

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

## **COSTA RICA**

# **TOWARDS A GREEN ECONOMY: SUPPORT FOR COSTA RICA'S DECARBONIZATION PLAN II**

**(CR-L1147)**

## **LOAN PROPOSAL**

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REQUIRED LINKS	
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4	<a href="#">Monitoring and evaluation plan</a>

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1	<a href="#">Agence Française de Développement-IDB agreement</a>
2	<a href="#">National Decarbonization Plan</a>
3	<a href="#">Decree 25721 Forestry Law Regulations</a>
4	<a href="#">Bibliographic references</a>
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ABBREVIATIONS	
AFD	Agence Française de Développement [French development agency]
AFOLU	Agriculture, Forestry, and Other Land Use
ARESEP	Autoridad Reguladora de los Servicios Públicos [Public Utilities Regulatory Authority]
CENIGA	Centro Nacional de Información Geoambiental [National Center for Geo-environmental Information]
CNC	Congreso Nacional Cafetalero [National Coffee Congress]
CO <sub>2</sub> e	Carbon dioxide equivalent
CSA	Climate-smart agriculture
FONAFIFO	Fondo Nacional de Financiamiento Forestal [National Forestry Financing Fund]
GHG	Greenhouse gases
ICAFE	Instituto del Café de Costa Rica [Costa Rican Coffee Institute]
IMF	International Monetary Fund
KIF	Korea Infrastructure Development Cofinancing Facility
MIDEPLAN	Ministry of Planning and Economic Policy
MINAE	Ministry of the Environment and Energy
MOPT	Ministry of Public Works and Transportation
MRV	Monitoring, reporting, and verification
NAMAs	Nationally appropriate mitigation actions
NDCs	Nationally determined contributions
PBP	Programmatic policy-based loan
PES	Payments for ecosystem services
SDGs	Sustainable Development Goals
SEPSA	Secretaría Ejecutiva de Planificación Sectorial Agropecuaria [Executive Secretariat of Agricultural Sector Planning]
SIMOCUTE	Sistema Nacional de Monitoreo de Cobertura y Uso de la Tierra y Ecosistemas [National System for Monitoring Coverage and Use of Land and Ecosystems]
SINAMECC	Sistema Nacional de Métrica de Cambio Climático [National Climate Change Metrics System]
SOFR	Secured Overnight Financing Rate
UNFCCC	United Nations Framework Convention on Climate Change

**PROJECT SUMMARY**  
**COSTA RICA**  
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Financial Terms and Conditions					
Borrower:			Flexible Financing Facility <sup>(a)</sup>		KIF <sup>(d)</sup>
Republic of Costa Rica			Amortization period:	20 years	15 years
Executing agency:			Disbursement period:	1 year	1 year
Ministry of Finance			Grace period:	5.5 years <sup>(b)</sup>	3 years
Instrument:			Interest rate:	SOFR-based	2.5%
Programmatic policy-based loan (PBP)					
Source	Amount (US\$)	%	Credit fee:	(c)	N/A
IDB (Ordinary Capital):	250 million	83.3	Inspection and supervision fee:	(c)	N/A
			Front-end fee:	N/A	0.1% <sup>(d)</sup>
Korea Infrastructure Development Cofinancing Facility (KIF) joint financing <sup>(d)</sup>	50 million	16.7	Weighted average life:	12.75 years	N/A
Total:	300 million	100	Approval currency:	U.S. dollar	
Agence Française de Développement (AFD) parallel financing <sup>(e), (f)</sup>	107 million	-			
Grand total:	407 million	-			
Project at a Glance					
<b>Project objective/description:</b> The general objective is to contribute to the country’s progressive transition to net zero greenhouse gas (GHG) emissions by 2050, benefitting the entire population, through reforms to: (i) strengthen management and monitoring of climate action in Costa Rica; (ii) conserve and restore ecosystems with high rates of GHG sequestration and replace GHG-emitting agricultural practices with GHG-sequestering ones (help increase the country’s forest cover, preserve wetlands and marine areas, and increase the share of agricultural production using low-carbon or carbon sequestration practices); (iii) incentivize the use of electric power and active mobility (align electricity rates with objectives for the electrification of energy use and enable the electrification of the vehicle fleet); and (iv) promote gender inclusion and equality in the National Decarbonization Plan. The necessary policy reforms to implement the National Decarbonization Plan will be supported under these subsectors.					
This loan operation is the second of two consecutive single-tranche operations that are technically linked but financed independently under the PBP modality, in accordance with the guidelines established in the lending framework (document GN-2200-13) and in Policy-based Loans: Guidelines for Preparation and Implementation (document CS-3633-2).					
<b>Special contractual conditions precedent to the disbursement of the loan:</b> The first and only disbursement of the loan will be contingent on the fulfillment of the policy reform conditions established in the policy matrix (Annex II), the <a href="#">policy letter</a> , and the remaining contractual conditions set out in the loan agreement between the Bank and the Costa Rican government.					
<b>Exceptions to Bank policies:</b> None.					

Strategic Alignment									
<b>Challenges:</b> <sup>(g)</sup>	SI <input checked="" type="checkbox"/>			PI <input checked="" type="checkbox"/>			EI <input type="checkbox"/>		
<b>Crosscutting themes:</b> <sup>(h)</sup>	GE <input checked="" type="checkbox"/> and DI <input type="checkbox"/>			CC <input checked="" type="checkbox"/> and ES <input checked="" type="checkbox"/>			IC <input checked="" type="checkbox"/>		
<b>Sustainable development goals (SDGs):</b> <sup>(i)</sup>	SDG1 <input checked="" type="checkbox"/>	SDG2 <input checked="" type="checkbox"/>	SDG3 <input checked="" type="checkbox"/>	SDG4 <input type="checkbox"/>	SDG5 <input checked="" type="checkbox"/>	SDG6 <input checked="" type="checkbox"/>	SDG7 <input checked="" type="checkbox"/>	SDG8 <input checked="" type="checkbox"/>	SDG9 <input checked="" type="checkbox"/>
	SDG10 <input checked="" type="checkbox"/>	SDG11 <input checked="" type="checkbox"/>	SDG12 <input checked="" type="checkbox"/>	SDG13 <input checked="" type="checkbox"/>	SDG14 <input checked="" type="checkbox"/>	SDG15 <input checked="" type="checkbox"/>	SDG16 <input type="checkbox"/>	SDG17 <input checked="" type="checkbox"/>	

- (a) Under the terms of the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency, interest rate, commodity, and catastrophe protection conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.
- (b) Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided that they do not entail any extension of the original weighted average life of the loan or the last payment date as documented in the loan contract.
- (c) The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable policies.
- (d) These funds will be administered by the Bank under the Korea Infrastructure Development Cofinancing Facility, pursuant to the agreement signed by the Republic of Korea and the Bank on 28 March 2015 and recently amended on 26 August 2021 to increase the facility's funds.
- (e) The parallel financing is from an AFD policy development loan.
- (f) €100 million, exchange rate on 23 May 2022.
- (g) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).
- (h) GE (Gender Equality) and DI (Diversity); CC (Climate Change) and ES (Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).
- (i) SDG (Sustainable Development Goals). For more information on the SDGs, see [this link](#). To consult the IDB Group SDG Project Classification Methodology, see [this link](#).

## I. MACROECONOMIC FRAMEWORK AND DESCRIPTION OF INSTITUTIONAL/SECTOR PROBLEM

### A. Macroeconomic framework and outlook

- 1.1 **Background.** Costa Rica has had relative macroeconomic stability over the past decade. From 2010 to 2019, average annual economic growth was 3.8%, surpassing that of Latin America and the Caribbean (2.0%) and the Organisation for Economic Co-operation and Development (OECD) countries (2.1%). During this period, annual inflation averaged 3.0% (3.3% in 2021). Since 2005, the country has had a monetary policy based on an inflation target band, which is currently 3%  $\pm$ 1 percentage point. In 2020, the pandemic caused the worst economic crisis since 1982, with a 4.1% contraction of GDP, and widened social gaps, as reflected by increased unemployment, poverty, and inequality, among others. In 2021, the economy grew 7.8%, exceeding pre-pandemic activity levels. The unemployment rate, however, has recovered more gradually, standing at 13.6% as of March 2022, which is 1.8 percentage points above the 2019 average (11.8%). It has had a greater impact on women (17.5% unemployment, versus 10.9% for men) and on young people ages 15 to 24 (34.2%).
- 1.2 Satisfactory completion of the ongoing fiscal consolidation process will enable the country to face negative shocks from a more solid position and boost its medium- and long-term growth. From 2010 to 2019, the central government primary and financial deficits trended upward, averaging 2.6% of GDP and 5.3% of GDP, respectively. With the fiscal reform in 2018, the country began a fiscal consolidation process that was interrupted by the pandemic.<sup>[1]</sup> In 2020, the government complied with the fiscal rule during its first year of implementation, in spite of the health crisis. The rule, which limits spending increases, was only partially suspended for pandemic-related sectors.<sup>[2]</sup> However, in 2020 the economic contraction and response to the health emergency increased the primary and financial deficits to 3.9% of GDP and 8.6% of GDP, respectively, raising the debt to 67.9% of GDP. In March 2021, the government reached a three-year agreement for US\$1.778 billion (2.8% of GDP) with the International Monetary Fund (IMF) under the Extended Fund Facility. The agreement's fiscal targets consist of reaching a primary surplus of 1% of GDP by 2023 and reducing the debt to 50% of GDP by 2035. To achieve this adjustment, the government and the IMF agreed to implement a package of fiscal reforms that would decrease spending and increase revenue.<sup>[3]</sup> In 2021, the government met and exceeded the quantitative fiscal targets set out in the program, and the first two reviews were completed satisfactorily in March 2022.

### B. Institutional and/or sector problem

- 1.3 Costa Rica is an environmentally innovative country, with a sustainable development strategy notable for its establishment of protected areas, payment for environmental services, the export of high quality, environmentally friendly coffee, the development of smart tourism based on natural capital, and a nearly 100% renewable electric power grid. This has produced benefits for the country:

Costa Rica's mangrove services alone have been assessed at US\$1.5 billion annually [22].<sup>1</sup>

- 1.4 Costa Rica has the opportunity to continue this strategy by creating solutions for the decarbonization of its economy, which are reflected in the targets set in the [National Decarbonization Plan](#). In addition to helping to reduce greenhouse gas (GHG) emissions, the net benefits of decarbonization for Costa Rica will be significant: [US\\$41 billion between 2020 and 2050](#) [68]. As an additional reference, [optional link 6](#) contains information on the National Decarbonization Plan and other topics in this document.
- 1.5 **National Decarbonization Plan priority areas.** To move forward with this innovative development opportunity, the reforms supported by the first operation of this programmatic policy-based (PBP) loan series (CR-L1142) will need to be deepened. These include: (i) management and monitoring of climate action (paragraphs 1.6 to 1.8); (ii) nature-based solutions and climate-smart agriculture (CSA) (paragraphs 1.9 to 1.18); and (iii) incentivizing the use of electricity in transportation and industry and promoting active mobility (paragraphs 1.19 to 1.30). This operation will help advance the legal reforms that will enable the investments needed to convert the entire economy to net zero emissions.
- 1.6 **Management and monitoring of climate action.** The [Paris Agreement's](#) goal of limiting the increase in global temperature to 1.5° centigrade will require a reduction in net global GHG emissions to zero by 2050 [37]. The challenge facing governments is how to plan for the required transformation in all economic sectors and anticipate and address the potential transition costs.
- 1.7 International evidence shows that long-term emissions reduction strategies are an essential planning tool to fulfill the Paris Agreement [38]. For that reason, in 2019 the Costa Rican government published its Decarbonization Plan, which is internationally recognized as an exemplary long-term strategy [69]. The government has since made progress on the policy reforms needed to implement the plan, with support from the Bank (CR-L1142) and Agence Française de Développement (AFD).
- 1.8 The Decarbonization Plan sets the target of net zero GHG emissions by 2050,<sup>2</sup> and establishes a timetable for the necessary investments and public policy reforms for implementation across 10 sector focus areas, including the forestry, agriculture, energy, and transportation sectors, as well as actions to enhance their monitoring and governance, and eight crosscutting strategies, including strategy “F” on inclusion, human rights, and promotion of gender equality. The Decarbonization Plan calls for a range of institutional, planning, coordination, and public expenditure reforms to enable the sector-related, crosscutting transformations required for decarbonization (see Section II).
- 1.9 **AFOLU sector and nature-based solutions.** The agriculture, forestry, and other land use (AFOLU) sector is uniquely positioned at the sector level, as its mitigation

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<sup>1</sup> See complete list of bibliographic references identified by the number in brackets [#] ([optional link 4](#)).

