

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

## **COSTA RICA**

# **MULTIPHASE PROGRAM FOR SUSTAINABLE DEVELOPMENT OF THE ATLANTIC HUETAR REGION**

**(CR-0157)**

## **LOAN PROPOSAL**

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## CONTENTS

### PROJECT SUMMARY

I.	FRAME OF REFERENCE.....	1
A.	Atlantic Huetar Region (RHA).....	1
B.	The region's potential and constraints .....	1
C.	The coverage of services and basic infrastructure.....	4
D.	Vulnerability to natural disasters and natural resource potential .....	4
E.	Governance capacity in the region .....	5
F.	Country strategy and progress in regional planning.....	6
G.	The Bank's strategy .....	7
H.	Experiences and lessons incorporated.....	8
I.	Conceptualization of the operation .....	9
J.	Strategic guidelines agreed upon for the proposed operation .....	9
II.	THE PROGRAM .....	11
A.	Program objectives and description .....	11
1.	Increase in local and regional governance capacity .....	11
2.	Economic and social development of the region.....	12
3.	Mitigation of natural risks and arrangements for natural resource management and conservation.....	14
B.	Scaling of program phases.....	15
C.	Phase II triggers, and phase I outcomes that will activate phase II .....	16
D.	Program cost and financing, phase I .....	16
III.	PROGRAM EXECUTION.....	18
A.	Implementation strategy based on Regional Councils .....	18
B.	Borrower and executing agency .....	18
C.	Program operationalization and administration.....	19
D.	Program and component execution modality .....	22
E.	Annual work plan cycle .....	22
F.	Program Operating Regulations .....	24
G.	Transfer of program funds .....	25
H.	Execution period and disbursement timetable.....	25
I.	Goods and services procurement.....	25
J.	Program monitoring and evaluation.....	26
K.	Program audit .....	27
IV.	VIABILITY AND RISKS.....	28
A.	Institutional viability .....	28
B.	Socioeconomic viability .....	28
C.	Financial viability and sustainability, and cost recovery .....	30

D. Environmental and social impact .....	31
E. Program beneficiaries and benefits .....	32
F. Risks identified and mitigating factors .....	33

### Electronic Links and References

Abbreviations	<a href="http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=466701">http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=466701</a>
Basic Socioeconomic Data	<a href="http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata">http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata</a>
Status of loan in execution and loans approved	<a href="http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=466708">http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=466708</a>
Tentative lending program	<a href="http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=466707">http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=466707</a>
Information available in the RE2 technical files	<a href="http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=466706">http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=466706</a>
Mapa	<a href="http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=466700">http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=466700</a>
Logical framework	<a href="http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=466703">http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=466703</a>
Procurement plan	<a href="http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=466705">http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=466705</a>
CRG minute	<a href="http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=417102">http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=417102</a>
Operating Regulations	<a href="http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=385664">http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=385664</a>

## PROJECT SUMMARY

### COSTA RICA MULTIPHASE PROGRAM FOR SUSTAINABLE DEVELOPMENT OF THE ATLANTIC HUETAR REGION (CR-0157)

Financial Terms and Conditions <sup>1</sup>						
<b>Borrower:</b> Republic of Costa Rica					Amortization period:	20 years
					Grace period:	4 years
<b>Executing agency:</b> Ministry of Planning and Economic Policy (MIDEPLAN)					Disbursement period:	Maximum: 4 years
					Interest rate:	Libor-based option
	<b>Amount (thousands of US\$)</b>					
<b>Source</b>	<b>Phase I</b>	<b>%</b>	<b>Phase II</b>	<b>%</b>	Inspection and supervision fee:	0%
IDB (Ordinary Capital)	16,000,000	89	27,000,000	90	Credit fee:	0.25%
Local	2,000,000	11	3,000,000	10	Currency:	US dollars drawn from the
<b>Total</b>	<b>18,000,000</b>	<b>100</b>	<b>30,000,000</b>	<b>100</b>		Single Currency Facility of the Bank's Ordinary Capital
Project at a glance						
<p><b>Project objective:</b> The main objective is to help maximize productive potential on a sustainable basis and reduce its vulnerability to natural risks, in order to raise income levels and improve the population's quality of life, by implementing priority actions and investments in the region. To fulfill this objective and implement the strategy lines laid down, the program has been structured in three components: (i) increase in local and regional managerial capacity (US\$1.6 million); (ii) economic and social development of the region (US\$9.6 million); (iii) mitigation of natural risks, and arrangements for natural resource management and conservation (US\$3.5 million).</p> <p><b>Special contractual clauses:</b> Contractual conditions: The following conditions will be established in the loan contract: <b>(i) Conditions precedent to the first disbursement.</b> Evidence that: (a) the program's execution structure has been created, consisting of the program coordination unit (PCU) (see paragraph 3.4); the Five Cantons Commission (CCC) (paragraph 3.11); and the five Canton Committees (paragraph 3.9); (b) implementation of the Operating Regulations (see paragraph 3.20). <b>(ii) Special condition on execution.</b> The executing agency will sign agreements with institutions and organizations benefiting from program actions (see paragraph 2.4). <b>(iii) Special disbursement to initiate activities.</b> A special disbursement of up to US\$400,000 is recommended to support the start of program activities (see paragraph 2.17).</p> <p><b>Exceptions to Bank policies:</b> None.</p>						
<p><b>Project consistent with country strategy:</b> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/></p> <p><b>Project qualifies as:</b> SEQ <input checked="" type="checkbox"/> PTI <input checked="" type="checkbox"/> Sector <input type="checkbox"/> Geographic <input checked="" type="checkbox"/> % of beneficiaries [53%]</p> <p><b>Verified by CESI on:</b> 15 October 2004</p> <p><b>Environmental and social review:</b> See paragraphs 4.14 through 4.16.</p> <p><b>Procurement:</b> See paragraph 3.25</p>						

<sup>1</sup> The interest rate, credit fee, and inspection and supervision fee mentioned in this document are established pursuant to document FN-568-3 Rev. and may be changed by the Board of Executive Directors, taking into account the available background information, as well as the respective Finance Department recommendation. In no case will the credit fee exceed 0.75%, or the inspection and supervision fee exceed 1% of the loan amount. With regard to the inspection and supervision fee, in no case will the charge exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

## I. FRAME OF REFERENCE

### A. Atlantic Huetar Region (RHA)

- 1.1 The Atlantic Huetar Region (RHA) virtually coincides with the province of Limón and is home to most of the country's Afro-descendant and indigenous peoples. It has a population of 372,954 inhabitants, and stretches from the border with Nicaragua to the border with Panama (covering an area of 9,189 km<sup>2</sup>). It consists of six cantons: Guácimo, Limón, Matina, Pococí, Siquirres and Talamanca,<sup>1</sup> each with their respective municipalities and a total of 27 districts. The region can be divided into three strips running parallel to the Caribbean: (i) *The coastal flood plain* or Caribbean littoral zone, split into two differentiated areas by the Moín-Limón port complex. The area to the north of the port is dominated by swamps and wetland areas, with canals running parallel to the coast that are used as transport routes; while to the south there are beaches and other coastal areas. (ii) *The intermediate plane, traversed by the region's main highway*, is a rich agricultural belt of over 200,000 hectares (of which over 60,000 hectares are cultivated), where most of the population live. (iii) *The mountain zone* containing high-altitude cloud forests, volcanoes, and a large number of protected areas and indigenous reserves.
- 1.2 As many as 19.4% of the region's households are classified as poor; 7% live in extreme poverty, and 12.4% "fail to meet their basic needs;" these indicators are significantly higher than the corresponding nationwide averages. In addition: (i) the RHA is the only region to record an increase in extreme poverty between 1990 and 2003; (ii) it contains zones of very low social development (especially in indigenous areas); according to the MIDEPLAN Social Development Index, five of its six cantons and 21 of its 27 districts are in the two lowest development quintiles; and (iii) the region has the highest rate of open unemployment in the country (7.9%) and the second-highest rate of underutilization of labor (18.3% and rising), according to 2003 figures.

### B. The region's potential and constraints

- 1.3 The economy of the RHA revolves around agriculture, port services, and tourism. Over 45% of the country's agricultural exports are produced in the Atlantic region, and the ports of Moín and Limón handle about 80% of its total international trade. Given the region's economic structure, its coordination with the rest of the province and its value-added have been very limited. The **primary sector** (basically agriculture) accounts for 47.2% of the employed population (national average 19.6%). In Talamanca, Matina, and Siquirres this proportion runs as high as 65.1%.

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<sup>1</sup> As the canton of Talamanca, including its protected areas and indigenous lands, is receiving funding from the Sustainable Development Program for the Sixaola River Binational Watershed (1566/OC-CR), and city of Limón-Puerto will be served through a World Bank operation currently in preparation, hereinafter, the term "RHA" will refer to the part of the region that is covered by the present operation, i.e. excluding the canton of Talamanca and the city of Limón.

The primary sector is followed in importance by commerce and financial services (18.1%), and the public sector (14.1%), which is of major importance in the Central Canton of Limón (24.6%). There are 5,000 farms in an area of 200,000 hectares devoted to livestock breeding with no technology transfer.

- 1.4 The **labor market** can be divided in two segments that respond to different incentives and policies: a market of average wages which accounts for much of the underutilization or underemployment of the labor force, and is characterized by a supply of skilled labor. Demand in this segment is not very dynamic, and includes a large proportion of the public sector and much of the informal sector. The second segment is a low-wage market, including below-minimum wages, facilitated by the availability of immigrant workers, with high seasonal and temporary demand encompassing most of the agriculture sector.
- 1.5 **Banana plantations** (over 40,000 hectares) provide the main crop and economic activity of the region, which accounts for over 80% of output nationwide. In 2003 the sector generated direct employment equivalent to 23% of all jobs, and 60% of the region's agricultural employment, although 10,000 jobs were shed between 1994 and 2004. In 2003, banana exports amounted to US\$554 million (compared to US\$667 million in 1998) and were the country's second most important source of foreign-exchange. The region's economic structure and labor force are vulnerable because of their reliance on a single crop. The government has set aside resources to diversify the productive structure, including livestock breeding (5,000 farms on 200,000 hectares), and to assess future opportunities in the framework of trade liberalization agreements through the productive restructuring program (PRP). This has produced limited results, however, given poor design, selection, monitoring, and technical support of the projects financed, and little support for marketing and business management.
- 1.6 Other crops that have followed the banana marketing model, albeit on a smaller scale are: **plantains** (7,000 ha), **pineapples**—the most dynamic—(roughly 4,000 ha), and **yams** (1,000 ha). Cocoa, palmetto, and coconut are also produced (3,000 ha each), along with ornamental plants (600 ha) and papaya. Annual crops (i.e. tubers, root crops, rice, and maize), cover a comparatively small part of the land area. As a response to the problem of job cuts in the banana sector, the government has acted through the Institute for Agricultural Development (IDA) to promote 117 **campesino settlements**, which have a direct effect on rural poverty (average farm size of 4.5 ha). These cover a surface area of over 120,000 hectares, benefiting 22,000 families, and are created by awarding land plots to former banana workers and poor landless campesinos. They represent an efficient solution, because poor rural families are given opportunities to develop new skills and find productive work, while also addressing the need for basic services in an integrated fashion. Some settlements form part of root crop and tuber production and export chains.

