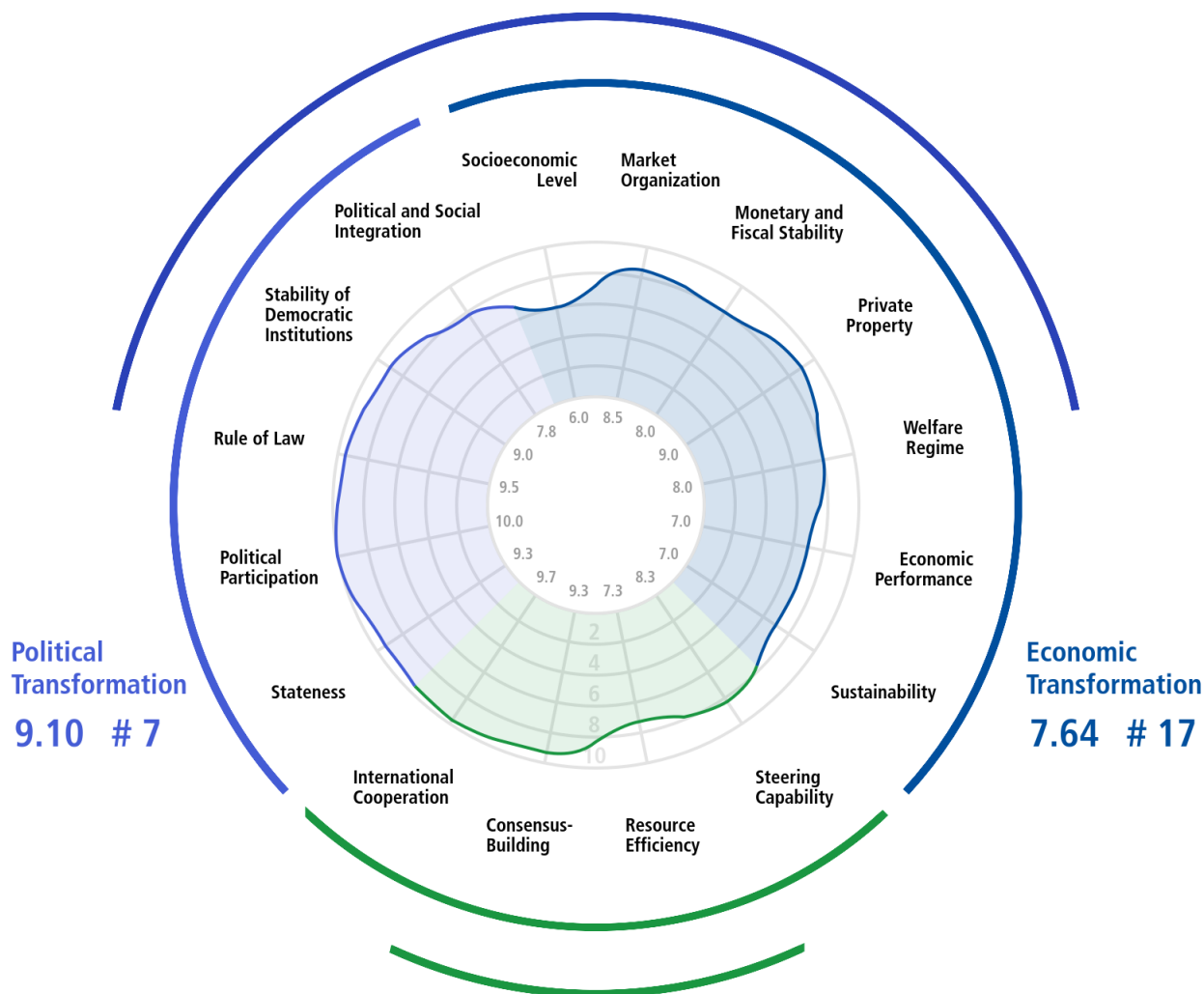


# Costa Rica

## Status Index

**8.37 # 11**

on 1-10 scale out of 137



## Governance Index

**7.13 # 5**

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2022**. It covers the period from February 1, 2019 to January 31, 2021. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

Please cite as follows: Bertelsmann Stiftung, BTI 2022 Country Report – Costa Rica. Gütersloh: Bertelsmann Stiftung, 2022.

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**Key Indicators**

Population	M	<b>5.1</b>	HDI	<b>0.810</b>	GDP p.c., PPP \$	<b>21032</b>
Pop. growth <sup>1</sup>	% p.a.	<b>0.9</b>	HDI rank of 189	<b>62</b>	Gini Index	<b>48.2</b>
Life expectancy	years	<b>80.3</b>	UN Education Index	<b>0.726</b>	Poverty <sup>3</sup>	% <b>3.2</b>
Urban population	%	<b>80.8</b>	Gender inequality <sup>2</sup>	<b>0.288</b>	Aid per capita \$	<b>11.8</b>

Sources (as of December 2021): The World Bank, World Development Indicators 2021 | UNDP, Human Development Report 2020. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

## Executive Summary

In the period under review, which covers roughly the second and third years of President Carlos Alvarado's administration (2018 – 2022), Costa Rica experienced a slowdown in economic growth and an increase in unemployment and poverty. A large fiscal deficit generated considerable uncertainty, restraining economic actors and dominating the political landscape. The COVID-19 pandemic hit amidst this most unfavorable context, generating an economic contraction that destroyed employment and gutted fiscal revenues, while the need for social assistance required higher spending. The authorities were able to preserve macroeconomic stability through monetary and exchange rate policies, as well as borrowing, but the fiscal situation remains fragile and unsustainable. The government negotiated an Extended Fund Facility with the IMF by promising a set of reforms that could restore fiscal stability and open the door to economic recovery if approved by the legislature. Despite these challenges, the period also saw the reaffirmation of strengths evidenced in high levels of human development and active democratic life, and strong commitments to social protection, education and renewable energy were sustained.

The country held a successful municipal election, albeit with low levels of voter participation. Support for democracy remains low and variable, suggesting some degree of ambivalence among the citizenry, which also shows low levels of satisfaction with the functioning of democracy. Contributing factors may be the lower levels of economic performance but also higher crime rates and citizen insecurity. Trust in as well as identification with political elites remained weak. Party fragmentation increased in the legislature, where the executive's party is in the minority and is tied for the second-largest legislative group with independent deputies. Although executive-legislative relations started strong with the government's attempt to create a national unity cabinet, they quickly soured after the first year. This will create challenges for the passage of additional reforms needed to control public expenditures.

Despite high levels of social spending, poverty and extreme poverty levels have respectively remained at around 20% and 6% of households. Inequality levels have also remained high relative to historical levels. Both poverty and inequality worsened as a result of the pandemic, although government interventions have helped mitigate the impacts. When disaggregated, these indicators reveal that rural and peripheral areas fare much worse than urban ones, to the disadvantage of ethnic minorities, and that women fare worse than men. Women also earn less than their male counterparts, have lower rates of market participation and suffer from higher rates of unemployment. While some of the market transformations of previous decades created a dynamic external sector, attracting considerable foreign direct investment, they also resulted in a two-tier labor market highly favorable to skilled workers, but not to the unskilled, who represent a majority of the labor force. Despite high levels of spending, education is falling short as a source of opportunity. Dropout rates at the secondary level are high, educational outcomes are low, and there is a mismatch between the skills universities produce and those needed for the market.

Costa Rica became a member of the Organization for Economic Cooperation and Development (OECD) during the period reviewed. This is an important milestone that will contribute favorably to the country's future economic and political transformation by exposing it and making it accountable to best practices. Accession required a series of reforms that strengthened the regulatory framework for competition in general and in the banking system specifically. They also strengthened key institutions such as the central bank and the National Statistics Office, created tools for fiscal control that will help strengthen public finances and introduced changes that will help combat corruption. However, legally sanctioned restrictions and monopolies remain, creating an uneven playing field and limiting gains from additional transformation. An increasingly complex public administration and a large number of veto players in the political system, including an assertive Constitutional Court and a fragmented party system, make change difficult. While a system that fosters consensus is desirable, at the extreme it can limit adaptation to challenging and changing circumstances. Future transformational capacities will therefore depend on the ability to improve upon some of these features.

## History and Characteristics of Transformation

Costa Rica is the longest continuous presidential democracy in the Western Hemisphere, second only to the United States. Even among developing nations, the longevity of its democratic regime is second only to India. One of its key transformation moments was the adoption of a new constitution in 1949 after a civil conflict in 1948. This document, and its subsequent reforms, established the bases for the country's political and economic development throughout the second half of the twentieth century. It made the state a key player, entrusting it with the fulfillment of key social, economic, and (later) environmental rights, while maintaining state monopolies in banking, electricity and telecommunications. The constitution innovated with the abolition of the army and the creation of an Electoral Tribunal. This tribunal has the rank of a fourth branch and enjoys complete autonomy from the executive, legislative and judiciary branches.

This constitutional model enabled key accomplishments. It solidified democratic institutions by enabling and assuring widespread participation and robust political party competition. It fostered strong public investments in human and physical capital and the rule of law, which served as backbones to the development of the economy. Finally, it made possible the attainment of high levels of human development, balancing social and economic priorities, reducing poverty and inequality and protecting the country's environmental patrimony. However, it also generated a complex state structure in which the central government coexists with decentralized and autonomous institutions that administer central state goals.

Disagreements between the legislative and executive branches have always been settled through institutional channels, consolidating the democratic system. However, the country has endured periods of economic instability. At the end of the 1970s the state-based model came under stress through the combined effects of internal inconsistencies and the adverse international conditions sparked by the OPEC shocks and world recession. Rising fiscal and trade imbalances, accompanied by growing debt, climaxed in runaway inflation and massive currency devaluation, leading to a process of structural reform in the early 1980s. Significant liberalization took place during this period mainly within the trading sector, where tariffs and duties were reduced, but privatization only extended to unprofitable state enterprises. More far-reaching liberalization in the banking, electricity and communications sectors did not begin until the 1990s. An export promotion strategy succeeded in attracting foreign direct investment and implementing non-traditional agricultural exports and high-tech industries as new economic sectors. International insertion also spawned the development of a vibrant tourist industry, premised on the country's ecological riches.

A key transformation occurred in 2007, when the Central American Free Trade Agreement was ratified in the country's first-ever referendum. The agreement encompassed a set of complementary laws that increased competition in telecommunications and insurance. However, as in banking, no privatization occurred. The state lost its monopolies, but its firms now compete against the private sector. This improved the competitiveness of markets but did not completely level the playing field. The country's accession to the OECD in 2020 involved reforms that strengthened the regulatory framework for competition and improved conditions in the banking sector by creating a deposit insurance regime for all banks. The reforms also strengthened the central bank and the National Statistics Office and created fiscal control tools that will bolster public finances.

Another key turning point was the establishment of a constitutional chamber in the Supreme Court in 1989. The court has jurisdiction over the protection of individual rights, the interpretation of the constitution and the settling of disputes among the branches of government. Access to the court is broad and virtually costless. It revolutionized the exercise of constitutionally guaranteed individual rights and their protection. It also facilitated challenges to the constitutionality of laws and statutes, activating a check that had been effectively inoperative since 1949. While highly valuable, the court has become an assertive arbiter of political disputes, particularly as executive-legislative relations have become more contentious. The court has also entered the realm of administrative

decision-making in its enforcement of individual rights. Because lawmakers can submit bills to the court for prospective opinions about their constitutionality, it has also become an important veto player in the legislative process.

