GLOBAL ENVIRONMENT FACILITY
INVESTING IN OUR PLANET

Naoko Ishii
CEO and Chairperson

November 06, 2017

Dear Council Member:

IADB as the Implementing Agency for the project entitled: ***Costa Rica: Sustainable Management of Ecosystem Services***, has submitted the attached proposed project document for CEO endorsement prior to final approval of the project document in accordance with IADB procedures.

The Secretariat has reviewed the project document. It is consistent with the proposal approved by Council in June 2012 and the proposed project remains consistent with the Instrument and GEF policies and procedures. The attached explanation prepared by IADB satisfactorily details how Council's comments and those of the STAP have been addressed. I am, therefore, endorsing the project document.

We have today posted the proposed project document on the GEF website at www.TheGEF.org. If you do not have access to the Web, you may request the local field office of UNDP or the World Bank to download the document for you. Alternatively, you may request a copy of the document from the Secretariat. If you make such a request, please confirm for us your current mailing address.

Sincerely,

for Naoko Ishii
Chief Executive Officer and Chairperson

Attachment: GEFSEC Project Review Document
Copy to: Country Operational Focal Point, GEF Agencies, STAP, Trustee

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REQUEST FOR CEO ENDORSEMENT

PROJECT TYPE: Full-sized Project
TYPE OF TRUST FUND:GEF Trust Fund

For more information about GEF, visit TheGEF.org

PART I: PROJECT INFORMATION

Project Title: Sustainable Management of Ecosystem Services			
Country(ies):	Costa Rica	GEF Project ID:[1]	4852
GEF Agency(ies):	IADB (select) (select)	GEF Agency Project ID:	CR-T1148
Other Executing Partner(s):	National System of Conservation Areas (SINAC), Ministry of Environment, Energy and Telecommunications, Fundación Banco Ambiental	Submission Date:	10/16/2017
GEF Focal Area (s):	Biodiversity	Project Duration(Months)	60
Name of Parent Program (if applicable): ➢ For SFM/REDD+ ☐ ➢ For SGP ☐ ➢ For PPP ☐		Project Agency Fee ($):	348,533

A. FOCAL AREA STRATEGY FRAMEWORK[2]

Focal Area Objectives	Expected FA Outcomes	Expected FA Outputs	Trust Fund	Grant Amount ($)	Cofinancing ($)
(select) BD-2	1. Increase in sustainably managed landscapes and seascapes that integrate biodiversity conservation	1. Certified production landscapes and seascapes (5,000 hectares)	GEF TF	2,551,731	15,061,00
(select) BD-2	2. Measures to conserve and sustainably use biodiversity incorporated in policy and regulatory framework	1. National and subnational (3) land-use plans that incorporate biodiversity and ecosystem services valuation 2. Policy and regulatory frameworks (5) for productive sectors	GEF TF	933,599	439,000
(select) (select)			(select)		
(select) (select)			(select)		
(select) (select)			(select)		
(select) (select)			(select)		
(select) (select)			(select)		
		Total project costs		3,485,330	15,500,000

B. PROJECT FRAMEWORK

[1] Project ID number will be assigned by GEFSEC.
[2] Refer to the Focal Area Results Framework and LDCF/SCCF Framework when completing Table A.

Project Objective: To improve biodiversity conservation and sustainable use through management of landscape ecosystem services, by developing and implementing an ecosystem services compensation mechanism.						
Project Component	**Grant Type**	**Expected Outcomes**	**Expected Outputs**	**Trust Fund**	**Grant Amount ($)**	**Confirmed Cofinancing ($)**
1. Regulatory and planning framework	TA	1.1. Legal and policy framework, incorporating an ecosystems approach, approved, including: (i) regulations of the National Housing and Urbanism Institute (INVU); and (ii) rules on Environmental Fragility Indices of the National Environmental Technical Secretariat (SETENA).	1.1.1 Preparation of n waters resource conservation and sustainable use institutional policy for SINAC 1.1.2 Proposal for updating regulations of the INVU for the preparation of municipal regulatory plans 1.1.3 Proposal for updating the rules on Environmental Fragility Indices of the SETENA to integrate the environmental variable in regulatory plans and other land-use plans	GEF TF	650,000	250,000
		1.2 Ecosystem Services Program established in SINAC	1.2.1 Implementation of training modules to introduce the ecosystem approach for decision makers and authorities. 1.2.3 A communication outreach strategy, focused in the promotion of ecosystem services, implemented.			
		1.3 Regulations for operationalizing articles 37, 52, and 100 of the Biodiversity Law approved by SINAC	1.3.1 Proposals for regulating articles 37, 52, and 100 of the Biodiversity Law completed			
		1.4 Municipal landscape use plans incorporating ecosystems approach approved by three municipalities in the USEG Norte - Norte.	1.4.1 Training program in sustainable management of ecosystems services conducted for 300 individuals from government agencies,			

			municipalities, civil society and private sector. 1.4.2 Update of landscape use plans prepared for three municipalities in the Norte - Norte region, to incorporate the ecosystem approach			
2. Development of Ecosystem Services Compensation Mechanism (ESCM)	TA	2.1 ESCM approved 2.2 Income stream for ESCM from tariffs is operational 2.3 Ecosystem based productive landscape priority setting protocol approved	2.1.1 Proposal for ESCM developed, including types of beneficiaries, forms of payment and monitoring, gender-based analysis, and design of the legal and coordination arrangements. 2.1.2 Analysis and development of proposal for tariff to fund ESCM 2.1.3 Valuation of ecosystem services in priority geographic area, including prioritization criteria for application of ESCM.	GEF TF	870,000	550,000
3. Implementation of Ecosystem Services Compensation Mechanism	Inv	3.1 At least 5,000 ha sustainably managed under ESCM scheme	3.1.1 At least 500 beneficiaries located in ecosystem services priority areas with contracts under the ESCM scheme. 3.1.2 Two best practices manuals developed for prioritized sectors that promote landscapes sustainable use 3.1.3 At least 500 land users trained in best practices	GEF TF	1,380,000	14,070,000
4. Monitoring and Evaluation	TA	4.1 Monitoring and evaluation system in place	4.1.1 Impact study of ESCM conducted 4.1.2 Staff at SINAC /	GEF TF	268,482	30,000

			FUNBAM trained in M&E systems and methodologies 4.1.3 Mid-term review and project final evaluation conducted			
	(select)			(select)		
	(select)			(select)		
	(select)			(select)		
	(select)			(select)		
			Subtotal		3,168,482	14,900,000
			Project management Cost (PMC)[3]	GEF TF	316,848	600,000
			Total project costs		3,485,330	15,500,000

