

PMR PROJECT IMPLEMENTATION STATUS REPORT (ISR)

The PMR Project Implementation Status Report should be prepared by the Implementing Country or Technical Partner, with the support of the Delivery Partner and/or the PMR Secretariat. For any questions related to the preparation of the PMR Project Implementation Status Report, please contact the PMR Secretariat at: pmrsecretariat@worldbank.org.

1. SUMMARY INFORMATION

Implementing Country/Technical Partner:	Costa Rica
Reporting Period:	From 05/01/2016 to 02/17/2017
Report Date:	03/20/2017
Implementing Agency:	Directorate of Climate Change, Minister of Environment and Energy (MINAE)
Contact Person:	Andrea Meza, Director, Climate Change, MINAE (Focal Point), Silvia Charpentier / Felipe De León (PMR Coordination Unit)

Grant Executed By:	World Bank
Grant Effectiveness and Closing Dates:	03/07/2016 to 06/30/2019, with retroactive financing for period 10/2015 – 02/2016
Grant Amount (USD):	USD 3,000,000
Funding Mobilized (USD):	

2. OVERVIEW

Please provide a general description of the progress made towards the Grant's Objectives and Activities (as per the Project Development Objective(s) Indicator(s) and Intermediary Results Indicator(s) included in the World Bank's Project Paper's Results Framework). Please also highlight critical issues as well as pending actions that may require the PA or the PMR Secretariat's attention.

The PMR Partnership Assembly endorsed Costa Rica's MRP in 2013. After addressing difficulties posed by the selection of an appropriate grant- executing agency, together with the change in administration in Costa Rica in early 2014, the MRP began its Bank-executed implementation phase in March 2016. As expressed during the First Implementation Status Report, the project's original three technical core components continue to express Costa Rica's main readiness needs, and thus remain as the underlying

structure of the revised MRP.

As reported in the previous ISR, a Contribution Analysis methodology framework was used to develop a logical framework for the project and update the objectives, identify expected results and produce an updated results framework which serves as the basis for reporting for this Second Implementation Status Report. The logical framework presented during the First ISR is attached in Annex 1 for reference.

As with all elements of the project, these components continue to evolve to reflect new developments and to adapt to changing local and international circumstances, particularly as they relate to the implementation of the Paris Agreement and the efforts to meet the country's Nationally Determined Contribution (NDC).

1. **Development of the domestic carbon-pricing infrastructure:** Costa Rica established a Domestic Carbon Market (Mercado Doméstico de Carbono, MDC) in 2013 that, for a variety of reasons, has thus far been served exclusively with Costa Rican Offset Units (Unidades Costarricense de Compensación, UCCs) from the forestry sector. A revision of the conceptual framework of the MDC in light of current international trends and the national context led to the authorities' decision to update and transition this structure towards the Costa Rican Offset Mechanism (Mecanismo de Compensación de Costa Rica, MCCR). The MCCR will focus on activities that offer a strong potential to be scaled up, from sectors and/or technologies that have been identified as transformational. The carbon pricing infrastructure component will be complemented by the design, development and implementation of the mitigation component of the National Climate Change Metrics System (Sistema Nacional de Métrica de Cambio Climático, SINAMECC) as the Monitoring, Reporting, Verification and Registry (MRV&R) backbone of the carbon pricing and related transparency infrastructure. SINAMECC responds to the MRV requirements set out by decisions 12/CP.17 and 1/CP.21, and the information needs under the Enhanced Transparency Framework of the *Paris Climate Agreement*. In this context, SINAMECC will serve as the MRV&R system for addressing Articles 6 and 13 of the *Paris Climate Agreement*.
2. **Strengthening of UCC demand:** The MCCR will attend primarily to facilitating national financial flows towards mitigation activities implemented in sectors, or with technology, identified as key for the deep decarbonization to which Costa Rica committed in its NDC. These financial flows will be catalyzed by driving demand for UCCs through two policy instruments: an updated National Program for Carbon Neutrality (Programa País Carbono Neutralidad, PPCN) and a new emissions levy to be applied to all mobile, and potentially all stationary sources.
3. **Stimulation of UCC supply:** UCC supply for the MCCR will come from sectors and/or deploy technologies identified as transformational in support of achieving Costa Rica's NDC goals. The UCC supply component of the PMR-CR will support mitigation options and the design of activities/policies/programs in prioritized sectors (urban transport, energy, and agriculture sectors), including development of underlying emission reduction crediting methodologies and SINAMECC-compliant MRV schemes. The project is currently implementing the consultancies in support of the first two mitigation options prioritized by MINAE: the development of a long-term energy efficiency strategy and action plan, and the technical assistance to MINAE to strengthen enabling conditions for electricity distributed generation (DG). Further information

on this work can be found in Section 3.C., below. In addition, through the Upstream Policy Analysis 2 (UPA2) financing window, the PMR currently supports the implementation of a TIMES-CR modeling platform that will aid in the identification and analysis of decarbonization pathways --and transformational technologies and sectors within these-- to inform the prioritization of mitigation activities.

3. IMPLEMENTATION REPORT BY COMPONENT

Differences between the Objectives/Activities in the first Implementation Status Report and the current project objectives/activities

Are there any important and material differences between the objectives/activities proposed in the first Implementation Status Report endorsed by the Partnership Assembly of the PMR and the current project objectives/activities?	No
<p>The current project objectives are aligned with those reported in April 2016 during the First ISR. Minor updates have been carried out in response to changes in the national and international circumstances or due to new developments product of the project's own progress. The most relevant of these updates are listed below:</p> <ul style="list-style-type: none"> • With the ratification of the <i>Paris Climate Agreement</i>, Costa Rica's INDC converted to an NDC, as the Agreement came into force in November 2016. This is particularly relevant as current work under the PMR in Costa Rica is directly related to Article 6 (which regulates market and non-market cooperative mitigation approaches) and Article 13 (which refers to the Enhanced Transparency Framework). • The PMR-CR will develop the mitigation module of SINAMECC with full support of the Climate Change Directorate (Dirección de Cambio Climático, DCC). • The consultancy "<i>Costa Rica MRP Implementation Redesign, Update and Strengthening Strategy and Implementation Roadmap</i>" was developed under the leadership of the DCC with PMR support. The resulting document assesses the suitability of the DCM and the PPCN in current circumstances and proposes a roadmap for certain reforms. The authorities have validated a reform program and the MRP is adjusting accordingly, as described in the next section. 	

