

10 Costa Rica

Support to agriculture

Costa Rica's agricultural policies generated average support for producers of 6.3% of gross farm receipts in 2018-20, well below the OECD average. This support is almost entirely (92%) based on market price support (MPS). MPS, one of the most trade- and production-distorting forms of support, is generated through border measures (tariffs) and minimum reference prices. Products most supported through such policies include rice, poultry, pig meat and sugar. Border protection and price interventions resulted in producer prices 6.2% higher than international prices in 2018-20, on average.

The remaining producer support (8% of the total) comes through input subsidies for agricultural equipment and machinery, payments for environmental services, and other subsidies.

Spending on general services (GSSE) accounted for 2.1% of total agricultural value added in 2018-20, up from 1.3% in 2000-02. These expenditures were allocated to three main areas: (1) agricultural knowledge and innovation system, particularly extension services; (2) development and maintenance of irrigation and rural roads infrastructure; and (3) inspection and control. Overall, total support to the sector (TSE) corresponded to 0.6% of GDP in 2018-20, down from 1.2% at the beginning of the century.

Recent policy changes

Most policy developments in 2020 addressed the COVID-19 emergency. The Ministry of Agriculture and Livestock (MAG) maintains a roundtable for development and implementation of policies in response to the COVID-19 pandemic. The table includes all agricultural centralised and decentralised institutions, the agro-industrial chambers and producer organisations.

In 2020, the Rural Development Institute (INDER) suspended re-payments to the Rural Credit Program for four months. This debt was re-scheduled to the end of the loan term without any default fine. Due to the closure of public schools, the National Production Council (CNP) distributed basic food packages to students.

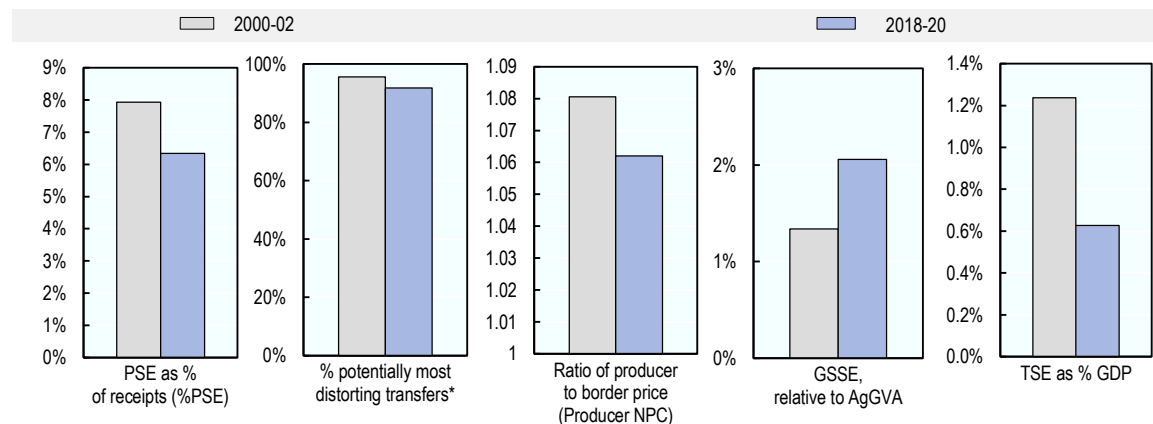
The Ministry of Finance offered a moratorium on VAT and select consumption tax payments, introduced a VAT exemption on commercial leases, and exempted all economic activities, including agriculture, from partial payments of income tax.

Assessment and recommendations

- Producer support predominantly comes through border protection for several products, namely rice, poultry, pig meat and sugar, and through reference prices for rice. This support distorts both domestic markets and trade, constrains competition and, hence, productivity and competitiveness. The government should consider phasing out this support and replace it with more targeted payments to producers in need on a temporary basis when necessary.

