



Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 18-Jan-2023 | Report No: PIDA35146



BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Costa Rica	P179861	Second Costa Rica Disaster Risk Management Development Policy Loan with a CAT DDO (P179861)	
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
LATIN AMERICA AND CARIBBEAN	23-Mar-2023	Urban, Resilience and Land	Development Policy Financing
Borrower(s)	Implementing Agency		
Republic of Costa Rica	Ministry of Finance of Costa Rica		

Proposed Development Objective(s)

The PDO is to enhance the Government of Costa Rica’s capacity to manage disaster risk resulting from the occurrence of natural and health related hazards and the impacts of climate change.

Financing (in US\$, Millions)

SUMMARY

Total Financing	150.00
------------------------	--------

DETAILS

Total World Bank Group Financing	150.00
World Bank Lending	150.00

Decision

The review did authorize the team to appraise and negotiate



Introduction and Context

Country Context

1. **The proposed operation is a standalone US\$150 million Disaster Risk Management (DRM) Development Policy Loan (DPL) with a Catastrophe Deferred Drawdown Option (Cat DDO).**¹ The operation is designed to enhance the Government of Costa Rica's capacity to manage the disaster risk resulting from natural and health-related hazards, including the adverse effects of climate change and disease outbreaks. This is Costa Rica's second Cat DDO, and it builds on the country's evolving regulatory and institutional frameworks for DRM, climate change adaptation (CCA), and territorial development. As a policy instrument, the first Cat DDO provided a solid foundation for the country's DRM program, and the second operation will build on that success.²

2. **Costa Rica is highly vulnerable to extreme hydrometeorological conditions and climate change will increase the level of related risks of the country.** Due to a combination of geographic variations and economic factors, Costa Rica is highly vulnerable to extreme climate events and natural hazards. Part of this vulnerability is due to the settlements in coastal zones and other low-lying watersheds.³ Increased intensity and frequency of droughts also pose significant risks for agriculture and water resource availability in the northern pacific regions.⁴ The country also has areas prone to volcanic eruptions and unstable lands which have been degraded by wide-spread cattle ranching or poorly planned settlements prone to landslides and flooding.⁵ The National Commission for Risk Prevention and Emergency Response (CNE) and the Ministry of National Planning and Economic policy (MIDEPLAN) estimate that US\$3,358 million in losses were recorded between 2005 and 2020 in the areas of infrastructure, service interruption, and production due to disasters related to natural hazards.⁶ It is also estimated that 77.9 percent of the population and 80.1 percent of GDP are subject to high risk from multiple hazards⁷ and historical statistical and probabilistic models show that the country has a long-term average annual loss (i.e., government financed losses) exceeding US\$200 million. In 2017, Tropical Storm Nate, the event with the greatest impact in the last 25 years, caused losses exceeding US\$380 million according to data from the CNE. Tropical storm Eta in 2020, combined with severe rainfall on the Caribbean coast in July 2021 generated impacts on 70 percent of the country's territory, especially affecting less developed regions and more vulnerable groups, exacerbating territorial inequalities.

3. **Catastrophic events have had a disproportionate impact on the poor and vulnerable, who have very limited capacity to cope with the loss of housing, livelihoods, and access to basic services.** Women, rural communities, Indigenous Peoples, Afro-descendant communities, and other vulnerable groups experience increases in their social, economic, and environmental vulnerability due to the recurring impact of climate related disasters, while increasing their exposure to malnutrition,⁸ malaria, and the COVID-19 pandemic. Climate-induced flooding can increase water-borne and vector-borne illnesses.⁹ Further, these climate-related catastrophic events are causing the deterioration of entire natural

¹ The Cat DDO instrument, created by the Board of Executive Directors in 2008, enables countries to immediately access a prearranged amount of funding upon declaration of a State of Emergency due to a natural or climate-related hazard or health emergency.

² Disaster Risk Management Development Policy Loan with a Cat DDO (P111926), approved in 2008 in the amount of US\$65 million, renewed twice and disbursed in six occasions, and closed in 2017.

³ Climate Risk Profile: Costa Rica (2021): The World Bank Group

⁴ Idem.

⁵ World Bank (2011). Climate Risk and Adaptation Country Profile: Costa Rica. URL: https://climateknowledgeportal.worldbank.org/sites/default/files/2018-10/wb_gfdrr_climate_change_country_profile_for_CRI.pdf

⁶ Economic losses caused by natural phenomena. MIDEPLAN.

