

**PROJECT INFORMATION DOCUMENT (PID)
(FCPF READINESS FUND)
CONCEPT STAGE**

Report No.: 83503

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Project Name	Nicaragua FCPF Readiness Preparation Grant
Region	Latin America and the Caribbean
Country	Nicaragua
Sector	Agriculture, fishing and forestry sector: Forestry (100%)
Lending Instrument	Carbon Offset/TF Grant
Project ID	P 120657
Parent Project ID	N/A
Borrower(s)	Government of Nicaragua
Implementing Agency	MARENA
Environmental Screening Category	<input type="checkbox"/> A <input checked="" type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> FI <input type="checkbox"/> TBD (to be determined)
Date PID Prepared	June 20, 2013 (updated on December 23, 2013)
Estimated Date of Appraisal Completion	N/A
Date of Participants Committee Assessment of Readiness Package	June 29, 2011
Concept Review Decision	June 27, 2013

I. Introduction and Context

With a Gross National Income (GNI) per capita of US\$1,510 in 2011¹, Nicaragua is one of the poorest countries in Latin America. Although the situation has improved recently, approximately 42 percent of the country's 6.0 million inhabitants² still live below the poverty line and one out of every seven live in extreme poverty. Indigenous peoples and ethnic communities, who account for approximately 5 percent of the total population, have particularly experienced deprivation and social exclusion along the country's history. More than half of Nicaraguans live in urban areas (57 percent), yet poverty remains largely a rural phenomenon. Importantly, the country's economic performance has improved over the last decade resulting in moderate growth of roughly 3.2 percent per annum. The challenge over the longer term is to sustain higher growth rates to accelerate poverty reduction through sustainable improvements in productivity and consequently income growth across the population.

Nicaragua has an important stock of forests. Approximately 30 percent of the country is covered by forests (approximately 3.5 million ha)³. Of that share, 98 percent are natural forests (of which 90 percent are broad-leaf forests, and 10 percent are coniferous forests) and

¹ Estimate in current US\$ (Atlas Method), World Development Indicators database

² Estimated total population (National Institute of Statistics, INIDE, June 30, 2012)

³ Nicaragua REDD+ Readiness Preparation Proposal, R-PP, (May 31, 2013), based on the data of the National Forest Inventory (2008-2009).

only 2 percent are forest plantations. A third of the natural forests are within protected areas, and 81 percent are in Jinotega(it is worth noting that much of the remaining forest in Jinotega is in the Special Zone of Alto Wangki-Bocay, with a unique administrative and juridical status), and mainly on the Caribbean coast within the Northern-Atlantic and Southern-Atlantic Autonomous Regions⁴. Almost half the forests are in the possession of indigenous communities, while 35 percent are held by private owners. Importantly, much more than 50 percent of the recent deforestation in Nicaragua has occurred in Indigenous Territories.

On the other hand, agriculture remains fundamental for Nicaragua from both a macroeconomic view and a social view. It is one of the largest sectors of the Nicaraguan economy (19 percent of Gross Domestic Product); it remains the single biggest employer with around 30 percent of the labor force, and generates 20 percent of exports. However, today's forces for agricultural growth are not sustainable thus adding pressure on other natural resources, such as land, forests, and water. Agricultural productivity has been stagnating; the use of improved technologies in agriculture production is still limited and Nicaragua still faces a large gap in terms of the quality of its infrastructure and logistics services that raise costs for its agricultural producers. The agricultural frontier, where most of the poor forest dependent peoples and communities live, has been the main interface between forest and agricultural economic activities and would be one of the main target areas in any future REDD+ initiative that Nicaragua is intended to put in place.

A. Sectoral and Institutional Context

The overarching development plan of the Government of Nicaragua is the National Human Development Plan 2012-2016 (PNDH). In one of its twelve pillars, the PNDH sets forth policies to (i) protect “Mother Earth”, (ii) promote climate change adaptation and mitigation. Amongst others, the PNDH aims to contribute to human development by reinforcing respect for Nature and restoring lost habitats by educational means and instruments that help build accountability, solidarity and equity. Responding to PNDH, the National Policy on Adaptation and Mitigation to Climate Change (PNAMCC) is another policy instrument related to REDD+. This policy aims to reduce vulnerability and improve adaptation to climate change by (i) reducing poverty, (ii) reducing land use change in agriculture, and (iii) contributing to change the energy matrix to broader use of renewable sources. The PNAMCC is complemented with the National Environmental and Climate Change Strategy (ENACC) established for the period 2010-2015. The ENACC is the immediate strategic reference to the National Strategy of Avoided Deforestation (ENDE) under which Nicaragua proposes to develop a REDD+ Strategy with partial support from this grant.