C. SOURCES OF CONFIRMED COFINANCING FOR THE PROJECT BY SOURCE AND BY NAME ($)

Please include letters confirming cofinancing for the projeSct with this form

Sources of Co-financing	Name of Co-financier (source)	Type of Cofinancing	Cofinancing Amount ($)
National Government	SINAC	In-kind	1,200,000
National Government	FONAFIFO	Investment	6,200,000
CSO	Fondo de Biodiversidad Sostenible	Investment	5,600,000
CSO	Fondo de Biodiversidad Sostenible	In-kind	500,000
Private sector	Project beneficiaries	In-kind	2,000,000
(select)		(select)	
(select)		(select)	
(select)		(select)	
(select)		(select)	
Total Co-financing			15,500,000

D. TRUST FUND RESOURCES REQUESTED BY AGENCY, FOCAL AREA AND COUNTRY[1]

GEF Agency	Type of Trust Fund	Focal Area	Country Name/ Global	(in $)		
				Grant Amount (a)	Agency Fee (b)[2]	Total c=a+b
(select)	(select)	(select)				0
(select)	(select)	(select)				0
(select)	(select)	(select)				0
(select)	(select)	(select)				0
(select)	(select)	(select)				0
(select)	(select)	(select)				0
(select)	(select)	(select)				0
(select)	(select)	(select)				0
(select)	(select)	(select)				0

[3] PMC should be charged proportionately to focal areas based on focal area project grant amount in Table D below.

Total Grant Resources			

[1] In case of a single focal area, single country, single GEF Agency project, and single trust fund project, no need to provide information for this table. PMC amount from Table B should be included proportionately to the focal area amount in this table.

[2] Indicate fees related to this project.

F. CONSULTANTS WORKING FOR TECHNICAL ASSISTANCE COMPONENTS:

Component	Grant Amount ($)	Cofinancing ($)	Project Total ($)
International Consultants	200,000		200,000
National/Local Consultants	2,200,000	1,700,000	3,900,000

G. DOES THE PROJECT INCLUDE A "NON-GRANT" INSTRUMENT? No

(If non-grant instruments are used, provide in Annex D an indicative calendar of expected reflows to your Agency and to the GEF/LDCF/SCCF/NPIF Trust Fund).

PART II: PROJECT JUSTIFICATION

A. DESCRIBE ANY CHANGES IN ALIGNMENT WITH THE PROJECT DESIGN OF THE ORIGINAL PIF[4]

A.1 National strategies and plans or reports and assessments under relevant conventions, if applicable, i.e. NAPAS, NAPs, NBS, national communications, TNAs, NCSA, NIPs, PRSPs, NPFE, Biennial Update Reports, etc.

The project contributes to the following strategic themes (ST) of the country's Biodiversity Strategy and Action Plan (2016): ST2 – restoring and reducing the loss and/or degradation of important elements of biodiversity (including ecosystems); ST4 – inclusive sustainable landscapes; ST5 – strengthening governance, participation, education and cultural practices for biodiversity; and ST7 – strengthen capacities, financial resources and institutional arrangements. Likewise, the project is aligned with Costa Rica's CBD Fifth National Report (2014), as the project addresses the threats to biodiversity indicated in the report (contamination, landscape alteration/fragmentation, and climate change).

A.2. GEF focal area and/or fund(s) strategies, eligibility criteria and priorities.

NA

A.3 The GEF Agency's comparative advantage:

NA

A.4. The baseline project and the problem that it seeks to address:

Baseline project. The major change in the baseline project is the incorporation of Costa Rica's Sustainable Biodiversity Fund (FBS) as part of the projects implementation strategy. The FBS was created in 2008 in order to promote better long term biodiversity management and conservation and is managed by Fundación Banco Ambiental (FUNBAM), an entity created in part to support an earlier GEF project supporting the FBS. The FBS has been endowed with seed capital in the amount of $18 million contributed by GEF, KfW, Conservation International, and Conservación Osa. The FBS uses the earnings obtained from investing the seed capital (about $900,000 per year) to finance its Biodiversity Conservation Program. Up to date, it has executed 38 agreements covering 3,000 Ha, with committed resources for $1.2 million. The FBS' Biodiversity Conservation Program focuses its efforts on landscape conservation, mainly forested area. This emphasis, together with FONAFIFO's priorities related to forestry and agro-forestry, limit the government's strategy to take an ecosystem approach to landscape management, as neither of these two financial instruments include incentives for landscape management by non-forestry productive sectors.

[4] For questions A.1 –A.7 in Part II, if there are no changes since PIF and if not specifically requested in the review sheet at PIF stage, then no need to respond, please enter "NA" after the respective question.

A. 5. Incremental /Additional cost reasoning: describe the incremental (GEF Trust Fund/NPIF) or additional (LDCF/SCCF) activities requested for GEF/LDCF/SCCF/NPIF financing and the associated global environmental benefits (GEF Trust Fund) or associated adaptation benefits (LDCF/SCCF) to be delivered by the project:

While the objective of the project remains the same, the structuring of the components has been modified, though the activities covered are similar. In line with STAP's concerns during the project review regarding the sustainability of the component 3 incentive mechanism and the further sustainability risks identified during design, a major change in emphasis of the project was to identify during the design phase a local funding source for the incentive mechanism of component 3, rather than leave this for implementation. In the first quarter of 2016, in line with attributions in Costa Rica's Biodiversity Law, the government proposed to obtain funding from the tariffs regulated by the Public Services Regulatory Authority (ARESEP). Additionally, no GEF funding will be available to support the incentive mechanism unless the mechanism is fully designed and operational, and resources from the ARESEP tariff become available to finance the incentive mechanism.

In line with these changes, Component 1(Component 2 in the PIF) will focus on supporting mainstreaming of ecosystem services considerations in land use regulations and policy instruments. As described in the PIF, the focus will continue to be on national and local level regulatory instruments, as well as providing training. In addition, to what was stated in the PIF, the component will also support SINAC in regulating articles 37, 52, and 100 of the Biodiversity Law in order to make these operational. The development of capacities at the national and local level through the training activities will support the implementation of the revised national and local level regulatory instruments.

Component 2 (Component 1 in the PIF) addresses the characterization of ecosystem services, but in the context of designing an ecosystem services compensation mechanism (ESCM) and structuring feasible, long-term financing for the mechanism. The ESCM will be aimed at compensating the possessors and/or owners of land located in priority areas for the ecosystem services generated by their land. In developing this mechanism, consideration will be given to the experience of FBS, in order to broaden and supplement its current investment strategy, and of FONAFIFO. In financing the ESCM mechanism, and based on article 37 of the Biodiversity Law, SINAC will work closely with the ARESEP in order to identify and structure a fund-raising model that takes into account the water tariff paid by users based on the type of use they make of the service. As a result of this component, funds are expected to be raised to support the financing of the ESCM mechanism. It is important to stress that the involvement of ARESEP is a key innovation brought forth by this project. As STAP indicates, the financial sustainability of payment schemes is critical. The institutional involvement of an agency such as ARESEP provides a higher chance of sustainability than stand-alone payment schemes or those associated with institutions with weak budget resources.

