The evolution of forest incentives and climate change policies in Costa Rica

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The Costa Rican forestry case

- Dramatic and well documented forest loss during the last 50 years- the “strip-tease
- Active government engagement and incentives started over 25 years ago
- System of payment for ecosystem services (PES) started over a decade ago
- Only developing country to have made a turnaround in forest loss

Historical perspective

- Forest rich or forest poor? World Bank placed Costa Rica in “forest poor” category
- Deforestation rates peak during 70’s at over 50,000 hectares per year (over 1% per year)
- Less than one third of Costa Rica under dense forest cover by mid-80’s
- Forestry Act of 1969 starts a rapidly evolving set of policies based on incentives but not implemented until a decade later

Evolving legal and incentive framework

- Forestry Law has changed three times since originally approved (1986,1990, 1996)
- Fiscal incentive of $2000 per hectare reforested started to be applied in 1979
- New system of incentives implemented by Environment Ministry starting in 1988
- From tax breaks to targeted grants and eventually PES

Many financial mechanisms tried

- Over the last 25 years a large number of financial mechanisms have been tried: soft loans, designated trust funds, tax allowances and grants of different types
- Forestry Development Fund (FDF) created with proceeds from Dutch debt-swap in ’89
- Most important feature of present system is a 3% tax on fuels that goes to fund PES

Impact of first generation forest incentives (1979-1996)

- Over 204,000 ha planted or managed
- Forest Bond Incentives (CAF's): 45,500 ha
- Advanced payment CAF's: 40,750 ha
- Forest Management CAF's: 45,200 ha
- Forest Dev. Fund (FDF): 12,800 ha
- Forest Prot. Cert. (CPB's): 22,000 ha
- Income tax deduction: 35,000 ha (79-92)

Payment for environmental services develops

- FUNDECOR (Central Volc. Dev. Corp) pilots program in 1991
- Forestry funds consolidated in 1995 and FONAFIFO born
- Forestry Law of 1996 ratifies National Forestry Financing Fund (FONAFIFO) and payment for environmental services
- Experience and institutional capacity key

Second generation incentives

- FONAFIFO mandate includes management of PES for government
- Created as a Fund with an autonomous board including private sector
- Four services included initially: greenhouse gas mitigation, protection of water, conservation of biodiversity and scenic beauty
- Beneficiaries are private land owners and system of protected areas (SINAC)

FONAFIFO delivers

- In 1997 Norway purchased 200,000 tons of carbon from Costa Rica @$10/ton and this $2 million went to fund PES
- Fuel tax negotiation yields first results in 98
- In three years, more than 200,000 ha were reforested, protected or put under sustainable management
- Annual budget around $15 million

Balance of the first decade of PES

- FONAFIFO has managed over $110 million in a decade
- Multiple funding sources have been developed including projects, market instruments and agreements with business
- Presently over 400,000 ha (8% of land area) covered by PES
- From 1995 to 2007 close to 8,000 land owners have benefited
- Positive impact on poverty, women, indigenous people

Cumulative impact

- Costa Rica has provided forest incentives or PES to 12% of its land area, equivalent to Nat. Park
- These policies are primarily responsible for the turnaround in forest cover since 1987
- The Costa Rican Gov. has provided support for over 2/3 of the resources needed
- Ecomarkets ($30 million) and Scaling-Up PSA ($90 million) loans from the World Bank have been the main sources of support

Climate policies

- Before Rio and the FCCC, loss of forest cover was the main concern
- Given the country's low level of emissions from transport and energy, forestry was always seen as the key to mitigation
- Costa Rica pushed for inclusion of forest carbon in FCCC and Kyoto but was not successful
- Clean Development Mechanism included mostly energy and forestry plantations, but not avoided deforestation

Costa Rica as an example for the post-Kyoto negotiations

- The only developing country to have adopted a “carbon tax” over a decade ago
- Revenues for the tax go to buy forest carbon from private landowners
- Costa Rica is the largest buyer of forest carbon in the world
- Only country to have adopted a national system of payment for ecosystem services.
- Carbon-Neutral Initiative