

**COMBINED PROJECT INFORMATION DOCUMENTS / INTEGRATED
SAFEGUARDS DATA SHEET (PID/ISDS)**

Appraisal Stage

Report No.: 151521

Date Prepared/Updated: 5-August-2020

I. BASIC INFORMATION

A. Basic Project Data

Country:	Costa Rica	Project ID:	P160368
		Parent Project ID:	n/a
Project Name:	Costa Rica REDD+ Emission Reductions Program		
Region:	LATIN AMERICA AND CARIBBEAN		
Estimated Appraisal Date:	7-August-2020	Estimated Approval Date:	30-Sep-2020
Practice Area (Lead):	Environment, Natural Resources and Blue Economy	Financing Instrument:	Carbon Finance
Borrower(s)	Republic of Costa Rica		
Implementing Agency	Ministry of Environment and Energy (MINAE)		
Financing (in USD Million)			
Financing Source			Amount
Borrower			0.00
Carbon Fund			60.00
Financing Gap			0.00
Total Project Cost			60.00
Environmental Category	B-Partial Assessment		
Appraisal Review Decision (from Decision Note)	Proceed with Appraisal		
Other Decision			
Is this a Repeater project?	No		
Is this a Transferred project? (Will not be disclosed)	No		

B. Introduction and Context

Country Context

1. Costa Rica is a small country with ambitious economic, social, and environmental goals. The country covers a land area of 5.1 million hectares, with a population of 4.7 million of which about two-thirds live in urban areas. An upper-middle income-country, with Gross Domestic Product (GDP) per capita of US\$13,876 (current Purchasing Power Parity). On May 15, 2020, Costa Rica was invited to become the Organization for Economic Cooperation and Development's 38th member and the fourth Latin American country. The accession process requires approving and implementing structural reforms in areas that also support medium-term growth prospects (environment, fiscal, health, education, governance, labor and finance).

2. Costa Rica's development model centers on four key pillars: its long-standing democracy, an ambitious Social Compact, an outward-oriented economy, and its celebrated Green Trademark. Costa Rica's development success is an anchor of stability in the region and builds on the country's key strengths, including its trademark natural resource management. Per capita income has 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.

3. Despite these impressive achievements, much remains to be done to urgently address issues such as 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. These risks are symptoms of deeper structural problems in the economy and the public sector. Although the economy is expected to continue to grow at healthy rates, poverty reduction has stagnated, the incomes of the bottom 40 percent are falling behind, and inequality is rising.

4. Costa Rica's external situation has been strong, thanks to robust exports and continued Foraging Development Investment inflows in 2018-2019, i.e., net international reserves increased from 12.4 to 14.5 percent of GDP during the same period, and thanks to the tax reform, tax collection increased 17 percent during the first quarter of 2020, compared to the same period of the previous year (3.4 versus 3 percent of GDP). However, Costa Rica is currently being impacted by the COVID-19 shock, with its GDP projected to fall to -3.3 in 2020 and a rebound to 3.0 is expected by 2021 as restrictions are lifted and supported by accommodative monetary policy and reforms related to the Organization for Economic Cooperation and Development (OECD) accession process, along with fiscal consolidation efforts. (<https://www.worldbank.org/en/country/costarica/overview>). Tourism receipts, which usually represent more than 19 percent of annual exports, collapsed due to border closures and travel restrictions domestically and abroad.

5. The country is also highly exposed to natural hazards and faces significant challenges from climate change. Costa Rica is one of the countries with the highest exposure to hazards, including hydro-meteorological (floods, cyclones, and landslides) and geophysical (earthquakes and volcanoes). It is the second most exposed country to multiple hazards based on land area, with 36.8 percent of the total area exposed to three or more natural hazards. It is estimated that 77.9 percent of the population and 80.1 percent of GDP are subject to high risk from multiple hazards. Furthermore, certain climate change projections for Costa Rica indicate up to a 32 percent decrease in overall rainfall precipitation by 2050.

Sectoral and Institutional Context

6. Costa Rica is regarded as a world leader in conservation and has made significant achievements in recovering its original forest cover. Although the country takes up only 0.03 percent of the earth's

surface, it is one of the 20 countries with the greatest biodiversity in the world. This was not always the case. Although more than half of the country was covered by forest in 1950, deforestation had stripped this to just 21 percent by 1987 under the pressures of a growing population and massive conversion of forest to pasture, underpinned by policies that supported cattle ranching and agricultural development. Recognizing the potential economic and global value of the forests and the risks to environmental degradation of rapid deforestation, several framework laws 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. Over the last 30 years, the country's efforts have achieved a remarkable recovery, with forest cover reaching 52 percent of the country's land surface in 2013, making it among the first tropical countries in the world that has managed to reverse deforestation.

