

PROJECT INFORMATION DOCUMENT (PID)
CONCEPT STAGE

Report No.: PIDC141592

Project Name	Nicaragua FCPF REDD Readiness (P120657)
Region	LATIN AMERICA AND CARIBBEAN
Country	Nicaragua
Project ID	P120657
Borrower(s)	Ministry of Finance and Public Credit
Implementing Agency	Ministry of Environment and Natural Resources
Environmental Category	B-Partial Assessment
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I. Introduction and Context

Country Context

With a Gross National Income per capita of US\$2,087 in 2015, Nicaragua is one of the poorest countries in Latin America. Although the situation has improved recently, approximately 30 percent of the country's 6.1 million inhabitants still live below the poverty line, and eight percent are considered extremely poor. Importantly, Nicaragua has steadily reduced poverty in the last decade, with a moderate annual real Gross Domestic Product (GDP) growth of roughly four percent per annum in the 2010-2015 period, comparing favorably with Latin American and Caribbean countries but trailing that of lower middle-income countries. More than half of Nicaraguans live in urban areas (57 percent), yet poverty remains mostly a rural phenomenon. Roughly one-third of the population (about 1.7 million Nicaraguans) lived with a per capita consumption below the overall official poverty line in 2014, of which 1.2 million were living in rural areas.

Sectoral and Institutional Context

The agriculture, livestock, forestry, and fishing sector are critical for Nicaragua's economy. Altogether, these activities accounted for 17 percent of GDP (2015), 15.8 percent of goods exports (2010–2015), and 30 percent of total employment (2014). Also, much of the decline in rural poverty in the country between 2005 and 2014 derived from higher earnings in agriculture, with the incremental change in incomes accounting for about 50 percent of total poverty reduction at the national level and almost 80 percent in rural areas of the country. However, Nicaragua's land-agriculture productivity is the lowest (near to US\$ 717/hectare) among regional peers suggesting significant inefficiencies in the allocation of resources and high returns to improvements in this area.

Increases in agricultural output so far have been achieved mainly through an expansion in the agriculture area, raising concerns on the current model based on the development of the agriculture frontier. Deforestation and unsustainable farming production systems and land-use practices have increased the risk of drought over the last decades, contributing to land degradation and erosion,

impairing soil retention capacity and exacerbating the damage caused by extreme precipitation events and storms. Since 1983, the forest cover has been reduced by half, to the almost four million hectares existing in 2015, as the agricultural frontier has advanced in an eastward direction from central Nicaragua towards the Caribbean coast. The annual deforestation rate between 2005 and 2015 has averaged 72,545 hectares annually, equivalent to a relative annual rate of deforestation of 1.8 percent. The extensive livestock grazing and annual and perennial crops are direct causes of deforestation.

On the other hand, the low value of forests is a critical underlying cause of deforestation. The lack of recognition of the environmental services provided by forests, compounded by inefficient forest production systems acts as an incentive for forest conversion to other, more profitable uses, negatively affecting the sector's economic performance. The forest sector went from producing nearly US\$18 million in 2002 to US\$5 million in 2009, and US\$12 million in 2012 when exports of wood products (including sawed wood) increased sharply through 2011. In GDP terms, the sector went from contributing nearly 1.2 percent in 2006 to 0.9 percent in 2014. Similarly, despite a sharp rise in 2015 to almost 4.6 percent, it decreased drastically to -0.1 percent in 2016. The persistent weak forest governance and low institutional capacity are undermining the forest sector potential.

The overarching development plan of the Government of Nicaragua (GoN) is the National Human Development Plan (PNDH), which sets forth policies to protect “Mother Earth” and promotes climate change adaptation and mitigation. Amongst others, the PNDH aims to contribute to human development by reinforcing respect for Nature and restoring lost habitats. To achieve this goal, some of the cross-cutting themes in the PNDH include: (i) environmental education; (ii) environment advocacy and protection; (iii) forest development; and (iv) sustainable land management. Responding to PNDH, the National Policy on Adaptation and Mitigation to Climate Change (PNAMCC) is another policy instrument related to the objectives of Reducing Emissions from Deforestation and Degradation (REDD+). This policy aims to address vulnerability and improve adaptation to climate change by reducing land use change from forest to agriculture. The PNAMCC is complemented with the National Environmental and Climate Change Strategy, which is the reference for the National Strategy of Avoided Deforestation (ENDE) under which Nicaragua proposes to develop its REDD+ Strategy. The World Bank has been supporting the preparation of the ENDE-REDD+ strategy, for which additional funding is being considered.