- Agricultural infrastructure is a significant bottleneck, preventing the sector from becoming more efficient and responsive to market signals. Investments are required both to enhance productivity (e.g. through irrigation and drainage) and facilitate access to markets (e.g. transportation, distribution, cold-chain facilities, etc.).
- Small-scale producers suffer low productivity, and poor access to credit and financial tools. In addition, as private commercial banks lack incentives to provide loans to small-scale farmers, stringent requirements impede small-scale farms from taking advantage of available credit sources. While avoiding moral hazard, existing credit programmes provided by the national development bank and agricultural organisations or cooperatives could expand to improve the financial infrastructure for smallholders in particular.
- Limited capacity and resource misallocations constrain the effectiveness and efficiency of Costa Rica's extension services, which account for around 20% of total public expenditures to the sector. Given the importance of these services to the agricultural sector, major efforts should ensure that funding is used efficiently, including providing training to extension services personnel on new production systems and management, streamlining and reducing the administrative burden for technical staff, and better co-ordination between research agencies, extension services and farmers' needs.
- Costa Rica has a long history of environmental protection, sustainable development policies and action on climate change mitigation. In 2019, a new plan outlined Costa Rica's pathway towards net-zero emissions by 2050. This includes strategies for all sectors, including agriculture, such as improved farming practices and measures against food waste. Despite these efforts, opportunities for improvement remain. In particular, the country should align adaptation and other agricultural objectives to prepare for climate change. Farmers' awareness could be enhanced through strengthened co-ordination between R&D and technical assistance.

Figure 10.1. Costa Rica: Development of support to agriculture

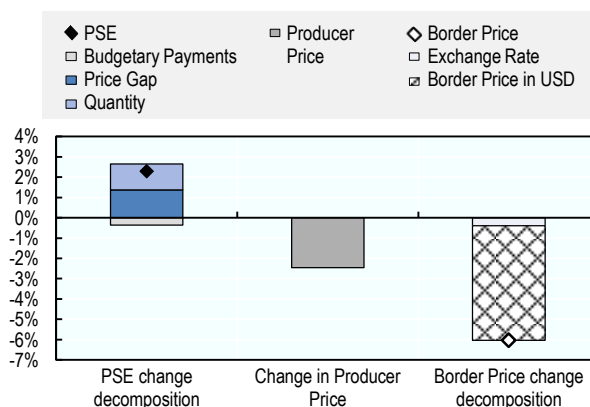


Note: * Share of potentially most distorting transfers in cumulated gross producer transfers.

Source: OECD (2021), "Producer and Consumer Support Estimates", OECD Agriculture statistics (database), <http://dx.doi.org/10.1787/agr-pcse-data-en>.

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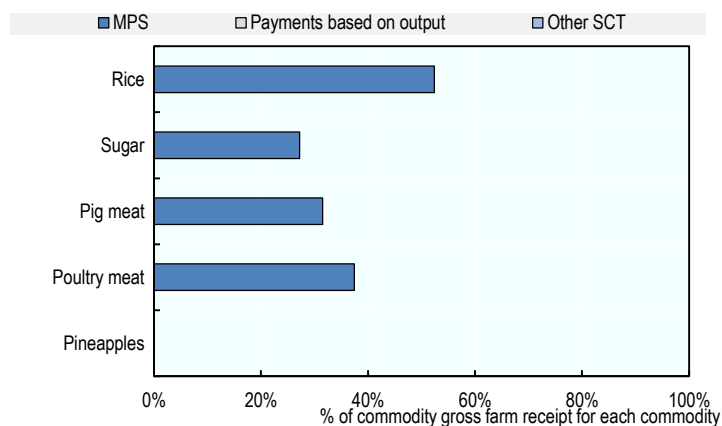
Figure 10.2. Costa Rica: Drivers of the change in PSE, 2019 to 2020



Source: OECD (2021), "Producer and Consumer Support Estimates", OECD Agriculture statistics (database), <http://dx.doi.org/10.1787/agr-pcse-data-en>.

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Figure 10.3. Costa Rica: Transfer to specific commodities (SCT), 2018-20



Source: OECD (2021), "Producer and Consumer Support Estimates", OECD Agriculture statistics (database), <http://dx.doi.org/10.1787/agr-pcse-data-en>.

