectiveness, to set out responsibilities of FUNBAM related to the financial oversight over the receipt and forwarding of Periodic Payments. To strengthen FUNBAM’s financial oversight functions, FM staff will be provided by FONAFIFO via a Memorandum of Understanding between FONAFIFO and FUNBAM which will be signed prior to the first periodic payment.



VII. RESULTS FRAMEWORK AND MONITORING

COUNTRY: Republic of Costa Rica

REDD+ Emission Reductions Program of Costa Rica (P160368)

Project Development Objective

The objective of the Emission Reductions Program (ER Program) is to make payments to the Program Entity for measured, reported and verified Emission Reductions (ERs) related to reduced deforestation and forest degradation, the enhancement of forest carbon stocks (REDD+) at the national level in Costa Rica, and distribution of ER payments in accordance with agreed Benefit Sharing Plan (BSP).

Project Development Objective Indicators

Indicator Name	DLI	Baseline	End Target (Unit)
Volume of CO ₂ Emissions Reductions that have been measured and reported by the Program Entity, verified by a Third Party, and transferred to the FCPF Carbon Fund. (tCO ₂ e)		0	12 million
Payment by the FCPF Carbon Fund for CO ₂ Emission Reductions generated by the ER Program. (US\$)		0	60 million
Emission Reductions payments distributed in accordance with agreed Benefit Sharing Plan and arrangements. (Yes/No)		No	Yes



Monitoring & Evaluation Plan: PDO Indicators

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Volume of CO ₂ Emissions Reductions that have been measured and reported by the Program Entity, verified by a Third Party, and transferred to the FCPF Carbon Fund.	The indicator measures the volume (i.e., ERs) expected from the transaction. It is conditioned on the existence and operation of a national forest monitoring system (MRV) to measure and report the ERs generated by the ER Program. All ERs generated by the ER Program during each Reporting Period are subject to verification by an independent reviewer contracted by the World Bank in consultation with the Program Entity. Transfer of ERs require the set-up of a registry capable of receiving, holding and transferring ERs to the Carbon Fund.	Biannual	ER Monitoring Report	ER Monitoring Report Third Party Verification	MINAE/FONAFIF O/SINAC Unit: tCO ₂ e
Payment by the FCPF Carbon Fund for CO ₂ Emission Reductions generated by the ER Program.	The indicator measures the financial value aspect of the transaction based on the pricing approach agreed between the Program Entity and the Carbon Fund. It is conditioned on the establishment of adequate financial management arrangements for the transfer of the funds from the World Bank to the Program Entity.	Biannual	ER Monitoring Report	Review of Designated Accounts	MINAE/FONAFIF O/SINAC Unit: US\$ paid in accordance to BSP
Emission Reductions payments distributed in accordance with agreed Benefit Sharing Plan and arrangements	The indicator seeks to capture the development aspects of the transaction. As per the General Conditions of the ERPA, ERPA payments must be distributed based on a Benefit Sharing Plan that has been deemed acceptable to the World Bank. ER Monitoring Reports will have to provide evidence satisfactory to the World Bank that the benefits have been shared in accordance with the Benefit Sharing Plan.	Biannual	ER Monitoring Report	Review of Progress Reports and spotchecks	MINAE/FONAFIF O/SINAC Unit: US\$ paid in accordance to BSP



ANNEX 1: Implementation Arrangements and Support Plan

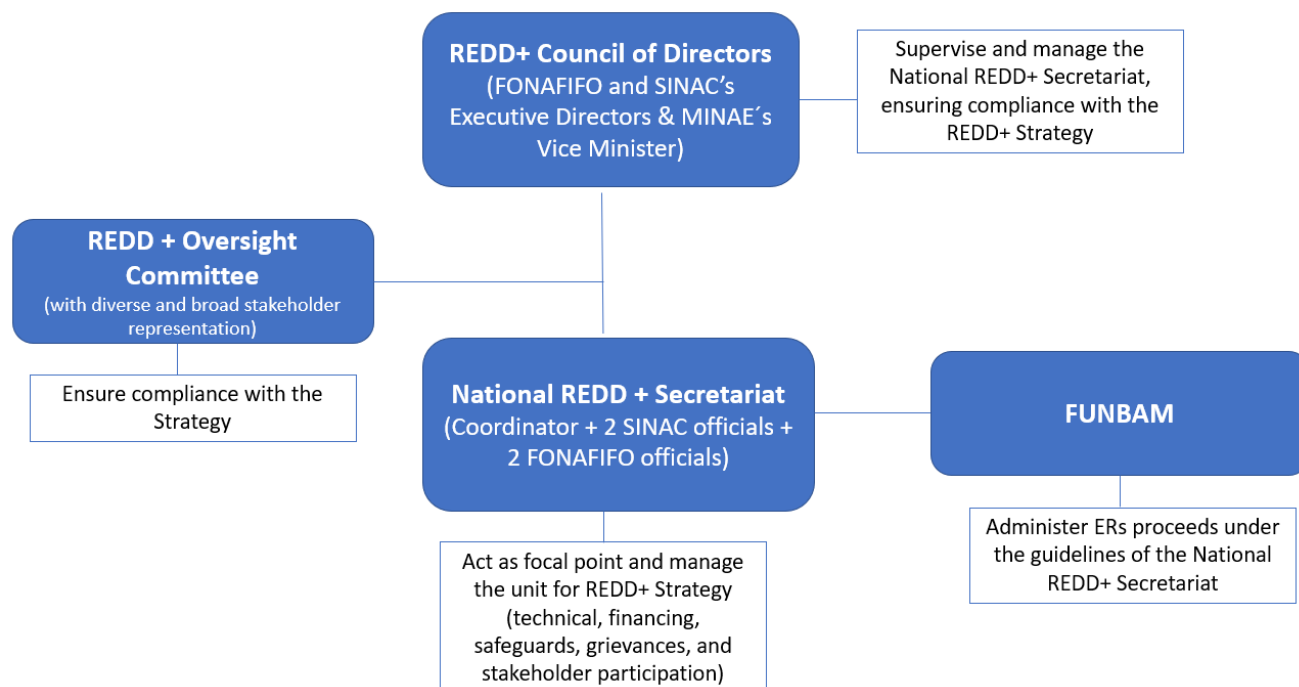
Republic of Costa Rica

REDD+ Emission Reductions Program of Costa Rica (P160368)

ER Program Institutional Arrangements

1. **The World Bank, as the Trustee of the FCPF Carbon Fund, will sign the ERPA with MINAE** representing the Republic of Costa Rica.
2. **Executive Decree No. 40464-MINAE published on July 2017 stipulated the establishment of the National REDD+ Secretariat**, composed of two staff members from FONAFIFO and two from SINAC, and a National Coordinator. The functions of the Secretariat are to: (i) coordinate the fulfillment of the different phases of the National REDD+ Strategy; (ii) ensure compliance with the safeguards established for the REDD+ Strategy; (iii) establish and manage specific agreements with state and private entities; (iv) develop and submit progress and performance reports, summon the assemblies for the appointment of the members of the Oversight Committee; and (v) supervise the financial resources management processes, produced by the REDD+ Strategy, and assures the attention to complaints and their response.
3. **A REDD+ Council of Directors was also established to provide oversight of and political guidance to the National REDD+ Secretariat**, composed of the Executive Directors of FONAFIFO and SINAC, and the Vice Minister for Environment. The Environmental Bank Foundation (*Fundación Banco Ambiental*, FUNBAM) was designated as the entity to receive and administer REDD+ results-based payments. See Figure 1.

Figure 1: ER Program Institutional Arrangements





4. **Implementation Arrangements for the ER Program Measures.** FONAFIFO and SINAC are the entities responsible for the administrative and FM of the ER Program, with the support of the National REDD+ Secretariat, on behalf of the Program Entity, MINAE. FONAFIFO and SINAC will have under their responsibility the implementation of policy actions as per Table 1 below.

Table 1. ER Program Implementation Roles

Institution	Responsibilities related to the ER Program
Ministry of Environment and Energy (MINAE)	<ul style="list-style-type: none"> ○ National entity in charge of the country's environmental policy. ○ Governing body of FONAFIFO and SINAC.
National REDD+ Secretariat through National Fund for Forest Financing (FONAFIFO) and National System of Conservation Areas (SINAC)	<ul style="list-style-type: none"> ○ Responsible for the coordination, implementation, and supervision of the ER Program. ○ Responsible for coordinating the elaboration of ER monitoring reports, performance reports, and safeguard reports for the ER Program. ○ Responsible for the supervision of ER Program safeguard policies, including the ESMF and its reports. ○ Responsible for approving the Resource Execution Plan (to be submitted by the Indigenous territories) for the ERs generated under the PES Program (FONAFIFO) and under the National System of Conservation Areas (SINAC). ○ Coordinate compliance with the various phases of the REDD+ Strategy. ○ Ensure compliance with the safeguards established for the REDD+ Strategy. ○ Establish and manage specific agreements with state entities, as well as private entities or companies. ○ Submit relevant reports to the different entities. ○ Submit quarterly progress and performance reports of the REDD+ Strategy to the REDD+ Council of Directors. ○ Convene the different assemblies for the appointment of members of the REDD+ Oversight Committee.
Specific to FONAFIFO	<ul style="list-style-type: none"> ○ Responsible for obtaining financing and managing the Costa Rica's PES program.
Specific to SINAC	<ul style="list-style-type: none"> ○ Responsible for generating and maintaining the land registry of State Natural Heritage, updated for monitoring events. ○ Responsible for ensuring the control and protection of Protected Wildlife Areas. ○ Responsible for ensuring the control of illegal felling of wood from private forests. ○ Responsible for ensuring comprehensive fire management. ○ Responsible for creating the National Forest Inventory. ○ Responsible for implementing actions to maintain citizen engagement in the protection of natural resources through Natural Resource Surveillance Committees (<i>Comités de Vigilancia de los Recursos Naturales</i>, COVIRENA).



Institution	Responsibilities related to the ER Program
	<ul style="list-style-type: none"> ○ Responsible for including and implementing the chapters on protected wildlife areas and Indigenous territories in the National Forest Development Plan developed after 2020.
REDD+ Oversight Committee	<ul style="list-style-type: none"> ○ Ensure or monitor that different stakeholders comply with the REDD+ Strategy.
National Meteorological Institute (IMN)	<ul style="list-style-type: none"> ○ Responsible for generating activity data for monitoring events according to the methodology established for the National REDD+ Strategy in SIMOCUTE, the Monitoring System of Coverage, Land Use and Ecosystems. ○ Responsible for supporting the Secretariat in preparing the emissions reduction data that will be reported to the UNFCCC in the Biennial Update Report (BUR). ○ Responsible for periodically submitting the Biennial Reports to the UNFCCC.
Environmental Bank Foundation (FUNBAM)	<ul style="list-style-type: none"> ○ Responsible for managing the economic resources of the country for financing the REDD+ Strategy, whether through payment for results or others. ○ Responsible for executing the net payments of the BSP according to the annual plan presented by the National REDD+ Secretariat for each stakeholder linked to the payment for results.
Other State institutions that own ERs	<ul style="list-style-type: none"> ○ Institutions without any role in the ER Program implementation.
Beneficiaries of privately-owned and Indigenous-owned forest lands	<ul style="list-style-type: none"> ○ Program stakeholders that will participate in the generation of ERs as a result of actions carried out on their properties throughout the country.