<sup>2</sup> If no measures are taken to decarbonize its economy, Costa Rican emissions will increase by 2.4% annually, up to 132% of current emissions by 2050 [29].



potential is derived from both an improvement in GHG sequestration and a reduction in emissions through land and livestock management [64]. This has facilitated the development of nature-based solutions for climate change mitigation, where Costa Rica is a global pioneer both in development and implementation (e.g. conservation and restoration of mangroves [14]).

- 1.10 Nature-based solutions to climate change include an ecosystem-based approach to mitigation, adaptation, and disaster risk reduction [15], which are incorporated into this project, and offer a number of ecosystem services in addition to ecosystem-based mitigation, as is the case with forests and mangroves.
- 1.11 **AFOLU sector emissions.** The AFOLU sector is Costa Rica's only sector that does not emit, having surpassed carbon neutrality in 2017 (net absorption of 6.6 gigagrams of CO<sub>2</sub> equivalent). Although agriculture is the second largest gross GHG-emitter, accounting for 20.5% (2,962.8 gigagrams), this is more than offset by the AFOLU sector's negative emissions from forests (-2,968.4 gigagrams).
- 1.12 **Importance of agriculture, competitiveness, and government support.** In Costa Rica, the agriculture sector accounted for 4.4% of GDP in 2020; 42.3% of exports; and 12.8% of employment, notably livestock production (19.5% of gross agricultural product), bananas (24.5%), pineapple (19.8%), and coffee (2.4%). Factor productivity affects emissions per unit of GDP and has slowed in Costa Rica despite high fertilizer consumption (see paragraph 1.7 of optional link 6). The agriculture sector can contribute more to sequestration of emissions, so agricultural extension services need to step up adoption of technologies that help to reduce GHG emissions [55].
- 1.13 **Country objectives for decarbonizing the agriculture sector.** The Decarbonization Plan includes the following goals: by 2030, reduce emissions to a range of between 30 and 45 kilograms of carbon dioxide equivalent (CO<sub>2</sub>e) per unit of agricultural GDP, and implement low-carbon technologies in 60% of areas used for ranching activities. Beginning in 2018, one of the five priority actions of the Decarbonization Plan is to accelerate and scale up actions to transform the largest GHG-emitting agricultural activities.
- 1.14 **Climate-smart agriculture.** To achieve the aforementioned objectives, current agricultural practices will need to be replaced with CSA practices (see paragraph 1.11 of optional link 6) that have demonstrated ([51]; [65]; [26]) potential to achieve the objectives of: (i) a sustainable increase in productivity and agricultural revenue; (ii) climate change adaptation and resilience; and (iii) GHG reduction or absorption. Nationally Appropriate Mitigation Actions (NAMAs)<sup>3</sup> for agriculture promote CSA and contribute to the fulfillment of the nationally determined contributions (NDCs). In Costa Rica, however, promoting these good practices involves a number of challenges related to regulations for specific laws in order for their implementation to be feasible. Reforms in this area will fall within the purview of the Ministry of Agriculture.

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<sup>3</sup> NAMAs refer to any action that reduces emissions in developing countries and is prepared under the umbrella of a national government initiative. They can be policies directed at transformational change within an economic sector, or actions across sectors for a broader national focus.

- 1.15 **Forestry sector contribution to emissions.** As part of the AFOLU sector, the forestry sector is the only one in [Costa Rica's 2015 GHG inventory](#) that absorbs emissions (6,112 gigagrams of CO<sub>2</sub>e), equivalent to 4.6% of the country's gross emissions. In large part, this is due to the creation of protected areas<sup>4</sup> and to implementation of the payment-for-environmental-services mechanism in 1996. Payments for environmental services are annual payments made to small and medium-scale farmers for reforestation, natural regeneration, protection of primary forests, water resources, and/or unprotected forests, and for agroforestry systems. One of the challenges of such payments is that they are financed through an annual budget allocation based on available resources from fuel taxes to ensure their fiscal neutrality.
- 1.16 **National objectives of forestry sector decarbonization.** Through its Decarbonization Plan, Costa Rica aims to increase its existing forest cover to 60% by 2030 while also reversing the degradation of marine and terrestrial ecosystems. Focus area 10, Nature-based Solutions, of the Decarbonization Plan contains a detailed list of objectives aligned with this operation (see paragraph 1.18 of [optional link 6](#)).
- 1.17 **The importance of blue carbon.** Costa Rica has approximately 36,000 hectares of mangrove forests, as well as seagrass beds and salt marshes, which have carbon stocks ("blue carbon") of up to double [\[13\]](#) that of terrestrial forests. However, mangroves have experienced significant cumulative losses, and only 3% of marine areas were protected in 2020.
- 1.18 **Applicable legal and institutional context for nature-based solutions reform.** Sector reforms will largely be the responsibility of the Ministry of the Environment and Energy (MINAEC), the lead agency for the sector, as well as its deputy ministries and institutions responsible for implementing the current legal framework. The reforms proposed in the Decarbonization Plan are aligned with the current legal and institutional framework, deepening specific actions that will contribute to achieving the goals of the Decarbonization Plan.
- 1.19 **Energy and transportation sector.** In 2020, 99.8% of electricity in Costa Rica was generated using renewable energy (hydraulic, geothermal, wind, and solar). However, this renewable energy accounts for only a part of the energy consumed in the country. In 2019, electricity represented only 21% of total energy consumed, while biomass accounted for 12%, and petroleum products (all of which are imported) accounted for 65%. The transportation sector's heavy reliance on petroleum products is one of the country's major challenges, as shown in the focus areas of the Decarbonization Plan.
- 1.20 **Transportation sector contribution to emissions.** In 2017, the transportation sector was responsible for [55.1%](#) of the country's gross GHG emissions, which increased [60%](#) between 2000 and 2017. Transportation sector emissions are concentrated in CO<sub>2</sub> emissions (89.7% of CO<sub>2</sub> emissions) and may increase as the vehicle fleet grows without being renewed.

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<sup>4</sup> From 2000 to the present, more than 25% of Costa Rica's territory is protected land (UN-Sustainable Development Goals 2017).

- 1.21 **Impacts of transportation sector emissions on public health.** The rapid and uncontrolled growth of the automobile fleet<sup>5</sup> (292 vehicles per 1,000 inhabitants, and a total of 21 vehicles per square kilometer) contributes to high levels of airborne pollutants. The air quality report for the greater metropolitan area, which is home to 60% of the population [16], notes that nitrogen oxide levels exceed the thresholds recommended by the World Health Organization [73]. This contaminant is primarily produced when vehicles burn fuel.
- 1.22 **Incentivizing the use of electricity in transportation.** Electrification of energy use in transportation and industry (replacing hydrocarbons with electricity, using electric vehicles, electric industrial boilers, or electric heaters) is a solution for reducing GHG emissions [38].
- 1.23 According to the Generation Expansion Plan, a 504 megawatt increase in installed power generation capacity for geothermal, wind, and solar energy is anticipated by 2034. This will enable the electric power matrix to remain almost 100% renewable and make it possible to move toward net zero emissions with electrification of energy uses in transportation and industry.
- 1.24 **National objectives for decarbonization of the transportation sector and industrial sectors.** The Seventh National Energy Plan 2015-2030, the National Electric Transportation Plan 2018-2030, and the Decarbonization Plan propose the following: (i) strengthen the national electricity grid to ensure that it is capable of supplying and administering renewable energy at competitive prices, with a view to ensuring that, by 2050, electric power will become the primary energy source of the transportation, residential, commercial, and industrial sectors; and (ii) develop an efficient transportation and mobility system powered by renewable energy, with a view to ensuring that 30% of the public transport fleet is zero emissions by 2035 and 85% by 2050; and that 30% of light vehicles (public and private) are zero emissions by 2035 and 95% by 2050 [30].
- 1.25 **Electrification of public and private vehicles.** Although tax incentives have been established and the cost of batteries has come down significantly in recent years [38], the initial outlay required for electric automobiles is 15% higher than for internal combustion vehicles [8]. Electric vehicles also have a limited driving range. Despite progress in the coverage of the national network of rapid charging stations, and the promotional charging rates set by the Public Utilities Regulatory Authority (ARESEP), there is still concern that electric vehicles have a limited driving range.
- 1.26 The International Energy Agency recommends using various public policies to remove those barriers [36] (see paragraph 1.21 of [optional link 6](#)). Law 9,518 of January 2018 gives the government a mandate to move forward with this type of policy-making. Prior to the start of this PBP series in 2020, the government had already implemented most of these requirements, with the notable exception of item (ii), the adoption of standards for electric vehicle charging infrastructure and minimum requirements for deploying public charging stations. This item was

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<sup>5</sup> Over the last 10 years, motorization rates have increased in most countries in Latin America and the Caribbean, with annual average growth of 4.7%. This figure is below the levels seen in Europe (471 vehicles per 1,000 inhabitants) and in the United States and Canada (805 vehicles per 1,000 inhabitants).

achieved by the first operation of this PBP series, despite the challenge that under the country's legal framework,<sup>6</sup> governance of electric transportation is shared by the Ministry of Public Works and Transportation (MOPT) and the Ministry of the Environment and Energy (MINAE). ARESEP sets the rates for electric vehicle charging and determines the technical specifications for charging infrastructure.

- 1.27 The public transportation bus subsector faces specific barriers to electrification that are related to operations (business models), fares (there are no fares for electric buses), and regulations (adjusting the timeframe for public concessions to reduce annual amortizations for electric buses) [19].
- 1.28 How batteries are managed at the end of their useful life can impact both the cost of public transportation by electric bus and the environment.
- 1.29 Costa Rica's current regulatory framework treats batteries as special waste, which is regulated by the Ministry of Health. The Decarbonization Plan assigns shared responsibility to the MOPT, MINAE, and the Ministry of Health for developing a roadmap to efficiently manage end-of-life electric vehicle batteries that would consider circular economy business models (e.g., evaluating storage systems for solar and wind energy).
- 1.30 Lastly, the high price of electricity is a barrier to electrification of the uses of energy and reduces the competitiveness of the private sector [5].
- 1.31 **Gender and diversity perspective in climate change.** [Climate change has a greater impact on vulnerable and poor populations](#). Women in these groups are disproportionately affected because women are mostly the ones [responsible for subsistence agriculture production and collecting water and fuel to ensure their families' food security](#). In Costa Rica, coffee is the main productive activity carried out by women on farms. One [study](#) notes that there are gender gaps in coffee production, and there is also a gender gap in the energy sector. Over 80% of the new jobs created as part of the decarbonization agenda will be in sectors currently dominated by men, while only 20% of these new jobs will be in sectors where women are the majority.
- 1.32 **Outstanding challenges after this operation.** These include: taking concrete steps to reduce exposure to the risk of lower fiscal revenue; implementing all of the new National Public Investment System (SNIP) technical standards; training agencies required to use and implement the functional classification; operationalizing the national ambition cycle, which systematizes the process of aligning the NDCs with the Decarbonization Plan; increasing forest cover; expanding financing sources for PES; registering all mangroves and mitigating the impact of coastal urbanization; expanding marine protected areas and improving monitoring thereof; approving NAMAs for other sectors and implementing various agricultural NAMAs on a large scale; modernizing the rate structure for all companies in Costa Rica's electricity sector; developing a road map for rates to gradually become efficient and competitive; strengthening the MOPT's capacities in the area of climate change; approving mechanisms for calculating electric public transportation rates; optimizing public transportation routes and concession timeframes for the adoption

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<sup>6</sup> Law 7,152, Law 7,593, and Law 3,503.

of electric vehicles; and structuring pilot projects to renew the fleet with electric vehicles, with business models that minimize the costs of electric public transportation.