StatLink  <https://stat.link/7erxb8>

Table 10.1. Costa Rica: Estimates of support to agriculture

Million USD

	2000-02	2018-20	2018	2019	2020p
Total value of production (at farm gate)	2 209	4 990	5 024	4 988	4 960
<i>of which: share of MPS commodities (%)</i>	79.2	91.7	90.2	90.1	94.7
Total value of consumption (at farm gate)	1 114	2 446	2 434	2 440	2 463
Producer Support Estimate (PSE)	175	318	255	344	354
Support based on commodity output	164	291	228	317	328
Market Price Support ¹	164	291	228	317	328
Positive Market Price Support	164	291	228	317	328
Negative Market Price Support	0	0	0	0	0
Payments based on output	0	0	0	0	0
Payments based on input use	9	25	25	26	25
Based on variable input use	4	14	13	16	12
with input constraints	1	13	12	15	12
Based on fixed capital formation	1	6	6	4	7
with input constraints	0	2	3	1	2
Based on on-farm services	5	6	6	6	6
with input constraints	3	0	0	0	0
Payments based on current A/An/R/I, production required	0	0	0	0	0
Based on Receipts / Income	0	0	0	0	0
Based on Area planted / Animal numbers	0	0	0	0	0
with input constraints	0	0	0	0	0
Payments based on non-current A/An/R/I, production required	0	0	0	0	0
Payments based on non-current A/An/R/I, production not required	0	0	0	0	0
With variable payment rates	0	0	0	0	0
with commodity exceptions	0	0	0	0	0
With fixed payment rates	0	0	0	0	0
with commodity exceptions	0	0	0	0	0
Payments based on non-commodity criteria	1	1	1	1	1
Based on long-term resource retirement	0	1	1	1	1
Based on a specific non-commodity output	0	0	0	0	0
Based on other non-commodity criteria	1	0	0	0	0
Miscellaneous payments	0	0	0	0	0
Percentage PSE (%)	7.9	6.3	5.0	6.9	7.1
Producer NPC (coeff.)	1.08	1.06	1.05	1.07	1.07
Producer NAC (coeff.)	1.09	1.07	1.05	1.07	1.08
General Services Support Estimate (GSSE)	20	61	66	61	55
Agricultural knowledge and innovation system	10	29	30	28	30
Inspection and control	3	11	11	11	12
Development and maintenance of infrastructure	7	19	24	21	13
Marketing and promotion	0	1	2	1	1
Cost of public stockholding	0	0	0	0	0
Miscellaneous	0	0	0	0	0
Percentage GSSE (% of TSE)	10.4	16.1	20.6	15.1	13.6
Consumer Support Estimate (CSE)	-190	-339	-274	-364	-378
Transfers to producers from consumers	-156	-263	-200	-282	-305
Other transfers from consumers	-34	-76	-73	-82	-73
Transfers to consumers from taxpayers	0	0	0	0	0
Excess feed cost	0	0	0	0	0
Percentage CSE (%)	-17.0	-13.9	-11.3	-14.9	-15.3
Consumer NPC (coeff.)	1.20	1.16	1.13	1.18	1.18
Consumer NAC (coeff.)	1.20	1.16	1.13	1.18	1.18
Total Support Estimate (TSE)	196	379	321	406	409
Transfers from consumers	190	339	274	364	378
Transfers from taxpayers	40	116	121	124	104
Budget revenues	-34	-76	-73	-82	-73
Percentage TSE (% of GDP)	1.2	0.6	0.5	0.7	0.7
Total Budgetary Support Estimate (TBSE)	31	88	93	88	81
Percentage TBSE (% of GDP)	0.2	0.1	0.2	0.1	0.1
GDP deflator (2000-02=100)	100	344	339	345	347
Exchange rate (national currency per USD)	331.77	582.96	577.19	587.02	584.68

Note: p: provisional. NPC: Nominal Protection Coefficient. NAC: Nominal Assistance Coefficient.

A/An/R/I: Area planted/Animal numbers/Receipts/Income.

1. Market Price Support (MPS) is net of producer levies and excess feed cost. MPS commodities for Costa Rica are: rice, sugar, milk, beef and veal, pig meat, poultry, bananas, coffee, palm oil and pineapple.

Source: OECD (2021), "Producer and Consumer Support Estimates", *OECD Agriculture statistics* (database), <http://dx.doi.org/10.1787/agr-pcse-data-en>.

Description of policy developments

Overview of policy trends

Costa Rica's agricultural policy progressed through three distinct phases in recent decades. From the 1960s to the 1980s, Costa Rica's agricultural sector followed an import substitution path, supported by government market interventions, such as price control and agricultural import tariffs (Anderson and Valdés, 2008^[1]).

From the mid-1980s to the mid-2000s, agricultural support policies evolved in line with Costa Rica's outward-oriented growth strategy. Market intervention decreased significantly, combined with continued reforms and increasingly open borders. Reforms involved elimination of price controls (except rice), removal of export taxes and reduction of import tariffs. Costa Rica fully integrated into international markets, and free trade agreements resulted in duty-free imports from many countries, though import tariffs still apply to some agricultural products (Anderson and Valdés, 2008^[1]; OECD, 2017^[2]).

