

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

Report No.:63397

(The report # is automatically generated by IDU and should not be changed)

<b>Project Name</b>	Costa Rica FCPF REDD Readiness
<b>Region</b>	Latin America and the Caribbean
<b>Country</b>	Costa Rica
<b>Sector</b>	Forestry (AT)
<b>Lending Instrument</b>	Carbon Offset/TF Grant
<b>Project ID</b>	P123702
<b>Parent Project ID</b>	N/A
<b>Borrower(s)</b>	Government of Costa Rica
<b>Implementing Agency</b>	Fondo Nacional de Financiamiento Forestal (FONAFIFO) Under the Ministry of Environment, Energy and Telecommunications (MINAET)
<b>Environmental Screening Category</b>	<input type="checkbox"/> A <input checked="" type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> FI <input type="checkbox"/> TBD (to be determined)
<b>Date PID Prepared</b>	21 June 2011
<b>Estimated Date of Appraisal Completion</b>	N/A
<b>Estimated Date of Participants Committee Assessment of Readiness Package</b>	June 2013
<b>Concept Review Decision</b>	Following the review of the concept, the decision was taken to proceed with the preparation of the operation.
<b>Other Decision <i>{Optional}</i></b>	

## Introduction and Context

### Country Context

1. Costa Rica is an upper middle income country of about 4.5 million people, with a GDP per capita of \$5,800. It has been a stable democracy with uninterrupted democratically-elected governments and peaceful transitions of power since 1949. Several factors have contributed to this stability, including the abolition of the army after a brief civil war in 1948, the enactment of a new constitution in 1949 which founded one of Latin America's first welfare states, and the presence of effective mechanisms for social mobility. Costa Rica's government and political norms emphasize building wide socio-political consensus on major policies. The major sectors of Costa Rica's economy/sources of income and employment are agriculture and tourism, and there is a growing manufacturing sector for high-tech products. Poverty and income inequality are lower in Costa Rica than the averages for Latin America and Central America. However, improvements are still needed as Costa Rica fares worse in some statistical categories when compared to countries with similar income levels in other parts of the world.

2. Since 1986 Costa Rica has been a global leader on environmental policy issues, pioneering innovative programs such as the Forest Credit Certificate (FCC) and Payment for Environmental Services (PES). In contrast with most tropical countries, Costa Rica has experienced net reforestation over the past decade-and-a-half. However, some pockets of the country continue to undergo gross deforestation and forest degradation. Continuing to reduce this gross deforestation and further increasing forest cover would increase environmental services to Costa Rica's own citizens and to the world. While it is important that a future international carbon payment mechanism not be gamed unfairly, not recognizing Costa Rica's early efforts in reducing deforestation and self-financing such programs as the PES system would send a damaging signal and create perverse incentives against those who have acted strongly against deforestation and forest degradation in the past. Therefore, Costa Rica could potentially benefit from a future mechanism under which the international community would provide incentives to countries for reducing emissions from deforestation and forest degradation (REDD+).<sup>1</sup> Given its experience and commitment, Costa Rica's pioneering a REDD mechanism could also provide a learning case of global relevance.

### **Sectoral and Institutional Context**

3. Costa Rica has an estimated forest cover of 2.6 million hectares, which represents 51% of the national territory. From 2000 to 2010, Costa Rica experienced a net forest cover increase of approximately 23,000 hectares per year, i.e. 0.9% annually.<sup>2</sup> However, gross deforestation still occurs and affects about 35-40,000 hectares per year.<sup>3</sup> Forests in Costa Rica are found in individual rural private properties (50%), in privately-owned protected areas (19%), in indigenous communal territories (10%), and in State-owned protected areas (21%).<sup>3</sup> Forests are scattered throughout the rural landscape across the country, with some large blocks composed of protected areas and adjacent indigenous territories mostly in the south and east. There are 24 indigenous territories covering 7% of the national territory.

4. The major driver of deforestation on private lands is the conversion of forest to livestock and agricultural uses. In many cases, land users generate a higher annual income with agriculture or livestock-raising than with forests, conditioned by factors such as road access. This situation is sometimes exacerbated by policies favoring agricultural development. In protected areas, underfunding and lack of human resources allows the penetration of squatters and illegal loggers. Despite a relatively secure titling system, land tenure issues also play a role: in indigenous territories, some communities have difficulties to keep non-indigenous farmers from encroaching their forest lands; and in privately-owned protected areas, difficulty in obtaining clear land title prevents participation in programs such as the PES program described below.

5. The PES program, still in operations, aims to directly address the economics of deforestation by providing a direct payment to private landowners for protecting and/or restoring

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<sup>1</sup> The full meaning of REDD+ is "Reducing emissions from deforestation and forest degradation, as well as sustainable management of forests, and conservation and enhancement of forest carbon stocks". Will be referred to as REDD in this document.

<sup>2</sup> These figures for 2000-2010 are from FAO 2010 Global Forest Resource Assessment. The R-PP indicates a lower rate of net reforestation of approximately 12,800 hectares per year from 2000-2005.

<sup>3</sup> Costa Rica Readiness Preparation Proposal (2011)

forests. Since its inception, the PES program has involved about 9,500 properties covering a total of 728,000 hectares, including 21 indigenous territories for 66,000 hectares. In 2009 alone, the PES enrollment covered about 4,500 properties representing a total of 284,000 hectares. The annual PES budget increased from about USD3 million in 1997 to about USD30 million in 2010, including support from a World Bank loan. The PES involves broad participation of multiple stakeholders representing local, national, and international interests. Experience with the PES program allowed Costa Rica to strengthen its legal framework, institutions, social capital, and governance scheme, and would likely serve as a cornerstone of Costa Rica's REDD strategy.

6. The leading institution for REDD in Costa Rica is the National Forestry Financing Fund (FONAFIFO), a semi-autonomous agency under the Ministry of Environment, Energy, and Telecommunications (MINAET). The National System of Conservation Areas (SINAC) will coordinate potential activities related to forests in protected areas.