## II. REFORM PROGRAM, OBJECTIVES, COMPONENTS, AND EXPECTED OUTCOMES

### A. Reform program

- 2.1 **Institutional and/or sector challenges and hurdles.** This section describes the challenges and hurdles in each sector that the proposed reforms will resolve, with support from technical-cooperation operations. MINAE's Climate Change Office is currently responsible for coordinating and administering public policy on climate change and for monitoring fulfillment of the commitments made under the United Nations Framework Convention on Climate Change (UNFCCC).
- 2.2 International experience suggests that centralized authorities can help coordinate the sector ministries in implementing the Decarbonization Plan [21]. Accordingly, the Decarbonization Plan establishes that the Ministry of Planning and Economic Policy (MIDEPLAN), the lead agency of the National Planning System [2], and the Ministry of Finance, will coordinate implementation of the Decarbonization Plan with MINAE. However, the scope of their roles has yet to be defined. With technical assistance from the IDB, MINAE is developing a framework to formalize the national ambition cycle for future updates of the NDCs and the Decarbonization Plan.
- 2.3 There are disparities in the capacity of the sector ministries to incorporate decarbonization objectives into their plans and activities.<sup>7</sup> The Ministry of Agriculture has more developed capacity than the Ministry of Public Works and Transportation (MOPT). To facilitate implementation of the Decarbonization Plan, this second operation will need to continue strengthening MOPT institutional capacity and reorganize MINAE to take into account its new missions.
- 2.4 The Government of Costa Rica has agreed to report on progress with its international climate change commitments. The Paris Agreement asks that countries prepare and successively communicate their NDCs, and submit a long-term strategy indicating how the country plans to contribute to the Agreement's ultimate objective of achieving net zero emissions by 2050 [70]. With technical assistance from the IDB, MINAE is developing a framework to formalize the national ambition cycle for future updates of the NDCs and the Decarbonization Plan.
- 2.5 **Implementation of the Decarbonization Plan will require public and private investment once policy reforms have been implemented.** For example, energy infrastructure is expected to have a net cost of [US\\$700 million](#) by 2050 to support higher demand, as well as demand stemming from the decarbonization of electricity use. Most of the investment required to implement the Decarbonization Plan is private [1] (e.g. electric buses and charging infrastructure) and is dependent

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<sup>7</sup> Challenges include lack of clarity with respect to the functions of the ministries and limited human resources in some areas.



on regulatory environments that facilitate private investment aligned with decarbonization. Dialogue with the private sector (paragraph 3.10) will also be facilitated through synergies with other Bank projects.

- 2.6 **Challenges in planning decarbonization investments.** The targeting of public investment to technologies and projects that are aligned with Decarbonization Plan objectives plays an important role [1]. In 2020, public investment totaled US\$1.748 billion (2.8% of GDP), largely in the transportation (0.8% of GDP) and energy (0.3% of GDP) sectors. Given Costa Rica's fiscal constraints, it will be critical for national planning and financing instruments to promote efficient resource use. For this reason, efforts are needed to strengthen and implement a long-term energy planning system that encompasses the entire energy sector (electricity and hydrocarbons). With support from technical-cooperation operation CR-T1217, MIDEPLAN is now incorporating decarbonization and sustainability activities into the National Public Investment System.
- 2.7 Mainstreaming decarbonization into the process of setting public investment priorities is crucial to ensuring the consistency of sector investment projects and plans [54]. Costa Rica's National Development Plan includes the objective of decarbonization among the priority variables for setting national targets [44]. With Bank support (CR-T1201, ATN/OC-17691-CR), MIDEPLAN is formulating a national strategic plan that incorporates decarbonization, and gender equality and equity, among other objectives. That plan will shape the country's development vision for 2050.
- 2.8 **Challenges in monitoring public spending on climate change.** In 2020, the level of public spending on decarbonization-related activities was unknown. The international recommendation is to develop mechanisms for continuous monitoring of climate spending in order to report on the commitments made under the Paris Agreement and to analyze the efficiency and effectiveness of these expenditures [71]. In Costa Rica, a budget marker for climate change and biodiversity needs to be developed that also includes spending on disaster management. With IDB support (CR-T1217, ATN/OC-18128-CR), the Ministry of Finance is currently developing a climate change and biodiversity budget marker with these characteristics.
- 2.9 **Challenges in Decarbonization Plan governance and institutional framework.** The measures set out in the Decarbonization Plan require cross-sector coordination inasmuch as they involve over 30 government ministries and agencies, bridge multiple sectors, and require the participation of the private sector, academia, and civil society. A number of the actions set out in the Decarbonization Plan require cross-sector coordination, which has been carried out since 2020 with nonreimbursable support from the Bank (CR-T1217) and AFD, since Costa Rican institutions frequently formulate and implement their environmental programs for each sector in isolation [53].
- 2.10 Costa Rica lacks the regulations and standards necessary for establishing a protocol to compile GHG emissions data that would facilitate the integration of that data into National Climate Change Metrics System (SINAMECC). Other challenges include the availability of data and the classification of land use in the

National System for Monitoring Coverage and Use of Land and Ecosystems (SIMOCUTE).

- 2.11 **Challenges in designing financing strategies.** Decarbonization of Costa Rica should not affect its fiscal sustainability. In total, 10.4% of the country's fiscal revenue is derived from fossil fuel taxes [49]. Without fiscal adjustments, fulfillment of the transportation electrification objectives could cause an impact of approximately 0.4% of GDP, mainly after 2035 [68].<sup>8</sup> It is important to find offsetting and fiscal adjustment measures to manage these challenges in a timely manner and ensure that implementation of the Decarbonization Plan can be fiscally sustainable in the medium and long term.
- 2.12 **Challenges of the national transparency, metrics, and open data system.** The Paris Agreement stipulated that the countries are to have an enhanced transparency framework for action and support [70]. The Costa Rican government is still putting together all of its progress indicators to facilitate monitoring of the actions that together would lead to fulfillment of the climate goals. Challenges also exist with respect to the availability of data, collection capacity, and intersystem coordination protocols [1].
- 2.13 **CSA challenges.** The most significant challenges for promoting good CSA practices in Costa Rica include:
- a. Increasing interagency coordination [6] between the Ministry of Agriculture and MINAE to strengthen synergies.
  - b. Gaps in the development and implementation of NAMAs for various agricultural activities. At the start of this PBP, no NAMAs were established for the other three agricultural activities that are the biggest GHG emitters, namely sugarcane, musaceae (banana) varieties, and rice.
  - c. CSA practices should qualify for payment for environmental services (paragraph 1.15), because they create positive environmental externalities.
- 2.14 **Forestry sector challenges.** Although forests have stored large quantities of carbon [63], various threats remain (which the Bank has helped to address through nonreimbursable technical-cooperation operation [CR-T1218](#)):
- a. **Sector competitiveness-cost.** Recent analyses show that the opportunity cost of other agricultural activities limits forest expansion in Costa Rica [47].
  - b. **Illegal logging.** Formal production chains for sustainable timber, which can generate market incentives for carbon sequestration (storage of carbon by forests as well as a decrease in replacement of forests with products having a larger carbon footprint), face a complex legal framework that indirectly incentivizes unfair competition from illegal logging [47].

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<sup>8</sup> The fiscal impact corresponds to 0.02%, 0.2%, and 0.7% of GDP in 2022, 2030, and 2050, respectively. These estimates are consistent with international evidence [35].

- c. **Protected areas.** Protected areas have made it possible to preserve half of Costa Rica's forests, but their expansion is limited.
  - d. **Payment for environmental services.** There is limited fiscal headroom to finance reforestation and preservation activities for terrestrial forests through the current payment-for-environmental-services mechanism.
- 2.15 To address these challenges, Costa Rica needs: (i) a National Forest Policy [\[47\]](#) to administer the sector with simpler legal mechanisms that discourage unfair and illegal competition and make the sector competitive so that the legal timber market can become a significant source of direct financing of payment for environmental services; (ii) stronger regulations that facilitate the sustainable and legal utilization of fallen wood and improve the guiding principles of the forestry sector to ensure more sustainable production and to indirectly reduce illegal logging; and (iii) a continuation of payment for environmental services that facilitates access to forestry credit [\[29\]](#).
- 2.16 **Challenges related to payment for environmental services: efficiency, sustainability, and scope.** The challenges associated with payments for environmental services to facilitate the expansion of the forest cover and broaden the scope of climate-smart agriculture include: (i) the efficiency of such payments has not been demonstrated through an impact assessment and, therefore, their effectiveness cannot be guaranteed; and (ii) the financial sustainability of payments for environmental services is not guaranteed in the long term since their main source of revenue is the Impuesto Selectivo de Consumo a los Combustibles [fuel tax]. The Bank has contributed to addressing these challenges through nonreimbursable technical-cooperation operation CR-T1218 (ATN/AG-18149-CR, ATN/OC-18148-CR).
- 2.17 **Blue carbon-related challenges to increasing conservation and reducing degradation (Decarbonization Plan).** These include: (i) lack of instruments for integrated management and conservation of mangroves with a territorial approach; (ii) weaknesses in governance and in the effective implementation of management tools; and (iii) lack of increased efforts to protect marine areas, as part of the blue carbon policy.
- 2.18 **Challenges in public and private vehicle electrification.** Costa Rica faces various challenges in this area, including: (i) the need for more charging stations; (ii) updating the public transportation fare model to take into account electric vehicles; (iii) management of batteries at the end of their life cycle; and (iv) efficient rate models for renewable energy that incentivize the electrification of energy use.
- 2.19 **Challenges related to the gender and diversity perspective in climate change.** Costa Rica is facing several challenges in this area: (i) promoting gender parity and representation within the current governance structures of the climate change system; (ii) including the National Institute of Women (INAMU) in interagency governance structures within the climate system; (iii) strengthening the development of new climate policies with a focus on human rights and gender; and (iv) ensuring gender equity in accordance with the 2012 NAMA guidelines for the coffee sector.