Nicaragua's REDD+ Process. The REDD+ Readiness process in Nicaragua began with the creation of the REDD+ dialogue platform in 2009, after the Forest Carbon Partnership Facility (FCPF) approval of the country's Readiness Program Idea Note. The main result of the platform was the successful preparation and presentation of Nicaragua's Readiness Preparation Proposal to the FCPF Readiness Fund in June 2011. The Ministry of Environment and Natural Resources (MARENA) started Readiness activities in 2014 through the original grant and, in 2015, presented an Emissions Reduction Program Idea Note to the FCPF Carbon Fund, which provides performance based payments against verified REDD+ results. Since 2016, MARENA and its REDD+ partners have been preparing the Emissions Reductions Program for the Caribbean Coast, the Bosawas Biosphere Reserve and the Indio Maiz Biological Reserve, under the principles and instruments of the ENDE-REDD+ drafted with the original grant.

The Additional Funding (AF) activities will continue supporting MARENA's capacity to implement the Nicaragua's roadmap to achieve REDD+ Readiness in its five Components, as follows:

- (1) REDD+ Readiness Coordination and Consultation
- (2) REDD+ Strategy Development
- (3) Forest Reference Emissions Level determination
- (4) Measurement, Reporting and Verification (MRV)

(5) monitor project implementation

Relationship to CAS

Consistency with the Nicaragua Country Partnership Strategy. The AF activities are consistent with the FY 2013-2017 Country Partnership Strategy (Report No. 69231-NI), discussed by the Executive Directors of the World Bank on November 13, 2012. The Country Partnership Strategy identifies transversal priority thematic areas, including: a) social development of indigenous communities; and b) disaster risk mitigation and climate adaptation. The AF grant will contribute to deepening the dialogue on forest governance and benefit-sharing mechanisms for future REDD+ activities in indigenous territories with large forest resources; and strengthening stakeholders' capacity on sustainable land use management, given the fact that land use change is the main driver of deforestation.

Alignment with the 2017 Nicaragua Systematic Country Diagnostic (SCD) priority Area 4: Reduction of vulnerabilities from climate change and management of natural resources (water, forestry, and land). With the SCD providing the basis for the preparation of the new Country Partnership Framework (CPF), it is expected that the proposed AF grant will be strongly relevant to the new CPF and will contribute to its priorities in terms of improving institutions for resilience and sustainability, as well as improved natural resource management and interventions focused on adaptation and mitigation.

Alignment with the IDA18 overarching theme, "Towards 2030: Investing in Growth, Resilience and Opportunity". The AF will contribute to help implement three of the special themes prioritized by the World Bank Group: (i) climate change; (ii) jobs and economic transformation; and, (iii) governance and institutions, that present specific development challenges and opportunities in the case of Nicaragua, and its forest, agriculture, and livestock sectors, as the main drivers of deforestation and forest degradation.

Contribution to implement the World Bank Forest Action Plan. With the AF, MARENA, in collaboration with the National Forest Institute (INAFOR) and the Ministry of Finance and Public Credit (MHCP), will help develop a portfolio of potential forest-smart investments in agroforestry and agro-silvo-pastoral systems, sustainable forest management and value-chain development, intensification of agricultural and livestock production to reduce pressure on forests, natural regeneration, and reforestation. These approaches will be mainstreamed in the revised National Forest Program.

The AF grant will complement other World-Bank financed projects such as the second Land Administration Project (P121152), which helped demarcate most of the indigenous territories in the Caribbean Coast of Nicaragua and is helping regularize land property rights in the Northern and Central regions of Nicaragua. Also, the AF will coordinate with the Caribbean Coast Food Security Project (P148809), which is supporting sustainable family farming activities in most areas of the future ENDE-REDD+ and Emission Reduction Program, or the IDA -18 Dry Corridor Climate-Resilient Agriculture project (P162982), and the Global Environmental Facility (GEF)-funded Resilient Landscapes Management project (P160688), both currently in preparation and would be implemented in the Northern and Central regions

II. Proposed Development Objective(s)

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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.