Implementation Progress by Component

A. Component 1: Market infrastructure	
Status:	<p>Ongoing</p> <p>A depiction of the MCCR and the basic interactions between the MCCR, the PPCN, the emissions levy, SINAMECC and other national structures (not supported by the PMR) is available in Annex 1.</p> <p>MRP Indicators</p> <p>A) C-neutrality and carbon pricing mechanisms concept notes discussed and agreed</p> <p>Concept notes and work plans have been developed, and technical assistance and communications and capacity building needs have been identified by the PMR-CR team for both the updated National Carbon Neutrality Program (Programa País Carbono Neutral, PPCN) and the Costa Rican Offset Mechanism (Mecanismo de Compensación de Costa Rica, MCCR). The MCCR will be the successor of the current Domestic Carbon Market (Mercado Doméstico de Carbono, MDC) and will move away from the project-oriented focus of the MDC to focusing on scaled-up, transformational activities, and measures. Both concept notes are currently being reviewed and publication is expected shortly. The work plans and needs assessments have become the basis for EoI's and ToRs supported by PMR for this component. Diagrams for the PPCN and the MCCR are available in Annex 1.</p> <p>B) Governance instruments modified</p> <p>Both the MCCR and SINAMECC will require published legal frameworks to update existing regulations. The first draft of the updated SINAMECC Decree is expected by the end of March 2017, while the first draft of the MCCR Decree is expected by the end of April 2017. Both Decrees are expected to be signed and delivered by early July 2017.</p> <p>C) Key institutional collaboration arrangements for governance and data measurement codified</p> <p>As previously mentioned, the MRV&R infrastructure being developed with PMR support has been recognized as the Mitigation Module of SINAMECC. SINAMECC is part of the National Environmental Information System (Sistema Nacional de Información Ambiental, SINIA), operated by the National Center for Geo-Environmental Information (Centro Nacional de Información Geo-Ambiental, CENIGA). CENIGA has established collaboration arrangements for data gathering with most relevant organizations that will be used by SINAMECC. The SINAMECC Committee is made up of DCC, CENIGA and the National Meteorological Institute (Instituto Meteorológico Nacional, IMN),</p>

	<p>and it recently approved the mandate for the PMR-CR team to develop Terms of Reference for the SINAMECC Mitigation Module. A depiction of the SINAMECC structure is available in Annex 1.</p> <p>D) Registry/tracking tool designed; continuous data measurement and analysis system established</p> <p>The SINAMECC Committee approved the conceptual design for the SINAMECC Mitigation Module (SINAMECC-M) in the first week of March 2017. Terms of Reference are currently being finalized to request technical assistance with PMR support. A depiction of the SINAMECC structure is available in Annex 1.</p> <p>E) MRV protocols and methodologies designed</p> <p>Core MRV&R logic, the SINAMECC-M “Dashboard 1.0” and initial rules for the development of indicators have been documented through collaboration with the GIZ Accounting Rules project as inputs for the development of SINAMECC-M. The development of methodologies for the generation of UCCs is being contracted as part of the international technical assistance requested with PMR support for Component 1.</p> <p>F) Facilitating and coordinating engagement with stakeholders</p> <p>Stakeholder engagement is carried out at a variety of levels, including:</p> <ul style="list-style-type: none"> - Continuous bilateral communication with the DCC, which is also the PMR Focal Point - Periodical communication with the Minister of Environment and Energy and the Vice Minister of Energy - Support for the SINAMECC Committee - Despite the very technical content of Component 1, a highly participatory approach is envisaged in the process and towards the completion of final project deliveries. To this end, PMR will provide crosscutting support for outreach to stakeholders and relevant actors through Component 4, as described in Section 2. <p>G) Market design evaluated by international panel of experts</p> <p>Following an international assessment of the suitability of the MDC, PMR will support the technical assistance and accompaniment to the DCC of international experts for the redesign of the instrument. Several international expert consultations are expected throughout this process.</p>
Comments:	
B. Component 2: Strengthening UCC demand	
Status:	<p>Ongoing</p> <p>Depictions of the PPCN and the emissions levy are available in Annex 1.</p>

	<p>MRP Indicators</p> <p>A) Preliminary identification of policy options As previously mentioned, two primary policy options have been identified as key demand drivers for UCCs. The first and most important one is the reverse auction mechanism that is proposed for the emissions levy. The second one, which may grow into a substantial demand driver in the future, is the updated PPCN.</p> <p>B) Technical support to the Climate Change Directorate and the Sectorial Climate Change Coordinator in approaching analytical challenges and gaps related to the design and operationalization of NDC implementation strategies The PMR-CR team is directly embedded with the DCC and provides continuous technical support to the DCC and other MINAE officials including the participation in international climate negotiations (including Climate Finance) and coordinates with other international cooperation initiatives. The TIMES-CR tool and the local analysis team that is being trained to use and maintain the model will provide key inputs for the design of NDC implementation strategies.</p> <p>C) Support in enabling policy options for INDCs (including upstream policy analysis and carbon neutrality program) A detailed support program for the updated PPCN has been developed by the PMR-CR team and validated by the DCC. International technical assistance for this area of work with PMR support is provided through Component 1. In addition, recognizing the importance of solid projections for long-term planning towards complying with its NDC, Costa Rica, with the support of the PMR-PAWP has started the implementation of a modeling platform. TIMES is the most widely used, least-cost optimization methodology employed to inform energy (and water) policy and strategic planning. It was developed and is maintained by IEA-ETSAP. The TIMES-CR model will, in the short term, provide analysis of the decarbonization pathways available to Costa Rica to meet its NDC target. In the longer term, the TIMES-CR platform is expected to be the cornerstone of the strategic policy analysis toolkit available to the DCC, and MINAE in general.</p> <p>D) Emissions levy design (including reverse auction) and facilitating and coordinating engagement with stakeholders The PMR technical staff, in close cooperation with MINAE, is drafting a levy concept note and terms of reference to complete the emissions levy final design, support the stakeholder engagement, the policy adoption process, and prepare the necessary communication tools to encourage the agenda setting. The technical assistance aims to review and improve the existing method to estimate emissions from mobile and stationary sources, determine the carbon</p>
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	<p>emissions and pollutants rates, elaborate a robust economic impact and distributional analysis for the emissions levy implementation, design a revenues allocation mechanism and institutional governance proposal, provide international technical consultative services during the emissions levy design as a carbon pricing instrument, prepare a communication and stakeholder engagement strategy, a media plan and the necessary communication products, provide logistics support during the implementation process and elaborate a proposal to incorporate emissions levy data into the National Climate Change Metric System (SINAMECC). PMR support for this component is expected to begin in the second quarter 2017. An implementation diagram for the emission levy is available in Annex 1.</p> <p>E) Facilitating and coordinating engagement with stakeholders</p> <p>Stakeholder engagement is carried out at a variety of levels, including:</p> <ul style="list-style-type: none"> - Continuous bilateral communication with the DCC, which is also the PMR Focal Point - Periodic communication with the Minister of Environment and Energy, the Vice Minister of Energy and the Vice Ministry of Transport - Technical meetings with the Validation/Verification Organizations (Organismos Validadores/Verificadores, OVVs) and the Costa Rican Accreditation Body (Ente Costarricense de Acreditación-ECA) - Meetings with Carbon Neutral organizations, the Alliance for Carbon Neutrality various NGOs and other stakeholders - Coordination meetings with Riteve, the vehicle's annual inspection agency that might be responsible for the measurement of the mobile emissions. - A broader stakeholder consultation process is envisaged for policy implementation
Comments:	
C. Component 3: Strengthening UCC supply	
Status:	<p>Ongoing</p> <p>MRP Indicators</p> <p>A) Specific LED Policy Instruments including laws, regulations, programs and other specific instruments to promote low emission development proposed.</p> <p>The PMR project is providing advisory assistance to the Ministry of Environment and Energy (MINAE) to develop a long-term energy efficiency strategy and action plan to prepare the field for the implementation of Costa Rica's long-term National Energy Plan 2015-2030 while contributing to Costa Rica's ambitious climate goals set out in its Nationally Determined Contribution (NDC). The outcome of the technical assistance is a National Energy Efficiency Strategy and Action Plan. The policy instrument will be a high-level document that will set the priorities within the energy policy portfolio, shall be consistent with the new set of policies and shall enable Costa Rica to reach its climate goals, outlining concrete actions to be taken.</p> <p>In addition, PMR is also supporting technical assistance to MINAE to reinforce</p>

