



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 01-Nov-2022 | Report No: PIDC34953



BASIC INFORMATION

A. Basic Project Data

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

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

DETAILS

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| Total World Bank Group Financing | 150.00 |
| World Bank Lending | 150.00 |

Decision

The review did authorize the preparation to continue

B. 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 support efforts 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 the second time Costa Rica requests the Bank's support through a DPL with a 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 DPL with a Cat DDO – the first Cat DDO approved by the World Bank – 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 water scarcity, and climate change will increase the level of exposure and vulnerability 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 presence of populations in areas exposed to sea level rise.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 widespread 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 between 2005 and 2020 US\$3,358 million in losses were recorded in the areas of infrastructure, services, 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 hazards.⁷ 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 storms Eta and Iota 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 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.

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 and closed in 2017.

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

⁴ Climate Risk Profile: Costa Rica (2021): The World Bank Group

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

⁶ Pérdidas Económicas Ocasionadas por Fenómenos Naturales. 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>



4. **This second Cat DDO supports policy reforms directed towards strengthening the institutional framework for disaster risk reduction, financing, and response.** The country has been systematically incorporating disaster risk management in its national development policy framework and has developed disaster risk management 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 mitigating the impact of disasters associated with natural hazards. Recently, the regulatory and institutional framework for disaster risk management was strengthened with 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. **This Second Cat DDO 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 one of the main bottlenecks for development, namely Costa Rica's high exposure to natural hazards and territorial inequalities, and 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).

6. **The proposed operation is consistent with World Bank Group (WBG) corporate priorities and the World Bank's Green, Resilient, and Inclusive Development (GRID) approach.** The Cat DDO focuses squarely on improving Costa Rica's institutional capacity for DRM, and particularly its ability to carry out sustained climate and natural hazard identification, monitoring, and risk assessments, while simultaneously promoting sustainability and inclusiveness. This Cat DDO supports policy reforms 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. 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 is complemented by the US\$350 million Costa Rica Climate Resilient Recovery and Territorial Development Project (P178049), currently in preparation, which aims to increase access to disaster and climate resilient infrastructure services in vulnerable regions of Costa Rica.

C. Proposed Development Objective(s)

7. **The Program Development Objective (PDO) of the proposed Cat DDO operation 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. The operation builds on the

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



successful implementation and achievements of the first Cat DDO¹¹ and reflects the ongoing policy dialogue and collaboration between the Bank and the Government of Costa Rica on DRM and climate change adaptation. The proposed operation is fully aligned with the government's DRM program and its efforts to strengthen identified institutional, financial and policy gaps. It is also closely aligned with the priorities under the 2020-2025 National Risk Management Plan; the 2018-2030 National Climate Change Adaptation Policy (PNACC); and the Government Plan 2022-2026. Structured around two policy areas and five prior actions, the operation supports strategic actions aimed at increasing financial resilience against shocks; integrating climate, natural hazard, and gender-responsive climate risk reduction considerations into the government's investment planning processes; and promoting sustainable and risk-informed planning at the territorial level.

Key Results

8. The operation addresses the following policy areas:

- **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.
- **Policy Area 2.** Strengthening of territorial capacities for disaster and climate resilience to improve environmental protection, continuity of services, and implementation of regional planning instruments.

D. Concept Description

9. **The proposed operation provides a dedicated line of contingent financing to enable the government to quickly disburse funds upon the declaration of 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 financing before an event materializes and before funds from other sources (e.g., budget reallocations, concessional funding, bilateral aid, reconstruction loans) are mobilized. By combining an important liquidity tool with the equally important component of DRM policy advice and dialogue, the operation will provide adequate resources and technical assistance to enhance the sustainability of reforms and support the achievement of program outcomes. This approach will contribute to breaking the vicious cycle of unresolved social and economic development gaps that exacerbate the impacts of recurrent shocks on vulnerable populations.

10. **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 regional and local level, to ensure the protection of vulnerable basins and to strengthen territorial management in municipalities.

¹¹ The operation, in the amount of US\$65 million, was approved by the Bank's Board of Directors on September 16, 2008, and declared effective on March 5, 2009. The original closing date was October 30, 2011. This first DPL with a Cat DDO was renewed twice, for a total duration of nine years, and it closed October 30, 2017.

