

Chapter 10. Costa Rica

Support to agriculture

Costa Rica's policies to support agricultural producers generated an average of just 6% of gross farm receipts (%PSE) in 2016-18. This support is almost entirely (94%) based on Market Price Support (MPS), generated through border measures (tariffs) and minimum reference price. Products most supported through the MPS policies include rice, poultry, pig meat and sugar. The remaining support is provided through input subsidies for fixed capital formation and payments for environmental services. Support to producers (PSE) was the largest component of the Total Support Estimate (TSE) to agriculture in 2016-18 accounting for 80% of the total; the remaining 20% was based on financing general services to the sector (GSSE). Expenditures on GSSE accounted for 80% of total budgetary allocations to agriculture in 2016-18; of which 98% was allocated in three main areas: agricultural knowledge and innovation system, particularly extension services; development and maintenance of infrastructure; and inspection and control.

Main policy changes

In 2018, a new Costa Rica government approved the "Policy Guideline 2019-22 of the Agricultural, Rural, and Fisheries Sector". The guideline is under the umbrella of the long-term strategy, created in 2010, for the agricultural sector 2010-21 "State Policy for the Agrifood Sector and Rural Development 2010-21", that aims to achieve a mechanised, competitive, inclusive and sustainable agriculture with responsive, modern and co-ordinated public institutions. The new guideline 2019-22 has four areas of action: 1) Trade integration, 2) Strengthening the internal market, 3) Resilient agribusiness management, and 4) Institutional modernisation and inter-sectorial co-ordination; and three transversal axes: 1) Rural Youth, 2) Gender, and 3) Climate action and risk management. In spite of the new guideline, agricultural policies remained unchanged in 2018 and ongoing programmes were implemented in the same way as in 2017.

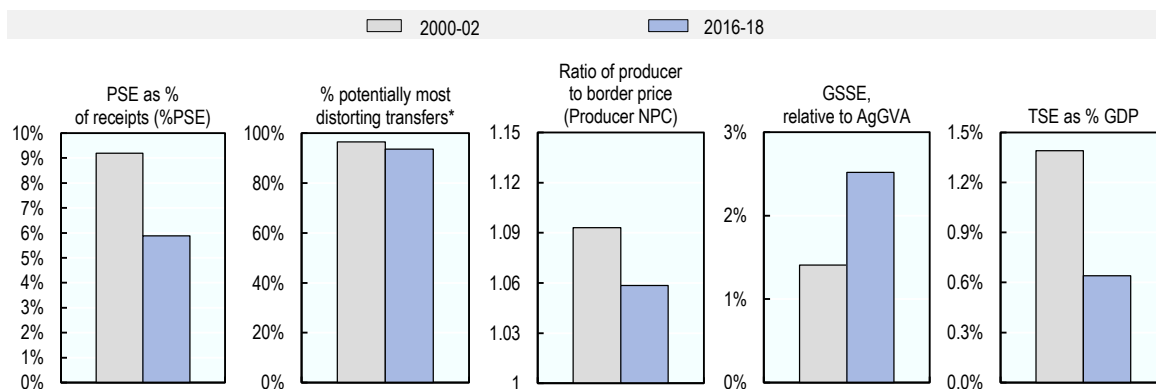
Assessment and recommendations

- Costa Rica's producer support is relatively modest, but concentrates on a few products, namely rice, poultry, pig meat, milk and sugar, which receive high border protection. This support continues to distort both domestic markets and trade, constrains competition and, hence, productivity and competitiveness, and is known to be inefficient for addressing declared policy objectives. In the light of market liberalisation under Costa Rica's Free Trade Agreements (FTAs), the government should develop and communicate a credible strategy to phase out market price support to ensure an orderly adjustment.
- Low capacity and resource misallocations are major constraints to the effectiveness and efficiency of Costa Rica's extension services, where 80% of public allocations to the sector go. Given the importance of these services as a key function for the

agricultural sector, major efforts are needed to ensure that funding is used in an efficient manner.