The component will finance the following studies: (i) evaluation of the work of the FBS, including its project prioritization mechanism, project management, and monitoring and evaluation instruments; (ii) analysis of the tariffs administered by ARESEP, their relationship with ecosystem services, and the evaluation of scenarios for charging additional tariffs to be applied for the compensation of environmental services (as provided by the Biodiversity Law); (iii) tariff design and preparation of the technical document required by ARESEP for tariff approval; (iv) design of the ESCM mechanism (technical studies, type of beneficiaries, forms of payment and monitoring, gender and indigenous peoples analysis, updating of GEF's tracking tool, identification and design of the legal and coordination arrangements required, etc.); and (v) prioritization of initial intervention areas for the ESCM mechanism based on the valuation of the ecosystem services of those areas. Additionally, a methodology to assess the impact of the implementation of the ESCM will be designed, preferably using a quasi-experimental design and the baseline studies required by the methodology have been carried out.

The ESCM is expected to provide additionality in the broader effort to promote improved landscape management and will complement FONAFIFO and the Sustainable Biodiversity Fund incentives in the landscape, in which the latter two are directed primarily to agroforestry and forestry, while ESCM will prioritize other productive activities in the landscape.

Component 3 seeks to improve the conservation and use of biodiversity by developing local land use incentive mechanisms and is structured similarly as described in the PIF, except for the following details. The use of funds from this component will require approval by the GEF and the IDB of the design of the ESCM, the details of which will be designed during project implementation (component 2). The SINAC will submit to the GEF the proposed

ESCM for GEF review and approval. In order for funds to be available for this component, the following conditions will need to be met: (i) Funds generated by the tariffs regulated by ARESEP are available to finance the ESCM; (ii) a ESCM has been designed and is acceptable to the GEF and IDB, with such design process considering, among other factors, site and beneficiary selection criteria, gender dimensions and public participation (including civil society organizations and indigenous peoples); (iii) the ESCM has been made operational, and all the legal and coordination arrangements necessary to enable its execution are in place; (iv) a methodology to assess the impact of the implementation of the ESCM has been designed, preferably using a quasi-experimental design, which is acceptable to the GEF and the Bank, and the baseline studies required by the methodology have been carried out. The ESCM will be established in FUNBAM (a legal entity separate from FONAFIFO, but with institutional support from FONAFIFO). The FUNBAM was originally created to support the structuring of the Sustainable Biodiversity Fund (financed by GEF).

As part of component 3, the Project will invest at least $1,100,000 in the ESCM mechanism in order to supplement, at its initial stage of implementation, the revenues to be obtained from the new payment for ecosystem services tariff approved by ARESEP based on the studies conducted under component 2. This mechanism will target private land owners (who meet eligibility criteria established as part of the ESCM design) who will contribute at least US$2,000,000 in co-financing to finance land use practices incentivized by the ESCM mechanism. It is expected be initially implemented in the Norte-Norte region and will supplement the FBS payments for forest conservation areas and the FONAFIFO payments in the region aimed at promoting reforestation, forestation, and agro-forestry practices. Successful implementation of the ESCM with GEF support, could allow SINAC and ARESEP to expand the ESCM to other locations with continued financial support from tariffs administered by ARESEP. Resources from this component will also support technical assistance to beneficiaries of the ESCM, in the form of training and best practice manuals.

Government and local institutional capacities will be strengthened through activities financed under components 2 and 3. These will be key to support the sustainability of the activities funded by the project and, in particular, the ESCM. Capacities developed at SINAC, ARESEP and local operators of public services will be key in the establishment of the ESCM and to its replication in other areas of the country.

A.6 Risks, including climate change, potential social and environmental risks that might prevent the project objectives from being achieved, and measures that address these risks:

Risk	**Rating**	**Mitigation measure**
Limited capacity at local level to develop and apply ecosystem based land use plans	Medium	Project will provide technical assistance and training to local municipalities. A communication strategy will also support the communication campaign for promoting awareness on the benefits of ecosystem services management.
Adverse self-selection and non-compliance by ESCM beneficiaries, and double compensation.	Medium	The experience of FONAFIFO and FSB will be analyzed and measures to reduce these risks will be incorporated into the ESCM design.
Lack on agreement on tariff to be used to fund ESCM	Medium	Technical studies will provide information for stakeholders to make informed decisions.
Lack of interest by land owners in participating in ESCM	Medium	The experience with FONAFIFO, FSB and other incentive mechanism will be taken into consideration in the design of the ESCM. Flexibility will be incorporated into the ESCM to adapt to changing local conditions.
FUNBAM undertakes weak fiduciary administration	Low	FUNBAM will be supported by fiduciary personnel hired with project resources.

Climate change effects on improved productive technology promoted by the ESCM	Low	The technology menu takes into consideration the resilience of the technology to possible climate change effect.

A.7. Coordination with other relevant GEF financed initiatives

This project will build upon and complement GEF projects which contributed to the expansion of FONAFIFO and the establishment of FBS. At the same time, it will seek to learn from experiences of other payment schemes in the country (Heredia water charges, for example). The project will coordinate with GEF project 9416 (Conserving biodiversity through sustainable management of production landscapes in Costa Rica) in regards to monitoring systems that could be used to address compliance with project beneficiaries' land use practices and with technical inputs on sustainable land use practices.

B. ADDITIONAL INFORMATION NOT ADDRESSED AT PIF STAGE:

B.1 Describe how the stakeholders will be engaged in project implementation.

Stakeholder	Description of stakeholders in the project implementation
SINAC	Is the executing agency and responsible for overall technical coordination of the project. Will coordinate project activities with other stakeholders.
FUNBAM	Implementing partner in the project, responsible for the fiduciary (procurement and finance) administration of the project. Also responsible for administering the FBS and thus of applying its knowledge and lessons learnt from this experience to the project, particularly in the implementation of the ESCM.
ARESEP	The national authority in charge of regulating public services, will play a key role in defining, in collaboration with SINAC, the financing stream that can be obtained from tariffs on public services, particularly water.
National Housing and Urbanism Institute (INVU) and National Environmental Technical Secretariat (SETENA).	Involved with developing/revising land use regulations to incorporate ecosystem services consideration. Will need to collaborate closely with SINAC.
Municipalities of Guatuso, Los Chiles, and Upala	Key players in the implementation of new national level land use regulations into municipal land use planning.
Public service providers and users	Will collaborate with ARESEP and SINAC in the development of a tariff to be used to finance incentives for improved ecosystem service management related to the public service associated with the providers and users. Providers and users will be key in determining their willingness to pay for the incentives.
Productive land users/managers	Beneficiaries of the ecosystem services compensation mechanism and implementers of improved management practices on their lands.

B.2 Describe the socioeconomic benefits to be delivered by the Project at the national and local levels, including consideration of gender dimensions, and how these will support the achievement of global environment benefits (GEF Trust Fund/NPIF) or adaptation benefits (LDCF/SCCF):

At the national level, the project will help to incorporate an ecosystems approach to a land use regulations that will help local communities to protect and conserve biodiversity. This new set of regulation is necessary to align Costa Rica´s current development with its environmental assets. Economic activities, not only in the Norte - Norte region,

depend on ecosystem services. For example, production of pineapple and livestock employ 180,000 persons and generate more than 35% of agricultural value each year, which need a constant and reliable flow of ecosystem services. Only by protecting these assets future growth is possible. At the same time, because national regulations take time to be implemented at the local level, without support from this project, there is a high probability that these changes will take several years, if ever happen.