7. Costa Rica is also a worldwide leader in environmental management policies and the only tropical country in the world that has managed to reverse deforestation, receiving the "2019 Champions of the Earth" award, the United Nations' highest environmental honor for its leadership in natural resource conservation and its commitment to ambitious climate policies, i.e., the National Decarbonization Plan 2018-50, which aims to modernize and revitalize the economy through reversing increases in greenhouse gas (GHG) emissions, introducing incentive schemes to accelerate and scale-up the deployment of low-carbon technologies, and strengthening the country's green branding. Costa Rica is pioneering ways to enhance market access and export zero-emission/green products.

8. This increase in forest cover is attributed, in part, to Costa Rica's world-renowned Payments for Environmental Services (PES) program, which provides incentives to forest conservation and rehabilitation, covering an average of 310,000 hectares per year of privately-owned lands over the past decade. The PES was formally established in 1995 when the government adopted Forest Law No. 7575. This law established a framework for payments to landowners for these ecosystem services based on the "polluter pays" principle. The law also established the National Fund for Forestry Financing (*Fondo Nacional de Financiamiento Forestal*, FONAFIFO), to manage the PES program and established a new certificate for forest conservation to reward landholders for their ecosystem services.

9. Costa Rica has also set aside 26 percent of its land area for protected areas, including national parks. The National System of Protected Areas was introduced in the late 1980s, followed by the creation of the National System of Conservation Areas (*Sistema Nacional de Áreas de Conservación*, SINAC) in 1994 to organize the country into 11 large conservation areas, most of which are based around a major national park, to avoid a situation in which the protected areas would serve as isolated "green islands" in an otherwise improperly managed landscape. SINAC oversees over 160 protected areas, of which 26 are designated national parks. Other areas are designated wildlife refuges, biological reserves, national monuments, forest reserves, national wetlands, and protected zones. The overall net effect has been a clear trend in the recovery of forest cover in the country due to the carbon sequestration in growing forests, compared to the amount of carbon released through deforestation. In 2014 Costa Rica became a net sink of GHG in the forest sector, as evidenced by the REDD+¹ Annex report submitted to the United Nations Framework Convention on Climate Change (UNFCCC) in 2020.

10. Since 2010, Costa Rica has demonstrated a sustained effort in the implementation of REDD+ actions at the national level. The country has historically operated its National System of Protected Areas and its PES program, which together cover 35 percent of the country area and 70 percent of forests. This demonstrates the country's performance in implementing REDD+ policies and measures significantly influencing the following factors: (i) Conservation of primary forests; (ii) Reduction of deforestation in

¹ REDD+: Reducing Emissions from Deforestation and forest Degradation, plus the sustainable management of forests, and the conservation and enhancement of forest carbon stocks

primary and secondary forests, which has significantly reduced carbon emissions, and (iii) Recovery of native forests, improving carbon stocks and significantly increasing carbon removals due to forest growth.

11. The main challenge for Costa Rica will be to maintain low rates of deforestation, while avoiding leakage to forest degradation and increasing the enhancements of forest carbon stocks under increasing opportunity costs from alternative land uses. The “green” asset that Costa Rica has established with its forests over the years can be maintained only through an integrated approach that enables the conservation of natural resources to be developed in parallel to other productive activities and balances the many financial and environmental trade-offs. The proposed operation will be instrumental in providing access to additional financial resources through the REDD+ mechanism that will increase the value of standing forests to Costa Rican society by recognizing their role in global GHG mitigation.

C. Proposed Development Objective(s)

Development Objective(s)

12. The objective of the Emission Reductions Program (ERP) is to make payments to the Program Entity for measured, reported and verified Emission Reductions (ERs) related to reduced deforestation, forest degradation and 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).

Key Results

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

- (i) Volume of CO₂ Emissions Reductions that have been measured and reported by the Program Entity, verified by a Third Party, and transferred to the Forest Carbon Partnership Facility (FCPF) Carbon Fund; (tCO_{2e})
- (ii) Payment by the FCPF Carbon Fund for CO₂ Emission Reductions generated by the Program (USD);
- (iii) Emission Reductions payments distributed in accordance with agreed Benefit Sharing Plan and arrangements. (Yes/No).

14. The proposed PDO and outcome indicators are meant to reflect the nature of the ERP as a transaction-based instrument.

15. Program beneficiaries include: (i) private landowners and indigenous communities that will receive monetary benefits through the PES Program and other modalities; (ii) communities and families living around Protected Areas and other public lands that will receive non-monetary benefits through the implementation of the National REDD+ Strategy; and (iii) public agencies that will receive additional resources to strengthen their programs for the sustainable management of the country's natural resources. The Program will improve beneficiaries' livelihoods by reducing soil erosion, increasing timber and non-timber products, improving hydrological services, and strengthening adaptation to climate change (non-carbon benefits). The 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. Project Description

Scope of the Instrument

16. This operation consists in a stand-alone Carbon Finance Transaction involving the delivery of and payment for GHG ERs between Costa Rica's Ministry of Environment and Energy (*Ministerio de Ambiente y Energía*, MINAE) and the World Bank Group (WBG) as Trustee of the Carbon Fund (CF) of the FCPF.