At the start of the current review period, Costa Rica's political and economic performance had been declining. Economic inequality has increased, poverty levels have remained stagnant, and public finances are on an unsustainable path.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

The state's monopoly on the use of force remains unchallenged, but it faces considerable threats in the area of citizen security. Inroads by drug-trafficking organizations have made the Central American region dangerously prone to violent crime, with homicide rates averaging four times the global rate. While Costa Rica has not reached the levels of criminal violence of the countries in the Northern Triangle (Honduras, Guatemala and El Salvador), its homicide rates nearly doubled between 2000 and 2015, from 6.1 to 11.5 deaths per 100,000 inhabitants. In 2017 the country reached 12.2 deaths per 100,000, its highest historical level. However, the rate declined slightly though steadily in 2018 and 2019, and now stands at 11 deaths per 100,000. A significant portion of these deaths are attributable to local drug gangs, which in many cases are surrogates for international cartels, according to national security officials. The state has responded with a series of policies including social violence prevention, stricter gun control, improved coordination of intelligence and better funding and training for police.

Territorial disputes with Nicaragua continue to be a source of national concern but have receded after Costa Rica obtained favorable rulings from the International Court of Justice in the Hague reasserting its sovereignty over its maritime boundaries and a disputed stretch of land on the Atlantic coast.

The legitimacy of the nation-state is broadly accepted by the population. There are social and political actors that seek to strengthen their influence through collective action, including through acts of civil disobedience like street blockages, but they do not question the legitimacy of the nation-state. Some public sector unions have on occasion threatened to counter public decisions through "street democracy" and have claimed the disenchantment of the populace was leading to calls for armed struggle through social media. But what, if anything, this means beyond popular mobilization has remained ambiguous and unsubstantiated. All rights, including human rights, are recognized throughout the country and are backed by an effective and highly

Question  
Score

Monopoly on the  
use of force

9



1

State identity

10



1

accessible Constitutional Court. All individuals and groups enjoy the right to acquire citizenship without discrimination. Costa Rica has a considerable number of foreign-born people among its population, especially Nicaraguans, and is welcoming to refugees and migrants, although it instituted temporary entry restrictions on public health grounds due to the COVID-19 pandemic.

Although Article 75 of the constitution establishes Roman Catholicism as the state religion, that same article recognizes freedom of religion. This has generated calls from some sectors for the complete secularization of the state. Catholic archbishops and clergy, together with evangelical political parties are vocal on key political issues, actively opposing in-vitro fertilization, abortion and same-sex marriage. This last issue turned the 2018 presidential election into a referendum on gay rights after the Inter-American Court of Human Rights issued a ruling in January obligating Costa Rica to legalize same-sex marriage. Fabricio Alvarado, an evangelical pastor and religious singer, mobilized conservative opposition to the ruling, promising to remove the country from the court's jurisdiction if he won. He won the first round, but not the second, and the Constitutional Court eventually ruled the ban against same-sex marriage to be unconstitutional and discriminatory. His Restauración Nacional party elected 14 deputies to the legislature, making it the second-largest legislative group. Although the group fractured when Alvarado decided to leave the party a few months after the election, the current congress still has the largest number of avowedly confessional deputies ever elected.

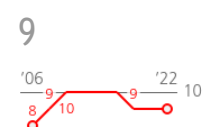
At an administrative level the state successfully provides basic services on a national scale, particularly in health, education, potable water, electricity and telecommunications. In recent years the state has improved its handling of wastewater. It has also increased tax revenues through improvements in collection and better enforcement, although elusion and evasion remain significant. Executive capacity has been questioned in the area of transportation infrastructure, where projects face continuous delays and cost overruns. A notable example is the development of a 30 km highway to the city of San Carlos, which has been under construction for over 15 years and is not expected to be completed before 2025. The social security system (CCSS) has faced criticism for long health service queues and irregular drug availability. A 2016 actuarial evaluation by the University of Costa Rica also revealed that the reserve fund for the country's retirement and insurance system, administered by the CCSS, may become insufficient in a matter of years in the absence of draconian reforms. These would include raising the retirement age to 70 years, cutting the replacement rate by one-fifth and increasing the contribution rate from its current 9.5% to 25% by 2055. It has become well established that salaries in the public sector exceed those in the private sector and are on an unsustainable growth trajectory due to a complex system of perks and benefits. A reform of this system is currently under discussion.

No interference of religious dogmas



1

Basic administration



1



## 2 | Political Participation

There are no constraints on free and fair elections. The Supreme Electoral Tribunal has evolved into a worldwide prototype of excellence in the organization and management of elections. Electoral registration is automatic and virtually costless with the acquisition of an identity card required for all citizens. Political parties receive state funding based on their vote shares. Electoral participation was expanded with the institution of plebiscites and referenda (2006) as well as the direct election of municipal executives and councils (2002). In 2020, elections for the country's 81 municipal governments were held separately from national elections for the second time, with 86 political parties, many of them subnational, fielding candidates. The number of political parties fielding candidates at the national level has also been on the rise with 13 participating in the first round of the 2018 presidential election and seven obtaining representation in the legislature.

Elections have not been affected by COVID-19 related restrictions, which were initiated by an emergency decree on March 16, 2020. Municipal elections were held before that, in February 2020, and general elections are not due until 2022.

Democratically elected political representatives have effective power to govern and there is no single group or individual capable of exercising an absolute de facto form of veto power. While there are powerful actors capable of influencing the course of public affairs, notably business groups, public unions, the clergy and the press, among others, none of them can exercise an uncontested veto. No single group can stop the enactment of decrees or legislation without due process and only if the Constitutional Court rules that the legislation or decrees in question are unconstitutional.

Association and assembly rights are unrestricted for individuals and independent political or civic groups and guaranteed by the constitution and Labor Code. There are multiple groups in multiple sectors organized at the national, regional and local levels, which regularly exert their influence on government and public opinion, including through mobilization and protest. New groups, such as advocates for sexual diversity, indigenous rights, the informal transportation sector and environmentalists have more recently emerged onto the social protest scene, experiencing no discrimination from the government. Unionization in the private sector is not extensive, but many workers join solidarity associations that provide low-interest loans, health and recreation services, and savings accounts, and may serve as a channel for labor relations. Whether these organizations serve as a mechanism to hinder unionization, as labor union leaders allege, is a point of contention.

To deal with the effects of COVID-19, the government decreed a state of emergency in March 2020 that enabled restrictions on the gathering of people, non-essential vehicle circulation and international travel, while also imposing mandatory

Free and fair elections

10



1

Effective power to govern

10



1

Association / assembly rights

10



1

quarantines; closing schools, churches and other institutions; and establishing a night-time curfew. While this limited the freedom of assembly, it was done according to the due process of law and out of the necessity imposed by the public health crisis. There is no evidence to suggest that the restrictions were discriminatory, although they may have impacted some social groups more than others, as in the case of Nicaraguan migrants. However, as they have imposed fewer limits on personal freedoms than has been the case in other countries in the region, these measures have been proportionate.

Freedom of expression is unrestricted for citizens, groups and the press as guaranteed by Articles 26-29 of the constitution. A broad array of press outlets, from newspapers to radio, television and the internet inform citizens and provide varied perspectives on the news and current affairs. The country is ranked seventh among 180 countries in the Reporters Without Borders' 2020 Press Freedom Index and deemed the best Latin American country with regard to respecting the freedom of expression. However, ownership of the media is concentrated, limiting its pluralism to some degree.

State actors have at times attempted to restrain these rights, but they have been rebuffed through the system of checks and balances. For example, in 2014 the Constitutional Court invalidated orders issued by the General Prosecutor to monitor the communications of journalists at the newspaper *Diario Extra*. In 2015, the Solís administration (PAC) proposed a new law that would have established limits to free expression, effectively punishing the use of certain types of language. This widely decried "gag law" was shuttled, and later that year the legislature derogated three articles of a 1954 law that contained similar provisions, which had long ceased to be enforced. In 2016, the Constitutional Court condemned a state bank for using public funds as a means of coercion and censure aimed at misdirecting public opinion when it withheld advertising contracts from newspaper *La Nación* in retaliation for its critical reporting about the bank.

### 3 | Rule of Law

There is a clear separation of powers with mutual checks and balances, structured around the constitution of 1949 and its subsequent reforms. Apart from the traditional branches of government (executive, legislative and judiciary) there is a fourth, the electoral branch (the Supreme Electoral Tribunal). The executive is comparatively weak, as its decree powers are limited and subject to ratification by the Legislative Assembly; they are therefore rarely used for substantive legislative purposes. Control of the legislative agenda is shared with the Legislative Assembly. In recent years, the amount of legislation emerging from the chamber originating from the executive has been decreasing. At the same time, party fragmentation, evidenced in a growing number of effective parties, and ideological polarization have weakened the

Freedom of  
expression

10



1

Separation of  
powers

10



1

decisiveness of the legislature and complicated relations with the executive. This has increased the importance of the judiciary, particularly the Constitutional Court, which since 1989 has been charged with settling jurisdictional disputes between the other branches and interpreting the constitutionality of laws.

An additional component of the separation of powers is the existence of horizontal accountability mechanisms to oversee and regulate the activities of the executive and its administrative entities. These entities, which are decentralized, largely autonomous and functionally specialized, provide services in the health, financial, energy, telecommunications, insurance and water industries. Their budgets account for as much as two-thirds of public spending and are not subject to legislative approval. They also enjoy considerable autonomy from the executive in terms of their management. Such levels of decentralization and autonomy require horizontal control mechanisms. Foremost among these is the Comptroller General's Office, which uses its broad powers to monitor public spending effectively.

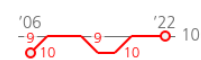
Following existing legal procedures established by constitutional jurisprudence and the National Emergency and Risk Prevention Law (No. 8488), a state of emergency was declared on March 16, 2020, to deal with the COVID-19 pandemic. In accordance with this law, the state of emergency will remain in place until the three phases of the emergency – response, rehabilitation and reconstruction – are all deemed completed. While it is therefore not open-ended, it is not time-bound either, and this could potentially lead to violations of human rights or democratic liberties. However, the law establishes continuous and periodic reviews, and restrictions are linked to a color alert system that makes them proportional to the threat faced at any particular moment. To date there is no evidence that the measures derived have been discriminatory.

The judiciary is independent and free from intervention by other institutions. The second article of the Organic Law of the Judicial Branch establishes that its authority is subject only to the constitution, the law and its own decisions regarding matters within its competence. The independence of the judiciary is also guaranteed by a constitutional provision that grants it 6% of the state's expected revenues for its operating budget. Norms of autonomy are entrenched and zealously defended by all sectors, especially the court magistrates themselves. They have appealed to these norms in order to resist expenditure containment efforts by the executive even as the Constitutional Court has ruled that general state policies setting limits on spending do not necessarily violate the judiciary's independence.

The courts are widely trusted and used by citizens and private corporations as an arena to settle disputes. They are not believed to be corrupt in general terms, but cases of corruption do emerge and are prosecuted. A pointed example occurred during 2018 when accusations of influence peddling led to the first-ever firing of a Supreme Court Magistrate. The judge was charged with improperly interfering with several judicial procedures involving a businessman accused in a fraudulent scheme to import

Independent  
judiciary

10



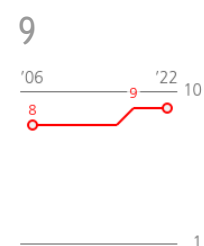
Chinese cement, with whom he maintained a close relationship. An inquiry led to the expulsion of the judge from the Supreme Court in February 2018 and the legislature revoked his investiture as magistrate in April of that same year. The Attorney General at the time and three other magistrates were also implicated in the cement case and received disciplinary sanctions

Costa Rica has ratified international treaties, approved laws and supported watchdog organizations against corruption. Its ranking in global studies of corruption is generally good. Citizen awareness and activism against office abuse is high, partly because of a vigilant media. Allegations of corruption that are exposed are prosecuted – including those that involve former presidents, ministers, judges and mayors. However, prosecution takes a long time and often fails to bring charges against the accused. Launched in 2017, a high-profile criminal investigation of influence networks allegedly organized to secure loans from state banks and facilitate imports of Chinese cement remains pending. The case allegedly revealed corrupt dealings among the political class and tarnished the reputation of the judiciary. Nonetheless, the 2018 Americas Barometer shows that perceptions of corruption among Costa Ricans, while above 54%, are the lowest in the region. More recent polling by the University of Costa Rica shows that the ranking of corruption as the country’s main problem has been displaced by concerns related to COVID-19, such as unemployment, the general state of the economy and the virus itself. Trust in the judiciary as captured by these polls remains stable.

