



**Government of Costa Rica
Ministry of Environment and Energy (MINAE)
National Forestry Financing Fund (FONAFIFO)
UNFCCC Designated National Authority (OCIC)**

Costa Rica: Environmental Services Payment as a policy tool to avoid deforestation and promote forest recovery.

UNFCCC Workshop on
"Reducing emissions from deforestation
In developing countries"
Rome, August 30 – September 1
2006



General Features

Costa Rica



- Area

51,100 km²

- Population

4.200.000 h.

- According to land-use capacity 70% of national lands **should be forested**

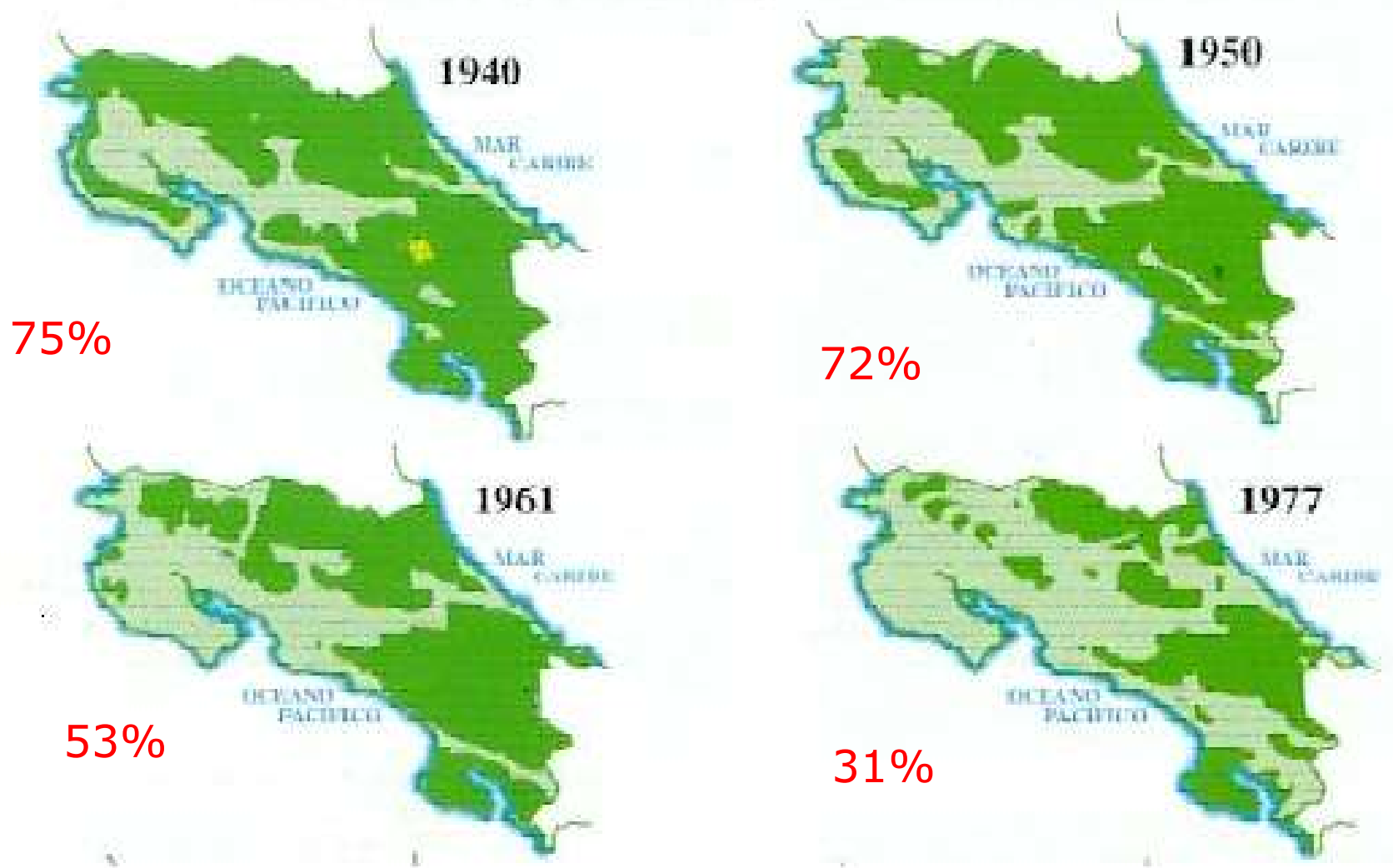
- 26 % of the national lands under protection (National Parks, Wildlife Refuges, Biological Reserves)

