



**The World Bank**

Program for Sustainable and Competitive Agriculture in Costa Rica (P504033)

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# Program Information Document (PID)

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Appraisal Stage | Date Prepared/Updated: 06-Jan-2025 | Report No: PIDPA00154



## BASIC INFORMATION

### A. Basic Program Data

Project Beneficiary(ies) Costa Rica	Region LATIN AMERICA AND CARIBBEAN	Operation ID P504033	Operation Name Program for Sustainable and Competitive Agriculture in Costa Rica
Financing Instrument Program-for-Results Financing (PforR)	Estimated Appraisal Date 13-Jan-2025	Estimated Approval Date 10-Mar-2025	Practice Area (Lead) Agriculture and Food
Borrower(s) Ministry of Finance	Implementing Agency Ministerio de Agricultura y Ganadería (MAG)		

Proposed Program Development Objective(s)

To improve the sustainability, competitiveness, and economic participation of selected small and medium agriculture producers in Costa Rica.

## COST & FINANCING (US\$, Millions)

### Maximizing Finance for Development

**Is this an MFD-Enabling Project (MFD-EP)?** No

**Is this project Private Capital Enabling (PCE)?** No

## SUMMARY

<b>Government program Cost</b>	<b>1,100.00</b>
<b>Total Operation Cost</b>	<b>695.00</b>
Total Program Cost	694.70
Other Costs (Front-end fee,IBRD)	0.30
<b>Total Financing</b>	<b>695.00</b>
<b>Financing Gap</b>	<b>0.00</b>

## FINANCING



<b>Total World Bank Group Financing</b>	<b>120.00</b>
World Bank Lending	120.00
<b>Total Government Contribution</b>	<b>555.00</b>
<b>Total Non-World Bank Group Financing</b>	<b>20.00</b>
Multilateral and Bilateral Financing (concessional)	20.00

## Decision

The review did authorize the team to appraise and negotiate

## B. Introduction and Context

### Country Context

1. **Costa Rica has sustained solid economic performance post-pandemic.** The COVID-19 pandemic caused a severe economic downturn in 2020 contracting by 4.1 percent, delaying the fiscal adjustment under the spending-based fiscal rule introduced in 2018. However, the normalization of domestic economic activities and subsequently robust export growth supported an average GDP growth of 5.8 percent in 2021-2023, driven by strong recovery in domestic and external demand. At the same time, growth decelerated to a 4 percent year-over-year by the third quarter of 2024, due to a gradual deceleration in Costa Rica's main export partners. Growth is projected to moderate to around 3.5 percent in the next two years, reflecting normalization of domestic demand and external headwinds.

2. **However, progress in reducing inequality has been limited for well over a decade and Costa Rica has lost its ranking as one of the most egalitarian countries in Latin America and the Caribbean (LAC).** From 2010 to 2021, the country's Gini Coefficient of per capita income significantly increased from 0.507 to 0.524, the highest increase in the last decade. In early 2023, inflationary pressures subsided (transitioned to deflation), which together with resilient labor market conditions, contributed to a decline in the poverty rate (measured at US\$6.85/day, 2017 PPP) to 12.7 percent in 2023. However, monetary poverty remained high among groups such as Afro-descendants, Indigenous populations, and migrants.

3. **Costa Rica also faces significant climate challenges, and the Government of Costa Rica (GoCR) is committed to advancing the country's climate agenda to enhance resilience and reduce emissions.** Costa Rica is highly vulnerable to natural disasters (ranking 61 in 182 countries in the 2022 ND-GAIN Index), with approximately seventy-eight percent of the population and eighty percent of GDP at high risk from multiple hazards.<sup>1</sup> Droughts and floods due to *El Niño* and *La Niña* are of particular concern, triggering national emergency declarations on a frequent basis. Going forward, temperatures by 2070 are expected to increase by 3-6 degrees Celsius compared to average temperatures recorded between 1961-1990.<sup>2</sup> At the same time, national green-house gas (GHG) emissions are expected to increase by 69 percent between 2015-2050 in the absence of climate reforms (and pollution levels are expected to rise proportionally).

