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OVERVIEW

IIED Sustainable Markets Group

Project name:
Long-term Analysis of Social Impacts of the Payment for Environmental Services (PSA) Programme in Costa Rica

Project leader:
Ina Porras

Time frame:
2007-2009. CATIE (the Tropical Agricultural Research and Higher Education Center) in Costa Rica is now carrying out additional related work.

Cost:
£15,000

Objective:
To understand the long-term, overarching impacts of the PSA programme on the poor to open ways for improving it.

PROJECT SUMMARY

In 2004, Costa Rica introduced new policies designed to make it easier for poor farmers to receive payments for protecting forests. But have the reforms succeeded? Although there have been scattered local field studies, no one has systematically evaluated the impacts nationwide. Our large-scale assessment filled this gap and found that, although the programme has moved in the right direction, barriers preventing small farmers from fully benefiting remain.

THEORY OF CHANGE

IIED helps produce robust economic information on environmental and social impacts of policies, and how costs and benefits are distributed, with a particular focus on poor and marginalised groups. By demonstrating inequalities and inefficiencies in the way benefits are distributed, we can drive policy change to address these failings, leading to the generation of new incentive mechanisms and the adaptation of existing ones. Our influence can also focus attention on management of environmental resources in government planning processes and budget allocations.

Refining the social filter for green payments

Focused data on Costa Rica's poor farmers will help get payments for protecting forests where they count

The change needed: are payments helping the poor?

Of the many initiatives worldwide that pay landowners to preserve valuable ecosystems, the poster child is Costa Rica's pioneering Payment for Environmental Services programme (Pagos por Servicios Ambientales or PSA).

Yet until recently, rules for doling out the PSA's cash rewards tended to favour wealthy or well-connected Costa Ricans, undermining the programme's potential to reduce poverty. Policy reforms in 2004, designed to make payments accessible to poor farmers, were widely hailed.

But have the new policies succeeded in encouraging the poor to participate? Although there have been scattered local field studies, no one has systematically evaluated the impacts of the reforms nationwide.

IIED — involved in Costa Rica's PSA programme since 2002 — made a large-scale assessment to fill this gap. The institute found that, although the programme has moved in the right direction, the cost of entry for poorer farmers is still too high.

Arena for change: Costa Rica

Roughly 30 years ago, Costa Rica faced one of the fastest deforestation rates in Latin America. Now the country is a living laboratory for sustainable development, even topping the Happy Planet Index, which measures a combination of environmental health and human wellbeing.

PSA was one factor that turned the tide. In 1996, landmark legislation in Costa Rica promised to pay owners of standing forests for the array of environmental services they provide. This approach seemed to offer a win-win-win on the three axes of sustainable development: environmental (protecting ecosystems), economic (providing continuous income to forest owners) and social (benefiting poorer groups in rural areas).

Between 1997 and 2008, PSA allocated over 10,000 contracts and US$206 million, an average of US$17.2 million per year. Forest protection has been the main land-use category receiving payments, representing 67 per cent of all contracts. The remaining funds are divided among reforestation, regeneration, forest management and agroforestry.

Initially, however, the programme's social impacts were virtually ignored. Researchers and international donors warned that poorer farmers would have difficulty securing contracts: they had to apply at a single central office after completing a depressingly long list of official forms, and larger operations were snapping up the contracts under a first-come, first-served policy.

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KEY LESSONS LEARNED & INNOVATIONS

- Policy reforms designed to funnel payments to poorer small farmers have not delivered in Costa Rica. Although applicants from impoverished areas are given priority, relatively large landowners and companies in these areas are still securing most contracts. Identifying poor farmers needs to move beyond geographic location: direct targeting is key.
- By disaggregating the available data (including property size and personal information on participants, for instance from censuses), a more detailed picture of individual farmers involved in PSA can be built — bringing the programme a step closer to accurately targeting poor farmers.

PARTNERS' VIEW

This research comes at an important point for FONAFIFO [National Fund for Forestry Financing, Costa Rica]. The World Bank is asking us to be more specific on what we do in terms of poverty, but we are mostly forest engineers, and it is difficult for us to deal with this. We need a tool to include poverty in the process that is relatively easy to understand and verify in our local office.
Oscar Sanchez
FONAFIFO

IIED SUSTAINABLE MARKETS GROUP

The Sustainable Markets Group drives IIED's efforts to ensure that markets contribute to positive social, environmental and economic outcomes. The Group brings together IIED's work on market governance, business models, market failure, consumption, investment and the economics of climate change.

Acting on these concerns, the PSA made a series of changes in 2004 to lower barriers to participation.

Agents of change: IIED and FONAFIFO

The World Bank, one of the PSA programme's main donors, had questioned its social impacts. That put pressure on the National Fund for Forestry Financing (FONAFIFO), the semi-public institution that manages the programme and must also justify its budget allocations to a newly elected government.

In this window of opportunity, IIED used its long-term links with FONAFIFO to advocate changes that would demonstrate the Fund's willingness to improve its social agenda.

Tools for change: robust information for analysis

Socioeconomic information about PSA contractors is hard to come by, IIED found. The programme itself collects minimal personal information not enough to characterise participants beyond the standard categories of private, NGO and indigenous.

We compiled additional data from the census, local markets, land registries and previous research studies. Working with FONAFIFO, we created a national database of applicants, allowing social impacts to be tracked over time and space using geographic information system (GIS) data.

Challenges: poorer farmers still excluded

Because the PSA programme gives preference to applicants from regions with a low Social Development Index (SDI) — which takes into account indicators such as access to safe drinking water and infant mortality rate — an important amount of payments goes to impoverished areas. But they tend to be appropriated by relatively large farms and private companies. In areas where the SDI is higher than 40 (roughly, the poverty line), about 40 per cent of contractors own over 100 hectares, and 36 per cent own 30 to 100ha.

Poor farmers still face multiple expensive transaction costs – many of them fixed costs that weigh more heavily on small properties. Group contracts meant to counteract this problem have collapsed, partly owing to problems with local intermediation. Despite the positive steps already taken, FONAFIFO must do more before it can claim a substantial positive social impact.

Next steps: new contract criteria

Using the SDI to filter applicants was a good beginning. But its stringency waned in 2007, when poverty rose throughout Costa Rica and a large part of the country suddenly met the criteria.

FONAFIFO should now focus on reaching poorer farmers directly. IIED is recommending a simple hands-on approach to do so.

The challenge faced by FONAFIFO and IIED lies in finding the farmers. Most applicants do not like describing their income, especially when it comes from a range of sources. Detailed social filters can be cumbersome, and any measure used should be inexpensive to verify.

So IIED suggests using these combined criteria:

- SDI at district level <40
- properties at or under 30ha (except for indigenous groups)
- ownership of property individual or indigenous (thus excluding companies and associations)
- limit on the number of valid contracts one owner can hold at a time in the same category, for either one or multiple properties.

FONAFIFO could verify these using its own databases.

This approach would show donors and the government that the programme is committed to going beyond its original environmental objectives to reduce poverty.

The International Institute for Environment and Development's Reflect & act series showcases innovation and lessons learned in selected projects from across the institute. See the IIED Group pages on **www.iied.org** for more.

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