- 1.7 The region's **fishing activity**, basically small-scale, contributes just 2% of the country's total catch. In the Caribbean there are seven fishing ports, about 624 small-scale fishing operators, and 242 fishing boats operating under license, of which 34 engage in sport fishing. Commercial marine fisheries are overexploited. The systems used are low-tech, and there are no processing plants. Greater characterization of the Caribbean's fishery potential is needed, along with cataloguing of positive experiences of aquaculture and/or fish-farming activities in other parts of the country, which could become a source of income for the region and foreign currency for the nation at large.
- 1.8 **Manufacturing and agroindustry**, still in their infancy, contribute 3.6% of value added to the RHA. Of a total of 113 firms, 80 are microenterprises. Apart from the presence of the State oil refinery (RECOPE) and a number of manufacturing activities linked to the banana sector (cardboard packaging) and the food industry (banana, palmetto), manufacturing activity is very limited and small-scale. Moreover, there are a series of shortcomings such as marketing, market information systems, post-harvest management, and the limited scope of research and technological support, which impair the development of agroindustry and agriculture. Of the area suitable for agricultural production, little over 30% is cultivated, which indicates the capacity of the sector to respond to an increase in demand in conjunction with the development of other sectors that have export potential.
- 1.9 **Tourism**. The number of international tourists visiting the Atlantic coast each year is estimated at around 150,000. The region has two differentiated tourism zones: the northern Caribbean, which is a major destination for international ecological tourism (observation of flora and fauna in the canals, and sport fishing), where the main attraction is the Tortuguero Park and the Barra del Colorado refuge. The southern Caribbean has growth potential as a sun and sand destination, combined with nature and ethnocultures. Most hotel services are provided by small establishments (an average of 13 rooms), with the strongest growth being seen in Tortuguero, despite inadequate planning and supervision. There are 3,054 hotel rooms, of which 50% are unsuitable for tourism, according to the Costa Rican Tourism Institute (ICT). Complementary activities aimed at achieving greater participation by local SMEs as suppliers have been poorly exploited. Despite tourism potential and the benefits its development could bring, there are no estimates of carrying capacity, or of the domestic and international demand faced by potential tourist destinations. Albeit deficient and informal, tourism services offer potential for improving and strengthening suppliers and skill development for the population. The number of **cruise liners** docking at Puerto Limón has grown from just 67 in 2000 to 164 (224,355 passengers) in 2003; and annual growth of 10% is forecast until 2010. While on land, these tourists spend an estimated US\$20 million or more per year, although most of that amount is not spent locally. The region could exploit this market more effectively by offering passengers more and better tourism packages, together with food and transport services.

### **C. The coverage of services and basic infrastructure**

- 1.10 Coverage rates for drinking water services (70.8%), sewerage disposal (80.5%), and electric power supply (92.9%) are relatively high, and only the more remote populations remain to be served. The most notable shortcomings are the lack of urban regulatory plans, solid waste collection and disposal, sewerage and latrine systems, and rural aqueducts. There are rural areas with productive and tourism potential, where low service coverage is a constraint, including telephony (Internet and data transmission). The road network has a total length of 604 km, with 30% in good condition and 40% in a moderate state of repair. The highway Limón-San José, which is the country's key foreign trade route, is highly saturated and subject to frequent interruptions resulting from landslides. Over 50% of campesino settlements require production roads and basic infrastructure, including small-scale drainage works. In the case of the transport corridor from Puerto Limón to Puerto Almirante in Panama, work is ongoing to jointly define the design and construction of the binational bridge crossing the Sixaola river. There is also an old railway that maintains a minimum level of activity, which the government intends to put out to concession, although the plan for this is not yet very far advanced.

### **D. Vulnerability to natural disasters and natural resource potential**

- 1.11 **Natural hazards and critical areas.** The region is an intense rainfall zone (ranging from 2,500 mm to over 5,000 mm per year), and is classified as highly vulnerable to natural phenomena. There are risks of seismic movements such as occurred in 1991, which reached 7.5 degrees on the Richter scale and caused an uplifting of the land in a number of coastal zones, affecting river flows in estuarine areas, and aggravating the problem of flooding. Given its frequency and the scale of the damage caused, flooding is the hazard that worries the population most.
- 1.12 In the December 2003 floods, US\$5 million was provided to deal with the emergency, although the damage reported was much greater. The emergency entailed taking care of a population of 2,005 people installed in 27 temporary shelters. In addition, it was necessary to bear the cost of a number of inspection and evacuation operations. The flood-prone area in the region's various watersheds has been identified in terms of a "maximum water-level rise," based on estimates by the National Commission for Risk Prevention and Emergency Response (CNE). To generate flood risk maps, however, larger-scale topography will be needed to support the CNE. The area of this mapping would cover a total of 1,088 km<sup>2</sup>.
- 1.13 Exploitation of the region's economic potential requires reducing the risk posed by these vulnerability factors, by installing an early warning system in each community. In addition to the right cartography to prepare flood risk maps for different periods of recurrence, the density of the hydro-meteorological network needs improvement in critical watersheds. There are some 42 pluviometric stations



in the whole of the RHA, but another 25 are needed along with an additional 10 hydrometric stations.

- 1.14 **Natural resource conservation and management.** The biodiversity that exists in the RHA is among the most important in the country. The region contains 32 forest areas, of which 10 do not have a management plan, which limits their effective protection (52% of the region, already have some protection regime). The Caribbean coastal belt contains the Barra del Colorado Wildlife Refuge, the Tortuguero National Park, the Pacuare Forest Reserve, the Limoncito Wildlife Refuge, the Caribbean Forest Bird Sanctuary, the Cahuita National Park, the Cocles Indigenous Reserve, and the Gandoca-Manzanillo Wildlife Refuge. This strip is already subject to coastal zone regulatory plans (ZMTs), which aim to manage use and further development. The Barra del Colorado Wild Fauna Reserve connects from Limón to the Tortuguero National Park by a canal running parallel to the shoreline which is used for inland transport. This needs to be dredged periodically and requires regulations for the different users.
- 1.15 The region's natural resources face a number of threats, such as a high degree of visitor overload at the Tortuguero National Park, and pressure from human settlements that generates high levels of pollution, especially caused by agrochemicals and plastic materials used in banana plantations. While not yet critical, levels of timber extraction recorded in protected areas could become unsustainable in the medium term. The unplanned expansion of economic and urban activities in general is degrading the environment and causing biodiversity loss.

#### **E. Governance capacity in the region**

- 1.16 The province has a highly centralized institutional structure, with a sector approach to decision-making and the provision of many basic services, which are managed by the corresponding government institutions (ministries and autonomous bodies). The Atlantic Port Administration and Economic Development Board (JAPDEVA), in addition to running the Moín-Limón port complex, is responsible for promoting economic and social development in the region. Also at the regional level, the government recently created regional councils through MIDEPLAN, to strengthen regional coordination and planning. In the productive sectors, the largest government presence is in agriculture, where the National Irrigation and Drainage Service (SENARA), the Ministry of Agriculture (MAG), and the IDA, among others, carry out important activities such as management and strengthening of campesino settlements. Interinstitutional coordination mechanisms either function inadequately or are nonoperational, partly because of the high degree of centralization in decision-making and lack of long-term plans at the local level, to guide resource allocation.

- 1.17 **Local governments.** The five RHA municipalities have significant potential to contribute more dynamically to local development and deal more effectively with problems arising from expanding economic activity. Increased tourism in the coastal area requires urban and coastal regulatory plans to be prepared. In many cases, however, municipalities do not fulfill these functions because they lack managerial capacity and own resources (failure to collect contributions, subsidized or out-of-date charges for services, and absence of an up-to-date property register) and display administrative shortcomings. Aspects that need strengthening include organizational structure, financial management, provision of public utilities, investment planning functions, and coordination between local governments and other institutions involved in local affairs. In general, both local governments and the regional branches of public institutions lack suitable coordination mechanisms and have low managerial capacity and insufficient resources to discharge their responsibilities. The region has a relatively high level of social and union organization; but despite the presence of numerous bodies, there is not enough information to characterize capacity to implement development projects. Nonetheless, the region's level of development and effectiveness are likely to be different in inland areas.

#### **F. Country strategy and progress in regional planning**

- 1.18 In its National Development Plan (PND), which proclaims poverty reduction as the "key framework for actions of the current administration," the Government of Costa Rica defined comprehensive development of the RHA as a priority. In border areas, MIDEPLAN is working to formulate binational development plans, with support from the Global Environment Facility (GEF) on the border with Nicaragua; and the Bank approved a sustainable development program (1566/OC-CR) for the Sixaola River binational watershed, on the border with Panama.
- 1.19 In order to develop the region, the government, acting through the Ministry of Finance and MIDEPLAN, requested assistance from the Bank to prepare a sustainable development program for the RHA (ATN/JF-8359-CR), through an evaluation of the various plans and initiatives that have been formulated, interpretation of its infrastructure capacities, its natural resource potential, and its communities' socioeconomic needs and aspirations. The following served as important inputs in formulating the program: the 2000-2006 Regional Development Plan (PDR) of JAPDEVA, the PND of MIDEPLAN, urban development plans in the port area, existing canton plans, the National Tourism Plan, and the ICT regional plan for the RHA. Work was also done with a series of socioeconomic and environmental indicators managed by MIDEPLAN for the whole country, which are reviewed and updated on an annual basis.