ERPA Proceeds Administration: The Role of FUNBAM

5. **MINAE will be the Program Entity to sign the ERPA with the World Bank.** The Republic of Costa Rica conferred authorization to the Minister of MINAE, through the Executive Decree 35669 MINAE Organic Regulations of the MINAE, Article 7 of the Ministry's Dispatch, to legally represent the country.

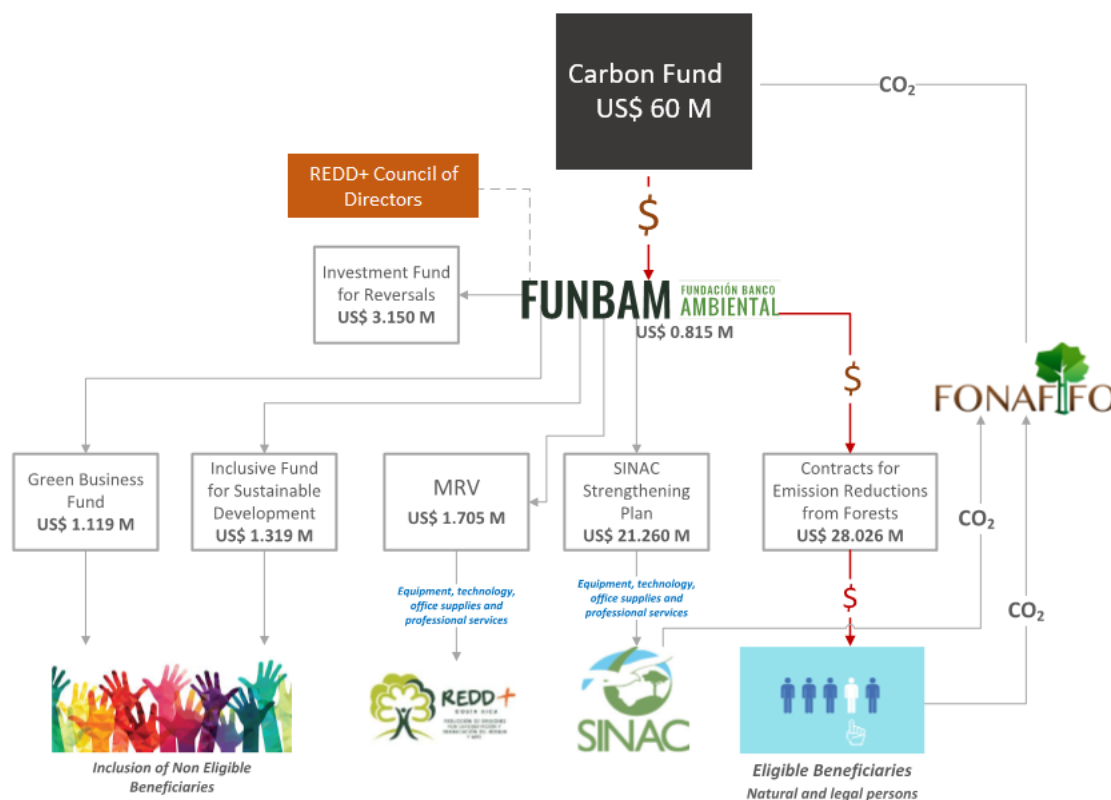
6. **ERPA proceeds will be received and administered by FUNBAM.** MINAE shall enter a subsidiary legal agreement with FUNBAM satisfactory to the World Bank and referenced in the ERPA, to determine roles and responsibilities of both agencies. It is also to be ensured that FUNBAM has dedicated and specialized staff in project, procurement, financial, and contract management to effectively administer the ERPA proceeds. MINAE must demonstrate to the World Bank, prior to the first ER transfer, that actions related to fiduciary aspects have been complied with, and adequate arrangements are in place. MINAE, as the representative of the Program Entity, will be the sole entity responsible for the tasks related to World Bank reporting and supervision related to the ERPA. The Program Entity will first monitor and report on the implementation of the BSP six months after receipt of the first Periodic Payment and annually thereafter.

7. **FUNBAM was created by Law No. 8640 of 2008** with the objective to support Costa Rica in conserving biodiversity and ensuring the long-term sustainability of its PES program through, among other things, administering the Fund for Sustainable Biodiversity (*Fondo de Biodiversidad Sostenible*, FBS) created



under the “Mainstreaming Market-Based Instruments for Environmental Management” Project (P093384) with support from the World Bank and the Global Environment Facility. The Administrative Board of FUNBAM consists of five members: The Minister or a representative of the MINAE; the Minister or a representative of the MAG; the Director or a representative of FONAFIFO; the Director or a representative of SINAC; and a representative of the National Bank of Costa Rica as the Trustee of the FBS.

Figure 2. ERPA BSP Arrangements



8. **When a payment under the ERPA is due (i.e., after successful verification of results), the World Bank (as trustee of the Carbon Fund) will receive a Transfer Form from MINAE, as the Program Entity, requesting such payments to be deposited into the Operational Account in US dollars, under conditions acceptable to the World Bank. FUNBAM will receive and administer the funds related to the ERPA and will disburse them to Sub-Project Entities in accordance with the BSP. To avoid a potential conflict of interest with MINAE, as the Program Entity, the REDD+ Council of Directors, established under Article 7 of the REDD+ Decree, and comprised of the Executive Directors of SINAC, FONAFIFO, and the Vice Minister of Environment, will instruct FUNBAM on the amount of funds to be transferred to each Sub-Project Entity following receipt of ERPA proceeds. FUNBAM will in turn execute such payments according to the instructions that have been issued.**

9. **Environmental and Social Safeguards.** The National REDD+ Secretariat will have the responsibilities of directing, monitoring, as well as coordinating with other institutions the continuous application, according to national regulations, of socio-environmental management instruments and compliance with the provisions of environmental and social operational policies of the World Bank. It will guarantee the execution and attention of the Information, Feedback and Non-Conformity Mechanism, and the respective reports on monitoring, reporting and verification, among others. The safeguards unit will be responsible for the implementation and monitoring of the ESMF. SINAC will be responsible for carrying out compliance with the



triggered safeguards policies, Environmental Assessment OP/BP 4.01, Natural Habitats OP/BP 4.04, Forests OP/BP 4.36, Pest Management OP 4.09, Physical Cultural Resources OP/BP 4.11, Indigenous Peoples OP/BP 4.10 and Involuntary Resettlement OP/BP 4.12.

10. **Monitoring and Evaluation.** FONAFIFO will be the coordinating agency for conducting monitoring events and will work closely with the National Center for Geo-environmental Information (CENIGA). To ensure that this work is conducted appropriately, FONAFIFO will establish a technical group of experts, based on the group of experts that participated in the technical assessment of Costa Rica's FRL under the UNFCCC. This group is composed of the National Meteorology Institute, FONAFIFO, SINAC, CENIGA and other agencies, as necessary. ERs will be monitored through the measurement, collection, compilation and recording of all relevant data and parameters necessary for estimating ERs generated within the ER Program Accounting Area, in accordance with a monitoring plan and in compliance with the Carbon Fund Methodological Framework. The ER monitoring plan will be aligned with the National Forest Monitoring System, once the latter one is finalized. In 2015, Costa Rica initiated an inter-institutional process to design a monitoring system that would cover all land uses and land use changes at the national level. This process was mandated by Ministerial Guideline [DM-417-2015](#). CENIGA was appointed as the leading institution to develop this system, and 20+ other institutions and academic organizations participated as well. A beta version of the monitoring system has been completed and is currently being discussed within MINAE. Once the system is operational, Costa Rica will develop a strategy to streamline MRV processes, while the MRV protocol and provisions for the Carbon Fund will not be affected.

Implementation Support Plan

11. **The World Bank has been supporting Costa Rica's REDD+ efforts since 2012 through a US\$3.6 million Recipient-Executed REDD+ preparation support grant** (FCPF Readiness Preparation Proposal Project, P123702; TF012692), as well as a US\$650,000 Bank-Executed grant specifically for the preparation of the ER Program (TF013758). An additional US\$5 million funding grant for REDD+ Readiness was approved on June 20, 2016 (TF0A2303) and is expected to close on December 31, 2020.

12. **The implementation support strategy for the ER Program will focus on the functions and activities typically monitored by World Bank during supervision.** These will include monitoring of technical activities, management arrangements, stakeholder engagement, and compliance with the recent safeguards approach endorsed for ER Programs. Special attention will be directed to methodological aspects of carbon accounting to ensure that the ER Program complies with the Methodological Framework. The World Bank team will include technical specialists with expertise in a range of areas, drawn from within the institution. Technical specialists with highly technical expertise may be recruited externally, as necessary.

13. **The Program Entity, i.e., MINAE through FONAFIFO and SINAC, has long-standing experience working with the World Bank.** Particular attention during implementation will be given to ensure adequate inter-institutional coordination with key subprogram entities (i.e., SINAC and others, as needed) and other institutions outside of MINAE that have a key role in the implementation of certain ER Program PAMs, particularly those with significant safeguards aspects (i.e., Institute for Rural Development).

14. **Supervision efforts will be higher at the beginning of the ER Program to ensure all conditions of effectiveness are met in a timely manner** and that the first MRV event occurs with no delay. Missions will focus on supervising the proper operation of the safeguards, benefit sharing and MRV systems. The Implementation Support Strategy will be revisited regularly, considering implementation progress and continuous risk assessment.



15. **FM supervision.** Prior to the first ER transaction, the World Bank's Financial Management Specialist (FMS) will carry out a supervision (including virtual missions) to follow up on the implementation of recommendations to ensure FM arrangements are deemed acceptable for the administration of the ER payments. The FMS will review the semiannual financial reports and the annual audit reports. At least annual FM supervisions may be carried out to verify that the payment system arrangements described in the assessment continues to be acceptable to the World Bank. In case of lack of physical access to project facilities once implementation begins, virtual missions will be conducted using information technology (IT) tools.

16. **Implementation support will be provided by a US\$650,000 lifetime allocation World Bank-Executed grant from the FCPF to the task team.** Third party monitoring of safeguards implementation and independent verification of results will be funded by the FCPF in addition to the supervision budget. The main areas of expected implementation support and the required skills are summarized in Table 2. Implementation support is expected to be greater during the first 12 months of implementation. Implementation support missions will be twice a year, although support provided remotely by the task team will remain in place for the time being due to the pandemic. Table 4 lists the partners that will support the implementation support effort through related initiatives.