7. Since their inception in 1986, the FCC and PES programs have been financed primarily by domestic resources (e.g. a tax on the sale of fossil fuels) and two loans from the World Bank complemented by grants from the Global Environment Facility<sup>4</sup>, which underlines Costa Rica's sustained commitment for forest protection. The first World Bank loan was non-additional, replacing the domestic fuel tax financing, but the second loan is additional. Other sources have contributed to the overall fund, but to a lesser extent, including funding from the German Reconstruction Credit Institute (KfW). On the other hand, Costa Rica now emphasizes that the global benefits of its forest protection program have not been matched by international financial transfers, and the country has been bearing the brunt of the costs on its own. Costa Rica is now seeking a new funding mechanism that would reward the carbon services it provides to the world. It is envisaged that REDD would allow Costa Rica to receive sustainable financial transfers from the international community, while consolidating, improving, and scaling-up the PES program.

### **Relationship to Country Partnership Strategy**

8. Costa Rica's REDD agenda and its participation in the Forest Carbon Partnership Facility are fully in line with the World Bank Country Partnership Strategy discussed at the Board on July 25, 2008. The CPS states "Costa Rica's pioneering program of payments for environmental services has had tremendous success in promoting forest and biodiversity conservation but faces challenges of financial sustainability and increasing the participation of the poor in conservation programs." Costa Rica's REDD Readiness proposal, as described in the R-PP seeks to build upon these past successes and to achieve a financially and environmentally sustainable future. There is significant room for complementarities with the current Ecomarkets II project, which is currently in the implementation phase and is planned to continue until 2013, overlapping most or all of the proposed REDD preparation phase. A potential future ERPA could begin purchasing carbon in two years, when Ecomarkets II closes. In this sense, REDD is a logical progression of Ecomarkets II, and will build on it.

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<sup>4</sup> The PES Program has been supported by two World Bank projects: (i) Ecomarkets I (P052009/P061314, 2000-2006); and (ii) Mainstreaming Market-Based Instruments for Environmental Management (Ecomarkets II) P093384/P098838, 2006-present.

9. Costa Rica's REDD initiative is also consistent with its own national priorities and strategies. The Government set an aspirational goal to reach carbon neutrality by 2021. While the strategy to meet this goal has not yet been finalized, forestry and REDD will undoubtedly play a large role as an area where emissions can be reduced. Further, REDD will potentially contribute to several of the strategic goals outlined in the National Development Plan 2011-14, specifically by consolidating Costa Rica's environmental position globally, fostering participatory mechanisms, and supporting development of rural communities.

## Proposed Development Objective

### A. Proposed PDO

10. The overall, long-term objective of the proposed World Bank/FCPF engagement in Costa Rica 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.*

11. In line with the structure of the Forest Carbon Partnership Facility ([Annex 2](#)), the World Bank/FCPF engagement with Costa Rica would potentially involve two phases, generally referred to as "REDD readiness preparation" and "REDD implementation".

- First, the REDD preparation phase would consist of analytical work and consultations, and it would be supported by the proposed US\$3.4 million grant from the FCPF Readiness Fund.<sup>5</sup>
- Second, the REDD implementation phase would consist in performance-based payments for verified carbon emissions reductions, and it *might* eventually be supported through an Emissions Reduction Payment Agreement (ERPA) under the FCPF Carbon Fund.<sup>6</sup>

12. The overall objective stated in paragraph 10 refers to the full, two-phase REDD process. However three key points—which result from the very innovative nature of REDD—need to be taken into consideration: (i) many of the conditions underlying the future implementation of REDD are still being discussed in the United Nations Framework Convention on Climate Change (UNFCCC) and other international negotiations; (ii) Costa Rica is among the first countries to engage in the REDD preparation phase, and there is no precedent yet of any country

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<sup>5</sup> Costa Rica already received a US\$200,000 formulation grant from the FCPF, as seed money to formulate the R-PP. This formulation grant closed in July 31, 2010. The governing body of the FCPF, the Participants' Committee, has authorized the Bank to sign the \$3.4 million Readiness Preparation Grant with Costa Rica.

<sup>6</sup> At the same time Costa Rica submitted its revised R-PP in April 2011, it also expressed interest in participating as a pilot country in the new FCPF Carbon Fund. Consistent with the two-phase structure of the FCPF, the REDD Readiness Preparation Phase (with the Readiness Fund) would proceed in parallel with the preparation of a possible Emissions Reduction Program (with the Carbon Fund). In line with the Carbon Fund rules of operations, the signature of an ERPA under the FCPF Carbon Fund is contingent upon an Emission Reductions Program from Costa Rica being selected by the Carbon Fund Participants, and upon a positive assessment of the Country's Readiness Package by the FCPF Participants Committee.

having completed this process; and (iii) the operational modalities of the FCPF Carbon Fund as a pilot for performance-based transactions, are still in the process of being defined.

13. In this context, the Bank's REDD engagement in Costa Rica will focus on preparing those elements that are currently viewed as indispensable to any future agreement on REDD<sup>7</sup> in a way that optimizes the likely social and environmental outcomes of REDD and emphasizes the learning and knowledge-sharing dimensions. From that perspective, the more immediate objective of the Bank/FCPF engagement would be: *for Costa Rica to become ready for future REDD+ implementation by preparing the key elements, systems and/or policies needed, generally referred to as the "REDD Readiness Package", in a socially and environmentally sound manner.*

## **B. Key Results**

14. The key result from the proposed REDD readiness preparation grant would be the development of Costa Rica's "REDD Readiness Package" (R-Package) which would include the following:

- Design of REDD strategies,<sup>8</sup> including a benefit-sharing system;
- Development of a national baseline, also known as Reference Level (RL)
- Creation of a national measurement, reporting, and verification system (MRV)
- Strategic environmental and social assessment (SESA) and development of an environmental and social management framework (ESMF);
- Operation of a cross-sector coordination body for REDD, and execution of a continued consultation process involving all relevant stakeholders.<sup>9</sup>

15. It is expected that these key elements will be in place at the end of the readiness preparation phase, thereby providing the foundation for a future ERPA under the FCPF Carbon Fund and/or any similar REDD performance-based transaction which Costa Rica may consider.

16. From a longer-term perspective, the key results expected from the future implementation of REDD in Costa Rica would likely include the following (though by nature, this list would need to be refined during the readiness preparation phase):

- Reductions in emissions resulting from the implementation of REDD strategies;
- Additional income accessed by participating forest owners and communities;

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<sup>7</sup> Fundamental elements of a future REDD mechanism were defined at the 16<sup>th</sup> session of the Conference of the Parties to the UNFCCC in Cancun, December 2010. See Cancun Agreements, UNFCCC Decision 1/CP.16 Section C and Appendix I.

