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 nationwide.

The institute found that, although the programme has moved in the right direction, barriers preventing small farmers from fully benefiting remain.

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.
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 100 ha.

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.