Since the food price crisis of 2007-08, which fuelled food security concerns in the country, specific strategies aim to increase productivity of staple foods and focus on small-scale farmers, such as by prioritising extension services to those farms. Reforms to the rice price system took place in 2015 with the introduction of a minimum reference price, which works more as an indicative rice price. Still, Costa Rica's policies continue to emphasise export-oriented agriculture with emphasis on sustainability and smallholders (Table 10.2) (OECD, 2017^[2]).

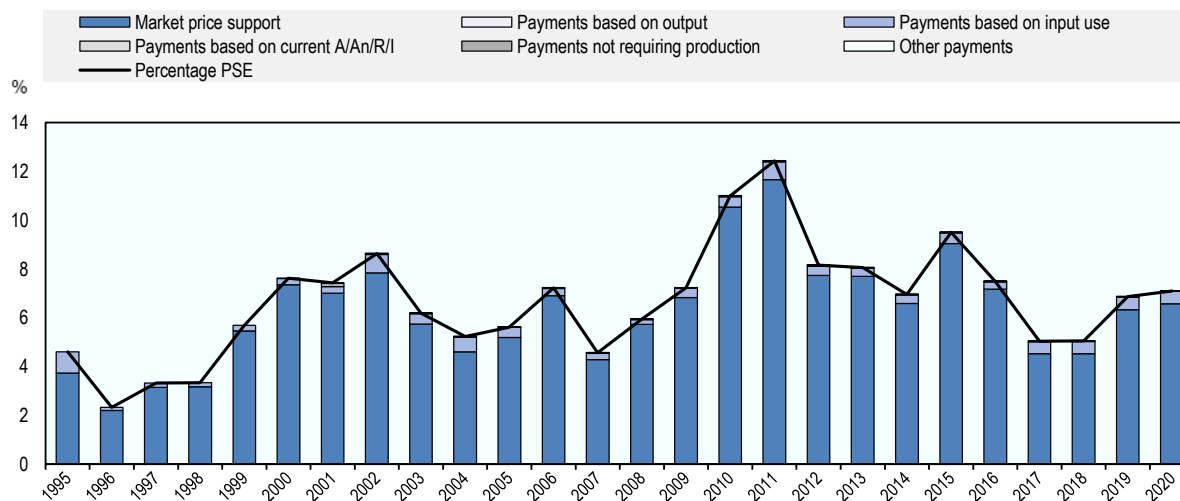
Table 10.2. Costa Rica: Agricultural policy trends

Period	Framework	Changes in agricultural policies
Prior to 1980s	Closed economy	Import substitution approach; price interventions on agricultural products, particular emphasis on guaranteed price for rice; high tariffs on agricultural product imports Creation of the National Production Council (CNP) in the 1940s to promote agricultural and industrial production, control agricultural prices and own public infrastructure for the collection, storage, transport and distribution of grains
1980s-2007/08	Gradual shifts to open the economy	Dismantling price interventions, but minimum price for rice continued Reduction of trade barriers (import and export tariffs) Reforms to CNP end most functions, keeping only the Institutional Supply Programme (PAI), which purchases food from small and medium farms for consumption in public institutions Strengthening agricultural exports via product diversification and development of destination markets; several FTAs signed; incentives (including in agriculture) to domestic and foreign companies to attract FDI, such as the Free Trade Zone Regime (FTZ) providing tax benefits and preferential port rates Creation of agricultural institutions for animal health (SENASA), plant health (SFE), agricultural innovation (INTA) Creation of rural development institute (IDA/INDER)
2008-2020	Open economy with a focus on food security	Emphasis on extension services on small-scale farms; promotion of good agricultural practices Small and limited payments to farmers for environmental services Changes to rice price, from guaranteed price to a reference price in 2015 Continuing use of import tariffs

Producer support fluctuated between 7% and 12% of gross farm receipts over the last 20 years, based predominantly on market price support. MPS concentrates mostly on rice and livestock products, accounting for around 90% of the PSE. In contrast, budgetary support to producers is limited, with little change over time (Figure 10.4). Around 80% of total budgetary allocations to the sector go to general services. R&D, extension services, rural infrastructure, inspection and control account for 98% of total expenditures on general services in the last ten years. Costa Rica does not provide budgetary transfers to consumers.