<sup>8</sup> REDD strategies 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.

<sup>9</sup> The R-Package is sometimes presented as including four main elements, which basically refer to the same content (UNFCCC decision 1/CP.16 Section C, paragraph 71): (a) "A national strategy or action plan"; (b) "A national forest reference emission level and/or forest reference level"; (c) "A robust and transparent national forest monitoring system"; and (d) "A system for providing information on how the safeguards... are being addressed and respected throughout the implementation of the activities."

- Continued monitoring and mitigation of environmental and social impacts (ESMF);
- Enhanced cross-sectoral coordination in areas dealing with REDD;
- Continued consultations with, and enhanced participation of, relevant stakeholders especially forest dependent communities, in policy-making related to REDD.

## Preliminary Description

17. Overall, the PES program would likely serve as a cornerstone of Costa Rica’s REDD strategy, with potential improvements to be defined during the preparation phase. Other activities would complement PES. Costa Rica has outlined several potential actions to address the drivers of deforestation and forest degradation, and to enhance and conserve forest carbon stocks. These options, to be further analyzed and developed through studies and consultations in the preparation phase, can be seen as falling into five main categories: (i) increasing coverage, financing, and consolidation of the existing PES program; (ii) opening the PES program to areas under active management for forest resources; (iii) improving monitoring and control systems for illegal logging; (iv) supporting cadastre and land regularization programs; and (v) improving control of forest fires.

18. The specific REDD readiness preparation activities Costa Rica intends to carry out in developing its Readiness Package are described in the R-PP and include: stakeholder consultations, analytical work, capacity-building, and a strategic assessment of environmental and social impacts. These activities would be funded by an FCPF Readiness Preparation Grant of \$3.4 million and a parallel \$1.7 million grant from the German International Cooperation Agency (GIZ), in addition to the national government and possible other donors.<sup>10</sup> Activities to be financed by the FCPF would not include any physical investment or pilot projects on the ground.

## Key Risks and Issues

19. **Public participation, Resource Rights, and Cross-sector Coordination.** The PES program seems to have established effective channels for fostering public participation and for respecting the rights of participating landowners. However, there are concerns – in Costa Rica and at international level – that, if not prepared with full participation of key stakeholders, REDD may not fully benefit local communities, undermine their land and resource rights, or weaken their traditional social and political structures. There is also a concern that programs designed outside the REDD arena, dealing with infrastructure and energy for example, may not be consistent with a successful REDD program.

20. These three issues—stakeholder participation, land and resource rights, and cross-sector coordination—were discussed with key stakeholders and Government agencies during the due

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<sup>10</sup> The total budget for Readiness Preparation as presented in the R-PP is \$6.5 million, of which \$3.4 million will come from the FCPF grant and \$1.7 million from GIZ (parallel financing, not co-mingled). The remaining \$1.4 million may be partially funded by the national government, but will likely be at least partially financed by parallel grants from other donors who are yet to be identified.

diligence process. Overall, the Government expressed its commitment to lead a participatory REDD process, giving priority to the meaningful participation of all relevant stakeholders, to the social dimensions of REDD, and to the necessary cross-sector coordination. In addition, key stakeholders, while at times critical of Government policies, expressed increased confidence with regard to FONAFIFO as the lead agency for REDD. The PES Program began working with Indigenous Peoples' communities with support of Ecomarkets I, and has developed a very good working relationship with them. For many Indigenous Peoples' communities, PES is the main government support program. Ecomarkets II includes further efforts to strengthen participation by indigenous communities. Still, the Government recognizes the delicate nature of REDD, particularly with respect to the adequate representation and effective participation of indigenous peoples, and has taken steps to address them. See sections 38-42 below.

21. **Additionality.** There is a risk that Costa Rica's early actions in forest conservation may not be compensated under an international REDD regime if they are not considered "additional", i.e. above the baseline. The question of "additionality" needs to be followed closely, though there is a growing consensus that countries that have performed well in the past should be rewarded to avoid perverse incentives and potential international leakage into those countries if they choose to opt out of REDD. Furthermore, some areas in Costa Rica continue to undergo gross deforestation and forest degradation, and tackling this problem would increase environmental services to Costa Rica's own citizens and to the world.

22. **REDD still in progress.** In spite of progress at COP16 in Cancun, international negotiations are yet to settle the technical, legal, and operational modalities of REDD. Therefore, it may be possible that the Readiness preparation does not address all the main criteria a REDD mechanism would eventually require. However, the benefits of engaging early and supporting Costa Rica in building on its experience and providing a learning case for other countries seem to outweigh the risks of missing some future REDD requirements that may not be known today. Still, to mitigate this risk, the Bank team will help follow developments in the international negotiations and advise Costa Rica on appropriate adjustments that may be needed during the preparation process.

## Implementing Agency Assessment

23. FONAFIFO has a successful track record of implementing a PES Program that has many of the same elements as the potential REDD strategy. Payments for forest services are highly innovative, and Costa Rica has accumulated invaluable experience in this area. In particular, FONAFIFO has developed capacity to contract landholders, make payments, and monitor compliance. This track record suggests that FONAFIFO has the critical capacity and commitment to effectively engage in a REDD program.

24. FONAFIFO also has experience in implementing World Bank-financed projects, i.e. the Ecomarkets I and Ecomarkets II projects, and it has demonstrated its capacity to implement environmental and social safeguards. However, given the cross-sector and countrywide nature of REDD, safeguards policies for FCPF activities will apply at more strategic level than past projects. In that regard, the Bank Team has been assisting FONAFIFO to design a methodology

for the Strategic Environmental and Social Assessment (SESA) process. FONAFIFO plans to recruit qualified social scientists to help design and implement the overall social aspects and social safeguards of the REDD readiness process.