Historic features

- 60's to 80's:
 - **Lands needed for cattle ranching, coffee, sugar cane and banana plantations according to the demand of international markets.**
 - **High deforestation rates (clear-cutting of forests was the official policy for "providing value to lands") 55.000 Ha/year. Forest had no value**
 - **Upper 70's consciousness of the need for conservation and management policies arose**

Forest cover trends: 1940-1980's

Cobertura Boscosa Densa (80-100% de cobertura del suelo) en Costa Rica en los años 1940, 1950, 1961, 1977, 1983, 1987, 1996/1997



A capacity building process

- **1969 – 1985**

- **First Forest Law enacted (1969)**
 - Logging permits regulated by the first time
 - Creation of the Forestry Department (Ministry of Agriculture)
 - Reforestation Incentives (operational by 1979) through the First National Forest Development Plan (Near 40.000 Ha reforested)
- **National Park System created (1970)**
- **Forestry schools established (1975) in two Public Universities**

- **1986 -1995**

- **Sustainable forest management concept introduced into the legal framework**
- **Creation of the Ministry of Environment and Energy**
- **Several local, regional and national organizations established: DECAFOR, CODEFORSA, AGUADEFOR, ETC...**
- **First forest related credit and incentives experiences**
- **Creation of Incentives for forestry activities:**
 - **The FIC (Forest Investment Certificate)**
 - **The FICA (Forest Investment Certificate in Advance) provided to small and medium scale owners for reforestation activities**
 - **The FMIC (Forest Management Investment Certificate) Bonds issued by the government on the basis of fulfillment of Management Plans.**
 - **The CFP (Certificate of Forest Protection): oriented to the protection of water resources, biodiversity, the buffer zones of the wildlife protected areas and other forest related services (Forest Conservation)**

A capacity building process – Cont.

- **1995-2006**
 - **New Forestry Law (1995)**
 - **Land use change prohibited**
 - **Creation of the National Forestry Office**
 - **Creation of the ESP concept and a funding source (tax on fuels)**
 - **FONAFIFO legally consolidated**
 - **The National System of Protected Areas was created, absorbing the former Forestry Department (Integrated ecosystem management)**
 - **Creation of the concept of Forest Supervisor (Private Regent) Public faith**
 - **Certificate of Environmental Services (CES/CSA) and other instruments created**
 - **New Forest Development Plan (2000)**
 - **Update of the NFDP and development of a National Forestry Financing Strategy**

Environmental Services Payment Program: a tool for forestry recovery and protection

ESP: a financial mechanism created to recognize the environmental services provided by forests to the society.

Economic compensation to land owners to guarantee the conservation and sustainable management of forest resources.

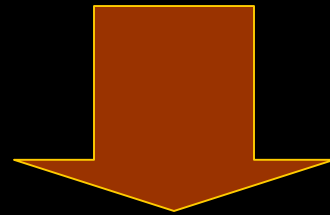
Forestry Law 7575: “Forests, forest plantations and other ecosystems offer services essential to the citizens and to economic activities, at the local, national and global levels”.