17. A Carbon Finance transaction refers to a commercial transaction involving delivery of and payment for ERs between a Project or Program Entity and the WBG. It does not involve the direct financing of any of the underlying investments generating the ERs paid by the carbon funds. These funds, managed by the WBG as Trustee for the CF participants, 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 eligible countries and Project or Program Entities are paid for delivery of those ERs.

18. The instrument for the operation is an Emission Reductions Payment Agreement (ERPA). The ERPA is the legal document that will be signed between the Seller (the Government of Costa Rica (GoCR)) and the Buyer (the WBG), which sets out the commercial terms of the transaction negotiated between the two Parties.

19. The total Volume of transferable ERs during 2018-2024 which can be measured and verified will be based on 55 percent proportion of the forest area with ER title transfer, which, after being discounted for the risk of Reversals (13 percent), would result in a total of Contract ERs with respective Buffer ERs. 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.

The Government's REDD+ Program

20. Consistent with its green vision, in 2010 Costa Rica increased its ambition, mainly by scaling up its PES program, and by strengthening SINAC's different programs on fire management, monitoring of illegal logging, and land regularization through the National Forest Development Plan (2011-2020). Through a Strategic Environmental and Social Assessment (SESA), the country engaged in a broad and extensive participatory process with the Costa Rican society, including representatives from government institutions, indigenous peoples, small farmers, academia, and the private forest industry, to identify the key risks and opportunities related to the forest sector. This process resulted in the development of the National REDD+ Strategy, which, was launched in July 2017. The Costa Rican National REDD+ Strategy will become a key instrument to continue the country's efforts towards carbon-neutrality and enhanced resiliency to climate change, as well as towards the commitments included in its Nationally Determined Contributions under the Paris Agreement of the UNFCCC.

21. In addition to strengthening more traditional policies and programs in the forest sector, the National REDD+ Strategy identifies a number of incremental actions based on the key priorities expressed by stakeholders through the SESA, and organized around a set of six Policies, Actions and Measures (PAMs) aimed at reducing GHG emissions from deforestation and forest degradation in the country. To further specify how the REDD+ Strategy will be implemented, Costa Rica developed an "Implementation Plan for the National REDD+ Strategy," which sets forth an operational framework for each PAM, defining performance targets, cost estimates, institutional arrangements, and priority areas between 2018 and 2024.

22. The ER-Program defines four policies, out of the six PAMs in the REDD+ National Strategy, to reduce emissions, increase absorptions and develop the capacity to improve environmental sustainability and the integrity of these emission reductions. The four policies are: Strengthen of Protected Areas and

programs for the prevention and control of land-use change and fires; Incentives for forest conservation and sustainable forest management; Landscape and forest ecosystem restoration, and Engagement of indigenous peoples.

23. The financing for the implementation of the National REDD+ Strategy will be provided by the GoCR. The overall cost for implementing the different set of PAMs over the 2018-2024 period has been estimated and approximately 90 percent will be provided through the GoCR's existing budgetary resources, channeled annually through its national forestry programs, along with secured international grants.

The Benefit Sharing Plan

24. Results-Based Payments will be distributed in accordance with a Benefit-Sharing Plan (BSP). Costa Rica's BSP advanced draft was accepted by the Forest Carbon Partnership Facility on June 18, 2020 and was endorsed by CFP on July 3, 2020.² MINAE will be the Program Entity to sign the ERPA with the WBG. ERPA proceeds will be received and administered by the Environmental Bank Foundation (*Fundación Banco Ambiental*, FUNBAM), a non-profit public-private entity. FUNBAM will administer the ERPA proceeds through a REDD+ Trust Fund account opened in a financial institution acceptable to the WBG. MINAE shall enter into a separate legal agreement with FUNBAM to determine roles and responsibilities of both agencies, together with FONAFIFO and SINAC, which will be the implementing agencies of the PAMs on behalf of MINAE. FONAFIFO and SINAC will coordinate decision making processes through the REDD+ Secretariat and will instruct FUNBAM when ERPA proceeds should be paid according to the BSP.

Component Name:

N/A

Comments (optional)

N/A

E. Project location and Salient physical characteristics relevant to the safeguard analysis (if known)

25. Costa Rica's REDD+ Strategy is national in coverage. The targeted geographical areas include private lands under FONAFIFO's PES schemes, SINAC's conservation areas as well as other public lands that are part of Costa Rica's natural heritage. Also, forest areas in indigenous lands will be targeted to revert and prevent forest degradation and deforestation in Costa Rica.