The implementation of the ecosystem services compensation mechanism (ESCM) will help producers improve the management of their lands and provide for an improved management of ecosystem services. Improved land management practice will increase long term sustainability of their land and increase profitability. The analysis of potential technologies that could be used for land management showed positive returns to land user investments. Further, an improved farm management will increase resilience to climate change and will increase returns to the investment. The PFPAS project demonstrated that profits can increase up to 15% or more per year if technologies are adequately implemented. As part of the design of the ESCM, a gender and indigenous peoples analysis will be conducted with the aim of ensuring that these groups can have equal access to the ESCM.

If implemented, the ESCM will include a rigorous evaluation component that will seek to calculate the impact of the mechanism for land users, but also on ecosystem services and biodiversity. This will help demonstrate how feasible it would be to replicate this approach in other regions of the country.

B.3. Explain how cost-effectiveness is reflected in the project design:

Two key aspects drive cost-effectiveness in the project. The design of the ESCM will evaluate different incentive amounts in order to arrive at the minimum incentive required to induce adoption and maintenance of improved land use practices in productive landscapes. As part of the design process, several environmentally friendly production practices/technologies were evaluated, finding that these showed positive rates of return. The experience of prior producer support mechanism (such as that financed by IDB's Agricultural Technology project), will be considered in defining the incentive amounts. Additionally, clear prioritization criteria will be embedded in the ESCM design in order to be effective in the use of incentive resources and achieve greater environmental impacts with its resources. This analysis will be reviewed by the IDB and the GEF prior to authorizing the implementation of the ESCM. In designing the implementation scheme, FUNBAM, who will play a key role in implementation, already has experience in implementing an incentive scheme, thus reducing the transaction costs of learning new practices. FUNBAM is inserted within FONAFIFO which also provides important support that makes implementation cost-effective. A minimum executing unit has been planned that takes advantage of the support FUNBAM and FONAFIFO can provide the project. In terms of financing, the nearly $19 million for the project includes co-financing of $15.5 million which corresponds mostly to funds that will be invested by FONAFIFO and FBS on complementary landscape areas in the target areas of the project. As described in component 3, a further $2 million is expected from beneficiaries of the payment mechanism developed by the project, while most GEF resources are being utilized for the design and startup of the payment mechanism.

C. DESCRIBE THE BUDGETED M &E PLAN:

Project Monitoring and Evaluation (M&E), which will be conducted in accordance with IDB and GEF procedures, at three levels: (i) project outcomes as stated in the projects results framework; (ii) delivery of project outputs in accordance with the annual work plan (AWP); (iii) monitoring of project implementation and performance through periodic project evaluations, and (iv) the impact evaluation of the implementation of the ESCM.

The IADB has established procedures and tools for project monitoring and evaluation. These include the results matrix, annual work plans and procurement plans. The Results Framework presented in Annex A will be the main monitoring instrument. The RF contains a description of the main activities and outputs by project component; for each product, there are indicators and yearly goals to simplify monitoring. The AWP presents the activities to be executed each year, while the progress monitoring report keeps track of project advances.

The project team will supervise the achievement of the outputs and outcomes associated to IDB/GEF funding, based on the bi-annual progress reports and will incorporate them into the Bank's Annual Report System. Also, the project team will incorporate all project outputs and outcomes associated to the IDB/GEF funds and parallel financing into the Project Implementation Reports (PIR) to be reported periodically to GEF. The PIRs will be submitted annually starting at the second year of implementation.

Evaluation. An external mid-term evaluation will be conducted by an independent consultant financed with IDB/GEF funds, when 40% of the IDB/GEF resources are disbursed, or 36 months after project start, whichever comes first. The midterm evaluation will determine the progress towards achieving the stated goals, the level of stakeholder involvement, positive changes in the beneficiaries because of the intervention and changes to be made to the implementation strategy. In addition, a final evaluation by an external consultant will be carried out once 80% of the project's IDB/GEF resources are disbursed, or within the last three months of the project execution. The final evaluation will review project results, including its contribution to strengthening national and local capacity, its sustainability, draw the lessons from the project and recommendations for implementation in similar operations. Audit services will take place annually under the PEU supervision. Additionally, an impact assessment of the implementation of the ESCM will be conducted using, preferably, a quasi-experimental design.

Project field visits and monitoring by IDB staff will take place annually or upon eminent need and will be paid by IA fees. The IADB will hold a final mission to discuss the results of the final evaluation and impact assessment of ESCM with the executing agency and key stakeholders involved. An indicative budget is presented below.

Type of activity	Responsible	Budget US$
Project monitoring progress and outputs implementation	SINAC/FUNBAM	15,000
Mid-Term Review	SINAC/FUNBAM	15,000
Final Evaluation Report	SINAC/FUNBAM	25,000
ESCM impact study (including baseline study, impact of land management practices on ecosystem services, surveys of beneficiaries and non-beneficiaries, data management)	SINAC/FUNBAM	237,000
Project visits	IDB	Paid by IA fees
Total		**292,000**

PART III: APPROVAL/ENDORSEMENT BY GEF OPERATIONAL FOCAL POINT(S) AND GEF AGENCY(IES)

A. RECORD OF ENDORSEMENT OF GEF OPERATIONAL FOCAL POINT(S) ON BEHALF OF THE GOVERNMENT(S):): (Please attach the Operational Focal Point endorsement letter(s) with this form. For SGP, use this OFP endorsement letter).

NAME	POSITION	MINISTRY	DATE *(MM/dd/yyyy)*
Ruben Muñoz	Operational Focal Point	Ministry of Environment	Feb 27, 2012

B. GEF AGENCY(IES) CERTIFICATION

This request has been prepared in accordance with GEF/LDCF/SCCF/NPIF policies and procedures and meets the GEF/LDCF/SCCF/NPIF criteria for CEO endorsement/approval of project.

Agency Coordinator, Agency Name	Signature	Date *(Month, day, year)*	Project Contact Person	Telephone	Email Address
Juan Pablo Bonilla IDB-GEF Executive Coordinator		10/16/2017	Michael Collins	202-623-2158	michaelc@iadb.org

ANNEX A: PROJECT RESULTS FRAMEWORK (either copy and paste here the framework from the Agency document, or provide reference to the page in the project document where the framework could be found).

