

Ex post evaluation – Costa Rica

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Sector: Forestry development (CRS Code 31220)
Project: Huetar Norte Forestry Project, BMZ No. 1999 66 268*
Programme executing agency: National Forestry Development Fund, FO-NAFIFO



Ex post evaluation report: 2014

		Project A (Planned)	Project A (Actual)
Investment costs (total)	EUR million	14.48	15.70
Counterpart contribution	EUR million	4.26	5.75
Funding	EUR million	10.22	**9.95
of which BMZ budget funds	EUR million	10.22	9.95

*) Random sample 2014

**) Residual funds of EUR 0.275 million for follow-up programme

Description: The programme expands the Costa Rican system for the payment of environmental services (Pagos por Servicios Ambientales PSA) into the country's Zona Norte. With the PSA scheme, contractual compensation payments are made to private forest owners for the protection of natural forest areas, reforestation, sustainable management and/or agroforestry management models. The results intended by the programme were achieved in all key areas, and sometimes exceeded. With an FC financial contribution (EUR 9.95 million) and the national forestry development fund (EUR 5.75 million), promotional measures were supported in 869 PSA contracts for 780 forest owners on an area of 74,083 hectares.

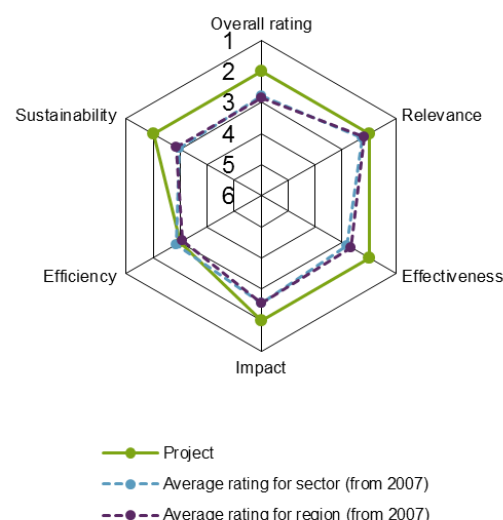
Objectives: The overall objective (impact) was to contribute to increasing forest cover, to promote positive effects originating from the forests and to actively involve private forest owners with a view to endorsing Costa Rica's new forestry policy (indicators: increase of forested area in catchment areas important for the water supply, and surplus demand under PSA contracts). The programme objective (outcome): management and maintenance of contracted areas in the programme region as per agreed provisions as well as the remuneration of positive environmental impacts originating from private forested areas (indicators: area targets, compliance with agreed management requirements, ratio of contract extensions requested by recipients).

Target group: Costa Rican forest owners (direct target group) and people (groups) active in the forestry sector as well as (indirect) beneficiaries of positive external effects originating from the forests.

Overall rating: 2

Rationale: The area and management objectives were achieved; however, the increase in forested cover cannot be attributed exclusively to the PSA scheme, as, in parallel, forest protection and forest control activities have also been significantly enhanced. The targeted roll-out in rewarding environmental services has been achieved as well as the almost unanimous backing of private forest owners for the government's forestry policy.

Highlights: The model approach – not only in a regional context – made a significant contribution to bolstering the environmental awareness of the target group and the general public in the programme region.



Rating according to DAC criteria

Overall rating: 2

The area and management objectives of the programme were achieved. However, the increase in forest cover cannot be attributed exclusively to the PSA approach, as forest protection and forest control activities have also been ramped up. The intended monetisation of environmental services has been achieved at a large scale. Equally, the private forest owners' almost unanimous backing of for the government's forestry policy.

Background information on sector and project

The Costa Rican programme regarding payments for environmental services ("Pagos por Servicios Ambientales"/PSA) was introduced in 1997, following an amendment of the forestry law, which also provided for greater forestry controls and effective forest protection – including an extensive ban on logging. Since the new forestry law entered into force, a lengthy approval process involving the Natural System of Conservation Areas authority (SINAC) is required to harvest timber from natural forest areas. This means private owners have very limited scope in exploiting their forests for commercial purposes. In this respect the PSA programme also contained a compensatory element, at least in part. It is understood that the provisions of the forestry law are largely being complied with. Forestry protection has since become a matter of public concern and is also subject to social control.

The PSA programme remunerates environmental services that originate from forest areas, thereby "internalising" positive "externalities". With this approach, Costa Rica has not only taken on a vanguard role in the region, but also worldwide. Owners of the respective areas receive compensation payments for being "responsible" for the positive effects, and the payments are graded between and sometimes within the so-called "modalidades" (main modalities – protecting natural forest, reforestation, management of natural forest, agroforestry management systems). Various terms ranging from 5 to 15 years apply depending on the modality. PSA contracts are in place for roughly 300,000 hectares of the total forested area in private hands (amounting to 1.25 million hectares), and the number of contracts has remained relatively stable for years. The PSA programme is implemented and managed by the "Fondo Nacional de Financiamiento Forestal" (FONAFIFO), which reports to the Ministry of Environment. Both nationally and in the programme region, forest cover has risen from roughly 40 % at the time of the project appraisal (PP) to over 50 % now.