<sup>1</sup> World Bank Climate Change Knowledge Portal (2020).

<sup>2</sup> Costa Rica National Meteorological Institute (IMN).



4. To address these challenges, Costa Rica has anchored its development strategy in environmentally sustainable models of growth and enacted national and sectoral climate policies. GoCR's National Strategic Plan (*Plan Estratégico Nacional*) 2050 and National Development and Public Investment Plan (*Plan Nacional de Desarrollo e Inversión Pública*) 2023-2026 aim to promote sustainable growth models across seven key areas: economic growth, public debt, unemployment, poverty, inequality, public safety and decarbonization. GoCR has also introduced the National Decarbonization Plan (NDP) and the 2020 Nationally Determined Contribution (NDC), which aim to reach zero net emissions by 2050 and promote adaptation in vulnerable sectors, including agriculture.

### Sectoral and Institutional Context

5. The Costa Rican agriculture sector is globally recognized for its high-value and export-oriented products; it is also an important contributor to rural livelihoods and to local food security. Over the past 30 years Costa Rica's agriculture production and exports have remained important contributors to the country's economy, accounting for about 13 percent of GDP (4 percent in primary production and 9 percent in agro-industrial production) and about 41.5 percent of total exports respectively in 2022.<sup>3</sup> The agriculture sector provides livelihoods for Costa Rica's rural population (about 20 percent of the country's five million people), generating an estimated 13.4 percent of total national employment in 2022.<sup>4</sup> Still, poverty rates in rural areas remain higher than in urban areas; in 2023, rural poverty rates were 26.4% (compared to 20.1% in urban areas) and extreme poverty rates were 8.6% (compared to 5.4% in urban areas).<sup>5</sup>

6. While Costa Rica is also well-recognized for its sustainable agriculture agenda, the agriculture sector today faces significant sustainability challenges that adversely affect the natural environment and constrain productive potential. A key challenge for example is water availability, due not only to the impacts of climate change (increasing variability in rainfall) but also due to increased agricultural groundwater use, the limited surface water storage capacity, and the low efficiency in its use. The resulting productivity losses are compounding the already declining trend in the rate of agriculture sector total factor productivity growth – which today is below the Central American and the LAC region averages – observed since the 1960s.<sup>6</sup> The agriculture sector is the country's second-largest emitter of greenhouse gas emissions (accounting for 21 percent of emissions nationally) after transport (accounting for 43 percent).

7. In addition, fragmented traceability systems limit transmission of environmental and (phyto)sanitary information to agriculture markets, constraining many producers' competitiveness – especially for small- and medium-scale farmers (*Pequeños y medianos productores agrícolas – PYMPAs*<sup>7</sup>). The sector's existing traceability information systems are fragmented, cover a limited number of agriculture products, and do not convey the (phyto)sanitary information required by major domestic and international markets. Limited (phyto)sanitary traceability also generates low incentives for producers to invest in (phyto)sanitary improvements, contributing to plant and animal health risks. In addition, many PYMPAs are poorly linked even to domestic markets due to a lack of cold chain and other market infrastructure. This challenge is especially pronounced in remote areas, in particular for coastal fishing communities that historically are poorer and underserved.

<sup>3</sup> SEPSA 2023.

<sup>4</sup> World Bank Development Indicators.

<sup>5</sup> INEC 2023.

<sup>6</sup> Internal WB analysis using *Fuglie 2015* and online *ERS-USDA* data. In 2021, the agriculture total factor productivity index (an indicator of TFP growth relative to TFP in 2015) was estimated to be 99 for LAC as a region, 104 for Central America, and 94 for Costa Rica.

<sup>7</sup> Costa Rican small- and medium-scale producers ("PYMPAS", per the Spanish acronym) are classified under article 9 of law No. 37911-MAG (Norma para certificar la condición de pequeño y mediano productor agropecuario – PYMPA) according to farm size.