## **Project Stakeholder Assessment**

25. The stakeholders for REDD are extensive and diverse. FONAFIFO has initially identified a roster of 96 Relevant Interested Parties (PIR: *Partes Interesadas Revelantes*) comprising of a number of broadly defined stakeholder groups, namely: (i) government agencies; (ii) academia; (iii) international organizations; (iv) NGOs; (v) Indigenous Peoples traditional structures and organizations; and (vi) *campesino* communities and organizations. An initial stakeholder mapping exercise was carried out to identify those key stakeholder groups out of the 96 PIRs that will need to be directly and actively involved in the readiness phase. Moreover, FONAFIFO plans to conduct a more in-depth stakeholder analysis to understand their particular roles, mandates and capacities in order to most effectively strategize their participation in the readiness process. Furthermore, the identification of key stakeholders will also become the basis for forming a follow-up mechanism for the SESA process. FONAFIFO recognizes the key role of indigenous peoples and forest dependent *campesinos* in the REDD readiness process and plans to fully engage and consult their organizations, traditional structures, associations and cooperatives.

## **Technical Assistance Provided by Bank Staff to Date**

26. The Bank team commented on a first draft R-PP produced by Costa Rica in April 2010, and conducted a technical assistance mission to Costa Rica in May 2010. Based on comments from the Bank, the Technical Advisory Panel, and the FCPF Participants Committee, Costa Rica revised and resubmitted its R-PP in November 2010.

27. A due diligence mission took place in January 2011. This mission involved two visits to indigenous territories and rural properties in the Atlantic and the Pacific regions, as well as discussions with numerous government and non-government stakeholders. The Bank Information Center (BIC) participated in the mission as official Civil Society Observer to the FCPF. Following the mission, Costa Rica revised its R-PP and disclosed the final version in May 2011.

28. The Bank team also worked closely with FONAFIFO to help develop the SESA instrument. A national SESA workshop was held in San Jose on May 4-5, 2011, as a first effort to inform stakeholders and receive feedback on the proposed SESA methodology. A public event led by government and indigenous peoples' representatives and co-hosted by BIC and Conservation International, was held on May 11, 2011, in Washington, DC, to inform and share views with international civil society.

## Summary of R-PP Assessment

29. The Task Team reviewed Costa Rica's R-PP and other related documentation. Overall, it seems the R-PP represents a sufficient basis for engaging in the readiness preparation phase. The country seems to have identified the critical issues relevant to REDD and to have developed processes and plans to address them during REDD preparation and implementation. The R-PP seems to contain the key elements likely to be required for a future REDD mechanism, as defined by the 16<sup>th</sup> Conference of the Parties in December 2010. Furthermore, the Government has made a good faith effort to listen to the views of key stakeholders at this stage, and has committed to incorporate them in the design of the REDD strategy. Given its experience and commitment, it appears that Costa Rica's pioneering a future REDD mechanism would provide a learning case of global relevance.

### Technical

30. REDD strategy options. The RPP indicates that the current PES Program would likely serve as a cornerstone of Costa Rica's future REDD strategy. In line with the PES approach, the current thinking is that carbon and other environmental service rights would be linked to land ownership and to the realization of improved management practices. Benefit sharing would build upon the systems created for the PES program, with adjustments and complementary approaches where needed. The REDD strategy would also include new variants to PES in order to involve a greater quantity and diversity of landowners and further strengthen the principles of equity and transparency. A specific variant of the PES may be designed to meet the specific conditions of indigenous communities. The voluntary nature of PES would continue into the REDD program. The R-PP discusses how strategic options will be further explored and shaped by analytical studies and consultations. However, even with the best strategic options, we should still expect some continued gross deforestation in some areas, paired with regeneration in other areas (which is economically rational given that conditions change over time). The R-PP foresees systematic analyses of opportunity costs for all strategy options, including the analysis of potential compensation costs in the case of loss of income or restriction of access to natural resources. Although detailed, spatially-explicit information on the drivers of deforestation and degradation is not available at this time, the analysis of opportunity costs will help determine where REDD+ can be effective at reducing practices that are both environmentally degrading and economically marginal. Also, a critical evaluation of the successes and failures of the PES program is one of the pieces of work that will be undertaken during the preparation phase, coupled with diagnostic work on the drivers of deforestation. Costa Rica will also explore options to complement PES, based on the studies and consultations that will take place during the preparation phase.

31. Reference Level. The R-PP indicates that Costa Rica has a 2005 forest cover map and research has been conducted on carbon fraction of forest types. They suggest using historical data on carbon stocks from 2005 to allow for compensation for early actions. The approach seems reasonable, and the R-PP outlines the necessary analytical work. In terms of the MRV system and the Reference Level, Costa Rica has an appropriate level of capacity to design these systems though the Readiness Preparation phase. Unlike high-deforesting countries that could use simple historical averages, Costa Rica has to find a way to design a RL that makes sense given its national circumstances, yet is credible.

32. Monitoring system. Costa Rica plans to design a continuous national forest inventory to estimate biomass at 1000-2000 plots. This will be combined with remote sensing images to estimate forest carbon stocks annually. There are plans to design a monitoring system for socioeconomic and environmental impacts.

33. REDD Management Platform. A REDD Executive Committee will be created. It would include the same members as the existing FONAFIFO Board of Directors<sup>11</sup> plus two additional seats: one for the indigenous peoples, and one for a representative of rural land owners and civil society, both with alternates to allow more flexibility. The indigenous peoples' representatives would be identified through a self-selection process. A REDD Secretariat would carry out executive functions and coordination tasks, and will be hosted in FONAFIFO. It is noted that the REDD Executive Committee meets the characteristics suggested by the FCPF for a REDD Working Group: multi-sector, inclusion of relevant stakeholders, and link to political processes. The ministries most directly linked to deforestation (the Ministry of Agriculture and Livestock – MAG – and MINAET) participate in the REDD Executive Committee. Coordination with other sectors would take place at the cabinet level. The cabinet meets every week and includes all Ministers.

34. The following issues were also identified and discussed as part of the due diligence process, and would require careful attention throughout the readiness preparation phase.

35. Representation and Participation of Indigenous Peoples. Indigenous peoples' territories are organized in *Asociaciones de Desarrollo Integral* (ADIs) as the legal structure recognized under the Costa Rican Indigenous Law (1977). Currently, 24 ADIs hold legal title to the indigenous territories. ADIs are composed of a voluntary membership of the indigenous peoples. Depending on the territory, ADI membership of indigenous persons could be as low as 15% or up to about 50%. Indigenous peoples generally perceive ADIs as externally imposed structures that do not take into account fully the indigenous peoples' traditional political structures. They are sometimes perceived as unrepresentative and unaccountable administrative entities that have weakened the traditional political structures and decision-making processes of Indigenous Peoples. In some cases, ADIs include non-Indigenous members that have encroached in the indigenous territory and have become *de facto* members in the ADI.