## **G. The Bank's strategy**

- 1.20 The Bank's strategy with Costa Rica is to promote economic growth as a means to improve the population's living standards and reduce poverty. The proposed operation is consistent with the Country Strategy (document GN-2263-1), which identifies sustainable rural development, involving the adaptation of existing models, as a way to support productivity increase. The operation is closely in line with the PND, since it contributes to better natural resource use, expands the benefits of social policy to vulnerable or deprived groups, and promotes sustainable development in a region of high potential but which is vulnerable to natural disasters. As the operation is framed by the borders of neighboring countries—Nicaragua (the San Juan River binational watershed) and Panama (the Sixaola River binational watershed)—it implements the strategic guidelines set out in the Puebla-Panama Plan (PPP). This is also consistent with the strategy outlined for the Mesoamerican Sustainable Development Initiative (IMDS), which is presented as a crosscutting axis of the PPP, and it complements various highway initiatives and the IMDS in the Caribbean region.
- 1.21 **Complementarity and synergies with other operations currently being executed or under preparation.** The actions proposed for the RHA do not duplicate but complement and enhance, in a small geographic area, activities that are being carried out by government institutions with their own resources, and those supported by loans from the Bank and other donors. Operations with the Bank include the following: (i) Program to Develop Sustainable Agricultural Production (1436/OC-CR), focused on three priority regions, the North Huetar region (bordering with the RHA), and the Brunca and Chorotega regions; these complement each other in terms of technical-assistance activities and investments in productive sectors, maintaining consistency with the producer support mechanism; (ii) Program for Regularization of the Cadastre and Property Registry (1284/OC-CR) of nationwide coverage, which is complemented by activities intended for local governments, dispute resolution in special areas, management plans for special areas, and establishment of the boundaries of protected areas; and (iii) Sustainable Development Program for the Sixaola River Binational Watershed (1566/OC-CR), which is targeted on the Talamanca Canton, thereby making it possible to maintain strategic action and 100% coverage at the RHA level.
- 1.22 Other operations with the Bank that are currently being prepared include: (i) Support for Competitiveness Reforms and Productive Investments (CR-0140, CR-0156) of nationwide coverage, where synergies exist in relation to activities to speed up economic growth, particularly those targeting small- and medium-scale farmers and entrepreneurs, and are complementary with services for campesino settlements; and (ii) Multi-phase Program for Sustainable Ecotourism in Protected Areas (CR-L1001), which complements management plans for protected areas and the regulatory plans of marine coastal zones. Operations with other financing agencies, and initiatives currently underway, include the following: (i) the Limón

City-Port Project (IBRD), which is being prepared for JAPDEVA and the Ministry of Public Works and Transportation (MOPT), targeting the port and municipality of Limón; there is complementarity in activities particularly those relating to the Canton of Limón; (ii) the Mesoamerican Biological Corridor (GEF/IBRD), which is strengthening activities being carried out and is complemented by the incorporation of new areas into the corridor; (iii) the USAID Regional Environmental Program (PROARCAS/Costas), focused on the marine coastal area, which complements the coastal zone regulatory plans; and (iv) Municipal Rural Road Services (KfW/GTZ), which is complemented by activities envisaged for local governments and the definition of management plans for special areas.

## **H. Experiences and lessons incorporated**

- 1.23 The Bank has previous experience in funding projects relating to natural resource management, rural development, sustainable development, and rural poverty reduction in Central America. The results of the following evaluations were specifically reviewed for this program: (i) three completed projects on watershed management, adoption of new conservationist technologies by beneficiaries, and payment of subsidies to low-income small-scale farmers: Renewable Resource Management Program for the El Cajón Reservoir (loans 918/SF-HO and 787/OC-HO); the El Salvador Environmental Program (886/OC-ES); and the Project for the Management and Conservation of Renewable Natural Resources in the Upper Watershed of the Chixoy River (871/SF-GU). The outcomes have been satisfactory, especially as they relate to rates of new technology uptake under the El Salvador Environmental Program, attributed to the incentive mechanism adopted. Production levels and income rose in all cases, and the recovery mechanism adopted under the El Salvador program was such that a high percentage of the incentives flowed back to the producer associations. The results of midterm evaluations of two currently executing projects, with complex implementation structures and high conflict levels: the Darién Sustainable Development Program (1160/OC-PN) and the Sustainable Development Program for Petén (974/OC-GU). Experiences were also exchanged among the executing agencies of the following projects that are just beginning execution: Multiphase Program for Sustainable Development of Bocas del Toro (1439/OC-PN) and the Multiphase Program for Natural Resources Management in Priority Watersheds (1077/SF-HO). A synthesis of lessons learned, both positive and negative, and incorporated into the design of this project is as follows: (i) the need to emphasize local government strengthening, both at the start of project implementation and during execution; (ii) the usefulness of incorporating conflict resolution activities into the design; (iii) agreement on management instruments at all levels, particularly management plans, urbanization plans, and the indicative land and marine coastal zone management plan; (iv) design and implement activities that meet demand manifested by the communities with effective incentives and recovery mechanisms; (v) promote interinstitutional coordination among the coexecuting agencies and donors, during project design and execution; (vi) promote activities for sustainable natural resource

management at the subzone level, based on the development plan and management plans; and (vii) formulate systems for monitoring and evaluating the initiatives recommended.

## **I. Conceptualization of the operation**

- 1.24 As already noted, the region's economic activities (banana enclave, port services, and tourism) normally do not generate high levels of value-added locally. The stagnation and restructuring of banana activity has strengthened the trend of labor underutilization in recent years, and this has been compounded by modest growth of diversified agriculture and services, including tourism, commerce, and port services. Nonetheless, despite its high vulnerability to natural risks, the region has significant tourism potential, as well as possibilities for more dynamic growth in other sectors, facilitated by its great natural wealth that includes protected areas and forests, and a zone that is suitable for agriculture with a transport artery connecting to the country's markets.
- 1.25 Based on the above, program objectives were defined through workshops held with government authorities and local government representatives to gradually turn the situation of the region around. Indicators were also reviewed for each objective, to measure program impact (paragraph 3.30); and six possible future scenarios that were not mutually exclusive were analyzed. The **scenario agreed upon** is viewed as the start of an economic transformation based on natural and human capital, which pursues competitiveness and regional integration, fostering public and private entrepreneurial culture in all sectors, with greater deconcentration and decentralization of responsibilities. The scenario also incorporates decisions taken by the government (large-scale investments targeting the city-port, investments in highways and the airport, and electric power interconnection); and targets have been defined to address foreseeable changes (changes in banana activity, including greater efficiency, reduction of area and labor; and crop substitution).
- 1.26 The proposed operation responds to the scenario agreed upon, and is conceived as a multiphase program (four to eight years), in which phase I (four years) will lay institutional, operational, environmental, and productive foundations, together with priority investments in basic services. Phase II will include larger-scale investments in an institutional framework that is strengthened by lessons learned during phase I, as a result of the pilot projects implemented and the application of established participation and decision-making mechanisms

## **J. Strategic guidelines agreed upon for the proposed operation**

- 1.27 The diagnostic study reveals the existence of **differentiated problems** that require strategic approaches adapted to the characteristics of the RHA and the various bodies involved, for example: (i) the corridor zone from Guápiles to Guácimo is buoyant, and contains medium- and small-scale producers; (ii) in the zone between

Siquirres and Limón, banana production and port activities are the hubs around which economic activity revolves; and (iii) the mountain belt has great natural wealth, and the Talamanca Canton in particular is characterized by relatively lower development and the presence of indigenous populations. Based on the scenario agreed upon, three differentiated strategy lines (SLs) were defined, with the aim of stimulating sustainable growth in the regional economy and redirecting its structure towards productivity improvement, participation in more profitable markets, and more equitable income distribution. These lines are as follows:

- 1.28 **(SL1) targeted on small and medium-scale producers and entrepreneurs.** The aim here is to ready the economy comprising small- and medium-scale producers and entrepreneurs to meet the challenges of their increasing internationalization. To this end, use would be made of the region's institutional structure and incentives in different productive sectors, improving their effectiveness and targeting. The key is to take advantage of existing and potential productive linkages in the various sectors of production, to enable large and medium-sized marketing enterprises, and smaller producers, to participate in a single chain to sell their higher value-added products. A number of initiatives will be considered: new crops, agribusiness, organic farming, tourism, fisheries, aquaculture, and other projects proposed locally.
- 1.29 **(SL2) targeted on reversing the deterioration in social trends.** The aim here is to develop local capacities and make the most of government initiatives to reverse very marked social deterioration trends in the RHA, in relation to: (i) unemployment of landless agricultural workers and campesino settlements; (ii) poverty among families that have insufficient labor or other assets to exchange in the market; and (iii) unequal employment and skill development opportunities for women and young people. Productive diversification and job creation alternatives will be characterized, both within and outside agricultural activity, through investments eligible for financing in response to demand. The aim will be to create employment by providing growth incentives for productive sectors, stressing permanent employment and use of the female labor force under conditions of equality.
- 1.30 **(SL3) targeted on sustainable exploitation of natural and human wealth.** The purpose of this line is to apply effective measures to reduce vulnerability in the region's main watersheds, protect the environment, and achieve sustainable resource management, with community participation. The aim is to reduce natural risks by implementing an "optimal" mix of structural and nonstructural measures. The latter include zoning in vulnerable areas according to their potential.