Table 2. Focal Areas of Implementation Support Activities

<i>Time</i>	<i>Focus</i>	<i>Skills Needed</i>	<i>Resource Estimate</i>
Year 1	<ul style="list-style-type: none"> Effectiveness conditions Preparation for first MRV event BSP arrangements Safeguards Action Plan Institutional arrangements Program Implementation progress 	<ul style="list-style-type: none"> Project planning and management Safeguards Legal aspects Carbon finance 	<ul style="list-style-type: none"> 2 implementation support missions Remote support from World Bank Washington D. C. (HQ) office
Years 2-3	<ul style="list-style-type: none"> Program Implementation progress Safeguards compliance Monitoring and Reporting 	<ul style="list-style-type: none"> Project planning and management Safeguards Carbon finance 	<ul style="list-style-type: none"> 2 implementation support missions Remote support from HQ office Independent Review Third Party Monitoring
Years 4-5	<ul style="list-style-type: none"> Program Implementation progress Safeguards compliance Monitoring and Reporting 	<ul style="list-style-type: none"> Project planning and management Safeguards Carbon finance 	<ul style="list-style-type: none"> 2 implementation support missions Remote support from HQ office Independent Review Third Party Monitoring

Table 3. Required Skills

<i>Skills Needed</i>	<i>Number of Staff Weeks</i>	<i>Number of Trips</i>
Task Team Leader	<ul style="list-style-type: none"> 12 weeks per year (Year 1) 8 weeks per year (Year 2 onwards) 	<ul style="list-style-type: none"> 3 in Year 1 2 in Year 2 onwards
Social Specialist	<ul style="list-style-type: none"> 6 weeks per year (Year 1) 4 weeks per year (Year 2 onwards) 	<ul style="list-style-type: none"> 3 in Year 1 2 in Year 2 onwards
Environmental Specialist	<ul style="list-style-type: none"> 6 weeks per year (Year 1) 4 weeks per year (Year 2 onwards) 	<ul style="list-style-type: none"> 3 in Year 1 2 in Year 2 onwards
Carbon Finance Specialist	<ul style="list-style-type: none"> 6 weeks per year (Year 1) 4 weeks per year (Year 2 onwards) 	<ul style="list-style-type: none"> 3 in Year 1 2 in Year 2 onwards



<i>Skills Needed</i>	<i>Number of Staff Weeks</i>	<i>Number of Trips</i>
Legal Specialist	• 2 weeks per year	• 1 per year
Procurement Specialist	n/a	n/a
FMS	<ul style="list-style-type: none"> • 6 weeks per year (Year 1) • 4 weeks per year (Year 2 onwards) 	<ul style="list-style-type: none"> • 2 in year 1 • 1 in year 2 onwards
Operations Specialist	• 1 week per year	• 1 week per year

Table 4. Partners

<i>Name</i>	<i>Institution</i>	<i>Role</i>
United Nations Environment Programme	UNEP	Safeguards, Investment Plans
Food and Agriculture Organization	FAO	National Forest Monitoring System
The United States Forest Service	USFS	National Forest Monitoring System
Deutsche Gesellschaft für Internationale Zusammenarbeit Regional REDD+ Program	GIZ/Regional	National Forest Monitoring System
United States Agency for International Development Regional REDD+ Program	USAID/Regional	Support for stakeholder engagement



ANNEX 2: Carbon Finance and FCPF Processing Steps

Republic of Costa Rica

REDD+ Emission Reductions Program of Costa Rica (P160368)

- 1. A Carbon Finance Transaction refers to the commercial transaction involving delivery of and payment for greenhouse gas (GHG) emission reductions (ERs) between a project entity and the World Bank** as Trustee of carbon funds. The World Bank manages a range of carbon funds and facilities representing different profiles and segments of the carbon market. These funds are managed by the World Bank as Trustee for the fund participants. The funds purchase ERs on behalf of the fund participants, i.e., public and private entities that have committed their monies to the funds. The ERs are generated by projects and programs mitigating GHG emissions in the developing countries or in countries with economies in transition, and project entities are paid for delivery of those ERs. The ERs can be used by fund participants for compliance with obligations under the Kyoto Protocol or with other regulated or voluntary ER commitments. A Carbon Finance Transaction is typically part of a larger underlying investment. These projects may or may not have underlying WBG financing. The WBG encourages Carbon Finance Transactions to be generated from WBG financed projects.
- 2. The FCPF is a global partnership of countries, business and civil society** with the objective to help build the capacity in International Bank for Reconstruction and Development (IBRD) and International Development Association member countries in the tropics to reduce emissions from deforestation and forest degradation, forest carbon stock conservation, the sustainable management of forests, and the enhancement of forest carbon stocks (commonly referred to as REDD+). It was announced at the 13th Conference of the Parties (COP) to the UNFCCC in Bali in December 2007 and became operational in June 2008. The World Bank is the Facility's Trustee as well as one of its Delivery Partners. It also houses the FCPF FMT that is responsible for the operation of the Facility. The FCPF currently comprises 46 partner developing countries (17 in Latin America and the Caribbean, 18 in Africa, and 11 in the Asia-Pacific Region) and 17 financial contributors from both the public and private sectors.
- 3. The Carbon Fund supports performance-based payments for REDD+ interventions at the territorial level in countries that have made significant progress in their REDD+ Readiness.**⁷³ Such payments are made based on the level of reduction of carbon emissions generated through REDD+ interventions. The Carbon Fund's payments are intended to provide an incentive to the recipient countries and the various stakeholders—including forest-dependent IPs, other forest dwellers or the private sector—within each of these countries, to achieve long-term sustainability in financing forest conservation and management programs.
- 4. The Carbon Fund remunerates the selected countries in accordance with negotiated contracts, called Emission Reductions Payment Agreements (ERPA), for verifiably reducing emissions** more than in a reference scenario. The ERPA is a legal document in which the Seller (e.g., a REDD+ country) and the Buyer (the FCPF Carbon Fund) agree on the commercial terms (e.g., volume, price, conditions of effectiveness, options, advance payments, etc.) of the sale and payment for ERs to be generated and verified under an ER Program. All commercial terms in the ERPA are negotiable.

⁷³ This includes adopting national REDD+ strategies; developing FRLs; designing measurement, reporting, and verification (MRV) systems; and setting up REDD+ national management arrangements, including proper environmental and social safeguards.

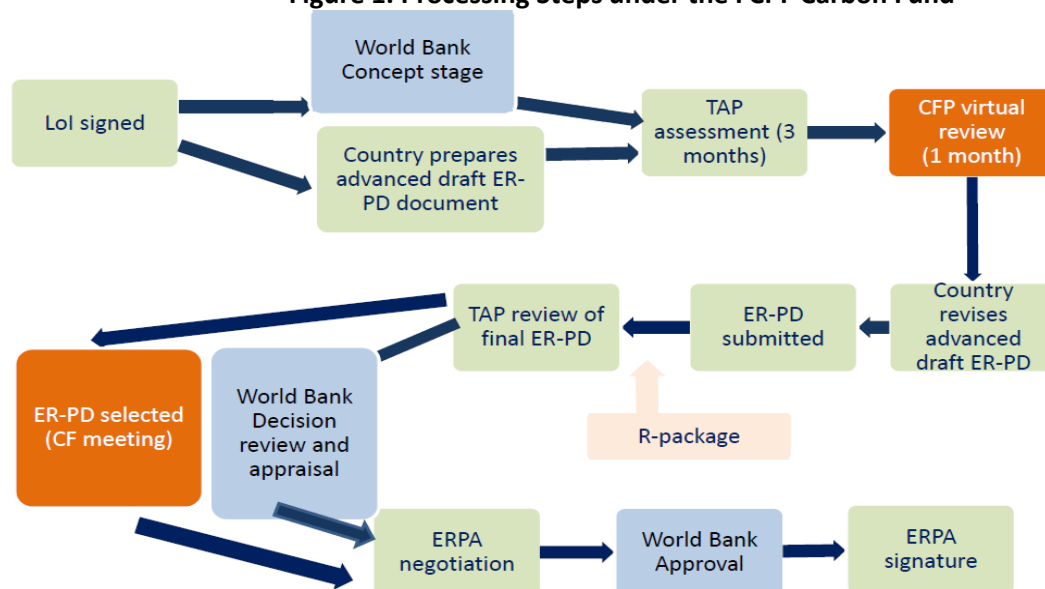


5. **Whereas the ERPA covers the commercial terms of the transaction that are negotiable on a case-by-case basis, the ERPA General Conditions (GCs) represent the legal underpinning of the ERPA**, providing for a set of (non-negotiable) general rules and procedures that apply to each transaction. Such rules and procedures cover, among others, issues related to the sale, transfer and payment for verified ERs, the allocation of responsibilities in terms of ER Program development, ER Program Registration, ER Monitoring and ER Verification, ER Program/Sub-Project implementation and operation, application of World Bank Operational Policies (including environmental and social safeguards policies), benefits and benefit sharing principles, Reversals, Reversal Management Mechanisms, ER Program Buffer, transfer of Title to ERs, Events of Default and related remedies, governing law and dispute settlement. The GCs were approved by the FCPF Participants Committee (PC) at its 18th meeting on November 1, 2014, and are available on the FCPF website.

6. **Finalizing the ERPA.** Once the Seller has finalized its ERPD (assessed by a TAP), has submitted its ERPD to the Carbon Fund, and the Carbon Fund has decided to select the ER Program into its ER Program portfolio, the Seller and the Buyer start negotiating the commercial terms of an ERPA. Once such ERPA negotiations are finalized and an ERPA is signed, the GCs are incorporated into the ERPA by way of reference and, thereby, form an integral part of the ERPA itself. The term of an ERPA is expected to last at least five years, possibly more, but is subject to when an ERPA is signed. In any case, it will not go beyond the lifetime of the Carbon Fund which closes on December 31, 2025.

7. **World Bank processing steps are incorporated in the business process of the Carbon Fund** as follows: following signature of a Letter of Intent (LOI) by the Country Director, a concept review takes place in parallel to ERPD development. Following ERPD selection by the CFP, a decision meeting takes place authorizing appraisal and negotiations (in principle). After completion of negotiations and following approval by the World Bank (at Regional Vice President level), the ERPA is signed by the Country Director. ERPAs are not approved by the World Bank Board of Directors.

Figure 1. Processing Steps under the FCPF Carbon Fund





ANNEX 3: Costa Rica's Milestones under the FCPF

Republic of Costa Rica

REDD+ Emission Reductions Program of Costa Rica (P160368)

1. **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 US\$200,000 (P123702 - TF094486) in order to initiate 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\$8 million, supported by several donors in addition to the FCPF, including the GoCR's own contribution.
2. **Following a due diligence process by the World Bank as the Delivery Partner, the GoCR signed a Supplementary Readiness Preparation Grant Agreement in July 2012, in the amount of US\$3.6 million** (P123702 - TF012692). The objective of the Preparation Grant which closed in September 2015 was to assist Costa Rica in carrying out its Readiness Preparation Activities as described in its R-PP. The FCPF PC approved additional funding for REDD+ Readiness up to US\$5 million during its 17th meeting in July 2014, after Costa Rica's presentation of a Mid-Term Progress Report (MTR) and request for additional funding. The Third Grant for Readiness Preparation of US\$5.58 million (P123702 - TF0A2303, including an undisbursed balance of \$0.58 million under the previous supplementary grant) became effective in June 2016.
3. **Shortly after submitting its revised R-PP, the GoCR expressed its interest in participating as a pilot country in the Carbon Fund and submitted an Emission Reductions Program Idea Note (ER-PIN)** during the 5th Meeting of the CFP, in September 2012. After addressing the key issues raised by the CFP, Costa Rica became the first country to include its ER-PIN in the Carbon Fund pipeline through a LOI signed with the World Bank on September 10, 2013 (extended in November 2015), for which it obtained a (Bank-executed) preparation grant in the amount of US\$650,000. 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.
4. **In November 2015, Costa Rica became the second FCPF country to have its Readiness Package (R-Package) endorsed** by the FCPF PC during its 20th meeting in San Jose, Costa Rica, thus providing the foundation for a future ERPA with the Carbon Fund. At the same time, Costa Rica became the first FCPF country to submit an advance draft ERPD and to complete a review by the FCPF's TAP and subsequently by the CFP. The revised ERPD was presented and approved during the 14th Meeting of the CFP in Paris, France, on June 2016, conditional to the inclusion of forest degradation in the carbon accounting of the ER Program. Consequently, the GoCR revised its ERPD and submitted a final draft in July 2017, which included forest degradation. Costa Rica's ER Program was ultimately included in the Carbon Fund portfolio on a no-objection basis on December 30, 2017.
5. **For more information.** The complete documentation related to Costa Rica's progress under the FCPF can be found at: <https://www.forestcarbonpartnership.org/costa-rica>.