- Agricultural infrastructure represents another key bottleneck, preventing the sector from becoming more efficient and more responsive to market signals. Major investments are required both to enhance productivity (e.g. through irrigation and drainage) and to facilitate the access to markets (e.g. through transportation, distribution, cold-chain facilities etc.).
- Small-scale farmers suffer from poor access to credit and financial tools. In addition, stringent requirements impede them from taking advantage of available credit sources, as private commercial banks lack incentives to provide loans to small-scale farmers. While care needs to be taken to avoid moral hazard, existing credit programmes provided by the national development bank and agricultural organisations could be expanded as a first step to improve the financial infrastructure for small-scale farmers in particular.
- Complex responsibilities and weak co-ordination among the institutions challenge the implementation of public measures and impede effective service provision to the agricultural sector. Reducing bureaucracy and improving institutional coordination is therefore important to ensure that support programmes are implemented in a more efficient manner.
- Costa Rica has a long history of environmental protection, sustainable development and action on climate change mitigation. In spite of these important efforts, opportunities for further improvements remain. In particular, the country should better align adaptation and other agricultural objectives to prepare for climate change. Farmers' awareness could also be enhanced through strengthened co-ordination between research and developments (R&D) and technical assistance.

Figure 10.1. Costa Rica: Development of support to agriculture



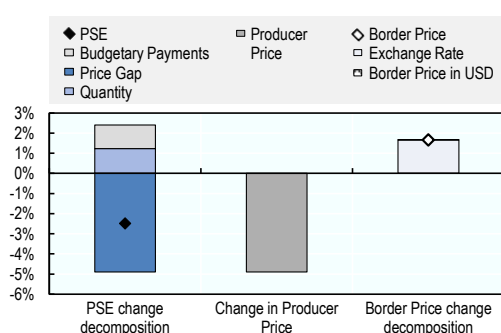
Note: * Share of potentially most distorting transfers in cumulated gross producer transfers.

Source: OECD (2019^[1]), “Producer and Consumer Support Estimates”, OECD Agriculture statistics (database), <http://dx.doi.org/10.1787/agr-pcse-data-en>.

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Support to producers (%PSE) was 6% in 2016-18, well below the OECD average. Potentially most production and trade distorting support, in the form of market price support (MPS), continues to dominate and represented 94% of the PSE in 2016-18. Border protection and price interventions resulted in producer prices that were, on average, 6% higher than international prices in 2016-18. Around 80% of budgetary spending is on general services to the sector (GSSE), corresponding to 2.5% of agricultural value-added, well below rates in most other countries in this report. Total support (TSE) was 0.6% of GDP in 2016-18 (Figure 10.1). The level of price gap has been reduced recently. This decrease was due to a weaker local currency and a small reduction in domestic prices for some products (Figure 10.2). Single Commodity Transfers (SCT) represented, on average, 97% of the total PSE and are particularly important for rice (56% of commodity-specific gross farm receipts), poultry (30%), sugar (22%) and pig meat (31%) (Figure 10.3).

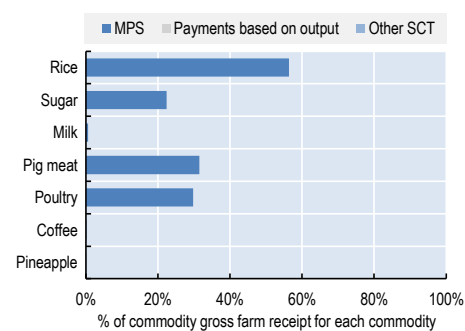
Figure 10.2. Costa Rica: Drivers of the change in PSE, 2017 to 2018



Source: OECD (2019^[1]), “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), 2016-18



Source: OECD (2019^[1]), “Producer and Consumer Support Estimates”, OECD Agriculture statistics (database), <http://dx.doi.org/10.1787/agr-pcse-data-en>.