The proposed grant would support Nicaragua's objectives, policies and strategies in the sector and in the territories where deforestation and forest degradation is a key issue. According to Nicaragua's R-PP, besides the general objectives of a REDD+ process⁵, the ENDE would include activities to improve sustainable livelihoods (such as agro-forestry, silvo-pastoral

⁴ As identified in the Readiness Preparation Proposal of Nicaragua (R-PP), the Autonomous Regions, the place where most indigenous and afro-descendent communities live, are one of the main stakeholders of the (Reduced Emissions from Deforestation and Forest Degradation) REDD+ initiative in Nicaragua.

⁵ Eligible activities are: reducing emissions from deforestation and forest degradation; conservation, sustainable management of forests and enhancement of forest carbon stocks.

systems, ecological agriculture, and community forest management) and to promote co-benefits from the forests, and other goods and services produced by these ecosystems. In its R-PP, Nicaragua proposes to strengthen national, sector, and territorial development plans, as well as focus on a non-market approach that restitutes the rights of those who preserve the forests (including indigenous peoples), and help improve resilience for adaptation to climate change. Given the nature of the drivers of deforestation and forest degradation in Nicaragua, it is expected that the ENDE-REDD+ builds on the efforts of other sector policy instruments, such as the main public program for the agricultural sector, the PRORURAL sector-wide approach Program which includes the National Food Program, the National Agro-industry Program, and the National Forestry Program (NFP)⁶.

At territorial level, the ENDE-REDD+ that would be supported by the proposed grant will take into account: (i) specific territorial strategies on climate change being developed by the governments of the North and South-Atlantic Autonomous Regions, and (ii) the Development Plan of the Caribbean Coast of Nicaragua.

Deforestation and forest degradation represent the leading environmental problem in Nicaragua. Annual deforestation rate is calculated around 76,000 Ha/year. According to the Readiness Preparation Proposal⁷ (R-PP) prepared by Nicaragua, the country has lost more than 20 percent of its forest cover since 1990. The R-PP identifies the following main drivers: (i) clearing for agriculture and cattle grazing, (ii) forest and agricultural fires, (iii) environmental emergencies due to natural disasters (hurricanes, mud slides, flooding, drought, forest plagues), (iv) illegal logging or illegal extraction of forest products (wood and firewood), (v) social pressure over natural resources, and (vi) invasion of indigenous territories by colonists⁸.

The R-PP proposes to address these drivers by developing the following strategic options:

1. Strengthening institutional capacities and forest governance structures
2. Harmonizing the policy and regulatory framework
3. Promoting technological reconversion of the agriculture, fishery, and forest productive systems
4. Developing incentives for forest protection and conservation, and to avoid land use change
5. Strengthening the commercial linkages and value chains of the main productive systems that are related to deforestation and forest degradation
6. Improving territorial governance and further supporting the land regularization process in indigenous peoples' territories

B. Relationship to Country Partnership Strategy

The proposed grant is consistent with the World Bank Country Partnership Strategy (CPS) for the period of FY2013-2017 (Report No. 69231-NI) which was discussed by its Executive Directors on November 13, 2012. One of the two strategic objectives of Nicaragua's CPS is to raise incomes by sustainably improving productivity, competitiveness, and diversification. Under

⁶ Programa Forestal Nacional del Poder Ciudadano 2010-2014. MAGFOR/INAFOR 2010.

⁷ Nicaragua Readiness Preparation Proposal (R-PP), updated version of May 31, 2013.

⁸ As identified in workshops with 17 indigenous territories and in the joint Management Plan of the BOSAWAS Biosphere Reserve.

this strategic objective, the FCPF grant would contribute to promote policy alignment between the agricultural, forest, and environmental sectors. This would contribute to the dialogue on the Bank's engagement with the agricultural sector, as well as the preparation of a project to support food security and agriculture in the Caribbean Coast under the Global Agriculture and Food Security Program (GAFSP).

II. Proposed Development Objective(s)

A. Proposed PDO of this Grant

The PDO is: to help Nicaragua become ready for future REDD+ implementation by preparing those key elements, systems, and/or policies needed, generally referred to as the “REDD+ Readiness Package”, in a socially and environmentally sound manner.

The REDD+ Readiness Preparation grant will provide additional funding to support Nicaragua in carrying out some of the activities outlined in its R-PP. The grant will fund only a portion of the R-PP activities, but will help Nicaragua progress towards achieving REDD+ Readiness, even though the country may not reach this stage until well after the grant closes. Based on the activities outlined in the R-PP, it is expected that the country would be able to participate in future REDD+ mechanisms.

