

San José, January 31, 2011

Ms. Martina Bosi,
Senior Carbon Finance Specialist
Carbon Finance Unit
World Bank
Email: mbosi@worldbank.org

Dear Ms. Bosi

On behalf of the Costa Rican Government, we formally request to be included in the Partnership for Market Readiness to access market instruments as a potential mechanism to achieve climate mitigation actions within the country's national political context.

Costa Rica has been a leader in environmental conservation and has announced its voluntary decision to achieve Carbon Neutrality by 2021. The carbon neutrality target is part of a far more ambitious project: to set the foundations of Costa Rica's long-term development model of a sustainable economy with low emissions and resiliency to climate change. The country has adopted innovative policies and instruments to promote sustainable development including a decades-long commitment to renewable energy and leadership in reforestation. In an effort to reverse its deforestation rate Costa Rica used many innovative mechanisms such as the adoption of public policies including the establishment of protected areas, the consolidation of the National Conservation Areas System, the use of direct incentives, subsidized credits, fuel taxes, and fees for the use of water resources, the Payments for Environmental Services (PSA) program, among others.

Climate change is a political priority for Costa Rica. The National Strategy on Climate Change comprises six strategic areas (mitigation, adaptation, measuring, capacity building, awareness raising and public education, funding), with the common objective of aligning policies with climate change as part of a long-term strategy for sustainable development. The main objectives of the strategy are to achieve a climate neutral economy by 2021, reduce sectoral and geographical vulnerability in the face of climate change, and develop an information system that is precise, reliable and verifiable. It also seeks to build capacities, educate and raise awareness among the population, as well as create the financing mechanisms required to promote its national agenda.

Costa Rica's 2005 GHG inventory, which was part of the Second National Communication to the UNFCCC, indicates that the energy and agricultural sectors are the country's main GHGs producers. This is the result of fossil fuels used in the transport sector, methane emissions from cattle, and the intensive use of agrochemicals in agricultural activities. In agriculture, emissions seem to have stabilized, while in other sectors they have been increasing. In the case of land use change sector, this has consolidated as an important source of carbon capture (in the forestry sector).

The Partnership for Market Readiness, provides an ideal opportunity for Costa Rica to share its experience in the forestry sector, as well as to receive support to develop new and innovative market instruments, harnessing financial flows, and building market readiness capacity to scale up domestic climate change mitigation efforts.

Please find attached to this letter two annexes including:

- Annex A: Expression of Interest; and
- Annex B: Questionnaire on Market Readiness Capacity.

We greatly appreciate the World Bank's initiative in this important area, and look forward to the opportunity of participating in it.

Sincerely,

Andrei Bourrouet
Vice-minister of Energy and Environmental Management

A. Expression of interest

Partnership for Market Readiness (PMR)

Expression of interest in participating in the PMR

<p>1. Name of the government agency submitting expression of interest:</p> <p>COSTA RICA. Ministry of Environment, Energy and Telecommunications (MINAET)</p>
<p>2. Name and contact information of designated PMR Government focal point:</p> <p>ANDREI BOURROUET, Vice-minister of Energy and Environmental Management, Ministry of Environment, Energy and Telecommunications (MINAET)</p>
<p>3. Domestic mitigation action: outline what are the purposes and main objectives of your country's mitigation strategy.</p> <p>a. Provide an overview of domestic mitigation policies and plans and the status of the implementation - at both the national and sub-national levels.</p> <p>b. Briefly identify the key sectors targeted by the mitigation strategy.</p> <p>Climate change is a policy priority for Costa Rica. The country's National Climate Change Strategy (NCCS) consists of six strategic areas (Mitigation, Adaptation, Metrics, Capacity Building, Public Awareness and Education, Financing) with the common goal of mainstreaming climate change policy in line with the country's long term competitiveness and sustainable development strategy.</p> <p>Costa Rica has actively responded to climate change through various policy and mitigation actions. Since the mid 1970s, the country has invested in forest protection and biodiversity conservation through the National System of Protected Areas (SINAC), and an extensive Payments for Environmental Services Program (PSA). Currently, more than 90% of the country's electric grid is generated with renewable sources.</p> <p>Through energy and land-use policy, Costa Rica has mitigated green house gas (GHG) emissions. The sources of financing for these national efforts have been mainly taxes (on fossil fuels), local funds and foreign debt. International cooperation has played a positive but comparatively minor role.</p>
<p>4. Market Instruments: briefly outline experience to date with relevant market instruments as well as future plans.</p> <p>a. Provide a brief description of experience to date with market-based instruments, e.g., type of instrument, dates of implementation, scope, and key outcomes.</p> <p>b. To the extent that one (or more) specific market instrument is already identified for future implementation, provide a brief overview of the status of development/implementation and its relevance to the country's overall mitigation strategy.</p>

<p>The Payment for Environmental Services Program (PSA) was created in 1996 and has allowed the country to develop a legal framework, institutions, social capital, and an improved governance scheme.</p> <p>The PSA has been implemented by the National Forestry Financing Fund (FONAFIFO) and created a Local Market of Environmental Services (water, biodiversity, scenic beauty, and carbon) accounted for in avoided deforestation as well as maintenance and increase of carbon stocks.</p>
<p>5. Support from the PMR: provide a short summary of your current assessment of the capacity needs and gaps for which support from the PMR is being sought. To the extent that one (or more) specific market instrument is identified, outline the type of support that your country may be seeking from the PMR.</p> <p>Costa Rica has developed experience in the forestry carbon markets however the country needs to promote the creation of a voluntary local carbon market (segments) to achieve: a) increased tradability of emission reductions from energy efficiency, renewable energy, transport sector, agriculture, waste management, etc. b) product innovation in the financial sector.</p> <p>There is a need to develop a national carbon market, based on regulatory standards, institutional arrangements and partnerships between the government and private stakeholders.</p>
<p>6. Institutional setting: how would you plan to coordinate the PMR efforts at the domestic level, i.e., which Ministry would lead and which government agencies would be involved?</p> <p>Ministry of Environment and Energy and the National Office of Climate Change</p>
<p>7. Stakeholder participation: are there intentions/plans /processes to engage non-governmental stakeholders (e.g., private sector)? If so, provide brief description.</p> <p>The private sector and financial sector must play a key role in setting the local carbon market structure, however these plans are still under discussion. Increased engagement between the public and private sectors on climate change market development is a pending priority.</p>
<p>8. Initiatives by other bilateral and multilateral development partners: outline any initiative(s) pursued with other international partners underway in your country that is (are) relevant to market readiness support (e.g., low carbon development strategies, MRV, etc).</p> <p>Readiness Preparation Proposal (R-PP) presented to: Forest Carbon Partnership Facility (FCPF)</p>