⁷ <https://www.worldbank.org/en/results/2019/04/23/strengthening-disaster-risk-management-in-costa-rica>

⁸ Ibid.

⁹ <https://documents1.worldbank.org/curated/en/552631515568426482/pdf/122328-WP-PUBLIC-WorldBankClimateChangeandHealthDiagnosticMethodologyJan.pdf>



ecosystems, including forests, coastlines, agricultural areas, and fisheries, which a large share of the vulnerable population depend on. Unplanned urbanization and the differentiated vulnerability of the population and public infrastructure are contributing to increasingly high levels of risk, particularly for the poor segments of the population.

4. **The second Cat DDO builds on the remarkable progress achieved by Costa Rica on DRM and supports policy reforms to continue strengthening the institutional framework for disaster and climate resilience, with a focus on inclusion, territorial capacity, and risk financing.** The country has been systematically incorporating DRM and CCA in its national development policy framework and has developed policies and plans in different sectors, for example for the planning and implementation of transport infrastructure. The country has also made significant progress in terms of its disaster response system and building codes, environmental regulations, and land use planning, thus reducing the impact of disasters associated with natural hazards. Recently, the regulatory and institutional framework for DRM was strengthened with the approval of a legal framework that requires all new public investments to follow best DRM practices and include a risk assessment, with a roadmap to mainstream gender and inclusion in the country's DRM framework, and with the approval of the country's first disaster management financing strategy. This operation supports policy actions for the successful implementation of such reforms, ensuring that the country remains at the forefront of inclusive and prospective DRM in the region.

Relationship to CPF

5. **The program is aligned with the Country Partnership Framework (CPF) FY16-FY20 discussed by the World Bank's Board of Executive Directors on May 27, 2015, and the Performance and Learning Review (PLR) of the CPF considered by the Board on January 13, 2020, which extended the CPF period to FY22.**¹⁰ The program directly addresses critical bottlenecks for development, namely Costa Rica's high exposure to natural hazards and territorial inequalities. As per the CPF, Costa Rica 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, 77.9 percent of the population and 80.1 percent of GDP subject to three or more hazards, including floods, cyclones, landslides, earthquakes, and volcanoes, among others. This project directly links to Pillar 1 – Reducing Constraints to Productive Inclusion – through Objective 3 (Promote sustainable investments in energy and transport to support competitiveness); and Pillar 2 – Bolstering Fiscal, Social, and Environmental Sustainability – through Objective 6 (Expand capacity to promote climate-smart and environmentally sustainable development). This Cat DDO supports policy reforms to strengthen the country's institutional framework for climate change adaptation, a regional and global public good consistent with the WBG's climate change commitments. It also addresses long-term inequities that put women, the rural population, and Indigenous Peoples at greater risk of adverse impacts from natural events and health emergencies.

6. **The proposed operation is consistent with World Bank Group (WBG) corporate priorities, the Global Crisis Response Framework (GCRF) and the Green, Resilient, and Inclusive Development (GRID) approach.** As per the GCRF, the overall program falls directly under Pillar 3, Strengthening Resilience; and Pillar 4, Strengthening Policies, Institutions and Investments for Rebuilding Better, as it enables the country to secure pre-arranged funding to respond to climate-related shocks. The CAT DDO enhances Costa Rica's macro-fiscal resilience providing immediate access to financial support contingent on the occurrence of emergencies derived from health, natural, and climate-related hazards. Further, the operation provides the country's first tier of disaster risk financing and supports the development of strategies to transfer risk to financial markets. Additionally, the operation complements operations, namely the (i) Costa Rica Third Fiscal and Decarbonization Management DPL (P1177029), and the (ii) the Costa Rica Climate Resilient Recovery and Territorial Development Project (P178049), currently in preparation, which aims to increase access to disaster and climate resilient infrastructure and services in vulnerable regions of Costa Rica.

¹⁰ CPF Report No. 94686-CR, PLR Report No. 143466-CR



C. Proposed Development Objective(s)

7. The Program Development Objective (PDO) of the proposed Cat DDO is to enhance the Government of Costa Rica’s capacity to manage disaster risk resulting from the occurrence of natural and health related hazards and the impacts of climate change. This objective will be achieved through strategic support to policy, regulatory, and institutional reforms implemented by the government in furtherance of its DRM program.

