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Understanding the governance of the Payment for Environmental Services Programme in Costa Rica: A policy process perspective

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ABSTRACT

Costa Rica was a pioneer in implementing the concept of ecosystem services through a dedicated policy instrument: the Payment for Environmental Services programme (PESP) formalised in February 1996 in the 4th forestry law. However, the policy process that led to the design of the PESP and its consequences for its subsequent governance have never been fully analysed. Our paper aims at answering three questions: why PESP was adopted, what are the factors which enabled the speedy adoption of PESP, and how does the policy process affect the governance of the programme. Between 2008 and 2012, we interviewed 42 key representatives and stakeholders involved in the policy process. We also reviewed laws, decrees, and academic and grey literature. We combined the sequential policy cycle model to identify the sequences of the genesis of the PESP from the problem setting to the decision sequence, and a cognitive approach to the policy process to identify the internal and external factors that led to its genesis. We show that the PESP was rapidly adopted because of the particular domestic context, plus several internal and exogenous factors. First, deforestation was widely acknowledged and forestry incentive instruments already existed as did consolidated forestry organisations and institutions. Second, compromises were reached between leading actors in a context in which the forestry sector interest group was the most powerful. Third, public subsidies were banned in the framework of an international agreement on trade while the international carbon market offered new opportunities. The key elements of the governance of the Costa Rican PESP, such as its scope, nature and decision structure, reflect the existing balance of power between interest groups from different sectors (forestry, conservation, agriculture) involved in the management of forested areas. We conclude that analysing the policy process is important to understand PES governance and to promote sound PES development.

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1. Introduction

Payments for Environmental Services (PES) have received a great deal of attention as an instrument to support conservation effort (Landell-Mills and Porras, 2002; Wunder, 2005), but the role of interplay between actors in the emergence and design of this instrument has been far less studied (Muñoz-Piña et al., 2008; Corbera et al., 2009; McAfee and Shapiro, 2010). Costa Rica, considered worldwide as a pioneer country for environmental services, developed a specific policy instrument: the Payment for Environmental Services Programme (PESP). Whereas in many countries PES remain local, Costa Rica developed a national system

that was institutionalised by the 4th forestry law (#7575) as early as 1996, i.e., prior to popularisation of the environmental services concept and the first definition of PES schemes (Wunder, 2005). As a pioneer case, the Costa Rican PES experience has been thoroughly described (Chomitz et al., 1999; Camacho et al., 2000; Castro et al., 2000; Pagiola, 2008) and its results in terms of environmental effects or poverty reduction largely assessed (Miranda et al., 2003; Zbinden and Lee, 2005; Sanchez-Azofeifa et al., 2007; Locatelli et al., 2008; Barton et al., 2009; Daniels et al., 2010; Porras, 2010; Pfaff and Robalino, 2012; Robalino and Pfaff, 2013).

However, the policy process that led to the emergence of the Costa Rican PESP and its consequences for its subsequent governance have never been fully analysed. Some authors analysed the emergence of PESP as a social and institutional innovation (Camacho et al., 2000; Segura-Bonilla, 2003) arguing that PESP represented a new way of considering the environment resulting

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Table 1

Key features of PESP and major changes during its implementation from 1997 to 2014. (Source: authors based on Pagiola, 2008; Le Coq et al., 2013; Matulis, 2013; Porras et al. 2013, and the revision of forestry law #7575 and decrees, and interviews with FONAFIFO administration).

Key features	1997–2001	2002–2006	2007–2014
Scope	Forest and forest plantation		
Ecosystem services	4 Environmental services: mitigation of greenhouse gas emissions, hydrological services, biodiversity conservation, and scenic beauty		
Payment system	3 PES modalities: -forest protection, -reforestation, -forest management	-Suppression of PES for forest management-Creation of PES for agroforestry systems	10 PES modalities enabling differentiation of payment according to the importance of the ES (PES conservation in biodiversity hotspots, or water services; PES for pasture regeneration in Kyoto lands); -Reintroduction of PES for forest management (2010)
Management system	Shared between FONAFIFO (fund raising and administration) and SINAC (priority and selection of beneficiaries)	Revalorisation of PES amount for reforestation Prioritisation of payments according to the location of plots (biological corridor and low development index) enabling some degree of payment targeting Creation of indigenous PES to enable landholders with no land title to be incorporated into PES Operational management concentrated in FONAFIFO, which is in charge of promotion, selection of beneficiaries, and administration of the fund SINAC is primarily involved in criteria priority setting and control of deforestation Development of GIS control and monitoring Creation of quotas for local forestry organisations	
Funding system	Monitoring and checking contract completion by forest landowners by the forestry regent supervised by <i>Colegio de agronomos</i> (CIA) Financial and administrative control of the programme by the <i>Contraloría General de la República</i> (CGR) Board of FONAFIFO with 5 members: 3 public, and 2 private representatives nominated by the National Forestry Office (ONF) 100% Public funding through an oil tax	Oil tax+international loans and grants	Oil tax+international loans and donations+private contributions+water tariff

