

BTI 2016 | Costa Rica Country Report

Status Index	1-10	8.49	# 12 of 129	
Political Transformation	1-10	9.20	# 7 of 129	➔
Economic Transformation	1-10	7.79	# 16 of 129	➔
Management Index	1-10	6.93	# 10 of 129	

scale score rank trend

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2016. It covers the period from 1 February 2013 to 31 January 2015. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	4.8	HDI	0.763	GDP p.c., PPP \$	14918.1
Pop. growth ¹	% p.a.	1.1	HDI rank of 187	68	Gini Index	49.2
Life expectancy	years	79.9	UN Education Index	0.654	Poverty ³	% 4.0
Urban population	%	75.9	Gender inequality ²	0.344	Aid per capita \$	8.0

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | UNDP, Human Development Report 2014. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.10 a day at 2011 international prices.

Executive Summary

In 2014, the country held free and fair democratic elections for the 16th consecutive time, the longest sequence in Latin America, though within an atmosphere of serious social unrest. For the first time in sixty years, an electoral force, not heir to the 1948 civil war contenders, gained control over the executive, within the framework of an intense “anti-continuity” climate. The Citizen Action Party (PAC), by means of Luis Guillermo Solís Rivera, won the 2014 elections with a higher urban support base among the middle and upper classes concentrated in the Central Valley. This result interrupted the rule of the long-term dominant National Liberation Party (PLN) and instituted a situation in which no large group, but rather an abundance of small and medium-sized organizations share power. The country has evolved into a fragmented multiparty system within a presidential democracy framework, a setting which is prone to recurring conflicts among state authorities and difficulties in coalition-building. In addition, the political campaign coincided with a prolonged episode of social conflict, and the number of protests during the campaign were the highest recorded since protests have been registered (1994).

On the socioeconomic level, between 2013 and 2014, the economy grew at a moderate pace with small periods of acceleration and deceleration, all within a context of low inflation. This growth was accompanied by failures in the labor market, above all relatively high unemployment (8.5%) and greater dynamism in the creation of informal jobs. Health, education and public service access indicators continue to improve, as well as middle family income. However, poverty remains stagnant at 20%, as it has been for over 20 years, and inequality continues to increase. This trend is the major challenge to Costa Rica’s historical commitment to social solidarity that the incoming government pledges to address. Continuing poverty and inequality increase the risk of these barriers becoming structurally ingrained.

Moreover, this situation coincides with important macroeconomic changes. There was a strong and converging erosion of the foundations of opportunity, stability and solvency. High internal costs affected the dynamism of the export sector, key to the country’s economy (without

considering the possible side effects of Intel shutting down operations). The central government's deficit reached its highest level in the past 10 years (5.4% of GDP), a situation that is particularly serious since its main trigger are recurring expenses and not investment. During 2014, inflationary pressures emerged and exchange rate volatility forced a change towards an administered floating regime. Within this context, there is very little maneuverability for sustaining the public social investment growth achieved in recent years. The government has zero margin to confront the critical fiscal situation, as 95% of its expenses are inflexible, the most rigid profile in Latin America. Meanwhile, the elected branches of government have repeatedly failed to pass fiscal reform since the late 1990s (though administrative changes have closed some loopholes and raised revenues).

In addition, the ecological footprint remains negative. The importance given to clean electricity generation sources has decreased (use of fossil fuels increased by 44.6%), and conflicts over environmental issues remain high. In short, despite apparent normality, this period was characterized by events that implied a break from the past.

History and Characteristics of Transformation

Costa Rica is recognized as the oldest and most stable Latin American democracy. Even among developing nations, the longevity of its democratic regime is only second to India. For more than sixty years, since the 1948 civil war, the country has held democratic elections with broad popular participation and a regular rotation of presidents and parties. One of its key transformation moments was the adoption of a new constitution in 1949, which evolved during subsequent years and made the state a key player by entrusting it with the fulfillment of key social, economic, and (later) environmental rights, while maintaining important areas of the economy, such as banking, electricity and telecommunications, as state monopolies. It also entrusted the state with the administration of health, education and housing, as well as a spawning a network of autonomous institutions. The constitution also abolished the army and, in 1975, made the Supreme Tribunal of Elections another branch of government.

This constitutional model enabled key accomplishments as it solidified democratic institutions by enabling and assuring widespread participation and robust political party competition. It also fostered strong public investments in human and physical capital and the rule of law, which served as the foundation for 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.

