

Regulating the Market: the Costa Rican Case

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Costa Rica Coffee Sector

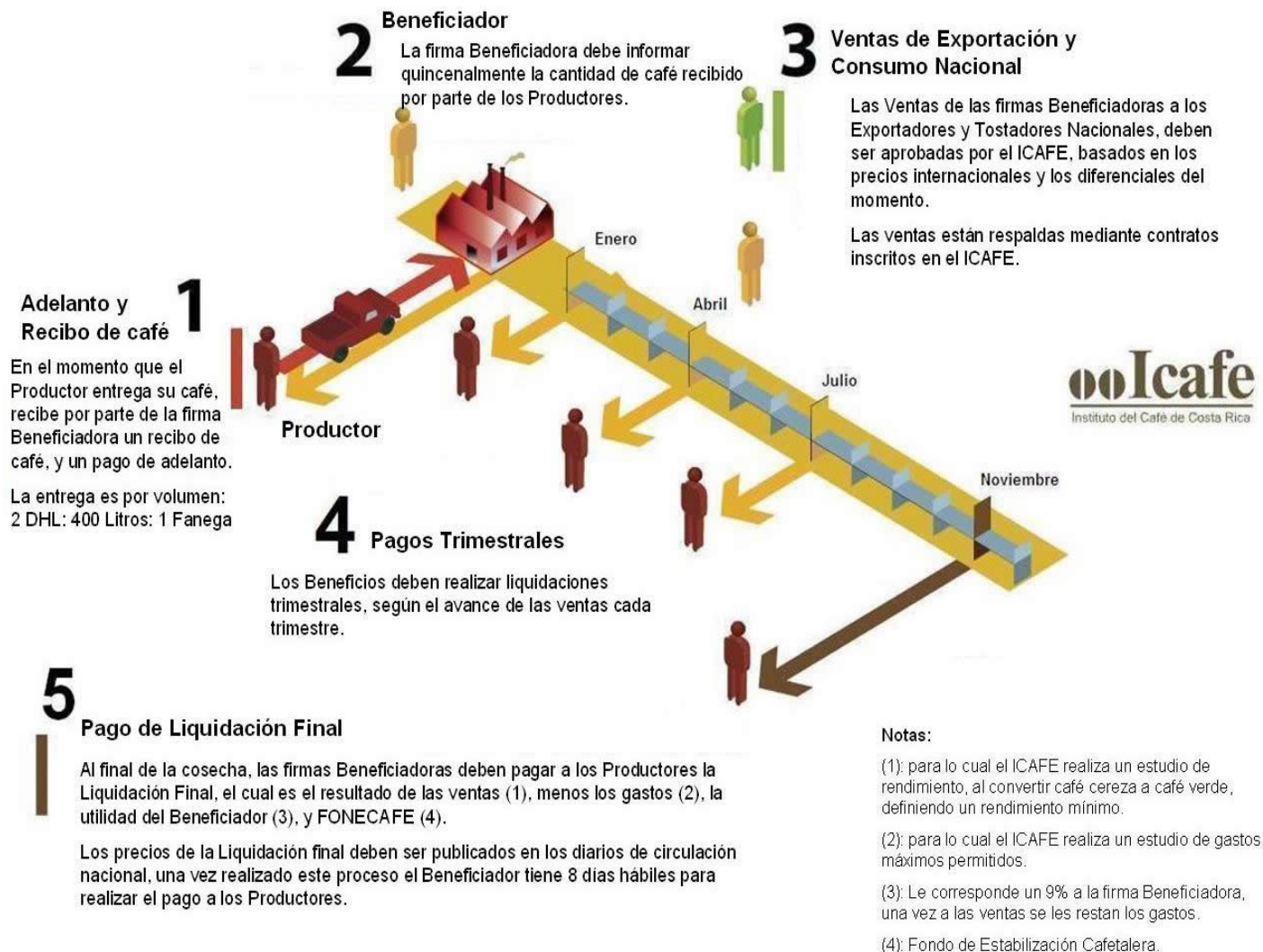
- Costa Rica: a small Latin American country with a well run state and Coffee Board (ICAFFE)
- Coffee mostly grown by *smallholders*
- A success story:
 - Essentially all coffee is exported as washed
 - Approx. 80% as specialty coffee
- Many aspects contributed to the country success:
 - Regulation of varieties, quality, water-management
 - Drive towards certification and environmental sustainability
 - ...
 - ***Regulation of marketing***