Figure 10.4. Costa Rica: Level and PSE composition by support categories, 1995 to 2020

As a percentage of gross farm receipts



Note: A/An/R/I: Area planted/Animal numbers/Receipts/Income.

Payments not requiring production include Payments based on non-current A/An/R/I (production not required) and Payment based on non-commodity criteria. Other payments include Payments based on non-current A/An/R/I (production required) and Miscellaneous payments.

Source: OECD (2021), "Producer and Consumer Support Estimates", OECD Agriculture statistics (database), <http://dx.doi.org/10.1787/agr-pcse-data-en>.

Main policy instruments

Costa Rica's agricultural policy framework are the 2019-2022 Policy Guidelines for the Agricultural, Fishing and Rural Sector. It seeks to: contribute to the social and economic well-being of the agricultural working population; achieve mechanised, competitive, inclusive and sustainable agriculture with responsive, modern and co-ordinated public institutions; and create a sector resilient to physical, biological, economic and social impacts. The guidelines also have a crosscutting axis of climate actions and disaster risk reduction in the production of goods and services by strengthening the capacities of public institutions and farmers.

The country maintains a wide range of border measures, in particular tariffs for several agricultural products (rice, poultry, pig meat, milk, sugar, etc.). Moreover, the country maintains a reference price for rice. This reference price is based on domestic production costs, processing costs, international prices, and defined by the National Rice Corporation (CONARROZ) with the supervision of the Ministries of Agriculture, Economy and Industry. This reference price imposes a burden on consumers, as domestic prices are higher than international prices.

Budgetary policy instruments predominantly focus on providing essential services to agriculture, including extension services, R&D, and plant and animal health services, with a significant emphasis on environmental protection.

The Agricultural Technology Research and Transfers Institute (INTA) manages agricultural R&D and innovation. INTA also operates technology transfer and extension services to farmers with the MAG's National Directorate of Agricultural Extension. The National Animal and Health Service (SENASA) and the National Phytosanitary Service (SFE) are in charge of animal and plant health services.

The country also provides minor subsidies. These include payments for environmental services such as the use of green or living fences and terraces, organic production or soil condition improvements, implicit

subsidies through credit at preferential interest rates to all loans, and some subsidies for fixed capital formation mostly directed to small-scale farmers.

In Costa Rica's National Decarbonisation Plan 2018-2050, the agricultural sector has commitments in the following areas: (1) promotion of highly efficient agro-food systems that generate low carbon products for both domestic and international market, and (2) consolidation of an eco-competitive livestock model based on productive efficiency and reduction of GHG emissions. Within this context, the sectorial office for climate actions and decarbonisation was created in 2019 within the MAG. This office is in charge of Nationally Appropriate Mitigation Actions (NAMA) for livestock, and of the development of banana, rice and sugar cane NAMAs.

Two agricultural chains apply NAMAs: coffee and livestock. The coffee NAMA is more advanced and aims to reduce GHG emissions and improve resource use efficiency. The main actions implemented by the coffee NAMA are fertiliser reduction use, efficient use of water and energy, audits in coffee processing to measure carbon footprint, developing strategies to promote specialty coffee, technical assistance for coffee producers and processors, and planting forest trees for carbon capture.

During 2019, SEPSA developed the Climate Change Information Observatory,¹ with information on climate change and on the El Niño Southern Oscillations (ENSO).

Domestic policy developments in 2020-21

The Water Supply Programme for Guanacaste was launched in 2019, administered by the National Groundwater, Irrigation and Drainage Service (SENARA), which consists of an expansion of access to water for irrigation in the lower area of Guanacaste, through the construction of a reservoir and infrastructure for hydroelectric generation. In 2019, under this programme, 55 kilometres of canals and distribution network for irrigation were constructed, benefiting more than 17 000 hectares.

The DESCUBRE Programme – an initiative linking farmers to markets – was created in 2019 as a public-private alliance. Two fundraising events were held in 2020, raising USD 458 000 and benefiting 38 agricultural SMEs that will use the funds for agricultural innovation activities that boost productivity.

Domestic policy responses to the COVID-19 pandemic

Most policy developments that occurred in 2020 were aimed at addressing the COVID-19 emergency. The Ministry of Agriculture and Livestock (MAG) continues with a dialogue table for COVID-19 policy decisions. The table includes all sectoral decentralised institutions, the agro-industrial chambers and producer organisations. MAG co-ordinates prevention measures to control the spread of the virus within the farmers' fairs. In the regional offices, face-to-face agricultural procedures (access to services) were suspended, document expiration periods were extended and new virtual procedures were implemented.

