



RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF
READINESS PREPARATION PROPOSAL PROJECT
APPROVED ON JUNE 29, 2016
TO
REPUBLIC OF COSTA RICA

JUNE 26, 2020

ENVIRONMENT, NATURAL RESOURCES AND BLUE ECONOMY

LATIN AMERICA AND CARIBBEAN

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ABBREVIATIONS AND ACRONYMS

ASP	<i>Áreas Silvestres Protegidas</i> [Wildlife Protected Areas]
CENIGA	<i>Centro Nacional de Información Geo-ambiental</i> [National Center for Geo-environmental Information]
COVIRENAS	<i>Comités de Vigilancia de los Recursos Naturales</i> [Natural Resources Monitoring Committees]
CERFs	<i>Contratos de Reducciones de Emisiones Forestales</i> [Contracts for Emission Reductions from Forests]
ER	Emission Reductions
ERPA	Emission Reductions Payment Agreement
ERPD	Emission Reductions Program Document
ESMF	Environmental and Social Management Framework
FONAFIFO	<i>Fondo Nacional de Financiamiento Forestal</i> [National Fund for Forest Financing]
FCPF	Forest Carbon Partnership Facility
MINAE	<i>Ministerio del Ambiente y Energía</i> [Ministry of Environment and Energy]
PAMS	Policies-Actions-Measures
PC	Participants Committee of the FCPF
PDO	Project Development Objective
PES	Payment for Environmental Services
PNE	<i>Patrimonio Natural del Estado</i> [State National Heritage]
REDD+	Reducing emissions from deforestation and forest degradation, sustainable management of forests, and conservation and enhancement of forest carbon stocks in developing countries (also referred as REDD+ in this document)
SIMOCUTE	National System for Monitoring Land Use and Coverage and Ecosystems
SINAC	<i>Sistema Nacional de Áreas de Conservación</i> [National System of Conservation Areas]
SINIA	<i>Sistema Nacional de Información Ambiental</i> [National Environmental Information System]
SIREFOR	<i>Sistema de Información de los Recursos Forestales de Costa Rica</i> [Costa Rican Forest Resources Information System]
SIS	Safeguards Information System
US\$	United States Dollar



BASIC DATA

Product Information

Project ID P123702	Financing Instrument
Original EA Category B	Current EA Category B
Approval Date June 29, 2016	Current Closing Date June 30, 2020

Organizations

Borrower Republic of Costa Rica	Responsible Agency Fondo Nacional de Financiamiento Forestal (FONAFIFO)
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Processing

Form Type Short Restructuring Paper	Based on the proposed changes this Restructuring type is Level 2
Decision Authority CD Decision	

Project Development Objective (PDO)

The objective of the original Grant is to assist the Recipient in carrying out the Additional Readiness Preparation Activities.

Summary Status of Financing

Ln/Cr/Tf	Approval	Signing	Effectiveness	Closing	Net Commitment	Disbursed	Undisbursed
TF0A2303	06/20/16	06/29/16	06/29/16	06/30/20	\$5,580,000	\$4,029,068	\$1,550,932
TF012692	06/29/12	07/10/12	07/10/12	09/30/15	\$3,600,000	\$3,016,860	\$0
TF094486	06/29/09	07/09/09	07/09/09	07/31/10	\$200,000	\$160,915	\$0



Policy Waiver(s)

Does this restructure trigger the need for any policy waiver(s)?