	<p>enabling conditions for electricity-distributed generation (DG) as mitigation policy and its potential link with the MCCR. The scope of this activity is to assist the Ministry to develop a common methodology and tools to estimate maximum penetration of distributed generation in the power system and build capacity in utility companies to carry out this type of analyses. The expected medium-term objective is to promote non-conventional renewable options for self-supply as a mitigation action by creating a common grid impacts methodology and technical instruments officialized by MINAE to accelerate distributed generation regulatory procedures.</p> <p>B) Structures, schema and tools for the generation and capture of data to quantify mitigation activities and/or potential issuance as UCCs developed and operating.</p> <p>The technical instruments to run the distributed generation grid and financial impact studies will generate data for MINAE on, for example, the exact location of distributed generators, equipment capacities, power generation and other relevant information to establish to potential links to future UCCs generation.</p> <p>C) Climate finance structures for specific mitigation actions analyzed and best relevant practices proposed.</p> <p>The climate finance structures will depend on the results of the analysis of the mitigation actions and will be carried out in due course.</p> <p>D) Specific technical elements necessary to develop policy instruments, MRV schemes and/or provide an enabling environment for mitigation actions with potential for UCC issuance</p> <p>In the context of the energy efficiency advisory assistance to MINAE, the PMR project is currently elaborating a proposal for a measuring, reporting and verification (MRV) scheme for the selected energy efficiency actions and policies identified under The National Energy Efficiency Strategy and Action Plan. The purpose of the MRV scheme will be to allow for (I) tracking policy performance and outcomes against NDC targets; and (II) crediting GHG emissions reductions and/or results-based climate finance schemes.</p> <p>As part of the activities in support of UCC supply from the transport sector is under drafting the terms of reference to elaborate the technical inputs to generate the enabling conditions to integrate electric vehicles in Costa Rica and strengthen the metrics, reporting, and verification (MRV) systems for this purpose. The technical assistance is aimed at developing potential EV penetration scenarios to different transport modes, quantify the mitigation potential, design an infrastructure plan for the EV charging stations, prepare a proposal for an electricity sales platform and a monitoring, reporting, and verification (MRV) system for electric transport of Costa Rica. The Costa Rican government has requested to await the outcome of a consultancy that should</p>
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	provide general guidelines for the electrification of the transport sector in Costa Rica.
Comments:	

4. PROGRESS, CHALLENGES, AND LESSONS LEARNED

Important policy or regulatory developments related to the Grant's objectives and activities:

Developments: *Please describe important policy and regulatory developments related to carbon pricing that have occurred during the Reporting Period and/or that are expected in the future.*

- Costa Rica is beginning its election cycle, with Presidential elections due in February 2018. This has a significant impact on the deadlines for a variety of activities, but especially in the publication of new Decrees.
- Costa Rica ratified the Paris Agreement on November 3, 2016 thus converting the INDC into an NDC and establishing the content of the Agreement and the NDC as national laws, with important implications for the PMR-CR, particularly in relation to Articles 6 (market and non-market cooperative approaches) and 13 (Enhanced Transparency Framework) of the Agreement.

Challenges: *Please describe how such developments might affect the achievement of the Grant's objectives and/or the implementation of specific activities under the Grant, either positively or negatively and how possible policy and regulatory challenges may be addressed going forward. Please also refer back to any potential policy and regulatory challenges that may have been identified in the previous PMR Project Implementation Status Report and, if applicable, explain how such challenges are/have been handled.*

- The upcoming election cycle requires that the development of the Decrees for SINAMECC, the updated PPCN, the MCCR and the emissions levy be accelerated as much as possible. An abbreviated schedule to support the production of drafts of all 4 Decrees by mid-2017 has been established.
- The creation of an emissions levy for both mobile and static combustion sources is a major carbon pricing initiative supported by PMR. This levy is described in the National Energy Plan (Plan Nacional de Energía, PNE) and is one of the most important emission-reduction actions proposed by the Costa Rican government, with high level of buy-in from all relevant Ministries. The main objective of the levy is to strengthen the mitigation financing framework. The project will support the development of this levy from the technical, legal and financial standpoints. Challenges are posed by the design, on the one hand, and communication on the other, of an instrument that will affect a large portion of the Costa Rican population.
- The GHG emissions target for 2030 and the long-term decarbonization pathway set out in the NDC require aggressive emissions cuts, mainly from notoriously difficult sectors to address like transport and agriculture. This is an ambitious goal and a strong policy signal to which the MRP should be aligned.
- The policy developments described above have a substantial effect on the context in which the PMR-CR will evolve. This warrants an objective analysis of existing infrastructure and

institutional arrangements related to the MCCR and the updates necessary to meet current and upcoming needs.

Lessons learned: *If applicable, please provide a brief description of the lessons learned regarding carbon pricing policy and regulatory developments during the last Reporting Period.*

- It is indispensable to stay abreast of both national and international policy developments and to remain flexible enough in the implementation of the MRP that the project can adapt to shifting priorities without losing track of its core mission.
- Integration with the *Paris Climate Agreement* is indispensable for the success of pricing mechanisms, which in turn rely on MRV&R schemes compliant with Article 13 of the *Paris Climate Agreement* that will demonstrate progress in the implementation of the NDC.

Important changes in the technical design or approach related to the Grant's activities:

Developments: *Please describe any important change in the technical design or approach related to the Grant's activities that have been made during the Reporting Period or that are expected in the future.*

- The one important technical design change to report is the transition from a domestic market approach to a compensation scheme. Concept notes are being developed for this instrument, as well as for the PPCN, SINAMECC and the emissions levy to guide project implementation. These areas are the current project priorities, whereas certain Component 3 areas (transport and agriculture) are being re-sequenced for late 2017-2018.