The MAG, the Export Promotion Agency (PROCOMER), the Ministry of Economy and the Food Industry Chamber (CACIA), created the virtual platform "*La Finca Agropecuaria*". This smartphone application allows producers, buyers and final consumers to negotiate directly price and production of agricultural, livestock and fishery products. For farmers without internet access a text-messaging platform by SMS was created to link farmers and buyers.

In 2020, the Rural Development Institute (INDER) suspended, for four months, the Rural Credit Program re-payments. This four-month debt was re-scheduled to be paid at the end of the loan term without any default fine. INDER also provided an extension of three months for land lease contracts, benefiting 3 825 farmers and farmer organisations.

Due to the closure of public schools and their dining rooms during 2020 due to COVID-19, the National Production Council (CNP) main institutional procurement programme (PAI) was in charge of preparing and distributing basic food packages to all students in 1 426 schools. INDER and CNP signed an agreement

to buy beans from smallholders of the northern region of the country. This initiative was part of the broader procurement programme operated by CNP.

The Ministry of Finance, under the Law No. 9830, offered a moratorium on VAT payments and on selective consumption taxes, introduced VAT exemption on commercial leases, and exempted all economic activities of the country, including agriculture, from partial payments of income tax.

Trade policy developments in 2020-21

During 2020, different preparatory negotiations were undertaken for the entry into force of the Association Agreement between the United Kingdom and Central America (AACRU) as of 1 January 2021. These discussions were related to the implementation of the agreement, and took place between Central America countries and the United Kingdom, as well as with national institutions involved in the process. Moreover, work was carried out on answering inquiries (such as excluded products, tariff reductions, tariff rate quotas (TRQs), etc.) from the companies regarding this new Association Agreement.

Additionally, in November 2020 the annual meeting of the institutional framework of the Association Agreement between the European Union and Central America (AACUE) was held virtually, to discuss aspects related to market access, regulations, etc. Also, the Free Trade Commission of the Free Trade Agreement between Central America and Chile met in November 2020.

In 2020, Costa Rica opened three import quotas for paddy rice in order to supply local consumption. The country also implemented a safeguard measure (for three years) under Article XIX GATT 1994 for sugar in solid form of whatever origin, that increases the applied tariff from 45% to 72.7%.

Trade policy responses to the COVID-19 pandemic

Both the Animal Health (SENASA) and Plant Health (SFE) institutions continued to perform their functions at border posts while avoiding (due to COVID-19) any disruptions in imports and exports of agricultural products. A new location was set up for a single export window (part of the single export window system) with the sanitary conditions established by the Ministry of Health. Agricultural imports are allowed based on printed documents as well as digitised documentation. The SFE created an online system for consulting in real time the phytosanitary certificates for Costa Rican agricultural exports.

Contextual information

Costa Rica is a small country with a population of 5 million. The country's long democratic tradition and political stability have underpinned its important economic progress – including the development of its agricultural sector. Agriculture still plays a relatively important role in the economy, contributing 4.6% to the country's GDP and employing 12.1% of its work force. Costa Rica has achieved higher standards of living and lower poverty rates than other countries in the region, with a per capita income of USD 20 434 (PPP) in 2019 (Table 10.3).

Table 10.3. Costa Rica: Contextual indicators

	Costa Rica		International comparison	
	2000*	2019*	2000*	2019*
Economic context			Share in total of all countries	
GDP (billion USD in PPPs)	31	103	0.08%	0.09%
Population (million)	4	5	0.09%	0.10%
Land area (thousand km ²)	51	51	0.06%	0.06%
Agricultural area (AA) (thousand ha)	1 840	1 783	0.06%	0.06%
			All countries¹	
Population density (inhabitants/km ²)	78	99	53	63
GDP per capita (USD in PPPs)	7 837	20 434	9 265	21 975
Trade as % of GDP	38	22	12.3	14.6
Agriculture in the economy			All countries¹	
Agriculture in GDP (%)	10.3	4.6	2.9	3.5
Agriculture share in employment (%)	16.3	12.1	-	-
Agro-food exports (% of total exports)	31.0	39.7	6.2	7.3
Agro-food imports (% of total imports)	7.6	12.7	5.5	6.7
Characteristics of the agricultural sector			All countries¹	
Crop in total agricultural production (%)	76	72	-	-
Livestock in total agricultural production (%)	24	28	-	-
Share of arable land in AA (%)	11	14	32	34