Key Results

The results of the original grant remain valid for the AF, these are:

- a. the ENDE-REDD+ strategy 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;
- b. the country has made progress towards the establishment of a National Forest Reference Emissions Levels 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;
- c. 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 MRV of Greenhouse Gases (GHG) emissions reductions and multiple benefits from REDD+ activities;
- d. the Strategic Environmental and Social Assessment (SESA) has been carried out and an Environmental and Social Management Framework (ESMF) is prepared; and
- e. 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.

Additional results indicators specific to the AF include the following:

- a. A portfolio of potential projects to implement the ENDE-REDD+ Strategy Options is identified.
- b. The Feedback Grievance Redress Mechanism for the Northern-Central-Pacific region of the country is finalized following the FCPF Carbon Fund's Methodological Framework.
- c. The National Forest Program is updated to reflect on the ENDE-REDD+ strategic interventions.
- d. The Caribbean Coast Development Strategy is updated to reflect on the ENDE-REDD+, the Emission Reduction Program and related strategic sector activities that are key to address the drivers of deforestation and degradation.

III. Preliminary Description

Concept Description

Component 1. Readiness Organization and Consultation (US\$1,886,174).

The objective of this component is to ensure broader participation of key REDD+ stakeholders by expanding and consolidating a multi-actor platform of dialogue, consultation, and capacity building on REDD+. Component 1 will finance consultancy services, goods, non-consultancy services, training, workshops, and operational costs incurred to implement the AF activities, including in coordination or cooperation with the National Institute of Territorial Studies (INETER), INAFOR, MHCP, and others.

Sub-Component 1a. National REDD+ Management Arrangements (US\$1,560,174).

The AF will strengthen the established REDD+ Readiness Management Arrangements on the Caribbean Coast, and will intensify the REDD+ process in the Northern, and Central regions of the country. The AF will help complete the Feedback Redress Grievance Mechanism of the ENDE-REDD+ and strengthen inter-institutional coordination between MARENA, MHCP, INETER, INAFOR, the Presidential Secretariat for National Policies, the National Agency for Promotion of Foreign Investments (PRONICARAGUA), and the Presidential Secretariat for Development of the Caribbean Coast. The MHCP and the Presidential Secretariat for National Policies will help MARENA ensure alignment of the ENDE-REDD+ strategy options with national priorities, and improve the engagement of the agriculture public sector institutions.

Sub-Component 1b. Consultation, Participation and Outreach (US\$326,000).

The AF will support outreach activities and stakeholder engagements in the Northern, and Central regions of the country. It will also focus on strengthening the national cross-sectoral dialogue on sustainable land-use to counter deforestation and forest degradation, including a broader participation of the Ministry of Agriculture (MAG) and the Ministry of Family Economy (MEFFCA) in the preparation of the second and final version of the ENDE-REDD+ Strategy.

Component 2. REDD+ Strategy Preparation (US\$798,900).

The objective of this component is to finalize preparation of the ENDE-REDD+ Strategy by completing the assessment of the drivers of deforestation; deepening the analysis of legal, institutional, and forest governance to identify barriers to Strategy options; finalizing the ESMF with additional SESA activities in the Northern, and Central regions of Nicaragua; and proposing a regulatory framework for the existing National Carbon Fund. Component 2 will finance consultancy services, goods, non-consultancy services, training, workshops, and operational costs incurred to implement the AF activities, including in coordination or cooperation with INETER, INAFOR, MHCP, and others.

Sub-Component 2a. Assessment of Land Use, Land-Use Change Drivers, Forest Law, Policy and Governance (US\$9,000).

The AF will strengthen MARENA's capacity to identify alternatives to improve forest law enforcement and land governance and to deepen its understanding of the drivers of forest degradation.

Sub-Component 2b. REDD+ Strategy Options (US\$147,500).