36. In practice, while the degree of inclusiveness of ADIs is higher in the Atlantic region than in the Pacific South, it should be noted that memberships is nonetheless below 50% on average. In the Atlantic region, the ADIs have managed to integrate some of their traditional bodies into their structure, though this is not the case in the Pacific region. It will, therefore, be necessary to identify the views of indigenous peoples by consulting with their traditional structure and/or the entire communities as well as with the ADIs. Furthermore, it seems ADIs are the sole entities recognized by the government to sign PES contracts and distribute the funds generated from PES. As far as REDD is concerned, efforts will be made to ensure inclusiveness.

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<sup>11</sup> The FONAFIFO Board of Directors is composed of the National Bank System, the Ministry of Agriculture and Livestock (MAG), and the Ministry of the Environment, Energy, and Telecommunications (MINAET), and two seats for the National Forestry Office (ONF).

37. As the responsible government agency for Indigenous issues, CONAI (*Comisión Nacional de Asuntos Indígenas*) was expected to support traditional Indigenous Peoples' structure. In practice, CONAI seems to strengthen more the role of the governmental structures. For example, it does not recognize the traditional indigenous peoples' political structures.

38. Given the context described above, FONAFIFO has currently identified a broad range of indigenous peoples' structures and organizations representing indigenous peoples. Some of these are non-traditional such as ADIs, regional alliances such as RIBCA and ARADIKES, and national level organizations such as *Mesa Nacional Indígena* (MNI). FONAFIFO is also committed to working with the traditional Indigenous representative organizations such as *Consejos* and/or *Clanes*. In the first national SESA workshop, FONAFIFO ensured the balanced participation of indigenous peoples from different regions, from ADIs as well as other traditional structures, indigenous peoples' organizations and indigenous women. During the readiness phase, FONAFIFO plans to facilitate a process whereby indigenous peoples will propose the procedures and mechanisms for conducting a culturally adequate consultation process with all forms of representative organizations and it intends to apply the principles of free, prior and informed consent consistent with the ILO Convention 169.

39. Land Tenure. The R-PP indicates that most rural lands in Costa Rica belong to individual farmers and most of them have legal titles. However, in some regions, formal titles have not yet been issued, and in many regions there are overlapping and conflicting land claims, sometimes also with protected areas and indigenous territories. The R-PP indicates that a process is underway to facilitate land regularization and the resolution of pending cases especially through the ongoing Land and Cadastre Program. The Land and Cadastre Program may need further strengthening given its importance to resolve outstanding and conflicting land claims. The PES is supporting institutional strengthening to gradually involve small farmers who do not have titles into the program. FONAFIFO will collaborate with the PRCR to collect further information, and help define how a future national REDD mechanism would deal with remaining untitled or disputed areas.

40. Indigenous territories were created pursuant to Article 1 of the Indigenous Law of 1976. Non-indigenous people do not have the right to property or possession in indigenous reserves. Article 5 states that non-indigenous persons who either had property or good faith possession (*poseedores de buena fe*) before the Indigenous Law was passed may be expropriated according to the procedures of the Expropriation Law and are entitled to compensation. Despite the guarantee of Article 3 of the Indigenous Law, illegal occupation of indigenous lands by non-indigenous persons persists. The government has expressed its commitment to free indigenous reserves of non-indigenous *fincas* on several occasions. However, the process has been slow and a significant number of unresolved cases persist. Cases can be divided in two basic categories. The first category consists of *fincas* that predate the Indigenous Law. The second category consists of *colónos* who settled in indigenous reserves after the Indigenous Law was passed and who have no legal right to the land (squatters). These situations limit the exercise of traditional activities and may infringe on future carbon rights.

41. Indigenous communities hold collective title to their titled reserves through their respective ADIs and individual landownership is not recognized in indigenous territories under

the Indigenous Law. Indigenous peoples who live in the reserves today continue to manage the forest under collective ownership. The collective ownership and use is however not fully recognized under the PES payment system as it is still treated as private property without recognizing traditional land holding patterns. PES payments are made exclusively to the ADIs as the only legally recognized representative of indigenous communities.

42. The Constitutional Chamber of the Supreme Court has acknowledged that ADIs are not ideal forms of indigenous representation as they impose alien structures on indigenous peoples. However, it has upheld their legality as the only proper option available under existing law. A case filed by members of the Térraba people was recently admitted and remains pending before the fourth chamber of the Supreme Court. The decision could have important implications for the future of ADIs and therefore impact REDD.

43. The *Programa de Regularización de Catastro y Registro* (PRCR) may be used to facilitate the resolution of land tenure conflicts as it produces the necessary cartographic information for land demarcation which in turn, is a necessary step towards land titling. The R-PP indicates that FONAFIFO will elaborate an action plan together with the PRCR and ADIs to produce technical information and conduct pertinent legal analyses to facilitate the recovery of indigenous lands. These activities would include: (a) the request to all indigenous territories to identify non-indigenous land owners and occupants in their territories; (b) the analysis of past regularization procedures (e.g. compensation, expropriations and evictions); (c) assist indigenous territories by providing advice on what actions to take; and (d) analyze indigenous land management practices under customary law.

44. Cross-sector coordination. Cross-sector coordination is essential in REDD because (i) REDD should contribute to the overall development of rural communities, and (ii) many of the drivers of deforestation and degradation come from outside the forestry sector. In Costa Rica, there are a few functioning cross-sector bodies related to rural development and forests. First, the lead ministry for REDD, MINAET, has responsibility for environmental matters and for energy, so coordination between those two sectors should be facilitated. Furthermore, the FONAFIFO Board of Directors, which will form the basis of the REDD Executive Committee, includes the National Bank System, MAG, and MINAET, and the National Forestry Office. Most importantly, however, is the willingness, expressed at a high political level, to utilize a coordinated approach to increase environmental sustainability and enhance rural development.