8. **The sector also faces economic inclusion challenges for vulnerable groups, with PYMPAs – especially women.** Historically, spillover from the successful export market to the domestic market (mostly PYMPAs) has been limited, resulting in uneven economic performance across the sector.<sup>8</sup> The capacity of PYMPAs to adopt more sustainable and competitive production models and capture more of the sector's benefits is constrained by low access to finance<sup>9</sup> and considerable needs for technical assistance (TA). Women face particular challenges, with lower rates of access to finance (about 5 percent) than men as well as lower rates of land tenure (about 8 percent of women own productive land<sup>10</sup>). Additional barriers for women include their assignment to domestic and care task roles at home, which may limit their opportunities to participate in and benefit from extension services and training. Overall these factors constrain women's access to economic resources, credit, technical training, information and technology, decision-making, in the sector.

9. **The economic inclusion of young farmers (younger than 30 years of age) is also a challenge for the sector and an important opportunity for contributing to the agriculture sustainability agenda.** A generalized aging within the farmer population is taking place in Costa Rica, with the average farmer about 54 years of age and approximately 22 percent of farmers older than 65.<sup>11</sup> This trend is understood to stem from a perceived lack of economic opportunities in the sector and in rural areas in general, as well as the result of current farmers working into old age.<sup>12</sup> Within farming families, non-succession by youths may jeopardize the survival of the farm, potentially disincentivizing investment in sustainable production models that generally have longer term payoffs. Increased inclusion of youth is thus also an important pathway toward addressing the sector's environmental challenges.

10. **GoCR introduced the Agriculture Sector Plan 2023-2027 (ASP) to foster the sector's sustainable economic growth; but to address the sector's challenges, the ASP will have to be significantly rebalanced and augmented.** The ASP operationalizes the Public Policy of the Costa Rican Agricultural Sector 2023-2032 over two phases (covering the periods 2023-2027 and 2027-2032) and serves as GoCR's core agriculture sector program. The ASP sets forth a broad range of interventions to enhance the economic, social, and environmental sustainability of the sector. To achieve the ASP's objectives, in particular given Costa Rica's ambition to retain its position as a global leader in sustainable agriculture development in the face of increasing climate challenges, GoCR will need to rebalance and augment significantly the ASP's budget.

## PforR Program Scope

11. **The prioritized Government Program supported by this PforR is the portion of the ASP's interventions considered critical for improving the sector's sustainability, competitiveness, and social inclusion over the six-year period 2025-2031.** The GoCR budget allocated to this prioritized Program is estimated to be US\$555 million. The PforR will support this Program under four Results Areas (RAs), each of which corresponds to one of the four axes of the ASP. As shown in Table 1, the PforR will support 2 activities under RA1 "Modernization of the institutions of the Agricultural Sector," 6 activities under RA2 "Promotion of Competitiveness," 8 activities under RA3 "Productivity and Sustainability," and 1 activity under RA4 "Added Value and Marketing." These activities were selected together with MAG, given their importance for improving the sustainability of agricultural production and enhancing the competitiveness of sustainable agricultural products in Costa Rica.

<sup>8</sup> OECD 2017.

<sup>9</sup> The percentage of men who borrowed to start, operate, or expand a farm or business is approximately 7% in 2017 (WB WDI/Global Findex).

<sup>10</sup> WBG, MINAE, REDD+, FCPF. Costa Rica. Gender Action Plan of the National REDD+ Strategy.

<sup>11</sup> INEC 2015.

<sup>12</sup> Rodriguez-Lizano et al. 2023 Drivers and actions that determine the choice of young farmers in Costa Rica to stay on the family farm.



