

PROJECT IMPLEMENTATION REPORT (PIR) FY 2021

**GEF - IDB
PIR # 2**

IMPORTANT: The reporting period is GEF Fiscal Year (July 1st, 2020, to June 30th, 2021)

PROJECT GENERAL INFORMATION

Project Name:	Sustainable Management of Ecosystem Services				
Project's GEF ID:	4852	Project's IDB ID:	CR-T1148	Overall Stage:	Disbursing (From eligibility until all the Operations are closed)
Country/ies:	Costa Rica				
GEF Focal Area:	Biodiversity				
Executing Agency:	FUNDACIÓN BANCO AMBIENTAL				
Project Finance:	Total disbursements of GEF Grant resources as of end of June 30th, 2021 (cumulative)				US\$455,720.00
Project Dates:	Date of First Disbursement				12/16/2019
	Agency Approval Date				1/10/2019
	Effectiveness (Start) Date				2/24/2019
	Original Last Disbursement Expiration Date ¹ (OED)				2/24/2024
	Current CED				2/24/2024
	Estimated Operational Close Date ² (EOC)				5/24/2024
	Actual Date of EOC, if applicable				
Project Evaluation:	Mid-term Date (Expected)				4/24/2022
	Terminal evaluation Date (Expected)				8/24/2023

¹ For the GEF, this is equivalent to the project's "Expected Completion Date".

² For the GEF, this is equivalent to the project's "Expected Financial Closure Date".

DEVELOPMENT OBJECTIVE RATING (DO) & ASSESSMENT

Make an overall assessment and provide a rating³ of “likelihood of achieving project objective” during the period (2020-2021). Describe any significant environmental or other changes attributable to project implementation.

Project Objective: The project's objective is to improve the conservation and sustainable use of biodiversity through the management of terrestrial ecosystem services. Its specific objectives are to: (i) establish a planning framework that incorporates an ecosystem-based approach; (ii) design a compensation mechanism to promote ecosystem services management in productive landscapes, including the structuring of at least one source of financing; and (iii) support the implementation of the compensation mechanism.

OVERALL ASSESSMENT (DO)	RATING
As reported last year, the likelihood of the project to achieve its development objective is still rated as Moderately Unsatisfactory (MU). This outcome will depend on the impact of payment for ecosystem services instrument, which will be designed within Component 2, which is still pending.	MU

PROJECT STATUS UPDATE

This project encountered additional delays in its implementation but an agreement about this TC within MINAE institutions was reached under the leadership of new MINAE authorities. We expect the TC to pass from alert to problem during the second semester of 2021, move back to alert in the first semester of 2022 and lastly to normal during the second semester of 2022.

1. During the second semester of 2020, a new minister and vice minister were appointed at MINAE. The new authorities required a review of the goals, products, scope of the possible mechanisms that were expected to be designed and implemented, before continuing with the execution of this TC by FUNBAM. This political dialog within MINAE was required until the first trimester of 2021 and involved the minister, vice minister, FONAFIFO, SINAC and FUNBAM. After the role of new mechanisms outside the authority of FONAFIFO was clarified by SINAC, they agreed on proceeding with the TC execution.
2. FONAFIFO's concern was that existing payments for ecosystem services have decreased by 30% in 2021, due to the reduction of oil taxes that fund FONAFIFO payment systems. The agreement achieved was that the mechanism to be used for this TC is the water tax (tarifa hídrica) mechanism, extending it to rural water providers in areas where the water source is from national parks and protected areas, thus making these protected areas eligible for investments in payments for ecosystem services using the water tax and using FUNBAM the water tax administrator, as they already do with other funds, like the Fondo de Biodiversidad Sostenible. This new water tax approved for national parks and protected areas is a new mechanism implementation because so far water taxes have only been approved by the public services regulatory institution (ARESEP) to fund payment for ecosystem services in private land.

³ See Annex 1: Definition of Ratings.

3. During the rest of the first semester of 2020 some advances have been made on the search for potential water companies. First, a workshop with SINAC and ARESEP was organized, to discuss the details of how to support rural water providers (Asadas), to be able to design a long-term plan with actions to preserve water production and quality, to be funded by a new water tax for that specific project that must be approved by ARESEP. ARESEP explained to SINAC how the process works.
4. During the rest of the first semester of 2021 the execution unit searched for Asadas that fulfilled the following requirements: (i) they receive water from national parks and protected areas so that they can invest on water taxes in those areas; (ii) they have advanced on the hydrology studies required by AyA (the largest public water provider, that preapproves the projects before ARESEP approves the water tax); and (iii) the Asadas are within the initial area selected by this TC (Norte-Norte). Out of 55 Asadas in that region, only six are in national parks or protected areas. Out of this six, none of them has ownership of the property where the water intake is located. A meeting with AyA is being requested to discuss in detail the existing requirements, since a water tax has never been approved for Asadas in Costa Rica, so far.
5. We expect to have a contract under execution during the second semester of this year to design up to 5 water tax projects for Asadas that receive water from national parks and protected areas. These Asadas may be outside the initial geographical scope of this TC, due to the lack of sufficient Asadas eligible by AyA requirements within the North-North area. As a result of this contract, we expect to deliver at least two projects for AyA approval in the first trimester of 2022.
6. To facilitate the implementation of the project and support the executing unit, different actions have been conducted by the Bank's team:
 - a. Political and technical dialog with the highest authorities of MINAE has taken place.
 - b. A consultant has been mobilized to support the development of planning tools.
 - c. Weekly meetings have been organized to review the activities.
 - d. Support for the development of terms of reference has been provided.

