



INNOVATIONS FOR SUCCESSFUL SOCIETIES

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CAMERON: This is Blair Cameron from Innovations for Successful Societies, it is the 16th of December and I am here in San José, Costa Rica with Dr. Rene Castro. Mr. Castro, thank you very much for taking the time. First of all I would love to hear some detail on where the idea for Payment for Environmental Services (PES) first came from. Can you remember back to when you first heard of that as a concept?

CASTRO: *Yes, it was close to 1994 when we ratified the conventions for biodiversity, the preservation and the climate change conventions. At that time there was a big domestic dispute about the best way to cut down deforestation. One proposal came from congressman, Mr. Ottón Solís, not the current President, but the congressman Solís, he is still active. He at that time was part of my party. Then they did a spinoff that is now the current government.*

They proposed something like a total ban for natural forest logging and a replacement with a set of incentives for plantations and they called that the law "CULPA". It is an acronym in Spanish meaning you can cut only the trees planted now, something like that.

After starting it, we decided that it was very likely that results would be the opposite, that the natural forest would be clear cut and replaced by plantations and we didn't like that. So that was the source of what can we provide as an incentive to preserve the natural forest instead of banning its use and promoting illegal logging and all kinds of illegal activities as had been observed in other tropical countries. That was the main source.

CAMERON: Who were you sitting down and discussing these ideas with when thinking about doing this reform?

CASTRO: *It was my team at that time, the ministry of—it was called at the time Natural Resources, Energy and Mining. People like Raul [Indecipherable] who is now the Executive Director of the Association for Agricultural Engineers. People like Carlos Manuel Rodriguez, a person that later on became the minister in a different government. Some dissemination papers from the World Bank were useful because they portrayed it, the problems as competing land uses. For example, a paper—I think the name was Competing Land Uses from Mr. Luis Costanza and others.*

CAMERON: Can you talk about your relationship with Carlos Manuel Rodriguez? He was from the opposite party.

CASTRO: *We decided in order to have a long-term prospective, the closest to a state policy instead of a government policy was to train and include in the decision making, young people from the other political parties. Carlos Manuel was one of those leaders. He even accepted to be part of the government as a Deputy Assistant National Parks Director at the time. Later on it was into a broader entity. I would say he was crucial in the negotiations with the opposition, the largest opposition party at the time, the Christian Democrats or the Social Democrats; the Social Christians was the name.*

CAMERON: What other factors were really important in getting the law passed?

CASTRO: *I think there was a large demand from the people, from the public to stop deforestation. We felt the pressure in every poll, in every international publication. It was clear that the Costa Rican national forest was declining. That*

was important. Even still today when it is no longer the case the polls show that deforestation is still in the mind of the people, the second or third issue of importance. This is because now and then there is some small illegal logging here or there and it immediately ignites people's attention to that.

CAMERON: What do you think the main reasons behind that are?

CASTRO: *In the late '40s and '50s, the country was totally focused on what they call development. They even gave land titles and incentives to people that cleared the mountains. There was a motto—let's do—in Spanish "hagamos patria." Something like "let's be patriotic." The idea was to clean up all the forests for agriculture. I think it went too far. Probably the pendulum came back.*

I remember my years as a young civil engineer student the discussion was important for a new highway to the Caribbean side, one of the first in Central America. For the first time there was opposition from some of the citizens of the Costa Rican public universities, mainly from biology and the social sciences but for the first time the government had to compromise and compensate the building of the infrastructure with some conservation areas including the Braulio Carrillo National Park. That was back in 1975, '76. So that far it would go, the changes in the awareness of the people.

CAMERON: Okay, back to the mid 1990s when you were trying to pass this—.

CASTRO: 1996.

CAMERON: What role did José Maria Figueres play?

CASTRO: *He was the President of the country and he was in touch with the idea of replacing the old development strategy based on two pillars, economy and social pillars with three ones, the so-called now triple bottom base line.*

CASTRO: *Including the economy, society and environment. He was not I would say, he was not totally aware I think that there was a change happening at the same time in the whole world. He has to do it, period. So he imposed all the initiatives we tried to do to move in that direction.*

CAMERON: Can you talk to me about the carbon tax and how you passed the carbon tax?

CASTRO: *That was tougher because the gasoline and diesel were already expensive in Costa Rica. They are distributed by a state-owned monopoly RECOPE. But at the same time it was the most efficient collecting vehicle that the government had. You know, they collected at the distribution company. The Minister of Finance, Mr. Fernando Herrero, needed some support from the public to increase the fuel taxes. We gave him that support. We organized the small farmers, the small rural communities willing to attract some money to their regions and some environmentalists, not all. I would say half of the environmentalist movement was more with Mr. Solis in total banning of the logging.*

With that it was enough to have some support to pass the legislation.

