This paper is modified from the REDD-net Latin America Bulletin 1 previously published online: Putting Payments for Environmental Services at the heart of national REDD+ systems: what can we learn from Costa Rica? It is available at http://redd-net.org/files/CostaRicaPES.pdf

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The findings, interpretations, and conclusions expressed herein are those of the author(s), and do not necessarily reflect the views of the funders. Supporting research for this document was carried out from July to October 2010.
Costa Rica is currently developing its national REDD+ strategy. It has developed a **Readiness Preparation Proposal (R-PP)** under the World Bank’s Forest Carbon Partnership Facility (FCPF). This fits within a broader low carbon development strategy which has an objective for carbon neutrality by 2021. The emerging REDD+ strategy is closely tied into the existing payments for environmental services (PES) system. PES has been an effective REDD+ instrument because it has helped in reordering land uses at the landscape level. Forest cover has increased from 42% to 52% between 1997 and 2008, and PES has contributed to reducing deforestation in the areas where funds have been concentrated. It should be noted that it is difficult to determine exactly how much of this can be attributed to the PES scheme or to other socioeconomic factors. Factors such as low agriculture and cattle prices, a blooming tourism industry, a growing services and real estate industry, higher levels of education and environmental conscience, and other structural factors such as clear land rights, have helped PES to have such positive impacts.

Early efforts such as the PES policy have already contributed towards the goal of carbon neutrality and have resulted in historic emissions from the sector over the last ten years that are negative. This means that Costa Rica could find it difficult to benefit from a REDD+ system that rewards reductions in deforestation and degradation rates, if rewards do not take into account such early actions. However, in order to reach a goal of carbon neutrality by 2021 in the face of rising emissions in other sectors, it is also likely to be necessary to expand the PES system. In such an expanded scenario the forest sector could contribute around 65% to the carbon neutrality effort.

The Costa Rican PES system offers interesting insights into the structuring of financial incentive mechanisms for forest protection and how equity issues are taken into consideration.

**Governance of resource allocation**

Firstly it offers insights into the governance of resource allocation — i.e., who makes the decisions about resource allocation and how? The readiness process has been organized through a **working group (WG)** composed of the board of Directors of the National Forestry Fund (FONAFIFO), which is the legal organization that administers the PES program, and a **Coordinating Unit (CU)** which is composed by FONAFIFO technical and administrative staff.

- The Working Group has the representation of the major interest groups of the country: Trans-sectoral (Agricultural, Forestry and Environmental Sectors), third key interest groups included (all interested actors represented by the National Forestry Office), government agencies present (Forest Service, Environmental Ministry, Agricultural Ministry), and linked policy processes.
- The Coordinating Unit coordinates the REDD secretariat composed of the Agricultural Ministry, the forest service and FONAFIFO for consolidating the implementation of the R-PP.
FONAFIFO is a political institution used for the allocation of financial resources coming from taxes to forest owners in the form of PES. It uses the majority rule mechanism of its board of directors to decide when, where, how much, how, and who gets PES through an annual yearly published decree. Despite frequent references to the Costa Rican PES as an example of market based environmental management, this form of resource allocation is not a market for environmental services system, because FONAFIFO does not use a price mechanism for allocation. However, FONAFIFO does have policies that allow them to sell carbon credits that are a product of the national PES program. Their implementation is still pending the coordination of strategies within the country for selling carbon with an integrated monitoring, reporting and verification system.

It is likely that FONAFIFO will need to be strengthened in order to implement REDD+ effectively. The forest service will need to strengthen its management in areas of illegal logging control, protected areas administration and promotion of forest investments and activities. Professional colleges will also have to improve to manage forest control, and also develop mechanisms for controlling deforestation coming from other sectors like pineapple production, tourism, and biofuels.

Targeting and equity

The PES program offers insights into how different groups are targeted with payments. This is defined in the decree in the following way:

- FONAFIFO prioritizes areas of low development indices and high conservation importance (biological corridors).
- Eligibility conditions linked to the scale of projects, which have to be less than 300 ha. A minimum land size qualification threshold of 10 hectares is adopted by FONAFIFO in order to be consistent with the minimum legal area of a ‘forest’ as defined by the Forestry Law.
- FONAFIFO sets quotas for women and indigenous community groups. In the case of indigenous communities it also allows up to 800 ha in a single contract. However, FONAFIFO has focused its PES to the full protection of forest with no allowance for any kind of management or use.

It also defines criteria on the different forest management activities that can be undertaken and the level of incentives they can expect:

- forest protection (5 year duration and US $210/ha dispersed over 5 years);
- sustainable forest management (15-year duration and US $327/ha dispersed over 5 years) [discontinued in 2005]; and
- reforestation activities (15 to 20 year duration and US $537/ha dispersed over 5 years) (Sierra and Russman, 2006).

FONAFIFO claims that the impact of the PES program between 1997 and 2008 has included 625,000 ha (12% of the country), in which 55,000 ha (9% of the PES area) is located in 20 indigenous communities. Funds have been channeled to 8,500 families with increasing participation of women as family heads due to
a gradual increase of FONAFIFO priorities for including these groups as beneficiaries. The investment in rural areas has amounted to US $200 million, most of which has been directed to small and medium landowners, with an average project size of 30 ha for reforestation and 85 ha for forest protection, and 80% of this funding has been allocated in rural areas with a low development index as stated in FONAFIFO’s PES social policies. Land tenure uncertainty may create a possible threat to the expansion of a PES system under REDD+—less than 50% of forest owners currently have clear land tenure. The REDD+ strategy is conducting consultation processes to assess how the existing approaches can be improved and barriers can be overcome, in a REDD-PES system.

Much less attention has been given to the economic effect of the PES legal constraints and higher costs on productive activities such as plantation forestry and SFM of Natural forests. Most of the funds (85%) are allocated towards PES for forest protection where management for forest production is not allowed. Natural forest management has been politically suppressed, not only by creating even more restrictive SFM standards in 1998 and 2002, but also by eliminating financial content to PES for SFM program after 2003. This is partly due to the influence of powerful environmental groups that have changed the concept introduced by the forest law in which managed forest will provide goods and services to society, towards goods or services, with services being supported under the PES system but not including goods such as timber production.

**Timing and scale of incentives**

A third insight relates to the timing of incentives delivered by the PES system. Where PES supports reforestation, it has been designed so that payments are made upfront to support establishment and maintenance of the plantation in the first years of the investment. Less attention has been given to orientating objectives towards the production of good quality wood, to develop a cultivated wood production cluster, or support producer organizations for accessing wood markets. Reforestation PES has resulted in a mixed condition of forest plantations and low demand for this program because PES only represents between 3 to 8% of the investment net rent, and basically the forest owner is on their own after PES money is consumed.

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**Nature of incentives**

Another insight relates to the nature of incentives delivered through a REDD-PES system and how these balance with other incentives or barriers facing landowners. A major issue surrounds changes in the value of alternative land uses which may change the balance between the forest and non-forest land uses, as has been the case for biofuels produced from oil palm.

Costa Rica also needs to improve the use of sustainable timber in construction as carbon storage, which also substitutes material with a high carbon footprint like cement, aluminum and steel. For that, the country will have to work on eliminating cultural, legal, technological, and educational barriers for moving towards increased use of forest bio-products and biofuels. Nothing of this nature can be done in the country until the wood industrialization process improves substantially in efficiency.

**References**

5REDD+ Benefit Sharing in Costa Rica