Key Results

Indicator Name	Baseline	Target
PA1. Results indicator 1A: Adoption and implementation of new or improved risk financing instruments at the sovereign, sectoral, or private sector levels	0; 2023	2; [2026]
PA1. Results indicator 1B: Financial preparedness plans and reconstruction/recovery plans and budgets that apply gender-differentiated impact and intersectional analysis	0; 2023	100%; [2026]
PA1. Results indicator 1C: Disaster Risk Financing Strategy Pillar action plans approved by the financial management coordination instance (ICO) and achievement of agreed implementation progress	0; 2023	4; [2026]
PA2. Results indicator 2A: Number of municipal DRM committees adopting the GBV prevention and management protocols for emergency situations	0; 2023	50; [2026]
PA2. Results indicator 2B: Percent increase in the share of female participants in local DRM committees who consider their participation has informed local programs and strategies for DRM and CCA	0; 2023	25; [2026]
PA3. Results indicator 3A: Cantonal climate risk adaptation plans approved by Municipal Councils	22; 2023	50; [2026]
PA3. Results indicator 3B: Emergency and Adaptation Plan for Climate Events in indigenous territories prepared in consultation with indigenous peoples organizations	0; 2023	1; [2026]
PA4. Results indicator 4A: Municipalities of the Sarapiquí Basin adopting the comprehensive basin management plan in their territorial management instruments	0; 2023	3; [2026]
PA4. Results indicator 4B: Number of non-structural climate adaptation measures strengthened at the Sarapiquí Basin scale	0; 2023	3; [2026]

D. Project Description



8. **The proposed operation provides the government contingent financing to quickly access funds upon a qualified Emergency Declaration (*Declaración de Emergencia*) resulting from adverse natural hazards and including public health related emergencies.** The Cat DDO allows Costa Rica to prepare for disasters, other adverse climate impacts, and epidemics by securing access to up to US\$150 million before an event materializes and before funds from other sources (e.g., budget reallocations, concessional funding, bilateral aid, reconstruction loans) are mobilized. Funds may be drawn upon the declaration of a State of Emergency in part or all the Costa Rican territory, as a result of an imminent or occurring catastrophe generated by natural phenomena or health related events under terms and conditions specified in the Loan Agreement. The drawdown period for this operation will be three years. The Cat DDO may be renewed four times for up to three years each time, for a total deferral period of 15 years. Renewals require that the Member Country's implementation of the program set out in its letter of development policy (LDP) remains satisfactory to the World Bank and that the macroeconomic policy framework is adequate.

9. **The objective of the proposed operation is expected to be achieved through a program of legal, institutional, operational, and regulatory reforms related to DRM and climate resilience organized around two policy areas for institutional strengthening.** Policy Area 1 comprises crosscutting reforms of the national framework for DRM and CCA through the approval of the country's first disaster risk financing strategy; the implementation of actions to mainstream gender and inclusion into the country's risk management system; and the development and implementation of the climate change adaptation plan, along with sectoral plans for the protection of critical infrastructure. Policy Area 2 includes reforms aiming at increasing and defining DRM responsibilities at the territorial, to ensure the protection of vulnerable basins and to strengthen territorial management.

Policy Area 1. Consolidating the institutional framework of the National Disaster Risk Management System to reduce underlying vulnerabilities and to increase capacity for financial resilience.

10. **Prior Action 1 - The Borrower has taken measures to strengthen the inclusive and resilient financial management of disaster risks and climate change by adopting a national strategy for financial management of disaster risks and approving mandatory requirements for its implementation.** In line with the National Policy for Risk Management, the Ministry of Finance, in coordination with CNE and MIDEPLAN, developed, approved by decree, and published the National Disaster Risk Financing Strategy¹¹ (DRFS) as the institutional mechanism to strengthen fiscal resilience against disaster risks including the impacts of climate change. The approval of Decree No.43663 makes the DRFS a mandatory policy for the whole of the government and places a direct responsibility on the Ministry of Finance and the CNE to ensure implementation, coordination, monitoring, and accountability of actions established in the DRFS. The implementation of the DRF Strategy will enable better financial administration of climate and disaster risk, allowing the country to better assess disaster risk impacts on vulnerable populations with an emphasis on women; to reduce social, economic, and macroeconomic impacts; and to improve budget planning for post-disaster public spending. The National Strategy and its operational implementation plan will become the guiding institutional framework for long-term planning and to promote and disseminate the proposed mechanisms and instruments. It is expected that the Ministry of Finance and the CNE will work together with other government entities and sectors identified in the operational implementation plan.