## II. THE PROGRAM

### A. Program objectives and description

- 2.1 The program's main objective is to help maximize productive potential on a sustainable basis, and make it less vulnerable to natural risks, in order to raise income levels and improve the population's living standards, by implementing actions and priority investments in the region. To respond to this objective and implement the strategy lines laid down, the program was structured in three components, as shown in the following table:

Table II-1. Implementation of Strategy Lines (SLs)					
<b>Component 1.</b> Increase in local and regional managerial capacity  (SL1, SL2, SL3)	<b>Component 2.</b>  Economic and social development of the region (SL1, SL2)			<b>Component 3.</b> Mitigation of natural risks and arrangements for natural resource management and conservation  (SL3)	
	(a) Income with productive investments and social development		(b) Social infrastructure associated with economic growth		
	Productive diversification (agricultural activities, manufacturing industry, fishing, forestry, tourism)	Socioproductive projects			
		Support for campesino settlements to raise their income levels			Support for women’s groups to increase family incomes

### 1. Increase in local and regional governance capacity (US\$1.6 million)

- 2.2 This component will make it possible to gradually develop administrative, economic, financial, environmental and social capacity among the various actors and beneficiaries with responsibilities at the different levels. Financing will focus on creating capacities to turn a weak administrative structure into an institutionality that promotes sustainable development at the regional and local levels; and move a poorly integrated civil society towards a coordinated and participatory governance scheme. It will support the development of the three strategy lines described above, and include technical assistance, studies and training activities in its execution, which are crucial for implementation of the other components and for proceeding to phase II. Strengthening actions are envisioned on two levels:

#### a. The local level including local governments

- 2.3 This entails: (i) gradually strengthening the capacity of the four RHA municipalities, Pococí, Siquirres, Matina and Guácimo, by financing municipal action plans (PAMs) prepared for each municipality, to enhance the organizational and administrative structure (staff training, re-engineering and systemization of

processes to improve management and customer service); financial management to boost municipal revenues (tariff systems, procedural manuals); and improvement of administration, planning, and management for sustainable development (establishment of participatory planning systems, coordination between institutions and with civil society organizations and local entrepreneurs, land management, promotion of local economic development); (ii) creation and strengthening of community-based municipal structures to run public services such as solid waste management and disposal, the maintenance of rural roads, and coordination with civil society organizations and local entrepreneurs; (iii) preparation of regulatory plans to support the municipalities, MIDEPLAN, and the ICT; (iv) strengthening of civil society organizations, women's and youth associations, producers, associations of indigenous groups, rural aqueduct managers associations (ASADA), and natural resource surveillance committees (COVIRENA), to maintain their links with the labor force and regional development; (v) technical assistance and studies for specific activities aimed at establishing mechanisms for promoting participation by the community and the private sector in public utility management; and (vi) regulation and operation of the five Canton Committees, one for each canton, and strengthening of their capacity to manage information and use the program Operating Regulations to prepare annual canton plans.

#### **b. The regional level, including the Regional Council**

- 2.4 This entails: (i) consolidation of the operability of the regional RHA Council (COREHA) and its Regional Secretariat, to ensure its functioning and active participation in the program; (ii) installation and implementation, in the COREHA, of program management and monitoring tools, the geographic information system (GIS), and the Indicative Plan for Functional Land Management (PIOTF), which are already designed; (iii) operational strengthening of key regional governance institutions, with which MIDEPLAN will sign the respective agreements (Ministry of Environment and Energy [MINAE], MAG, JAPDEVA, CNE, IDA, the Joint Institute for Social Assistance ([IMAS]) and SENARA, to ensure effective participation; and (iv) creation, regulation, and operation of the Five Cantons Commission, within the COREHA, in order to integrate canton-based initiatives at the regional level.

### **2. Economic and social development of the region (US\$9.6 million)**

- 2.5 This component will make it possible to promote economic alternatives and permanent job creation, including groups living in situations of extreme poverty and vulnerability, complementing and enhancing government actions. The component responds to strategy lines 1 and 2, and has been structured in two subcomponents for execution purposes, to integrate economic and social aspects in a single approach, to the benefit of the region's population.



**a. Income with productive investments and social development**

- 2.6 The main purpose of this subcomponent is to promote economic alternatives that generate permanent quality jobs that boost local economies. It includes investments that complement others being carried out by the government, so that resources pertaining to initiatives such as the productive reactivation program (PRP) can concentrate on channeling credit where their advantages lie. Similarly, socioproductive activities will be promoted that open up spaces for new economic activities and services that add value to production, along with initiatives to attract private investment. An additional aim is to complement and empower efforts to meet the needs of vulnerable groups, families living in extreme poverty, and those facing difficulties in participating in the labor market (including indigenous groups), being carried out by institutions such as the IDA, SENARA, INA, IMAS, and civil society organizations.
- 2.7 Feasibility studies will be eligible for funding, along with productive projects such as: investment for the development and enhancement of crops grown by small- and medium-scale producers (such as oil palm and plantains, among others) agroindustry processes, tourism, fishing, and forestry projects. The program's Operating Regulations contain eligibility and selection criteria for this purpose, indicating mechanisms for sustainability and recovery of project costs. Productive models will be supported with production chains and the supply of services that involve one or more medium- and small-scale producer associations, linked to a marketing process. Each productive model includes investments for technical assistance, training, business development, and commercial management. The following pilot projects will be supported: enhancement of plantain crops, and implementation of 1,000 hectares of improved forestry-grazing systems.
- 2.8 To boost local economies, funding will be provided for technical assistance activities and investments in tourism, in harness with the ICT, MINAE, and municipalities, making it possible to enhance the supply of services in the identified tourist corridors, both within and outside coastal areas. For this purpose, work will be done, in accordance with canton regulatory plans, on regulatory plans prepared for the ZMT and studies of tourism demand targeting the RHA. The subcomponent includes: (i) site information and signposting; (ii) regulation and improvement of transport services, landing stages, and access canals; (iii) training activities for small hotels; (iv) new alternatives for sport fishing; (v) agro-ecotourism projects; and (vi) new tourism circuits and expansion of existing ones. For example, funding will be provided for a specific project to create footpaths and install signposts on Cerro Tortuguero; and pilot aquaculture activities will be supported, together with studies making it possible to gain experience and information for phase II.
- 2.9 Support will be provided for **campesino settlements** through: (i) investments (small-scale drainage works, access roads, and basic services), and technical assistance to establish production modules, among other items (support models for

settlements identified during program preparation that range between US\$20,000 and US\$350,000, depending on the activities included and the size of the settlements); and (ii) proposals made by **women's organizations** for investments and technical assistance, seeking to improve their participation in the labor force (which is hindered by increasing underutilization of local labor), including business training initiatives in handicrafts and the production and marketing of orchids, and pilot activities in aquaculture.

#### **b. Social infrastructure associated with economic growth**

- 2.10 This subcomponent will seek solutions to problems of quality and coverage in basic infrastructure and services, to complement State activities aimed at establishing conditions that foster growth in productive sectors, and to improve living standards among local residents. Eligible project categories include the following: (i) investments and preinvestment studies in projects that improve and expand the coverage of basic services (e.g. small-scale drinking water supply systems, latrines, solid waste treatment and disposal, rural electrification, markets); (ii) infrastructure to support tourism, such as improved access to tourism zones, public landing stages, tourist information and service centers, and demarcation of ZMTs with tourism potential; and (iii) rehabilitation and construction of small access roads to productive zones, and small-scale drainage works in campesino settlements. It also includes technical assistance for activities relating to the operation and maintenance of basic services, canals, and mechanisms to promote community and private participation in the management of services. The Operating Regulations will include the corresponding eligibility and selection criteria.

### **3. Mitigation of natural risks and arrangements for natural resource management and conservation (US\$3.5 million)**

- 2.11 This component will make it possible to reduce vulnerability in the region's main watersheds, promoting comprehensive measures for the protection and management of natural resources, together with actions to alleviate the socioeconomic impact of natural disasters, strengthening civil society participation and interinstitutional coordination, with the PIOTF as the point of reference. The component corresponds to strategy line 3, and it is divided into two subcomponents for execution purposes:

#### **a. Reduction of vulnerability**

- 2.12 This includes studies and technical assistance aimed at generating key information, together with investments that help to mitigate and, as far as possible, eliminate the effects of flooding in the various watersheds, placing emphasis on helping the population and economic activities to coexist with recurrent flooding episodes. The subcomponent includes financing for structural and nonstructural measures based on demand, such as: (i) risk mapping; (ii) zoning in vulnerable areas; (iii) development of early warning systems in critical watersheds;

(iv) preinvestment studies and design of structural protection works; (v) construction of protection works in critical watersheds; and (vi) prevention of population settlements in vulnerable areas. Specific projects have been identified such as increasing the number of hydro-meteorological stations in the prioritized watersheds, and pilot projects for flood plain modeling—such as the one carried out for the Banano River basin, where an early warning system will be implemented; and a risk mitigation plan will be financed in coordination with the CNE, to include, in addition to the above, the planning of infrastructure location.

**b. Arrangements for management and conservation of natural resources**

- 2.13 This includes technical assistance activities to make it possible to: (i) keep the environmental and social baseline up to date, and implement the PIOTF and GIS designed during program preparation; and (ii) promote the sustainable use of biodiversity, especially in the aquatic domain, and establish monitoring systems for this. It will also strengthen management schemes for national parks and protected forestry areas, exploring alternatives to achieve financial sustainability and local environmental management. In the case of natural resource management, technical assistance and studies are envisaged with a view to conserving resources through sustainable exploitation. The following work will be done on the basis of demand: (i) development and implementation of management plans for protected forest areas; (ii) inventories of natural resources to move towards their sustainable management; (iii) community organization, preparation, and strengthening, to participate in the governance and shared management of protected forestry areas; and (iv) analysis and regulation of financing mechanisms. In the northern Caribbean, work will focus on natural protected areas: the Tortuguero National Park, the Barra del Colorado wildlife refuge, and the Pacuare Forestry Reserve.