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Table 10.1. Costa Rica: Estimates of support to agriculture

Million USD					
	2000-02	2016-18	2016	2017	2018p
Total value of production (at farm gate)	2 155	5 039	5 045	5 049	5 023
<i>of which: share of MPS commodities (%)</i>	78.1	88.2	86.6	89.9	88.1
Total value of consumption (at farm gate)	1 182	2 485	2 566	2 498	2 391
Producer Support Estimate (PSE)	198	299	386	261	250
Support based on commodity output	188	280	373	240	227
Market Price Support ¹	188	280	373	240	227
Positive Market Price Support	188	280	373	240	227
Negative Market Price Support	0	0	0	0	0
Payments based on output	0	0	0	0	0
Payments based on input use	9	17	11	20	22
Based on variable input use	4	10	4	12	14
with input constraints	1	9	3	11	14
Based on fixed capital formation	1	6	6	6	6
with input constraints	0	3	4	4	3
Based on on-farm services	4	1	2	1	1
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	2	1	2	2
Based on long-term resource retirement	0	2	1	2	2
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 (%)	9.2	5.9	7.6	5.1	5.0
Producer NPC (coeff.)	1.09	1.06	1.08	1.05	1.05
Producer NAC (coeff.)	1.10	1.06	1.08	1.05	1.05
General Services Support Estimate (GSSE)	21	75	80	74	72
Agricultural knowledge and innovation system	10	31	34	30	30
Inspection and control	4	16	16	16	16
Development and maintenance of infrastructure	7	26	29	26	24
Marketing and promotion	0	1	1	1	2
Cost of public stockholding	0	0	0	0	0
Miscellaneous	0	0	0	0	0
Percentage GSSE (% of TSE)	9.7	20.2	17.1	22.0	22.4
Consumer Support Estimate (CSE)	-178	-309	-392	-280	-255
Transfers to producers from consumers	-173	-269	-359	-233	-217
Other transfers from consumers	-5	-39	-33	-47	-38
Transfers to consumers from taxpayers	0	0	0	0	0
Excess feed cost	0	0	0	0	0
Percentage CSE (%)	-15.1	-12.4	-15.3	-11.2	-10.7
Consumer NPC (coeff.)	1.18	1.14	1.18	1.13	1.12
Consumer NAC (coeff.)	1.18	1.14	1.18	1.13	1.12
Total Support Estimate (TSE)	220	374	466	335	322
Transfers from consumers	178	309	392	280	255
Transfers from taxpayers	47	105	107	102	106
Budget revenues	-5	-39	-33	-47	-38
Percentage TSE (% of GDP)	1.4	0.6	0.8	0.6	0.5
Total Budgetary Support Estimate (TBSE)	31	94	92	95	96
Percentage TBSE (% of GDP)	0.2	0.2	0.2	0.2	0.2
GDP deflator (2000-02=100)	100	330	322	330	338
Exchange rate (national currency per USD)	331.77	562.98	543.96	567.78	577.19

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 (2019), "Producer and Consumer Support Estimates", *OECD Agriculture statistics* (database). doi: <http://dx.doi.org/10.1787/agr-pcsedata-en>

Contextual information

In Costa Rica agriculture still plays a relatively strong role in the economy, contributing 5.2% to the country's GDP and employing 12% of its work force. Costa Rica has a dualism in its agricultural sector where export oriented farms coexist with subsistence smallholders. The country has achieved higher standards of living and lower poverty rates than other countries in the region, with a per capita income of USD 17 044 (PPP) in 2017. However, inequality continues to be high. A structural transformation in terms of production took place in the late 1990s, when land originally destined to pastures changed its use to crops such as pineapples. Costa Rica is the world's largest exporter of pineapples and remains a successful supplier of traditional products, such as bananas, coffee and sugar.