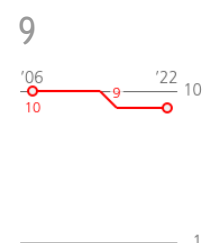
Civil rights and non-discrimination are guaranteed by the constitution and enforced through the Constitutional Court and the Ombudsman’s Office. The Constitutional Court allows individuals to seek recourse (“Amparo”) for the violation of constitutional rights. Access to the court is extremely open and virtually costless. Anyone (including non-citizens) can present a writ without needing a lawyer or specialized language. Only a description of the grievance is required. The court’s decisions carry the force of law and cannot be appealed. The Ombudsman’s Office (or Defender of the Inhabitants) serves as an advocate of citizen rights and intervenes at the administrative and judicial levels to remediate rights violations, both for individuals and groups. According to the 2018 Americas Barometer, when asked about the political system’s protection of basic citizen rights, 61% of Costa Ricans respond at or above the median level on a scale of one (not at all) to four (a lot). The country has Latin America’s third-highest rate of incarceration according to the World Prison Brief 2019, with problems of overcrowding, poor sanitation and violence in prisons. Laws exist to protect against domestic violence, but violence against women and children remains a problem.

A 2015 constitutional amendment defined Costa Rica as a multiethnic and pluricultural republic, highlighting the historical relevance of racial and ethnic minorities not formerly acknowledged in the country. Together with laws and regulations safeguarding the rights of indigenous peoples, promoting female electoral

#### Prosecution of office abuse



#### Civil rights



inclusion and preventing violence against women, these institutional structures evidence a formal intention to protect minority rights. However, inequalities persist in the degree of access to these rights. Freedom House (2019) affirms that the LGBT community faces persistent discriminatory attitudes and practices from law enforcement officials. Indigenous people, who make up about 3% of the population, face discrimination. There are no indigenous representatives in the legislature and land disputes involving protected holdings of indigenous communities persist.

#### 4 | Stability of Democratic Institutions

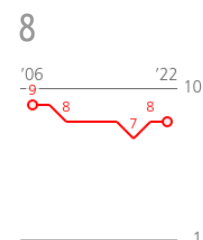
Democratic institutions are the effective means through which political decisions are prepared, made, implemented and reviewed. However, their relative efficiency has been under strain. Fragmentation and ideological polarization have increased in the legislative assembly, where the party in government has not held a legislative majority since 1994. The current government of President Carlos Alvarado controls only 18% of the seats in the legislature and its legislative group is tied as the second-largest (of eight). Together with factional divisions within political parties, this has increased the difficulty of coordination between the legislative and the executive.

A profusion of veto players within the institutional domain of the state has increased the difficulty of enacting change. At the legislative level, procedural rules allow minority groups to block substantive reforms. Legislators can also submit bills for constitutional review. At the administrative level, the Comptroller General exercises strict financial and administrative control of the multiple organizations under its purview. While necessary, this greatly reduces the flexibility of the executive. At the citizen level, the Constitutional Court has empowered individuals against administrative action (or inaction). These regime characteristics have diluted the effectiveness of democratic institutions and reduced accountability by allowing the different players to blame each other for stasis.

Costa Rica has a relatively weak executive with practically no decree powers and a limited veto. The enactment of its agenda depends on its ability to negotiate and generate political agreement, if not consensus. The shift from a two-party (1990 – 2002) to a multiparty system (2002 – 2018) with increasing levels of party fragmentation has made this difficult. The *Estado de la Nación* finds that bills require an average of 19 months to be approved by the legislature. This impasse receded during the 2019 – 2020 period, which was the second-most-productive legislative period of the last 34 years, probably because an impending fiscal crisis imposed a unified purpose on political parties to approve needed reforms. It is not known at this point whether this will continue.

There have been considerable efforts to transfer more competencies and resources to municipal governments and allow the citizenry to elect local representatives directly. Yet the effectiveness and political reach of these governments remains limited. The

Performance of democratic institutions



1

America's Barometer (2016 – 2017) shows that only 7% of respondents attend municipal meetings, and 64% of eligible voters did not vote in the 2020 municipal elections.

All relevant actors accept the legitimacy of democratic institutions. Democratic norms are well internalized and constitute part of the regular discourse among political actors. This includes the respect of due process and the rule of law, the acceptance of rulings handed down by the courts, the peaceful transfer of power and the respect of civic and political rights as well as the investiture of public officials.

Commitment to democratic institutions

10



## 5 | Political and Social Integration

While organizationally institutionalized parties exist in Costa Rica, the party system has been relatively fluid since the end of the period of two-party rule in 2001, with a tendency to increase its fragmentation and ideological polarization, and with weak and volatile voter affiliation. This has corresponded with declining levels of electoral participation and a reduction of party loyalty and identification. Party discipline has also diminished, as evidenced by an increase in the number of elected legislators breaking from the party they were elected under. At present, 10 deputies, or 17.5% of all legislators (a fraction as large as the governing party's group), are in that condition. The effective number of parties has risen from an average of 2.3 during the two-party period to an average of 4.9 in the three elections since 2010.

Party system

6



Several studies from Estado de la Nación have highlighted the fragility and volatility of electoral support for the party system since 2006. Party loyalty tends to be short-lived and linked to the personality of party leaders rather than programmatic or ideological characteristics of the organization. According to the 2018 Americas Barometer, only 14% of respondents say they trust political parties, and fewer than 20% identify with one. In the most recent national election (2018) almost 50% of voters did not vote for the same party they supported in the previous one (2014). Voters also tend to split their votes, supporting different parties for the presidency and congress. In the 2018, 30% of voters who supported the two parties in the second round of the presidential vote, Acción Ciudadana (PAC) and Restauración Nacional (RN), voted for the legislative list of a different party.

Ideological polarization has also been increasing, particularly since 2002. The two largest parties, Liberación Nacional (PLN) and Acción Ciudadana (PAC), have been moving in opposite directions along the right-left spectrum as measured by the University of Salamanca's political elites survey. The last presidential election (2018) evidenced a different kind of polarization, based not on socioeconomic factors but on

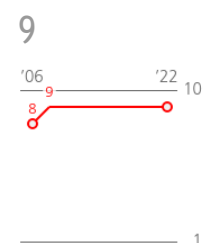
socio-cultural ones: same-sex marriage, abortion, sexual education guides and religion. The two parties at the far ends of the ideological spectrum, the Movimiento Libertario on the right and the Frente Amplio on the left, saw their electoral support fall from double digits in 2014 to barely 1% in 2018. Meanwhile, Fabricio Alvarado, an evangelical candidate for Restauración Nacional (RN), rose rapidly in the polls with support from traditional sectors, eventually winning the first round of the election, although he lost in the second. This was the first election in the country's modern democratic period in which the PLN was not a main contender: it garnered only 18.6% of the vote in the first round. That a right-wing populist claimed almost 10% of the first-round votes was also significant.

Costa Rica has a broad range of interest groups. There are currently several thousand registered civic associations, 3,704 community development associations and 594 cooperatives. Unions represent about 14% of the workforce with an additional 16.6% represented by solidarist associations. The peak employer organization (UCCAEP) has 51 affiliates, which are associations in themselves and in turn represent most of the productive sectors of the economy. This broad network of associations and interest groups is an effective channel for mediation between society and the political system.

According to Estado de la Nación, most social mobilizations are staged by organized workers, of which public sector unions are decidedly the dominant group. They are followed in importance by neighborhood and family associations and other civic groups. The number of organized collective-action episodes reported by the media averaged 387 between 1992 and 2017, but a notable decline was evident during the Solís Rivera presidency, with the final year of the administration (2017) registering the lowest number of episodes on record (176). This is attributable to a close relationship between the administration and union organizations and a significant degree of convergence between their agendas and priorities. The number of collective-action episodes rose significantly in 2018 as various sectors mobilized to oppose the fiscal reforms of the Alvarado administration.

The state is generally respectful of collective actions and abstains from repressing or undermining them. Road blockages, which are employed frequently by protesters as a disruption tactic, have become increasingly contentious and led to violent confrontations with police in 2020. The blockages were ruled to be unconstitutional and were ordered removed, and the government opened criminal proceedings against those promoting them. This led to claims that protest was being criminalized. There are no organized movements that seek to undermine democracy or civil society. The Americas Barometer (2016, 2018) shows that an average of about 9% of Costa Ricans engage in protest marches and demonstrations.

Interest groups



Since 2012, Costa Rica has seen a downward trend in approval of democracy that is consistent with the higher volatility of electoral preferences, lower levels of political participation and high levels of disenchantment with corruption that the country has experienced. The Americas Barometer measures the levels of diffuse support for democracy through an index of five questions that probe respondents' respect for democratic institutions, norms and rights. This index captures the generalized attachment of citizens to the more intangible objects of the political system and its institutions. In 2012, Costa Rica scored its lowest value for the index since 1978, 55.8 (of 100). The index recovered slightly in 2014, fell in 2015, recovered again in 2016, and maintained a declining trend in 2018 and 2019. Such variability suggests some ambivalence about democracy among the citizenry. Because mean levels of system support for democracy capture the inherent value citizens place in democratic institutions, they should be relatively stable in the short run.

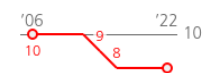
Variability is more common with specific support for democracy, which is linked to the general performance of the democratic system. This is gauged by asking respondents how satisfied they are with the functioning of democracy in their country. The proportion answering that they were very satisfied or satisfied in the Americas Barometer fell from 73.4% to 45.6% (2014 – 2018). However, the expressed belief in democracy as the best system of government despite its flaws (Churchillian democracy), a more abstract assessment of democratic support, increased and has hovered above 70%. In all, democratic approval levels have not been restored to the higher levels seen in the past and remain highly variable.

Costa Ricans have a relatively high level of respect for political institutions, with a score of 72.66 out of 100 in the Americas Barometer 2018 on this measure, the highest for the region. However, levels of trust in specific political institutions (the executive, political parties and the national legislature) measured for the same year were closer to or slightly lower than the regional average.

The level of interpersonal trust as measured by opinion surveys is fairly high but has shown a slightly decreasing trend in recent years. In 2010 the Americas Barometer ranked Costa Rica as having the highest level of interpersonal trust in the Americas, ahead of Canada and the United States. The percentage of respondents that consider the people in their community to be somewhat or very trustworthy has fallen in every survey since, going from a high of 77% to 68% in 2018. However, at over two-thirds, this level supports the notion that there is still a fairly high sense of solidarity and trust among the citizens. At the same time, there is a considerable number of civic associations, unions, solidarist associations, cooperatives and community development associations in the country. This suggests a fairly high level of voluntary and autonomous organization in Costa Rican society. But the degree to which individuals engage themselves with those organizations does not appear to be great. Of five types of associations evaluated by Americas Barometer – religious, parents', community improvement, political and women's associations – only in the case of religious associations did 50% or more of respondents say they participated at a significant level.