45. In Costa Rica the energy sector may potentially play an important role for the success of a future REDD strategy, especially with regards to hydropower. It appears that a number of hydroelectric projects that have been in the Government's plans for several years faced expressions of dissent from several local communities. Specifically, the Terraba indigenous communities complained that the proposed Diquis dam was prepared without proper consultation and would jeopardize their rights and livelihoods by flooding a portion of their forest territory. The Committee on the Elimination of All Forms of Racial Discrimination (CERD) examined the situation of the Terraba in August 2010 and March 2011. CERD also expressed its concern that according to the information it had received, the Terraba people had neither been consulted nor been invited to participate in the decision-making process. Moreover, CERD recommended that the Government of Costa Rica strengthens its efforts to protect the land tenure rights of

indigenous people. It also reminded the government of its obligation to comply with a Supreme Court decision asking the government to delimitate the territories of the Terraba, Rey Curre and Boruca indigenous communities. CERD has asked the government for additional information by July 31, 2011 on the progress of the Diquis dam project and for more detailed information on how the government will try to seek the free, prior and informed consent of indigenous peoples as well as their participation in all stages of the project. The Special Rapporteur for indigenous rights of the United Nations also visited Costa Rica in April 2011, and it is expected that a public report from this visit be issued soon. In the context of this visit, the Government confirmed its commitment to conduct an inclusive and transparent development process and to respect domestic and international laws on Indigenous Peoples' rights.

## **Social and Environmental**

46. A Strategic Environmental and Social Assessment (SESA) will be conducted in line with the World Bank operational and safeguards policies. The SESA aims to integrate key environmental and social considerations into REDD Readiness by combining analytical and participatory approaches. It would allow social and environmental considerations to be integrated into the REDD strategy, and it would foster stakeholder participation in identifying and prioritizing key issues, and assessment of policy, institutional and capacity gaps. Based on the SESA, an Environmental and Social Management Framework (ESMF) will be put in place as part of the Readiness package to manage environmental and social risks and to mitigate potential adverse impacts. It is envisaged that the stand alone SESA report be ready for the Progress Review Meeting (see paragraph **Error! Reference source not found.**). In any case, the stand alone ESMF report will part of the Readiness Package (i.e. at the end of the Readiness preparation phase, see paragraph **Error! Reference source not found.**).

47. FONAFIFO organized the first National SESA Workshop (May 4-5, 2011) with relevant key stakeholder groups nationally in order to: (i) inform stakeholders about Costa Rica's revised proposal for designing a national REDD strategy; and (ii) provide the initial platform for relevant key stakeholders to raise their issues and concerns regarding the proposal. This SESA workshop carried out an issue scoping exercise based on the strategic options being considered for the design of the national REDD strategy. Discussions focused on identifying the risks and benefits of each proposed strategic REDD option from the specific perspective of each of the relevant key stakeholder group and in distilling the particular issues and concerns.

48. Based on the stakeholders' inputs, FONAFIFO is drafting a SESA Workplan that outlines the steps the SESA process throughout the readiness phase. This SESA Workplan will serve as a live document subject to revision as the design of the national REDD strategy evolves. A parallel communications strategy will support the information dissemination on the strategic options, risks and benefits, to strengthen participatory platforms and process, and also to raise awareness about the overall national REDD strategy. The SESA Workplan will contain specific operational guidance on the next steps and activities, the specific linkages with the overall national REDD strategy design and specific components of the R-PP, studies to be carried out, budget, institutional arrangements and timeline. SESA involves local stakeholders, who have the best perspective to identify potential benefits and risks. Because REDD will be a national program, SESA will engage local stakeholders at national coverage, which is a challenge to manage, and

FONAFIFO will be contracting a social scientist to help guide the process. Potential carbon payments and benefit sharing will be looked at with some detail during the process.

### **B1. Social (including Safeguards)**

49. In developing the REDD Strategy, FONAFIFO plans to (i) identify all key stakeholder institutions/organizations (including indigenous peoples representative organizations and the non-Indigenous *campesino* communities); (ii) map key institutions and organizations that have the mandate, role, resources or capacities for the successful implementation of the Strategy; and (iii) put in place a mutually agreeable and equitable benefit-sharing of the carbon revenue in close consultations with the representatives of Indigenous Peoples and *campesino* communities.

50. With regards to the Strategic Environmental and Social Assessment (SESA), FONAFIFO plans to: (i) draft and disseminate to stakeholders the SESA Workplan based on the inputs received at the national SESA workshop; and (ii) carry out the analytical and diagnostic studies related to environmental, social and legal impacts, risks and benefits in accordance to the SESA Workplan agreed with the various stakeholders during the preparation for the REDD Strategy. At the end of the readiness preparation phase, FONAFIFO will submit a self-standing SESA Report documenting: (a) the process of consultation on the analytical work; (b) the risks and benefits of proposed REDD options; and (c) the contextual challenges that would enhance or undermine the REDD Strategy.

51. Building upon the SESA process, an Environmental and Social Management Framework (ESMF) will be prepared for managing downstream impacts once the national REDD strategy is being implemented. The ESMF will be one of the specific elements of the R-Package. Any identified gaps to manage risks and potential impacts in relation to relevant World Bank's safeguard policies will be identified along with the strategy options to feed into the preparation of the ESMF. The ESMF will provide a framework to manage and mitigate the potential environmental and social impacts related to specific projects and activities including investments and carbon finance transactions, in the context of the future implementation of REDD.

52. Social Safeguards. The R-PP has determined the relevant Bank's social safeguard policies that are expected to apply. An Environmental and Social Management Framework (ESMF) will be prepared, in compliance with World Bank safeguard policies.

53. Indigenous Peoples policy (OP 4.10). FONAFIFO plans to carry out the required social assessment and to prepare an Indigenous Peoples Planning Framework (IPPF) in close consultations with indigenous peoples' communities in compliance with the Indigenous Peoples policy, as a specific chapter of the ESMF. OP4.10 requires broad community support from concerned Indigenous Peoples based on free, prior and informed consultation during the preparation phase. Costa Rica also confirmed its determination to comply with applicable national and international law, especially the ILO Convention 169 which includes the principle of free, prior and informed consent by Indigenous Peoples.

54. Involuntary Resettlement policy (OP 4.12). The Government has indicated that participation in REDD activities will continue to be based on the voluntary approach build in the

PES program. FONAFIFO will prepare the required Resettlement Policy Framework (RPF) and the Process Framework (PF) in close consultations with the representatives of indigenous peoples, *campesino* communities, and private land owners. The RPF would address the potential relocation and compensation of private land owners currently living in protected areas. The PF would help manage the potential risk of restriction of access to natural resources, for example in protected areas. The RPF and PF will be prepared as a specific chapter of the ESMF.