CR-T1148. Sustainable Management of Ecosystem Services. Detailed Results Matrix							
Project Objective: To improve biodiversity conservation and sustainable use through management of landscape ecosystem services							
COMPONENTS, OUTCOMES AND OUTPUTS	**Baseline 2016**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Target**
Component 1: Regulatory and planning framework							
Outcome 1.1: Regulatory and policy frameworks incorporate ecosystems approach							
indicator: # of regulatory/policy instruments approved	0		1	2		1	3
Outputs							
Preparation of a water resource conservation and sustainable use institutional policy for SINAC	0		1				1
Proposal for updating regulations of the INVU for the preparation of municipal regulatory plans			1				1
Proposal for updating the rules on Environmental Fragility Indices of the SETENA to integrate the environmental variable in regulatory plans and other land-use plans			1				1
Outcome 1.2: Ecosystem Services Program established in SINAC							
indicator: # Ecosystem services program decree issued by SINAC	**0**	1					1
Outputs							
Implementation of training modules to introduce the ecosystem approach for decision makers and authorities.	0	1	1	1			3
A communication outreach strategy, focused in the promotion of ecosystem services, implemented.	0			1			1
Outcome 1.3: Regulations for operationalizing articles 37, 52, and 100 of the Biodiversity Law approved by SINAC							
indicator: # of regulations	0		1	2			3
Outputs							
Proposals for regulating articles 37, 52, and 100 of the Biodiversity Law (# of studies)	0	1	2				3
Outcome 1.4: Municipal landscape use plans incorporating ecosystems approach approved by three municipalities in the USEG Norte - Norte							
Indicator: # of plans	0				3		3
Outputs							

Training program in sustainable management of ecosystems services for government agencies, municipalities, civil society and private sector in the Norte - Norte region.	0		75	75	50		220
Update of landscape use plans for three municipalities in the Norte - Norte region, to incorporate the ecosystem approach	0			3			3
Component 2: Development of Ecosystem Services Compensation Mechanism (ESCM)							
Outcome 2.1: ESCM approved							
indicator: Agreement for the implementation of the ESCM signed	**0**		1				1
Outputs							
Technical studies for the design of the ESCM developed	0	1	3				4
Outcome 2.2: Income stream for ESCM from tariffs is operational							
Indicator: US$ flowing to ESCM account	0		20,000	50,000	60,000	70,000	200,000
Outputs							
Technical study on analysis and development of proposal for tariff to fund ESCM	0	1					
Outcome 2.3: Ecosystem based productive landscape priority setting protocol approved							
Indicator: Priority setting manual published by SINAC	0		1				
Outputs							
Technical studies for valuation of ecosystem services in priority geographic area, including prioritization criteria for application of ESCM.	0	1	1				2
Component 3: Implementation of Ecosystem Services Compensation Mechanism							
Outcome 3.1: Sustainably managed land under ESCM scheme							
Indicator: Area (ha)	**0**				2,000	3,000	5,000
Outputs							
Land users located in ecosystem services priority areas with contracts under the ESCM scheme.	0				200	300	500
Best practices manuals developed for prioritized sectors that promote landscapes sustainable use	0			2			2
Land users trained in best practices					200	300	500

ANNEX B: RESPONSES TO PROJECT REVIEWS (from GEF Secretariat and GEF Agencies, and Responses to Comments from Council at work program inclusion and the Convention Secretariat and STAP at PIF).

STAP Comments	
The PIF states that the proposed project when implemented will enable three ecosystem services to be characterized, although these are not identified in the PIF. STAP advises that the willing seller-willing buyer principle should be applied during the selection and valuation of these services, to ensure that (i) the market is available and (ii) valuations (value assessment tools) are not conducted in a vacuum instead focusing on relevant valuations that will drive PES negotiations emphasizing opportunity costs rather than service values.	These issues will be key in the design of the compensation mechanism under component 2. Based on Costa Rica's legal framework, SINAC and ARESEP will dialogue with public service providers and users to arrive at a consensus for the structure of the tariff and its operation, emphasizing opportunity costs. Technical studies will support this dialogue.
STAP accepts that by providing sufficient incentives to resource users existing protected areas will likely face fewer threats. However, within Component 3 the sustainability of the incentives applied is an issue not dealt with, including in the risks section of the PIF. Provided that the goal of a national land use policy (with accompanying guidance) is achieved by the end of the project, the financial viability of the incentive schemes in specific areas in the project area may not matter at a strategic level, but sudden cessation of support at the end of the project could have negative consequences for the region being targeted. In connection with agricultural practices, certification is another market-based mechanism that has potential to deliver global environmental benefits and STAP draws the proponent's attention to the GEF guidance on this issue. The proponents are advised to clarify in the full project brief whether GEF funds are to be used to design and negotiate certification schemes or to subsidize improved agricultural practices (or both). If the latter then the same issue of sustainability arises.	The IDB shares this concern. During design emphasis was placed on identifying a funding source to minimize the risk of lack of financial sustainability. A suitable source was identified (public service tariffs). The precise incentive mechanism will be designed during project preparation and will take into consideration STAP's valuable comments on certification and subsidies for agricultural practices.

ANNEX C: STATUS OF IMPLEMENTATION OF PROJECT PREPARATION ACTIVITIES AND THE USE OF FUNDS[5]

A. PROVIDE DETAILED FUNDING AMOUNT OF THE PPG ACTIVITIES FINANCING STATUS IN THE TABLE BELOW:

PPG Grant Approved at PIF: **151,784**			
Project Preparation Activities Implemented	***GEF/LDCF/SCCF/NPIF Amount ($)***		
	Budgeted Amount	***Amount Spent to date (*)***	***Amount Committed***
Hiring of consultants for studies on: • Economic evaluation and monitoring • Impact assessment • Ecosystem service valuation • Technology and best practice analysis • Legal and regulatory framework analysis • Characterization of ecosystem services • Institutional and fiduciary analysis • Environmental impact analysis • Coordination	151,784	115,937.14	
Total	151,784	115,937.14	0

(*) Note that US$35,846.86 was cancelled.

[5] If at CEO Endorsement, the PPG activities have not been completed and there is a balance of unspent fund, Agencies can continue undertake the activities up to one year of project start. No later than one year from start of project implementation, Agencies should report this table to the GEF Secretariat on the completion of PPG activities and the amount spent for the activities.