The PSA programme currently handles a volume of close to USD 28 million p.a. A good 70 % of this is financed from fuel tax proceeds, of which a pre-agreed 3.5 % (currently almost USD 20 million) is channelled into the programme's budget. Additionally, 25 % of the annual water charges paid mainly by business users under the "Canon de Agua" are also received by the programme. Furthermore, voluntary contributions are made by private companies (as part of "convenios privados"), which generally benefit directly from the environmental services (first and foremost water users such as operators of hydropower plants or water suppliers). FONAFIFO strives to tap into other revenue sources, mainly by selling "voluntary climate certificates" to companies and private individuals. These certificates are calculated based on prevented deforestation and implemented reforestation measures; they are proving increasingly popular with national and international private individuals.

Relevance

The project was consistent with the then prevailing focus of German Development Cooperation on the environment. With the PSA programme a national initiative of high-priority was supported – also promoted by the World Bank/Global Environment Facility (GEF) – that was a role model not only for Latin America. Responded to serious deforestation (67 % forested area in 1940; 24 % in 1995), Costa Rica introduced the Ley Forestal 1996, which provided for a general logging ban in natural forests as well as for payments for environmental services. The approach is a precursor to concepts for forest and climate protection ("Reducing Emissions from Deforestation and Degradation/REDD"), which are now adopted in many countries and have contributed to the development of similar programmes in other countries (e.g. "Socio-Bosque" in Ecuador; various national REDD initiatives). The pioneering nature of the approach demanded

adjustments in strategy in the course of the implementation. It should be noted that the original – and subsequently modified – FC concept had a relatively strong emphasis on reforestation measures, while the national policy focus had shifted towards of preserving existing forested areas as a priority. The coordination with the parallel "Ecomercados" programme (World Bank/GEF) ran smoothly by all accounts.

The intervention logic of the FC project prioritised the preservation and expansion of forest areas along with related environmental services, which was to be encouraged through various incentives (PSA). In terms of impact, however, the forest control mechanisms that were intensified at the same time and were just as important for reaching the target (see above) were barely mentioned. The original programme objective's (outcome) wording was stated as "contributing to forest protection" and is to be replaced with "agreed management and preservation of contracted areas in the programme region". Furthermore, the documentation contains no explicit reference to the aspects of "remunerating the positive environmental effects stemming from private forested areas" (at outcome level). Those aspects are considered just as important, as is the active involvement of private forest owners as well as their support for the government's new forestry policy, revised in 1996 to focus primarily on environmental effects (at impact level).

Relevance rating: 2

Effectiveness

The target of 75,500 ha of land under PSA contracts was almost reached with a figure of 74,083 ha. Disaggregated by modalities, the target achievements are as follows:

- Protection of natural forest areas: 62,403 ha vs. 60,000 (planned),
- Reforestation: 5,390 ha vs. 7,900 ha (planned),
- Sustainable natural forest management: 6,290 ha vs. 6,000 ha (planned),
- Agroforestry systems: 18,168 trees vs. 100,000 (planned),
- Compliance with agreed management requirements: 97 % vs. 80 % (planned).

The criteria matrix to prioritise intervention areas has been regularly called for since implementation began in 2003. It was finally introduced in 2011 – at a national scale – but came too late to be applied in the programme.

The number of contract extensions applied for was used to assess the scheme's appeal to forest owners. The fact that, on average, almost half of the contracted partners at least applied for an extension can be taken as a positive sign.

Effectiveness rating: 2

Efficiency

The contracting costs per hectare are based, amongst other things, on the costs ensuing from the management activities as well as on the opportunity costs of the forest owner associated with alternative management options. A respective study is currently being updated. The unit costs ultimately ranged below the original estimates – not least due to favourable exchange rates and a shift of emphasis towards increasingly promoting forest protection (with lower compensation rates due to lower management costs), which enhanced production efficiency. However, there are reservations regarding consulting costs. In retrospect, the project-executing agency does not regard the assignment as very effective, as anticipated learning success was limited at best. The consulting tasks largely remained restricted to control and supervision duties and the use of infrastructure and equipment provided by the project-executing agency was limited.

The supervision and professional monitoring of the contracted forest owners is carried out via so-called "regentes forestales", i.e. independent consultants subcontracted in agreement with FONAFIFO. They have to be licensed with the state-run "Colegio de Ingenieros Agrónomos y Forestales". The forest owners largely consider the consulting services to be helpful. However, discussions have revealed indications of superficial support in some cases, which only peripherally touch on general promotional aspects (availability of different modalities, tax issues) and more in-depth professional questions (e.g. protection of

plants during reforestation). The main reason for this is the high workload of the consultants, who attend to roughly 100 contracts a year.