CAMERON: What were the biggest obstacles in passing the legislation?

CASTRO: *The biggest obstacle I would say probably was the media, traditional media, because they were concerned about inventing another state program to provide subsidies. It took us some time to develop the idea. Going back to your first question, this was no longer a subsidy, it was that we were paying services that the market was not valuing and considering it. So it took us some time.*

I personally went to talk with most of the media, all the leaders of the opposition in Congress and out of Congress. I would say that especially with Social Christians it was important to clarify that it was no longer a subsidy but a service. If you didn't provide the service you didn't get the money; that was the main idea.

CAMERON: When the law passed did you have to hire new people to begin implementing things?

CASTRO: *When the law passed, that was a turning point for the Costa Rican economy and especially for the green side because I would say until the mid '90s, and the law is from 1996, we were used to receive a lot of money from donors, especially for National Park Services, for forest conservation. I remember well the Finns, the Norwegians, the US and others. All that changed because Costa Rica became a middle-income country.*

It was announced that donor money would be disappearing very soon; it was faster than we expected. The turning point was that at the same time that we were receiving the money from the domestic sources for forestry, it was cut down, all the money that financed the National Park Service. That was 80% of the payroll and all the money for buying ecologically important land, for everything, for cars, for boats, for everything. So it was an additional effort that Costa Rica had to handle by itself.

At the same time we got the money we increased the entrance fees of the National Park Service for the first time from \$1 to \$15, which provoked uproar from the tourist companies against me, and the ministry. At the end I had to negotiate and cut it down to \$6. Still it was a large increase from \$1 to \$6. It was not until 2014 that it was increased again by me, in the National Parks Service.

So there were two sources of funding, one coming mainly from visitors to the National Parks Services and that was important for the public state-owned forest. The other one was from the Forestry Law and the taxes that only go to private landlords, not to the state.

CAMERON: Right. Were you scared it was going to fail?

CASTRO: *No—I was younger than now and probably a risk taker. I was not that aware of the political obstacles and the opposition. At the same time the President was totally convinced that we were transforming the economy for the long-term and for the better.*

CAMERON: What about—how did you sell this to your finance minister, the Finance Ministry?

CASTRO: *Of course with the help of the President. But in addition the finance minister and the ministry, they know they are not very popular with the general public so any support they could get from grassroots organizations was well received and helped a lot. You know we did something similar to what the NGOs (nongovernment organizations) did in the last climate change meeting, kind of*

adopt a congressman by different groups. So they visited, they lobbied, they sent letters and it worked.

CAMERON: Did you have a role in sort of organizing that?

CASTRO: *I had a role in I would say considering the idea, designing it. But the real people doing it were the forest engineers from the National Park Service that would be split because like one-third of them would be to the forestry side. They had good contacts in the rural area and they did the organization.*

CAMERON: Were there any really important people that you hired for the Ministry of the Environment that were essentially in getting this PES up?

CASTRO: *No.*

CAMERON: You already had the staff then?

CASTRO: *We had part of the staff but in Costa Rica it is very hard to hire new people in the public sector; it is almost impossible. Actually it took some years for Carlos Manuel Rodriguez and others to be able to hire new people because the national controller office ordered them to do that. They were organized first as a trust and they were dispersing the funds directly and things like that. They were paid by the trust fund both the forestry sector, also the National Park Service and the national controller's office ordered them to stop that; to include the money in the national budget to go to Congress. So they did it. It took like I don't know, four or five years to do that.*

CAMERON: Did you have to invest in training people a lot since this was a new sort of system?

CASTRO: *Yes, but Costa Rica has a lot of young professionals and it was not a problem at all. It was more difficult to train them in the ways of contracting and the procedural process in the public sector. It is the pain in the neck in Costa Rica as it is in the United States. The procedures are very hard and difficult and there is a lot of overseeing. That was more difficult for the people coming from the private sector for the young graduates from the universities.*

CAMERON: After the law passed and you had to set up FONAFIFO (National Forestry Funding Fund) as a sort of pretty much a new organization, SINAC (National System of Conservation Areas) was beginning to be formed between the three different agencies. What were the biggest challenges? Talk about some of the really tough things you had to overcome.

CASTRO: *The infighting.*

CAMERON: Can you explain some more about that?

CASTRO: *SINAC wanted to control the whole forestry thing but I knew because the SINAC people were mainly park rangers and biologists, they would have difficulties to work with the farmers and the rural communities. What we did was a little what I would say was a transition thing. It was to organize all the remaining money from the donors' trust funds. I put them in one. That was the backbone of FONAFIFO. It was first a private trust fund with whatever money was left from the donor age and then the law gave them the public category and allowed them to operate with*

some special procedures and reduce time that later on was set aside by the controller's office and they had to become a public organization.