No

Explanation

I. PROJECT STATUS AND RATIONALE FOR RESTRUCTURING

A. Project Status

1. The Grant for the Readiness Preparation Proposal Project is funded by the Forest Carbon Partnership Facility (FCPF) of which the World Bank acts as a Trustee. The Grant supports the implementation of Reduced Emissions from Deforestation and Forest Degradation (REDD+) as per the Readiness Preparation Proposal approved by the FCPF. The Grant for an amount of US\$5.58 million was approved by the FCPF through Resolution PC/17/2014/1. The Grant Agreement, dated April 28, 2016, was declared effective on June 29, 2016 and had an original closing date of March 29, 2019. Costa Rica's benefited from two previous grants from the FCPF: the first one approved on July 9, 2009 for US\$0.2 million and the second one approved on June 29, 2012 for US\$3.6 million, resulting in a total funding from the FCPF for US\$9.38 million.
2. The overall long-term objective of the World Bank and FCPF engagement is to help Costa Rica reduce carbon emissions from deforestation and forest degradation, sustainably manage forests, and conserve and enhance forest carbon stocks (REDD) in a socially and environmentally sound manner, while accessing international financial incentives for local forest users, thereby helping to mitigate climate change at a global level.
3. **Implementation Progress:** The implementation of the Grant has been satisfactory. Currently, US\$4.03 million (72 percent) of Grant proceeds has been disbursed. Costa Rica, through the Ministry of Environment and Energy (MINAЕ), the National Fund for Forest Financing (FONAFIFO) and the National System of Conservation Areas (SINAC), has made advances on building upon activities and milestones completed under the earlier grants. MINAЕ has made significant progress in achieving the PDO through activities supporting all major aspects of the REDD+ Readiness process:
 - (a) *Component 1 - Readiness Organization and Consultation for REDD+:* (i) The REDD+ Secretariat is staffed; (ii) REDD+ Decree establishing the governance for the implementation of the strategy has been published; (iii) the consultation process in Indigenous Territories is well advanced; (iv) stakeholder dialogue has continued and documents such as the Environmental and Social Management Framework and the Grievance Redress Mechanism have undergone consultations.
 - (b) *Component 2 - REDD+ Strategy Preparation:* (i) The National REDD+ Strategy was finalized after a long consultation process; (ii) assessments on land use, land use change, forest law, policy and governance have been carried out; (iii) REDD+ Strategic Options have been advanced; (iv) an Implementation Framework has been finalized; (v) social and environmental impacts have been examined, along with the



preparation of the Involuntary Resettlement Policy Framework, Indigenous Peoples Planning Framework and Environmental and Social Management Framework.

(c) *Component 3 - National Forest Reference Levels/National Forest Emissions Levels:* Forest degradation has been included in the National Forest Reference Level, with technical improvements ongoing. The updated and adjusted Reference Level has already been presented in the Emission Reduction Program Document (ERPD) for the Emission Reduction Program (ERP) (P160368) that is under preparation.

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

4. The activities carried out to date have contributed towards the achievement of 13 out of 16 target indicators.
5. Procurement and Financial Management performance is rated satisfactory. The Environmental Assessment (EA) Category remains B and safeguards performance is rated satisfactory.

B. Rationale for restructuring

6. Although MINAE has made good progress, the unprecedented COVID-19 pandemic has impacted implementation and will most likely continue doing so for the next months. As a result, MINAE's ability to meet previously set deadlines and deliver on activities that are key for the achievement of the PDO within the current implementation period has been affected. Key activities impacted by COVID-19 include: (i) trainings for Indigenous Peoples, (ii) stakeholder consultation on the Benefit Sharing Plan, (iii) field work in communities to promote Contracts for Emission Reductions from Forests (CERFs), (iv) signing additional Payment for Environmental Services (PES) contracts; (v) and completion of the BSP and the Safeguards Package, etc. The requested extension will allow MINAE to focus on: (a) the completion of the design Emission Reductions Payment Agreement (ERPA) for Tranches A and B (for the ERP that is under preparation), including data to reduce the uncertainty of greenhouse gas (GHG) Emission Reductions (ER) volume estimations; (b) building the capacity of ER title transfer; (c) expanding the potential to generate ER through suggested Policies-Actions-Measures (PAMs) in the REDD+ Strategy; (d) continuing consultations with Indigenous Peoples; (e) completing the safeguards instruments, including ESMF, IRPF, Indigenous Peoples Planning Framework, GRM and Process Framework.
7. An extension of the Closing Date from June 30 to December 31, 2020 is proposed to carry out and finalize the above-mentioned activities, achieve the PDO and associated targets of three of the 16 indicators pending



completion, as well as ensure sustainability of the capacity building to manage and upgrade the information and associated systems in the medium and long term. The activities need to be completed so that the safeguards instruments, the BSP, and legal instruments can support negotiations and implementation of the ERP (P160368) that is under preparation.