## **B2.Environment (including Safeguards)**

55. Environmental Assessment (OP/BP 4.01). Since the explicit goal of the REDD strategy is to promote the reduction in rates of deforestation and degradation by rewarding measures to protect and conserve forests, the environmental impacts of the strategy are expected to be mostly positive. As forest cover improves so too will the associated benefits associated with forests. Not only as a sink for carbon but also for the many environmental services forests provide such as watershed protection, provision of important habitats, sustainable source of NTFP and other forest based livelihoods.

56. The principal risk from REDD would arise in the event that the strategies fail to achieve their objectives thereby creating unexpected indirect adverse impacts through the unintended creation of incentives to clear forests for other purposes. This could occur, for example, if PES schemes failed to provide sufficient monetary incentive to retain areas under forest cover. Similar risks could occur for example if lack of land tenure security were to undermine commitment to maintain land under forest cover for long time periods.

57. For these reasons, and due to the critical nature of strategic options and choices being considered, OP 4.01 is applicable to the R-PP activities. The principal instruments to document the environmental benefits and risks of the REDD strategy will be the Strategic Environmental and Social Assessment (SESA). SESA will assess key social and environmental risks and potential impacts associated with REDD, and will develop a management framework (ESMF) to manage and mitigate any possible risks and potential impacts during the implementation phase.

58. Natural Habitats (OP/BP 4.04). Given that the REDD strategy will likely work both within existing protected areas as well as other forest habitats of varying significance, OP 4.04 will apply. If the REDD strategies are successful, the impacts on critical forest habitats are expected to be positive, nevertheless SESA will evaluate the possible risks associated with strategic options on forest habitats within PA as well as other sensitive forest habitats under private or communal control. During the formulation of the REDD strategy and throughout its implementation consultations will be carried out with key stakeholders to identify potential issues of concern. During the implementation phase monitoring activities will be established to ensure that critical natural habitats are not adversely affected. It is expected that the ESMF will include provisions to assess possible impacts prior to any actions being undertaken on the ground.

59. Forests (OP/BP 4.36). Due to the importance of REDD as part of Costa Rica's long term forest and environmental management programs and due to the importance forests play in the livelihoods of many communities, this policy will apply. The REDD Strategy itself will build

largely on the experience of FONAFIFO with the Payment for Environmental Services program. During the preparation phase, these and other forestry and rural development initiatives will be evaluated in order to ensure lessons are incorporated early in the design and key social and environmental risks and potential impacts associated with REDD are considered in the ESMF. The REDD strategy itself would not finance the harvesting or conversion of forests. It is expected that the REDD strategy would promote the use of third-party forest certification.

60. Physical Cultural Resources (OP 4.11). Given the uncertainty regarding the exact locations of activities to be carried out under the REDD Strategy, this policy is triggered. Some forests or landscapes concerned by the REDD strategy might be considered to have historical or cultural significance such as spirit forests, sacred valleys or other features of the natural landscape. The ESMF would include specific provisions to assess the possibility of such impacts prior to any activities being undertaken on the ground.

61. Pest Management (OP 4.09). At present it is not envisioned that the REDD strategy would finance or lead to an increased use of pesticides or other agricultural chemicals. However, it is conceivable that some forest management practices used at plantations could utilize silvicultural practices involving pesticides. The SESA will evaluate the potential for such use of chemicals in forest management and, if necessary, appropriate guidelines and analytical approaches would be defined in the ESMF. Based on the above, the policy is triggered.

### **B3. Consultation, Participation, and Disclosure**

62. REDD preparation includes multiple sectors and stakeholders nationwide at various levels (national, regional and local). Adequate consultation is essential to take stakeholders' views into consideration, generate political support, increase the chance of achieving the multiple benefits expected from REDD, and reduce the risk of generating unintended negative impacts. For Costa Rica, the main objectives as well as challenges for carrying out a consultation process are the following: (i) a multi-sectoral and multi-stakeholder consultation process based on existing structures that strengthens social capital; (ii) a process that will enhance good governance by strengthening meaningful participation of stakeholders at the decision-making level in reference to the design of the national REDD strategy; and (iii) a process that could facilitate the conversion of a joint vision for the design of the national REDD strategy that is shared by all stakeholders.

63. Experience to Date. FONAFIFO has held numerous information dissemination sessions since 2008 about Costa Rica's proposal to design a national REDD strategy and, in particular, the elaboration of the R-PP. For the formulation of the R-PP (2009), about 80 civil society organizations, NGOs and government entities participated. A working session was organized to discuss REDD with civil society and academia such as University of Costa Rica, *Universidad Nacional de Costa Rica*, *Instituto Tecnológico de Costa Rica*, CATIE, INBio, and FUNDECOR. Information dissemination packages, including the R-PP, were distributed to a wide range of government entities, civil society organizations, indigenous peoples' and *campesino* organizations including *Oficina Nacional Forestal*, *Junta Nacional Forestal Campesina*, *Asociación Coordinadora Indígena y Campesina de Agroforestería Comunitaria*

*Centroamericana, Fecon, ARADIKES, Mesa Nacional Indigena, Coordinadora ADII-Caribe, and Red de Reservas Privadas.*

64. With regards to indigenous peoples, FONAFIFO has been engaging with ADIs and indigenous peoples' organizations through bilateral dialogues, information dissemination and early planning meetings to understand their issues and concerns. Visits and meetings were held with ADIs in Talamanca and other indigenous peoples' organizations, such as RIBCA, in the Atlantic region from 2009. Initial meetings were also held with ADIs in the Pacific-South and other indigenous peoples' organizations such as ARADIKES. FONAFIFO supported a series of planning workshops organized by indigenous peoples themselves in the Atlantic region to specifically discuss the R-PP, the proposal for the design of a national REDD strategy and what it means to them. FONAFIFO has provided information on REDD to Indigenous Peoples primarily through the ADI structure and to *campesinos* in a limited manner. However, most recently, the national SESA workshop (May 4-5, 2011) gathered indigenous peoples representatives from the Atlantic and Pacific region, as well as representatives from ADIs and traditional structures, grass roots indigenous peoples organizations and local indigenous women's organization, such as ACOMUITA. In addition, a public event sponsored by the Bank Information Center and Conservation International was held in Washington, D.C. on May 12, 2011, for FONAFIFO to present their vision for the national REDD strategy.