ANNEX D: CALENDAR OF EXPECTED REFLOWS (if non-grant instrument is used**)**

Provide a calendar of expected reflows to the GEF/LDCF/SCCF/NPIF Trust Fund or to your Agency (and/or revolving fund that will be set up)

n/a

Sustainable Management of Ecosystem Services

I. Basic Information for TC

▪ Country/Region:	Costa Rica
▪ TC Name:	Sustainable Management of Ecosystem Services
▪ TC Number:	CR-T1148
▪ Team Leader/Members:	Michael Collins (CSD/RND), Team Leader; Fernando Balcazar (RND/CCO); Marcela Aguirre (RND/CCR); Monica Centeno (LEG/SGO), Andrés Suarez (FMP/CCR), Jorge Luis Gonzalez (FMP/CCR)
▪ Indicate if: Operational Support, Client Support, or Research & Dissemination	Client Support
▪ If Operational Support, give number and name of Operation Supported by the TC:	
▪ Date of TC Abstract Authorization:	n/a
▪ Beneficiary (countries or entities which are the recipient of the technical assistance):	Sistema Nacional de Áreas de Conservación - SINAC, by its acronym in Spanish (National System of Conservation Areas)
▪ Executing Agency	SINAC
▪ Donors providing funding:	Global Environment Facility (GEF)
▪ IDB Funding requested:	US$ 3,485,330
▪ Local counterpart funding, if any:	US$ 15,500,000
▪ Disbursement Period (includes execution period):	60
▪ Required Start Date:	October, 2017
▪ Types of consultants (firm or individual consultants):	Firms and individual consultants
▪ Prepared by Unit:	RND
▪ Unit of Disbursement Responsibility:	CCR
▪ TC included in Country Strategy (y/n):	no
▪ TC included in CPD (y/n):	no
▪ GCI-9 Sector Priority:	

II. Objectives and Justification of the TC

2.1 With just 0.03% of the total Earth area (51,100 km^2), Costa Rica is considered to be among the 20 countries with the largest concentration of biodiversity (BD). The country is estimated to host more than 500,000 species, accounting for about 4% of the total estimated species in the world. The productive sectors and the local development are exercising multiple pressures on the ecosystem services and BD in Costa Rica. The threats to ecosystem services are present at the landscape level. The negative impacts of cattle raising and farming practices include, among others, a decline in the forest cover due to illegal felling; groundwater, surface water and soil pollution due to indiscriminate use of pesticides and fertilizers; land erosion due to improper land preparation processes, slope farming, and deforestation; soil compaction; nutrient reduction; fire use; and wetland drainage.

2.2 Costa Rica has made a significant investment in protecting its BD and preserving its ecosystems. In total, 26.5% of the continental territory of the country is within protected

areas, which are connected by 37 biological corridors. Since BD conservation requires an ecosystem-based approach requiring not only the creation of protected areas but also the involvement of the productive sectors, Costa Rica has implemented programs and projects involving financial incentives and training aimed at the adoption of sustainable practices. A payment for environmental services (PES) program has been established to promote practices that preserve different ecosystem services. Since 1998, investments in payments for environmental services have been made through FONAFIFO (Spanish acronym for National Forest Financing Fund), and about 260 million USD have been allocated to forest protection, reforestation and agro-forestry systems (but not to other productive activities) in about 876,000 Ha, with a high percentage of biological corridors. This program recognizes four environmental services, namely, carbon sequestration, protection of water for urban, rural, and hydro electrical use, BD protection, and scenic beauty. However, the PES are made based on forest activities that generate said environmental services.

2.3 In spite of these achievements made by the country, Costa Rica still needs to address many challenges if it is to preserve its BD, critical ecosystems, and the services they provide. There are legal, financial, and capacity-related barriers that prevent the incorporation of an ecosystem-based approach considering the whole of the pressures exercised on BD at the landscape level. In the first place, the regulatory framework does not fully incorporate the ecosystem-based approach. For example, the regulations related to the preparation and implementation of regulatory plans and the incorporation of the environmental variable in land-use instruments does not properly recognize or contemplate ecosystem services. The country's land management legislation has not been duly updated and harmonized with the more modern environmental legislation - which does consider the value of ecosystem services. Also, there is no institution responsible of promoting the adoption of an ecosystem-based approach. In the second place, since there is inadequate understanding about the services provided by ecosystems, ecosystem services are not properly considered in land-use planning, which contributes to their degradation.

2.4 In order to have a more comprehensive approach, the Government is taking steps toward the creation of an Ecosystem Services Program as part of SINAC. In this respect, in addition to forest based activities, the government’s strategy is to also consider other elements of the ecosystem as generators of environmental services, such as productive landscapes. In order to promote sustainable practices that generate environmental services in productive landscapes, the Government is seeking to develop new financial mechanisms or strengthen existing ones. One of such mechanisms is the Sustainable Biodiversity Fund (FBS) which was created in 2008 in order to promote better long term biodiversity management and conservation. The FBS has been endowed with seed capital in the amount of $18 million contributed by GEF, KfW, Conservation International, and Conservación Osa. The FBS uses the earnings obtained from investing the seed capital (about $900,000 per year) to finance its Biodiversity Conservation Program. Up to date, it has executed 38 agreements covering 3,000 Ha, with committed resources of $1.2 million. The FBS’ Biodiversity Conservation Program focuses its efforts on landscape conservation, mainly forested area. This emphasis, together with FONAFIFO’s priorities related to forestry and agro-forestry, limit the government’s strategy to take an ecosystem approach to landscape management, as neither of these two financial instruments include incentives for landscape management by non-forestry productive sectors. In addition, no long-term compensation scheme has been implemented to promote the

conservation of the multiple services provided by ecosystems or to promote the incorporation of BD criteria in productive practices.

2.5 **Bank Strategy**. The program is consistent with the Update to the Institutional Strategy (UIS) 2010-2020 (GN-2788-5) and is aligned with the cross-cutting issue of climate change and environmental sustainability identified as hindering the region´s ability to successfully tackle the three development challenges targeted in the strategy. Additionally, the program will contribute to the Corporate Results Framework 2016-2019 (GN-2727-4) (CRF) by generated benefits aligned with the following CRF Country Development Results Indicator: beneficiaries of improved management and sustainable use of natural capital. The operation is consistent with the Environment and Biodiversity Sector Framework Document (OP-1407-5), by contributing to improving environmental performance through policy frameworks, governance, and management instruments.

III. Description of activities/components and budget

3.1 The objective of the Project is to improve BD conservation and sustainable use through the management of terrestrial ecosystem services. The specific objectives of the Project are to: i) update the planning framework in order to incorporate an ecosystem-based approach in land use regulations; ii) design a compensation mechanism for ecosystem services, including the structuring of at least one source of financing; and iii) support the implementation of the compensation mechanism. These objectives will be met through the implementation of the following four components, according to which the Project has been structured.

3.2 **Component 1: Updating of the regulatory and planning framework to incorporate an ecosystem-based approach.** The objective of this component is to incorporate ecosystem-based planning criteria in Costa Rica's land use planning frameworks. Based on a detailed review of the existing legislation, the Project will support the following instruments: i) development of an institutional policy for SINAC for the conservation and sustainable use of water resources; ii) updating of the regulations of the National Housing and Urbanism Institute (INVU) for the preparation of cantonal regulatory plans (including the updating of the Urban Renovation Rules); and (iii) updating of the rules on Environmental Fragility Indices of the National Environmental Technical Secretariat (SETENA) - Executive Order No. 32967 - to integrate the environmental variable in regulatory plans and other land-use plans. In addition, this component will assist SINAC in establishing an Ecosystem Services Program, which is expected to be operational during the early stages of Project execution and will enable SINAC to work more directly with the productive sectors in promoting practices that preserve key ecosystem services in productive landscapes. Furthermore, it will support SINCA to operationalize articles 37, 52, and 100 of the Biodiversity Law concerning incentives for productive landscape management The updated national regulations will locally translate in regulatory plans which will be better aligned with the country's conservation objectives, facilitating the sustainable use of natural resources in Costa Rica and the conservation of critical ecosystem services. The municipalities of Guatuso, Los Chiles, and Upala, in the Socio-ecological Management Unit (USEG) NN-3, will be the first to benefit from the strengthened national regulations. The project will finance the updating of the regulatory plans for these municipalities for them to incorporate an ecosystem-based approach and BD protection as development cornerstones, and will also finance part of their

implementation. The Project will also finance the preparation of two regional institutional plans to incorporate an ecosystem-based approach.