Challenges: *Please describe how such changes might affect the implementation of the Grant's activities, either positively or negatively, and how possible technical design challenges may be addressed going forward. Please also refer back to any potential technical design challenges that may have been identified in the previous PMR Project Implementation Status Report and, if applicable, explain how such challenges are/have been handled.*

- A direct implication of the technical redesign is that a window of time will be provided by MINAE during which CDM, Voluntary Carbon Standard (VCS) and Gold Standard (GS) projects that choose to do so may de-register from their schemes and be directly registered as projects under the MCCR with the ability to generate UCCs. These UCCs would serve both to "prime the pump" of offset supply and provide a way out for project developers (particularly of CDM projects) who were early movers and now find themselves without any demand for their offsets.
- One of the critical challenges that must be addressed while updating the PPCN is to balance the need to simplify the Program to make more accessible to a larger number of organizations and reduce transaction costs without losing the technical rigor that has always been at the heart of the PPCN.
- The time lag between the launching of the MCCR and the generation of UCCs for use is a substantial risk that must also be addressed.

Lessons learned: *If applicable, please provide a brief description of the lessons learned regarding the technical design or approach related to the implementation of the Grant's activities during the last Reporting Period.*

- The project's evolution has taught the team and the authorities that keeping the long-term objective in sight is key for focusing efforts and activities. In times of uncertainty, and also in innovative areas of work like the ones included in this MRP, a good use of resources is the development of instruments, metrics and other key tools as stepping stones towards learning and the achievement of long term goals.

Key capacity issues (implementation, technical, financial management, procurement) related to the Grant's activities:

Developments: *Please describe key capacity issues (institutional, technical, financial management, procurement) related to the implementation of the Grant's activities encountered during the Reporting Period or that are expected in the future.*

- As this is a Bank-executed project, there is no procurement specialist assigned to the project neither in Costa Rica nor at the Bank. The PMR-CR team has no experience in procurement, and this situation originated more turnover and time than expected in Tor's development and Eol discussions with the Bank.
- Stakeholder and user engagement in the updating of the PPCN and the MCCR will involve both consultations and capacity building, as these innovative structures can not be properly consulted without first providing sufficient information for the engagement to be an informed one.
- The deployment of IT infrastructure like SINAMECC requires substantial change-management, particularly as it relates to technical experts who may have been performing their duties in much the same way for years or decades and who will now have to adapt to new tools and methods.
- The limited progress during COP22 in Marrakech means there are virtually no details on the MPGs (Modalities, Procedures and Guidelines) of Enhanced Transparency Framework of Article 13 or on the accounting relevant to Article 6, which means the design of local elements that will have to interact with these Articles must remain flexible and adaptable.

Challenges: *Please describe how such issues are affecting the implementation of the Grant's activities, either positively or negatively, and how possible challenges may be addressed going forward. Please also refer back to any potential challenges that may have been identified in the previous PMR Project Implementation Status Report and, if applicable, explain how such challenges are/have been handled.*

- The project team will be aided by a procurement specialist for the large upcoming procurement processes.
- As for other change management and stakeholder engagement challenges, the project has foreseen these needs and they are being planned for accordingly.

Lessons learned: *If applicable, please provide a brief description of the lessons learned regarding the key capacity issues related to the implementation the Grant's activities during the last Reporting Period.*

- Close attention must be paid to developments at the international level, particularly as they relate to Articles 6 and 13 of the *Paris Climate Agreement*.
- It is important to develop strong rapport with key users of the proposed system and to engage them early on and very actively to minimize push-back. Ensuring these stakeholders feel empowered and not left behind or threatened is critical for the success of the system. In some

cases, this requires more formal agreements and approaches.
Coordination with other carbon pricing initiatives, including those funded by other donors:
<p>Developments: <i>Please describe any developments related to other carbon pricing initiatives, including those funded by other donors, that have occurred during the Reporting Period or that are expected in the future.</i></p> <ul style="list-style-type: none"> • There are a variety of programs, projects and initiatives that relate directly or indirectly to climate change which are being carried out by various agencies. Coordination with these activities is of paramount importance to ensure consistency and avoid duplication of activities and to maximize synergies. This is especially true of other WBG projects and programs including the FCPF and the Productive Landscapes Programs. • Coordination will be especially relevant with: <ul style="list-style-type: none"> • FONAFIFO and the REDD+ Strategy • The MRV component of the IADB transport program • Potential crediting NAMAs, which may become part of the MCCR or seek to export credits abroad • The Regional Accounting Rules Project and Transport and Mobility Energy Efficient led by GIZ • The EUROCLIMA initiative, the Enhancing Capacity for Low Emission Development Strategies project by USAID, Low Emissions Capacity Building Project by UNDP, and • Some specific project in the power sector from the World Bank and the Inter-American Development Bank • The Initiative for Climate Action Transparency (ICAT) and Capacity Building for Increased Transparency (CBIT) <p>Challenges: <i>Please describe how such developments might affect the implementation of the Grant's activities, either positively or negatively, and how any coordination challenges may be addressed going forward. Please also refer back to any potential coordination challenges that may have been identified in the previous PMR Project Implementation Status Report and, if applicable, explain how such challenges are/have been handled.</i></p> <ul style="list-style-type: none"> • Challenges have arisen regarding the interplay between other offset-related carbon pricing mechanisms and schemes like the Japanese Joint Crediting Mechanism (JCM), the World Bank Forest Carbon Prototype Fund (FCPF) and the International Civil Aviation Market Based Mechanism (ICAO-MBM) on the one hand and the ambitious target set by Costa Rica in its NDC. • Because these mechanisms require the transfer of ownership of the offset units from Costa Rica to another Party, possibly through some form of intermediary, these transfers would have to be reflected through some form of "corresponding adjustment" and could not be used by Costa Rica towards its own NDC compliance. This is especially relevant for the REDD Strategy, which is aimed at exporting a large number of forestry credits, but affects CDM projects and potential crediting NAMAs as well. • The PMR-CR team is providing technical support to MINAE to establish a set of criteria to analyze and evaluate potential offset transactions in light of the NDC goals. The work being done with TIMES-CR under the second Upstream Policy Analysis window will provide key

inputs for this process.

Lessons learned: *If applicable, please provide a brief description of the lessons learned regarding coordination with other carbon pricing initiatives during the last Reporting Period.*

- The importance of informal contact and coordination as a way to reduce the complexity of engagement has proven very valuable. It is sometimes easier to call directly than to go through formal channels.
- Having a clear technical understanding of the desired outcomes is fundamental to have clear roles and responsibilities and avoiding overlap.
- Delays in other technical assistances related with carbon pricing instruments affect the PMR project implementation. Despite close coordination with those initiatives, internal factors, out of control of PMR, had as a consequence to hold over the project assistance to MINAE. However, these are decisions of the national authorities.
- Different carbon pricing initiatives and potential offset demand drivers must be evaluated strategically, from a national perspective, to ensure lowest overall mitigation cost and highest overall return.