B. Key Results

The key result from the proposed REDD readiness preparation grant would be the following:

- the ENDE/REDD+ strategy⁹ has been developed based on consultations with relevant public institutions, key stakeholders, indigenous peoples and local communities and is supported by its authorities/representatives at high political level
- the Country has made progress towards the establishment of a National Forest Reference Emission Level and/or a Forest Reference Level by preparing an evaluation of existing information of forest carbon emissions and of country's capacity to reduce them, as well as by developing a methodology for a reference scenario;
- progress has been made towards the establishment of a National Forest Monitoring System (NFMS) by designing a national planning system and an information system for the measurement, reporting, and verification (MRV) of Greenhouse Gases (GHG) emissions reductions and multiple benefits from REDD+ activities;
- the Strategic Environmental and Social Assessment (SESA) has been carried out and the Environmental and Social Management Framework (ESMF) is prepared;
- the country has put in place and is operating a cross-sector coordination body for REDD+, and a participation platform that involve a broad range of key stakeholders.

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

III. Preliminary Description

Nicaragua is a participant of the FCPF. The FCPF Participants' Committee has endorsed the R-PP presented by Nicaragua. Since August 22, 2011, the Ministry of Environment and Natural Resources of Nicaragua (MARENA) is implementing a grant¹⁰ to formulate the country's R-PP. The country submitted its R-PP for formal consideration at the 13th meeting of the FCPF Participants Committee (PC) in late June, 2012. The R-PP received positive evaluation and the PC issued a Resolution with final recommendations to improve the document and granting access of Nicaragua to the REDD+ Readiness Implementation grant (additional US\$3,6M), once the country adjusts the R-PP and submits it to the FCPF for completeness check. The FCPF Facility Management Team (FMT) confirmed the completeness check in late March, 2013, and the Bank carried out its multi-disciplinary due diligence process to proceed with the REDD+ Readiness Grant, including the drafting of the Assessment Note, the Integrated Safeguards Data Sheet (ISDS), and the Project Information Document (PID).

The REDD+ readiness process in Nicaragua will seek to align public institutions, civil society organizations and the private sector within a coherent national strategy to reduce forest degradation and deforestation, namely the ENDE/REDD+ Strategy. To achieve this objective it will trigger a trans-sectorial dialogue process involving all relevant sectors and actors affecting forests, raising awareness and providing information to highest political and societal decision makers to harmonize sectorial policies and regulations towards the goal of reducing deforestation and forest degradation. Coordination and complementarity will be pursued to enhance the presence of all layers of the government at territorial level, improve governance and law enforcement, as well as to design a Compensation for Environmental Services (CES) scheme for forest owners that conserve and use them in a sustainable way.

The policies, programs and other interventions to reduce emissions from deforestation and forest degradation and promote the role of conservation, sustainable management of forests, and enhancement of forest carbon stocks will be defined through studies and consultations during the readiness preparation phase.

The specific REDD preparation activities Nicaragua intends to carry out in preparing its Readiness Package are described in the R-PP, and include: strategy development through stakeholder consultations, analytical work, capacity building, a Strategic Environmental and Social Assessment (SESA), and technical work to establish a national forest Reference Emission Level/Reference Level and monitoring system. These activities are funded by the FCPF Readiness Preparation Grant of \$3.6 million. Other support is expected by Nicaragua from the GIZ-REDD+ Program for Central America and the Dominican Republic (approx. US\$345,000), and support from the USAID Regional Climate Change Program for Central American¹¹ to support REDD+ (approx. US\$500,000), in addition to the national government and possibly

¹⁰ Nicaragua already received a US\$200,000 grant from the FCPF (TF 099264), as seed money to formulate the R-PP. This formulation grant closes in September 30, 2013.

¹¹ This program is part of US development policy on the Global Climate Change Initiative (GCCII). Support to REDD+ initiatives is under the component on Sustainable Landscapes.

other donors¹². Also, Nicaragua is interested in accessing additional FCPF funding (up to US\$5 million) after the mid-term review, as established in the FCPF, based on the assessment that significant progress has been made in the preparation of the ENDE-REDD+. Activities to be financed by the FCPF would not include any physical investment or the implementation of any REDD program on the ground.

IV. Safeguard Policies that might apply

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

Safeguards	Yes	No	TBD
Environmental Assessment (OP/BP 4.01)	X		
Natural Habitats (OP/BP 4.04)	X		
Forests (OP/BP 4.36)	X		
Pest Management (OP 4.09)	X		
Physical Cultural Resources (OP/BP 4.11)	X		
Indigenous Peoples (OP/BP 4.10)	X		
Involuntary Resettlement (OP/BP 4.12)	X		
Safety of Dams (OP/BP 4.37)		X	
Projects on International Waterways (OP/BP 7.50)		X	
Projects in Disputed Areas (OP/BP 7.60)			X

V. Tentative financing

Source:	(\$m.)
Borrower/Recipient	
IBRD	
IDA	
Forest Carbon Partnership Facility	3.6
Total	3.6

GIZ US\$ 345,000 (estimated for the first 18 months)

USAID US\$ 500,000 (estimated for the first 18 months)

VI. Contact point

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¹² Based on its ongoing negotiations with the GIZ and USAID programs, MARENA expects that total contributions over the period 2012-2017 would reach US\$1.5 million per donor.

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