IMPLEMENTATION PROGRESS RATING (IP) & ASSESSMENT

Insert here an assessment and provide ratings⁴ of overall Implementation Progress, including information on progress, challenges, and outcomes on project implementation activities from July 1st, 2020, until June 30th, 2021. **As applicable, please include information on issues and solutions related to COVID-19.**

OVERALL ASSESSMENT (IP)

RATING

During fiscal year 2021, the project is still presenting delays in its implementation due to the following reasons:

Components 1 and 2 were reviewed in early 2020 and again in late 2020 due to a new administration, includes the development of public policy tools and requires the conduction of numerous institutional and political exchanges. This partly explains the delay in the project.

The project has also experienced delays in its implementation, with the arrival of a coordinator only at the end of 2019. However, the environmental impacts of the project depend on the achievements of component 1 but also and especially on component 2.

MU

⁴ See Annex 1: Definition of Ratings.

OVERALL ASSESSMENT (IP)	RATING
<p>To ensure that the project's environmental objectives are met, component 1 has been revised to be more consistent with existing tools and to generate knowledge to facilitate the implementation of component 2.</p> <p>The MCSE proposal is not yet developed but it is well defined: the creation of a specific water tax for a water provider project by ARESEP, to be at least partially implemented to support ecosystem services within protected areas and national parks.</p> <p>As explained earlier, the project has been significantly delayed, which explains the MU rating assigned to this indicator for 2021. To facilitate its implementation, close follow-up with the executing unit was put in place with the establishment of weekly meetings, the facilitation of technical dialogues with other partners and the hiring of a consultant to support the unit in its management.</p>	

RISK RATING & ASSESSMENT

Make any adjustments necessary to the assessment ratings⁵ of overall Project Risk⁶ that you provided in the last PIR (2019-2020). Please include details and remedial measures for High and Substantial Risks, specifying who will be responsible for these measures.

OVERALL ASSESSMENT (RISK)	RATING
<p>In general, the risk is that it may not be possible to identify a suitable water provider that has experience with water intakes in protected areas and national parks, given the water tax law requirements that may not be fulfilled by the water providers (i.e., water intake land ownership, since in many cases there are not well-established property rights in rural Costa Rica).</p> <p>To mitigate this recurrent risk, the project team is carrying out the following actions: (i) a meeting with AyA has been requested to discuss the existing requirements in detail, since a water tax for Asadas has never been approved in Costa Rica, so far; (ii) organization of weekly meetings to review the project activities, which includes the consolidation of the political and technical dialog with the highest authorities of MINAE.</p>	S

STAKEHOLDER ENGAGEMENT

Please add information on any progress, challenges, and outcomes with regards to stakeholder engagement, based on the project's activities during its implementation through the 2020-2021 GEF Fiscal Year. **As applicable, please include information on issues and solutions related to COVID-19.**

During the second semester of 2020 a new minister and vice minister were appointed at MINAE. The new authorities required a review of the goals, products, and scope of the possible mechanisms that are expected to be designed and implemented through the project, before continuing with its execution by FUNBAM.

⁵ See Annex 1: Definition of Ratings.

⁶ These should include risks identified at CEO Endorsement AND any new risks identified during implementation.

GENDER

Please add information on any progress, challenges, and outcomes with regards to any and all gender-responsive measures that were undertaken in the project's activities during the 2020-2021 GEF Fiscal Year. Also: Were indicators on gender equality and women's empowerment incorporated in the project's results framework? (Yes/No). If applicable, include the indicator with its baseline, target, and current value (2020-2021).

During fiscal year 2021 the project is presenting significant delays overall, which have affected all gender responsive related activities. There has been no significant advancement in this area.

KNOWLEDGE

Please add information on knowledge activities and products developed in relation to the project (with GEF or non-GEF resources), with special emphasis on activities carried out during the 2020-2021 GEF Fiscal Year. **As applicable, please include information on issues and solutions related to COVID-19.**

For this period (2020-2021) the following took place:

- Training on ecosystem services was performed (92 participants).
- Knowledge management plan within the framework of nature-based solutions with an ecosystem approach and ecosystem services.

PROJECT MODIFICATIONS

Please report any significant modifications made to the project design since July 1st, 2020. (The basis for comparison is the Project Results Framework Matrix included in the original Request for CEO Endorsement Document.) This should be based on the Project Results Framework Matrix included in the original Request for CEO Endorsement Document.