ANNEX 4: Summary of Drivers of Deforestation and Forest Degradation

Republic of Costa Rica REDD+ Emission Reductions Program of Costa Rica (P160368)

1. Deforestation and reforestation were assessed for the 1987-2013 period at the national and sub-national scale in Costa Rica, based on the land use maps used for the construction of the FRL.⁷⁴ Overall, forest cover in Costa Rica shows a clear recovery trend. Between 1997 and 2008, Costa Rica started gaining more forests than it lost. During this period, net deforestation gradually fell and net regeneration increased consistently towards 2013 (Figure 1).

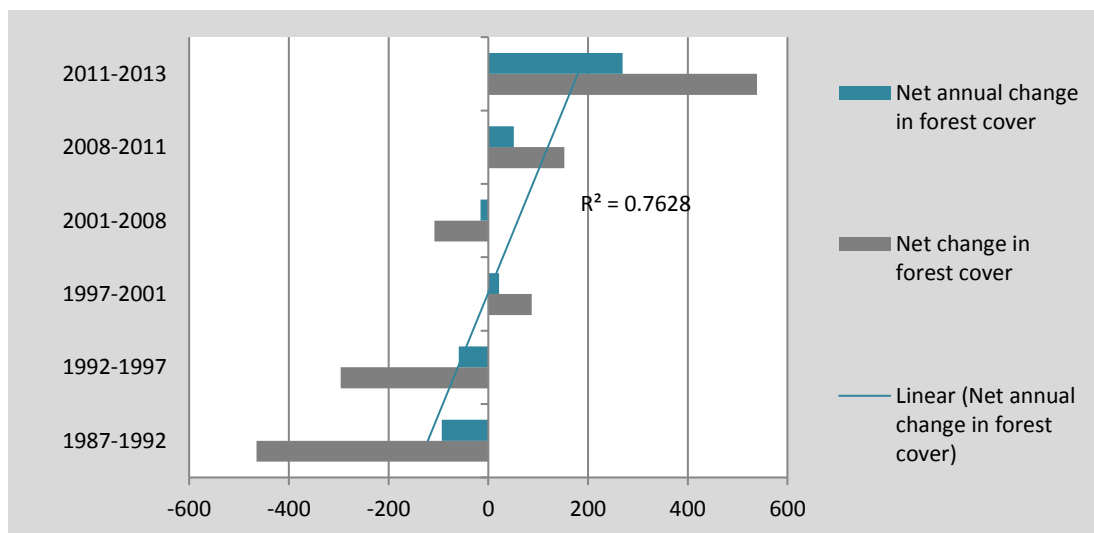


Figure 1. Forest Cover Change in 1987-2013 (km²)⁷⁵

2. Annual gross deforestation fell from 550 km²yr⁻¹ in the 1986-91 period to 300 km²yr⁻¹ in the 2011-13 period, i.e., a 45 percent reduction in annual forest loss. Conversely, forest regeneration presents a recovery trend, especially after the 1998-2000 period (Figure 2). In the 1986-91 period, secondary forest and tree plantations covered 417,000 ha, while in the 2011-13 period, their area increased to 918,000 ha.

⁷⁴ Carbon Decisions International, 2015.d. Patterns and factors of change in the natural forest cover of Costa Rica, 1987-2013. Report prepared for the Government of Costa Rica under the Carbon Fund of the Forest Carbon Partnership Facility (FCPF). 57 p.

⁷⁵ Emission Reductions Program Document (ERPD).

https://www.forestcarbonpartnership.org/system/files/documents/Costa%20Rica%20ERPDP_English_December%202015.pdf (p. 27).

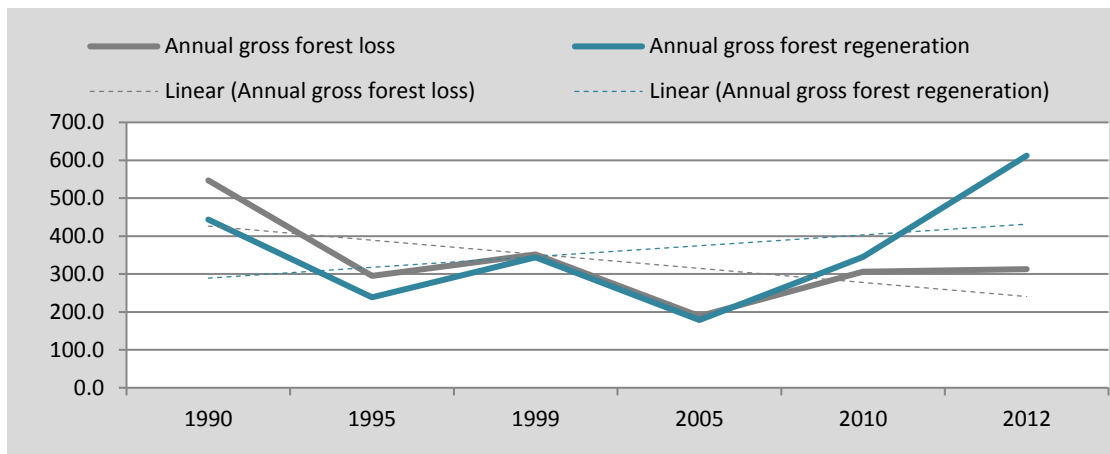


Figure 2. Forest Loss and Regeneration in 1987-2013 (km²)⁷⁶
(Note: Historical series divided in six sub-periods)

3. Seventy percent of deforested areas during this period were used as grasslands (Figure 3). Crop production was established on 20 percent of deforested areas. These crops were sold in the domestic market (i.e., rice, beans, oil palm) or exported (i.e., pineapple, banana, oil palm).

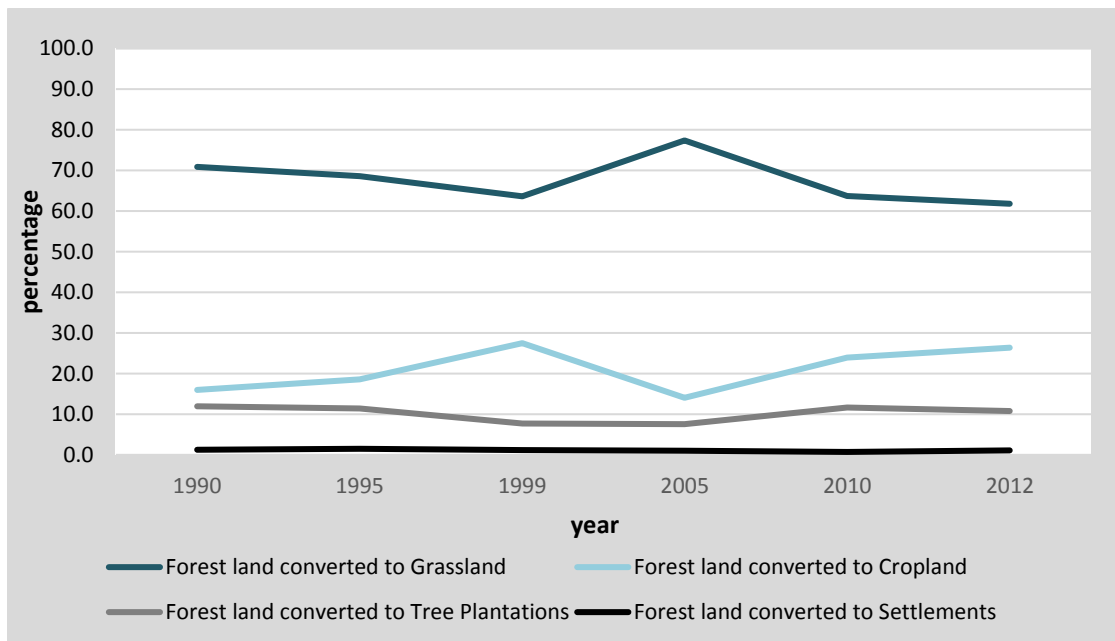


Figure 3. Forest Land Conversion in 1986-2013 (percentage)⁷⁷

⁷⁶ Ibid (p. 28).

⁷⁷ Ibid (p. 28).



4. Ten percent of the areas were regenerated after conversion. The great majority of land converted to forests was previously grassland, followed by cropland (Figure 4).

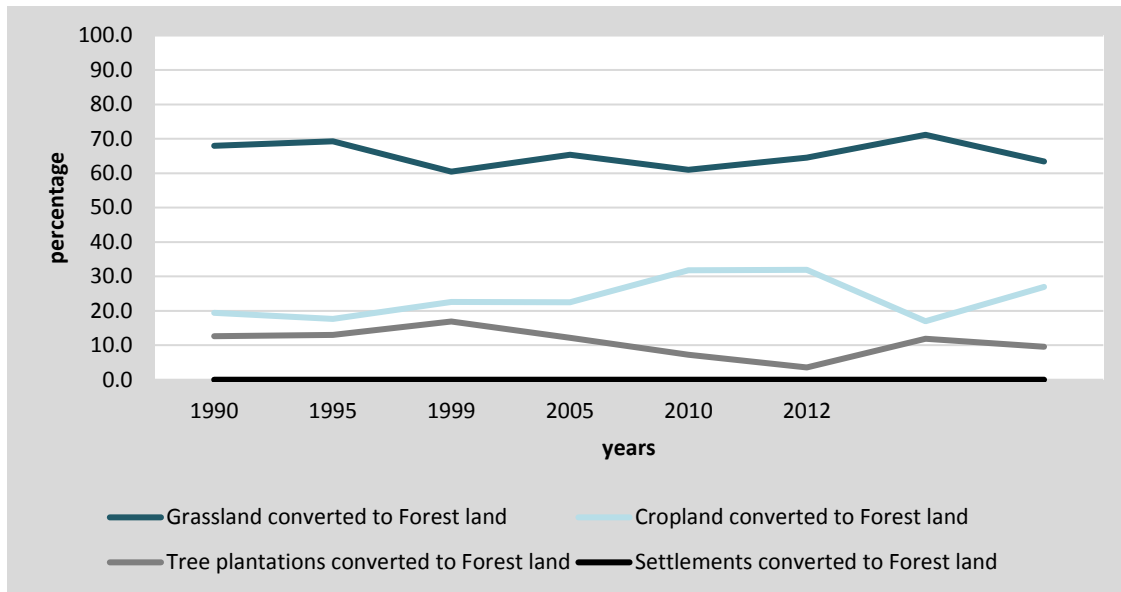


Figure 4. Land Converted to Forest Land in 1986-2013 (percentage)⁷⁸

5. Land tenure regime is an important factor driving land use change. Namely, deforestation is higher in private forests (*tierras privadas*) and much lesser in protected areas (*Parques Nacionales y Reservas Biológicas*). It could be argued that lands with fewer restrictions by law are more prone to land use change (Figure 5).