CAMERON: Can you give me an idea of the timeline? You get the money, set out to FONAFIFO. Was that before the law was passed?

CASTRO: *Yes. We anticipated that the law would be passed. We did that at the end of '94 and all '95 we already had FONAFIFO working under one private trust. A person who was crucial at that time was Mr. Ronald Vargas, who is now a retiree forest engineer from the Technology Institute of Costa Rica. He has been the national forest director in the Ministry of Agriculture and other positions and he was instrumental in setting the FONAFIFO strategy, the first segment and the private segment, until it became supported by the law as a public institution in 1996.*

CAMERON: I know it took some time for money to start flowing in. I know 1997 you got the money from Norway and there was an issue with the Ministry of Finance delivering the funds from the carbon tax.

CASTRO: *The Ministry of Finance they were not used to that. For some time—I mean some groups within the Ministry of Finance they were happier because they had better control over all different sources of funding, not only in the environment but in general in the government. But, on the other hand, the other guys in charge of disbursements and expending it, they were overwhelmed. They were not prepared for this additional money.*

The regulatory process was a pain in the neck, the authorizations, everything. But at the end it went well. Also it was in a sense good because it protected the money to be diverted to any other use, either by the government—they couldn't do it. It was earmarked for either forestry or national parks. Even within the Ministry of Finance they couldn't use it for other purposes. It was a moment of self-allocation within Finance Ministry. Now it is working better—I would not say it is perfect because they can exercise the power to drag their feet, to make some of the transfers faster than the others. But in general it has been working okay.

CAMERON: Can you talk to me about the period in between when you left your post as Minister of the Environment and a few years ago when you became it again? What were you involved with during those years?

CASTRO: *I was totally in academia. But of course I was involved in keeping an eye on the process and the funds. But in general the environment side has been a state policy in Costa Rica more than a government or politically motivated one. It goes faster, slower, depending on the ideology of the political parties in government but it is not changing the course. But still it was a reduction in the tax. I don't remember when but what we're receiving now is less than it was in the first years because with the oscillations of the oil prices it became a lot of money so they changed the structure of the tax. It is less now than it was at the beginning.*

CAMERON: When you came back into government did you have an agenda of things that you wanted to change—just focusing on the Ministry for Environment? I know that's something you came into a bit later.

CASTRO: *I was surprised that the process of connecting the Costa Rican efforts first with the tropical ways of the world, the countries in the tropical belt, plus/minus 15 degrees north or south of the equator, was so slow. During my years we considered a natural alliance to mitigate climate change and that didn't happen*

especially because there was a lot of opposition from developed countries to use land use change and forestry as a mitigating option because doubts of the science of the methodologies and somehow the Costa Rican experience was isolated with the exception of links with Mexico and Ecuador. They were kind of mimicking what Costa Rica did but improving it, Mexico using GPS and some of the common property with the hills and Ecuador using it for tribal property in the indigenous communities. They did an improvement on the Costa Rican effort.

The other thing is that it became less connected with the rural communities—it became more institutionalized, similar to other public institutions. Somehow it forgot the market. The part that didn't work was the promotion of some percentage of the land for plantations and sustainable use of wood. That didn't happen. So I tried to invigorate that part again.

At the end I would say it would slowly pick up. The main obstacle was that you still have to mortgage your land if you want to get an incentive from FONAFIFO. For small farmers or cattle growers, that is a nonsensical thing, they will mortgage the cow, they will mortgage the crop. Instead of mortgage I think you call it in English easement? Like you will have an easement on your property? On your crop or your cows? It is not a mortgage on the land.

CAMERON: I am not sure.

CASTRO: *It is a technical word. So at the end I left two things. One is that it is possible now to lend money for plantations, not to pay services as in the natural forest. Also they could use as a guarantee as I said the instrument or the wood above the soil, not the land as a mortgage. That encountered a lot of resistance. At the end we managed to have it.*

CAMERON: From the environmental community? The conservationists?

CASTRO: *And from the lawyers because they are so used to work with mortgages rather than easements. Finally, I did that because when we reached 52% of the territory with natural forests and of that only like 0.5% is plantations. I realized that we reached the limit of cover, of forest cover. So I think we can have an additional 6% only if we introduce simple pasture programs or agro-forestry combining it with coffee trees for shadow or providing it with cattle ranching and these kinds of things. That is why we have all now NAMAs (Nationally Appropriate Mitigation Actions) for the climate change convention—one for forestry and coffee and the other ones for cows and forestry. Hopefully that will add 6% of the territory with some sort of forest covered but that one mainly for sustainable wood products or fruit products.*

CAMERON: Can you now look back since 1996 over the whole program and tell me what you think first of all what the biggest successes are and then I want to ask about failures.