- 8. To complete activities within the extended timeframe, MINAE has developed an Action Plan.

II. DESCRIPTION OF PROPOSED CHANGES

- 9. This is a Level II restructuring for a second extension of the Closing Date by six months from June 30, 2020 to December 31, 2020, for a cumulative period of 21 months from its original Closing Date on March 29, 2019. There are no changes to the PDO. The proposed extension and revised implementation schedule will allow MINAE to carry out the above-mentioned activities and to achieve the PDO.
- 10. The extension of the Closing Date fully complies with the Bank Directive for Investment Project Financing as: (i) the PDO remains achievable; (ii) the performance of MINAE remains satisfactory; (iii) the World Bank and MINAE agree on actions that will be undertaken to complete Grant activities; (iv) the Grant is not subject to suspension of disbursements; and (v) MINAE does not have any outstanding or qualified audit reports.
- 11. The proposed disbursement estimates are based on the detailed Action Plan that MINAE submitted along with the request for extension. Proposed estimates are presented and reflected in the agreed Action Plan.
- 12. The implementation schedule has been revised as per the Action Plan agreed with the Government.
- 13. Given the uncertainties with respect to the COVID-19 pandemic, a health emergency moderate risk (under “other risks”) is added. Nonetheless, MINAE maintains its commitment to the project objective and it is expected that the extension of the Closing Date and the agreed Action Plan will mitigate the time lost and allow the completion of activities by December 31, 2020. Thus, the overall risk category is rated as moderate.

III. SUMMARY OF CHANGES

	Changed	Not Changed
DDO Status		✓
Project's Development Objectives		✓
Results Framework		✓
Components and Cost		✓
Loan Closing Date(s)	✓	
Cancellations Proposed		✓



Reallocation between Disbursement Categories		✓
Disbursements Arrangements		✓
Disbursement Estimates	✓	
Overall Risk Rating		✓
EA category		✓
Institutional Arrangements		✓
Financial Management		✓
Procurement		✓
APA Reliance		✓
Implementation Schedule	✓	
Other Change(s)		✓
Economic and Financial Analysis		✓
Technical Analysis		✓
Social Analysis		✓
Environmental Analysis		✓
Implementing Agency		✓
DLIs		✓
Safeguard Policies Triggered		✓
Legal Covenants		✓

IV. DETAILED CHANGE(S)

LOAN CLOSING DATE(S)

Ln/Cr/Tf	Status	Original Closing	Revised Closing(s)	Proposed Closing	Proposed Deadline for Withdrawal Applications
TF0A2303	Effective	March 29, 2019	June 30, 2020	Dec 31, 2020	Apr 30, 2021

DISBURSEMENT ESTIMATES

Change in Disbursement Estimates



Year	Current	Proposed
2017	n/a	585,121
2018	n/a	803,349
2019	n/a	1,247,229
2020	n/a	1,393,369
2021	n/a	1,550,932
	5,580,000	5,580,000

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Rating at Approval	Current Rating
Political and Governance	● Moderate	● Moderate
Macroeconomic	● Substantial	● Moderate
Sector Strategies and Policies	● Low	● Low
Technical Design of Project or Program	● Substantial	● Low
Institutional Capacity for Implementation and Sustainability	● Substantial	● Low
Fiduciary	● Substantial	● Low
Environment and Social	● Moderate	● Low
Stakeholders	● Substantial	● Moderate
Other (COVID-19 emergency risk)		● Moderate
Overall	● Substantial	● Moderate