In the last 60 years, disagreements between the legislative and executive branches have never led to a presidential assault on the political system, allowing Costa Rica to have a consolidated democracy. Despite this political setting, the country has not been exempt from periods of economic instability. Internal inconsistencies and adverse international conditions at the end of

the 1970s pushed the state-centered model into a process of structural reforms during the early 1980s. Significant liberalization took place during this period mainly within the trading sector, in the form of significant tariff and duty reductions. Privatization was restricted to unprofitable state enterprises, while state monopolies in banking, insurance, electricity and telecommunications were left untouched. Only gradually did liberalization advance in these areas, starting with the banking sector in the 1990s. Strong market-opening strategies attracted foreign investment and promoted exports. This allowed Costa Rica to diversify its production base, first through nontraditional agricultural exports and later through high-tech industries clustered in free-trade zones. Trade liberalization advanced with the ratification of the Central American Free Trade Agreement (CAFTA), which was approved, after intense public debate, in the country's first referendum in 2007. This agreement included a set of laws that called for competition within the telecommunications and insurance sectors, meaning that the state gave up its monopolies although its firms have remained competitive against the private sector.

Despite this overall smooth development over decades in a difficult regional environment, Costa Rica's political and economic performance has shown some signs of stagnation in recent times. Over the past few years, social progress has been impaired, with rising social inequality, and unchanging poverty and extreme poverty levels, driven in large part by deficient financial management that is undermining the welfare system. In addition, the country's basic infrastructure has not been modernized according to the needs of a more dynamic economy. As a result, Costa Rica's lead over most of the rest of Latin American countries in basic social and economic indicators has become less pronounced. Finally, a number of corruption scandals have tarnished the reputation of traditional parties and caused the collapse of the longstanding two-party system. This ensemble of factors has generated widespread disenchantment with politics and politicians, to the point that support for democracy has fallen to its lowest level in the past two decades.

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

Question
Score

Citizen security is internationally recognized as a critical problem in the Central American region and, even though criminal violence in Costa Rica continues to be comparatively lower than the rest of the region, crime-related activities such as organized murders, vengeance and drug-related crimes have increased by 50% between 2003 and 2013. One of the main explanations for this tendency is drug trafficking and organized crime. Even though the state's monopoly on the use of force has not been openly challenged, crime has a higher rate of occurrence in certain municipalities and specific localities with higher rates of poverty and unemployment. Six counties (out of 81) and 10 districts (out of 478) reported 40% and 28%, respectively, of the total number of homicides in 2013. According to the InSight Crime Foundation, an entity dedicated to studying organized crime in Latin America and the Caribbean, the county's homicide rate per 100,000 inhabitants increased from 8.6 in 2013 to 9.5 in 2014. In order to tackle this issue, a series of policies have been implemented by the state to enhance citizen security by focusing on vulnerable communities and combining social violence prevention and increased police presence. Between 2006 and 2013, police enforcement and coordination among different forces have improved, including the modernization of patrolling operations and an increase of 50% in the size of the police force, thus enhancing the state's response.

Monopoly on the
use of force

10

Unresolved territorial disputes along Costa Rica's northern border with Nicaragua continue to be a source of national concern and international attention, despite being argued before the International Court of Justice since 2010. The Costa Rican government acknowledges that the river belongs entirely to Nicaragua, though has repeatedly filed complaints regarding Nicaraguan workers and military personnel violating Costa Rica's sovereignty and causing serious environmental damage on the right bank of the river where Costa Rican territory begins.

The nation-state is widely accepted and not questioned in any form by relevant groups. There are active social and political sectors that seek to strengthen and diversify their participatory spaces by means of collective action, such as coordinated actions among unions (public employees and education), university sectors and transportation groups, though they do not question the legitimacy of the nation-state. Residents of isolated and rural areas continue to experience some social and economic disadvantages compared to their urban counterparts. Nevertheless, this has not led to protest outside the context of institutional mechanisms. All rights, including human rights, are recognized throughout the country.

State identity
10

The Costa Rican state is secular, but there are minor disagreements regarding this issue. The constitution, though recognizing freedom of religion, establishes Roman Catholicism as the state religion. This has caused tension between minority parties with religious ideologies and the ruling party which, together with the left-wing party, demands the complete secularization of the state. Catholic archbishops and clergy, together with strong evangelical political parties, have influenced the discussion of key political issues such as same-sex unions, in vitro fertilization and abortion. Despite the expiration of the period granted by the Inter-American Court of Human Rights ordering Costa Rica to reverse its ban on in vitro fertilization, these political parties, aligned with Catholic conservatives, have strongly opposed the approval of any related legislation. Furthermore, evangelical political parties, which obtained four of 57 seats in the legislature in the 2014 elections, tend to form pacts with the parties that are willing to support them in exchange for support for their own interests, thus having influence in almost every issue considered by Congress.