F. Environmental and Social Safeguards Specialists

Leanne Farrell, Sr. Environmental Specialist
Ricardo Marten, Social Development Specialist
Mario Nanclares, Consultant

II. IMPLEMENTATION

² The BSP was disclosed by the Program Entity at <http://reddcr.go.cr/es/centro-de-documentacion/paquete-de-preparacion-para-el-erpa> and by the WBG at <https://WBGdocs.worldbank.org/WBGdocs/component/drl?objectId=090224b087b7a7e8&Reload=1594650760072&dmfClientId=1594650760072>.

26. As per the guidance on the Safeguards Approach for FCPF ERPA operations, there will be differentiated responsibility for the supervision of safeguard compliance depending on who is financing the underlying activities and whether they are included in the Government Program; comprehensive assessment of environmental and social risks associated with ER Programs (i.e. SESA); formulation and adoption of relevant safeguard frameworks and/or plans to address risks as applicable; capacity assessment of the Program Entity to implement agreed safeguard frameworks and/or plans; preparation and adoption of a safeguards action plan, where applicable; Program Entity's self-monitoring and reporting along with independent third party monitoring and reporting on the implementation of safeguard instruments; feedback and grievance redress mechanism; and the WBG's oversight of effective implementation and compliance of Program Entity with agreed safeguard management measures. As such, WBG 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 title, *i.e.* PES lands (including indigenous territories), Protected Areas, and other private and public lands under a sub agreement with the Program Entity.

27. The focus of the supervision responsibilities of the WBG will be on the performance of the Program's safeguards system (which will integrate the necessary safeguard documents and measures to comply with the WBG's Operational Policies). Thus, the WBG will retain the responsibility to determine that the safeguards systems developed by the Program Entity for an ER Program are designed and supported sufficiently to result in ER Program implementation that is consistent with WBG safeguards. Specifically, the WBG will confirm, as part of appraisal of the ER Program, that the Environmental and Social Management Framework (ESMF) developed by the Program Entity for the ER Program meets the requirements of WBG safeguards, and that the Program Entity has in place effective management systems to implement the ESMF. The WBG will review the information from the Program's Entity's self-reporting to determine whether to make the ER payments under the ERPA to the Program Entity. The Program Entity will need to assure that the safeguards and the BSP are implemented in a satisfactory manner by all the underlying activities. The ERPA will include specific provisions on monitoring report to the WBG on the reliability of the Program Entity's safeguards system including the level of adherence of underlying activities to the ERP's Environmental and Social requirements.

28. The institutions responsible for implementing the ERP activities will share with the REDD+ Executive Secretariat the socio-environmental monitoring and follow-up reports referring to the Implementation Plan. The REDD+ Executive Secretariat will coordinate so that the implementing institutions can effectively monitor the compliance with the WBG's social and environmental operational policies.

29. In addition to self-reporting by the Program Entity and WBG due diligence, the ER Program will have an independent third-party monitoring (TPM) financed by the FCPF. This TPM will provide timely information to the Program Entity on any problems with implementing the ESMF and other safeguards instruments so that the Program Entity can take corrective actions, if needed. The WBG will consider the results of the TPM before making any payment. The ESMF specifies the requirements and contents for the hiring of the TPM.

30. FONAFIFO and SINAC, on behalf of MINAE, are the entities responsible for the administrative and financial management of the respective proportion of ERP shares after FUNBAM will have transferred the payments per instructions of the REDD+ Executive Secretariat. FONAFIFO will have under its responsibility the implementation of policy actions related to the strengthening of the PES program, support the REDD+ Secretariat in the development of activities that promote the achievement of the goals established in the REDD+ Strategy and support the compliance with the Environmental Assessment Safeguards, Natural Habitats, Forest Pest Control and Indigenous Peoples. SINAC, on behalf of MINAE, will be responsible for carrying out compliance with the Forest Safeguard, Environmental

Assessment, Natural Habitats, Forest Pest Control, Physical Cultural Resources, Involuntary Resettlement, and Indigenous Peoples.

31. REDD+ Executive Secretariat will have the responsibility 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 WBG. It will have specific responsibility to enforce compliance with the WBG's Safeguards and Operations Policies, guarantee the execution and attention of the Information, Feedback and Non-Conformity Mechanism, the respective reports on Monitoring, Reporting and Verification, among others. The Safeguards Unit will be responsible for the implementation and monitoring of the ESMF.