Costa Rica Coffee Sector: Regulation

- ICAFE represents interest of farmers, processors and exporters.
- *Ley N° 2762: Ley sobre el Régimen de Relaciones entre Productores, Beneficiadores y Exportadores de Café*
- **Artículo 1°**- *Esta ley tiene por finalidad determinar un régimen equitativo de relaciones entre productores, beneficiadores y exportadores de café, que garantice una participación racional y cierta a cada sector en el negocio cafetalero, y por objeto, todas las transacciones con café producido en el territorio nacional.*
- This law has as its objective to achieve an **equitable** system of relationships between **producers, processors** and **exporters** of coffee that guarantees a rational and secure participation of each stage in the coffee business and, consequently, for **all transactions** of coffee produced in the national territory

Costa Rica: Proceso De Liquidación Final

Proceso General de Liquidación Final

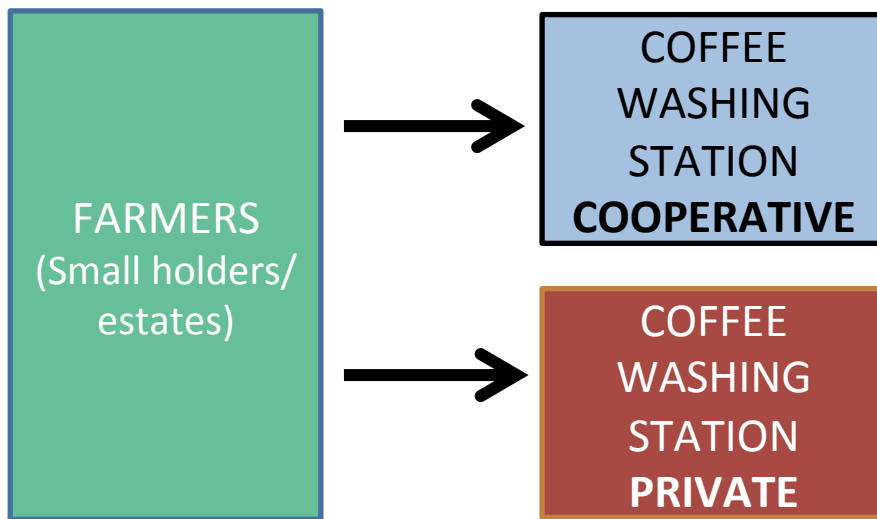


Costa Rica Coffee Sector: Regulation

Step 1:

Farmers sell cherries to the station

→ Stations report bi-weekly to ICAFE about purchases of all types of coffee.

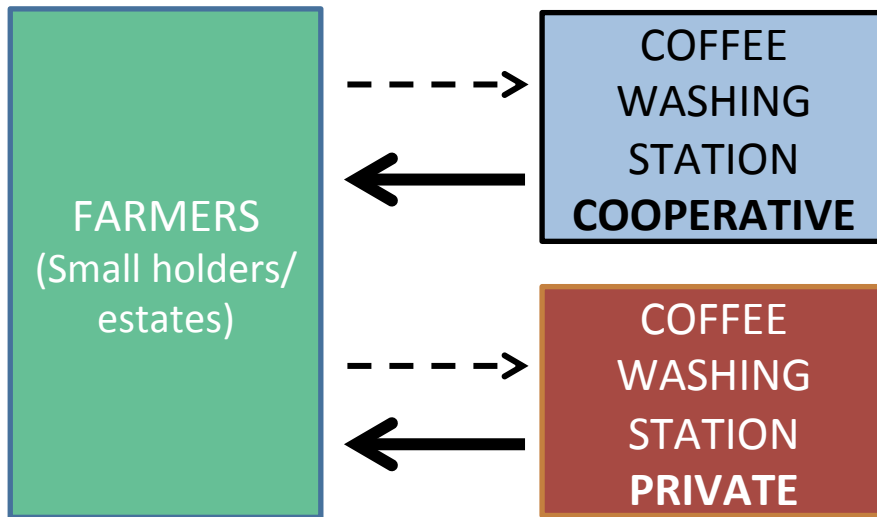


Costa Rica Coffee Sector: Regulation

Step 2:

Stations make advance payments at delivery (approx. 30%)

- Farmers receive a receipt (Law ensure its value as a contract)
- Stations report to ICAFE advances