- 2.20 **Country sector strategy.** Costa Rica's sector strategy for climate change mitigation is described in the National Decarbonization Plan 2018-2050 (see paragraph 1.8).
- 2.21 **Bank experience in the sector and lessons learned.** The Bank has financed policy-based lending operations for decarbonization in Costa Rica ([CR-L1142](#), 2020, US\$230 million) and in Colombia ([CO-L1264](#), 2021, US\$800 million; and [CO-L1274](#), 2022, US\$300 million). It has also supported policy reform programs in the region in the transportation, human resources, and governance and public investment sectors, from which the following lessons were learned and applied to this operation: (i) have updated regulatory instruments that are specific to the sector; (ii) design integrated planning tools that are fed by modern databases; (iii) Bank support is needed to bring together the different sectors involved in the reforms; (iv) strengthen dialogue with the private sector, which is a factor affecting the sustainability of the reforms; (v) have strong interagency leadership that coordinates within the government; (vi) promote public environmental management policies with a focus on prevention, to ensure that more sustainable practices are incorporated by the productive sector; (vii) guarantee the sustainability of policy reforms by ensuring that regulatory agencies have the requisite technical capacity and know-how; and (viii) buy-in and support for the reforms at the highest political levels are key to the success of the institutional reforms.
- 2.22 **Rationale for institutional reforms and/or changes.** This project contributes to innovation-based sustainable development and strengthens the foundation for achieving decarbonization in Costa Rica by 2050. The project addresses the challenges related to the implementation of Costa Rica's Decarbonization Plan by building on the policy reforms from the first PBP operation (see paragraph 1.37 of [optional link 6](#)).
- 2.23 The PBP has implemented all of the reforms from the first operation, and all of the policy reform areas approved for the second operation have been retained, with a few changes in language. In some instances, reforms have been replaced by others that contribute to the same objectives and are of equal or greater weight (e.g., forestry decrees), whereas in other areas, such as blue carbon or measures for the electrification of energy use in transportation and industry, the commitments have become much broader in scope. The commitments can be found in the [comparative matrix](#).
- 2.24 **Coordination with multilateral organizations and/or other donors.** Both the first and the second operation are being carried out in coordination with Agence Française de Développement (AFD)<sup>9</sup> under the Partnership Framework Agreement signed by the Bank and AFD on 11 October 2018, having agreed on the content of the policy matrix. The Korea Infrastructure Development Cofinancing Facility (KIF) will also participate in the current operation.
- 2.25 The reforms will be developed by consensus with the private sector and their final validation will be obtained from the sector unions involved (e.g., NAMAs). The operation will also be supported by existing synergies with other Bank projects. The private sector has been invited to participate in workshops related to the

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<sup>9</sup> The AFD loan is expected to be approved in June 2022.

technical-cooperation activities and will be included in the protocol for the design of future NDCs.

## **B. Objectives, components, and expected outcomes**

- 2.26 **General and specific objectives.** The project's general objective is to contribute to the country's progressive transition to net zero GHG emissions by 2050, benefiting the entire population, through reforms to: (i) strengthen management and monitoring of climate action in Costa Rica; (ii) conserve and restore ecosystems with high rates of GHG sequestration and replace GHG-emitting agricultural practices with GHG-sequestering ones (help increase the country's forest cover, preserve wetlands and marine areas, and increase the share of agricultural production using low-carbon or carbon sequestration practices); (iii) incentivize the use of electric power and active mobility (align electricity rates with objectives for the electrification of energy use and enable the electrification of the vehicle fleet); and (iv) promote gender inclusion and equality in the National Decarbonization Plan. The necessary policy reforms to implement the National Decarbonization Plan will be supported under these subsectors.
- 2.27 **Component 1. Stability of the general macroeconomic policy framework.** A stable macroeconomic framework must be in place that is conducive to achieving program objectives, consistent with the guidelines set out in the sector policy letter.
- 2.28 **Component 2. Strengthening climate action management and monitoring.** The first operation supported: (i) definition of a structure to coordinate implementation of the Decarbonization Plan (2.1.1); (ii) a long-term strategy for the country's decarbonization (2.1.2); and (iii) institutional strengthening of systems for monitoring and reporting on implementation of the Decarbonization Plan (2.2.1 and 2.2.2). All of the commitments of the first operation were fulfilled.
- 2.29 The second operation supports the following institutional changes or policy actions, among others: (i) MINAE's capacity to coordinate and monitor fulfillment of at least 50% of the targets established in the Decarbonization Plan for 2022 (2.1.1.1); (ii) integration by MIDEPLAN of the Decarbonization Plan objectives into the new national strategic plan (2.1.1.2(i)); (iii) identification of options by the Ministry of Finance to manage the fiscal impact of the decarbonization of transportation (2.1.1.2(ii)); (iv) alignment of MINAE human resources with its responsibilities and the Decarbonization Plan (2.1.1.4(i)), and development of a diagnostic assessment for restructuring the MOPT that enables it to make the required reforms in the transportation sector (2.1.1.4(ii)); and (v) development of climate change and biodiversity budget markers to identify and monitor spending in these areas (2.1.1.5(i)).
- 2.30 **Component 3. Nature-based solutions and climate-smart agriculture.** The first operation supported: (i) sustainable management of forests through: (a) the start of analysis and expansion of payments for environmental services to payments for ecosystem services (PES) (3.1.1); (b) approval of the guiding principles of the productive forest sector (3.1.2); (ii) sustainable management and conservation of marine-coastal ecosystems as a source of carbon storage (3.1.4 and 3.1.5); and (iii) adoption by the private sector of carbon sequestration agricultural practices through NAMAs in the largest GHG-emitting sectors (3.2.1), and the inclusion of

public-private payments for environmental services for agricultural producers (3.2.2.(iii)). All of the commitments of the first operation were fulfilled.

- 2.31 Measures under the second operation include: (i) conservation of existing forests through: (a) design of a methodology to assess the impact of payments for environmental services (3.1.1.1(ii)); a legal and technical feasibility analysis for the creation of a natural capital company and biodiversity bonds (3.1.1.1(iii) and (iv)); and approval of regulations enabling expansion of PES: (3.1.1.1(i)); (ii) blue carbon conservation and management through implementation of the mangrove strategy for the Gulf of Nicoya (3.1.4.1(i)); and (b) approval of a post-COVID recovery plan based on the blue economy<sup>10</sup> (3.1.5.1(ii)); approval of the decree to expand the Cocos Marine Conservation Area (3.1.5.1(iii)); and signature of the Declaration on the Conservation and Management of Ecosystems in the Eastern Tropical Pacific Marine Corridor (3.1.5.1(ii)); and (iii) adoption by the private sector of low-carbon and carbon sequestration agricultural practices (3.2.1.1).
- 2.32 **Component 4. Incentivizing the use of electricity and active mobility.** The first operation supported: (i) the setting of electricity rates for electric vehicle rapid charging stations (4.1.1); (ii) a regulatory roadmap to advance toward the objective of electrification of the vehicle fleet (4.2.1); (iii) a regulatory framework that provides nonfiscal incentives for the purchase and use of electric vehicles (4.2.2); and (iv) regulations governing the construction and operation of the network of electric charging stations for electric automobiles, to be financed by electricity distribution companies (4.2.3). All of the commitments of the first operation were fulfilled.
- 2.33 The second operation will support: (i) the establishment of rates that enable the electrification of transportation and electricity use in industrial, commercial, and residential sectors; (i) a mechanism to calculate bus fares for end users that allows for the inclusion of electric buses; (iii) a public transport operations plan for bus services that includes requirements for the progressive electrification of the bus fleet (4.2.2.1); (iv) a roadmap for efficient and financially feasible management of electric vehicle batteries at the end of their useful life (4.2.3.1); and (v) a law that incentivizes active mobility (for pedestrians) (4.2.2.2).
- 2.34 **Component 5. Inclusion, human rights, and promotion of gender equality.** The first operation did not include this component. The second operation will support: (i) reporting on progress toward implementation of crosscutting strategy “F” of the Decarbonization Plan; (ii) development of gender policies that incorporate the effects of climate change with a gender perspective (representation in structures and processes related to climate change, and policies and plans with a human rights and gender-based approach) (5.1); and increased training for 300 female coffee producers on the 2012 NAMA guidelines for the coffee sector (5.2).
- 2.35 **Main results indicators.** The operation has a results matrix that includes indicators for the general and specific development objectives, with their corresponding baselines, targets, and means of verification. The main impact

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<sup>10</sup> Preliminary design of 14 productive marine and coastal projects that contribute to the preservation of marine carbon.

expected from the project is a reduction in GHG emissions. Table 1 presents the key results indicators.

**Table 1. Key results indicators**

1.	New national plans aligned with the Decarbonization Plan
2.	Budget markers in use to identify and monitor public climate spending
3.	Institutional reorganization for implementation of the Decarbonization Plan
4.	Continuous monitoring systems operational for Decarbonization Plan
5.	Area of terrestrial forest conserved or preserved
6.	Pilot livestock farms implementing actions defined in the framework of the Ministry of Agriculture-MINAE agreement
7.	Individual private electric vehicles in the country
8.	Rapid charging stations installed in the country
9.	Increased training for female coffee producers on the 2012 NAMA guidelines for the coffee sector

2.36 **Program beneficiaries.** Society as a whole will benefit by creating the necessary conditions for reducing net GHG emissions, which will mitigate climate change, and reducing air pollution from internal combustion vehicles. Specifically, the local population of the Gulf of Nicoya<sup>11</sup> will benefit through improved sustainable management of mangrove forests by increasing climate resilience. Farmers will benefit by increasing resilience to climate disasters such as droughts and floods by implementing CSA.

2.37 **Strategic alignment.** The project is consistent with the Update to the Institutional Strategy 2020-2023 (document AB-3190-2) and is expected to contribute to the Corporate Results Framework 2020-2023 (document GN-2727-12) through the development challenges: (i) social inclusion and equality, by helping small farmers access financial incentives for low-carbon agricultural production through Payment for Environmental Services (PSA) 2.0; and (ii) productivity and innovation, by promoting innovative policy, normative, and regulatory instruments aimed at decarbonizing the Costa Rican economy while fostering cost-effective production in the agriculture and forestry sectors. This operation is also aligned with the crosscutting theme of climate change and environmental sustainability, since 100% of the operation's resources are invested in climate change mitigation activities, according to the [joint methodology of the multilateral development banks](#); (iii) institutional capacity and rule of law, by improving management of climate action through strengthening of management and supervision capacity; and (iv) gender, by fostering the integration and promotion of gender equality in the Decarbonization Plan, and ensuring the sustainable inclusion of female coffee producers in the NAMA guidelines. These resources contribute to the IDB Group's target of increasing financing for climate-related projects to 30% of annual approvals. The project is consistent with the following sector framework documents: (i) Climate Change (document GN-2835-8); (ii) Transportation

<sup>11</sup> In all, 183,348 people in 2013.

(document GN-2740-7); (iii) Energy (document GN-2830-8); (iv) Environment and Biodiversity (document GN-2827-8), by strengthening environmental governance and promoting integrated management, with a focus on ecosystems and determination of the value of ecosystem services; and (v) Agriculture and Natural Resources Management (document GN-2709-10). The program is included in the 2022 Operational Program Report (document GN-3087) and is aligned with the IDB Group Strategy with Costa Rica 2019-2022 by supporting climate change adaptation, reduction of net carbon emissions, and the National Decarbonization Plan 2050. The program is also aligned with the Sustainable Development Goal for climate action. For details on the rationale, see paragraph 1.43 of [optional link 6](#). Lastly, the project is consistent with Vision 2025 by identifying an agenda to accelerate the recovery by helping countries strengthen climate change mitigation and adaptation.