III. SAFEGUARD POLICIES THAT MIGHT APPLY

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	According to the OP/BP 4.01 on Environmental Assessment, the operation is classified as Category B since it consists mainly of activities aimed at reverting and preventing forest degradation and deforestation in Costa Rica. Any potential environmental impacts and risks stemming from the implementation of on the ground interventions will be very low, localized, preventable and manageable. A Strategic Environmental and Social Assessment (SESA) process has been completed. Several workshops were carried out to receive feedback by key stakeholders on the preparation of the National REDD+ Strategy as part of the SESA and ESMF process. The SESA process has been conducted in a manner consistent with the applicable WBG operational environmental and social (safeguards) policies. Since the explicit goal of the National REDD+ strategy is to promote a reduction in the rates of deforestation and forest degradation by rewarding measures to protect and conserve forests, the overall environmental impacts of the strategy are expected to be mostly positive. As forest cover improves so too will the associated benefits associated with forests, including healthier natural habitats, not only as a sink for carbon but also for the many environmental services forests provide such as watershed protection, provision of important habitats, sustainable source of Non-timber forest products and other forest-based livelihoods. The ER-Program itself will not finance the harvesting or conversion of forests so there is little to no direct adverse impact associated with activities planned to be implemented. Key social and environmental risks and potential impacts associated with the National REDD+ Strategy, as well as mitigation actions, are considered in the ESMF. Table 1 of the ESMF clearly and specifically differentiates “recommendations” for measures to address potential impacts concerning the various activities from actual requirements. The list of required measures covers relevant requirements under applicable

		WBG safeguards policies. Also, the ESMF clearly distinguishes requirements in terms of environmental and social management instruments for the environmental assessment classification of activities according to the environmental impact assessment national system (e.g. B1, B2 and C). As the explicit goal of the National REDD+ Strategy is to promote the reduction of deforestation and degradation rates, remunerating forest protection and conservation measures, as well as the increase in forest carbon stocks, the environmental impacts of the same are mainly positive. The National REDD+ Strategy itself will not finance the harvest or conversion of forests, so there is little, or no adverse impact associated with the planned activities as part of the proposed policies. The main risk of REDD+ would be that the strategy fails to meet its objectives, causing unexpected adverse impacts through the involuntary creation of incentives to allocate forests for other purposes, which is currently prohibited by law in any case. Similar risks could occur if the commitment to keep land under forest cover for long periods of time is negatively affected by the lack of security in land tenure. Or if there is a failure in the application of the regulations established for Sustainable Forest Management. Institutional arrangements: The ESMF provides information on the institutional arrangements for the application of the safeguard instruments, assigning responsibilities to relevant government agencies with the appropriate attributions. It includes clear information about the social and environmental specialist team at the REDD+ Secretariat and how it will do all the environmental and social screening/verification, as well as the role of other institutions involved in the process. The ESMF also includes an assessment of the REDD+ Secretariat's institutional capacity to fulfill these responsibilities and identifies the need for specific capacity-building measures. Grievance Redress Mechanism (GRM): the ESMF provides a description of how the GRM is structured and functions, as well as institutional responsibilities for implementation.
Natural Habitats OP/BP 4.04	Yes	This policy was triggered given that actions and specific activities under the ER-Program will be implemented both within the existing protected areas system (SINAC) as well as other natural habitats of varying significance. It is also important to consider potential for enhanced protection of forests to drive land conversion to other types of ecosystems such as natural grasslands and wetlands. If the ER-Program Measures are successful, the impacts on critical natural habitats, including forests, are expected to be positive. For instance, strengthening of the operation and financing of SINAC's Forest Fires Management Strategy inside and outside natural protected areas might result in less forest fires and reduced risks and impacts on wild fauna and flora as well as forests. Similarly, strengthening the operation and financing of SINAC's Illegal Logging Control Strategy might prevent significant risks and impacts on natural habitats inside and outside

		protected areas. No displacement risks were identified in the Emission Reduction Program, since the reference level and the Measurement, Reporting and Verification are at the national scale. Interventions proposed for the Program have a global impact on emission reductions, internalizing any displacement. Transboundary impacts are also not expected given the low levels of deforestation currently that respond to national drivers and incentives rather than regional drivers of deforestation. The ESMF has been reviewed and updated to include a substantive gap analysis comparing national legislation on forests and natural and critical habitats with the WBG environmental safeguard policies on Forest (OP/BP 4.36) and Natural Habitats (OP/BP 4.04). The section on OP 4.04 on Natural Habitats in the ESMF clarifies that protection extends to all the natural habitats and not only to protected areas, and that there are provisions for identification and special protection of critical habitats consistent with OP 4.04.
Forests OP/BP 4.36	Yes	This policy is triggered given that most actions and specific activities under the ERP will be implemented in areas characterized by forest ecosystems. Forest management plans and forest management strategies to be implemented will need to pay attention to issues related to the health of forest ecosystems (e.g. planting of native versus exotic tree species, forest fire prevention and control practices, etc.) In addition, due to the obvious importance of REDD+ as part of Costa Rica's long-term forest and environmental management programs and the importance of forests for the livelihoods of many communities, this policy will apply. The section on OP 4.36 on Forests in the ESMF clearly indicates what kind of tree species (e.g. exotic monoculture plantations, native, etc.) will be used in national plantation programs and national requirements regarding sustainable forestry certification. In addition, the environmental assessment coverage and requirements for forestry activities covers in detail health and safety issues under firefighting programs (since firefighting is an identified area for strengthening). Reforestation activities that are promoted, although they are with commercial species, do not represent large-scale commercial forestry operations, but rather respond to local needs for wood and develop on land of small and medium producers that on average do not exceed 20 hectares. Activities of forest plantations and forest management for commercial purposes that are developed in the Program are for small and medium owners. In cases of existing properties in which the harvest activities could represent an industrial scale, those activities will be developed in the framework of an independent certification. A third-party certification report will be required in cases of industrial activities.
Pest Management OP 4.09	Yes	This policy was triggered since it is conceivable that some forestry, agricultural and agroforestry practices supported by activities under the ER-Program might involve the use of pesticides and herbicides. Impacts and risks of any potential use of chemicals in forest management and

