

Costa Rica - Florida Ice & Farm (Brewery)

Cerveceria Costa Rica (a subsidiary of Florida Ice & Farm)

SUMMARY

Cerveceria Costa Rica, a local brewery, and Heredia city water utility (ESPH) pay neighbouring landowners to manage their forests in accordance with the Forest Stewardship Council (FSC) certification. The minimum area eligible is two hectares, so in theory the scheme should benefit smallholders. In practice however, the main recipients of payments are wealthy landowners with second homes in the area. The agreement is facilitated by the National Forestry Fund (FONAFIFO) and the local NGO FUNDECOR.

MATURITY OF THE INITIATIVE

Ongoing since 2001 (five-year agreement) the scheme was no longer under implementation as of 2007 following the raise of the Water Tax where a third of all revenues goes to FONAFIFO.

DRIVER

Brewing company interested in protecting its water sources. FUNDECOR and FONAFIFO have also worked hard to set up a dialogue with the user (given that it is such a large one and pays very little for the water used: currently US\$400 per year).

STAKEHOLDERS

Supply

Forest owners in the catchment area of Rio Segundo: contracts cover 1,000 hectares. Their commitment is to protect their forest through a management plan that guarantees its permanence and prevents changes.

Demand

Private user. *Cerveceria Costa Rica* is a subsidiary of Florida Ice & Farm. The company produces beer, fruit juices, and bottled water and is the first manufacturing industry engaged in Payment for Environmental Services (PES). As their area of interest within the watershed, overlaps with the ESPH, the two companies have joined forces to increase the level of the local payment.

Intermediary

FONAFIFO, the Costa Rican National Forestry Fund, is the main intermediary, at national level.

The local forestry NGO, FUNDECOR, intermediates the deal at the local level. FUNDECOR contacts eligible landowners and offers technical assistance for the application process (including technical studies and legal paperwork). In this case, in addition to participation in the national PES programme, applicants through FUNDECOR also enter a certification scheme for forest management (FSC). The contract commitments from the ESPH side in this agreement are subscribed by FUNDECOR.

Facilitator

MARKET DESIGN

Service

Water flow and water quality.

Commodity

Conservation and protection of existing ecosystems in forestland.

Payment mechanism

Intermediary-based transaction, through FONAFIFO (the national forestry fund). La Florida agreed to cover the full amount of payments (at the time US\$45 per hectare per year) to 1,000 hectares of forest in the upper part of the Rio Segundo Watershed. (The company also pays one colon (approximately US\$0.002) per bottle of water sold, and an additional one colon per bottle recycled, to the National Park Foundation.

ESPH contributes with US\$22 per hectare per year raising the payments to a total of US\$67 per hectare per year.

Terms of payment

One-off cash payment from the companies to FONAFIFO, which then distributes payments on an annual basis to landowners for the duration of the contracts, via FUNDECOR.

Funds involved

ESPH contributes with total US\$22,000 per year (US\$110,000 over five years) and La Florida with US\$ 45,000 per year, including a fee for FONAFIFO administration costs coming to a total of US\$273,000 over five years.

ANALYSIS OF COSTS AND BENEFITS

Economic

Intermediation costs. Users: Both La Florida and ESPH contribute to FONAFIFO administration costs with US\$4 per hectare per year. *Providers:* FUNDECOR charges 12 per cent of the total amount of the contract as intermediation fee charged only if the application is successful.

Environmental

The initiative helps to protect important water recharge areas in the upper watersheds of the country. This provides benefits for biodiversity and landscape beauty. It is unclear whether these areas are under direct threat of conversion and whether there is significant additionality.

Social

The area is rather wealthy and there are no direct impacts on the poor. Minimum area is two hectares, so in theory it should benefit smallholders, but it is more likely to benefit wealthy landowners with second homes in the area.

LEGISLATION ISSUES

The company pays very little for the water extraction rights (*Canon de Agua*). Some people argue that it is only fair they should pay additional money for the Environmental Service (ES) but even that is not enough. This situation will change with the application of the new Water Fees Law (*Canon del Agua*), approved in 2006. However, investments from companies like Florida Ice & Farm in PES will be recognised when they have to pay the new fees.

MONITORING

FUNDECOR deals with monitoring through Geographical Information Systems (GIS) and field visits.

MAIN CONSTRAINTS

One-to-one negotiations with the company are lengthy and expensive. However, these types of negotiations have contributed to capacity building in FONAFIFO and helped them design the stream-lined Certificates for Environmental Services (CES) to deal with private firms (see CES in this review).

MAIN POLICY LESSONS

This case presents an example of how to increase the attractiveness of the scheme, by pooling contributions from different users to increase the payment level in a priority area.

OTHER INFORMATION

The owners of Florida Ice & Farm are also the main investors in the Melia Hotel, which is now paying for watershed services in Guanacaste (see case in this review).

The company also pays one colon (approximately US\$0.002 per bottle of water sold, and an additional one colon per bottle recycled, to the National Park Foundation).

CONTACT

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Information on FUNDECOR website:

http://www.fundecor.org/transferencia/proyectos_es.shtml.

LINKS

www.florida.co.cr

http://www.fonafifo.com/paginas_espanol/proyectos/e_pr_convenios.htm