**B. Scaling of program phases**

- 2.14 The proposed total cost of the program is estimated at US\$48 million for the two phases. **Program phase I (US\$18 million).** The amount indicated is a conservative investment figure compared to the needs to be covered in components 2 and 3, bearing in mind: (i) the timeframe of processes that precede capacity strengthening; (ii) the annual absorption capacities envisaged; and (iii) experience in similar projects. In order to move from phase I to phase II, an evaluation will be made of outcomes in terms of achieving the established indicators, and lessons learned from phase I. **Program phase II (US\$30 million).** This is designed to consolidate institutional, financial, and environmental sustainability mechanisms for the processes initiated, and to expand investments in the components on economic and social development, and mitigation of natural risks and natural resource management, in accordance with the agreed strategy lines. Based on the conditions created in phase I, the program's component structure is likely to be maintained in

phase II; and, where feasible, resources will be distributed as shown in the table below:

<b>Table II-2. Distribution of Resources (millions of US\$)</b>						
MULTIPHASE PROGRAM COMPONENTS (The amounts shown include management and supervision, contingencies and financial costs)	PHASE I (4 YEARS)		PHASE II (5 YEARS)		TOTALS	
	US\$18		US\$30		US\$48	
	US\$	%	US\$	%	US\$	%
1. Increase in managerial capacity	2.0	50.0%	2.0	50.0%	4.0	100%
2. Economic and social development	12.0	40.0%	18.0	60.0%	30.0	100%
3. Mitigation of natural risks and natural resource management	4.0	28.0%	10.0	72.0%	14.0	100%
<b>Totals</b>	<b>18.0</b>	<b>38.0%</b>	<b>30.0</b>	<b>62.0%</b>	<b>48.0</b>	<b>100%</b>

### C. Phase II triggers, and phase I outcomes that will activate phase II

- 2.15 A program monitoring and evaluation (M&E) system will be set up to monitor selected triggers for the move from phase I to phase II (see paragraph 3.31, mid-term evaluation). As phase I will stress managerial capacity and the generation of replicable experiences, the key indicators for this phase will be those relating to the establishment of such capacities and the success of pilot projects. The expected outcomes of phase I to activate phase II are as follows: **For component 1:** (i) four Canton Committees (CCs) functioning and with capacity to prepare their annual work plans (AWPs); (ii) three municipalities with financial and administrative improvement plans and reengineering processes 50% applied, and revenue increases of 15%; (iii) action plans, in keeping with participation agreements signed with MINAE, IDA, INTA, JAPDEVA, SENARA, MAGA, ICT, CNE, 60% implemented in participating institutions with responsibilities; (iv) 10 civil society organizations strengthened and participating in the preparation of six projects. **For component 2:** (i) 10 campesino settlements consolidated with higher income levels demonstrated; (ii) 20 SMEs trained and connected to producer and exporter groups; (iii) four pilot projects implemented with replicable lessons. **For component 3:** (i) sufficient topography to prepare flood risk maps for three priority watersheds; and (ii) hydro-meteorological network installed in the two top priority watersheds, with results to be used for flood risk maps and the early warning system.

### D. Program cost and financing, phase I

- 2.16 In phase I of the program, the Bank will finance 89% of the cost (US\$16 million), drawn from ordinary capital resources in United States dollars from the single currency facility. The government will contribute 11% of the remaining cost (US\$2 million). The preliminary cost plan by investment category and financing source is presented in Table II-1. The program management and supervision category

(US\$1.34 million) includes funding of the program coordination unit (PCU) and the corresponding operating expenses, together with the costs of audits (US\$130,000), the midterm evaluation (US\$100,000), and the M&E system (US\$120,000).

<b>Table II-3. Phase I Costs and Financing Plan (thousands of US\$)</b>				
<b>INVESTMENT CATEGORIES</b>	<b>Bank</b>	<b>Local counterpart</b>	<b>Total</b>	<b>%</b>
<b>I. MANAGEMENT AND SUPERVISION</b>	<b>1,000</b>	<b>340</b>	<b>1,340</b>	<b>7.4%</b>
1. Program coordination unit (PCU)	700	290	990	
2. Audit and midterm evaluation	230	0	230	
3. Program monitoring and evaluation (M&E)	70	50	120	
<b>II. DIRECT COSTS</b>	<b>14,300</b>	<b>400</b>	<b>14,700</b>	<b>81.6%</b>
1. Increase in local and regional managerial capacity	1,500	100	1,600	8.9%
2. Economic and social development of the region	9,500	100	9,600	53.3%
3. Mitigation of natural risks and natural resource management	3,300	200	3,500	19.4%
<b>III. NOT SPECIFICALLY ALLOCATED</b>	<b>700</b>		<b>700</b>	<b>3.9%</b>
<b>IV. FINANCIAL COSTS</b>		<b>1,260</b>	<b>1,260</b>	<b>7.0%</b>
1. Interest		1,100	1,100	
2. Credit fee		160	160	
3. Inspection and supervision	--	---	---	
<b>Program Totals</b>	<b>16,000</b>	<b>2,000</b>	<b>18,000</b>	<b>100.0%</b>

- 2.17 To initiate the program's priority activities, a special disbursement is recommended of up to US\$400,000, once the PCU has been created and the general conditions contained in the general loan contract regulations have been fulfilled. Prior to fulfillment of conditions precedent to the first disbursement, key activities need to be initiated that are priorities for setting the program in motion, including: (i) hiring of the minimum staff needed and provision of materials and equipment for the PCU; (ii) regulation and strengthening of the PCU, the Regional Secretariat, the Regional Council, and the five Canton Committees; (iii) preparation of action plans to be included in agreements with local institutions and governments (MAG, CNE, MINAE, ICT, municipalities); (iv) hiring and initiation of consulting services to strengthen community and small-scale producer organizations, linked to the program's pilot projects; and (v) design and installation of the M&E system.

### **III. PROGRAM EXECUTION**

#### **A. Implementation strategy based on Regional Councils**

- 3.1 The program adopts the National Planning System established by MIDEPLAN as its implementation strategy, using the Regional Councils and the Regional Secretariat as the main hub for interventions at the regional level. An Executive Decree created the organizational management and regional development subsystem, and the Atlantic Huetar Regional Council (COREHA) and Regional Secretariat are operating for the region.
- 3.2 The implementation strategy agreed upon involves the following: (i) working under instructions issued by the Program Advisory Council (CAP), presided by MIDEPLAN and created for the Sustainable Development Program for the Sixaola River Binational Watershed (loan 1566/OC-PN); (ii) coordination with the COREHA, and strengthening of its capacities and those of the Regional Secretariat in order to improve the system reaching consensus on resource allocation and investment prioritization and planning, between the national, regional, and local levels; (iii) strengthening of the regional offices of institutions that are crucial for the program, with responsibilities in the region; (iv) increasing local government administrative, financial, and service provision capacity; (v) improving the operational managerial capacity of the formal structures of political-administrative participation; (vi) consolidating the principles and values of governance with active civil society participation, ensuring representation of the various cultures and ethnic groups; (vii) involving civil society in decision-making, and ensuring their active participation in the corresponding mechanisms.

#### **B. Borrower and executing agency**

- 3.3 The borrower will be the Republic of Costa Rica, and the executing agency will be MIDEPLAN, acting through a program coordination unit (PCU), a deconcentrated body with instrumental legal status. Acting through the PCU, MIDEPLAN will assume full administrative, financial, and coordination responsibility vis-à-vis the Bank, and will perform management functions for program coordination and supervision.
- 3.4 **Program coordination unit (PCU).** The PCU will be located in the region, and is expected to consist of a coordinator (who would direct it and serve as liaison between the parties involved and the COREHA and its Secretariat, and be accountable for program execution), together with a five-strong professional support team that will assist each of the Canton Committees, plus two administrative assistants). This unit will share operating costs with the PCU created (loan 1566/OC-CR), thereby forging a single staff team that will be responsible for administrative, financial and accounting issues, and for monitoring and evaluation

systems, without losing the focus and accountability of the individual PCUs. This program's PCU will also be supported by specific specialized technical assistance in hiring processes and technical aspects. ***A condition precedent to the first disbursement will be presentation of evidence by MIDEPLAN of having created the PCU with established and defined functions.***

- 3.5 The PCU will be the focal point vis-à-vis the Bank and have the following functions: (i) signing agreements with the various organizations (productive, civic, and environmental, etc.) and with local governments and central government institutions, for technical assistance, execution of studies, consulting services, projects and supervision thereof; (ii) carrying out the necessary contracting; (iii) preparing technical assistance projects, studies, specific and pilot productive projects, and contracting for their preparation up to the feasibility stage; (iv) helping organizations and local governments to prepare projects at the profile or feasibility level, and hiring consulting services as necessary, verifying that they fulfill the eligibility and feasibility criteria specified in the Operating Regulations; (v) supporting the Canton Committees (CCs) in integrating canton annual work plans (AWPs) and coordinating the program execution process; (vi) managing and supervising activities relating to program execution; (vii) preparing and presenting disbursement requests to the Bank with due justification and sufficient advance notice; (viii) preparing reports requested by the Bank for execution, including the report on the revolving fund; (ix) opening separate bank accounts for loan and local counterpart resources; (x) maintaining specific and detailed accounting records on the use of the loan proceeds and local counterpart funding; (xi) providing technical and administrative support to the Five Cantons Commission (CCC) in its working meetings; and (xii) making payments for the corresponding goods and services.

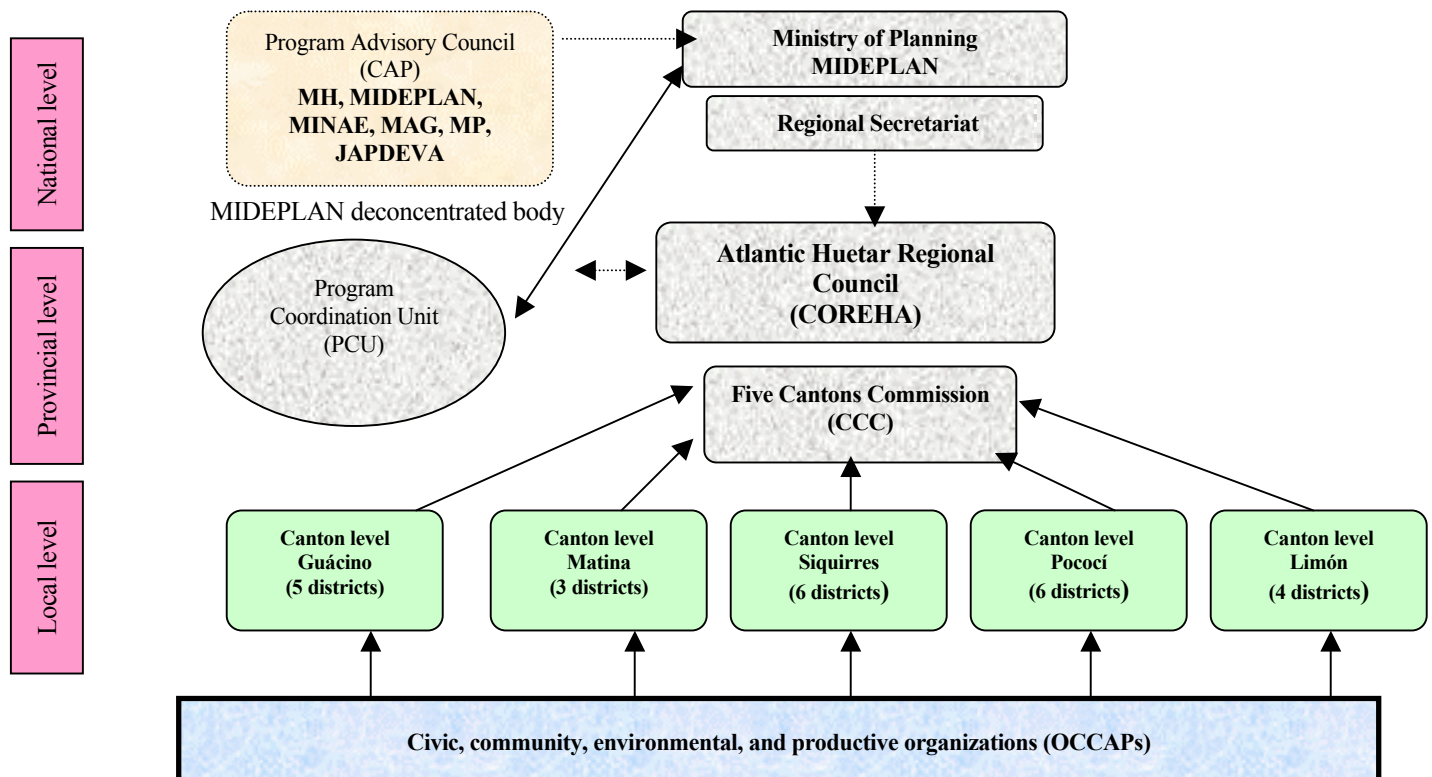
### **C. Program operationalization and administration**