### III. DIMENSIONING, RISKS, AND IMPLEMENTATION AND MANAGEMENT PLAN

#### A. Dimensioning

- 3.1 **Financing instrument.** This operation, the second loan in a series of two consecutive operations that are independent but technically related to one another, has been designed as a programmatic policy-based loan following the guidelines and policies established in the New Lending Framework (document GN-2200-13) and in Policy-based Loans: Guidelines for Preparation and Implementation (document CS-3633-2). The programmatic modality is justified by: (i) the complex and progressive nature of the reforms; (ii) different timing for implementing the reforms; (iii) coordination among the institutions involved; (iv) support for policy dialogue in the country; and (v) the tracking required for implementation of the reforms, as well as their monitoring and feedback on their outcomes.
- 3.2 **Dimensioning of the operation.** Pursuant to paragraph 3.27(b) of Policy-based loans: Guidelines for Preparation and Implementation (document CS-3633-2, new version), the operation is scaled based on the country's fiscal resource needs. An amount of US\$250 million in financing for this operation will be charged to the regular Ordinary Capital, along with US\$50 million in joint financing with KIF resources, to be released in a single disbursement. The government's financing needs for 2022 are 9.6% of GDP, which is equivalent to approximately US\$6.376 billion [\[39\]](#). Accordingly, the PBP is expected to cover 4.7% of needs. Parallel financing will also be provided by AFD through a policy-based loan to be approved in 2022 for US\$107 million.
- 3.3 **Consistency with the Public Utilities Policy.** The program is consistent with the objectives of the Bank's Public Utilities Policy (document GN-2716-6), by contributing to the technical, operational, and financial sustainability of the energy sector. Implementation of the policy reforms promoted to incentivize the use of electric energy will follow the principles of the Public Utilities Policy and achieve the following: (i) providing service that meets quality and reliability standards; (ii) providing service efficiently; and (iii) creating suitable incentives for service demand. With a view to fulfilling the conditions set out in the Bank's Public Utilities Policies (Section IV of document GN-2716-6), an analysis of compliance with the policy was carried out [\[optional link 5\]](#) for the purposes of this PBP operation.

- 3.4 **Special contractual conditions precedent to the first and only disbursement of the loan.** Fulfillment of the policy reform conditions established in the policy matrix (Annex II) and the remaining contractual conditions set out in the loan agreement between the Bank and the Costa Rican government.

## **B. Risks**

- 3.5 **Environmental and social safeguard risks.** According to Directive B.13 of the Environment and Safeguards Compliance Policy (Operational Policy OP-703), this operation cannot be classified ex ante. In its preliminary analysis, the Bank determined that the proposed policy reforms and/or institutional changes supported will have no significant direct adverse impacts on the country's environment or natural and environmental resources. The objective of the operation is to conserve and restore ecosystems with high rates of GHG sequestration and replacing GHG-emitting agricultural practices with GHG-sequestering ones, so no specific safeguard measures are anticipated.
- 3.6 **Fiduciary and other risks.** The overall conclusion was reached in the Public Expenditure and Financial Accountability evaluation for Costa Rica published in 2016 [56] that management of Costa Rica's public finances is satisfactory. Use of the treasury single account subsystem to make payments for Bank-financed projects reduces the major fiduciary risks from the standpoint of payment management, cash flow management, and reconciliations. In addition, there is reasonable scrutiny of public finances through the Office of the Comptroller General of the Republic. Costa Rica has experience managing the proceeds of foreign loans and, consequently, financial management risks are not envisaged. The country must also comply with the list of prohibited practices of the IDB and AFD as set out in the parallel financing agreement signed by the IDB and AFD for this operation. There will be no procurement for this operation. Bank policies apply to sources of cofinancing. The Bank will provide technical support for the implementation of reforms using technical-cooperation resources.
- 3.7 In general, the operation has a low level of risk since the country has already fulfilled 98% of the verifiable indicators as of 20 May 2022. However, some medium-level operational risks have been identified, as there was a change in administration in Costa Rica in 2022. Dialogue has been established with the new authorities to mitigate this risk.
- 3.8 Costa Rica is firmly committed in the long term to making the necessary investments for the Decarbonization Plan. The Decarbonization Plan 2050 is accompanied by the National Strategic Plan 2050, which sets out public investments through 2050 that are aligned with the Decarbonization Plan. The Bank is supporting the design of the National Strategic Plan through operation CR-T1201 (ATN/OC-17961-CR).

## **C. Implementation and management plan**

- 3.9 **Summary of implementation arrangements.** The borrower is the Republic of Costa Rica and the executing agency is the Ministry of Finance, which will have the support of MINAE through its Climate Change Office for technical coordination in preparation and supervision tasks (see paragraph 1.47 of [optional link 6](#)).

- 3.10 **Private sector.** The reforms will be developed by consensus with the private sector and their final validation will be obtained from the sector unions involved. The operation will also be supported by existing synergies with other Bank projects. Moreover, the private sector will be invited to participate in workshops related to the technical-cooperation activities and will be included in the protocol for the design of future NDCs.
- 3.11 **Summary of arrangements for monitoring results.** The policy matrix, means of verification matrix ([required link 2](#)), and outcomes are the benchmarks for the supervision and evaluation of the project's results. Policy commitments will be fulfilled through the Ministry of Finance with the support of MINAE's Climate Change Office. The IDB, in coordination with AFD, will monitor execution from the Country Office.
- 3.12 The purpose of the project evaluation is to verify whether the anticipated outcomes and impacts were achieved once the period for their fulfillment established in the project monitoring and evaluation plan has ended ([required link 3](#)). The borrower and the Bank have agreed to monitor execution of the project in coordination with AFD through semiannual monitoring meetings. The results matrix indicators will guide this process during implementation. A project completion report will be prepared by the project team at the end of the second operation, applying the IDB's current guidelines, no more than six months after the disbursement for the final operation.

#### IV. POLICY LETTER

- 4.1 **Policy letter.** The policy letter ([required link 1](#)) sent by the borrower describes the macroeconomic and sector policies being implemented by the Government of Costa Rica that are consistent with the policy measures to be supported through this project. The letter ratifies Costa Rica's commitment to implement the agreed-upon conditions set out in the project policy matrix.



Development Effectiveness Matrix		
Summary		CR-L1147
<b>I. Corporate and Country Priorities</b>		
<b>Section 1. IDB Group Strategic Priorities and CRF Indicators</b>		
1. The Strategic Alignment tab in convergence shows alignment on IDB Group Strategic Priorities. The Results Matrix tab lists flagged CRF indicators		
2. The Strategic Alignment tab in convergence shows information on alignment to Country Development Objectives		
<b>II. Development Outcomes - Evaluability</b>		<b>Evaluable</b>
<b>3. Evidence-based Assessment &amp; Solution</b>		<b>7.2</b>
3.1 Program Diagnosis		2.5
3.2 Proposed Interventions or Solutions		3.5
3.3 Results Matrix Quality		1.2
<b>4. Ex ante Economic Analysis</b>		<b>N/A</b>
<b>5. Monitoring and Evaluation</b>		<b>9.5</b>
5.1 Monitoring Mechanisms		4.0
5.2 Evaluation Plan		5.5
<b>III. Risks &amp; Mitigation Monitoring Matrix</b>		
6. Overall risks rate = magnitude of risks*likelihood		Low
The Environmental and Social Data tab in convergence shows the environmental and social risk classification of the project		
<b>IV. IDB's Role - Additionality</b>		
Annex III Fiduciary Arrangements describes project reliance on the use of country systems (VPC/FMP Criteria)		
7. Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	Yes	Four TCs supported policy reforms in on all the components. CR-T1217 (paragraphs 1.31, 2.7, 2.8, 2.9), CR-T1218 (paragraphs 2.16, 2.17 and 2.18) and CR-T1219 (supported respectively policy reforms of the three componentes (paragraphs 1.34). CR-T1201 supported the design of the PEN by financing the EET design and the analysis of its impacts on employment by gender and the environmen (paragraphs 1.36, 2.8, 3.13).

*This operation is the second of a series of two operations whose general objective is to contribute to the progressive transition of the country towards zero net emissions of Greenhouse Gases (GHG) by 2050. Its specific objectives are: (i) strengthening management and monitoring of climate action in CR; (ii) the conservation and restoration of ecosystems with high GHG capture and the substitution of agricultural practices emitting high GHG for practices that capture GHG; (iii) the incentive of the use of electric energy; and (iv) the promotion of inclusion and gender equality in the National Decarbonization Plan. Under these subsectors, the necessary policy reforms for the implementation of the National Decarbonization Plan (PD) will be supported. The expected impact of the project is the reduction of GHG emissions.*

*The diagnosis that supports the identification of the main challenges to achieve decarbonization of the economy and the reforms formulated is solid and evidence based. The result framework exhibits vertical logic and is structured according to the specific objectives and their respective outcome indicators. In general, the indicators proposed are SMART, with baseline and goals and means of verification.*

*The monitoring plan meets the requirements of the DEM. The evaluation plan includes exploiting the PSA allocation mechanism through regression discontinuity design to evaluate the effectiveness of the program on forest cover.*



## POLICY MATRIX

**Project objective:** The general objective is to contribute to the country's progressive transition to net zero greenhouse gas (GHG) emissions by 2050, benefiting the entire population, through reforms to: (i) strengthen management and monitoring of climate action in Costa Rica; (ii) conserve and restore ecosystems with high rates of GHG sequestration and replace GHG-emitting agricultural practices with GHG-sequestering ones (help increase the country's forest cover, preserve wetlands and marine areas, and increase the share of agricultural production using low-carbon or carbon sequestration practices); (iii) incentivize the use of electric power and active mobility (align electricity rates with objectives for the electrification of energy use and enable the electrification of the vehicle fleet) and (iv) promote gender inclusion and equality in the National Decarbonization Plan. The necessary policy reforms to implement the National Decarbonization Plan will be supported under these subsectors.

Components/ Policy objectives	Policy conditions, programmatic loan I	Policy conditions, programmatic loan II	Status of fulfillment, conditions for programmatic loan II
<b>Component I. Macroeconomic stability</b>			
1.1 Macroeconomic stability	1.1.1 Maintenance of an appropriate macroeconomic policy framework that is consistent with the project's objectives as established in the policy matrix	1.1.1.1 Maintenance of an appropriate macroeconomic policy framework that is consistent with the project's objectives as established in the policy matrix.	1.1.1.1 Fulfilled
<b>Component II. Strengthening climate action management and monitoring</b>			
2.1 Management of climate action	2.1.1 Definition of a coordination process to monitor implementation of the Decarbonization Plan with the participation of the Ministry of Planning and Economic Policy (MIDEPLAN), the Ministry of Finance, and the Ministry of the Environment and Energy (MINAE), and issuance of guidelines for existing government structures	<p>2.1.1.1 MINAE reports that at least 50% of the targets established in the annex to the Decarbonization Plan for 2018-2022 have been met.</p> <p>2.1.1.2 (i) MIDEPLAN has published the National Strategic Plan for 2050 aligned with the Decarbonization Plan, and the roadmap for its effective implementation has been prepared, including determination of public investments, financial and policy resources/ instruments, and the required human capital, through community and sector dialogue; and</p> <p>(ii) the Ministry of Finance has analyzed options for managing the fiscal impact of a reduction in gasoline consumption stemming from implementation of the Decarbonization Plan.</p> <p>2.1.1.3 MIDEPLAN has approved and published guidelines and other tools to determine alignment with the Decarbonization Plan of projects submitted for recording in the National Public Investment System and to facilitate ranking by priority.</p>	<p>2.1.1.1 Fulfilled (second quarter, 2021)</p> <p>2.1.1.2(i) Fulfilled (second quarter, 2022)</p> <p>2.1.1.2(ii) Fulfilled (second quarter, 2022)</p> <p>2.1.1.3 Fulfilled (first quarter, 2022)</p>