3.3 The Project will finance the development of training modules and the training of national and local stakeholders in the ecosystem-based approach and the sustainable management of ecosystem services, including government officials, SINAC staff, and stakeholders from the civil and the private sector. Overall, training will be provided to 80 decision-makers and authorities, 100 government officials in the USEG NN, including municipality officials, and 120 stakeholders from the civil and the private sector. This will facilitate the process for updating and implementing regulatory plans in the three cantons. In addition, the Project will finance a campaign for promoting and raising awareness about the benefits of protecting BD and ecosystem services, which will include events geared towards decision-makers and authorities from the Central Government, Congress and other stakeholders.

3.4 **Component 2: Design of Ecosystem Servicers Compensation Mechanism.** The objective of this component is to develop an ecosystem services compensation mechanism (ESCM) in order to promote ecosystem and biodiversity management and conservation in priority productive landscapes of the country. The ESCM will be aimed at compensating the possessors and/or owners of land located in priority areas for the ecosystem services generated by their land. In developing this mechanism, consideration will be given to the experience of FBS, in order to broaden and supplement its current investment strategy, and of FONAFIFO. In financing the ESCM mechanism, and based on article 37 of the Biodiversity Law, SINAC will work closely with the Utility Regulatory Authority (ARESEP) in order to identify and structure a fund raising model that takes into account the water tariff paid by users based on the type of use they make. As a result of this component, funds are expected to be raised to support the financing of the ESCM mechanism. The SINAC will submit to the GEF the proposed ESCM for GEF review and approval.

3.5 To achieve the objectives intended under this component, the following studies, among others, will be financed: (i) evaluation of the work of the FBS, including its project prioritization mechanism, project management, and monitoring and evaluation instruments; (ii) analysis of the tariffs administered by ARESEP, their relationship with ecosystem services, and the evaluation of scenarios for charging additional tariffs to be applied for the compensation of environmental services (as provided by the Biodiversity Law); (iii) tariff design and preparation of the technical document required by ARESEP for tariff approval; (iv) design of the ESCM mechanism (technical studies, type of beneficiaries, forms of payment and monitoring, gender-based analysis, updating of GEF's tracking tool, identification and design of the legal and coordination arrangements required, etc.); and (v) prioritization of initial intervention areas for the ESCM mechanism based on the valuation of the ecosystem services of those areas.

3.6 **Component 3: Implementation of the Compensation Scheme ($1,150,000)**. With resources from this component, support will be given to the implementation of the compensation mechanism for ecosystem services (ESCM) designed under component 2. The Project will invest $1,000,000 in the ESCM mechanism in order to supplement, at its initial stage of implementation, the revenues to be obtained from the new payment for environmental services tariff approved by ARESEP based on the studies conducted under component 2. This mechanism will target private land owners (who meet eligibility criteria established as part of the ESCM design) who will

contribute at least US$2,000,000 in co-financing to finance land use practices incentivized by the ESCM mechanism (the precise cost sharing ratios will be established as part of the ESCM design). This mechanism will be initially implemented in the Norte-Norte region and will supplement the FBS payments for forest conservation areas and the FONAFIFO payments in the region aimed at promoting reforestation, forestation, and agro-forestry practices. The resources from this component will also support technical assistance to beneficiaries of the ESCM, in the form of training and best practice manuals.

3.7 Geographic focus of ESCM implementation. The Norte-Norte region of Costa Rica has been defined as the pilot area for ESCM implementation. During the project preparation phase, the intervention sites were picked based on their being located in: i) a biological corridor; ii) a conservation gap; and iii) an area under a land use conflict (i.e. whether the current use is congruent with its aptitude). Based on said criteria, four sites were identified in the productive landscape of the biological corridors located in this area[1]. These sites cover 56,085 Ha, which accounts for 15% of the total area of the USEG NN-3.

3.8 Special conditions precedent to the execution of component 3: (i) Funds generated by the tariffs regulated by ARESEP are available to finance the ESCM; (ii) a ESCM has been designed and is acceptable to the IDB and the GEF, with such design process considering, among other factors, site and beneficiary selection criteria, gender dimensions and public participation (including civil society organizations and indigenous people); (iii) the ESCM has been made operational, and all the legal and coordination arrangements necessary to enable its execution are in place; (iv) a methodology to assess the impact of the implementation of the ESCM has been designed, preferably using a quasi-experimental design, which is acceptable to the GEF and the Bank, and the baseline studies required by the methodology have been carried out.

Indicative Budget

Component	GEF	Parallel Co-financing(*)	Total	%
Component I. Updating of the regulatory framework	750,000	250,000	900,000	5%
Component II. Development of financing and incentive schemes	840,000	550,000	1,290,000	7%
Component III. Implementation of the financial mechanism	1,280,000	14,070,000	15,250,000	80%
Component IV. Monitoring and evaluation	266,800	30,000	296,800	2%
Sub-total:	*3,136,800*	*14,900,000*	*18,036,800*	
Management	348,530	600,000	948,530	5%
Total	3,485,330	15,500,000	18,985,330	100%

(*) Co-financing will be considered starting 12 months before the IDB's approval of the operation. Parallel co-financing includes US$2,000,000 from project beneficiaries under component III.

[1] Bijagua, Buenos Aires, Caño Negro, and San Rafael.

3.9 Monitoring and evaluation. The executing agency will provide IDB with half-yearly progress reports, as well as a mid-term and a terminal evaluation. If component III is executed, the Project will conduct an impact assessment on the implementation of the financial mechanism, preferably using a quasi-experimental design which will be designed once the structure of the financial mechanism, the type of beneficiaries, and the environmental values to be promoted have been clearly established.