CATEGORY	YES/NO	APPROVED BY	DESCRIPTION OF CHANGE AND EXPLANATION
Objective	No		
Outcome	No		
Output/Activities	No		
Other	No		

EXTENSIONS OR OTHER MODIFICATIONS

Has the project been granted any extension or other modification covered by the OA-420 from July 1st, 2020, until June 30th, 2021? If yes, please explain below. **As applicable, please include information on issues and solutions related to COVID-19.**

None.

LESSONS LEARNED / BEST PRACTICES

If the project generated any lessons learned or best practices during the 2020-2021 GEF Fiscal Year, please provide a short description. **As applicable, please include information on issues and solutions related to COVID-19.**

1. Finding:

SINAC does not have direct representation in FONAFIFO's board of directors, thus FONAFIFO's payment for ecosystem services implementation is not necessarily well aligned with the institution legally responsible for ecosystem services in CR (SINAC). This situation causes internal tensions within MINAE, that affected the execution of this TC, requiring the review of its scope twice since its execution started. Protected Areas do not receive payment for ecosystem services from FONAFIFO, only private land.

Recommendation:

It would be beneficial to modify FONAFIFO's law to include a SINAC representative within its board.

2. Finding:

FONAFIFO is under stress since it is funded through oil taxes, and revenue decreased by 30% in 2021. This TC has been perceived as a threat since it may provide resources outside of FONAFIFO, for example through FUNBAM, and because it is trying to target payments within Protected Areas and national parks to finance SINAC activities within those areas.

Recommendation:

Provide technical and political space within MINAE (SINAC, FUNBAM and FONAFIFO) in order to address these concerns and reach an agreement to stop attrition wars. Propose to create mechanisms of water tax that work with water providers that collect water from protected areas and national parks, approved by AyA and ARESEP, to fund payment for ecosystem services in those areas.

3. Finding:

A knowledge management plan that facilitates coordination and joint action with different actors to promote the use of the knowledge products was generated by the project, and therefore a series of workshops on Payment for Ecosystem Services was delivered. Additionally, a workshop within SINAC was organized to discuss SINAC's vision of ecosystem services, ARESEP participated to discuss how SINAC could reach its goals within the existing water tax for ecosystem services mechanism. As a result of this workshop, SINAC decided to pursue the support of water taxes for water providers that collect water from protected areas and national parks.

Recommendation:

To continue these workshops with ARESEP and extend it to include AyA to facilitate the design of a new water tax (each water tax is approved specifically for a water system of a specific water provider).

ANNEX 1. DEFINITION OF RATINGS

Development Objective Ratings

1. **Highly Satisfactory (HS):** Project is expected to achieve or exceed **all** its major global environmental objectives, and yield substantial global environmental benefits, without major shortcomings. The project can be presented as “good practice”.
2. **Satisfactory (S):** Project is expected to achieve **most** of its major global environmental objectives, and yield satisfactory global environmental benefits, with only minor shortcomings.
3. **Marginally Satisfactory (MS):** Project is expected to achieve **most** of its major relevant objectives but with either significant shortcomings or modest overall relevance. Project is expected not to achieve **some** of its major global environmental objectives or yield some of the expected global environment benefits.
4. **Marginally Unsatisfactory (MU):** Project is expected to achieve **some** of its major global environmental objectives with major shortcomings or is expected to achieve only **some** of its major global environmental objectives.
5. **Unsatisfactory (U):** Project is expected **not** to achieve **most** of its major global environment objectives or to yield any satisfactory global environmental benefits.
6. **Highly Unsatisfactory (HU):** The project has failed to achieve, and is not expected to achieve, **any** of its major global environment objectives with no worthwhile benefits.

Implementation Progress Ratings

1. **Highly Satisfactory (HS):** Implementation of **all** components is in substantial compliance with the original/formally revised implementation plan for the project. The project can be presented as “good practice”.
2. **Satisfactory (S):** Implementation of **most** components is in substantial compliance with the original/formally revised plan except for only a few that are subject to remedial action.
3. **Marginally Satisfactory (MS):** Implementation of **some** components is in substantial compliance with the original/formally revised plan with **some** components requiring remedial action.
4. **Marginally Unsatisfactory (MU):** Implementation of **some** components is not in substantial compliance with the original/formally revised plan with **most** components requiring remedial action.
5. **Unsatisfactory (U):** Implementation of **most** components is not in substantial compliance with the original/formally revised plan.
6. **Highly Unsatisfactory (HU):** Implementation of **none** of the components is in substantial compliance with the original/formally revised plan.

Risk ratings

Risk ratings will assess the overall risk of factors internal or external to the project which may affect implementation or prospects for achieving project objectives. Risks of projects should be rated on the following scale:

1. **High Risk (H):** There is a probability of greater than 75% that assumptions may fail to hold or materialize, and/or the project may face high risks.
2. **Substantial Risk (S):** There is a probability of between 51% and 75% that assumptions may fail to hold and/or the project may face substantial risks.
3. **Modest Risk (M):** There is a probability of between 26% and 50% that assumptions may fail to hold or materialize, and/ or the project may face only modest risks.
4. **Low Risk (L):** There is a probability of up to 25% that assumptions may fail to hold or materialize, and/ or the project may face only modest risks.