		agroforestry activities, if needed, will be analyzed and mitigated through actions contained in forest management plans. The ESMF mentions pest management or pesticides use since there is potential for this especially in forest and plantation nurseries. The fact that these activities are likely to involve smallholders (less equipped to handle/manage potentially dangerous chemicals) makes it particularly important to include appropriate guidance and provisions in the ESMF. This guidance and provisions have been included in the ESMF.
Physical Cultural Resources OP/BP 4.11	Yes	This policy is triggered since some forest areas where the ER-Program Measures will be implemented might be considered by some groups in society as important cultural, spiritual and historical places. This policy is triggered despite the fact that forest areas in Costa Rica are not formally considered physical cultural resources by the GoCR. The ESMF includes a brief discussion of potential issues and the relevant requirements to deal with chance finds.
Indigenous Peoples OP/BP 4.10	Yes	The National REDD+ Strategy is intended to be applied in indigenous territories. The ESMF includes an Indigenous Peoples Planning Framework (IPPF) as an instrument during the implementation of the REDD+ strategy. Since the beginning of the SESA process, the National REDD+ program has made a concerted effort to engage with Indigenous Peoples, supported by the FCPF Readiness Grant that allowed them to develop and implement a consultation process in each of their territories to ensure broad community support. This process resulted in the identification of five key issues for Indigenous Peoples related to REDD+: i) the need to develop a specific program of PES for Indigenous Peoples; ii) the need to support regularization of land tenure in the indigenous territories; iii) the need to respect indigenous worldviews and mechanisms for decision-making; iv) the need to resolve overlaps between some Protected Areas and Indigenous Territories; v) the importance of participatory monitoring. Through the consultation process, an agreement was reached with the National REDD+ Secretariat to include an Indigenous Peoples chapter in the National REDD+ Strategy (PAM #5. Inclusion of Indigenous Peoples), addressing each of the five issues. Although these issues are comprehensively discussed through an ongoing dialogue between MINAE, the REDD+ Secretariat and Indigenous Peoples, they are ongoing issues that will have to be monitored during the life of the ERPA as they will require significant political commitment, coordination with agencies outside the mandate of MINAE (i.e. the National Institute for Rural Development (INDER), and resources if they are to be implemented. Site-specific IPPs will be prepared, as needed, when activities under the ER program involve Indigenous Peoples (IPs) as provided for in the IPPF.
Involuntary Resettlement OP/BP 4.12	Yes	A Resettlement Policy Framework (RPF) and Process Framework (PF) have been prepared as part of the National Strategy for REDD+. The RPF has been prepared to address the potential resettlement and compensation of private landowners that are currently living in

		protected areas and indigenous people's territories. In addition, a PF has been prepared for managing the potential restriction of access of local communities to natural resources in legally designated protected areas. The ESMF identifies two actions of the Program that could involve physical or economic displacement of the population are identified: a) Land Purchase Program in Protected Wild Areas (ASP), executed by the SINAC and, b) National Plan for the recovery of indigenous territories whose legal responsibility falls to the INDER. This Plan will not involve resettlement of IPs members from their territories. The general objective of the Plan is to regularize the possession of the land in the indigenous territories and recover the lands that are in the possession or occupation of non-indigenous persons. The ASP Land Purchase Program does not perform any type of eviction of occupants that do not have a legal right or recognizable claim, which they occupy or use before the creation of the ASP. In cases that identified lands are occupied (be they legal or illegal occupants), the land purchase will not be considered by the program. This program is funded from the National Budget. Site-specific Resettlement Action Plans will be prepared, as needed, Based on the RPF prepared when activities of the ER Program involve land acquisition and/or resettlement, and "Action Plans" when activities under the ER Program involve access restrictions according to the provisions of the Process Framework developed for this.
Safety of Dams OP/BP 4.37	No	This policy is not triggered as the project will neither support the construction or rehabilitation of dams nor will it support other investments which rely on services of existing dams.
Projects on International Waterways OP/BP 7.50	No	This policy is not triggered as the project will not finance activities involving the use or potential pollution of international waterways.
Projects in Disputed Areas OP/BP 7.60	No	This policy is not triggered as the project will not finance activities in disputed areas as defined in the policy.