### Approval of democracy

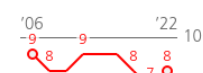
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### Social capital

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## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Costa Rica has promoted social inclusion policies resulting in high levels of human development. However, poverty reduction has remained stagnant, with poverty rates remaining around 20%, and the extreme poverty rate around 6%, since 1994. Income inequality, estimated on the basis of the National Statistics and Census Institute's household surveys, increased from a Gini coefficient of 0.495 in 2006 to 0.514 in 2018. Current levels are considerably higher than those prevalent during the 1990s (0.461). The country's Human Development Index score in 2019 was 0.810 (rank 62). When adjusted for inequality, the score falls by 18%, dropping 11 points in the ranking. The richest 20% of the population accounts for 50.5% of all income, whereas the poorest 20% receives 4%, and the poorest 40% receives 9%. This distribution has changed little in the last decade. As a result, Costa Rica is no longer among the most equitable Latin American countries.

Poverty levels are higher in rural areas. For example, the Brunca region (south Pacific bordering Panama) has the highest poverty incidence at 30.3%, almost twice the lowest level, which is found in the Central region (17%), home to most of the population. The Huetar Norte (north central, bordering Nicaragua) and Huetar Caribe regions (north Atlantic) both have poverty levels above 27%. The Brunca and Huetar Caribe regions represent only about 16% of the national population, but they are home to the majority of the country's indigenous people. Unlike poverty, inequality is lower in rural areas than in urban areas.

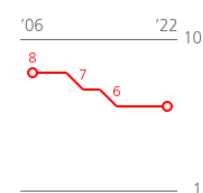
Costa Rican women have higher life expectancy than men (82.9 vs 77.7 years) and higher educational attainment. But their average income per capita, as estimated by UNDP, is only 57% that of men. As a result, their human development level is 98% that of men (with a GII score of 0.288 in 2019).

While the full extent of COVID-19's impact on social exclusion is still unknown, data from the National Statistics and Census Institute suggests it will be considerable. Household surveys from July 2020 show that the poverty rate increased to 26.2% and the extreme poverty rate to 7%. However, they also show that the two indicators could have risen to 30.4% and 11.0% had it not been for public and private transfers.

Question  
Score

Socioeconomic  
barriers

6



<b>Economic indicators</b>		2017	2018	2019	<b>2020</b>
<b>GDP</b>	\$ M	60516.0	62335.9	63951.1	<b>61520.7</b>
<b>GDP growth</b>	%	4.2	2.1	2.2	<b>-4.5</b>
<b>Inflation (CPI)</b>	%	1.6	2.2	2.1	<b>0.7</b>
<b>Unemployment</b>	%	8.1	9.6	11.5	<b>17.1</b>
<b>Foreign direct investment</b>	% of GDP	4.8	4.8	4.3	-
<b>Export growth</b>	%	7.0	4.7	3.0	<b>-10.7</b>
<b>Import growth</b>	%	5.0	0.2	-0.5	<b>-9.5</b>
<b>Current account balance</b>	\$ M	-2139.8	-1890.3	-1289.1	-
<b>Public debt</b>	% of GDP	47.1	51.8	56.7	<b>67.5</b>
<b>External debt</b>	\$ M	25615.9	28369.3	29800.8	<b>31287.6</b>
<b>Total debt service</b>	\$ M	2958.6	3415.6	3145.0	<b>2987.3</b>
<b>Net lending/borrowing</b>	% of GDP	-	-	-	-
<b>Tax revenue</b>	% of GDP	13.2	13.2	13.5	-
<b>Government consumption</b>	% of GDP	16.4	16.2	16.9	<b>17.8</b>
<b>Public education spending</b>	% of GDP	7.1	6.8	6.8	<b>6.7</b>
<b>Public health spending</b>	% of GDP	5.4	5.5	-	-
<b>R&amp;D expenditure</b>	% of GDP	0.4	0.4	-	-
<b>Military expenditure</b>	% of GDP	0.0	0.0	0.0	<b>0.0</b>

Sources (as of December 2021): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

## 7 | Organization of the Market and Competition

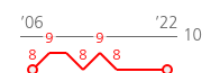
Market competition is consistently defined and implemented at the macro and micro levels. Most prices are determined competitively, and currency is easily convertible. The freedoms of contract and investment are legally secured. There are state-guaranteed rules for market competition meant to ensure equal opportunities for all market participants (Law 7474). Article 19 of the constitution grants foreigners the same rights and obligations extended to nationals. Foreign direct investment has helped drive economic development. However, the OECD reports that foreign acquisitions of land or real estate in coastal and frontier areas are limited, and there is an explicit preference for local suppliers in public procurement processes. Foreign suppliers can only participate in international tenders on the basis of reciprocity. Restrictions also exist in the energy sector, where petroleum refining and the transmission and distribution of electricity are state monopolies, and power generation by private parties is limited. Foreign investments are limited to 65% and 49% equity shares in electricity generation and road freight transport companies, respectively, and permits for domestic road freight traffic are granted only to nationals or local companies in which nationals hold a majority.

The World Bank's Doing Business Report 2020 shows it takes 10 procedures, 23 days and costs 9.6% of GNI per capita to start a business in Costa Rica. The country is ranked 144th in the starting a business category, performing better than the regional average, but worse than Chile (57), Colombia (95) and Guatemala (99). According to ILO-Data informal employment increased from 35% in 2011 to 39% in 2019. However, the Costa Rican Statistics and Census Institute reports a higher informal employment level: 46% in 2019. Both estimates concur that informality rates are higher for women than for men.

Laws are in place to ensure competition, and a National Commission for the Promotion of Competition (COPROCOM) is charged with investigating and punishing monopolistic practices. Its role was strengthened by the Competition Reform Law 2019, which expanded its independence, advocacy powers, and financial and human resources. In the telecommunications sector, there is a separate authority (Superintendency of Telecommunications, SUTEL) tasked with regulation, but since the passage of the reform law, both authorities have operated under the same legal framework. The law strengthened the overall competition framework by implementing the OECD Competition Committee's 2016 recommendations and aligning them with OECD standards, according to the OECD's Assessment of Competition Law and Policy 2020. The assessment report also cites other improvements such as a clarification of the types of conduct that violate competition law, an enhancement in the stringency of sanctions and a reduction in the scope of exemptions (mainly in sugar, coffee, rice, maritime transport and regulated professions). Improvements also concern the merger-control process following its transition from an ex-post-merger control to an ex-ante regime in 2012.

### Market organization

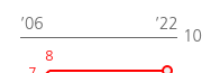
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### Competition policy

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However, the report also warns that the improvements will not take effect until they are fully implemented and that previously identified shortcomings such as a low enforcement profile and still-insufficient financial and human resources would remain until then. In July 2020, during the pandemic, the COPROCOM president confirmed that financial resources were still insufficient to meet the ambitious goals of the reform law, according to *Semanario Universidad*. Nevertheless, COPROCOM did its work, for example, in the area of merger control, in which there were about 40 decisions in 2019, according to *The Law Reviews*.

Legally sanctioned limitations still exist. In the electricity sector, transmission, distribution and export are state monopolies. While regulated by the *Autoridad Reguladora de Servicios Públicos*, the state-owned *Instituto Costarricense de Electricidad (ICE)* has considerable influence over the direction of the sector. Reports by the Comptroller found that some of ICE's administrative and investment practices have unnecessarily inflated electricity prices. Private generators depend on ICE to set contracts to bid for half the capacity they are entitled to generate. A decision by the company to stop buying electricity from seven private generators in December 2020 will force them to close, raising questions about the sector's juridical security.

The state also retains monopolies or partial monopolies in other sectors such as alcohol distillation, petroleum and its derivatives, and the operation of railroads, ports and airports, although the latter have been offered in concession to private entities. State companies such as state banks or the state insurance company (INS) maintain significant market shares where they previously held monopolies, though they face increasing competition by private providers in the health sector. In the telecommunications sector, the state company lost roughly 48% of its mobile phone market to private competitors between 2010 and 2019.

Costa Rica has continued liberalizing its foreign trade regime through participation in preferential trade agreements, both bilateral and multilateral, and maintaining a proactive strategy to attract foreign direct investment. The country is widely liberalized with a trade-to-GDP ratio of 66.8% and an average tariff rate applied of 1.8% according to the Heritage Foundation's Index of Economic Freedom 2020. The WTO reports a simple average of the MFN applied tariff of 5.6%. Costa Rica joined the General Agreement on Tariffs and Trade in 1990 and became a founding member of the World Trade Organization in 1994. It has been active in the multilateral trade system, including the negotiations of the Doha round. To date, the country has signed free trade agreements with the United States, Dominican Republic and Central America, the Caribbean Community of Nations, Canada, Chile, Mexico, Panama, China, Singapore and Colombia. It is a party to the association agreement signed between the European Union and Central America in 2012. In May 2020, Costa Rica became the first Central American and fourth Latin American country to be admitted to the Organization for Economic Cooperation and Development. It also has observer status with the Asia-Pacific Economic Cooperation forum, as well as the Pacific

Liberalization of  
foreign trade

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Alliance, and has invested efforts to join the Trans-Pacific Partnership. Two state entities, the Ministry of Foreign Trade and PROCOMER, are devoted to pursuing international trade and investment, as is the private export promoting office CINDE.

The banking system is solid and governed according to international standards. All financial entities must register with a superintendency (SUGEF) whose regulatory framework was recently strengthened. There are 43 supervised institutions, including 15 banks (four state-owned, 11 private); 21 savings and loans cooperatives; five non-bank financial institutions; and three other specialized savings and loans organizations. The OECD considers there to be considerable concentration within the banking sector, with 60% of assets controlled by state banks.

Strict disclosure rules exist and information on market participants is available to the public. Capital adequacy requirements have stayed around 10% for a decade, but actual ratios are much higher, averaging over 17% (2019). The IMF describes the banking sector as adequately capitalized, liquid and with a low level of non-performing loans (2%), but with a low level of profitability and a high level of exposure to foreign exchange fluctuations. About 40% of the credit granted to the private sector is denominated in foreign currency, one of the highest credit dollarization rates in Latin America. Two-thirds of this lending is to unhedged borrowers. However, stress tests suggest the system is well positioned to absorb sizable shocks, including from exchange rates.

About 40% of bank liabilities are also denominated in foreign currencies. Banking spreads are high due to market distortions unique to the country. State banks enjoy a competitive advantage because their liabilities are guaranteed by the state. This is compounded by a requirement for public institutions to deposit their funds with state banks, allowing them to capture up to 70% of the market for local deposits. Private banks must transfer 17% of their demand deposits to state banks in order to fund a development banking program to which state banks also contribute via a 5% tax on their profits. As the OECD noted, these distortions fragment the banking market, hamper efficiency, limit competition and translate into high interest rates. A reform passed in 2020 instituting a deposit guarantee for all banks is a positive development, but the only one so far.

To help the banking sector cope with the economic impacts of COVID-19, SUGEF adopted prudential measures facilitating loan restructurings, including moratoriums on principal and interest payments, flexible payments and term extensions. Other measures included a temporary suspension of provisioning rules for financial entities that record losses for at least six out of 12 months and the extension of medium-term swap facilities by the central bank to financial intermediaries.

#### Banking system



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## 8 | Monetary and fiscal stability

The central bank enjoys considerable autonomy and consistently pursues and communicates its plans to achieve monetary stability. The bank articulates a monetary program that is amply publicized and regularly adjusted to manage expectations. The IMF regards monetary policy as having succeeded in keeping inflation low and stable for several years, lowering inflation expectations. A flexible exchange rate with a managed band system within a market determined exchange rate has contributed to buffering external shocks. The real effective exchange rate index (2010 = 100) shows a slight increase in the last decade (2019 = 106.4). Central bank independence was enhanced in 2019 with a law requiring its president to be elected in years outside of the national electoral cycle and rescinding the finance minister's voting power on its board.