CASTRO: *The big success is that you can prove to the Costa Rican people and elsewhere that it is doable. We increased—I don't remember exactly but I think we went down to 21% in 1987, that was the minimum and now we are 52.4%. That is the biggest success. At the beginning all the environmentalists they said it was only brainwashing; they didn't believe it. Slowly it became clear that that was happening. It was the same internationally. They didn't believe it was possible.*

The second thing is that the Costa Rican people pay \$500 million for this project—invested \$500 million, 80% from their own pockets, from the tax. This is probably one of the largest ever efforts financed by the local people. That has also been a surprise for the donor community, the international community, that a small country could do that. So we have the moral authority to say, let's do that for the world now and for the climate. Don't tell us there is no money.

The biggest failure I think is that the international conventions, both the UN (United Nations) framework convention for climate change and the UN convention for biological diversity have been so slow. Almost nothing has happened in countries in Africa, very little in Asia. Fifteen, twenty years later it would be about time to have some success stories to tell there.

I think probably now the idea of emerging economies doing something has become evident and clear to the world, but it should have been in the year 2000 rather than 2015. I consider that the biggest failure.

CAMERON: What advice would you give to another minister in another developing country if they wanted to set up things like this; they wanted to stop deforestation?

CASTRO: *Learn from our mistakes and also from the keys to success. One important key again has been the ability of presenting to the general public how the program has been successful in terms of forest cover and also that FONAFIFO has been able to be increasingly transparent. They have managed to be out of any political discussion in terms of favoring the political clientele or anything like that; that requires a lot of the next year. Now you can go there and check why you are paying this plot and not the one next to it. They have clear indicators that they have to report both to Congress and the national controller's office. That was not very important at the beginning but I think it has been very important for the longer term.*

CAMERON: Do you think this system, PES, is going to be sustainable over an even longer period of time?

CASTRO: *I hope it will be evolving with the recommendations of new services for example. You know the water preservation, that is already the case in Costa Rica, user fees, not only taxes. There are user fees with water now and hopefully for energy production, hydroelectric. Also that slowly the world will recognize the role for biodiversity preservation and will pay a little bit for that. That is really important because the sense of being recognized and a company in your domestic effort is always important, to raise money from local people.*

CAMERON: I want to ask you about—when the forestry law passed, I think there were two main components, one with the setting up of PES and one was the land conversion ban, would you agree with that that those were the two main components?

CASTRO: *Yes, there was a third one which is the institutional arrangement.*

CAMERON: Right, setting up of SINAC. Can you talk to me about the land conversion ban a little bit as well? How important that was in creating the achievements and increased forest cover for Costa Rica?

CASTRO: *The land?*

CAMERON: The land conversion ban.

CASTRO: *Oh, it was important because I would say the culture and the awareness have been reducing the effectiveness of that land conversion. But by the time we passed the law it was no longer a popular mechanism to go there and clear land and get the title for it, it was no longer popular. So the position to get rid of that I would say reverse incentive, to clear the forest, didn't encounter a lot of opposition, especially the young people in the rural communities were already aware that that was not good for them. But it was important in sending the signal that it was for the longer term. See what is happening in Brazil. Every time the soy or other prices go up they go back and clear the forest. Now that will be sanctioned in Costa Rica.*

So it went from being government incentive to being a sanctionable action. If you do that you will end up in jail in Costa Rica.

CAMERON: Was there pressure from the agricultural community or the forestry community?

CASTRO: *Forestry community. The ecologists they didn't understand well what was happening. They were totally scared that we would be doing mainly plantations. Still today—I mean fewer and fewer but some of them they think that Costa Rica is full of plantations. We have only 70,000 hectares out of 2.5 million hectares recovered but they are scared of that.*

CAMERON: By plantations you mean?

CASTRO: *Plantations of domesticated trees for wood production, commercial plantations.*

CAMERON: Commercial tree plantations.

CASTRO: *Monocultures and these sorts of things.*

CAMERON: Were there any other big interest groups that you had to change things for or adjust things for?

CASTRO: *The big sawmills and companies. Before that they had the raw material very cheap with very few regulations. After the law we were controlling them and introducing—we have to conclude. The thing is they were practically out of business. So they did whatever they could to oppose and protect their business but they didn't have the strength. Some of them went to other Central American countries with the help of the governments. That was it.*

CAMERON: Thank you.

CASTRO: *It was a pleasure.*