- **Protection of water resources for different uses**
- **Mitigation of greenhouse effect gases and carbon fixation**
 - **Protection of biodiversity**
 - **Landscape/scenic beauty**

FINANCIAL SUSTAINABILITY

PRINCIPLE

**TO CHARGE SERVICES TO BENEFICIARIES
AND PAY TO PRODUCERS**



**DEVELOPMENT OF MARKETS FOR
ENVIRONMENTAL SERVICES**

Benefits from forests environmental services

Beneficiaries (Main)

Type of service	Owner	Country	World
Carbon fixation and storage			
Water for different uses :			
Landscape beauty			
Biodiversity Conservation			
Sustainable wood			

ESP: FIVE PILLARS

- **Legal framework**
- **Institutional framework**
- **Financial framework**
- **Political Framework**
- **Transparency and accountability**

1. LEGAL FRAMEWORK

Clear legal regulations and principles that enable the development of the system as a whole.

- **Internalization of prices into public services tariffs, Land use change regulations, Forest concept,**
- **Environmental services payment definition, funding sources**
- **Linkage with international agreements**

1. National Constitution (Article 50).
2. Forestry Law (# 7575).
3. Law of the national authority for the regulation of public services (Law 7593).
4. Biodiversity Law (Law 7788).
5. Public Budgets, Planning and Public Administration Laws

2. INSTITUTIONAL FRAMEWORK

➤ **Adequate administrative structure for the fulfillment of the proposed goals of the program, its integral management and the administration of financial resources.**

- ✓ Ministry of Environment and Energy – Political guidance-
- ✓ National Forestry Financing Fund (FONAFIFO) – Overall management-
- ✓ National System for Conservation Areas (SINAC) – Technical support and follow up-
- ✓ Forestry organizations (local, regional, national)
- ✓ Forestry engineers Association and Forestry Schools
- ✓ Beneficiaries
- ✓ Public property registry

3. FINANCIAL FRAMEWORK

- **Public, Private and mixed sources of funding**
 - **Internal and external sources.**
 - **Market-oriented mechanisms**
-
- Tax on fossil fuels (users)
 - “Ecomarkets” Project (World Bank-GEF- FONAFIFO)
 - KfW Grant
 - Voluntary contracts with private companies (water, hydro-powers, tourism, etc.)
 - Certificate of Environmental Services
 - Carbon credits (BCF)