Components/ Policy objectives	Policy conditions, programmatic loan I	Policy conditions, programmatic loan II	Status of fulfillment, conditions for programmatic loan II
		<p>2.1.1.4 (i) MINAE has aligned its human resources with its responsibilities and the Decarbonization Plan, in accordance with the diagnostic assessment that was conducted;</p> <p>(ii) MOPT has prepared a proposal for restructuring the organizational processes that address competencies in the area of climate change.</p> <p>2.1.1.5 (i) The Ministry of Finance has developed climate change and biodiversity budget markers to identify and monitor climate spending in the national budget;</p> <p>(ii) and the Ministry of Finance has included guidance on the use of these markers in budget guidelines and procedures.</p>	<p>2.1.1.4(i) Fulfilled (second quarter, 2022)</p> <p>2.1.1.4(ii) Fulfilled (second quarter, 2022)</p> <p>2.1.1.5(i) Fulfilled (second quarter, 2022)</p> <p>2.1.1.5(ii) Fulfilled (first quarter, 2022)</p>
	2.1.2 MINAE has presented the Decarbonization Plan to the Secretariat of the United Nations Framework Convention on Climate Change (UNFCCC) to be recorded as Costa Rica's long-term strategy.	2.1.2.1 MINAE has remitted to the presidential office the proposed decree for the protocol for periodically updating Costa Rica's Nationally Determined Contribution, to be submitted to the UNFCCC every five years based on the best science and information available and a consultative process.	2.1.2.1 Fulfilled (first quarter, 2022)
2.2 Monitoring of climate action	2.2.1 MINAE has issued the official data management protocol for the National Climate Change Metrics System (SINAMECC).	<p>2.2.1.1 MINAE has implemented, within the SINAMECC, the system for continuous monitoring of implementation of the Decarbonization Plan, including at least the following elements:</p> <p>(i) design/improvement of indicators: methodology worksheets;</p> <p>(ii) design/improvement of data capture and processing, i.e. data management protocol and interagency legal agreements;</p> <p>(iii) design/improvement of SINAMECC's visualization (website); and</p> <p>(iv) MINAE has allocated resources for implementation of SINAMECC.</p>	<p>2.2.1.1(i) Fulfilled (first quarter, 2022)</p> <p>2.2.1.1(ii) Fulfilled (first quarter, 2022)</p> <p>2.2.1.1(iii) Fulfilled (first quarter, 2022)</p> <p>2.2.1.1(iv) Fulfilled (first quarter, 2022)</p>

Components/ Policy objectives	Policy conditions, programmatic loan I	Policy conditions, programmatic loan II	Status of fulfillment, conditions for programmatic loan II
	<p>2.2.2 MINAE has remitted the proposed decree to create the National System for Monitoring Coverage and Use of Land and Ecosystems (SIMOCUTE) to the legal departments of the Ministry of Justice and the Ministry of Agriculture.</p>	<p>2.2.2.1 MINAE has strengthened its environmental information management mechanisms to improve evidence-based decision-making, through actions such as:</p> <ul style="list-style-type: none"> <li>(i) MINAE, the Ministry of Agriculture, and the National Geographic Institute (IGN) have created SIMOCUTE;</li> <li>(ii) an updated geospatial map of land use has been published in SIMOCUTE, including a process for its periodic updating and publication in order to report to both the public and private sectors on issues such as land use, agriculture sector improvements, and conservation and public investment strategies;</li> <li>(iii) the National Center for Geo-environmental Information (CENIGA) has developed key indicators for monitoring green cover and use of land and ecosystems;</li> <li>(iv) CENIGA has strengthened its capacities and made progress toward developing an environmental data compendium with information on the following key issues: water, biodiversity and ecosystem services, oceans, geological resources, energy, sustainable cities and communities, sustainable production and consumption, and climate action.</li> </ul>	<p>2.2.2.1(i) Fulfilled (second quarter, 2021)</p> <p>2.2.2.1(ii) Fulfilled (second quarter, 2022)</p> <p>2.2.2.1(iii) Fulfilled (second quarter, 2022)</p> <p>2.2.2.1(iv) Fulfilled (second quarter, 2022)</p>

Components/ Policy objectives	Policy conditions, programmatic loan I	Policy conditions, programmatic loan II	Status of fulfillment, conditions for programmatic loan II
<b>Component III. Nature-based solutions and climate-smart agriculture</b>			
3.1 Nature-based solutions	3.1.1 MINAE has started the process of expansion from payments for environmental services to payments for ecosystem services (PES) through approval of a work plan to evaluate the impact of the former and the design of a program for the latter, which must be financially sustainable, including extension of the incentives mechanism to other environmental services, estimated resources necessary for implementation, and identification of sources of financing.	<p>3.1.1.1 MINAE has identified additional financing mechanisms for ecosystem services and biodiversity that include the following actions:</p> <ul style="list-style-type: none"> <li>(i) the Public Utilities Regulatory Authority (ARESEP) has approved a new public utility rate that promotes and finances the management of ecosystem services;</li> <li>(ii) the National Forestry Financing Fund (FONAFIFO) has a proposed methodology for estimating the impact of the payment for environmental services program based on protected water resources and biodiversity protection;</li> <li>(iii) MINAE has advanced in the technical and legal feasibility analysis of a natural capital company;</li> <li>(iv) MINAE has made progress on the design of a biodiversity bond.</li> </ul>	<p>3.1.1.1(i) Fulfilled (fourth quarter, 2019)</p> <p>3.1.1.1(ii) Fulfilled (second quarter, 2022)</p> <p>3.1.1.1(iii) Fulfilled (third quarter, 2021)</p> <p>3.1.1.1(iv) Fulfilled (third quarter, 2021)</p>
	3.1.2 MINAE has approved and enacted the decree on Guiding Principles for the Productive Forest Sector, which includes: (i) promotion of timber cultivation and agroforestry systems; (ii) standardization of administrative processes and procedures for forestry development; and (iii) development of a national strategy to combat illegal logging.	<p>3.1.2.1 MINAE has begun implementing the new regulatory framework, including the following actions:</p> <ul style="list-style-type: none"> <li>(i) the decree containing the guiding principles for the productive forest sector has been approved and published in the official journal La Gaceta, and the decree for comprehensive reform of the general regulations for environmental impact assessments has been submitted to the presidential office for approval;</li> <li>(ii) the National Forest Development Policy has been prepared.</li> </ul>	<p>3.1.2.1(i) Fulfilled (second quarter, 2022)</p> <p>3.1.2.1(ii) Fulfilled (second quarter, 2022)</p>
	3.1.3 MINAE has taken steps to approve a decree to create the National Forest and Rural Development Program by remitting it to the Office of the President of the Republic of Costa Rica.	3.1.3.1 MINAE has prepared the National Forest and Rural Development Program.	3.1.3.1 Fulfilled (second quarter, 2022)

Components/ Policy objectives	Policy conditions, programmatic loan I	Policy conditions, programmatic loan II	Status of fulfillment, conditions for programmatic loan II
	3.1.4 The National Council on Conservation Areas (CONAC) has approved the regulations for the Conservation and Management of Mangrove Forests in the Gulf of Nicoya, which are to contain, at a minimum, the following: (i) a Regional Strategy for the Conservation and Management of Mangrove Forests in the Gulf of Nicoya 2019-2030 and the corresponding action plan; and (ii) a Management Plan for the Puntarenas Estuary Wetlands.	3.1.4.1 MINAE has implemented the Regional Strategy for the Conservation and Management of Mangrove Forests in the Gulf of Nicoya by taking at least the following actions:	
		<ul style="list-style-type: none"> <li>(i) development of a proposal for a monitoring system for mangrove ecosystems in the Gulf of Nicoya;</li> <li>(ii) registration in the National Registry of at least one mangrove forest with its corresponding map;</li> <li>(iii) presentation of a report on actions taken by the National System of Conservation Areas (SINAC) and other strategic partners to implement and monitor the Regional Strategy for the Conservation and Management of Mangrove Forests in the Gulf of Nicoya.</li> </ul>	<p>3.1.4.1(i) Fulfilled (first quarter, 2022)</p> <p>3.1.4.1(ii) Fulfilled (first quarter, 2022)</p> <p>3.1.4.1(iii) Fulfilled (first quarter, 2022)</p>
	3.1.5 MINAE's Office of the Deputy Minister for Water Resources and Oceans has developed and presented the proposal for the Blue Carbon Strategy to the Office of the Minister of MINAE.	3.1.5.1 MINAE has made progress on blue carbon policy reforms through: <ul style="list-style-type: none"> <li>(i) design of a post-COVID recovery plan based on the blue economy;</li> <li>(ii) signature of the Declaration on the Conservation and Management of Ecosystems in the Eastern Tropical Pacific Marine Corridor (the Cocos-Galápagos and Malpelo-Coiba Swimways);</li> <li>(iii) approval of the decree to expand the Cocos Marine Conservation Area.</li> </ul>	<p>3.1.5.1(i) Pending (second quarter, 2022)</p> <p>3.1.5.1(ii) Fulfilled (fourth quarter, 2021)</p> <p>3.1.5.1(iii) Fulfilled (first quarter, 2022)</p>
3.2 Climate-smart agriculture	3.2.1 The Ministry of Agriculture has begun implementing the climate-smart agriculture (CSA) actions identified in its joint emissions reduction agreement with MINAE, and is executing the commitments undertaken in the Decarbonization Plan through the following activities:	3.2.1.1 CSA is being implemented in priority sectors through:	

Components/ Policy objectives	Policy conditions, programmatic loan I	Policy conditions, programmatic loan II	Status of fulfillment, conditions for programmatic loan II
	<ul style="list-style-type: none"> <li>(i) initiation of monitoring the Agrifood Sector Policy 2010-2021 and the Low-carbon Livestock Strategy 2015-2020;</li> <li>(ii) validation of the agroenvironmental approach of Costa Rica's new coffee policy by the National Coffee Congress;</li> <li>(iii) application of the 2012 NAMA guidelines for the coffee sector by at least 25% of coffee growers (8,000 of 34,000 coffee growers), and at least 20% of coffee mills (60 of 260) that process 50% of the country's coffee;</li> <li>(iv) design and validation of at least one NAMA (rice, sugarcane, or musaceae (banana) varieties) and the updating of the NAMA for the coffee sector by the public and private sectors; and</li> <li>(v) progress made on the implementation of the Ministry of Agriculture-MINAE sector agreement on emissions reduction.</li> </ul>	<ul style="list-style-type: none"> <li>(i) formulation, by the Ministry of Agriculture's Executive Secretariat of Agricultural Sector Planning (SEPSA), of a policy for the agrifood and rural development sector 2021-2030 aligned with the Decarbonization Plan, which includes evaluation mechanisms and guidelines for agroecological intensification in national and household agricultural production;</li> <li>(ii) low-carbon livestock policy prepared by the Ministry of Agriculture;</li> <li>(iii) the Coffee Modernization Act, with an environmental approach, is approved with its implementing regulations, and the 2012 NAMA guidelines for the coffee sector are expanded for growers and mills;</li> <li>(iv) national strategy for low-carbon and climate-resilient coffee prepared by the Ministry of Agriculture;</li> <li>(v) NAMAs for musaceae (banana) varieties and rice are approved and published by the Ministry of Agriculture and MINAE;</li> <li>(vi) design of NAMAs for sugarcane has started; and</li> <li>(vii) public policy proposals are drafted for the development of low-carbon agricultural export products.</li> </ul>	<p>3.2.1.1(i) Fulfilled (second quarter, 2022)</p> <p>3.2.1.1(ii) Fulfilled (second quarter, 2022)</p> <p>3.2.1.1(iii) Fulfilled (second quarter, 2022)</p> <p>3.2.1.1(iv) Fulfilled (second quarter, 2022)</p> <p>3.2.1.1(v) Fulfilled (second quarter, 2022)</p> <p>3.2.1.1(vi) Fulfilled (second quarter, 2022)</p> <p>3.2.1.1(vii) Fulfilled (second quarter, 2022)</p>
3.2 Climate-smart agriculture	3.2.2 The agroenvironmental governance framework has been strengthened through: (i) the agreement signed by Ministry of Agriculture and MINAE to ensure comprehensive support for agricultural producers; (ii) formation of a high-level Ministry of Agriculture-MINAE commission to oversee implementation of that agreement; and (iii) approval by FONAFIFO of a public-private payment mechanism that includes agriculture and livestock producers.	<p>3.2.1.2 The Ministry of Agriculture has implemented and made headway with its agroenvironmental agenda through:</p> <ul style="list-style-type: none"> <li>(i) a progress report on implementation of the emissions reduction agreement for the agriculture and livestock sector;</li> </ul>	<p>3.2.1.2(i) Fulfilled (first quarter 2022)</p>