Stakeholder engagement related to the Grant's activities:

Developments: *Please describe any developments related to stakeholder engagement (consultation, participation and disclosure), that have occurred during the Reporting Period or that are expected in the future.*

As previously mentioned, the PMR-CR team holds coordination sessions and/or meetings with a variety of organizations, including:

- Continuous bilateral communication with the DCC, which is also the PMR Focal Point
- Periodical communication with the Minister of Environment and Energy, the Vice Minister of Energy and the Vice Ministry of Transport
- Technical meetings with the Validation/Verification Organizations (Organismos Validadores/Verificadores, OVVs) and the Costa Rican Accreditation Body (Ente Costarricense de Acreditación)
- Meetings with Carbon Neutral organizations, the Alliance for Carbon Neutrality various NGOs and other stakeholders
- SINAMECC Committee
- Coordination meetings with Riteve, the vehicle's annual inspection agency that might be responsible for the measurement of the mobile emissions levy.

Challenges: *Please describe how such developments might affect the implementation of the Grant's activities, either positively or negatively, and how any stakeholder engagement challenges may be addressed going forward. Please also refer back to any potential stakeholder engagement challenges that may have been identified in the previous PMR Project Implementation Status Report and, if applicable, explain how such challenges are/have been handled.*

- High level visibility and buy-in implies the team has access to and support from key

stakeholders in all relevant Ministries. This is instrumental to achieving high-impact results. However, it also means expectations are high and the pressure to start delivering results is also high, making expectation management and fluid status communications extremely relevant.

- Engaging with such a large number of stakeholders can be complex and can easily take up substantial amounts of team time.

Lessons learned: *If applicable, please provide a brief description of the lessons learned regarding stakeholder engagement during the last Reporting Period.*

- The value of an operational focal point and a core team of experts with their own networks within key Ministries to facilitate coordination and cooperation with various dependencies at various levels beyond the formal Steering Committee.
- Communication with the Bank is key, especially as a Bank-executed grant.

Other issues related to the Grant's activities

Please describe any developments, challenges and lessons learned regarding any other issue related to the achievement of the Grant's objectives and the implementation of the Grant's activities.

- The strong links to technical teams in the relevant ministries continue to prove invaluable for this process. These relationships allowed for detailed technical discussions about Ministry priorities and how they related to PMR objectives to find high-impact activities that were relevant and coherent in both frameworks.
- Interaction with international colleagues, often promoted by PMR technical meetings and informal encounters, have also provided insights and support that would hardly have been available locally and sometimes even regionally.

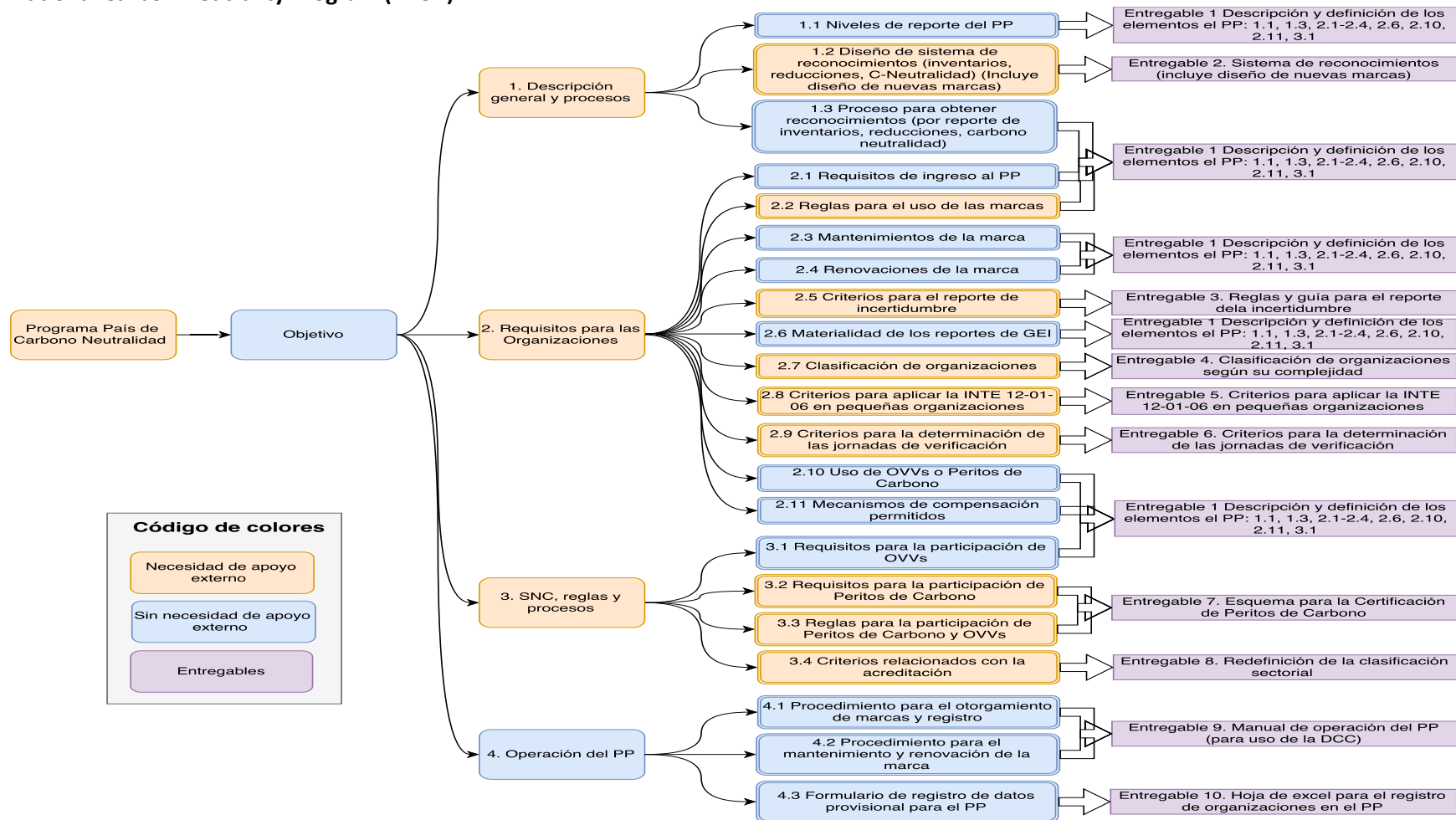
5. ADDITIONAL INFORMATION

In this Section, please provide any additional information that may be relevant for the achievement of the Grant's objectives and/or the implementation of the Grant's activities. Please also provide any relevant information related to carbon pricing and the use of market-based instruments for climate change mitigation.