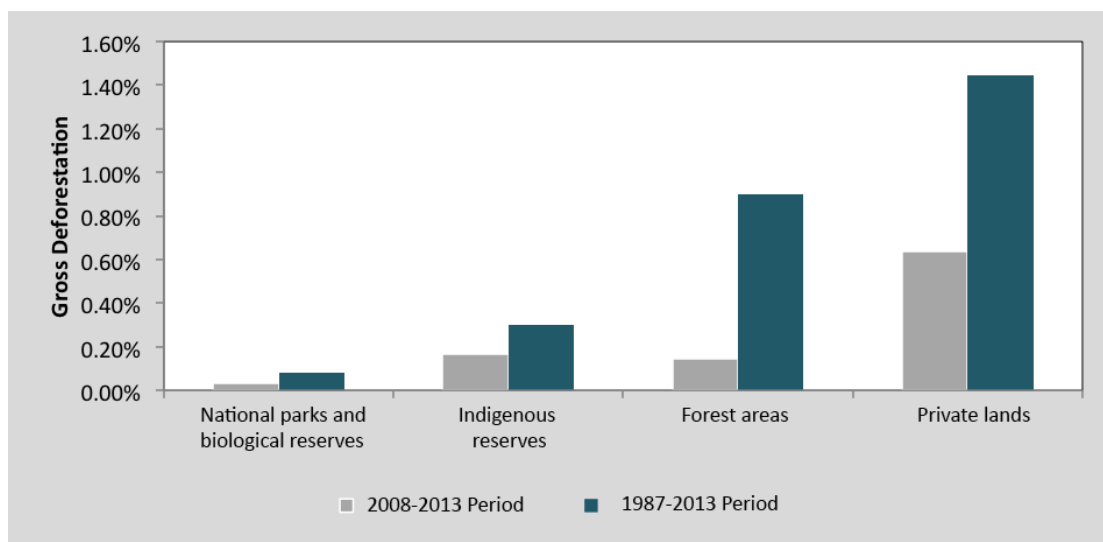


Figure 5. Gross Deforestation (percentage) by Land Tenure Regime for 1987-2013 and 2008-2013⁷⁹

⁷⁸ Ibid (p. 29).

⁷⁹ Ibid (p.37).



6. Forest age is also an important factor driving deforestation in all land tenure regimes (Figure 6). The highest deforestation rates are found in younger forests (<10 years). Conversely, lower deforestation rates are found in older forests. This suggests that people prefer to conserve older forests and that deforestation agents are influenced by legal and economic incentives to clear younger forests.

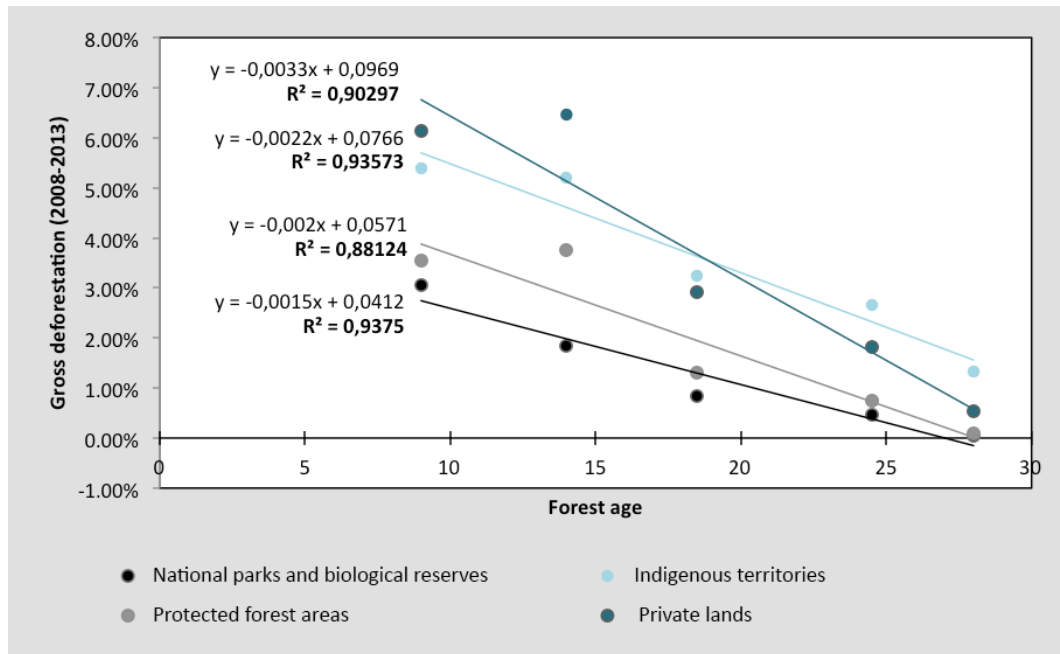


Figure 6. Gross Deforestation by Forest Age⁸⁰

7. Table 1 below shows a summary of the key underlying drivers of deforestation and forest degradation, based on participatory workshops carried out at the regional level. The most important factors driving deforestation are related to the competitiveness of agricultural activities. These factors show that deforestation is mainly an economic phenomenon, in which the decision to change land use from forest to other uses is driven by the opportunity costs of alternate land uses. Markets and commodity prices (e.g., for housing, agricultural crops, etc.) greatly influence the behavior of deforestation agents and therefore the outcome as they increase the profitability of alternative land uses, as do accessibility and through infrastructure development. On the other hand, programs such as PES, act by increasing the relative profitability of forests.

⁸⁰ Ibid (p. 38).



Table 1. Key Underlying Factors Driving Deforestation and Forest Regeneration⁸¹

Indirect factors	Score	Relative contribution
Prices of key agricultural crops	39	24%
Tourism (employment, land value)	15	9%
Urban markets growth and increase of urban demand for derived products	14	8%
Proximity and access to the central valley (control, land price)	13	8%
Changes in employment structure (to urban and tourism)	12	7%
Productive transformation towards agribusiness systems (productive intensification)	12	7%
Increased demand for cattle products	10	6%
Rural-urban migration	9	5%
Foreign labor force, rural labor force availability	7	4%
Inappropriate ecological context for cattle	6	4%
Fall of livestock density capacity	5	3%
Fall of livestock density capacity in regions neighboring traditional livestock areas	5	3%
Indigenous productive systems	5	3%
Foreign labor force availability in services sector	4	2%
Land cost increase in neighboring regions	4	2%
Forest <i>moratorium</i>	3	2%
Land cost increase (in other economic activities)	2	1%
<i>Total</i>	165	100%

⁸¹ Ibid (p. 42-43).



ANNEX 5: Description, Cost and Expected Financing of ER Program Policies, Actions and Measures⁸²

**Republic of Costa Rica
REDD+ Emission Reductions Program of Costa Rica (P160368)**

Policy	Action	NUM PDI- EN	Measure (PAMs)	Incremental Funding WITH REDD+ Resources by Source (US\$)			
				Budget 2018- 2024	FCPF Preparation	Carbon Fund (ER Program/CR)	Unfunded
2. Strengthen SINAC's programs on Protected Areas, forests and fire control	2.1 Strengthen fire prevention and control	2.1.1	Encouraging the creation and implementation of campaigns for the prevention of forest fires	230,420	-	230,420	-
		2.1.2	Monitoring and fostering voluntary forest fire brigades	145,587	-	145,587	-
		2.1.3	Strengthening the Forest Fire Control Program	1,762,700	100,000	1,389,336	273,364
	2.2. Strengthen SINAC controls over changes in land use	2.2.1	Strengthening the Illegal Logging Control Program	4,544,945	-	3,544,945	1,000,000
		2.2.2	Reactivation of COVIRENA, pro bono environmental inspectors and others.	50,000	50,000	-	-
3. Incentives for conservation and sustainable forest management	3.1. Extend coverage and flexibility of economic incentives for conservation,	3.1.1	Establishment of financial mechanisms to foster Forest Management	1,764,000	-	1,764,000	-
		3.1.2	Expansion and improvement of financial mechanisms to strengthen natural reforestation (excludes IT)	2,226,000	-	2,226,000	-

⁸² Of the 47 policies, activities and measures (PAM) that make up the Implementation Plan of the National REDD+ Strategy, a group of them meet the following criteria to be financed by the ERPA proceeds: (i) They are executed by the two entities that lead the Costa Rica National REDD+ Secretariat, namely SINAC and FONAFIFO, per Executive Decree N.40464-MINAE. These two institutions have the responsibility for coordinating and executing different phases of the REDD+ Strategy; (ii) PAMs which are directly associated with the reduction of emissions from the forest sector in the short term (duration of the ERPA) and are related to affordable commitments that the country can pay for and will result in emission reductions sale in a short period of time (5-7 years).

Source: Ministry of the Environment and Energy. (2018). *Estrategia Nacional REDD+ Costa Rica*. San José, Costa Rica.

https://redd.unfccc.int/uploads/4863_1_fon_estrategia_red_cr_lr.pdf



The World Bank

REDD+ Emission Reductions Program of Costa Rica (P160368)

Policy	Action	NUM PDI- EN	Measure (PAMs)	Incremental Funding WITH REDD+ Resources by Source (US\$)			
				Budget 2018- 2024	FCPF Preparation	Carbon Fund (ER Program/CR)	Unfunded
	regeneration and management.						
		3.2.1	Update Protected Wildlife Areas management plans to enable the development of REDD+ projects	1,157,100	-	-	1,157,100
	3.2. Promote sustainable forest management	3.2.2	Revision and update of Sustainable Forest Management (SFM) indicators and criteria according to forest types in the country.	20,398	20,938	-	-
		3.2.3	Strengthening processing capacity for use of dead wood according to executive decree.	727,503	-	-	727,503
		3.3.1	Promotion of entire value chain of timber and forest products.	525,000	295,000	-	230,000
		3.3.2	Identification system for timber coming from production, utilization and sustainable marketing.	3,329,917	190,000	-	3,139,917
	3.3. Chain of custody for forest products free of deforestation.	3.3.3	Capacity building of oversight entities (State Forestry Administration [<i>Administración Forestal del Estado</i> , AFE] and Association of Agronomists and Foresters [<i>Asociación de Ingenieros Agrónomos</i> , CIAgro] to process, execute and monitor timber harvesting permits.)	75,000	75,000	-	-
	3.4. Creation and implementation of REDD+ Forest Emission Reduction instrument	3.4.1	Creation and implementation of CERF for results-based payments in conservation.	37,170,000	-	37,170,000	-
4. Restoration of forest landscapes and ecosystems	4.1. Reforestation and Restoration of degraded lands	4.1.2	Commercial reforestation in land with potential for degradation	621,565	41,500	-	580,065
5. Engagement of Indigenous Peoples	5.1. Establish PES or ERs specifically for indigenous territories	5.1.1	Creation and implementation of CERFs for results-based payments in conservation in indigenous territories.	12,600,000	-	10,600,000	2,000,000
		5.1.2	Better income for indigenous PES, information and communication in territories, publication	468,363	-	-	468,363



The World Bank

REDD+ Emission Reductions Program of Costa Rica (P160368)