Components/ Policy objectives	Policy conditions, programmatic loan I	Policy conditions, programmatic loan II	Status of fulfillment, conditions for programmatic loan II
		<ul style="list-style-type: none"> <li>(ii) 200 pilot farms taking actions defined in the framework of the Ministry of Agriculture-MINAE agreement on comprehensive support for agriculture producers;</li> <li>(iii) initial assessment of the effectiveness and efficiency of the new governance framework and the technical-economic-environmental performance of the pilot farms;</li> <li>(iv) the agroenvironmental agenda is updated with lines of action defined through to 2030;</li> <li>(v) the Ministry of Agriculture-MINAE high-level commission to support implementation of the agroenvironmental agenda at the political and technical levels for the agriculture and environment sector;</li> <li>(vi) 100% increase in farms participating in the public-private system of payments for environmental services.</li> </ul>	<p>3.2.1.2(ii) Fulfilled (first quarter, 2022)</p> <p>3.2.1.2(iii) Fulfilled (first quarter, 2022)</p> <p>3.2.1.2(iv) Fulfilled (second quarter, 2022)</p> <p>3.2.1.2(v) Fulfilled (second quarter, 2022)</p> <p>3.2.1.2(vi) Fulfilled (second quarter, 2022)</p>
<b>Component IV. Incentivizing the use of electricity and active mobility</b>			
4.1 Updating of electricity rates	4.1.1 Costa Rica's ARESEP has created and approved an end user rate for rapid charging stations used by electric vehicles.	4.1.1.1 ARESEP has approved and enacted a service costing mechanism that enables electrification of transportation and of the uses of renewable electric energy in industrial, residential, and commercial sectors.	4.1.1.1 Fulfilled (fourth quarter, 2020)
4.2 Electrification of the fleet and active mobility	4.2.1 MINAE-MOPT have approved and published a National Electric Transportation Plan that provides a regulatory roadmap to fulfilling the objective of electrification of the vehicle fleet.	4.2.1.1 ARESEP has the necessary inputs from the interagency commission for the electric bus operations pilot and has started designing the rate calculation methodology for incorporating electric buses into the fleet.	4.2.1.1 Fulfilled (second quarter, 2022)
	4.2.2 Ministry of Justice-MINAE-MOPT have developed and implemented a regulatory framework that provides nonfiscal incentives for the use of electric vehicles.	<p>4.2.2.1 The Board of Directors of the Public Transportation Council has approved and implemented a public transport operations plan in the metropolitan area that includes requirements for the progressive electrification of the bus fleet.</p> <p>4.2.2.2 The Ministry of Transportation has made headway on the preparation of a law that incentivizes active mobility.</p>	<p>4.2.2.1 Fulfilled (third quarter, 2021)</p> <p>4.2.2.2 Fulfilled (second quarter, 2021)</p>
	4.2.3 MINAE has approved and published regulations establishing: (i) deployment targets for a network of electric charging stations for electric automobiles; and (ii) technical modalities for building and operating the network of electric charging stations by electric power distribution companies.	4.2.3.1 MINAE and the Ministry of Health have laid the groundwork for a roadmap for the efficient and financially feasible management of electric vehicle batteries at the end of their useful life.	4.2.3.1 Fulfilled (second quarter, 2022)

Components/ Policy objectives	Policy conditions, programmatic loan I	Policy conditions, programmatic loan II	Status of fulfillment, conditions for programmatic loan II
<b>Component V. Inclusion, human rights, and promotion of gender equality</b>			
		5.1 MINAE has taken steps to implement strategy “F” of the Decarbonization Plan on inclusion, human rights, and promotion of gender equality.	5.1 Fulfilled (second quarter, 2021)
		5.2 Increased training for female coffee producers on the 2012 NAMA guidelines for the coffee sector.	5.2 Fulfilled (first quarter, 2022)

\* This information is merely indicative as of the date of this document. Pursuant to document CS-3633-2 (Policy-based Loans: Guidelines for Preparation and Implementation), compliance with any specified disbursement conditions, including maintenance of an appropriate macroeconomic policy framework, will be verified by the Bank when the borrower makes the corresponding disbursement request and will be reflected in a timely manner in the disbursement eligibility memorandum.



## RESULTS MATRIX

<b>OBJECTIVE:</b>	The general objective is to contribute to the country's progressive transition to net zero greenhouse gas (GHG) emissions by 2050, benefiting the entire population, through reforms to: (i) strengthen management and monitoring of climate action in Costa Rica; (ii) conserve and restore ecosystems with high rates of GHG sequestration and replace GHG-emitting agricultural practices with GHG-sequestering ones (help increase the country's forest cover, preserve wetlands and marine areas, and increase the share of agricultural production using low-carbon or carbon sequestration practices); (iii) incentivize the use of electric power and active mobility (align electricity rates with objectives for the electrification of energy use and enable the electrification of the vehicle fleet); and (iv) promote gender inclusion and equality in the National Decarbonization Plan. The necessary policy reforms to implement the National Decarbonization Plan will be supported under these subsectors.
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## EXPECTED IMPACT

Indicator	Unit of measurement	Baseline	Baseline year	Final target	Final target year	Means of verification	Comments
<b>GENERAL OBJECTIVE:</b> To support the country's progressive transition to net zero GHG emissions by 2050							
<b>IMPACT 1: DECREASE IN GHG EMISSIONS</b>							
<b>Indicator 1.</b> Carbon dioxide equivalent (CO <sub>2e</sub> ) emissions (production based)	Metric tons of CO <sub>2e</sub>	11,250 metric tons of CO <sub>2e</sub>	2012	10,225 metric tons of CO <sub>2e</sub>	2025	National GHG inventory	<p>The source of data on Costa Rica's GHG emissions is the National GHG Inventory 2012, Table 6.2.</p> <p>Models generated by the University of Costa Rica indicate that, without the Decarbonization Plan, emissions would likely reach 12,185 metric tons of CO<sub>2e</sub> by 2025.</p> <p>The target for scenario 2C of the Decarbonization Plan is 10,225 metric tons of CO<sub>2e</sub> by 2025.</p>

### EXPECTED OUTCOMES

Indicator	Unit of measurement	Baseline	Baseline year	Final target	Final target year	Means of verification	Comments
<b>SPECIFIC OBJECTIVE 1: STRENGTHEN CLIMATE ACTION MANAGEMENT AND MONITORING IN COSTA RICA</b>							
<b>EXPECTED OUTCOME 1: Increase in the number of policy, investment, and resource plans aligned with the Decarbonization Plan</b>							
<b>Indicator 1.1</b> New national plans aligned with the Decarbonization Plan	Number of plans	0	2018	1	2025	National Strategic Plan published	
<b>Indicator 1.2</b> Budget markers in use to identify and monitor public climate spending	Number of budget markers	0	2018	2	2025	Budget Act approved by the Legislative Assembly	
<b>Indicator 1.3</b> Updated Nationally Determined Contributions (NDCs) aligned with the Decarbonization Plan	Number of updated NDCs	0	2018	1	2025	<a href="#">Official NDC Registry</a> , United Nations Framework Convention on Climate Change (UNFCCC)	
<b>Indicator 1.4</b> Costa Rica's long-term strategy submitted to the UNFCCC	Number of long-term strategies published	0	2018	1	2025	<a href="#">Official Long-term Strategies Registry</a> , UNFCCC website	
<b>Indicator 1.5</b> Institutional reorganization of relevant ministries with a focus on gender and inclusion to build their capacity to implement the Decarbonization Plan	Number of institutions reorganized	0	2018	1	2025	New Operating Regulations for the Ministry of the Environment and Energy (MINAE)	Institutional reorganization means changing the hierarchical structure of the respective ministry, by creating new administrative units or modifying or merging existing ones to facilitate implementation of a policy reform objective, which in this case includes a focus on gender.
<b>EXPECTED OUTCOME 2: Number of transparency systems for monitoring implementation of the Decarbonization Plan</b>							
<b>Indicator 2.1</b> Continuous monitoring systems of the Decarbonization Plan up and running	Number of systems	0	2018	1	2025	National Climate Change Metrics System (SINAMECC) website	

Indicator	Unit of measurement	Baseline	Baseline year	Final target	Final target year	Means of verification	Comments
<b>SPECIFIC OBJECTIVE 2: CONSERVE AND RESTORE ECOSYSTEMS WITH HIGH RATES OF GHG SEQUESTRATION AND REPLACE GHG-EMITTING AGRICULTURAL PRACTICES WITH CARBON SEQUESTERING ONES</b>							
<b>EXPECTED OUTCOME 3: Increased surface area of terrestrial and marine forest ecosystems conserved or preserved</b>							
<b>Indicator 3.1</b> Area of terrestrial forest conserved or preserved	Hectare	2,677,640	2014	2,677,640	2025	At a minimum, maintain the increase in forest cover achieved as of 2014. This will be verified by the National Forest Inventory in 2025.	Different studies by the National System of Conservation Areas (SINAC) have been analyzed, however, an indicator strong enough to project whether forest cover will increase by 2024 has not been found; accordingly, it is proposed to, at a minimum, maintain the level of forest cover identified in 2014.
<b>Indicator 3.2</b> Area of mangroves conserved or preserved	Hectare	52,928	2018	53,428	2025	National Wetlands Inventory	
<b>EXPECTED OUTCOME 4: Increased surface area benefiting from payments for ecosystem services (PES)</b>							
<b>Indicator 4.1</b> Area benefiting from PES	Hectare	47,366	2018	52,102	2025	Website of the National Forestry Financing Fund (FONAFIFO) (payment for environmental services statistics) and the Public Utilities Regulatory Authority (ARESEP)	A 10% increase is expected in the surface area under PES arrangements due to both potential improvements in the design of existing payment for environmental services arrangements and the creation of new PES financing mechanisms.
<b>EXPECTED OUTCOME 5: Increase in agricultural production that uses low-carbon practices</b>							
<b>Indicator 5.1</b> Application of the 2012 Nationally Appropriate Mitigation Action (NAMA) guidelines for coffee growers	Percentage of coffee growers	25	2019	30	2025	Coffee monitoring, reporting, and verification (MRV) system of the Costa Rican Coffee Institute (ICAFE)	Minutes of the National Coffee Congress (CNC) approving the Report on Costa Rican Coffee-growing Activities prepared by ICAFE for CNC with information from the coffee MRV system.
<b>Indicator 5.2</b> Application of 2012 NAMA guidelines for coffee mills	Percentage of growers	20	2019	30	2025	ICAFE coffee MRV system	Minutes of the CNC approving the Report on Costa Rican Coffee-growing Activities prepared by ICAFE for CNC with information from the coffee MRV system.