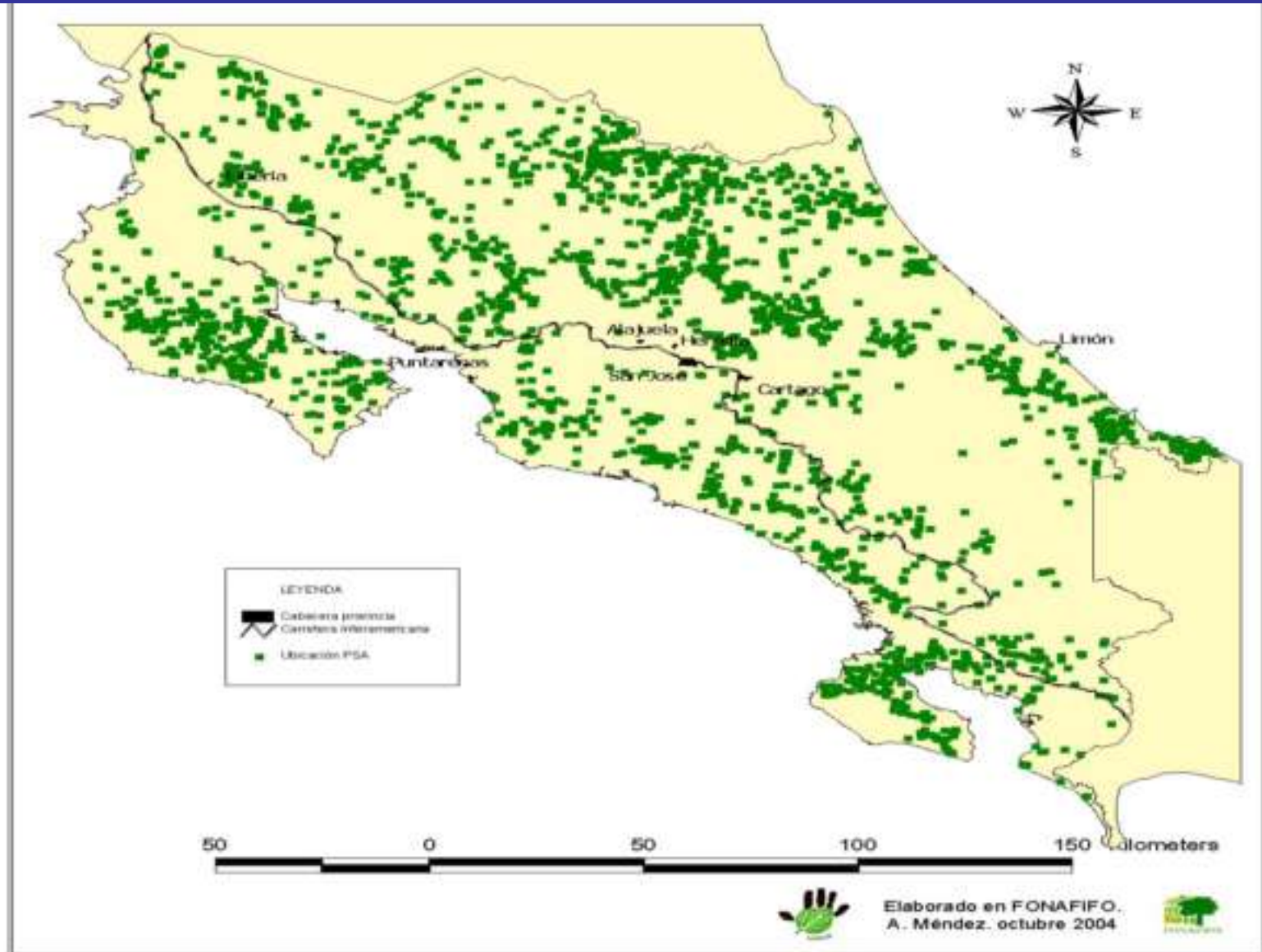
4. POLITICAL FRAMEWORK

- Processes and instruments for the definition of national environmental policies (goals and targets): National Development Plan, National Forestry Development Plan, Illegal logging control strategy.
- Specific policies for the promotion of the management, conservation and sustainable development of natural resources, within the scope of national development policies
- Usefulness of ESP as a mechanism for democratizing distribution of wealth
- Coherence with Poverty reduction strategies

5. TRANSPARENCY AND ACCOUNTABILITY

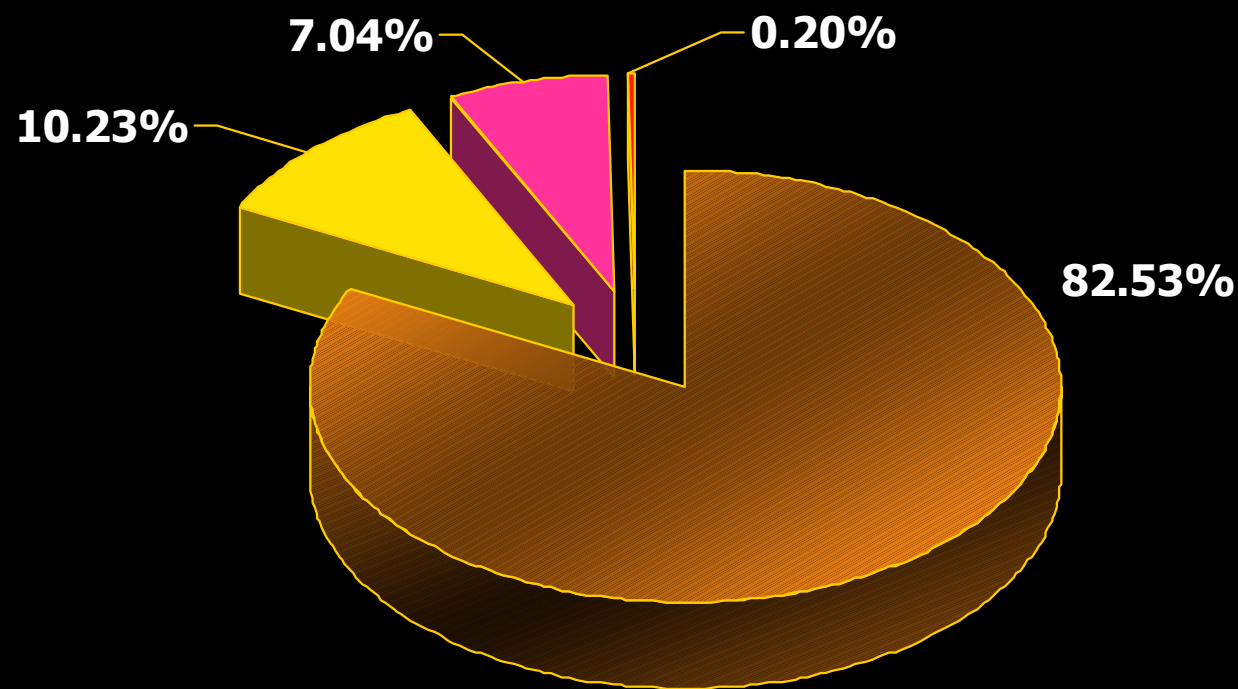
- Monitoring and verification Systems (SIG and SIAP)
- NSCA
- Internal and external technical and financial Audits
- Forestry regencies
- Property registry regulations