Policy	Action	NUM PDI- EN	Measure (PAMs)	Incremental Funding WITH REDD+ Resources by Source (US\$)			
				Budget 2018- 2024	FCPF Preparation	Carbon Fund (ER Program/CR)	Unfunded
			of Indigenous PES Decree and payment of incentives in REDD+				
		6.1.1	Strengthening of national mechanisms to manage the REDD+ program	751,368	751,368	-	-
		6.1.2	Use of social outreach and participatory consultation in preparation for REDD+	279,000	279,000	-	-
		6.1.3	Preparation of REDD+ Strategy	558,764	558,764	-	-
				889,542	889,542	-	-
6. Enabling conditions		6.1.4	Development of forest and land use monitoring system, and information on safeguards	131,000	131,000	-	-
				198,000	198,000	-	-
			Support of the State Natural Heritage land inventory beyond the control of MINAE and ABRE areas, land tenure, corresponding records and cadaster, and foster usage.	992,993	80,500	-	912,493
		6.1.5		77,637	-	-	77,637
				55,964	-	-	55,964
		6.1.6	Management of REDD+ instruments (CERF and others)	2,929,712	-	2,929,712	
			Total	74,283,018	3,660,612	60,000,000	10,622,406



ANNEX 6: Expected Volume of Emission Reductions

Republic of Costa Rica REDD+ Emission Reductions Program of Costa Rica (P160368)

1. The ER Program's FRL represents the benchmark against which the results of the ER Program will be measured, in tCO₂e/year, and is illustrated in Table 1. It was calculated as the average net annual historical emissions/removals from three REDD+ activities at the national level during the 1998-2011⁸³ period. The ER Program FRL is 4,133,087 tCO₂e/year, including annual emissions of 6 million tCO₂e from deforestation, 2.5 million tCO₂e from forest degradation, and annual removals of -4.4 million tCO₂e from the enhancement of forest carbon stocks in primary and secondary forests. Although the ER Program was designed to cover all five REDD+ activities, high quality data on emissions and removals from conservation and the sustainable management of forests were lacking, so these will only be included in subsequent calculations.

Table 1. ER Program FRL (tCO₂e/year)

Year	Land Use Change		Primary forests in forest land remaining forest land (proxy)		Total net emissions
	Emissions from deforestation	Enhancements in secondary forests (reforestation)	Gross emissions from forest degradation	Gross removals from forest enhancements	
1998	10,912,392	-3,466,027	3,307,460	-788,012	9,965,812
1999	11,145,614	-3,738,067	3,307,460	-788,012	9,926,995
2000	11,371,840	-4,012,154	3,307,460	-788,012	9,879,133
2001	4,262,744	-4,465,800	3,307,460	-788,012	2,316,391
2002	4,391,076	-4,439,321	3,307,460	-788,012	2,471,203
2003	4,515,469	-4,417,697	3,307,460	-788,012	2,617,220
2004	4,636,051	-4,400,625	3,307,460	-788,012	2,754,874
2005	4,752,939	-4,386,338	3,307,460	-788,012	2,886,048
2006	4,866,244	-4,374,810	3,307,460	-788,012	3,010,882
2007	4,976,074	-4,366,064	3,307,460	-788,012	3,129,458
2008	4,241,490	-4,656,939	3,307,460	-788,012	2,103,998
2009	4,412,306	-4,741,258	3,307,460	-788,012	2,190,495
2010	4,578,047	-4,827,948	3,307,460	-788,012	2,269,546
2011	4,738,841	-4,917,121	3,307,460	-788,012	2,341,168
TOTAL for 1998-2011	83,801,126	-61,210,170	46,304,436	-11,032,168	57,863,224
Average for 1998-2011	5,985,795	-4,372,155	3,307,460	-788,012	4,133,087

2. The expected volume of ERs to be generated during 2012-2025 is approximately 76,634,376 tCO₂e, based on the observed effectiveness of Costa Rica in reducing emissions against the FRL during the 2014-2015 period, which generated a total of 6,086,057 tCO₂e of ERs per year. However, given that the ERPA term is expected to start in 2018, ERs generated during the 2012-2017 period would be considered

⁸³ The Reference Period for forest degradation was temporarily set for 2005-2011 based on data availability. The GoCR has committed to aligning it with the ER Program Reference Period prior to ERPA signature.



early actions, available for payment under alternative mechanisms (e.g., Green Climate Fund, voluntary carbon markets, etc.). The ERPA Term reporting is expected to cover the 2018-2024 period. 2025 would be excluded from the accounting because it would be needed for generating and verifying ER Monitoring Reports. The total Volume of ERs during the 2018-2024 period is expected to amount to 42,602,399 tCO₂e. Table 2 shows that Costa Rica expects to be able to transfer to the Carbon Fund a total of 23,431,319 tCO₂e, (based on 55 percent proportion of the forest with ER title transfer), which, after being discounted for the risk of reversals (13 percent), would result in a total of Contract ERs of 20,385,247.9 tCO₂e, and a total of 3,046,071.5 tCO₂e as Buffer ERs (Table 2). Increasing the amount of Contract ERs will depend on Costa Rica's ability to achieve a higher effectiveness rate in reducing deforestation against the established baseline, and its ability to secure title transfer from a greater percentage of the country's land area.

Table 2. Volume of Emission Reductions transferable to the Carbon Fund

	Year	Reference level	Total Emission Reductions (ERs) (55%)	Uncertainty Buffer ERs (0%)	ERs net of Uncertainty	ER with Ability to Transfer Title (55%)	<u>Reversal Buffer/yr in ERPA period (13%)</u>	Contract ERs
Early Actions	2012	4,133,087	1,644,780	0	1,644,780	904,629	117,602	787,027
	2013	4,133,087	1,956,912	0	1,956,912	1,076,302	139,919	936,382
	2014	4,133,087	6,177,971	0	6,177,971	3,397,884	441,725	2,956,159
	2015	4,133,087	5,994,143	0	5,994,143	3,296,779	428,581	2,868,197
	2016	4,133,087	6,086,057	0	6,086,057	3,347,331	435,153	2,912,178
	2017	4,133,087	6,086,057	0	6,086,057	3,347,331	435,153	2,912,178
1 st Reporting Period	2018	4,133,087	6,086,057	0	6,086,057	3,347,331	435,153	2,912,178
	2019	4,133,087	6,086,057	0	6,086,057	3,347,331	435,153	2,912,178
2 nd Reporting Period	2020	4,133,087	6,086,057	0	6,086,057	3,347,331	435,153	2,912,178
	2021	4,133,087	6,086,057	0	6,086,057	3,347,331	435,153	2,912,178
3 rd Reporting Period	2022	4,133,087	6,086,057	0	6,086,057	3,347,331	435,153	2,912,178
	2023	4,133,087	6,086,057	0	6,086,057	3,347,331	435,153	2,912,178
	2024	4,133,087	6,086,057	0	6,086,057	3,347,331	435,153	2,912,178
n/a	2025	4,133,087	0	0	0	0		0
Total REDD+ Strategy		4,133,087	76,634,376	0	76,634,376	42,148,907		42,148,907
ERPA term (2018-2025)		4,133,087	42,602,399	0	42,602,399.0	23,431,319.5	3,046,071.5	20,385,247.9



ANNEX 7: Costa Rican National REDD+ Strategy Policies, Actions and Measures (PAMs)

Republic of Costa Rica REDD+ Emission Reductions Program of Costa Rica (P160368)

Table 1. Policies and Actions of the Costa Rica National REDD+ Strategy

Policies and Actions	Strategy to address Drivers
Policy #1: Expand low carbon agriculture systems	
Action 1.1 Expand silvopasture and agroforestry systems	Forest smart interventions outside forest areas to reduce the impact of land uses with higher opportunity costs.
Action 1.2 Strengthen Ministry of Agriculture and Livestock (<i>Ministerio de Agricultura y Ganadería</i> , MAG) and SINAC’s extension services	
Action 1.3 Promote deforestation-free supply chains	
Policy #2: Strengthen SINAC’s programs on Protected Areas, forest and fire control	
Action 2.1 Strengthen fire prevention and control	Strengthening of institutions and governance to ensure forest law enforcement and monitoring.
Action 2.2 Strengthen monitoring of illegal logging and deforestation	
Action 2.3 Strengthen the National Protected Areas system	
Policy #3: Incentives for conservation and sustainable forest management	
Action 3.1 Promote incentives for management and regeneration of secondary forests (PES)	Sustainable forestry activities to increase the value of standing forests and the incentives of economic agents to conserve them.
Action 3.2 Promote sustainable forest management activities	
Action 3.3 Reduce illegal sources of timber in value chains	
Action 3.4 Promote incentives for forest conservation (PES and Contract for Emission Reductions from Forests [CERF])	
Policy #4: Restoration of forest landscapes and ecosystems	
Action 4.1 Reforestation and restoration of degraded areas	
Action 4.2 Conservation and restoration of forest ecosystems in urban areas	
Policy #5: Inclusion of Indigenous Peoples (IPs)	
Action 5.1 Implement specific PES modalities for IPs	Strengthening rights and participation of forest stakeholders to secure broad community support for REDD+ interventions.
Action 5.2 Develop a land tenure regularization strategy for IPs lands	
Action 5.3 Incorporate indigenous concepts and worldviews in forest programs	
Action 5.4 Protected Areas and indigenous territories	
Action 5.5 Participatory monitoring and evaluation	
Policy #6: Enabling conditions	
Action 6.1 Strengthen national management arrangements for REDD+	Strengthening of institutions and governance to ensure forest law enforcement and monitoring.
Action 6.2 Participation, consultation, and social communication in REDD+	
Action 6.3 Preparation of the National REDD+ Strategy	
Action 6.4 Strengthen monitoring systems for forests and safeguards	
Action 6.5 Support the inventory of public lands and lands with irregular tenure	
Action 6.6 Administer CERF	



Table 2. Selected ER Program Measures Supported by the Benefit Sharing Plan

#	Policies, Actions & Measures	ERPA proceeds (US\$)
2	Strengthen SINAC's programs on Protected Areas, forest and fire control	5,310,288
2.1	Strengthen fire prevention and control	1,765,343
2.1.1	Implement forest fire prevention campaigns	230,420
2.1.2	Promote voluntary forest fire brigades	145,587
2.1.3	Strengthen the forest fire control program	1,389,336
2.2	Strengthen monitoring of illegal logging and deforestation	3,544,945
2.2.1	Strengthen the illegal logging detection program	3,544,945
3	Incentives for conservation and sustainable forest management	41,160,000
3.1	Promote incentives for management and regeneration of secondary forests	3,990,000
3.1.1	Promote incentives for sustainable management of secondary forests (PES) in private lands	1,764,000
3.1.2	Promote incentives for natural forest regeneration (PES) in private lands	2,226,000
3.4	Promote incentive for forest conservation (PES and CERF) in private lands	37,170,000
3.4.2	Develop a new modality to promote forest conservation related to REDD+ (CERF) in private lands	37,170,000
5	Inclusion of Indigenous Peoples	10,600,000
5.1	Implement specific PES modalities for Indigenous territories	
5.1.1	Create and apply a new instrument for result-based payments in indigenous territories (CERF)	10,600,000
6	Enabling conditions	2,929,712
6.6	Administration of REDD+ contracts (CERF)	2,929,712
Total		60,000,000



ANNEX 8: Non-Carbon Benefits

Republic of Costa Rica

REDD+ Emission Reductions Program of Costa Rica (P160368)

1. **Costa Rica's National REDD+ Strategy aims to address the drivers of deforestation and forest degradation, improve forest management and conserve forest carbons stocks**, thus contributing to climate change mitigation while achieving multiple other environmental and social non-carbon benefits, consistent with the REDD+ safeguards agreed under the UNFCCC.
2. **Costa Rica's National REDD+ Secretariat, with the support of the UN-REDD+ Program, carried out in 2017 an analysis to evaluate the spatial convergence of multiple non-carbon benefits potentially generated** by the PAMs included in the National REDD+ Strategy.⁸⁴ The result of this analysis was the identification of key areas where each PAM could contribute to generating the benefits prioritized in the Forest Law (Nº 7575,1996), Law of Land Use, Management and Conservation (Nº 7779, 1998), as well as during the consultation process for the preparation of the National REDD+ Strategy. The primary non-carbon benefits identified are the following:
 - a) natural scenic beauty for tourism purposes;
 - b) biodiversity conservation;
 - c) support to communities vulnerable to water stress;
 - d) socio-economic improvement potential;
 - e) soil erosion control; and
 - f) potential for governance improvement.
3. **Measuring non-monetary benefits.** Table 1 identifies non-monetary benefits from the ER Program. Table 2 includes a list of preliminary indicators to measure the generation of these priority co-benefits, based on the availability of data in the short and medium-term. These indicators will be further refined once the PAMs are in place and as new information needs or reporting requirements are identified. These indicators are complementary to the performance indicators for each PAM included in Annex 7, as well as those monitored through the MRV system for reporting on the emission reductions and removals generated by the ER Program.