11. **Prior Action 2 – The CNE has approved a strategy for mainstreaming gender equality in the national risk management system, to guarantee the inclusion of gender equality, non-discrimination, and an intersectional approach in the analysis of differentiated vulnerabilities within the following three multisectoral subsystems: (a) risk reduction, (b) preparedness and response, and (c) recovery.** The Strategy provides a mandatory framework for the inclusion of gender equality in the risk reduction, preparedness and response, and recovery processes and defines responsibilities,

¹¹ Executive Decree N°43663-H, September 26 of 2022.



goals, and specific implementation and monitoring mechanisms for gender equality in the National DRM Policy and Action Plan. The adoption of the Strategy will strengthen the country's institutional arrangements within the National Risk Management System to integrate gender equality and gender violence prevention in emergencies, promoting gender-sensitive and non-discriminatory resource allocation, and strengthening women's voice and agency in disaster and climate resilience decision-making at the local level.¹²

12. **Prior Action 3 – The Borrower has taken measures to increase climate change adaptation in key government sectors at the national and regional level by adopting the action plan for the National Policy on Climate Change and approving mandatory requirements for its implementation.** The approval of the 2022-2026 Climate Adaptation Action Plan marks an important step in the government's commitment towards longer-term resilience against climate-related shocks. The plan guides the 2018-2030 National Climate Change Adaptation Policy (PNACC) implementation during the 2022-2026 period, defining sectoral and territorial responsibilities, goals, monitoring mechanisms, and mainstreaming an approach within all government agencies that places climate resilience as a top government priority. The Plan also prioritizes the protection of the most vulnerable populations – notably women, indigenous peoples, Afro-descendants, migrants, persons with disabilities, amongst others – and takes advantage of opportunities to innovate and transform the productive sectors to ensure the continuity of services, thus in full alignment with Prior Actions 1 and 2.

Policy Area 2. Strengthening of territorial capacities to promote climate adaptation through the implementation of regional planning instruments.

13. **Prior Action 4 – The Borrower has strengthened its regional and territorial management tools for enhanced integrated water resources management in the Sarapiquí basin through the approval of a legal framework including risk management and climate change adaptation measures for the environmental protection of the basin and planning and management instruments to promote the conservation and sustainable development of its biodiversity and water resources.** This regulation establishes an environmental safeguard for 25 years to preserve the natural, cultural, and economic resources of the basin. In the absence of national regulation for sustainable and comprehensive management of river basins, the Sarapiquí River basin protection law represents an important step towards generating knowledge and new experience for developing an institutional framework while strengthening national and subnational capacities for hazard control and natural resource management in the territory. With the enactment of this law, the Government of Costa Rica creates institutional capacity and territorial-environmental planning instruments at a local level to enable a comprehensive management including climate resilience and integrated flood risk management measures.

E. Implementation

Institutional and Implementation Arrangements

14. **The Ministry of Finance will be the main counterpart agency and will share responsibility for implementation of the program with the National Commission for Risk Prevention and Emergency Response (CNE).** Throughout the drawdown period, the Bank will periodically monitor the satisfactory implementation of the DRM program.

F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

¹² CNE has agreed to implement an annual perception survey of women in local DRM committees to measure their impact in decision making processes



15. **This proposed Cat DDO is expected to have a positive indirect effect on poverty reduction, as well as positive social and environmental impacts.** Policies supported by this operation will support the government's efforts to strengthen its DRM and CCA frameworks, enabling it to respond to natural catastrophes and health-related emergencies while protecting ongoing programs aimed at improving the lives of vulnerable groups. Global experience has shown that catastrophic events have a disproportionate impact on the poor and vulnerable, who have a limited capacity to cope with the loss of housing, access to basic services, and livelihoods. The policies supported under this operation are not expected to reduce poverty directly, but rather contribute to ensuring the sustainability of ongoing social protection programs for the poor in the event of a shock. Improvements in the national DRM framework, including vulnerability reduction strategies, are expected to benefit the poor by preventing increased poverty in the event of an adverse natural event that leads to damaged productive assets, job losses and disruption of public services.