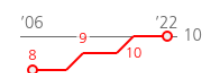
The country's weak fiscal situation, its reliance on foreign funding and the high level of dollar-denominated lending by domestic banks make it vulnerable to a strengthening dollar and rising international interest rates. At the outset of 2019, the central bank was expected to continue tightening monetary policy. However, a slowdown in economic activity driven by uncertainty about the country's fiscal deficit drove it to adopt countercyclical measures. These consisted of a reduction in reserve requirements from 15% to 12% and a lowering of the policy reference interest rate from 5.25% to 2.75%. However, these policies did not result in the hoped-for expansion. Inflation for the year actually fell from 2% to 1.5%. Because the economic slowdown lowered imports and hence the demand for dollars, the local currency strengthened, and the central bank's international reserves grew. The bank was thus successful in maintaining monetary stability, but not in rekindling growth.

The arrival of COVID-19 in the first quarter of 2020 found the country in conditions of low growth and high unemployment. The interruption of international travel aggravated these conditions due to the economic importance of tourism. Inflation fell to 1.2% during the first six months of the year and to a negative rate of 0.17% in July. The central bank responded by lowering the policy reference rate even further to 0.75%, its lowest level to date, and by purchasing government securities in the secondary market to improve liquidity. Inflation for the full year 2020 was expected to be below 1%.

Though governments' budgetary policies have generally aimed at fiscal stability, they have repeatedly failed to achieve this goal, with constitutional mandates, automatic public-sector salary increases and generous public pensions getting in the way. Over the last 35 years, the central government was in deficit for every year except two (2007 – 2008). High levels of spending after 2008, without corresponding revenue increases, drove the deficit in 2017 and 2018 to around 6% of GDP. Despite the passage of fiscal reforms in 2018, the deficit worsened in 2019, approaching a historic

### Monetary stability

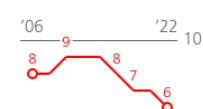
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### Fiscal stability

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7% of GDP, due to lackluster growth and sustained public spending. Public finances are on an unsustainable path. Current revenues are insufficient to cover primary expenditures, a majority of which are set by constitutional mandate. The OECD rates Costa Rica as having the second most inflexible public expenditure level in Latin America. Generous annuities and salary supplements for public employees increase remunerations inexorably. Borrowing to cover the deficit doubled the central government's debt between 2008 and 2019, from 26% to 58% of GDP.

The 2018 fiscal reform improved this situation by modifying the salary supplements paid to public employees so they will be subject to performance reviews and not grow automatically. It also created a fiscal rule that limits spending mandates and the growth of expenditures. On the revenue side, the reform changed the sales tax into a value-added tax, thus broadening its base, and introduced a 15% tax on capital gains. The law also created two new tranches of income tax for higher earners and increased the tax rate on earnings paid by cooperatives.

Although undoubtedly positive, the reform is insufficient to fully stabilize the country's fiscal situation. It is expected to yield 4% of GDP by 2023, with government debt peaking at 62% of GDP that year. Yet, in May 2020, Fitch downgraded Costa Rica's rating to B with a negative outlook, citing growing fiscal deficits, high lending needs and pandemic-induced contraction. Costa Rica's sovereign risk premiums are the highest in Latin America. Full compliance with the fiscal rule will be critical in order to set expenditures on a downward path, but the public sector has persistently resisted its implementation.

The pandemic seriously worsened the fiscal outlook. Measures to combat infection reduced economic activity and therefore revenues, while the response to the social and health impacts of COVID-19 raised spending. Estado de la Nación estimates that fiscal revenues fell by 5% of GDP, while expenses increased by 3% of GDP in the first half of 2020. The central bank says revenues for the year fell by 11.8%. The seasonally adjusted fiscal deficit for the first six months of 2020 rose to 8.2% of GDP, compared to 6.6% for the same period in 2019. The higher deficit has increased the government's financing needs by 15% of GDP. As of the time of writing, it had been able to rely on borrowing from the Development Bank of Latin America (CAF, \$500 million), the Inter-American Development Bank (\$230 million), the French Development Agency (AFD, \$150 million) and \$508 million from an IMF Rapid Financing Mechanism. It has also tapped its central bank deposits and issued bonds in the domestic market. As a result of these actions, government debt closed at 67.5% of GDP in 2020.

In January 2021, the government reached an agreement with the IMF for a \$1.75 billion, three-year Extended Fund Facility loan that would greatly contribute to stabilizing the country's fiscal situation, generating a primary surplus of 1% of GDP by 2023 and a debt level of 50% of GDP by 2035. However, the agreement, with its ambitious set of 11 regulatory and legal reforms, requires legislative approval.

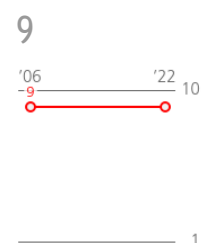
Among the reforms, the most significant would be a new Public Employment Law rationalizing the compensation of public employees, which accounts for more than half of government revenues. It is uncertain whether the Alvarado government can muster the legislative support necessary to pass the agreement. Legislators already refused approving a \$245 million soft loan from the Inter-American Development Bank in 2020 despite warnings from experts and officials that it was critical. Considering that the 2018 fiscal reform took over a decade, these conditions are not auspicious. All three major rating agencies have expressed doubts that the necessary political support exists. However, the increasing possibility of a crisis could well coax legislators into alignment.

## 9 | Private Property

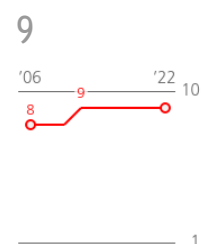
Property rights are secure, and contracts are generally upheld. Rights and regulations associated with property acquisition, benefits, use and sale are well defined and enforced. Public interest exceptions may lead to an override of these rights, but always following due process and with adequate compensation. The government maintains appropriate registries and seeks to protect the individual property rights of its citizens and foreign investors. However, foreigners face specific property limitations in that they can only acquire a state concession property by entering a minority partnership with a Costa Rican citizen unless they have resided in Costa Rica for at least five years. While rights are guaranteed by rule of law, the judicial system can be slow in resolving legal disputes, limiting their effectiveness.

Private companies are viewed as primary engines of economic production and are given appropriate legal safeguards, starting with the constitution. However, there is a long history of state involvement in the economy, including public monopolies in several areas. The ratification of the Central American Free Trade Agreement in 2007 and the implementation of its complementary laws opened some of these areas to competition, but not through privatization. State enterprises continue to compete alongside new private companies in telecommunications, electricity generation, insurance and banking, among others. While the playing field is not entirely level and state enterprises enjoy advantages, the entrance of private competitors has contributed to market expansion, price reductions and quality improvements. The state has also turned to private enterprises to execute and manage large infrastructure projects as concessionaires. Given the state's budgetary limitations, this is likely to remain an area of continued growth for private investors. A recent legal reform strengthened the regulatory framework for competition and gave greater autonomy, independence and resources to the public entity charged with promoting and regulating competition.

Property rights



Private enterprise





## 10 | Welfare Regime

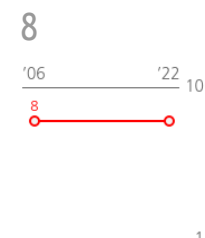
There has been a broad and sustained effort to develop social safety nets capable of compensating social risks and preventing poverty. Social investment by the state encompasses universal programs (health and education), contributive programs (pensions) and selective programs targeted to vulnerable segments of the population (conditional cash transfers and non-contributory pensions). Universal programs represent the largest share of public spending, accounting for a combined 23.7% of GDP in 2018 (6.6% in health, 7.4% in education, 7.3% in social protection and 2.4% in housing). Health and pensions are managed by the social security organization (CCSS), funded mostly through tripartite payroll contributions complemented by government transfers. The coverage of universal services is high, about 70% of the economically active population in health, and 63% in pensions, with most of the remaining population covered as dependents and/or beneficiaries of selective programs. Health indicators for the population are good, with high life expectancy at birth (80.2 years), low under-five mortality rates (8.3 per 1,000 live births) and low maternal mortality rates (27 per 100,000 live births).

Despite this, social investment has been unable to reduce poverty below 20% or arrest an increase in income inequality. It is estimated that about 25% of the most vulnerable among the population are not covered by programs that target them. There is no unemployment insurance system, but payroll taxes contribute to the capitalization of individualized severance accounts that workers can tap if they lose their jobs. In recent years the CCSS has faced serious administrative and financial challenges. Its hospitals have struggled to keep pace with demand for specialized treatments as chronic diseases displace infectious ones. An aging population has increased the number of dependents relative to the working population, creating funding problems. Likely reforms will require an increase of payroll contributions, a reduction of pension benefits, an increase in the minimum retirement age, or a combination of these. Yet employer contributions are already high by OECD standards and may be contributing to the prevalence of informal employment. In 2017, the CCSS raised the payroll contribution of workers by one percentage point.

Non-citizens that hold residency status or working permits may access most social protection services, but undocumented migrants are excluded from them. However, they may receive medical attention in primary health clinics, health centers or emergency rooms. It is estimated that up to 10% of the workforce is of Nicaraguan origin and over a third of this population is not enrolled with the CCSS.

The pandemic will affect the poor and vulnerable, and significantly erode social equity and integration. Estado de la Nación estimates that close to a million people will require assistance, or one out of every two individuals in the labor force, while poverty could increase by up to 16 percentage points if, on average, one individual in

Social safety nets



each household loses employment. The government responded to this risk in April 2020 by creating a three-month direct cash transfer for individuals who had lost their job or faced reduced hours as a result of COVID (Bono Proteger). While an important relief measure, simulations suggest that it would at best return 26% of the new poor back into the ranks of the non-poor.

Costa Rican institutions strive to provide equality of opportunity, but with varying levels of success. Access to health is broad with constant quality of service across socioeconomic levels and, increasingly, over geographic areas. However, access to education, the principal source of opportunity, is still far from universal. Desertion from the educational system is considerable despite conditional transfers (Avancemos) aimed at neutralizing the opportunity cost of schooling for poor families. These results are not the product of insufficient investment, as Costa Rica spends more on education than OECD countries do on average. Gross enrollment ratios are 116.2% (primary education), 141.4% (secondary) and 57.7% (tertiary).

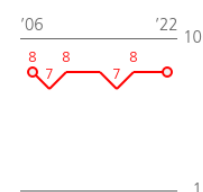
While women enroll at higher rates than men – at a ratio of 1.1 in secondary and 1.2 in tertiary education – and have higher educational attainment, they do not enjoy equal employment opportunities. Their workforce participation rate (44% in 2019) is 27 percentage points lower than men's. The driving factor behind this difference is the larger burden of unremunerated household work that women shoulder. Female unemployment is over three percentage points higher than male unemployment (2019), and because they face greater difficulty securing full-time employment, women tend to work fewer hours per week than men. Estado de la Nación estimates that 52.5% of the jobs lost to COVID in the second quarter of 2020 belonged to women and that their workforce participation rate may have fallen to an unprecedented 31%. Women also have higher informality rates and face an earnings gap relative to men ranging between 10% and 16% (2014 – 2018) that is not explained by differences in educational attainment.

Female representation in politics is significant. Over half of the ministries at the start of the Alvarado administration were led by women. In the legislature, 45.6% of the seats in the 2018 election went to women, an increase over the two previous elections (2010 and 2014) and higher than the legal mandate requiring 40% of available electoral positions to be open to women. In the judiciary, women constitute 52% of all judges, but only 38% of Supreme Court magistrates. At the municipal level, only 7% of mayors and 40% of councilmembers elected in 2020 were women.

The country's indigenous populations and Afro descendants also have more restricted access to opportunities. This is evidenced by lower levels of human development in the Brunca and Huetar Caribe regions, where many of them live. These regions also have poverty levels that are higher than those of the Central region.