⁸⁴ García-Rangel, Shaenandhoa; Walcott, Judith; de Lamo, Xavier; Epple, Cordula; Miles; Lera; Kapos, Valerie; UN Environment World Conservation Monitoring Centre. (2017). Beneficios Múltiples De REDD+ en Costa Rica: Análisis Espaciales para apoyar la Toma de Decisiones. Costa Rica: ONU-REDD+. https://www.researchgate.net/publication/322697821_Beneficios_multiples_de_REDD_en_Costa_Rica_analisis_espaciales_para_apoyar_la_toma_de_decisiones



Table 1. Non-Monetary Benefits from the ER Program of Costa Rica

Policies, Actions and Measures	Non-Monetary Benefits:	
	Forest Governance	Environmental and Social
Policy 2: Strengthen Protected Wildlife Areas and programs for prevention and control of changes in land use and fires.		
2.1 Strengthen the Forest Fire Control Program 2.1.1. Encouraging the creation and implementation of campaigns for the prevention of forest fires. 2.1.2. Monitoring and fostering voluntary forest fire brigades. 2.1.3. Strengthening the Forest Fire Control Program	i. Awareness-raising among the civil society on issues of forest fire prevention. ii. Strengthening institutional capacities to fight forest fires, illegal logging and changes in land use. <ul style="list-style-type: none"> • Training staff to adequately respond to forest fires. • More voluntary fire brigades to improve forest fire monitoring. • New forest fire control equipment and supplies. • New forest fire control technologies and training. 	i. Maintenance of the provision of ecosystem services ii. Reduction of vulnerability to water stress and climate change. iii. Biodiversity maintenance iv. Control of soil and water erosion. v. Prevention of health problems in humans and animals, linked to smoke from fires. vi. Reduction of negative effects in bio- geo-chemical cycles dependent on soil biota.
2.2. Strengthen SINAC controls over changes in land use 2.2.1. Strengthening the Illegal Logging Control Program 2.2.2. Reactivation of COVIRENA, pro bono environmental inspectors and others.	i. Improved forest governance <ul style="list-style-type: none"> • Decreasing the percentage of annual volume of illegally processed wood; ii. Strengthening institutional capacities to fight forest fires, illegal logging and changes in land use. <ul style="list-style-type: none"> • Training for personnel in charge of controlling illegal logging and changes in land use. • Reactivation of COVIRENA, pro bono environmental inspectors. 	i. Maintenance of the provision of ecosystem services ii. Reduction of vulnerability to water stress and climate change. iii. Biodiversity maintenance iv. Control of soil and water erosion.
Policy 3: Incentives for forest conservation and sustainable forest management		
3.1. Extending coverage and flexibility of economic incentives for conservation, regeneration and management. 3.1.1. Establishment of financial mechanisms to foster forest management 3.1.2. Expansion and improvement of financial mechanisms to strengthen natural reforestation	i. Financial mechanisms established to promote sustainable forest management of secondary and primary forests. ii. Expansion and improvement of financial mechanisms to favor natural regeneration in private lands. iii. Improvement of sustainable forest management for the timber industry	i. Maintenance of the provision of ecosystem services ii. Reduction of vulnerability to water stress and climate change. iii. Biodiversity maintenance iv. Control of soil and water erosion. v. Improvement of the socioeconomic conditions of forest owners.



Policies, Actions and Measures	Non-Monetary Benefits:	
	Forest Governance	Environmental and Social
(excludes IT)		
<p>3.2. Promote sustainable forest management</p> <p>3.2.1. Updating protected wildlife areas management plans to enable the development of REDD+ projects.</p> <p>3.2.2. Revision and update of SFM indicators and criteria according to forest types in the country.</p> <p>3.2.3. Strengthening processing capacity for use of dead wood according to executive decree.</p>	<p>i. Improvement of sustainable forest management for the timber industry</p> <ul style="list-style-type: none"> • New regional standards for SFM published in the Decree, including the revision and update of management indicators and criteria by type of forest in the country; • Small producers and farmers using dead wood from forests in view of greater legal applications to use timber; • Training activities for stakeholder organizations; <p>ii. Improved forest governance</p> <ul style="list-style-type: none"> • Collegial bodies and participatory decision-making processes for sustainable forest management; • Duly trained personnel at SINAC, MINAE and CIAgro to strengthen the role of Regional Environmental Councils (<i>Consejos Regionales Ambientales</i>, CRA), Regional Councils of Conservation Areas (<i>Consejos Regionales de Áreas de Conservación</i>, CORAC) and Local Councils of Conservation Areas (<i>Consejos Locales de Áreas Conservación</i>, COLAC) in SFM strategies. 	
<p>3.3. Chain of custody for forest products free of deforestation.</p> <p>3.3.1. Promotion of entire value chain of timber and forest products.</p> <p>3.3.2. Identification system for timber coming from production, utilization and sustainable marketing.</p> <p>3.3.3. Capacity building of oversight entities (AFE</p>	<p>i. Improved forest governance</p> <ul style="list-style-type: none"> • Agreements signed among relevant stakeholders to promote conservation and sustainable forest operations; • Chain of custody promoted for key forest products; • Ongoing implementation of the timber forensic identification system; 	



Policies, Actions and Measures	Non-Monetary Benefits:	
	Forest Governance	Environmental and Social
and CIAgro) to process, execute and monitor timber harvesting permits.	<ul style="list-style-type: none"> Audit entities (AFE and CIAgro) with greater capacity to process, execute and monitor timber extraction; 	
Policy 4: Landscape and forest ecosystem restoration.		
4.1. Restoration and reforestation of degraded land 4.1.2. Commercial reforestation in land with potential for degradation		i. Ecosystem restoration ii. Recovery of ecosystem services iii. Reduction of vulnerability to water stress and climate change. iv. Recovery of biodiversity. v. Control of soil and water erosion. vi. Improvement of the socioeconomic conditions of forest owners.
Policy 5: Engagement of Indigenous Peoples		
5.1. Establish PES or ERs specifically for Indigenous territories 5.1.1. Creation and implementation of CERF for results-based payments in conservation of Indigenous territories. 5.1.2. Better income for indigenous PES, information and communication in territories, publication of Indigenous PES Decree and payment of incentives in REDD+	i. Design and implementation of a new results-based payment instrument for indigenous territories - CERF; ii. The current PES is adapted to increase access to intellectual property; iii. IPs concepts and worldviews related to forests are recognized in the implementation of the ER Program and the BSP; iv. Indigenous territories included in the ER Program; v. IPs are involved in the monitoring and evaluation of the ER Program.	vi. Improvement of the socioeconomic conditions of forest owners.



Table 2. Proposed Non-Carbon Benefit Indicators for the ER Program of Costa Rica

Non-Carbon Benefit	Proposed indicator	Potential sources of information	Other uses for the indicator
Natural scenic beauty for tourism purposes	Number of hectares under REDD+ activities in districts with areas of importance for tourism as defined by the Costa Rican Tourism Board (<i>Instituto Costarricense de Turismo</i> , ICT)	<ul style="list-style-type: none"> • PES and REDD+ projects Registry (FONAFIFO) • Spatial information on ICT demand floors 	<ul style="list-style-type: none"> • Bonn Challenge⁸⁵ • Landscape Restoration Strategy • National Forest Development Plan
	Change in forest cover (hectares) in districts with areas of importance for tourism as defined by the ICT	<ul style="list-style-type: none"> • Forest cover map (Agresta et al., 2015 and/or National Forest Inventory) • Spatial information from ICT 	<ul style="list-style-type: none"> • Bonn Challenge • Landscape Restoration Strategy • National Forest Development Plan
Biodiversity Conservation	Number of hectares under REDD+ activities in biological corridors	<ul style="list-style-type: none"> • PES and REDD+ projects Registry (FONAFIFO) • Biological corridor maps defined by SINAC 	<ul style="list-style-type: none"> • SIS • National Biodiversity Strategy
	Number of hectares under REDD+ activities in sites with high forest vertebrate threatened	<ul style="list-style-type: none"> • PES and REDD+ projects Registry (FONAFIFO) • Wealth of threatened forest vertebrates Map 	<ul style="list-style-type: none"> • SIS • National Biodiversity Strategy
	Number of non-conformities associated with biodiversity issues registered through the Information, Feedback and Non-conformities Mechanism (<i>Mecanismo de Información, Retroalimentación e Inconformidades</i> , MIRI) in localities where REDD+ projects are developed.	<ul style="list-style-type: none"> • PES and REDD+ projects Registry (FONAFIFO) • Consultations Requests received by MIRI. 	<ul style="list-style-type: none"> • SIS • National Biodiversity Policy • National Forest Development Plan
Support to communities vulnerable to water stress	Number of hectares under REDD+ activities in areas vulnerable to water stress	<ul style="list-style-type: none"> • PES and REDD+ projects Registry (FONAFIFO) • Map of communities vulnerable to water stress 	<ul style="list-style-type: none"> • SIS • National Climate Change Strategy

⁸⁵ The Bonn Challenge is a global goal (launched by the Government of Germany and IUCN in 2011) to bring 150 million hectares of degraded and deforested landscapes into restoration by 2020 and 350 million hectares by 2030. <https://www.bonnchallenge.org/>