Table 10.2. Costa Rica: Contextual indicators

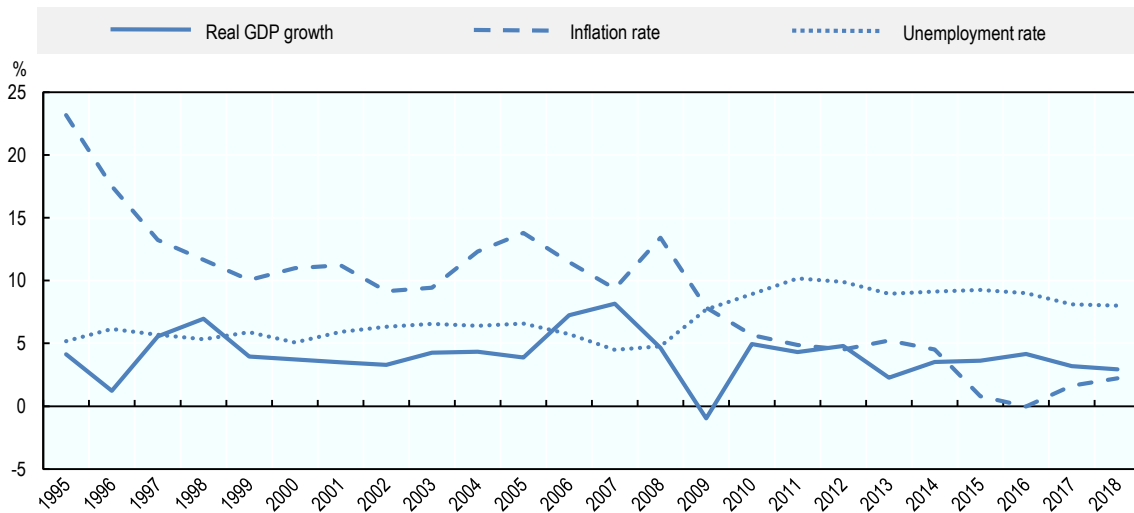
	Costa Rica		International comparison	
	1995*	2017*	1995*	2017*
Economic context			Share in total of all countries	
GDP (billion USD in PPPs)	23	84	0.08%	0.08%
Population (million)	3	5	0.09%	0.10%
Land area (thousand km ²)	51	51	0.06%	0.06%
Agricultural area (AA) (thousand ha)	2 048	1 760	0.07%	0.06%
			All countries¹	
Population density (inhabitants/km ²)	69	96	48	60
GDP per capita (USD in PPPs)	6 533	17 044	7 642	21 231
Trade as % of GDP	26	22	9.9	14.7
Agriculture in the economy			All countries¹	
Agriculture in GDP (%)	14.0	5.2	3.3	3.5
Agriculture share in employment (%)	21.8	12.0	-	-
Agro-food exports (% of total exports)	64.3	43.7	8.1	7.5
Agro-food imports (% of total imports)	10.5	12.7	7.4	6.6
Characteristics of the agricultural sector			All countries¹	
Crop in total agricultural production (%)	82	74	-	-
Livestock in total agricultural production (%)	18	26	-	-
Share of arable land in AA (%)	11	14	33	34

Note: *or closest available year. 1. Average of all countries covered in this report. EU treated as one.

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

The economy has grown by around 4% per year since 1995, exceeding the average growth of a number of other economies in the region. Inflation has significantly declined since 1995, and unemployment was around 8% in 2018 (Figure 10.4). Costa Rica has developed a successful and dynamic agricultural export sector in recent decades. The country is a net exporter agro-food, with a share of agro-food exports in total exports of 44% in 2018. Almost half of Costa Rica's agricultural exports are primary crops for final consumption, such as bananas, coffee and pineapples. The country is also an important exporter of processed products for final consumption, such as pineapple juice. Half of agro-food imports are processed products for final consumption.