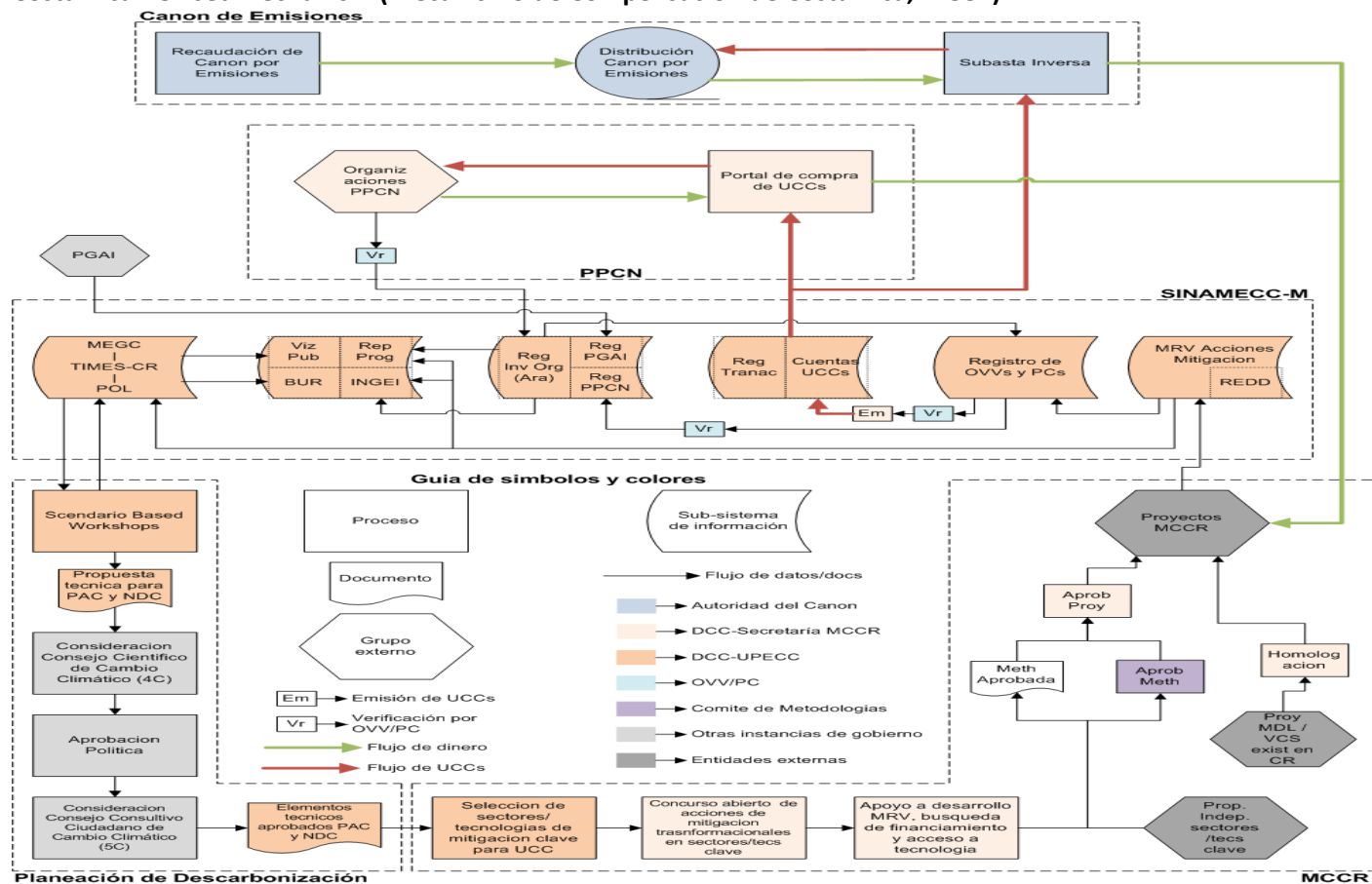
ANNEX 1: COSTA RICA MRP IMPLEMENTATION: SELECTED DIAGRAMS

- 1. National Carbon Neutrality Program (PPCN)**
- 2. Costa Rican Offset Mechanism (Mecanismo de Compensación de Costa Rica, MCCR)**
- 3. National Climate Change Metrics System (SINAMECC)**
- 4. Emissions Levy Implementation Diagram**
- 5. Logical Framework (as presented for ISR 1)**

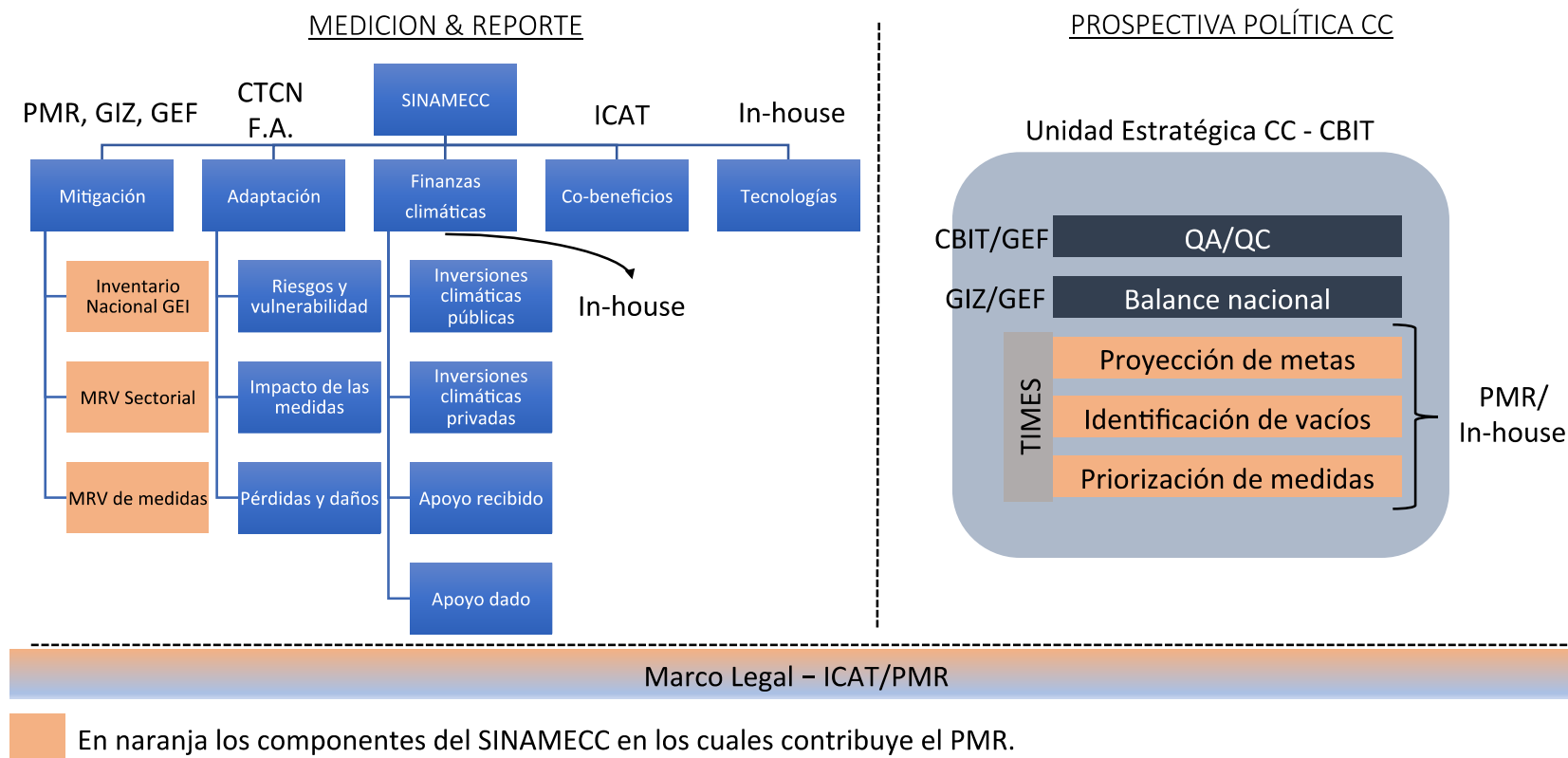
National Carbon Neutrality Program (PPCN)