Table 1: PforR Results Areas and interventions

ASP Axes & PforR Results Areas	Prioritized Program interventions supported by the PforR (numbers indicate links to ASP interventions)
1. Modernization of Agricultural Sector institutions	<ol style="list-style-type: none"> <li>1. Develop &amp; implement a digital producer information platform to improve extension services, especially for vulnerable groups (1.11).</li> <li>2. Update and improve the knowledge &amp; capacity of extensionists in key sustainability, competitiveness, and inclusion themes (2.2).</li> </ol>
2. Promotion of Competitiveness	<ol style="list-style-type: none"> <li>1. Improve market information through agriculture sector traceability (2.14).</li> <li>2. Improve food safety and compliance with (phyto) sanitary standards (3.9).</li> <li>3. Promote the proper use of pesticides (3.5).</li> <li>4. Promote the use of bioinputs as alternatives to pesticides and other agrochemicals (2.15).</li> <li>5. Improve agrochemical post-registration services (2.16).</li> <li>6. Improve market linkages for vulnerable fisherfolk (2.8).</li> </ol>
3. Sustainable production	<ol style="list-style-type: none"> <li>1. Support producers with TA to adopt NAMAs (3.7.2).</li> <li>2. Improve knowledge transfer for the livestock NAMA model (3.7.7).</li> <li>3. Improve access to finance for the adoption of NAMAs (credit, guarantees, grants) (2.7)</li> <li>4. Reform the Blue Flag Program to recognize NAMA producers (3.7.9).</li> <li>5. Design and implement MRV mechanisms for NAMAs (3.7.5).</li> <li>6. Conduct soil, organic carbon, and GHG analyses of NAMA producers (3.7.6).</li> <li>7. Promote sustainable irrigation in dry, climate vulnerable areas (3.3.1).</li> <li>8. Improve the availability of resilient crop varieties (3.7.8).</li> </ol>
4. Added Value & Marketing	<ol style="list-style-type: none"> <li>1. Design and implement a Payments for Environmental Services (PES) program for productive landscapes (4.9).</li> </ol>

## C. Proposed Program Development Objective(s)

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To improve the sustainability, competitiveness, and economic participation of selected small and medium agriculture producers in Costa Rica.

## D. Environmental and Social Effects

12. Costa Rica has a strong environmental and social system, underpinned by extensive legislation and a culture of protection. The system features a comprehensive legal framework that effectively regulates environmental and social impacts.

13. To carry out the environmental and social analysis of the PROGRAM, an Environmental and Social Systems Assessment (ESSA) was prepared, which assesses the institutional competencies and capacity of the Costa Rican sector related to the PforR to achieve the environmental and social objectives set out in the Program, without causing significant adverse environmental and social impacts. The ESSA identifies potential risks and makes recommendations to avoid or at least mitigate them. The evaluation of the Program and the systems is framed within the six principles of the World Bank, which seek to protect natural habitats and physical-cultural resources, ensure the safety of citizens and workers, address remaining challenges related to vulnerable groups, and avoid social conflicts. The ESSA also proposes several actions for inclusion in the Program Action Plan to improve environmental and social management and increase sustainability and impact.

14. **Grievance Redress.** Communities and individuals who believe that they are adversely affected as a result of a Bank supported PforR operation, as defined by the applicable policy and procedures, may submit complaints to the existing



program grievance mechanism or the Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Project affected communities and individuals may submit their complaint to the Bank's independent Accountability Mechanism (AM). The AM houses the Inspection Panel, which determines whether harm occurred, or could occur, as a result of Bank non-compliance with its policies and procedures, and the Dispute Resolution Service, which provides communities and borrowers with the opportunity to address complaints through dispute resolution. Complaints may be submitted at any time after concerns have been brought directly to the Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the Bank's Grievance Redress Service (GRS), visit <https://www.worldbank.org/GRS>. For information on how to submit complaints to the Bank's Accountability Mechanism, visit <https://accountability.worldbank.org>.

## E. Financing

### Program Financing

Source	Amount (US\$, Millions)	% of Total
<b>Cofinancing – Other Sources (IFIs, Bilaterals, Foundations)</b>	<b>20</b>	<b>3%</b>
International Fund for Agriculture Development	20	3%
<b>International Bank for Reconstruction and Development (IBRD)</b>	<b>120</b>	<b>17%</b>
<b>Government of Costa Rica</b>	<b>555</b>	<b>80%</b>
<b>Total Program Financing</b>	<b>695</b>	<b>100%</b>

## CONTACT POINT

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### Borrower/Client/Recipient

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**APPROVAL**

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