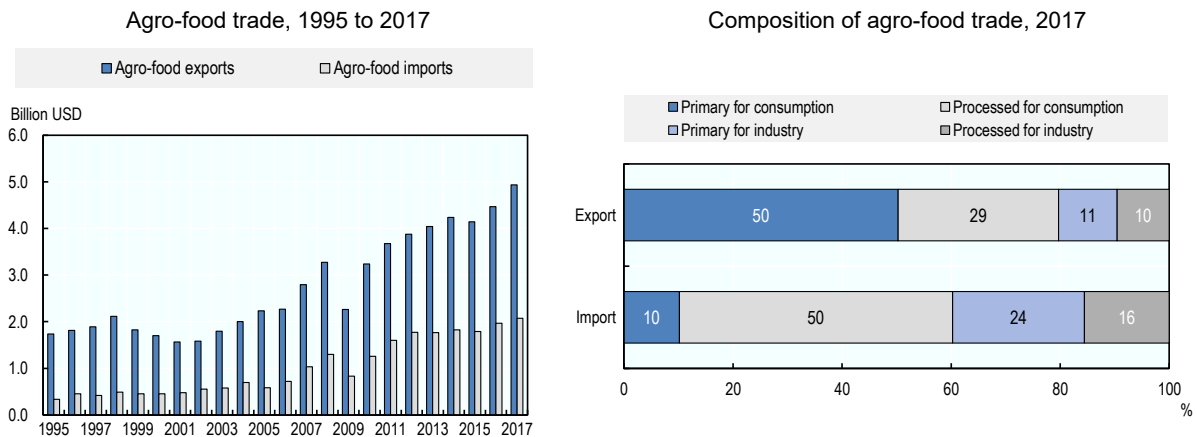
Figure 10.4. Costa Rica: Main economic indicators, 1995 to 2018



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

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Figure 10.5. Costa Rica: Agro-food trade



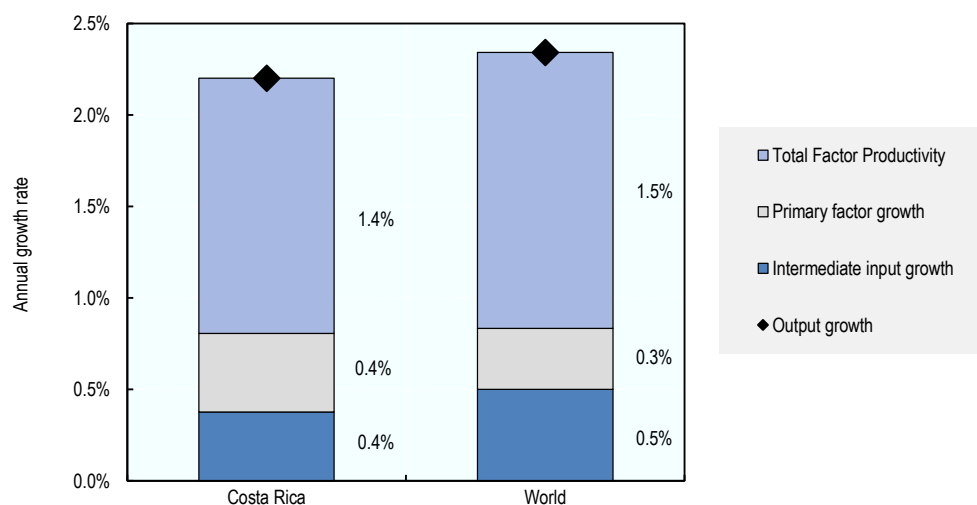
Note: Numbers may not add up to 100 due to rounding.
Source: UN Comtrade Database.

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During the 1980s and 1990s, structural change in the agricultural sector induced rapid growth in Total Factor Productivity (TFP). However, TFP growth has decreased and has been below the world average over the last decade. 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 with a share of 80% of water abstractions. 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 environmental protection (Table 10.3).

Figure 10.6. Costa Rica: Composition of agricultural output growth, 2006-15



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

Source: USDA Economic Research Service Agricultural Productivity database.

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Table 10.3. Costa Rica: Productivity and environmental indicators

	Costa Rica		International comparison	
	1991-2000	2006-2015	1991-2000	2006-2015
	World			
TFP annual growth rate (%)	3.2%	1.4%	1.6%	1.5%
	OECD average			
Environmental indicators	1995*	2017*	1995*	2017*
Nitrogen balance, kg/ha ¹	61.3	60.1	33.2	30.0
Phosphorus balance, kg/ha ¹	11.1	11.3	3.7	2.3
Agriculture share of total energy use (%)	3.9	2.1	1.9	2.0
Agriculture share of GHG emissions (%)	..	24.1	8.5	8.9
Share of irrigated land in AA (%)	..	9.0	-	-
Share of agriculture in water abstractions (%)	..	80.2	45.4	42.5
Water stress indicator	0.3	1.9	9.7	9.7

Notes: * or closest available year. 1. Preliminary data.