Equal opportunity

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## 11 | Economic Performance

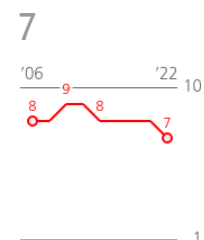
Costa Rica is an upper middle-income country with Latin America's fifth-highest GDP per capita (\$20,443 PPP in 2019). However, GDP growth has slowed since 2017. At 2.2%, the growth rate for 2019 was the lowest in 23 years, excepting the global downturn of 2008. The most dynamic sectors of the economy, tourism and exports, have both been on decelerating trends. Exports of goods grew at 2.4% in 2019, about half the annual average of the past decade, and services – which include tourism – at 4.5%, compared to a 6.8% average for the previous decade. Despite fiscal reforms (2018) that boosted sales tax revenues by 23% and lowered government salaries, higher public debt-service expenditures, transfers and capital investment drove the 2019 fiscal deficit to a record 6.96% of GDP. The unanticipated shocks from COVID-19 found the country in a highly fragile condition, with a greatly reduced fiscal space and growing debt.

The economic impact of the pandemic has been severe. GDP is estimated to have fallen by 4.5% in 2020, the greatest such drop since the early 1980s. The unemployment rate more than doubled over the first three-quarters of 2020, going from 9.2% to 22%. The deficit closed at 8.1% of GDP, due to lower revenues and higher social assistance spending. Public debt reached 67.5% of GDP, and consumer confidence registered a historic low at the end of the third quarter.

One of the greatest challenges has been generating dynamic job opportunities in the domestic sector. The emphasis placed on foreign direct investment has privileged skill-intensive jobs, which are well remunerated but not numerous, given the lack of backward linkages in the export sector. The result has been a dual labor market where most of the workforce remains in low-productivity, low-paying jobs in the informal or service sectors. According to the OECD, skill mismatches are high, with universities emphasizing the social science and humanities, at the expense of STEM. At the same time, educational achievement as measured through PISA scores is low and declining. By keeping skill premiums high, this contributes to wage inequalities, which are exacerbated by high public sector remuneration levels.

Inflation fell by about half a percentage point between 2018 and 2019 and has remained within the central bank's inflation target of 2% to 4%, with inflation expectations remaining stable. This suggests a high level of credibility for the bank's targeting policy. During 2019 the local currency strengthened slightly with regard to the dollar as a result of the 2018 fiscal reform, but also due to lower imports. The central bank became accommodative in 2020 to counter the impacts of COVID-19, reducing the monetary policy rate by 150 basis points to 0.75%, lowering reserve requirements to historically low levels and providing liquidity to the banking sector. The inflation rate for 2020 is expected to be below 1%.

Output strength



## 12 | Sustainability

Costa Rica is recognized as a leader in environmental protection and conservation. The right to a healthy and ecologically balanced environment is established in Article 50 of the constitution – reformed in 2020 to include the right of access to water – and subject to enforcement through special environmental tribunals and the Constitutional Court. More than 25% of the territory is protected, and a significant part of the forest cover has been recovered and maintained over the last three decades. Costa Rica has also won plaudits as a leader in renewable energy. However, the country’s record is more nuanced with regard to the sustainability of its extractive and economic practices.

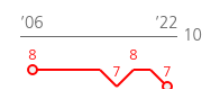
The country generated 99.2% of its electricity from renewable sources in 2019, but electricity only accounts for a quarter of the energy resources consumed. Of the remaining energy needs, 74% are filled mostly through hydrocarbons. Greenhouse gas emissions currently outpace the country’s absorption capacity, despite its goal of becoming a zero-net-emissions economy by 2050. Emissions in the energy sector increased by 23% in 2019. The transportation sector accounts for 64% of hydrocarbon consumption and 54% of carbon emissions (2019). Estado de la Nación reports that the number of automotive vehicles in Costa Rica has increased by close to 10 times since 1980 and sets the costs of traffic congestion in the greater metropolitan area at 3.8% of GDP. About half the monitoring stations in key urban areas showed nitrogen oxide concentrations exceeding World Health Organization limits in 2019.

Most residual waters from homes and industries flow into rivers without treatment, contaminating the country’s Pacific basin. There have been improvements in recent years as the percentage of residual waters captured in sewerage for treatment increased from 4.2% in 2014 to 14.4% in 2017. Yet that level is still distant from the world average (60%). Septic tanks, which create seepage risks to subterranean water sources, are used by 77% of the population. The reliance on agricultural exports that require intensive fertilizer and pesticide use has had broad environmental impacts. The overexploitation of coastal and marine fisheries has set them in frank decline with some already showing signs of collapse.

According to the Global Footprint Network, Costa Rica’s ecological footprint exceeds its biocapacity by approximately 70% (2017) due to trade, the liquidation of regional ecological assets and the emission of waste into the global commons. Costa Rica ranked 52nd among 180 countries in the 2020 Environmental Performance Index, which measures the priority given by countries to environmental health and ecosystem vitality. Its score was middling (52.5 out of 100) and actually represented a decrease of 15.3 points with regard to 2018, a loss of 22 notches in the ranking. This was mostly due to low scores in the areas of water resources, fisheries and agriculture.

Environmental  
policy

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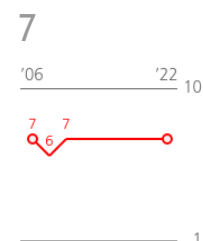
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Education is a key component of social policy, with preschool and general basic education (until ninth grade) obligatory, universal and free, and the public budget for education at all levels constitutionally mandated at a minimum of 8% of GDP (Article 78). Public education is available at all levels, including preschool and tertiary as well as technical and vocational. Adult literacy rates exceed 97% of the population and coverage at the primary level is high (93%) but short of universal. At the secondary level, only 80% of the eligible population is enrolled and dropout rates are high, with nearly a third of 15-year-olds leaving school. Enrollment in tertiary education is high, with 61% of high school graduates attending. Over 75% of state university enrollees come from public schools and most receive full financial support. However, the OECD argues that too many students enroll in the social sciences and humanities, and too few in science, technology, engineering and math. Average years of schooling for the population is at 9.3 (2019). In the U.N. Education Index (2019), Costa Rica ranks 39th (among 133 BTI countries considered) and seventh in the region with a score of 0.726.

Recent administrations have increased spending in education, and the OECD estimates this area will total 9% of GDP in 2020, including teachers' pensions. Despite such high spending levels, educational outcomes are comparatively weak. Only half the population between the ages of 25 and 34 has completed secondary education, compared to 85% for Chile, 72% for Argentina, 70% for Colombia and 66% for Brazil. The OECD average is 85%. Costa Rican students perform 76 points lower than OECD students in PISA evaluations, the equivalent of two years of schooling. Domestic testing results are also low. There have been improvements in enrollment rates at the preschool level, while the use of targeted cash transfers (Avancemos) and the creation of a special unit to support disadvantaged schools and students have helped improve retention. The number of young persons (15-24) that are neither working nor studying has also fallen.

Investment in R&D remains low, at around 0.4% of GDP (2017), under 25% of the target level for developed economies. The country is host to high-tech companies, many of which have invested considerably in research facilities, most notably Intel Corp. and Ad Astra Rocket Company, Microsoft and Baxter Medical. Universities also engage in considerable research activities and account for about 60% of the total amount invested. It is unclear whether this can be increased to produce greater linkages and spillovers for the economy, although this is the government's stated goal.

Education policy /  
R&D



## Governance

### I. Level of Difficulty

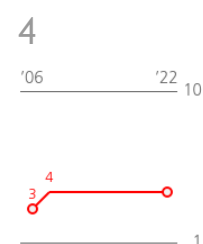
Stagnant poverty and inequality rates, fiscal rigidities, a fragmented and shifting party system, and a byzantine network of public institutions and regulations are the main structural constraints on governance capacity. Poverty has fluctuated around the 20% mark, while inequality seems to have settled around a Gini coefficient above 0.5. That this has occurred despite rising social spending and sustained social safety-net policies, suggests a high level of difficulty is constraining the governance capacity of political leaders in these areas.

A rigid spending structure beset by constitutional mandates, automatic public salary increases, generous public pensions with unfunded mandates and recalcitrant public unions limit the government's ability to contain expenses. The fiscal outlook improved with the passage of a fiscal reform in 2018. On the revenue side, the law broadened the tax base by instituting a value-added tax, created two new tranches of income tax for higher earners and increased the tax rate for cooperatives. On the expenditure side it changed public salary supplements to nominal terms and subjected them to performance reviews. It also established a fiscal rule that limits the extent by which current expenditures can increase. While these are positive developments, they are insufficient to guarantee fiscal stability. Further reform is needed to rationalize and contain public expenditures, particularly in the area of public employment. These are difficult reforms that challenge established interests. They are made more difficult by fragmentation in the legislature.

Executives have tended to arrive in power without legislative majorities and the system lacks incentives to foster coalitions. An intricate and overgrown network of state institutions with multiple veto points makes transformation challenging and slow. This seeps down into other critical areas of governance, especially the development and execution of key infrastructure projects necessary to sustain economic growth, which suffer chronic delays and cost overruns or even stoppage. Barriers to market entry are high, setting up firms is costly and the regulatory burden is heavy. Employer contributions to social security are high by international standards. These factors create an environment that disadvantages small and medium-sized enterprises and encourages informality.

The COVID-19 pandemic accentuated these structural challenges. Many of the economically vulnerable, such as single-parent households headed by women or those lacking social insurance, will be pulled into poverty. Existing inequalities will

Structural  
constraints



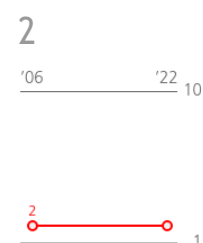
also be exacerbated. The evidence already shows that women have taken the brunt of the labor impact, as their unemployment rates have soared and their participation rates have plummeted relative to those of men. The challenges of distance learning and unequal access to equipment and connectivity will worsen already poor educational outcomes in public education. This will limit the opportunities of young Costa Ricans, becoming a future structural constraint.

To avert a deeper crisis that could set the country back significantly in its social and economic transformation, the government must build a consensus in the legislature to pass a new slate of structural reforms agreed to in conjunction with the IMF.

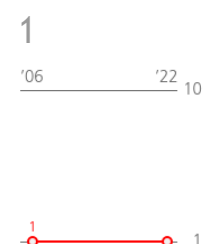
Traditions of civil society are strong. According to *Estado de la Nación* there are currently several thousand registered civic associations, 3,704 community development associations and 594 cooperatives. Unions represent about 14% of the workforce with an additional 16.6% represented by 1,500 solidarist associations. However, opinion polls suggest that the degree to which individuals actually engage with those organizations is not great. The level of self-declared interpersonal trust among citizens, an indicator of social capital, is moderate and on a declining trend. There is a considerable level of citizen participation that occurs outside of formal organizations. About 25% of all public declarations, meetings and assemblies, and public manifestations were undertaken by unaffiliated citizen groups, including students of all levels and parents. Citizens also actively engage through institutions like the Ombudsman's office, where requests for intermediation number in the tens of thousands.

There are no violent incidents based on social, ethnic or religious differences. Some contentious social and economic policy issues have generated conflict, but these have typically been resolved through institutional channels, without greater incident. There are significant levels of popular mobilization to protest policies and exert pressure for political and socioeconomic goals, although they diminished considerably during the Solís Rivera administration (2014 – 2018). They returned to above-average levels during the first year of the Alvarado administration (2018 – 2022) due to protests against a fiscal reform law, mainly from workers in the public sector, but fell again in 2019. Recent mobilizations include marches for post-material objectives, notably gender equality, animal rights and environmental rights. While most protests target the state and often involve street blockages, police violence or repression are rare. However, during 2020 there was a spate of violent confrontations with police, when law enforcement forces attempted to remove blockages that had been ruled illegal by the Constitutional Court. This led to the opening of criminal proceedings against movement leaders. COVID-19 did not affect the frequency of mobilizations, but did change their nature, as most actions during 2020 were to protest the restrictions imposed by the government to mitigate the pandemic.