IV. Key Safeguard Policy Issues and their Management

A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:

32. According to the WBG's Environmental Assessment OP/BP 4.01, the Program is classified as Category B, as the PAMs of the National REDD+ Strategy are clearly defined, with foreseeable, manageable impacts and known, well-understood mitigation measures, and are expected to fall into categories B and C. No large scale, significant and/or irreversible direct, indirect, or cumulative negative impacts are expected from the Program implementation and underlying activities. The PAMs of the National REDD+ Strategy 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. Restoration and sustainable management of secondary forests and the establishment of new forest areas will also have net positive impacts by restoring forest ecosystem functions with the associated carbon sequestration, hydrological services, biodiversity and environmental enhancements. These would constitute permanent and cumulative positive impacts. No large scale, significant and/or irreversible impacts are expected by the Program. Potential adverse environmental impacts are expected to be mainly temporary and minor and may potentially include the use of pesticides and herbicides at subproject sites as part of an effort to make forest activities more efficient and economic. All of the above impacts can be avoided, minimized, managed or mitigated considering the forest management standards consistent with OP 4.01 and 4.36 applied in Costa Rica which will be applied and enhanced by gap-filling measures and capacity-building as necessary (and described in the ESMF) in the implementation of the REDD+ Strategy.

33. **Safeguards instruments.** A SESA was prepared in 2011 and was updated in 2015 as an input into preparation of the National REDD+ Strategy. The SESA was based on a series of workshops held with key stakeholders, including indigenous peoples, small-scale forest and agricultural producers, large forest owners and timber enterprises, relevant government agencies, academics and representatives of civil society (including environmental NGOs). The principal risks identified by the SESA were related to social issues and included inadequate institutional capacity to manage the program, land tenure (including lack of formal titles and overlapping titles), insufficient funds to pay for environmental services, inequitable distribution of benefits and lack of transparency in administering the program. The ESMF prepared for the National REDD+ Strategy was updated in February 2018, following a public consultation period. The analysis takes the Bank's environmental and social safeguards policies as its baseline. The current version of the ESMF includes updates on retroactive safeguards and third-party monitoring (TPM). The package of safeguards instruments was cleared by the WBG on June 23, 2020, including the ESMF, RPF, PF and IPPF (<http://reddcr.go.cr/es/centro-de-documentacion/paquete-de-preparacion-para-el-erpa>). These frameworks provide an analysis of the Costa Rican legislation and the requirements of the Bank's operational policies and are intended to ensure that social and environmental risks are factored into the design and implementation of the PAMs of the National REDD+ Strategy. Consistency of the BSP with FCPF guidelines was also cleared by the WBG.

34. **Safeguards approach for retroactive ERs.** The approved ESMF will apply to both retroactive ERs and to ERs generated after ERPA signing. The WBG team carried out an initial screening of the information provided by the client (self-reporting) on the ER Program activities implemented during the retroactive period, to get preliminary evidence that: (i) these activities are within the scope of the ER Program covered by the ESMF; and (ii) they have been implemented in a manner consistent with the ESMF and other safeguard instruments. Actual payments for any potential ERs generated during the retroactive period included in the ERPA (January 2018 to ERPA signing date) will be subject to further due diligence through the process of ER monitoring and reporting (an ER Monitoring Report for the retroactive period is expected to be received in March 2021). This due diligence process will follow the safeguards approach for ERPAs (described above) to determine whether the retroactive activities were implemented in accordance with the ESMF, focusing on whether the ER Program Entity maintained in place effective management systems and capacity to implement the ESMF and will include review of detailed safeguards reports from the Program Entity (self-reporting), field spot-checks carried out by the WBG to identify any potential risks and impacts, and third party monitoring/audit.