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

Description of policy developments

Main policy instruments

Up to mid-2018, Costa Rica's agricultural policy had two overarching objectives for the agricultural sector: to reduce poverty and to increase productivity growth. To achieve these objectives, the short-term strategy prioritised five policy guidelines (or "pillars"): 1) food

security and sovereignty; 2) the creation of opportunities for rural youth; 3) rural territorial development; 4) adaptation to and mitigation of climate change; and 5) the strengthening of the export-oriented sector. Several specific goals for increasing productivity through yield-targets were set for some staple crops, such as rice, beans, potatoes, and milk (OECD, 2017^[2]).

The agricultural sector benefits from a government commitment to the provision of a range of general services for agriculture, including extension services, R&D, and plant and animal health services, with emphasis on environmental protection. Around 80% of total expenditures allocated to agriculture are provided through general services. However, Costa Rica maintains important border measures, in particular tariffs to several agricultural products (rice, poultry, pig meat, milk, sugar, etc.), and maintains a minimum reference price for rice. This protection generates market price support, which is by far the largest component of support to farms in Costa Rica. The country also provides minor subsidies through credit to farmers at preferential interest rates, payments for environmental services, and subsidies for fixed capital formation mostly directed to smallholders.

Domestic policy developments in 2018-19

In 2018, Costa Rica changed national government. The new government has developed and approved a new overarching policy guideline: “Policy Guidelines 2019-22 of the Agricultural, Rural, and Fisheries Sector”. The guideline is under the umbrella of the long-term strategy, created in 2010, for the agricultural sector 2010-21 “State Policy for the Agrifood Sector and Rural Development 2010-21”, that aims to achieve a mechanised, competitive, inclusive and sustainable agriculture with responsive, modern and coordinated public institutions. In spite of the policy guideline, agricultural policies remained unchanged in 2018 and programmes were implemented in the same way as in 2017. The new guideline 2019-22 has four areas of action and three transversal axes:

- Trade integration: seize market opportunities generated from free trade agreements, through the promotion of exportable agricultural supply, while protecting domestic incipient production.
- Strengthening the internal market: improve internal market conditions, promoting the development of local markets, product diversification, and the optimisation and transparency of institutional offers.
- Resilient agribusiness management: promote agribusiness capacity for sustainable and competitive production, through innovation, access to technology, use of good agricultural and manufacturing practices, increase value added and associativity.
- Institutional modernisation and inter-sectorial articulation: create an effective management of public institutions, to deliver products and services timely to the needs of the productive sector, through greater sectoral co-ordination and simplification of procedures.

Transversal axes:

- Rural Youth: inclusion of young people in the economic, social and cultural areas, through the provision of innovative, differentiated and articulated services aimed at strengthening agricultural business skills.
- Gender: mainstreaming gender equality in the actions of the sector, through advocacy, guidance and processes aimed at providing services.

- Climate action and risk management: incorporation of the climatic variable and risk reduction in the production of goods and services by strengthening the capacities of institutions and producers (SEPSA, 2019^[3]).

Trade policy developments in 2018-19

There were no major developments on agricultural trade in 2018-19. In 2015, Costa Rica decided to ban imports of fresh avocados from Mexico, with the aim to protect itself against the sunblotch disease (G/SPS/N/CRI/160 and G/SPS/N/CRI/162) (COMEX, 2019^[4]). The two parties continue their consultations under the WTO Dispute Settlement Mechanism. On 18 December 2018, a panel was established by the Dispute Settlement Body, but the panellists have not yet been chosen. Canada, the People's Republic of China, the European Union, El Salvador, Honduras, India, Panama, the Russian Federation and the United States reserved their third-party rights (WTO, 2018^[5]).

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