IV. Executing Agency and execution structure

4.1 The executing agency will be the National System of Conservation Areas (SINAC) of the Ministry of Environment and Energy. The organizational structure required to execute the project will include a Steering Committee, which ensures the strategic and political vision of the project, a Technical Committee, which ensures quality in the execution of the project, and Fundación Banco Ambiental (FUNBAM), which will be in charge of the fiduciary financial management of the operation. In order to formalize this cooperation, an agreement describing the main responsibilities and duties of both organizations will be signed by the parties. With project resources, consultants to cover the following positions will be hired: (i) Coordinator (based in SINAC), (ii) Financial specialist, and (iii) Procurement specialist (the latter two will be based in FUNBAM). **Special conditions precedent to the first disbursement: (i) signed implementation agreement between SINAC and FUNBAM, (ii) selection of project coordinator, financial specialist, and procurement specialist, (iii) steering committee established, and (iv) project operations manual in force.**

4.2 **Fiduciary Management** (financial management and procurement). FUNBAM has a limited organizational structure and experience in the financial administration and management of projects. Currently, it manages the Sustainable Biodiversity Fund (FBS), whose resources are held in a trust created with Banco Nacional (Trust 1052 FBS) which, through the trust management platform of the bank, performs registration, accounting, and reporting duties, as well as the applicable payments, among other fiduciary tasks it performs for the FBS. For the financial management of this Project, FUNBAM will rely on Banco Nacional to open a specific and separate sub-account of its own within the same trust to manage the Project's funds independently, keeping this account separate from those of other contributors or projects within the trust, and facilitating the submission of financial reports of said fund to FUNBAM (balance sheet and income statement). The Project's funds held in the trust will have the restriction of not being allowed to be invested in any kind of mechanism used by the trust. With Project funds, the operating capacity of FUNBAM will be strengthened through the hiring of a procurement specialist, and a financial specialist who will be in charge of consolidating the financial information to be provided by the trust and preparing the financial reports usually requested by the Bank for the operations it funds. Financial execution reports will be submitted twice a year, in conjunction with the half-yearly progress reports. Annual audits will be conducted by an independent auditing firm acceptable to the Bank which will be responsible to review, both for the Trust and FUNBAM, aspects in connection with the internal control and finances of the Project.

4.3 FUNBAM has internal guidelines for procurement processes funded with resources from the FBS Trust. These procedures are in substantial compliance with the Bank's procurement policies. However, some procedures may affect the principles of efficiency and effective competition, as they allow selection to be made on the basis of only one bid. Also, the procedures to procure consultancy services are not very detailed. In this respect, due to being a private entity, FUNBAM will be allowed to

conduct the procurement processes following its own procurement procedures, but with the support of a supplementary guide to be agreed with the Bank that will resolve the identified weaknesses. The Procurement Plan will identify the ex-post and ex-ante supervision methods, considering the relative importance and risk involved in each procurement process.

V. Major risks

5.1 During project preparation, an assessment was undertaken on the risks associated with the project execution and mitigation measures were defined and incorporated into the design of the components. The main risks and proposed mitigating measures are described in the following table.

Risk	Rating	Mitigation measure
Limited capacity at local level to develop and apply ecosystem based land use plans	Medium	Project will provide technical assistance and training to local municipalities. A communication strategy will also support the communication campaign for promoting awareness on the benefits of ecosystem services management.
Adverse self-selection and non-compliance by ESCM beneficiaries, and double compensation.	Medium	The experience of FONAFIFO and FSB will be analyzed and measures to reduce these risks will be incorporated into the ESCM design.
Lack on agreement on tariff to be used to fund ESCM	Medium	Technical studies will provide information for stakeholders to make informed decisions.
Lack of interest by land owners in participating in ESCM	Medium	The experience with FONAFIFO, FSB and other incentive mechanism will be taken into consideration in the design of the ESCM. Flexibility will be incorporated into the ESCM to adapt to changing local conditions.
FUNBAM undertakes weak fiduciary administration	Low	FUNBAM will be supported by fiduciary personnel hired with project resources.

VI. Exceptions to Bank policy

6.1 None

VII. Environmental Safeguards

7.1 This Project will have a positive impact on the environment considering its long-term contribution to BD conservation and land degradation reduction, as well as an improved management of natural resources. The social impact of the Project will also be positive, as reflected in its objectives and scope. Based on an ESG evaluation, the Project has been classified as category "C". The monitoring and evaluation system designed for the Project will gather information classified by gender and ethnic group.

Annex I. Results Matrix

CR-T1148. Sustainable Management of Ecosystem Services. Detailed Results Matrix							
Project Objective: To improve biodiversity conservation and sustainable use through management of landscape ecosystem services							
COMPONENTS, OUTCOMES AND OUTPUTS	**Baseline 2016**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Target**
Component 1: Regulatory and planning framework							
Outcome 1.1: Regulatory and policy frameworks incorporate ecosystems approach							
indicator: # of regulatory/policy instruments approved	0		1	2		1	3
Outputs							
Preparation of an waters resource conservation and sustainable use institutional policy for SINAC	0		1				1
Proposal for updating regulations of the INVU for the preparation of municipal regulatory plans			1				1
Proposal for updating the rules on Environmental Fragility Indices of the SETENA to integrate the environmental variable in regulatory plans and other land-use plans			1				
Outcome 1.2: Ecosystem Services Program established in SINAC							
indicator: # Ecosystem services program decree issued by SINAC	**0**	1					1
Outputs							
Implementation of training modules to introduce the ecosystem approach for decision makers and authorities.	0	1	1	1			3
A communication outreach strategy, focused in the promotion of ecosystem services, implemented.	0			1			1
Outcome 1.3: Regulations for operationalizing articles 37, 52, and 100 of the Biodiversity Law approved by SINAC							
indicator: # of regulations	0		1	2			3
Outputs							
Proposals for regulating articles 37, 52, and 100 of the Biodiversity Law (# of studies)	0	1	2				3

Outcome 1.4: Municipal landscape use plans incorporating ecosystems approach approved by three municipalities in the USEG Norte - Norte							
Indicator: # of plans	0				3		3
Outputs							
Training program in sustainable management of ecosystems services for government agencies, municipalities, civil society and private sector in the Norte - Norte region.	0		75	75	50		220
Update of landscape use plans for three municipalities in the Norte - Norte region, to incorporate the ecosystem approach	0			3			3
Component 2: Development of Ecosystem Services Compensation Mechanism (ESCM)							
Outcome 2.1: ESCM approved							
indicator: Agreement for the implementation of the ESCM signed	**0**		1				1
Outputs							
Technical studies for the design of the ESCM developed	0	1	3				4
Outcome 2.2: Income stream for ESCM from tariffs is operational							
Indicator: US$ flowing to ESCM account	0		20,000	50,000	60,000	70,000	200,000
Outputs							
Technical study on analysis and development of proposal for tariff to fund ESCM	0	1					
Outcome 2.3: Ecosystem based productive landscape priority setting protocol approved							
Indicator: Priority setting manual published by SINAC	0		1				
Outputs							
Technical studies for valuation of ecosystem services in priority geographic area, including prioritization criteria for application of ESCM.	0	1	1				2
Component 3: Implementation of Ecosystem Services Compensation Mechanism							
Outcome 3.1: Sustainably managed land under ESCM scheme							

Indicator: Area (ha)	**0**				2,000	3,000	5,000
Outputs							
Land users located in ecosystem services priority areas with contracts under the ESCM scheme.	0				200	300	500
Best practices manuals developed for prioritized sectors that promote landscapes sustainable use	0			2			2
Land users trained in best practices					200	300	500