The AF will help strengthen MARENA's capacity to identify effective alternatives to reduce deforestation and forest degradation in the Bosawas and Indio Maiz Biosphere Reserves. Also, the AF will help MARENA assess the economic feasibility of the draft ENDE-REDD+ strategy options and design appropriate incentives to promote REDD+ activities. The AF will also help MARENA improve the conditions for private sector involvement in low-deforestation land-use activities and update the National Forest Program and the Forest Regency Mechanism.

Sub-Component 2c. Implementation Framework (US\$523,000).

The AF will help MARENA deepen the legal, institutional and forest governance framework analysis included in the first version of the ENDE-REDD+ strategy. The AF will also help draft bylaws for the National Carbon Fund to promote sustainable land-use development activities. In addition, the AF will help formalize the MHCP's engagement in the ENDE-REDD+ process, through which it will lead studies and activities needed to promote public private partnerships, define a national financial mechanism to implement the ENDE-REDD+ strategy, implement a roadmap to comply with FCPF's requirements on benefit sharing, and define a national registry of emission reductions.

Sub-Component 2d. Strategic Environmental and Social Assessment and Environmental & Social Framework Management (US\$119,400).

The AF will allow MARENA to finalize the draft ESMF. MARENA will incorporate World Bank's recommendation to improve the draft Involuntary Resettlement Framework, by elaborating the Resettlement Plans. Also, MARENA will improve the Indigenous Peoples Framework and the Safeguards Information System. With the AF, MARENA will implement the SESA Plan in the Central and Northern regions, on which basis, a revised version of the ESMF will be prepared.

Component 3. Forests Reference Emissions Levels (US\$498,800).

The objective of this component is to finalize the Forest Reference Emissions Level and support

Greenhouse Gases (GHG) inventory development, including to contribute to preparation of National Communications to the United Nations Framework Convention on Climate Change. Component 3 will finance consultancy services, goods, non-consultancy services, training, workshops, and operational costs incurred to implement the AF activities, including in coordination or cooperation with INETER, INAFOR, MHCP, and others.

Component 4. NFMS for forests and safeguards (US\$1,739,388).

The objective of this component is to finalize the design and operationalization of the NFMS and of the Information System for Multiple Benefits and Safeguards. Component 4 will finance consultancy services, goods, non-consultancy services, training, workshops, and operational costs incurred to implement the AF activities, including in coordination or cooperation with INETER, INAFOR, MHCP, and others.

Sub-Component 4a. NFMS (US\$1,719,388).

The AF will allow MARENA to finance the cost of the MRV system coordination and implementation. The AF activities also include acquiring technological equipment to facilitate forest monitoring, as well as software, licenses, and vehicles. The MRV institutions will take advantage of AF availability to improve systems that are essential for the MRV system functioning. INAFOR, for example, will strengthen the Forestry Administration Information System and its Forestry Traceability System. INETER, will develop a National Plan for Forest-Cover Monitoring. MARENA will support local communities' capacity to participate in forest monitoring.

Sub-Component 4b. Information System for Multiple Benefits, Other Impacts, Governance, and Safeguards (US\$20,000).

MARENA will improve the sub-national nodes of the National Environment Information System. With regards to the Safeguards Information System, the UNFCCC requires countries to report on how REDD+ stakeholders and institutions are respecting safeguards. The AF will help MARENA make progress in defining the systems to monitor non-carbon aspects of the ENDE-REDD+ strategy.

Component 5. Project monitoring system (US\$76,738).

The objective of this component is to finalize the ENDE-REDD+ Monitoring and Evaluation Plan. The AF will continue supporting MARENA's capacity to monitor and evaluate the project progress, including complying with FCPF and World Bank reporting requirements. Component 5 will finance consultancy services, goods, non-consultancy services, training, workshops, and operational costs incurred to implement the AF activities.

IV. Safeguard Policies that Might Apply

Safeguard Policies Triggered by the Project	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. Financing (in USD Million)

Total Project Cost:	5.00	Total Bank Financing:	0.00
Financing Gap:	0.00		
Financing Source			Amount
Borrower			0.00
Readiness Fund of the Forest Carbon Partnership Facility			5.00
Total			5.00

VI. Contact point

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