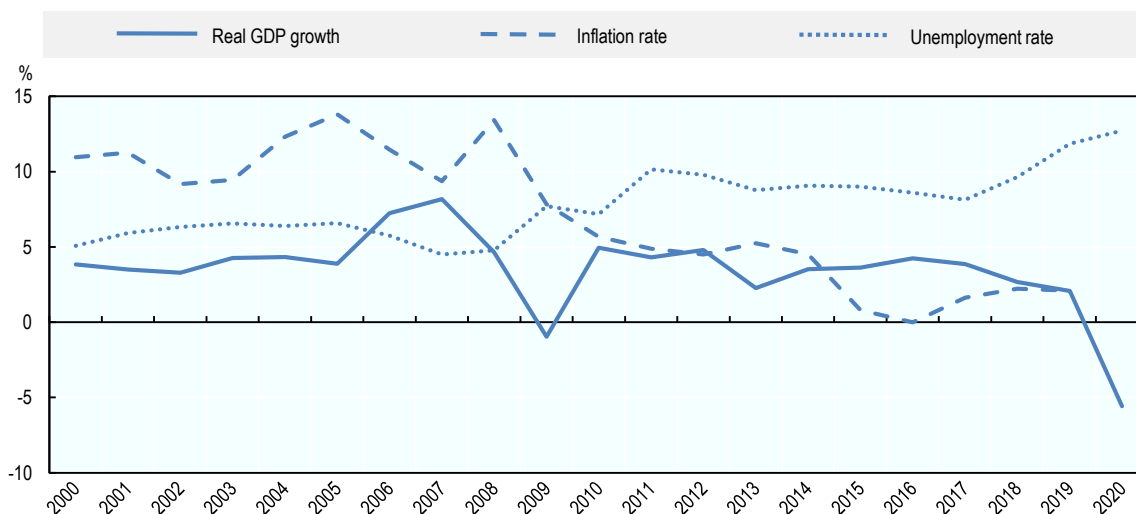
Notes: *or closest available year.

1. Average of all countries covered in this report.

Sources: OECD statistical databases; UN Comtrade; World Bank, WDI and national data.

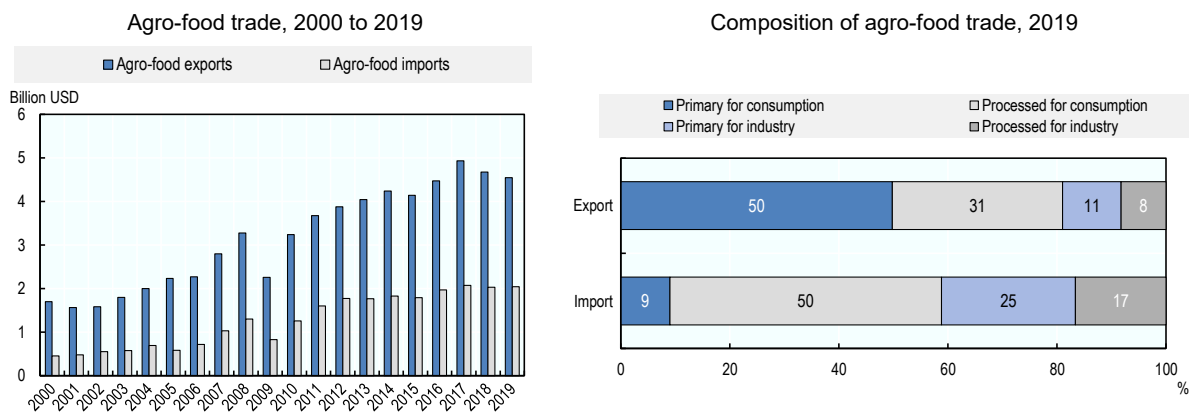
In 2020, GDP growth experienced an important decline due to the COVID-19 pandemic. Inflation has significantly declined since 2008, while unemployment has increased in the most recent years (Figure 10.5). Costa Rica has developed a successful and dynamic agricultural export sector in recent decades. The country is a net agro-food exporter, with a share of agro-food exports in total exports of 40% in 2019. Half of Costa Rica's agricultural exports are primary crops for final consumption, such as bananas and pineapples (Figure 10.6). The country is also an important exporter of processed products for final consumption. Half of agro-food imports are processed products for final consumption.