16. **Policies supported under this operation are expected to reduce the vulnerability of women, Indigenous Peoples, and other vulnerable populations to natural hazards and health emergencies.** Policy Area 1, on consolidating the institutional framework of the National Disaster Risk Management System, will support the government in the access to new or improved risk financing instruments at the sovereign, sectoral, or private sector levels, increasing the government's fiscal resilience to shocks that have disproportionate impacts on the poor and vulnerable. Additionally, the reforms under Policy Area 1 should help to better inform and shorten the interval between a disaster and response/recovery efforts, thereby reducing the prevalence of negative coping strategies by impoverished families. The reforms will also promote a comprehensive approach to reduce the exposure and vulnerability of women to climate and disaster risk and increase their preparedness and coping capacity, and result in better access to information on climate change adaptation investments and the flow of disaster financing, helping to increase its social accountability. Policy Area 2 on strengthening territorial capacities will also likely have indirect social benefits by increasing equitable access to and use of water resources, and by improving the quality of municipal planning and ensuring that the specific disaster-related needs of poor and vulnerable communities are considered. The Prior Actions under this Policy Area will help to promote better public understanding and dialogue between national government agencies and territorial management units—and within the management units at the provincial and municipal levels—about their responsibilities if a disaster strikes, and the types of measures that can be implemented to mitigate its impacts.

Environmental, Forests, and Other Natural Resource Aspects

17. **The proposed prior actions supported by this Cat DDO are expected to have a neutral or direct positive effects on Costa Rica's environment, water, forests, and other natural resources.** Strengthening the government's policies and capacity to manage disasters risks, enhance climate adaptation and increase climate resilience of vulnerable populations and ecosystems in urban and territorial areas, will help preserve and sustain natural resources and the environment.

18. **Prior Actions under Policy Area 1 are expected to have neutral to positive effects in the environment, forests, and other natural resources.** Under Prior Action 1, the country will increase its capacity to mobilize and allocate resources to finance resilient investments and emergency requirements, reducing the vulnerability of people, assets, with no negative effects envisaged for the environment. Prior Action 2 will contribute to mainstream gender equality in the National DRM system, reducing women's exposure and vulnerability and increasing their preparedness and coping capacity. Prior Action 3 will consolidate the country's commitment to climate change adaptation, which is envisaged to have direct positive impacts on the environment and natural resources through sectoral and regional actions and investments that embed sustainability and risk informed approaches.

19. **Reforms under Policy Area 2 are expected to have direct positive impacts on the environment and natural**



resources through the strengthening of territorial capacities to ensure environmental protection and regional planning instruments. Prior Action 4 will promote the implementation of hazard control, risk reduction, environmental conservation, and climate adaptation initiatives in the Sarapiquí basin river, increasing the resilience of its population and the conservation of its natural ecosystems.

G. Risks and Mitigation

20. **The overall risk of the operation is Moderate.** The most relevant risk to the achievement of the program's development objective is the macroeconomic risk, which is rated Substantial given the country fiscal stance and relatively high financing costs, which carries implications for public debt dynamics. If the macroeconomic stance worsens, the country may be prevented from renewing the Cat DDO operation and would lose one of its disaster risk financing instruments. However, the implementation of the 2018 fiscal reform, coupled with additional measures such as support from the World Bank and the IMF, is expected to stabilize the debt ratio by reaching a primary surplus in 2022 onwards if the government continues advancing the reform agenda. Macroeconomic risk is further mitigated by the country's low external indebtedness ratios by the public (which mainly borrows domestically) and private sectors, healthy reserves, and a strong export sector. In addition, its monetary framework is credible and its existing growth fundamentals are sound, including continued attraction of FDI flows and increasing exports of sophisticated products and services.

CONTACT POINT

World Bank

Abigail C. Baca, Felipe Montoya Pino
Senior Disaster Risk Management Specialist

Borrower/Client/Recipient

Republic of Costa Rica
Melvin Quiros Romero
Director of Public Credit
quirosrme@hacienda.go.cr

Implementing Agencies

Ministry of Finance of Costa Rica
Melvin Quiroz Romero
Director of Public Credit
Quirosrme@hacienda.go.cr



FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: <http://www.worldbank.org/projects>

APPROVAL

Task Team Leader(s):	Abigail C. Baca, Felipe Montoya Pino
----------------------	--------------------------------------

Approved By

Country Director:	Joelle Beatrice Dehasse	06-Dec-2022
-------------------	-------------------------	-------------