Civil society traditions



Conflict intensity



## II. Governance Performance

### 14 | Steering Capability

The executive is required by law to specify its strategic priorities in a national development plan (Plan Nacional de Desarrollo), with detailed goals and objectives for all government institutions, divided by sectors and regions. The Ministry of Economy and Planning (MIDEPLAN) is tasked with the development, execution and coordination of the plan, which articulates the executive's agenda for the four-year presidential period. There is a national evaluation system that follows the plan through its execution and the Comptroller General also evaluates it periodically. The 2019 – 2022 development plan defines the following national objective: generating inclusive economic growth that is in harmony with the environment, creates quality employment and reduces poverty and inequality. It then sets goals for five key variables: economic growth, unemployment, multidimensional poverty, decarbonization and inequality. The development and implementation of the plan centers around seven strategic areas in which the work of all state sectors and institutions is expected to converge around the executive's coordination. The plan prioritizes infrastructure projects to improve mobility and sustainability within urban environments; research and development to improve formal employment through innovation and competitiveness; social security to ensure the sustainability of the CCSS and its social insurance fund, while improving public health; and human security through lower poverty and personal safety.

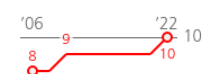
The plan also reaffirms the importance of macroeconomic stability and vows to control inflation, stabilize fiscal balances and arrest the growth of public debt. These factors were pushed to center stage by the fiscal impacts of COVID-19. While the government had to reshuffle its priorities to deal with the public health emergency, it could not lose sight of the structural reforms needed to ensure fiscal stability, especially given the weakened economic situation in which the crisis found it. Hence, even as it mobilized to implement emergency actions to limit infections and mitigate the social and economic effects of the pandemic, it had to focus on strategic actions that would ensure fiscal sustainability, most notably, a reform of public employment.

These planning documents are apt diagnostics that identify the main strategic challenges the country faces. They set specific goals, instrumentalized through variables with predefined, measurable indicators and assign responsibilities for follow-up and reporting. They also describe coherent policies that, if adopted, have the potential to accomplish significant transformations that are congruent with democracy and a market economy. The country has sufficient organizational

Question  
Score

Prioritization

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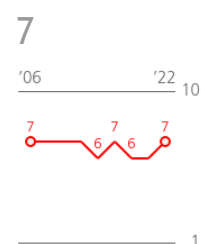


resources and expertise to conduct evidence-based policymaking and regulatory impact assessments, as well as strategic planning. However, this does not translate de facto into implementation. Political, bureaucratic and financial barriers can derail the best-made plans. The pandemic may have temporarily displaced some of these plans, but it also created a sense of national unity that allowed a quick reaction and a restructuring of priorities. Whether that sense of unity will also allow the country to complete the structural reforms it needs to recover its strategic direction remains uncertain.

Barely a year into its administration, the Alvarado government's plans were upended by the shocks of the COVID-19 pandemic. However, even before this the administration was falling short of its goals of creating more and better employment through strong economic growth. GDP growth in 2019 was positive (2.1%) but short of the mark (3.5%), and the unemployment rate had increased by one percentage point. Poverty and inequality did not improve, but they were within the projected range. Preliminary results show that the pandemic exacerbated the difficulties faced by the administration due to slowing economic growth and a deteriorating fiscal outlook. During 2020, the economy contracted and unemployment reached historic levels, especially among women. Inequality is expected to increase. In terms of handling the COVID-19 emergency, the government has been relatively successful. According to the World Health Organization, the country's infection incidence rate, at about 37,000 cases per 1 million of population, and mortality rate, at about 507 per 1 million of population, are low compared to countries like the U.S. or Spain but are higher than in other Central American countries.

More generally, despite a weak electoral mandate, low popularity ratings and intense social protest, the government managed to have one of the most productive legislative periods in recent memory. Most prominently, it included the adoption of long needed reforms that set the foundations for fiscal sustainability (see "Fiscal Stability") and culminated a process leading to the country's accession to the Organization for Economic Cooperation and Development (OECD). Being an OECD member elevates the country's international standing and exposes it to best practices that are likely to positively influence its future transformation capacity. However, the coalition that led these reforms was already fraying upon the arrival of the pandemic, and the management of relations with the legislature quickly deteriorated. The administration could not convince the legislature to approve a much-needed loan from the Inter-American Development Bank and was forced to rely on more expensive domestic borrowing to meet its needs, further aggravating its fiscal situation. The government secured an agreement with the IMF in 2021 that includes reforms and financing capable of setting it on the path to fiscal stability, but it must now gain legislative approval for it and its related reforms. Should this fail, the country will face a loss of confidence from domestic and international investors that will hinder economic recovery and greatly restrain the country's ability to implement its development plans.

## Implementation



In developing policy responses, the government usually relies on best practices, international cooperation, and expert advice. An example of policy learning is the relative shift away from unfunded mandates in the bills approved by the legislature. According to the *Estado de la Nación*, the frequency with which bills are enacted creating or extending individual rights but not specifying revenues to fulfill those mandates has fallen continuously since 2014. The intense discussion generated by the country's fiscal crisis seems to have heightened consciousness about the importance of controlling public spending. The fiscal reform law passed in late 2018 (Law 9635) reflects this. It establishes a fiscal rule and gives the government greater discretion in managing constitutionally mandated transfers under conditions of fiscal stringency.

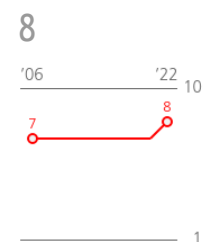
There are sufficient institutional mechanisms in place to allow the government to replace failed policies with innovative ones. The Comptroller's office constantly monitors and evaluates policy implementation. Three reports it published in 2018 – on sales tax evasion, constitutionally mandated expenses and public sector salary incentives – were vital in shaping the discussion about fiscal constraints. The Comptroller has now become the enforcer of the fiscal rule contained in Law 9635.

The state has developed a highly sophisticated apparatus for generating and tracking statistical information through the National Institute for Statistics (INEC) and the Census, the central bank, the Planning Ministry and other bodies. Under the OECD's guidance, a legal reform recently converted INEC into a full-fledged national statistical system. The timely and highly reliable statistics generated by these entities provide the feedback necessary for policy learning and adjustment at all levels of the state. The government also relies on scientific output and academic expertise from labs and research centers at public universities.

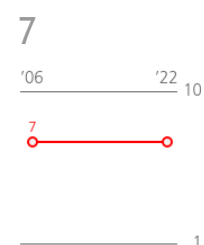
## 15 | Resource Efficiency

Though the Comptroller's office consistently provides for effective and independent auditing, highly complex administrative structures stand in the way of efficient government use of human and financial resources. The public sector is composed of over 300 entities of diverse juridical and functional nature. The 19 ministries of the executive are subdivided into 80 subunits with different degrees of financial and administrative autonomy. Constitutional and legal mandates make most public spending inflexible. These factors make coordination, management and control very challenging. While the country has a long-established civil service (1951), it does not encompass all public sector employees and its relative effectiveness varies across areas. In some cases, it guarantees merit-based professionalism while in others, it is a source of rigidity and constraint. Given the practical impossibility of firing a civil service employee, entities devise ways to hire around the restraint, creating enclaves of variant dynamism within the state. Most posts are subject to competitive recruiting procedures and protected from political dismissal. Strong public sector unions have

### Policy learning



### Efficient use of assets

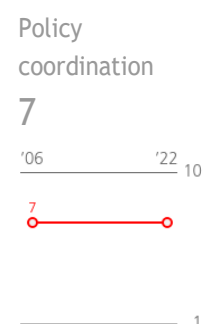


obtained concessions over the years that have raised average levels of compensation in the public sector well above those in the private sector. Benefits include seniority clauses and other statutory recognitions, as well as special incentive and severance packages. They are compounded by a variety of defined-benefit pension regimes in which costs far exceed individual contributions and must be paid out of the state budget. This has had a snowball effect on public spending and seriously limited its resource efficiency. In 2019, the public deficit closed at 8.1% of GDP, and public debt reached 67.5% of GDP.

At the level of the executive, the government has the necessary tools to coordinate conflicting objectives into a coherent scheme, but the state apparatus is too unwieldy to allow for policy implementation across all issue areas. Since the Legislative Assembly does not ratify a president's ministers, he commands the loyalty of his cabinet and is at liberty to organize and coordinate it as he deems necessary. Among the mechanisms employed to ensure coordination are regular cabinet meetings, the designation of special ministers to coordinate policy across sectors and the appointment of interministerial councils. But the fragmentation of the public sector into multiple organizations and its complexity pose coordination challenges that sometimes threaten the coherence of policies.

A salient example is the environmental sector. Despite an increase in regulatory statutes, enforcement of environmental laws often lags due to institutional weakness and confusion among multiple organizations with overlapping jurisdictions and redundant functions. Institutional coordination has also been lacking in the areas of foreign policy, territorial planning and rural development. While there are institutional mechanisms, like the Ministry of the Presidency, designed to facilitate coordination with the legislature, loose party discipline and competing factions within parties, including that of the executive, have made harmonization of objectives challenging.

The executive's main tool to advance its policy priorities is the prerogative to set the legislative agenda twice yearly during extraordinary sessions. But only one-third of laws approved since 2002 have been initiated by the executive. In confronting the COVID-19 pandemic, however, the government was able to coordinate effectively across different sectors of the administration through inter-institutional alliances. In conjunction with the very active and visible coordination role played by the minister of health, this resulted in a cohesive response to the pandemic.



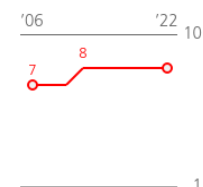
Costa Rica has laws and regulations against corruption and has ratified international treaties like the Inter-American Convention Against Corruption and the U.N. Convention Against Corruption, that commit the country to combat it. Criminal prosecution of corruption is spearheaded by the Attorney General and a special criminal investigative police force (OIJ). A special state office (Procuraduría de la Ética) functions as an anti-corruption watchdog for the public sector, and the Comptroller General exercises strict financial and administrative oversight over all public entities, approving or rejecting contracts and public bids, performing audits and detecting instances of corruption. A legal reform adopted in 2020, recommended by the OECD, strengthened the rules against international bribery. Most public entities also have internal auditors who closely monitor their spending. These regulators ensure the transparency of the procurement process, although they also make it cumbersome and slow, one of the factors that has encumbered the public sector's managerial capacity in areas like infrastructure.

The constitution (Article 30) guarantees public access to all information pertaining to the state and its entities, and most public entities provide the media and citizenry access to their information. However, state entities have invoked state secrecy, an exception allowed by law, to deny public access to sensitive information. State-owned enterprises have also withheld information claiming the need to secrecy in order to remain competitive. The final arbiter on the matter is the Constitutional Court. In 1993 it ruled that the salaries of public officials could not be treated secretly and upheld that criterion in several challenges to the ruling. In 2016 it ruled that the state Electricity and Telecommunications company (ICE) could treat some of its financial information with secrecy, but only where expressly permitted by law and for a limited and reasonable period.

The Criminal Code establishes prison sentences of up to 10 years for public officials convicted of receiving bribes. A strict anti-corruption law was passed in 2004 in response to corruption scandals involving high-ranking officials, including three ex-presidents. It established stricter reporting requirements for public officials, including the disclosure of personal assets and conflicts of interest. These laws, together with a vigilant and assertive media, drive officials to investigate and pursue cases of corruption. However, prosecutions are lengthy and often result in failed convictions or suspended sentences. A 2018 study by the Estado de la Nación also finds that there are substantial differences in the levels of probity required across the various sectors of the public administration. There are also differences regarding sanctions and the level of discretion allowed in their application. Such deficiencies can diminish the effectiveness of corruption prevention at the administrative level.