Figure 10.5. Costa Rica: Main economic indicators, 2000 to 2020



Sources: OECD statistical databases; World Bank, WDI; and ILO estimates and projections.

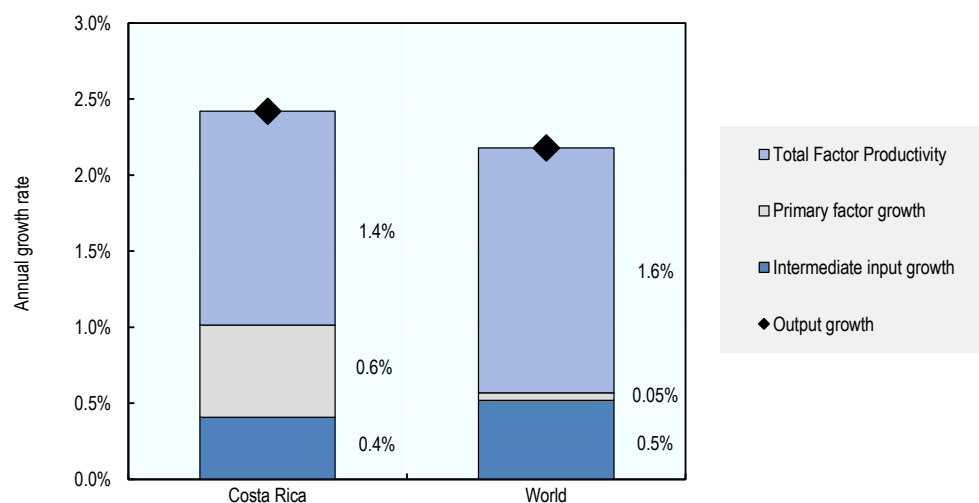
Figure 10.6. Costa Rica: Agro-food trade



Note: Numbers may not add up to 100 due to rounding.
Source: UN Comtrade Database.

Total Factor Productivity (TFP) growth has decreased from the 2000s and has been slightly below the world average over the last decade (Figure 10.7). Area expansion into less productive land, ongoing farm fragmentation and limited financial and physical infrastructure were among the key contributing factors to this decline. Agriculture is the main user of water resources. Environmental regulations have led to the reforestation of large parts of the country, and 25% of Costa Rican territory is now under some form of stricter environmental protection. However, the country continues to have relatively high nutrient balances for nitrogen and phosphorus (Table 10.4).

Figure 10.7. Costa Rica: Composition of agricultural output growth, 2007-16



Note: Primary factors comprise labour, land, livestock and machinery.

Source: USDA Economic Research Service Agricultural Productivity database.

Table 10.4. Costa Rica: Productivity and environmental indicators

	Costa Rica		International comparison	
	1991-2000	2007-2016	1991-2000	2007-2016
			World	
TFP annual growth rate (%)	3.0%	1.4%	1.6%	1.6%
			OECD average	
Environmental indicators	2000*	2019*	2000*	2019*
Nitrogen balance, kg/ha	41.1	45.5	33.2	28.9
Phosphorus balance, kg/ha	12.1	11.8	3.4	2.6
Agriculture share of total energy use (%)	6.6	1.9	1.7	2.0
Agriculture share of GHG emissions (%)	27.2	24.1	8.4	9.5
Share of irrigated land in AA (%)	5.3	9.0	-	-
Share of agriculture in water abstractions (%)	32.5	68.6	46.0	43.4
Water stress indicator	..	2.6	9.3	8.5

Note: * or closest available year.

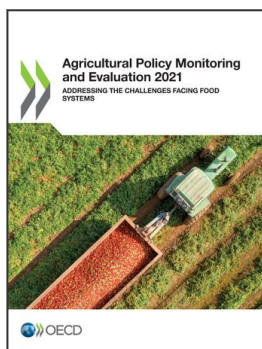
Sources: USDA Economic Research Service, Agricultural Productivity database; OECD statistical databases; FAO database and national data.

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- Anderson, K. and A. Valdés (2008), *Distortions to Agricultural Incentives in Latin America*, World Bank, Washington DC, <https://openknowledge.worldbank.org/handle/10986/6604>. [1]
- OECD (2017), *Agricultural Policies in Costa Rica*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264269125-en>. [2]

Note

- ¹ www.infoagro.go.cr/CambioClimatico/observatorio/.



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