Allocation efficiency in terms of the forest protection effects is difficult to assess, as the increased forest cover cannot be clearly attributed to the PSA approach - given the parallel intensification of forest control. In a strict sense, no "reference scenario" exists which comprises comparable areas that are only subject to forest control (without PSA payments); scientific studies examining the effects of the PSA programme from an empirical angle arrive at different results (cf. "overarching impacts/achieving ultimate goal"). While it appears plausible that the programme has at least contributed to increased forest cover, a criteria matrix for prioritising intervention areas was not introduced as initially planned (see above – "Effectiveness"). In summary, and given the active involvement of private forest owners as well as their now largely unanimous support of Costa Rican forestry policy (see below), the allocation efficiency can be considered satisfactory.

Efficiency rating: 3

Impact

As outlined, the impacts in terms of the sharp increase in forest cover (see above – "Relevance" and "Efficiency") can only partially be attributed to the project at best. Relevant analyses on the effectiveness of PSA payments arrive at different conclusions. Some studies demonstrate a marginal influence as regards forest conservation of less than 1 % in prevented deforestation, while other studies put the reforestation effects as high as 34 %. Accordingly, attributing the resultant positive environmental impacts, such as an improved Costa Rican CO₂ emissions balance (roughly 1.5 million tonnes of carbon over the supported period) or the stabilisation of approximately 22,000 hectares of hydrologically important catchment area (cuencas) to the PSA scheme can be debated. Based on survey results and available information, the active involvement of private forest owners and their meanwhile overwhelming support of Costa Rican forest policy can be considered achieved. This can be evaluated using the "excess demand" under PSA contracts. Demand currently exceeds supply by one and a half to two times. This is an important programme impact that was an implicit target – particularly from the Costa Rican side – but was not explicitly mentioned in the relevant documentation.

Impact rating: 2

Sustainability

From a financial perspective, the sustainability of the Costa Rican PSA programme appears to be assured, as the existing system is recognised by all political groups. This means the most important source of financing – fuel tax proceeds – should be secure in the medium term, as should be the allocation of 25 % from the water charges under the "Canon de Agua" scheme. Currently, FONAFIFO is undertaking major efforts to open up additional sources of income. It remains to be seen to what extent those endeavours will succeed in achieving a notable increase in the currently funded 300,000 hectares or so of land (see above), a figure that has been relatively stable so far. The high regard for the programme and for FONAFIFO as a competent institution (see above) – not least in political circles – also allows for a favourably assessing institutional sustainability.

In discussions held during field visits, repeated references were made to illegal land use changes from forested to farming areas (primarily to grow bananas and oil palms in the province of Heredia). This apparently largely refers to remote areas near the Nicaraguan border; however, neither could the information be substantiated during the mission, nor was it possible to estimate the dimension of the problem. FONAFIFO was advised to conduct in-depth investigations on the magnitude of the situation and if required, initiate remedial action.

Sustainability rating: 2

Notes on the methods used to evaluate project success (project rating)

Projects (and programmes) are evaluated on a six-point scale, the criteria being **relevance, effectiveness, efficiency** and **overarching developmental impact**. The ratings are also used to arrive at a **final assessment** of a project's overall developmental efficacy. The scale is as follows:

Level 1	Very good result that clearly exceeds expectations
Level 2	Good result, fully in line with expectations and without any significant shortcomings
Level 3	Satisfactory result – project falls short of expectations but the positive results dominate
Level 4	Unsatisfactory result – significantly below expectations, with negative results dominating despite discernible positive results
Level 5	Clearly inadequate result – despite some positive partial results, the negative results clearly dominate
Level 6	The project has no impact or the situation has actually deteriorated

Rating levels 1-3 denote a positive assessment or successful project while rating levels 4-6 denote a negative assessment.

Sustainability is evaluated according to the following four-point scale:

Sustainability level 1 (very good sustainability): The developmental efficacy of the project (positive to date) is very likely to continue undiminished or even increase.

Sustainability level 2 (good sustainability): The developmental efficacy of the project (positive to date) is very likely to decline only minimally but remain positive overall. (This is what can normally be expected).

Sustainability level 3 (satisfactory sustainability): The developmental efficacy of the project (positive to date) is very likely to decline significantly but remain positive overall. This rating is also assigned if the sustainability of a project is considered inadequate up to the time of the ex post evaluation but is very likely to evolve positively so that the project will ultimately achieve positive developmental efficacy.

Sustainability level 4 (inadequate sustainability): The developmental efficacy of the project is inadequate up to the time of the ex post evaluation and is very unlikely to improve. This rating is also assigned if the sustainability that has been positively evaluated to date is very likely to deteriorate severely and no longer meet the level 3 criteria.

The **overall rating** on the six-point scale is compiled from a weighting of all five individual criteria as appropriate to the project in question. Rating levels 1-3 of the overall rating denote a "successful" project while rating levels 4-6 denote an "unsuccessful" project. It should be noted that a project can generally be considered developmentally "successful" only if the achievement of the project objective ("effectiveness"), the impact on the overall objective ("overarching developmental impact") and the sustainability are rated at least "satisfactory" (level 3).