Indicator	Unit of measurement	Baseline	Baseline year	Final target	Final target year	Means of verification	Comments
<b>Indicator 5.3</b> Pilot livestock farms are implementing actions defined in the framework of the Ministry of Agriculture-MINAE agreement on comprehensive support for agricultural producers	Quantity	0	2018	200	2025	Initial report assessing the effectiveness and efficiency of the new governance framework and the technical-economic-environmental performance of the 200 pilot farms	
<b>Indicator 5.4</b> Agroenvironmental Agenda: Increase in farms participating in the payment for environmental services public-private system	%	0	2018	100	2025	FONAFIFO website (payment for environmental services statistics)	
<b>Specific objective 3: Incentivizing the use of electricity and active mobility</b>							
<b>EXPECTED OUTCOME 6: Increase in the number of electric vehicles in Costa Rica</b>							
<b>Indicator 6.1</b> Individual private electric vehicles in the country	Vehicle	1,626	2018	35,000	2025	<a href="#">Electric mobility statistics of the Office of the Deputy Minister of Energy</a>	Although the target of 35,000 electric vehicles by 2025 is ambitious, University of Costa Rica simulations (reference 68) find that in order to fulfill the objectives of the National Decarbonization Plan, Costa Rica needs to have between 35,000 and 53,000 electric vehicles by 2025.  The target of 35,000 vehicles makes it possible to monitor whether or not the country is on track to fulfill its national objectives.

Indicator	Unit of measurement	Baseline	Baseline year	Final target	Final target year	Means of verification	Comments
<b>Expected outcome 7: Public-private infrastructure that enables and is reserved for electric vehicles is installed</b>							
<b>Indicator 7.1.</b> Rapid charging stations installed in the country	Number of rapid charging stations	1	2018	47	2025	<a href="#">PlugShare</a>	Table 1 of the National Electric Transportation Plan reported 56 semi-rapid and one rapid charging station in 2018. Regulation DE-41642 sets the target of 47 rapid charging stations. On its <a href="#">website</a> , the Office of the Deputy Minister of Energy presents PlugShare as the recommended source of information for locating charging stations.
<b>Specific objective 4: Promoting gender inclusion and equality in the National Decarbonization Plan</b>							
<b>Indicator 8.1</b> Increased training for female coffee producers on the 2012 NAMA guidelines for the coffee sector	Quantity	0	2019	300	2025	ICAFE coffee MRV system	

## OUTPUTS

Output	Unit of measurement	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification	Comments
<b>Component II. Strengthening climate action management and monitoring</b>											
<b>Output 2.1</b> MINAE reports that at least 50% of the targets established in the annex to the Decarbonization Plan for 2018-2022 have been met	Quantity	0	2018	0	0	0	1	0	1	Publication on the website of the Climate Change Office of the MINAE of the progress report on the Decarbonization Plan through 2021, showing that at least 50% of the targets established in the annex to the Decarbonization Plan for 2018-2022 have been met.	
<b>Output 2.2</b> MINAE has aligned its human resources with its responsibilities and the Decarbonization Plan, in accordance with the diagnostic assessment conducted	Quantity	0	2018	1	0	0	0	0	1	Approval by MIDEPLAN of the request for a partial reform to create the Secretariat of Planning for the Energy and Environmental Transition of MINAE, and transition from the office of the outgoing minister to the incoming minister of MINAE to follow up on the work process to create the Secretariat of Planning for the Energy and Environmental Transition.	
<b>Output 2.3</b> Executive decree 42961-MINAE "Creation and Operation of the National Climate Change Metrics System"	Quantity	0	2018	1	0	0	0	0	1	Publication in the official journal La Gaceta of Executive Decree 42961-MINAE "Creation and Operation of the National Climate Change Metrics System" (Article 9 on financing and resources).	
<b>Output 2.4</b> MINAE, the Ministry of Agriculture, and the National Geographic Institute (IGN) have created the National System for Monitoring Coverage and Use of Land and Ecosystems (SIMOCUTE)	Quantity	0	2018	1	0	0	0	0	1	Publication in La Gaceta of the decree formally establishing SIMOCUTE "Executive Decree 42866 "Creation and Operation of the National System for Monitoring Coverage and Use of Land and Ecosystems".	

Output	Unit of measurement	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification	Comments
<b>Component III. Nature-based solutions and climate-smart agriculture</b>											
<b>Output 3.1</b> The National Forestry Financing Fund (FONAFIFO) has a proposed methodology for estimating the impact of the payment for environmental services program based on protected water resources and biodiversity protection	Quantity	0	2018	0	1	0	0	0	1	Acceptance by FONAFIFO of the final report prepared by CATIE/CIRAD on the "Proposed methodology for estimating the impact of the payment for environmental services program based on protected water resources and biodiversity protection".	
<b>Output 3.2</b> Decree containing the guiding principles for the productive forest sector, approved and published in the official journal La Gaceta	Quantity	0	2018	1	0	0	0	0	1	Publication in La Gaceta of the decree containing the guiding principles for the productive forest sector.	
<b>Output 3.3</b> Decree to expand the Cocos Marine Conservation Area, approved	Quantity	0	2018	0	0	1	0	0	1	Publication in La Gaceta of the decree "Expansion and Modification of the Boundaries of the Cocos Island National Park and the Seamount Marine Management Area".	
<b>Output 3.4</b> Formulation, by the Ministry of Agriculture's Executive Secretariat of Agricultural Sector Planning (SEPSA), of a policy for the agrifood and rural development sector 2021-2030 aligned with the Decarbonization Plan	Quantity	0	2018	0	0	1	0	0	1	Letter from SEPSA communicating the presentation by the Ministry of Agriculture and the approval by the National Agriculture Council (CAN) of the public policy for the agriculture, fishing, and rural sector.	
<b>Output 3.5</b> Low-carbon livestock policy prepared by the Ministry of Agriculture	Quantity	0	2018	1	0	0	0	0	1	Ministry of Agriculture letter remitting the document containing the sustainable livestock policy and strategies for meat and dairy production to CORFOGA and the National Chamber of Dairy Producers for validation and management.	

Output	Unit of measurement	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification	Comments
<b>Output 3.6</b> National strategy for low-carbon and climate-resilient coffee prepared by the Ministry of Agriculture	Quantity	0	2018	0	1	0	0	0	1	Ministry of Agriculture email remitting the decree for the national strategy for low-carbon and climate-resilient coffee to the presidential office for approval and subsequent publication.	
<b>Output 3.7</b> NAMAs for musaceae (banana) varieties and rice approved and published by the Ministry of Agriculture and MINAE	Quantity	0	2018	0	1	0	0	0	1	Ministry of Agriculture letter remitting the NAMAs for musaceae (banana) varieties and rice to the Climate Change Office for registration with the UNFCCC.	
<b>Component IV. Incentivizing the use of electricity</b>											
<b>Output 4.1</b> Resolution on the electricity rate for charging electric buses at stations (T-BE) published in La Gaceta	Quantity	0	2018	1	0	0	0	0	1	Publication in La Gaceta of the ARESEP board of directors Resolution on the electricity rate for charging electric buses at stations (T-BE).	
<b>Output 4.2</b> Resolution on the medium voltage “b” rate (T-MTb) published in La Gaceta for each of the electricity distributors: CNFL, ESPH, JASEC, ICE, COOPELESCA	Quantity	0	2018	1	0	0	0	0	1	Publication in La Gaceta of the resolution on the medium voltage “b” rate (T-MTb) for each of the electricity distributors: CNFL, ESPH, JASEC, ICE, COOPELESCA.	
<b>Output 4.3</b> Board of directors agreement approving the operational plans for the metropolitan area of San José, including criteria for incorporation of the electric vehicle fleet	Quantity	0	2018	1	0	0	0	0	1	Board of directors agreement approving the operational plans for the metropolitan area of San José, including criteria for incorporation of the electric vehicle fleet.	
<b>Output 4.4</b> Law 9976 on pedestrian mobility approved by the Legislative Assembly and published in La Gaceta	Quantity	0	2018	1	0	0	0	0	1	Law 9976 on pedestrian mobility approved by the Legislative Assembly and published in La Gaceta.	



Output	Unit of measurement	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification	Comments
<b>Output 4.5</b> “Diagnostic assessment of the management of electric vehicle batteries in Costa Rica”	Quantity	0	2018	1	0	0	0	0	1	MINAE and Ministry of Health letter remitting the output “Diagnostic assessment of the management of electric vehicle batteries in Costa Rica” to the Climate Change Office.	
<b>Component V. Inclusion, human rights, and promotion of gender equality in the Decarbonization Plan</b>											
<b>Output 5.1</b> MINAE has taken steps to implement strategy “F” of the Decarbonization Plan on inclusion, human rights, and promotion of gender equality	Quantity	0	2018	0	0	0	1	0	1	Report on progress of the Decarbonization Plan through 2021 published on the website of the Climate Change Office of MINAE, reporting on the progress of strategy “F”.	
<b>Output 5.2</b> ICAFE has increased training for female coffee producers on the 2012 NAMA guidelines for the coffee sector	Quantity	0	2018	0	0	0	1	0	1	Progress report on increased training on the NAMA guidelines for the coffee sector, including the number of beneficiary producers disaggregated by gender and the activities carried out.	

## TOWARDS A GREEN ECONOMY: SUPPORT FOR COSTA RICA'S DECARBONIZATION PLAN II

**CR-L1147**

### CERTIFICATION

The Grants and Co-Financing Management Unit (ORP/GCM) certifies that the referenced operation will be financed through:

<b>Funding Source</b>	<b>Code</b>	<b>Currency</b>	<b>Amount Up to</b>
Korea Infrastructure Development Co-Financing Facility for Latin America and the Caribbean	KIF	USD	50,000,000

For operations financed by funds where the Inter-American Development Bank (IDB) does not control liquidity, the availability of resources is contingent upon the request and the receipt of the resources from the donors. Additionally, in case of operations financed by funds that require a post-approval agreement with the donor, the availability of resources is contingent upon the signature of the agreement between the Donor and the IDB. (i.e.: Project Specific Grants (PSG), Financial Intermediary Funds (FIF), and single donor trust funds).

Certified by:

Original Signed

5/31/22

Maria Fernanda García

Date

Chief

Grants and Co-Financing Management Unit

ORP/GCM

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-\_\_\_/22

Costa Rica. Loan \_\_\_\_/OC-CR to the Republic of Costa Rica  
Towards a Green Economy: Support for  
Costa Rica's Decarbonization Plan II

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Costa Rica, as Borrower, for the purpose of granting it a financing to cooperate in the execution of the project "Towards a Green Economy: Support for Costa Rica's Decarbonization Plan II". Such financing will be for the amount of up to US\$250,000,000 from the resources of the Bank's Ordinary Capital and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on \_\_\_\_ 2022)

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-\_\_\_/22

Costa Rica. Loan \_\_\_\_/KI-CR to the Republic of Costa Rica  
Towards a Green Economy: Support for  
Costa Rica's Decarbonization Plan II

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, acting as the Administrator of the Korea Infrastructure Development Co-financing Facility for Latin America and the Caribbean ("the Facility"), to enter into such contract or contracts as may be necessary with the Republic of Costa Rica, as Borrower, for the purpose of granting it a financing to cooperate in the execution of the project "Towards a Green Economy: Support for Costa Rica's Decarbonization Plan II". Such financing will be for an amount of up to US\$50,000,000 from the resources of the Facility, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on \_\_\_\_ 2022)