- 3.6 To ensure adequate achievement of the program's objectives, scope, and viability, existing political-administrative structures will be strengthened to ensure representation of the various actors in agreeing on its priorities and execution. As mentioned above, work will be based on the created structure: (i) **Program Advisory Council (CAP)**, to ensure that the government's policy guidelines are fulfilled; and (ii) the **COREHA and its Regional Secretariat**, to facilitate and integrate interinstitutional coordination, and to support implementation of national development plans. In addition, to support participatory execution, five **Canton Committees (CCs)** will be created at the local level, one for each canton; and the COREHA will be assisted in setting up a **Five Cantons Commission (CCC)** to integrate the AWP's at canton level and represent the region. The CCC will be presided over by MIDEPLAN acting through the Regional Secretariat (see Figure III-1).
- 3.7 **Program Advisory Council (CAP)** created to advise the Sixaola program (1566/OC-PN), presided by the Minister of Planning and Economic Policy and

comprising other high-level representatives. The Council has the following functions: (i) coordination of efforts by the State and other donors in the region; (ii) channeling and guiding participation by national authorities; and (iii) receiving annual progress reports, the AWP, and program budgetary execution. The Council can be convened by the Minister or at the request of any of its members, and it will meet at least once every year.

- 3.8 **The COREHA and the Regional Secretariat.** Among other functions, the COREHA will be responsible for establishing and facilitating interinstitutional coordination mechanisms for the execution of national development plans, and for defining projects of common interest in the region that promote regional development, poverty reduction, job creation, and production, and generally fulfill the objectives and targets of government plans. The MIDEPLAN Regional Secretariat will implement the Council's agreements, and will have the following functions, among others: promotion of regional social and economic development in the framework of national development plans; identifying and incorporating public or private actors from the region, whose participation helps to fulfill the established regional development priorities; promoting execution of activities, programs, or projects aimed at improving social and economic conditions among the areas or population groups within its jurisdiction.

**Figure III-1. Program Execution Scheme**





- 3.9 **Canton Committees (CCs).** Five CCs will be created, one for each canton (Matina, Pococí, Siquirres, Limón, and Guácimo), ensuring representation of the various stakeholder groups, according to their canton. Their main function will be to technically review project proposals and integrate the canton-level AWP. This will provide a decentralized and participatory decision-making scheme, identifying and prioritizing activities and investments from the bottom up. *A condition precedent to the first disbursement will be presentation of evidence that MIDEPLAN has created and established those committees.*
- 3.10 The CCs will operate with support from the PCU and its appointed specialists, one for each CC. Their functions include: (i) receiving projects presented by local organizations and governments; (ii) prioritizing projects according to the strategies laid down, the Operating Regulations, the PIOTF, and resource availability according to the indicative budget prepared by the PCU; (iii) presenting canton-level AWP for approval in the CCC; (iv) monitoring program activities in their respective canton, and implementing recommendations relating to the PCU; and (v) maintaining a wide-ranging process of information and consultation with community organizations, to keep abreast of their initiatives. Each committee will meet at least bimonthly and will be convened by its President on his own initiative or at the request of a majority of members. Depending on the size of the canton, each CC will comprise either 11 or 13 representatives: four or six will correspond to members of the canton districts, one will be municipal mayor, and the other six will be chosen from a shortlist submitted by the community of each canton, involving development associations, producers, cooperatives, entrepreneurs, church representatives, and indigenous communities. Initially, their members will be selected by the COREHA based on shortlists presented by the various organizations of the respective canton, and subsequently by the CCs themselves, in accordance with their respective internal regulations.
- 3.11 **Five Cantons Commission (CCC).** This Commission is expected to be formalized as part of the COREHA and presided by the Regional Secretariat. Its functions include: (i) technically reviewing canton AWP with PCU support; (ii) consolidating, agreeing upon, and approving the overall program AWP on the basis of canton AWP, and transmitting this to MIDEPLAN through the PCU; (iii) ensuring fulfillment of the strategy lines laid down and the PIOTF agreed to; (iv) providing space and a forum for settling disputes between the various actors; and (v) reviewing annual reports and financial statements prepared by the PCU, and being held accountable to the COREHA for AWP execution and program progress. The Commission will have 21 members as follows: five regional directors drawn from the following institutions: MAG, MINAE, MOPT, MINSA, CNE; the five Mayors of Siquirres, Matina, Pococí, Guácimo, and Limón; and two representatives from civil society organizations, for each of the Canton Committees. The Commission will be convened by the Regional Secretariat, on its own initiative or

at the request of two of its members; it will meet at least bimonthly, and the PCU coordinator will act as its secretary. *A condition precedent to the first disbursement will be presentation of evidence that MIDEPLAN has created and established this Commission.*

**D. Program and component execution modality**

- 3.12 The program will be executed through contracts with private service providers and by the beneficiaries themselves, including local governments, supported by technical assistance also contracted by the PCU. Program activities are basically of two kinds: (i) **technical assistance** (including specific studies, training, specific specialized technical assistance, and longer-term consulting services, at the institution, community, or producer level); and (ii) **investments** (specific projects, pilot projects, and productive and infrastructure projects in eligible categories, selected on the basis of community demand).
- 3.13 **Execution of component 1.** This includes specialized technical assistance for consulting services, equipment, and specific activities to support local governments, organizations, CCs, the COREHA and its Regional Secretariat. Execution will be carried out by the PCU in coordination with the direct beneficiaries, supported by participating institutions in each area. The PCU will prepare draft terms of reference for the activities to be undertaken, in order to review them with the final beneficiaries (local governments, government bodies, organizations), for adjustment and approval prior to contracting. Execution will be carried out by service providers hired by the PCU, in coordination and with participation and support from the direct beneficiaries of the corresponding activities, for which purpose the PCU will sign formal participation agreements with each beneficiary. The PCU will perform technical and administrative monitoring, and will not make any disbursement without prior approval by the beneficiary (further details are provided in the Operating Regulations).
- 3.14 **Execution of components 2 and 3.** This includes technical assistance activities and investments in both components, and will be executed following the procedures set out in the Operating Regulations and those established in the PIOTF. For execution, these components require consensus among the institutions responsible (MINAE, MAG, CNE, JAPDEVA, municipalities, etc.), and at the local level with municipalities and communities. Technical assistance will be needed to accompany these processes.

**E. Annual work plan cycle**

- 3.15 At the beginning of each year, the PCU will prepare an indicative budget with global program amounts, based on MIDEPLAN guidelines, which will be circulated to the CCC, the COREHA, and the five CCs. Should the Ministry of Finance decide to alter the annual amount of these AWP's for budgetary or any

other reason, the PCU will notify the CCs, so that they can decide which projects and/or activities should be postponed, to attain the new target indicated in the amended AWP. Based on this indicative budget, the program annual work plan will be prepared, according to whether it involves **technical assistance** or **investments based on community demand**.

- 3.16 **Technical assistance:** The PCU will reach agreement with civic, community, environmental, and productive organizations (OCCAPs), local governments, and central government institutions represented in the CCC, on the technical assistance activities, studies, specific short- and long-term consulting services to be implemented during the year; and it will prepare the corresponding profiles and send them to the CCs. The latter will integrate them with the investment projects contained in the canton AWP and send them on to the CCC and PCU for review, verification of their consistency with the strategy laid down and with the PIOTF, and integration into the regional AWP, which, once approved, is sent by the latter to the PCU. This unit then formalizes the agreements needed to obtain technical assistance for the OCCAPs, local governments, and central government institutions. Once these agreements have been signed, the PCU will contract technical assistance from service providers, for implementation by the providers themselves with participation from beneficiaries.
- 3.17 **Investments according to community demand.** With technical assistance contracted by the PCU, the OCCAPs and local governments prioritize their needs and interests in terms of productive and infrastructure activities and projects, preparing the respective profiles or complete projects as indicated in the Operating Regulations. With technical assistance support, the communities and cantons will prepare project profiles to verify their initial viability according to the criteria set out in the Operating Regulations. If the result is positive, the technical staff will help the communities and cantons take their projects to the feasibility level. Feasible projects will be sent to the CC for approval and consolidation with institutional activities envisaged in each canton, and preparation of the corresponding canton AWP. Projects that are not feasible will be returned to the community or municipality, for the necessary changes to be made.
- 3.18 The canton-level AWP are presented to the CCC for technical analysis, verification of consistency with the strategies laid down, and integration and approval of the regional AWP (if any project or activity requires revision, it is returned to the CCs for this purpose). Once agreed upon and approved by the CCC, this regional AWP will be transmitted to the PCU for the projects and activities to be carried out. For this purpose, the PCU will sign agreements with the respective organizations and local governments, and will put the projects out to tender. Once the regional AWP has been approved by the CCC, it will be circulated to all participants, and will serve as the instrument through which the various beneficiaries will monitor program execution and performance. The PCU will

arrange for civil works supervision by engaging private firms or institutions qualified for this task.