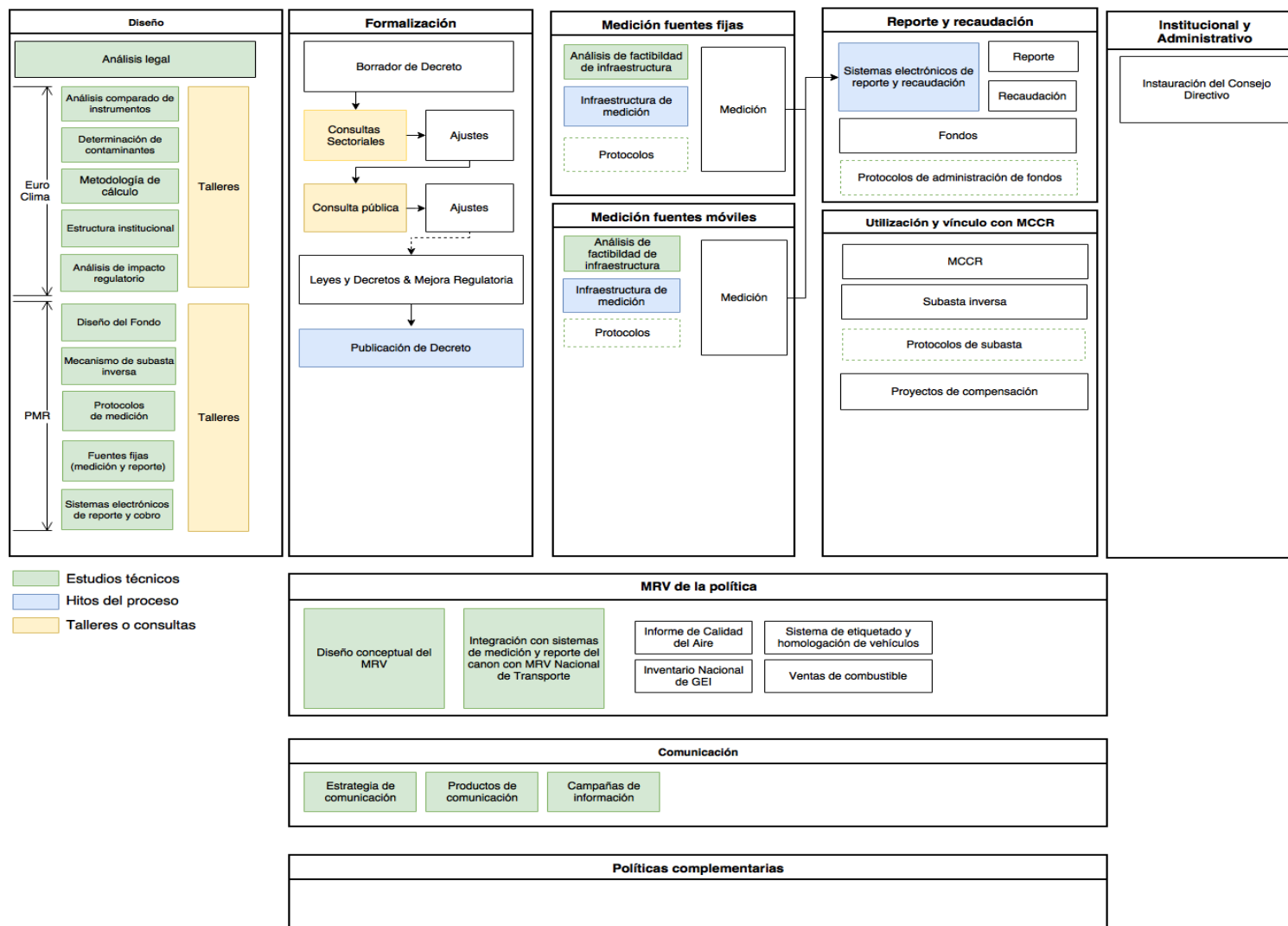
Costa Rican Offset Mechanism (Mecanismo de Compensación de Costa Rica, MCCR)