Location of Projects under ESP



App. 500.000 Has. covered by ESP during 1997 – 2005

\$120 million



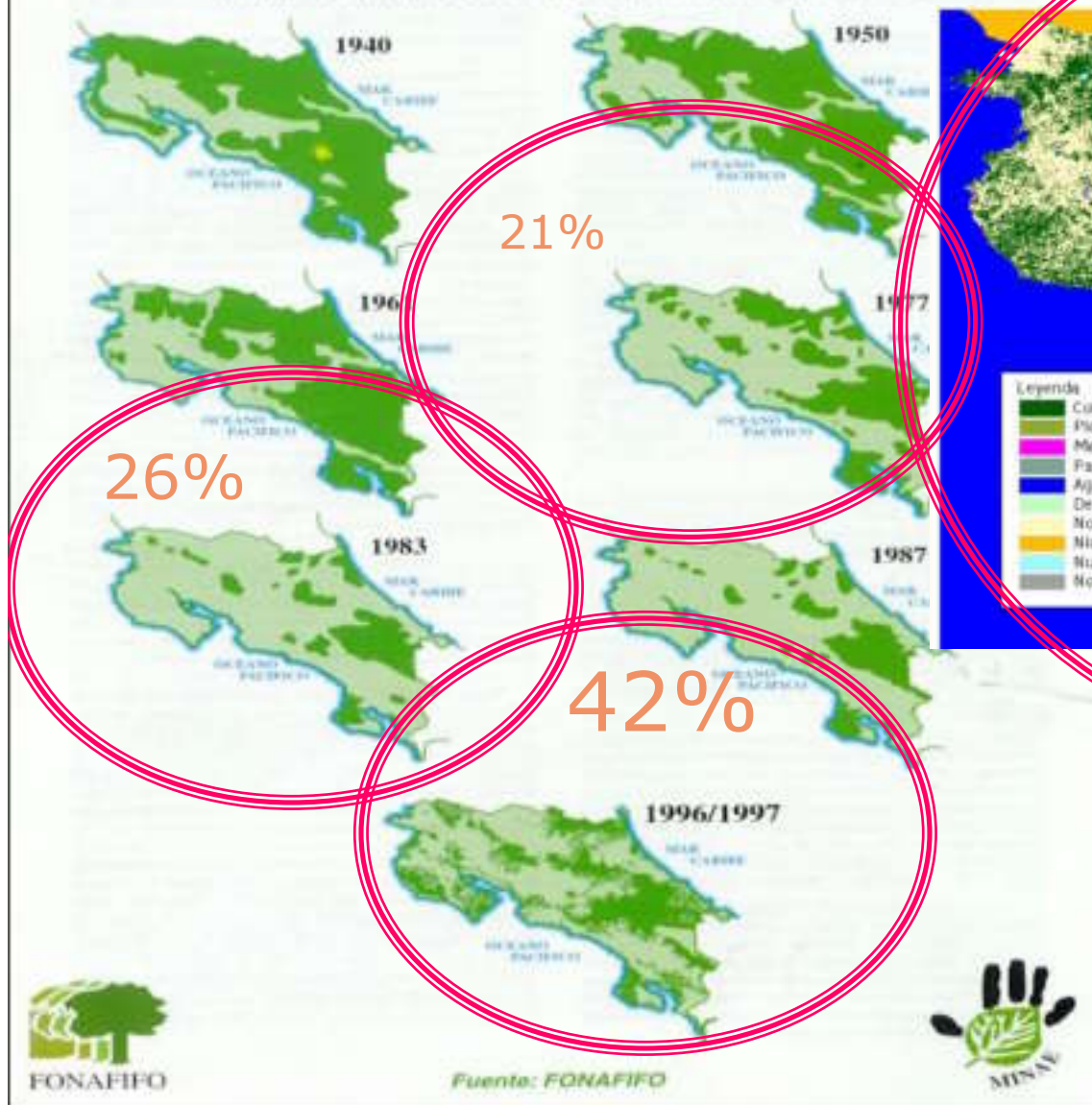
■ Protection ■ Forest management ■ Reforestation ■ Private Reforestation