65. Proposal Going Forward. The REDD consultation process will build on existing channels and networks of communication, and human and social capital that were gradually developed through three decades of testing and implementing incentive environmental programs in Costa Rica. The Consultation will also aim to open new avenues and help expand social capital further, especially with regards to indigenous communities. It would aim to improve governance by involving interested parties in the policy-making process, and to allow Costa Rica to present a REDD strategy backed by a shared vision from all interested parties.

66. The Consultation Plan will be further elaborated with regards to specific contents, target groups and methodologies, as an immediate priority at the start of the REDD preparation phase. In developing the REDD Strategy, FONAFIFO plans to carry out adequate and culturally appropriate consultations with the identified key stakeholders. The active participation of indigenous communities and their representative organizations as well as the *campesinos* would be critical in ensuring an open, transparent and credible consultation process. With respect to *campesinos*, FONAFIFO plans to analyze the socio-economic profile of forest dependent *campesinos* and, based on an adequate consultation process, propose measures to address their issues. Forest dependent *campesinos* are a demographically large group in Costa Rica, and they are generally among the poorest. FONAFIFO will continue to provide information and ensure that it reaches members of Indigenous communities that are not members of the ADI structure and organizations, associations and cooperatives representing other local non-indigenous communities. At the same time, FONAFIFO plans to collaborate with the institutional structure to ensure the participation of representative indigenous institutions and *campesinos* in the various levels of the structure, including decision-making, implementation, monitoring and evaluation.

67. As a first step, FONAFIFO plans to conduct a stakeholder mapping and analysis to understand their particular roles, mandates and capacities in order to most effectively strategize

and operationalize the consultation process during the readiness phase tailored to the particular profiles of each stakeholder group specifying women as a distinct stakeholder subgroup. The specific consultation plan will be designed with the following guidelines: (i) meaningful inclusion of all relevant stakeholders in reaching a national consensus on REDD; (ii) design and implementation of consultations with and based on strong support from stakeholders; (iii) dissemination of appropriate information through the adequate channels of communication depending of the particularities of each stakeholder group; (iv) ensure outcomes that are equitable, especially for the forest-dependent *campesinos* and indigenous peoples; (v) design of appropriate indicators for monitoring and evaluating impacts.

68. The consultation process plans to pay special attention to women to understand their specific issues and concerns. For example, many indigenous peoples in Costa Rica practice a matriarchal system where land is inherited along the female line and where women play a paramount role in community decision making. Their role in resource management and use as well as in the decision-making process is critical and any potential impacts to their role will need to be assessed.

69. The consultation process makes specific focus on indigenous peoples and forest-dependent *campesinos* to actively participate in the design of the consultation process that is most appropriate in order to encourage their greater participation during the readiness phase. The process intends to facilitate the strengthening of their local and regional organizations to be in a better position to identify and articulate issues that affect them. The consultation strategy will support a consultation process for indigenous peoples that takes into account their traditional as well as non-traditional structures, their own decision-making process, and socio-cultural channels of communication and deliberation. Additionally, FONAFIFO will support a self-selection process to identify the indigenous peoples' representative for the Board of FONAFIFO.

70. Grievance mechanism. The grievance mechanism will be managed by the existing entity of the FONAFIFO's *Contraloría de Servicio* that is established by law and is responsible for receiving and processing complaints on behalf of each specific government agency. For the specific case of handling grievances and complaints regarding REDD, it is intended that the REDD Executive Secretariat (within FONAFIFO) will receive and communicate the grievance and/or complaint to the *Contraloría de Servicio*, that will coordinate with the relevant department and/or departments within FONAFIFO to prepare the appropriate institutional response. The REDD Working Group will either communicate the institutional response to the complainant and/or provide further advice on responding to questions regarding the implementation of the R-PP and the design of the national REDD strategy. The grievance mechanism will include specific procedures for receiving, documenting, follow-up, investigation and reporting that will be managed by the *Contraloría de Servicio* facilitated by the Executive Secretariat of the REDD in coordination with the advice of the REDD Working Group.

71. Communications/outreach. The Government recognizes that developing and implementing a communications strategy for REDD is vital to provide appropriate information to stakeholders, to strengthen the participatory nature of the REDD process, and to ensure transparency. FONAFIFO carried out a series of early information dissemination workshops and has engaged in initial dialogue on REDD with a variety of stakeholder groups, including

Indigenous Peoples in the Atlantic and Pacific areas. A new set of communications actions will be undertaken to ensure information dissemination is culturally appropriate and reaches the relevant stakeholders. It was agreed that FONAFIFO will: (i) establish institutional agreements for the communications work, mobilize the necessary human and financial resources, and develop and implement a comprehensive communications strategy, starting with a communications baseline survey. The communications strategy will also support the consultation and SESA processes.

72. Disclosure. The R-PP was posted on the FCPF website in June 2010 and on the FONAFIFO website in July, 2010. After several revisions, the final version was disclosed in May 2011. Information materials were also distributed. During the readiness preparation phase, special attention will be paid to dissemination of materials in indigenous languages.

## Safeguard Policies that might apply

73. 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	
Piloting the Use of Borrower Systems to Address Environmental and Social Safeguard Issues in Bank-Supported Projects (OP/BP 4.00)		X	

## Tentative financing

Source:	(\$m.)
Borrower/Recipient	
IBRD	
IDA	
Forest Carbon Partnership Facility	3.4
Total	3.4

## **Contact point**

### **World Bank**

Contact: Laurent Debroux  
Title: Sr. Natural Resource Specialist  
Tel: +1 (202) 473-3581  
Email: ldebroux@worldbank.org

### **Borrower/Client/Recipient**

Contact: Juan Carlos Pacheco  
Title: Vice Minister, Ministerio de Hacienda  
Tel: +506 2258-3875  
Email: pachecojr@hacienda.go.cr

### **Implementing Agencies**

Contact: Jorge M. Rodríguez Zúñiga  
Title: Executive Director, Fondo Nacional de Financiamiento Forestal  
Tel: +506 2257-8475  
Email: jrodriguez@fonafifo.go.cr

## **For more information contact:**

The InfoShop  
The World Bank  
1818 H Street, NW  
Washington, D.C. 20433  
Telephone: (202) 458-5454  
Fax: (202) 522-1500  
Web: <http://www.worldbank.org/infoshop>