- 3.19 The regional AWP for the first year includes technical assistance, studies, specific projects, and pilot projects; and it is structured on the basis of projects in the prepared sample, which respond to priorities identified by the communities, local governments, and central government institutions. Specific and pilot projects will not be replicated until their outcomes and benefits are proven in an ex post evaluation.

#### **F. Program Operating Regulations**

- 3.20 The regulations establish the rules and procedures for executing program components, including project eligibility, viability, and selection criteria; procedures for preparation and evaluation of the AWPs; goods and services procurement and contracting procedures; the AWP evaluation and monitoring methodology, and the limits on amounts per project. The Operating Regulations will contain clear rules regarding the financial sustainability of the projects and the mechanism for recovering costs. The Operating Regulations can be amended by MIDEPLAN subject to the Bank's nonobjection. *As a condition precedent to the first disbursement, MIDEPLAN will present evidence of having implemented the Operating Regulations agreed to previously with the Bank.*
- 3.21 **Eligibility criteria.** The eligibility of projects and activities will be defined by the following criteria, among others: contribution to environmental conservation and sustainable natural resource management; income generation and improvement of the quality of life among the communities; community participation and organization, including gender and ethnic aspects; reduction of natural hazards and other vulnerability factors; and consistency with the strategic lines agreed upon. In addition to the general criteria, the Operating Regulations specify that for eligibility, projects must satisfy the following evaluation criteria.
- 3.22 **Evaluation criteria.** The Operating Regulations list the project categories that are eligible for financing, and also contain specific technical, economic, environmental, social, institutional, and financial sustainability criteria for eligibility of the different project types in each category eligible for program financing. All projects must envision a net positive environmental impact and include mitigation measures for negative impacts, requiring environmental impact assessments (EIA) as necessary; they must include activities that promote rural social development and help reduce poverty; their development will require institutional management processes that are adapted to local needs and conditions; productive investments are economically and financially viable, with internal rates of return of at least 12%; social benefit projects must satisfy the minimum cost criterion; projects must be financially sustainable; and projects at the municipal level must include mechanisms to foster community income generation to underpin their operation and maintenance.

## **G. Transfer of program funds**

- 3.23 Funds will be transferred to MIDEPLAN, which will open a bank account on behalf of the program for the deposit of advance payments to the revolving fund, which will be managed by MIDEPLAN/PCU. All contracts will be signed by MIDEPLAN/PCU, and disbursements for execution of the various activities will be made directly by the PCU on behalf of MIDEPLAN, subject to prior approval by the line institutions or benefited communities, as the case may be, certifying the integrity of the technical quality of services or works performed.

## **H. Execution period and disbursement timetable**

- 3.24 The execution period will last four years from the date on which the loan contract enters into force; a tentative disbursement timetable is shown in Table IV-1.

<b>Table IV-1: Estimated Disbursement Timetable, Phase I (millions of US\$)</b>						
<b>Source of funds</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Total US\$</b>	<b>%</b>
IDB (ordinary capital)	3.0	5.0	6.0	2.0	16.0	90%
Local	0.5	0.5	0.5	0.5	2.0	10%
<b>Totals</b>	<b>3.5</b>	<b>5.5</b>	<b>6.5</b>	<b>2.5</b>	<b>18.0</b>	<b>100%</b>
% in each year	19.5%	30.5%	36.0%	14.0%	100%	

## **I. Goods and services procurement**

- 3.25 The procurement of goods and related services, contracting for civil works construction, and the hiring of specialized technical assistance services will be carried out in accordance with the corresponding Bank procurement policies and procedures. International competitive bidding (ICB) will be used for goods procurement in amounts of US\$350,000 or more, and in contracting for civil works in amounts of US\$1 million or more. An international competitive call for proposals will be used to hire specialized technical assistance services in amounts exceeding US\$200,000. Procurement of goods and related services, and the hiring of specialized technical assistance services, for smaller amounts will be governed by current national legislation, provided this is not contrary to the respective Bank principles and policies. For private assistance services (component 2), the beneficiary organizations that have previously obtained approval for a project will choose freely from among the technical assistance service providers listed on the MIDEPLAN suppliers register. **Annex II contains the tentative procurement plan.**

## **J. Program monitoring and evaluation**

- 3.26 A program monitoring and evaluation (M&E) system will be set up, using instruments developed during formulation of the program as follows: the established baseline, the strategy, the PIOTF, the ZMT regulatory plans agreed to, and the target and impact indicators agreed upon. PCU-MIDEPLAN will operate the M&E system, which contains two subsystems: the program activities and projects monitoring subsystem, and the program evaluation subsystem. The PCU will undertake field visits to monitor the execution of projects based on progress reports filed by the various contractors.
- 3.27 The PCU will produce a six-monthly monitoring report and a yearly evaluation report, in addition to other reports requested by the Bank as described in this chapter. In addition, the PCU, acting through MIDEPLAN, will set up a website containing program information, and indicating progress and outcomes. As part of the continuous monitoring process, the PCU will meet with the Bank no later than 30 April in each year of execution, starting in the first year for the program launch, in order to analyze progress, verify impact indicators, and agree upon actions to be started in the following year.
- 3.28 The state of progress of each component will be compared with quantifiable objectives and targets previously determined for the component. These reports will be prepared by the PCU and will include the following among other things: (i) a review of work carried out during the previous year, compared to the AWP; (ii) an analysis of the fulfillment of provisions as stipulated in the contract and in the Operating Regulations; (iii) lists of activities for each component and their evaluations, procurement and contracting of technical assistance for that period; and (iv) an evaluation of performance and progress indicators established for each component. If these meetings decide that it is necessary to make adjustments to the program, the PCU will take appropriate measures to correct any shortcomings identified. For this purpose, the PCU will present corrective measures for implementation to the Bank, together with a timetable for their execution.
- 3.29 The PCU is responsible for systematically evaluating the program, and for preparing the respective reports for analysis in the monitoring meetings. The reports will be sent to the Bank in accordance with the work plan or initial report agreed upon. The Bank's Country Office will manage the program with support from the project team, and will perform the periodic reviews. The PCU will send program reports and financial statements to the borrower, the CCC, MIDEPLAN, and to the Bank's Country Office.
- 3.30 **Impact indicators agreed upon and evaluation of program impacts.** With baseline indicators defined, and on the basis of agreements reached when choosing the development scenario for the region, MIDEPLAN will make an annual review of the impact indicators agreed upon, in terms of social, economic, and

environmental aspects, and the region's vulnerability. The following impact indicators will be used: (i) percentage of poor households; (ii) rate of underutilization of labor; (iii) percentage of projects (number and amount) implemented by community initiative; (iv) annual average damage (measured in U.S. dollars) as a result of natural risk events; and (v) forest cover. These indicators will be used to answer the following questions: (i) Has the quality of life of the beneficiaries improved? (ii) Were additional employment alternatives provided for the communities? (iii) Have the projects helped to generate higher incomes, and are they sustainable? (iv) Has adequate and necessary information been generated to provide guidance to communities on vulnerability and possible emergencies in subwatersheds, enabling the corresponding risks to be reduced? and (v) Has managerial capacity been enhanced in the protected areas?

- 3.31 **Midterm evaluation.** The midterm review will take place when the loan funds are 70% committed or 50% disbursed. The evaluation will pay special attention to the review of trigger elements agreed upon to proceed to phase II; and recommendations will be made to ensure continuity of program activities, for which purpose the various institutions represented in the COREHA and CCC will also be invited to participate. The evaluation will be performed through independent specialized technical assistance, charged against the proceeds of the Bank loan; and it will make use of all mission reports and evaluations presented during program execution. MIDEPLAN is interested in conducting an ex post evaluation, and has indicated that it will continue to track the agreed impact indicators.

#### **K. Program audit**

- 3.32 During the execution period, the program's annual financial statements will be submitted following audit by a firm of independent public accountants acceptable to the Bank (statements will be presented by the borrower within 120 days following the end of each fiscal year; and those relating to program conclusion will be presented no later than 120 days following the final disbursement). MIDEPLAN will present annual consolidated program financial statements to the Bank, and, in accordance with Bank requirements, half-yearly reports on the status of the revolving fund, and the status of the bank accounts used to manage loan financing and local counterpart funding. The costs of the external audit will be financed from the loan proceeds. The Bank will review and subsequently approve the process for selecting and hiring the independent audit firm, including terms of reference for the work proposed. These audits will determine the degree to which the established targets and activities are being fulfilled, and provide the executing agency with information needed to make adjustments during execution.

## **IV. VIABILITY AND RISKS**

### **A. Institutional viability**

- 4.1 The main purpose of the program is to strengthen regional and local institutional structures (including regional and local authorities), to enhance the process of communication and consensus building in investment planning, and to increase the role and participation of civil society in this process. Institutional viability is based on four elements: (i) lessons learned in other projects with similar characteristics; (ii) strengthening and participation of line institutions, municipalities, CCs, and the CCC; (iii) direct participation by communities and beneficiaries, and by private technical assistance providers; (iv) support from specific specialized technical assistance in preparing terms of reference, formulation of technical specifications, and bidding documents, and in support of MIDEPLAN/PCU; and (v) experiences of interinstitutional coordination in the region. The government's new proposals on governance decentralization, together with lessons learned, were helpful in designing the execution structure agreed upon with the government. This ensures a participation mechanism enabling activities to be carried out on a consensual basis, and it helps beneficiaries gain a sense of ownership of the program.
- 4.2 This consolidated action process is now beginning, and it is this transparent process that will strengthen governance, and increase dialogue and consensus with the different levels of government, with community participation. The strengthening of local governments and line institutions improves the viability of execution (through participation agreements), since these bodies will be responsible for technical supervision of works in their sector. To fulfill this purpose, institutions will be strengthened with training methods and tools enabling them to provide greater information and improve their systems, which will speed up the process of supervision of the various actions on the ground, providing more effective responses to the community, and greater technical support to the program. In addition, the PCU will be backed by MIDEPLAN and by experience and capacity contributed by specific technical assistance. This process is expected to generate regional capacity that can be consolidated in the subsequent phase of the program.

### **B. Socioeconomic viability**

- 4.3 Given the nature of the program, the cost-benefit method was not used to evaluate it holistically. Instead, for components 1, 2, and 3, a sample of specific and indicative pilot projects was identified and analyzed, which are considered priorities and were requested by the communities and local governments at consultation workshops during program formulation. This group of projects was assessed to analyze the viability of the systems proposed at both the individual and community levels. The indicative sample was evaluated using a 12% discount rate at market prices (cost-benefit and cost-effectiveness analysis).