2. Describe any potential indirect and/or long-term impacts due to anticipated future activities in the project area:

35. No long-term impacts due to anticipated future activities in the Program area are expected.

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.
36. Project alternatives analysis is not applicable.
4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.
37. The GoCR has ample experience, and is familiar, with WBG social and environmental operational policies due to the completion of several investment projects in the forest sector (Ecomarkets Project (P052009), Mainstreaming Market-Based Instruments for Environmental Management Project (P093384) and Carbon Sequestration in Small Farms in the Brunca Region Project (P094155)) as well as two FCPF Readiness grants (P123702), and has made substantial efforts during the REDD+ Readiness phase for ensuring 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 REDD+ Secretariat included a social and environmental team with relevant specialists that were in charge for the preparation of applicable WBG 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. This will require the Program Entity also developing interinstitutional agreements with agencies that fall outside its mandate or even the mandate of MINAE, such as INDER, to ensure that actions related to IPs and land regularization are properly followed-up. 38. In order to focus safeguards efforts on key issues an ESMF was developed which includes: (i) the definition of the institutional responsibilities and agreements for addressing safeguards risks and impacts for the respective PAMs; (ii) an assessment of the institutional capacity of the implementing entities regarding safeguards responsibilities; (iii) the description of related activities to address land tenure issues concerning ER program PAMs; (iv) the development of an IPPF for addressing specific risks and benefits concerning IPs; (v) an assessment of potential environmental and social risks and impacts of the ER program.
5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.
39. Since the early stages of the REDD+ Readiness process, the GoCR has emphasized the participation of Indigenous Peoples and low-income forest users and smallholders, with the aim of identifying potential risks and ensuring broad community support. FONAFIFO has carried out extensive consultation activities through more than 300 workshops at the national and regional level with Indigenous Peoples, small forest owners, civil society, the private sector and other key stakeholders in order to discuss and validate the National REDD+ Strategy. 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”. 40. For the implementation phase of the National REDD+ Strategy, Article 18 of the Decree establishes an Oversight Committee with diverse and broad stakeholder representation, whose function will be to monitor and hold accountable the institutions for the proper implementation of the REDD+ Strategy. The Committee is composed of: two representatives of Indigenous Peoples, two representatives of small forest producers, two representatives of environmental non-governmental organizations, two representatives of the forest industry, two representatives of the academia, one representative of the College of Agricultural Engineers, and one representative of the associations of forest professionals in the

country. 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.

41. All documents related to the National REDD+ Strategy are made publicly available through an ad-hoc website (<http://reddcr.go.cr/es/centro-de-documentacion/paquete-de-preparacion-para-el-erpa>). The latest versions of the BSP, ESMF, RPF, PF and IPPF were in-country disclosed on July 7, 2020. The latest versions of SESA, National REDD+ Strategy, and the Implementation Plan have all been informed by consultations with various stakeholders and were disclosed on January 9, 2018 through www.reddcr.go.cr and by direct emails to stakeholder representatives. The safeguard instruments have also been disclosed at the WBG website on July 9, 2020.

42. ESMF Spanish version available of *Marco de Gestión Ambiental y Social, MGAS* <http://documents1.worldbank.org/curated/en/861501594365423850/pdf/Marco-de-Gesti%3b3n-Ambiental-y-Social.pdf>; *Marco de Políticas de Reasentamiento Involuntario, MPRI* <http://documents1.worldbank.org/curated/en/422681594364286333/pdf/Marco-de-Reasentamiento-Involuntario.pdf>, and *respective Process Framework* <http://documents1.worldbank.org/curated/en/254371594369221307/pdf/Normas-de-Procedimiento.pdf>; *Marco de Planificación para Pueblos Indígenas, MPPI* <http://documents1.worldbank.org/curated/en/231181594364828337/pdf/Marco-de-Planificaci%3b3n-para-Pueblos-Ind%3badgenas.pdf>, and *Marco Conceptual y de Funcionamiento del Mecanismo de Información, Retroalimentación, e Inconformidades para las Partes Interesadas Relevantes de la Estrategia Nacional REDD+ MIRI* (<http://reddcr.go.cr/es/mecanismo-de-informacion-retroalimentacion-e-inconformidades>).

B. Disclosure Requirements (N.B. The sections below appear only if corresponding safeguard policy is triggered)

If the project triggers the Pest Management and/or Physical Cultural Resources policies, the respective issues are to be addressed and disclosed as part of the Environmental Assessment/Audit/or EMP.

If in-country disclosure of any of the above documents is not expected, please explain why:

In-country disclosure will take place in accordance with WBG Policy.

C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting) (N.B. The sections below appear only if corresponding safeguard policy is triggered)

The World Bank Policy on Disclosure of Information						
Have relevant safeguard policies documents been sent to the World Bank's Infoshop?	Yes	☒	No	☐	NA	☐
Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?	Yes	☒	No	☐	NA	☐
All Safeguard Policies						
Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?	Yes	☒	No	☐	NA	☐
Have costs related to safeguard policy measures been included in the project cost?	Yes	☒	No	☐	NA	☐

Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?	Yes	☒	No	☐	NA	☐
Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?	Yes	☒	No	☐	NA	☐

V. Contact point

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VII. Approval

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Practice Manager:	Name: Valerie Hickey	Date: July 31, 2020
Country Director:	Name: Yaye Seynabou Sakho	Date: August 6, 2020