NB: FONAFIFO: *Fondo Nacional de Financiamiento Forestal*; SINAC: *Sistema Nacional de Área de Conservación*; CIA: *Colegio de Ingenieros Agrónomos*; ONF: *Oficina Nacional Forestal*; CGR: *Contraloría General de la república*.

from a learning process. On the other hand, Pagiola (2008) highlighted the continuity of the PESP in comparison of previous policy instruments to support the Costa Rican forestry sector, and considered that the main changes were the justification of the forestry support from the wood industry in the provision of ES, and the source of funding for this support policy. Fletcher and Breitling (2012) argued that PESP is the continuation of public intervention, while Matulis (2013) saw a shift towards a neoliberal policy, and Brockett and Gottfried (2002) saw the emergence of a hybrid regime.

In this paper, our objective is to thoroughly analyse the policy process which led to the Costa Rican PESP in order to better understand the current governance of the payments for Environmental Services as an instrument to foster forest conservation. We specifically address the three following questions: Why was PESP selected as a policy instrument in the Costa Rican context? Which factors enabled the rapid adoption of PESP? How did the policy process shape the current governance of the PESP? We hypothesised that the rapid adoption of the Costa Rican Payment for Environmental Services Programme (PESP) was due to the specific context and to a combination of several internal and exogenous factors, and that the main feature of the PES governance reflected the balance of power between different interest groups involved in the policy process.

2. Background: brief history of the PESP

The Costa Rican Payment for Environmental Services Programme (PESP) was institutionalised with the 4th forestry law (#7575 of 1996). This law established three key components of PESP (Pagiola, 2008): (1) recognition of the provision by the forest and tree plantations of four environmental services: mitigation of greenhouse gas emissions, hydrological services, biodiversity conservation, and scenic beauty; (2) a regulatory basis to contract landowners for the services provided by their forest lands, and recognition of the National Fund for Forest Financing (*Fondo Nacional de Financiamiento Forestal*, FONAFIFO) as administrator of the programme; (3) the definition of a funding mechanism through a

percentage of fuel tax. In line with the existing forestry incentives derived from previous laws, the PESP initially consisted in three PES contracts, so called PES modalities: forest protection, reforestation, and forest management (Pagiola, 2008; Daniels et al., 2010) but by 2014, it had evolved into 16 modalities¹.

PESP underwent changes during its implementation with respect to funding sources, the payment system, and administrative management (Le Coq et al., 2013; Porras et al., 2013), but some key features of PESP governance have remained unchanged since its inception (Table 1). First, the main funding sources are still public funds, in particular fuel tax (Blackman and Woodward, 2010), even if the funding sources have been diversified (Matulis, 2013). Second, PESP is an input-based PES (Engel et al., 2008) and its degree of commoditisation is low (Muradian et al., 2010), even if the prioritisation system for conservation contracts has been enhanced to take into account forest potential for biodiversity conservation or for the provision of water services (Le Coq et al., 2013). Moreover, the two main modalities are still “forest protection”, which is the main modality, and represents the most contracts and the biggest area affected (89% of total PES area)², and “reforestation” which can be undertaken for wood production (Lansing, 2013). Third, in terms of PESP management, the legal composition of FONAFIFO board has remained unchanged (Table 1) as has the control process of landowner contracts through the private forestry regent and the overall supervision of the PESP by the National System of the Conservation Area (*Sistema Nacional de Área de Conservación* – SINAC). The monitoring and evaluation system is still oriented towards forested areas.

3. Analytical framework and methodology

3.1. Policy process analysis

To analyse the emergence and implementation of the PESP, we

¹ FONAFIFO website: http://www.fonafifo.go.cr/psa/modalidades_psa.html – Accessed 2014-10-03.

² Estimation of the authors based on FONAFIFO statistics for PES between 1997 and 2011 available in FONAFIFO (2012).

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