- 4.4 **For component 1 (Increase in managerial capacity)**, and given its characteristics, no feasibility analysis was performed; but the usefulness and cost-efficiency of these activities were confirmed during the analysis, which generate a series of unquantifiable benefits at both the local and the regional levels. Benefits at the local level include: (i) communities and civil society organizations organized and strengthened to manage resources and obtain credits; (ii) technical assistance and training services expanded; (iii) participation instruments made effective through the CCs; (iv) municipalities given greater administrative and financial capacity to respond to community demands; and (v) reduction of transaction costs for project management. At the regional level, benefits include the following: (i) CCC regional offices strengthened; (ii) CCC strengthened with technical capacities to discuss, analyze, and approve AWP's at the regional level; and (iii) COREHA and Secretariat operating with response capacity to monitor implementation of the strategy outlined and the PIOTF.
- 4.5 **For component 2 (Economic and social development)**, a total of 12 projects were analyzed, with amounts varying between US\$25,000 and US\$425,000. The results for productive projects in terms of return (IRR) vary between 12% and 29%, depending on the nature of the projects and the activities proposed. These generate a series of benefits including: (i) expanded technical assistance and training services; (ii) increased productive capacity; (iii) adoption of environmentally friendly management practices; (iv) technology transfer; (v) diversification of higher value-added crops; (vi) improvement of entrepreneurial capacity among small-scale producers; (vii) strengthening of organizations led by women; (viii) reduction of pollution of water sources; (ix) market access; (x) improvement in competitive capacity; (xi) greater access to potable water, sewerage, and sanitation services; (xii) better sanitary conditions; and (xiii) change in land use patterns. Cost-effectiveness analysis was used to evaluate social benefit projects.
- 4.6 **For component 3 (Mitigation of natural risks and arrangements for natural resource management and conservation)**. Given the nature of the projects identified in this component for risk mitigation and natural resource management, evaluation was based on their cost-efficiency. These projects generate a variety of benefits such as: (i) communities that are better organized and strengthened with capacity to reduce their vulnerability; (ii) effective governance tools to manage protected areas; (iii) promotion of the use of biodiversity; and (iv) decision-making tools.
- 4.7 **Rationale for PTI/SEQ classification.** This operation qualifies as a poverty-targeted investment (PTI) based on the geographic targeting criterion. Rates of poverty and extreme poverty are 19.4% and 7% respectively in the RHA, compared to 18.5% and 5.1% at the national level. Moreover, the two indicators used to measure social disparities in the various geographic areas of Costa Rica—the social development index and the social deprivation index—display worse values than those prevailing in the other provinces.

**C. Financial viability and sustainability, and cost recovery**

- 4.8 The financial sustainability of productive projects is assured firstly through the application of selected models, guaranteeing commercialization facilities and ensuring that the products have a market, are financially profitable, and produce earnings for the producer; and secondly, for projects that need a year or two to become profitable, the program will provide bridge loans on a shared basis with the beneficiary. In the case of projects of public benefit under the auspices of communities or local governments, sustainability mechanisms will be included from the participatory project design stage onwards, ensuring the community's willingness to pay for their maintenance through the necessary quotas or tariffs, through strengthened existing revenue systems, or implemented with support from specialist technical assistance financed by the program, until such time as the community or local government is ready to take on this responsibility.
- 4.9 Technical assistance and financing will be provided under shared cost conditions, according to the type of activity and beneficiary. In the case of productive activities and projects, various experiences were analyzed, both positive and negative, for similar projects in the region. The analysis of the indicative sample of productive projects showed that future revenues could cover the costs of the business plan, after an initial period of between two and three years, depending on project type, supported initially by the technical assistance provided by the program.
- 4.10 For the present case, the following criteria will be applied: (i) the program will provide up to 50% (60% for initiatives with gender or indigenous community content, or projects that include environmental benefits) of the cost of technical assistance, and the investment needed during the initial period (maximum two years) until the project achieves financial profitability according to the agreed business plan; (ii) the remainder will be provided by the producer or entrepreneur by upgrading its labor force, materials or agricultural inputs, cash obtained from savings, or through a loan extended at market rates by a credit institution operating in the region; (iii) the producer benefiting from the incentives will undertake to repay to the community amounts received in kind, labor, or cash, by the end of the agreed period and in accordance with the conditions established by the latter in each case, so that this can be recycled within the community.
- 4.11 For activities and projects generating public benefits, including those relating to environmental conservation and natural risk mitigation, the program will finance up to 80% of studies and viable projects on a non-reimbursable basis, while the beneficiary will have to contribute the other 20% out of internally generated resources (labor, materials, or own cash). The sustainability of public service projects, including their operation and maintenance during the design period, will be ensured by strengthening administrative, financial, and revenue generating capacity, through services provided by community organizations and local governments that assume this responsibility. For projects that involve equipment

purchase, a mechanism will be agreed upon to recover the respective costs. As in the case of incentives for productive projects, no mechanism to repay costs to the program itself is envisaged, but mechanisms to reimburse the communities will be explored.

- 4.12 For public service initiatives, such as energy, water, and waste disposal works, projects were designed with charging systems that take account of the population's payment capacity, but ensure adequate maintenance, including a small surplus for future repairs. At the producer and local community level, the Operating Regulations make support conditional on financially sustainable practices and activities, which is one of the purposes of the program. Once new productive practices have been introduced, based on the pilot experiences to be carried out, it is expected that producers will continue with them or improve them, since they are financially attractive. In addition, the government has ratified the high priority it places on RHA development, and has counterpart funding assured.

#### **D. Environmental and social impact**

- 4.13 The operation, as designed, represents a strategic plan to develop the region from a comprehensive perspective of the territory and its population. The strategic plan includes the environmental and social domains as central elements, and stresses harmonization of environmental, social, and economic goals. By adopting the strategic plan as a guide, the program aims to moderate impacts that could be caused by its activities and existing trends in the region. It will also be provided with instruments to make it possible to direct land use (PIOTF), ZMT plans, maps indicating areas of high flood risk, and the monitoring and evaluating of impacts (GIS and established baseline).
- 4.14 During preparation of the operation, progress was made in incorporating social, ethnocultural, and gender aspects; and the consultation and consensus concept was consolidated as basic, through the various workshops that were held, in which communities and local governments have been leading actors. Participation by stakeholders in discussions on diagnostic studies, objectives, impact indicators, and development scenarios, have enriched the formulation process, have provided major inputs to incorporate into the Operating Regulations, and have made progress in terms of program ownership. Given the nature of the operation, the type and scale of the activities to be financed, and the high level of participation by stakeholders in its design, no negative social or environmental impacts are expected. This operation will make it possible to provide responses, both in terms of conservation and reduction of vulnerability, and in the use of natural resources, and improvement of the quality of life for residents of the region.
- 4.15 As the program does not have operational capacity to cover all needs, resource allocation criteria will be adopted, such as: projects identified and prioritized by the communities, that are sustainable and consistent with the intervention strategy

established by the sector mechanisms involved; viability from the technical, economic, environmental, ethnocultural, and vulnerability standpoints; and consistency with the criteria and orientations set out in the Operating Regulations.

- 4.16 To improve the quality of life and raise income levels, investments will be promoted in human capital and community self-management in terms of basic services, through component 1. Component 2 will generate instruments to promote productive potential and access to markets for small-scale producers, through sustainable environmental practices; ecotourism and small-scale fishing activities will also be strengthened. In addition, essential infrastructure activities, mostly small-scale basic services works, with few environmental repercussions, will be subject to environmental and ethnocultural procedures to be incorporated in the Operating Regulations. Although no large-scale works with potential negative impacts are envisaged, the Operating Regulations are expected to require environmental impact assessments (EIAs) and environmental mitigation action plans (PAMAs) where necessary. Component 3, which focuses on the mitigation of natural risks and enhancement of environmental managerial capacity, will provide guidance to communities on the most vulnerable watersheds, and define management schemes that are consistent with the PIOTF and ZMT plans, to introduce an expansion of productive activities, managed exploitation of forests, protected areas and fishery resources, and sustainable use of natural resources for tourism.

#### **E. Program beneficiaries and benefits**

- 4.17 **Beneficiaries.** The program's target beneficiaries are small-scale producers and entrepreneurs, campesino settlements and associations, and other community-based organizations, the five municipalities and their 25 districts, and the regional offices of line ministries. To be considered as program beneficiaries, producers must be members of some productive or community organization.
- 4.18 **Benefits and key expected outcomes.** The program will produce direct and indirect benefits in the short and medium term, at the local, regional, and national levels. Execution of phase I is expected to help generate conditions for more balanced regional development, supporting actions of economic, social, and environmental benefit, to achieve a sustainable improvement in the population's quality of life, following the agreed strategy lines. By the end of phase I, the aim is to (i) have strengthened decentralized managerial capacity with a strategic vision, to promote sustainable development schemes in the region, increasing self-managerial capacity and sharing problem-solving responsibilities; (ii) have consolidated the bases for sustainable development of productive sectors, to the benefit of the local population; (iii) have strengthened local capacity to prioritize and prepare investment projects in program-eligible categories, both productive and for basic services, having begun execution of several priority activities and projects; (iv) have designed and implemented a natural risk early warning system in critical

subwatersheds, and begun implementation of the prioritized set of structural and non-structural measures designed for this purpose; and (v) have appropriate management of natural resources and defined management schemes for protected areas.

**F. Risks identified and mitigating factors**

- 4.19 Sustainable development programs are complex and involve many actors from both the public and private sectors, and they require a high degree of community participation. The main risks in this type of program are managerial capacity, requirements that overwhelm absorption capacity, and the response and management of the existing institutional and participatory framework. This risk can be mitigated by structuring the program in phases. In addition, potential delays in implementation of the participatory institutional and decentralized execution framework, given the level of centralization that exists, will be minimized by implementing a wide-ranging process of participation with the main actors and beneficiaries, which will ensure rapid connection with the community. Another risk would stem from possible government delays in the process of approving phase II, thereby losing the main advantage of a multiphase program. For that reason, the aim is to involve the authorities from the phase I evaluation process onwards, in order to ensure rapid processing of phase II.