Non-Carbon Benefit	Proposed indicator	Potential sources of information	Other uses for the indicator
	Change in forest cover (hectares) in areas vulnerable to water stress	<ul style="list-style-type: none"> • Forest cover map (National Forest Inventory) • Map of communities vulnerable to water stress (García-Rangel et al., 2017) 	<ul style="list-style-type: none"> • SIS • National Climate Change Strategy • National Development Plan • Environmental Accounts Project
Potential for socioeconomic improvement	Percentage of REDD+ resources directed to areas with low Social Development Index (less than 40 percent)	<ul style="list-style-type: none"> • Registry of REDD+ (FONAFIFO) projects • Implementation Plan REDD+ (FONAFIFO) • Social Development Index (Ministry of National Planning and Economic Policy [<i>Ministerio de Planificación Nacional y Política Económica</i>, MIDEPLAN]) 	<ul style="list-style-type: none"> • National Development Plan • Sustainable Development Goals
	Rate of change in the Social Development Index in areas where REDD+ projects are developed	<ul style="list-style-type: none"> • Registry of REDD+ (FONAFIFO) projects • Social Development Index (MIDEPLAN) 	<ul style="list-style-type: none"> • National Development Plan • Sustainable Development Goals
Control of soil loss by water erosion	Number of hectares under REDD+ activities in areas at erosion risk	<ul style="list-style-type: none"> • PES and REDD+ projects registry (FONAFIFO) • Soil erosion Control Map 	<ul style="list-style-type: none"> • SIS • National Climate Change Strategy
	Change in forest cover (hectares) in areas at risk of soil erosion	<ul style="list-style-type: none"> • Forest cover map (National Forest Inventory) • Soil erosion Control Map 	<ul style="list-style-type: none"> • SIS • National Development Plan • National Climate Change Strategy
Potential for improving governance	Number of institutions' staff who are responsible for natural resources management that have received training in REDD+	<ul style="list-style-type: none"> • Activity reports or information provided directly by FONAFIFO, MAG, SINAC, Institute for Rural Development, and municipalities. 	<ul style="list-style-type: none"> • SIS • National Development Plan • National Forest Development Plan
	Number of REDD+ trainings for officials (MAG, MINAE, CIAgro) and organizations responsible for the implementation of Nationally Appropriate Mitigation Actions in the agriculture sector	<ul style="list-style-type: none"> • Activities reports or information provided directly by MAG (Livestock Management), MINAE, CIAgro 	<ul style="list-style-type: none"> • Vega-Araya (2016) Outcome indicators for REDD+



ANNEX 9: ER Program Monitoring Plan

Republic of Costa Rica

REDD+ Emission Reductions Program of Costa Rica (P160368)

1. **The ER Monitoring Plan of the ER Program of Costa Rica is based on the data and methods used for the construction of the FRL, as described in its submission to the UNFCCC.**⁸⁶ Costa Rica will implement the same procedures for future monitoring events, subject to continuous improvements and methodological refinements. To ensure consistency, any changes incorporated in the MRV system will be applied to the time series through recalculations. To support the calculation of ERs, FONAFIFO has developed a [carbon accounting tool](#) which contains a list of values and parameters (including their source and associated level of uncertainty) that were used to estimate the FRL. These values will not change during the term of the ERPA and will be used in ER monitoring events. The key parameter to be monitored in each monitoring event consists of the area of land use changes, as illustrated in Table 1. The Monitoring Plan currently only considers land use change activities (deforestation and enhancement of forest carbon stocks from the establishment of secondary forests). Once the methodology for monitoring forest degradation is defined, the ER Monitoring Plan will be updated accordingly.

Table 1. Parameters to be Monitored

Parameter:	Hectares of land use change
Description:	Activity data (AD _{AAAA-AA}) ⁸⁷ of each category represented in the land use change matrixes "CM AAAA-AA" ⁸⁸ of the FRL carbon accounting tool
Data unit:	Hectares
Source of data or measurement/ calculation methods and procedures to be applied during Term of ERPA:	<ul style="list-style-type: none"> Land-cover maps on a biennial basis for the entire accounting area Land Use Change Matrixes ("MC AAAA-AA") every 2 yrs.- FRL tool
Frequency of monitoring/recording:	Every two years
Monitoring equipment:	Satellite Images (Landsat)
Quality Assurance/Quality Control procedures to be applied:	According to the protocol described in Agresta <i>et al.</i> (2015.a) ⁸⁹
Identification of sources of uncertainty for this parameter:	Accuracy assessments of the land-cover maps will be performed as was done for the historical time series. The activity data are the largest source of uncertainty in the reference level and will also be so in the monitoring report. However, it will not be possible to reduce the uncertainty associated with the activity data until a better method becomes available to quantify them.
Process for managing and reducing uncertainty of this parameter:	See above

⁸⁶ Available at: <http://redd.unfccc.int/submissions.html?country=cri>.

⁸⁷ Activity Data (AD) for period of time analyzed (AAAA-AA), e.g., years 2020-21.

⁸⁸ Change Matrix (CM) for period of time analyzed (AAAA-AA), e.g., years 2020-21.

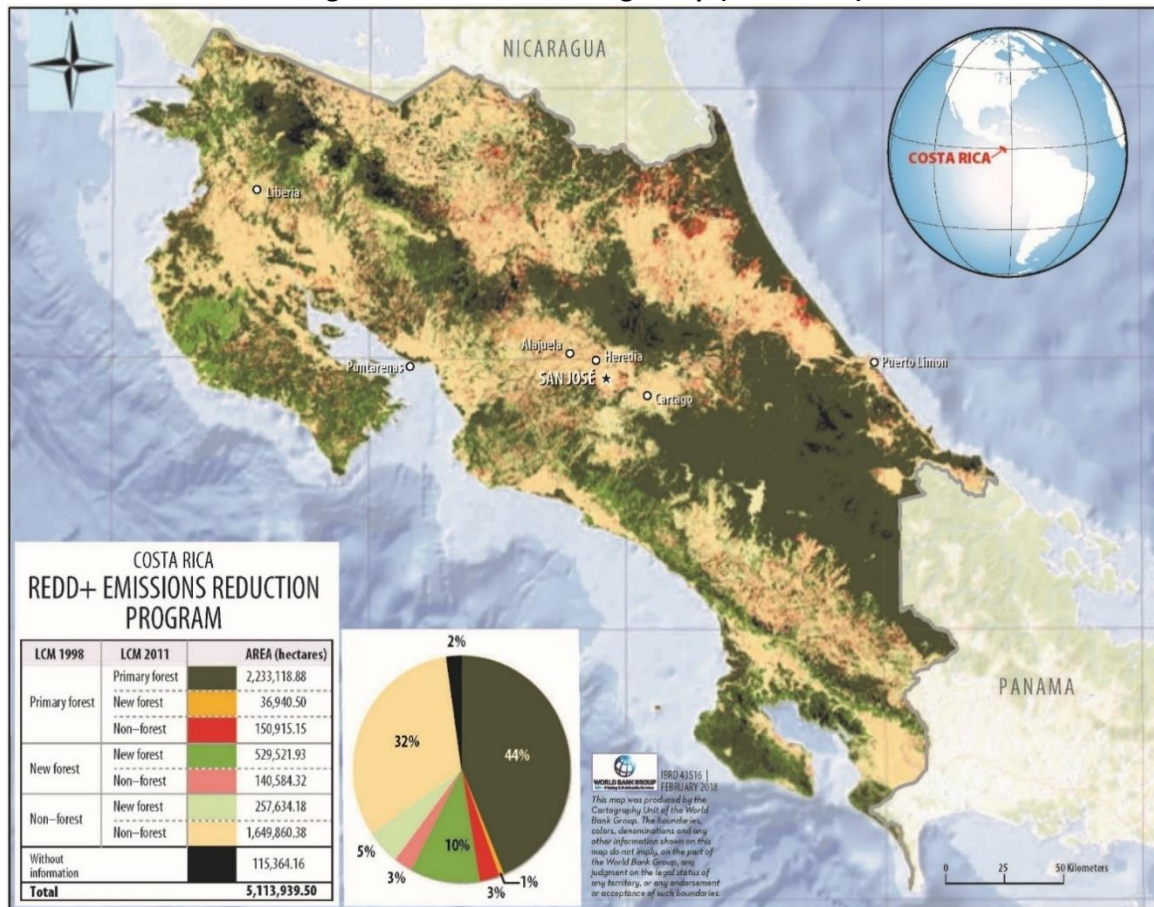
⁸⁹ Agresta, Dimap, Universidad de Costa Rica, Universidad Politécnica de Madrid, 2015.a. Final Report: Generating a consistent historical time series of activity data from land use change for the development of Costa Rica's REDD plus reference level: Methodological Protocol. Report prepared for the Government of Costa Rica under the Carbon Fund of the Forest Carbon Partnership (FCPF). 44 p.



ANNEX 10: ER Program Accounting Area

Republic of Costa Rica REDD+ Emission Reductions Program of Costa Rica (P160368)

Figure 1. Land Cover Change Map (1998-2011)





ANNEX 11: Relevant ER Program Public Documents

Republic of Costa Rica REDD+ Emission Reductions Program of Costa Rica (P160368)

- + [Analysis of the significance of forest degradation](#)
- + [Appraisal-Project Information and Integrated Safeguards Data Sheet](#)
- + [Bank Information Center case study on Costa Rica's REDD+ consultation process with IPs](#)
- + [Benefit Sharing Mechanism - Advance draft](#)
- + [Calculation tool for estimating Emission Reductions from REDD+ activities](#)
- + [Communication and Information Dissemination Strategy](#)
- + [Consultation Plan for the National REDD+ Strategy](#)
- + [COOPEAGRI-ICR-Carbon Sequestration in Small Farms in the Brunca Region](#)
- + [Costa Rica REDD+ webpage](#)
- + [Costa Rica webpage on the FCPF website](#)
- + [Costa Rica's Intended Nationally Determined Contribution \(INDC\)](#)
- + [Data and methods for the construction of the Forest Reference Level](#)
- + [Emission Reductions Program Idea Note \(ER-PIN\)](#)
- + [ESMF Spanish version available of *Marco de Gestion Ambiental y Social, MGAS*](#)
- + [Feedback, Grievance and Redress Mechanism](#)
- + [Final ACICAFOC report on the pre-consultation phase with campesino groups](#)
- + [Final Emission Reduction Program Document \(ERPD\)](#) (April 2017)
- + [Final National REDD+ Strategy](#)
- + [Final SESA Report](#)
- + [Forest Reference Level submission to the UNFCCC](#)
- + [Institutional arrangements for the Implementation Phase \(REDD+ Decree II\)](#)
- + [Institutional arrangements of the Readiness Phase \(REDD+ Decree I\)](#)
- + [Land Tenure Action Plans for Indigenous Peoples communities](#)
- + [Land Tenure analysis](#)
- + [Land Use Change maps 1987-2013](#)
- + [Matrix of risks and opportunities of the REDD+ Strategy](#)
- + [Mid-Term Progress Report \(MTR\) and request for Additional Funding](#)



- + [National Forest Inventory](#)
- + [National Forestry Development Plan 2011-2020](#)
- + [National GHG Inventory](#) and [Biennial Update Report \(BUR\)](#)
- + [Proposal for a Safeguards Information System \(SIS\)](#)
- + [Protocol for monitoring Land use changes used in Costa Rica's Forest Reference Level](#)
- + [Readiness-Package](#) and [independent multi-stakeholder self-evaluation report](#)
- + [Report on the drivers of land use change in Costa Rica 1987-2013](#)
- + [Report on the information phase of the consultation process](#)
- + [Report on the pre-consultation phase of the consultation process](#)
- + [Safeguards instruments cleared for ERPA negotiations](#)
- + [Statistics of the private forest industry sector](#)
- + [Study on a potential campesino PES modality](#)
- + [Study on a potential Indigenous PES modality](#)
- + [TAP review of Costa Rica's final ERPD](#)
- + [TAP review of Costa Rica's R-Package](#)
- + [Technical Report on Costa Rica's REDD+ Forest Reference Level](#)