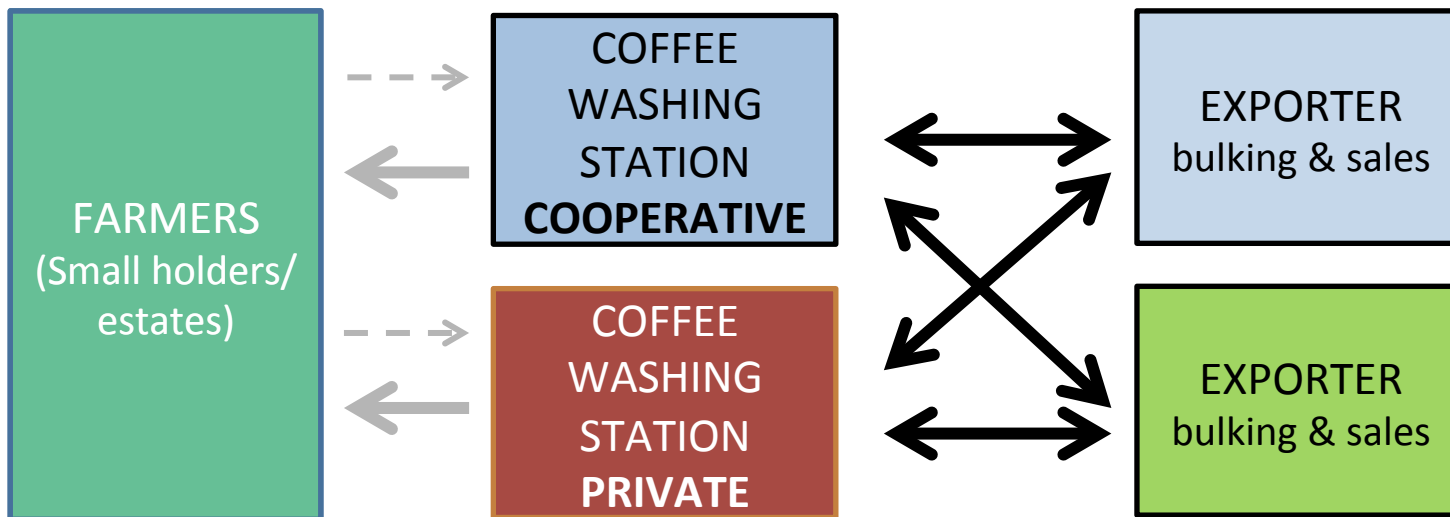


Costa Rica Coffee Sector: Regulation

Step 3:

Stations write contracts with exporters

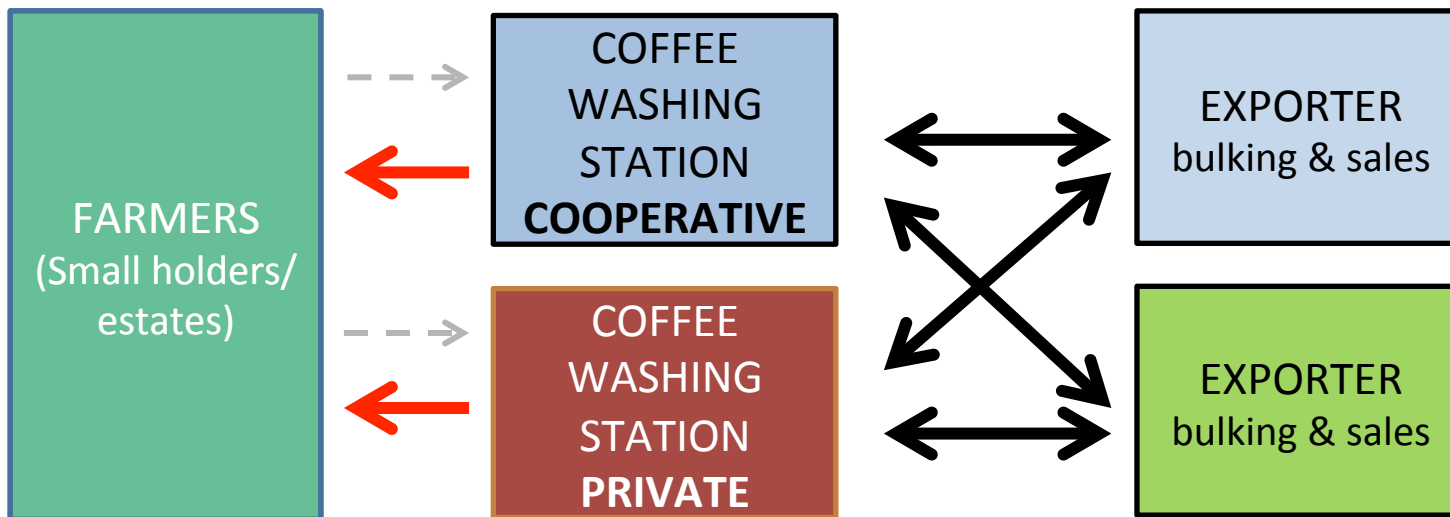
- All contracts must be registered and approved by ICAFE
- Contracts specify delivery date, quantity, *price*, *quality*
- ICAFE can refuse a contract if price (relative to NYC) is too low.