Impacts of the program

- Reduce deforestation (particularly from illegal logging)
 - Increase contribution to poverty reduction and sustainable development objectives and Enhance Rural Development
 - Enhance forestry related industry and non traditional production and exports
 - Improve forest cover, reduce land degradation
 - Contribute to the fulfillment of national, regional and global environmental goals
- 7.000 families throughout the country directly benefited from the program, contributing to rural poverty reduction
 - Investments mainly oriented to small and medium landholders: average size of farms for conservation 30 Has. and 85 Ha for reforestation.

Cobertura Boscosa Densa (80-100% de cobertura del suelo) en Costa Rica en los años 1940, 1950, 1961, 1977, 1983, 1987, 1996/1997



Year 2005

51%



Fuente: FONAFIFO



Impact on
forest cover
recovery

BUT...

- Current financial resources are insufficient to satisfy the growing demand, guarantee the financial sustainability of the Program in the long term and the further expansion of forest cover.
- Land owners are willing to conserve forests despite the fact that they are losing opportunities for obtaining higher financial returns

Then...

- **Drivers:** Leading drivers are identifiable. We must overcome 'opportunity costs' of alternative land uses both locally and internationally. In most cases, a higher carbon 'incentive' will drive greater emissions reductions.
- **Solution Possible:** Technology, methods and markets available now to accurately measure changes in carbon stocks and trade relevant credits. Challenge is implementation (standards, policy, etc.)
- **Policy & Incentives:** Diversity of 'national circumstances' justify a flexible set of positive incentives -- ODA may be important to get started quickly, but markets seems to be the best sustainable finance solution.
- **Future:** Deforestation is important to future climate stability actions. International funding for analysis, capacity building, and pilot activities are needed immediately.

Policy Approaches deriving from experience

- **Lessons learnt**
 - **Incentives for Sustainable Forest Management**
 - **Local Community Participation & Buy-In**
 - **Promote increased productivity for land use – especially intensive agriculture ranching & among others.**
 - **Strengthen National Institutions and Legal frameworks**
 - **Expand Payment for Environmental Services (PES)**
 - **Consistent Policy integrated into National Development Plans**
- **Need for Capacity Building / Technology**
- **Credit for Early Action**
- **National Level Pilots**
- **2007 Deadline is Important**

Basket of opportunities for incentives:

Diversity of National Circumstances

- **Official Development Assistance (ODA)**
- **Voluntary National Approach (Voluntary Annex C)**
- **Flexible Scale: Sub-National, National or Regional**
- **Bilateral and/or Multilateral Trading Agreements**
- **Optional Protocol within UNFCCC**

**Voluntary
Multi-Staged
Not Mutually Exclusive**

Thanks

