Executive summary

Costa Rican agriculture has a strong base upon which to build. The success of the sector has been underpinned by the country's political stability, robust economic growth and high levels of basic health and education service provision. The agricultural sector has achieved significant export success, concentrated both in new crops, such as pineapples and palm oil, and traditional crops, such as coffee and bananas. Costa Rica is a highly competitive and leading exporter of pineapples, with over 50% share of the world market (COMEX, 2016). Moreover, the agricultural sector benefits from a strong government commitment to poverty reduction, agriculture and rural development, and from the provision of a range of general services for agriculture, including extension services, research and development (R&D), and plant and animal health services. Lastly, Costa Rica's enduring record of environmental protection has enabled it to reduce its vulnerability to natural hazards. While the emphasis on environmental protection has involved some short-term trade-offs – notably in the form of increased pressure on land availability – it has also provided longer-term *benefits* for the sector, including potential new opportunities for higher-value "green" marketing.

Support for agriculture, as measured by the OECD's Producer Support Estimates (PSE), remains relatively low at 10.1% in 2013-15, compared to an OECD average of 17.6% over the same period. While Costa Rica's overall support to agriculture is low, the protection that it does maintain – Market Price Support (MPS) for key crops, notably rice – is of the most production and trade distorting kind. In 2013-15 MPS accounted for 97% of the PSE. This type of support raises the price of key staples for poor households, largely supports major landowners and millers, and reduces farmers' flexibility to choose more productive and adaptive crops in the face of climate change. Support in terms of government budget outlays presents a more positive picture. About 80% of government support provided through budgetary allocation to the agricultural sector in 2013-15 was in the form of general services to the sector as a whole, a figure higher than the OECD average of 20% for the same period. But overall, the total value of transfers arising from all forms of support to agriculture represents an important cost to the economy, equivalent to 1.1% of GDP, underscoring the need to reform costly MPS policies and to ensure the efficacy of investments in services to agriculture.

The government faces challenges in achieving its stated objectives of increasing productivity, continuing export success, reducing rural poverty, and ultimately increasing the contribution of agriculture to the economy overall. For instance, the traditional agricultural sector – dominated by smallholders – continues to have low productivity, and few inroads have been made in rural poverty reduction, due to factors such as low education levels, lack of agricultural infrastructure and limited integration of smallholders into supply chains. More broadly, productivity growth has stalled across a range of agricultural products, including in the competitive export sector and, with land availability constrained, increased production must come from higher yields through more efficient use of inputs, improved

labour productivity and innovation. Raising productivity and continued export success in competitive global markets will require efforts to address bottlenecks in the enabling environment – notably infrastructure, innovation and access to financial services – as well as maximising Costa Rica's comparative advantage in higher-value niche products. Increased productivity will also depend on efficient provision of services to support overall development of the sector, especially those services that facilitate innovation and improved access to input and output markets. Central to achieving this will be better implementation of programmes, improved co-ordination among institutions, and reduced bureaucratic processes.

The Costa Rican agricultural sector must also position itself to face two new challenges: the scheduled liberalisation of the sector under a number of trade agreements and the uncertain impact of climate change. Managing the transition to liberalisation presents an opportunity to reform costly policies, particularly for protected import competing products. An alternative policy package to enable a smooth transition to more open markets would include new investments in innovation, productivity and diversification to support competitive farm businesses and transition assistance for those producers who will turn to more remunerative activities outside of agriculture.

Costa Rica's vulnerability to extreme weather events is expected to worsen with climate change, threatening the agricultural sector's long term prospects. Costa Rica is among global leaders in responding to climate change, with a long history of environmental protection, sustainable development and action on climate change mitigation. Noteworthy efforts to promote adaptation among farmers are also ongoing – yet opportunities for further development remain. In particular, alignment between adaptation and other agricultural objectives could be strengthened to prepare for climate change. Farmer awareness could also be enhanced through strengthened co-ordination on R&D and technical assistance. Lastly, current regulations and financial incentive programmes for farmers could encourage adaptation by focusing on future – as opposed to current – vulnerabilities.

Key policy recommendations

Increasing productivity

- Increase the effectiveness of government services to the agricultural sector.
- Strengthen institutional co-ordination and budgetary mechanisms.
- Strengthen the enabling environment for productivity growth and poverty reduction.

Enhancing value and inclusion

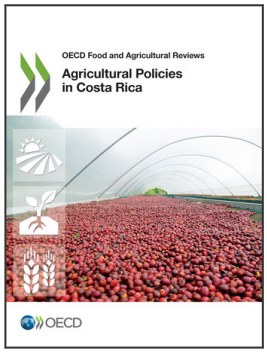
- Enable diversification into niche or differentiated products.
- Foster greater competition within the market structure.

Reducing market price support and promoting adjustment

- Send credible policy signals on reform – in particular, announce a timetable for the reduction of market support.
- Announce a timetable for phased liberalisation to facilitate orderly adjustment.
- Identify alternative paths for those that may struggle to compete, and provide social safety net measures for displaced farmers.
- Facilitate movement out of agriculture by improving rural education and skills.

Adapting to climate change

- Align objectives, institutions and funding with a longer-term perspective to prepare for and increase resilience to climate change.
- Strengthen farmers' awareness of vulnerability to climate change and adaptive solutions.
- Improve the enforcement of soil, water and infrastructure regulations to encourage adaptive behaviour.
- Encourage adaptation through existing financial tools.



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