Estructura SINAMECC y ubicación del PMR



Emissions Levy Implementation Diagram



Logical Framework as presented during ISR 1

COSTA RICA MRP: IMPLEMENTATION PHASE				
Country Objectives: The Costa Rican National Climate Change Strategy and the recently submitted INDCs are the main pillars for an integrated, long-term strategy for sustainable development that seeks to transform Costa Rica into a low-carbon climate resilient country.				
Primary Key Result: The carbon mitigation component of the strategy focuses on aligning with a carbon neutral economy by 2021 with net GHG emissions of 9.47 million tons of CO ₂ e by 2030. Central to this aspiration goal is the design and operation of carbon pricing mechanisms, both as policy and financing instruments.				
	Indicator	Baseline	Targets End of Project	Source of verification
Project Objective Contribute to advance Costa Rica's integrated, long-term strategy through the development, design and implementation of market readiness activities.	<i>Technical inputs for market readiness activities designed and implemented</i>	<i>Market and C-Neutrality program out of date, disjointed from INDC, and National Energy Plan. Insufficient data and mostly ad-hoc, report-specific data gathering and analysis. Mitigation activities not anchored in policy yet and will require support for implementation.</i>	<i>Carbon pricing mechanisms designed and ready for implementation</i>	<i>Reports produced; processes established</i>
Outcome 1 Completion of the domestic market design <ul style="list-style-type: none"> • Update market conceptual framework • Governance and institutional arrangements • Registry/tracking tool • MRV protocols and methodologies • Capacity building, communications and consultation 	<ul style="list-style-type: none"> • C-neutrality and carbon pricing mechanisms concept notes discussed and agreed • Governance instruments modified • Key institutional collaboration arrangements for governance and data measurement codified • Registry/tracking tool designed; continuous data measurement and analysis system established 	<ul style="list-style-type: none"> • Fragmented concept of C-Neutrality (2005 baseline vs net neutrality vs decarbonization); market designed for pre-INDC conditions. • Gaps in legal instruments: Agreement 36-2012-MINAET and Decree 37926-MINAE which create the Carbon Neutral Program and the Domestic Carbon Market as well as rules and regulations adopted by the Carbon Board and Methodologies Committee. 	<ul style="list-style-type: none"> • Market infrastructure ready for operation • C-neutrality and carbon pricing mechanisms concept notes reflected in Presidential decrees • Carbon Board and Secretariat appointed, trained and operational • MOUs prepared with key institutional partners • Data measurement and analysis is institutionalized with 	<ul style="list-style-type: none"> • Concept notes • Signed MOUs • Carbon Board minutes and agreements • Registry/tracking tool in place • MRV protocols and methodologies documented • External expert review

<ul style="list-style-type: none"> ● International peer review of market design 	<ul style="list-style-type: none"> ● <i>MRV protocols and methodologies designed</i> ● <i>Facilitating and coordinating engagement with stakeholders.</i> ● <i>Market design evaluated by international panel of experts</i> 	<ul style="list-style-type: none"> ● <i>Rudimentary registry tracking. No continuous data gathering and processing capacity.</i> ● <i>Most institutional collaboration on ad hoc basis.</i> ● <i>Data collected on an ad hoc basis.</i> ● <i>Project-driven MRV with no cohesive strategy in place.</i> ● <i>No outside evaluation or input on design or implementation.</i> 	<p><i>operating IT infrastructure and updated on periodic basis</i></p> <ul style="list-style-type: none"> ● <i>Selected methodologies submitted to Methodologies Committee for approval.</i> ● <i>Stakeholder alliances formed</i> ● <i>Third party validation of market design</i> 	
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<p>Outcome 2 Strengthening of demand by assessing a range of policy options:</p> <ul style="list-style-type: none"> • INDCs scope and impact (incl. market component) • Voluntary Demand by organizations from the Carbon-Neutrality Program • Regulatory demand from the yearly emissions levy (canon) • Capacity building, communications and consultation 	<ul style="list-style-type: none"> • <i>Policy options preliminary identification</i> • <i>Technical support to the Climate Change Directorate and the Sectoral Climate Change Coordinator in approaching analytical challenges and gaps related to the design and operationalization of INDC implementation strategies</i> • <i>Support in enabling policy options for INDCs (including upstream policy analysis and carbon neutrality program)</i> • <i>Reverse auction mechanism design</i> • <i>Facilitating and coordinating engagement with stakeholders.</i> 	<ul style="list-style-type: none"> • <i>Demand options partially assessed, intention to use the carbon neutrality program to internalize INDCs, reverse-auction mechanism concept put forth.</i> • <i>INDC sets decarbonization pathway and net maximum emissions target for 2030. Widely expected to be translated into some form of cap and act as a driver for the Carbon Neutral Program.</i> • <i>Levy from emissions from mobile and static sources as well as energy efficiency tax approved in National Energy Plan 2015-2030. Funding for remediation efforts related to these instruments could provide basis for institutionalized demand via reverse auction mechanism.</i> 	<ul style="list-style-type: none"> • <i>Demand stimulus policy options assessed</i> • <i>Reverse auction mechanism in place</i> • <i>INDC internalization roadmap</i> • <i>Demand policy mix formulated</i> • <i>Stakeholder alliances formed</i> • <i>Convergence of demand and supply analyzed</i> 	<ul style="list-style-type: none"> • <i>Project documentation</i> • <i>Adopted INDC Strategy and 2016 Climate Change Strategy (tbd)</i> • <i>Air quality levy decree</i> • <i>Energy efficiency tax</i> • <i>Carbon neutrality certification</i>
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<p>Outcome 3 Consolidation of supply through the implementation of mitigation and offset activities in three sectors:</p> <ul style="list-style-type: none"> • Activities in support of UCC supply from the electrical sector <ul style="list-style-type: none"> ○ Supply and demand side energy efficiency and conservation ○ Non-conventional renewable options for self-supply (distributed energy and low-enthalpy geothermal power) • Activities in support of UCC supply from the transport sector <ul style="list-style-type: none"> ○ Electrification of the private vehicular fleet and the public transport system ○ Public transport sectorization in the Greater Metropolitan Area (GAM) ○ Gradual substitution of fossil fuels with biofuels • Activities in support of UCC supply from the livestock and agriculture sector <ul style="list-style-type: none"> ○ Coffee NAMA ○ Livestock NAMA 	<ul style="list-style-type: none"> • <i>Specific LED Policy Instruments including laws, regulations, programs and other specific instruments to promote low emission development proposed.</i> • <i>Structures, schema and tools for the generation and capture of data to quantify mitigation activities and/or potential issuance as UCCs developed and operating.</i> • <i>Climate finance structures for specific mitigation actions analyzed and best relevant practices proposed.</i> • <i>Specific technical elements necessary to develop policy instruments, MRV schemes and/or provide an enabling environment for mitigation actions with potential for UCC issuance</i> 	<ul style="list-style-type: none"> • <i>National Energy Plan 2015-2030 sets out political support for a vision, plans and activities for energy and transport sectors, 2/3 of key MRP emission sectors.</i> • <i>Limited data available, highly atomized and of variable quality.</i> • <i>Mostly ad-hoc data collection schemes and/or limited reporting and analysis in infrastructure.</i> • <i>Agriculture NAMAs leading edge of NAMAs in Costa Rica require support to consolidate</i> • <i>Well established governance structure and documented MRV structures still required in all sectors.</i> • <i>Abundant opportunities to facilitate implementation and reduce mitigation MAC.</i> 	<ul style="list-style-type: none"> • <i>Market potential and suitability assessed</i> • <i>Enabling environment (including market mechanism, MRV schema, IT infrastructure, etc) ready for inclusion of each sector in market</i> • <i>Sectoral activities/inputs completed and delivered</i> 	<ul style="list-style-type: none"> • <i>Project documentation</i> • <i>Sectoral products (tbd)</i>
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