Anti-corruption  
policy

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## 16 | Consensus-Building

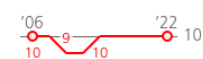
All major actors agree on the goal of consolidating democracy. The country has a long-standing democratic tradition that is a source of national pride. Parties, politicians, civic and interest groups, and economic actors are engaged and seek to channel action through the political process. There is a well-established political culture of Costa Rican exceptionalism, characterized by its long-standing democracy in a convulsive region, and its tradition of dialogue, consensus-building and democratic participation. Some citizens question the degree to which the country lives up to its exceptionalism, but do not challenge it as a set of normative ideals. Disenchantment has increased because the political class is seen as incapable of resolving key problems. This may be viewed as a healthy questioning of specific policies and administrative failures, rather than a broader questioning of democracy, and may serve as a catalyst for transformation in a mature democratic context.

All major actors agree on the goal of consolidating a market economy, although there is some disagreement regarding the extent of state involvement in economic activity. Public sector unions have traditionally contested market-based competition in certain sectors, and continue to support state monopolies where they exist, as in the energy sector. Together with political parties on the left and some sectors of public universities, they question the motives of multinational capital and the value of global insertion. However, the political consensus has resulted in a general transformation trend toward an increase in market-based competition, though with state companies remaining as relevant, and sometimes privileged, competitors. All major actors do share a consensus that extended social protection should exist as an integral component of the market economy. Major actors agree on democracy and the market economy, but cannot agree on a sequence of reforms to increase economic growth and to distribute its proceeds in a more equitable fashion

There are no anti-democratic veto actors with anti-democratic interests, such as the military or influential economic actors. Contentious tactics used by social movements to oppose policy, such as street blockades, have resulted in violent confrontations with the police, but these are better understood as a form of civic resistance without anti-democratic intent.

Consensus on goals

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Anti-democratic actors

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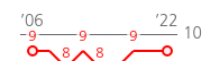
The political leadership has prevented cleavage-based conflict from escalating by promoting dialogue and respect for the country's democratic traditions. Appeals to long-standing practices of consensus-building and incremental change have contributed to depolarization. The dominant emergent cleavage is between those who benefit from the socioeconomic order and those who feel excluded, as well as those who do not consider themselves adequately represented by, and are disillusioned with, the existent political institutions. Socio-cultural cleavages around issues of religion, environment, sexual preference and reproductive health have also become more salient. Political parties are no longer the sole channel for interest aggregation and political representation. They have been joined by social movements as citizens mobilize and engage in various forms of political expression to pursue specific causes and protest injustices. While contestation may in certain instances have become more conflictual, it has always remained within institutional boundaries. The state, often the object of protest itself, has been respectful of democratic rights and has generally refrained from repression. However, street blockages by protesters have become increasingly contentious given the disruption they impose on other citizens, who see this as an infringement on their rights and put pressure on the authorities to remove them. This has sometimes led to violence.

The political leadership enables civil society participation in many areas and assigns an important role to civic leaders in policy discussions, but also shows a tendency to engage in top-down agenda setting and policy formulation. Different spaces have been created to enable the participation of civil society. When new laws are enacted or existing laws are reformed, it is typical for the organized representatives of sectors affected by the laws to be heard by legislative committees. Some government policies, like those governing minimum wages and salary increases, are defined in consultation with the organized representatives of workers and employers. There are also examples of participatory policymaking at the local level, such as the formulation of county plans for local human development, the constitution of citizen audits, and some level of participatory budgeting.

Social movements are another form of civil society participation and take part in hundreds of marches and protests each year. Yet, low levels of citizen engagement with formal organizations, at least according to opinion polls and regional comparisons, seem to suggest that more could be done to enable civil society participation. For example, civic groups could be engaged in the assessment of the social and environmental impacts of projects in the planning and development of zoning regulations, as well as other activities at the local level. The voice of indigenous communities was for a time largely ignored by the state in its pursuit of large hydroelectric projects that impacted their territories. An intervention from the United Nations Special Rapporteur for Indigenous Rights reminded the state of its obligation under international treaties to engage those communities in a prior consultation process, and a statute regulating and establishing the procedures for such a mechanism was finally published in 2018 after a seven-year delay.

Cleavage /  
conflict  
management

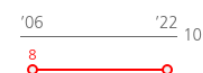
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Civil society  
participation

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The country has not experienced major historical injustices of the type covered by this question since 1948.

Reconciliation

n/a

'06 '22 10

n/a 1

## 17 | International Cooperation

The political leadership makes well-focused use of international assistance to implement its long-term development strategy, which is to generate inclusive economic growth that is in harmony with the environment. It recognizes the importance of international cooperation to achieve this, and it has actively sought to join international forums such as the OECD (to which it was recently admitted) in order to increase its international projection and improve its governance structures. Costa Rica has established cooperative agreements with Mexico, Argentina, Chile, Uruguay, Perú and Colombia. As a middle-income country, the Costa Rica has seen a considerable reduction in direct international-assistance flows, with the emphasis shifting away from concessionary aid to international loans. Traditionally, most cooperation has come from multilateral organizations, primarily the Inter-American Development Bank, the Central American Bank for Economic Integration and the World Bank. More recent flows have seen an increase in bilateral cooperation, mainly from China, but also Japan, Italy, Germany, South Korea, the United States, the Netherlands, France and Spain. Most of the funding from these sources has been directed to areas including energy and environment, public works and transportation, economic and financial development, and health and social development. The country recently negotiated an Extended Fund Facility with the IMF that will enable it to regain fiscal stability in the short term, but which also commits it to structural reforms that will have long-term impacts. As of the time of writing, its approval was still pending in the legislature.

Effective use of support

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Costa Rica has traditionally exerted an outsized international influence relative to its physical and economic power. It has represented Latin America as a temporary member of the United Nations Security Council on three occasions. It has also promoted international treaties and conventions in the areas of arms control, disarmament, international cooperation and environmental protection. Most recently, it was instrumental in the negotiation and approval of the 2017 Treaty for the Prohibition of Nuclear Arms. The government pursues the promotion of human rights, peace and democracy as a matter of foreign policy. Together with trade and sustainable development, these issues dominate the agendas of its diplomatic missions abroad and in international forums. The country is in compliance with its international agreements and in good standing with international financial

Credibility

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institutions. The country has acceded to rulings from the Inter-American Court on Human Rights ordering the restoration of in-vitro fertilization and the legalization of same-sex marriages. Costa Rica is the only Central American country that has received refugees from conflicts in Venezuela, the Northern Triangle of Central America, Colombia and Nicaragua.

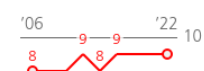
The political leadership actively and successfully builds and expands cooperative neighborly and international relations. The country is part of the Central American Integration System (SICA), the Central American Free Trade Agreement and the Community of Latin American and Caribbean States. It has subscribed to a Cross-Border Cooperation Agreement with Panama to facilitate binational cooperation in multiple fields and engages with Nicaragua in a series of bilateral commissions to promote cross-border development and coordination. Costa Rica does not participate in the Central American parliament or the Central American Court.

Costa Rica has denounced the increasing levels of authoritarianism exhibited by the Ortega regime and has exerted leadership at the Organization of American States to apply the Democratic Charter to Nicaragua, which could lead to its suspension from the multilateral body. It also worked at the United Nations to pass a resolution for the promotion and protection of human rights in Nicaragua.

Costa Rica is part of the Lima Group, which seeks a peaceful solution to the current political, economic and humanitarian crises in Venezuela, but dissented from the group's declaration to leave open "all options on the table," since it went against Costa Rica's commitment to pacific solutions. In 2019, it joined the International Contact Group formed by the European Union and Uruguay to help mediate a peaceful solution to the Venezuelan crisis.

Regional  
cooperation

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## Strategic Outlook

For Costa Rica to maintain its significant accomplishments in the socioeconomic, environmental and political realms, and further deepen them in the future, it must tackle the structural limitations that increasingly threaten progress. This will require a set of administrative reforms to enhance the state's execution and implementation capabilities and a set of political reforms to improve representation, strengthen the accountability of legislators and encourage better coordination between the executive and the legislative branches.

The uncontrolled expansion of the Costa Rican state has produced a vast institutional structure that is difficult to coordinate and control. Its capabilities need to be strengthened in order to better accomplish key functions, especially in areas that have the potential to boost productivity and inclusion. Notable examples are education, infrastructure development and public finance. Effectiveness and efficiency in these areas are more of a challenge than funding. Strengthening the state while balancing fiscal revenues and expenditures is the greatest challenge the country faces going forward. An important first step was the 2018 fiscal reform law, and the agreement signed with the IMF in 2021, if approved, can complement it in important ways, particularly through the much-needed reform of public employment.

Political reforms are also necessary to improve the quality and responsiveness of representation. Costa Rican society has become more plural, urban and educated. This richer social context must find representation in the country's political institutions if trust in the political system is to be restored. While there are many options in terms of institutional design, there are some general objectives that should be targeted. For one, representation should be proportional to the size of the population. In Costa Rica, the number of deputies has not changed since 1961, despite a trebling of the population. For another, representatives should have incentives to build political careers in the legislature, developing a record and being accountable to the electorate. This is currently inhibited by a ban on continuous re-election. Finally, institutional mechanisms should foster the strengthening of political parties and facilitate the creation of legislative majorities, something the current political system does not do well. A more coherent legislature with improved mechanisms for coordination with the executive would likely foster a rebalancing of power among the branches, lessening the need for judicial adjudication by the Constitutional Court.

COVID-19 severely dampened the country's growth prospects and compounded its fiscal constraints. Recovery will be gradual and, given the country's reliance on tourism and trade, subject to progress in the global fight against the pandemic. After a 4.5% contraction of GDP in 2020, the central bank expects growth of 2.6% in 2021 and 3.6% in 2022. Over the course of the next two years, the fiscal deficit and the public debt will remain high, respectively averaging 6.5% and 74% of GDP, and starting to fall only in 2024. These projections assume that the legislature approves an agreement with the IMF and its accompanying reforms, and that, together with the 2018 fiscal rule, they are fully implemented. In the event they are not, the central bank expects severe adverse consequences. Risk premiums for the country would increase, limiting access to

international credit markets. A continued overreliance on domestic funding would raise the cost of debt and crowd out the private sector. GDP growth would be reduced by at least one percentage point each year, and inflation would likely increase by three percentage points. Under such conditions it would be hard to reduce the deficit or the debt, and macroeconomic stability would be precarious.

The country's recent transformational reforms for its accession to the OECD suggest political forces can converge around key objectives. The present conjuncture, with its high stakes, may again be capable of generating unity of purpose. If so, the country will regain the fiscal stability it needs to continue along the path of transformation. This path includes the continued strengthening of public finances through implementation of the fiscal rule, the adoption of a single salary scale in the public sector, the streamlining of incentive structures and better management of the public debt. It includes boosting productivity by streamlining burdensome regulation, reducing barriers to competition and targeting informality. And it includes improving educational outcomes through better teacher recruitment, training and evaluation, as well as aligning tertiary education with labor market needs.

However, if the current moment is seen by politicians as an opportunity to stake their political claims in anticipation of the 2022 national election and they deny the government approval of the IMF agreement, the outcome becomes much more uncertain. Under conditions of lower economic growth, it will be difficult to reduce the unemployment rate, and poverty and inequality rates are also likely to remain high. This will deepen dissatisfaction with democracy and make the country more vulnerable to the kind of demagogic leadership that has emerged in other parts of the world, with its concomitant risks to democracy.