<https://worldbankgroup.sharepoint.com/sites/P111926/Shared%20Documents/Forms/AllItems.aspx?id=%2Fsites%2FP111926%2FShared%20Documents%2FProject%2FImplementation%20Completion%20and%20Results%20Report%20%2D%20Costa%20Rica%20Catastrophe%20Deferred%20D%2Edocx&parent=%2Fsites%2FP111926%2FShared%20Documents%2FProject%2F>



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

11. **Prior Action 1- The Borrower has approved an inclusive and resilient National Strategy for the Financial Management of Disaster Risks and Climate Change (DRFS)**¹². In line with the National Policy for Risk Management, the Ministry of Finance, in coordination with CNE and MIDEPLAN, developed, approved, and published the DRFS as the policy framework to strengthen fiscal resiliency against disaster risks. The DRFS emphasizes the need to: (i) update and consolidate disaster-related fiscal risk profiles by identifying and estimating explicit and implicit contingent liabilities, continue assessing disaster risk in public assets; (ii) ensure adequate financing to face these fiscal risks by assessing and adding new DRF instruments such as new contingent credit lines, disaster insurance policies with CCRIF SPC, Cat Bonds and promotion of insurance schemes for critical infrastructure, PPP infrastructure contracts, and in vulnerable sectors such as agriculture; (iii) strengthen the resilience of public investments in multiple sectors, and (iv) promote communication, transparency and accountability of DRM financial management.

12. **Prior Action 2 - The National Commission for Risk Prevention and Emergency Response (CNE) has adopted the Strategy for Mainstreaming a Gender Equality Approach in the National Risk Management System (NRMS)**. With the approval of the strategy, the Government of Costa Rica moves forward with the inclusion of gender-based strategic actions and indicators in the National Risk Management Action Plan for each DRM process. The Strategy provides a mandatory framework for the inclusion of gender equality in the risk reduction, preparedness and response, and recovery processes included in the National DRM Policy and Action Plan, which establish gender equality as a cross-cutting approach. The implementation of these actions is assigned to specific public entities within the NRMS and are expected to be completed by 2026.

13. **Prior Action 3 - The Borrower has endorsed its commitment to climate change action in key government sectors through the development, approval, and publication of the 2022-2026 Action Plan of the National Policy for Climate Change Adaptation**. The approval of this Plan marks an important step in the government's commitment towards longer-term resilience against climate-related shocks, and its implementation will imply that public institutions, both at the sectoral and territorial level, will embed climate adaptation considerations within their annual investment plans, thus allowing the country to advance in meeting its climate change goals. The Plan also prioritizes the protection of the most vulnerable populations – notably women and Indigenous Peoples – and takes advantage of opportunities to innovate and transform the productive sectors to ensure the continuity of services, thus being in full alignment with PA1 and PA2.

Policy Area 2. Strengthening of territorial capacities to ensure environmental protection, continuity of services, and implementation of regional planning instruments

14. **Prior Action 4 – The Borrower has reinforced its regional and territorial management tools for enhanced integrated water resources management in the Sarapiquí basin, including risk management and climate change adaptation measures**. This Law establishes an environmental safeguard for 25 years renewable to preserve the natural, cultural, and economic resources of the Sarapiquí River basin, prohibiting the development of new extractive and hydroelectrical projects in the protected area. 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 for the conservation and sustainable development of water, cultural and biodiversity resources, including risk reduction measures and flood control as the main threat to which that territory is exposed.

¹² Executive Decree N°43663-H, September 26 of 2022.



E. Implementation

15. **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).** The Ministry of Finance will be responsible for coordinating actions across these and other ministries and agencies involved in the operation.

16. **Throughout the drawdown period, the Bank will periodically monitor the satisfactory implementation of the DRM program.** Such periodic monitoring may take place at a frequency consistent with the information and reporting requirements of the World Bank, but no less than every 12 months, and could be initiated by either the World Bank or the Government of Costa Rica. If at any time during the drawdown period, the World Bank concludes that the DRM program is not being implemented in a manner satisfactory to the World Bank, the World Bank will promptly advise Costa Rica of the need for improvement and the suspension of eligibility for disbursement. A subsequent review would be necessary to confirm that the DRM program is once again being implemented satisfactorily before any further drawdown requests can be submitted. Once the World Bank is satisfied that drawdown conditions are again in place, the World Bank will inform Costa Rica that its eligibility to submit disbursement requests has been restored. To ensure a successful implementation, the Bank may conduct joint implementation supervision missions with the Costa Rica Climate Resilient Recovery and Territorial Development Project (P178049) which complements this Cat DDO as part of a comprehensive lending package to support the country's long-term resilience.

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

Poverty and Social Impacts

17. **This proposed second 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 increase its fiscal space and strengthen its DRM framework, 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, women, and vulnerable, who have a limited capacity to cope with the loss of housing, access to basic services, and livelihoods. Although the policies supported under this operation are not expected to directly reduce poverty, they will 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.

18. **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 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 should 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

19. **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.

20. **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.

21. **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 river basin, increasing the resilience of its population and the conservation of its natural ecosystems.

G. Risks and Mitigation

22. **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. 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.



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APPROVAL

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Approved By

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| Country Director: | Joelle Beatrice Dehasse | 01-Nov-2022 |
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