Costa Rica Coffee Sector: Regulation

Step 4:

Stations must pay every *trimester* depending on the advances

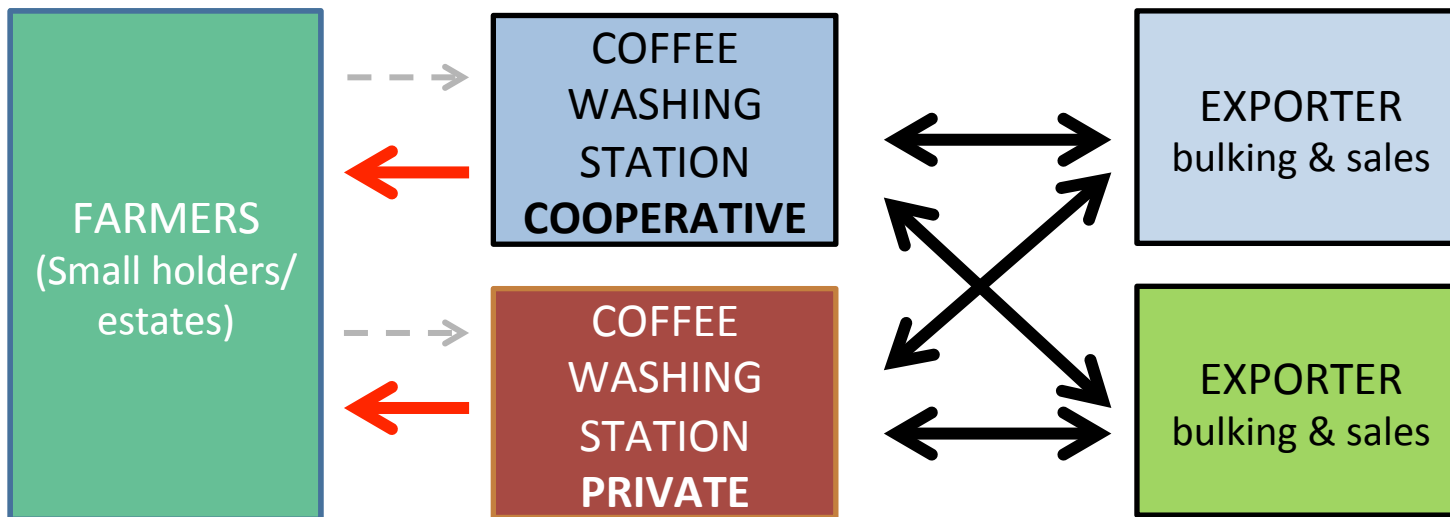


Costa Rica Coffee Sector: Regulation

Step 5: Final Liquidation

- At the end of harvest season stations must pay farmers final liquidation + contribution to stabilization fund

$$\text{FL} = \text{Sales} - \text{Advances} - \text{Cost} - \text{Profit} - \text{Fund}$$



*Costa Rica Coffee Sector: **Benefits***

- Fair and Equitable System:
 - Farmer is guaranteed a certain share of FOB price
 - Regulation prevents transfer pricing within integrated chains
 - Farmer exposed to *less* risk
 - Payment depends on price conditions prevailing over entire harvest season
 - Transparent
 - Final Liquidation payments are published in National Newspaper
 - Better cash flow management and lower working capital needs
 - Farmers do not get all their money at harvest time
 - Stations have lower working capital requirements
-

Costa Rica Coffee Sector: Downsides ?

- Enforcing contracts between farmers and stations system strengthen relationships and reduces stations working capital needs
- At the same time, the system preserves stations competition for cherries
- System does not *directly* address side-selling problem: farmer receives inputs from station **A** but sells to station **B**.
 - But farmers will think twice renegeing on financially solid stations
- **Implementation:**
 - Small holders in Costa Rica are larger (and wealthier) than in Rwanda
 - Systems requires technical capacity in the board
 - Though technology helps
 - System requires political support
 - Other countries have failed due to vested interests

Costa Rica Coffee Sector: Practical Aspects

- Receipts?
 - *On paper (with legal character).*
 - *A document that guarantees an initial payment and a right to a final price declared by ICAFE.*
 - *3 copies (available to ICAFE)*
 - *Lean dispute resolution and sanctions for cheating stations*
- Reports from Stations?
 - *every 15 days (within 5 days)*
 - *Common template, online a server*
 - *Legal declaration → only random checks on individual receipts*
- Payments?
 - *Everything happens with banks*
- Advantage of setting up a system now:
 - Cheaper IT services
 - Coordinate with CENSUS to issue farmers cards