No interference of
religious dogmas
9

At an administrative level, the state continues to be successful in the provision of basic services on a national scale, particularly health, education, access to drinking water, electricity and telecommunications. Nevertheless, coordination problems persist. The policy think tank Programa Estado de la Nación has identified problems in the design of the administrative structure of the state. There is a complex institutional apparatus which is difficult to coordinate: 81 municipalities, eight district councils, and over 280 state entities among autonomous institutions, decentralized organizations, and the like. In addition, the critical fiscal situation of the country prevents the continuation of expanding social investment and, if not properly managed, may detonate an economic and political crisis. Of the total expenditures budgeted for 2014, 56.9% was destined for the partial implementation of constitutional and legal mandates, representing an amount on a par with tax revenues.

Basic
administration
10

2 | Political Participation

The two electoral rounds held in February and April 2014 prove that the country has a robust democratic institutional framework and a citizenry demonstrating active political interests. According to the Supreme Tribunal of Elections, 68.2% of the population participated in the first round of the presidential and legislative elections. The campaign was marked by strong political polarization and several candidate resignations, though this was not detrimental to its overall quality. The elections occurred with no disturbance in a context of broad competition, carried out under the highest democratic standards; they were free and fair elections in a scenario of social peace. In addition, opportunities for formal citizen participation were expanded with the application of gender parity and voting from abroad. The electoral results were accepted without contestation and with a high level of confidence in the work of the Supreme Tribunal of Elections.

Free and fair
elections

10

The results of the 2014 elections confirm the tendency of the multiparty system predominating since 1998. The legislature achieved the highest effective number of parties in history with the representation of nine political parties. In the executive, citizens opted for change by electing a candidate from the Citizen Action Party (PAC) to the presidency for the first time – Luis Guillermo Solís Rivera – thus leaving behind predominant bipartisanship since the 1980s.

Democratically elected political representatives have the effective power to govern, with no individual or group holding any de facto veto power. Although there are strong interest groups capable of influencing the course of public affairs, a de facto form of veto power is not possible. Certain media groups are controlled by potent business and political elites, who use these means to create and control public opinion to some extent, thus influencing decision-making processes. Religious groups and the political parties representing them also have strong influence on these processes, as they have enough political clout to influence individuals or groups. However, they are not able to distort democratic procedures. The Constitutional Court plays a very important role in Costa Rican democracy since no single group can stop the enactment of decrees or legislation without undergoing due process and obtaining the declaration of unconstitutionality.

Effective power to
govern

10

Association and assembly rights are valid without restrictions and guaranteed by the country's constitution and Labor Code. Freedom of assembly is proof of this, as it is unrestricted for individuals and independent of membership in political or civic groups. Of the 788 registered street protests during the Chinchilla-Miranda presidential period (2010-2014), protesters reported police repression, including the use of force and tear gas to disperse crowds, in only a few. New groups, such as advocates for sexual diversity, the informal transportation sector and environmentalists have emerged during recent years on the social protest scene, taking a more belligerent role, but experiencing no discrimination from the government.

Association /
assembly rights

10

Articles 26-29 of the country's constitution guarantee unrestricted freedom of expression for citizens, groups and the media. A broad array of press outlets, from newspapers to radio, television, and Internet inform citizens and provide multiple perspectives on the news and current affairs. The country is ranked 16th in the Reporters Without Borders' 2015 Press Freedom Index, second in the region only to Jamaica and ahead of Uruguay, with no journalists, media assistants or citizens having been killed or imprisoned. The press has played an important role in demanding public accountability in recent years. Investigative reporting by several media outlets has exposed bribery scandals implicating high-ranking politicians and multinational corporations. The International Freedom of Expression Exchange (IFEX) network states that even though Costa Rica's current standing is encouraging, the government has only recently had debates and enacted reforms to some of its more controversial laws that infringe on freedom of expression and press freedom, particularly in the area of defamation law. An example of this was the controversial Information Crime Law proposed during 2012, formerly known as the Gag Law, which in one article declared prison sentences for the publication of "secret political information." The same year, the Costa Rican Supreme Court suspended the article and the legislature subsequently eliminated the "secret political information" article altogether.

Freedom of
expression
10

3 | Rule of Law

Costa Rica's constitution establishes that the government is exercised by three branches: legislative, executive and judiciary. Even though it also states that these branches are distinct and independent, in practice they are interdependent. Branches cannot delegate functions outlined in the constitution to one another, but they do delegate portions of their authority to agencies. Impasses among these powers have never been the backdrop for a presidential assault on the political system. The system is designed to assure the separation of powers by reducing the stakes of political conflict and promoting a consensual style of decision-making. Important policy-making responsibilities are entrusted to autonomous institutions (i.e. health care, monetary policy, retirement pensions) whose budgets are neither proposed by the executive nor approved by the legislature. While the legislative is the first branch of government, growing polarization and party fragmentation have weakened its decisiveness and complicated relations with the executive. This has increased the importance of the judiciary, particularly the Constitutional Court, which is charged with settling jurisdictional disputes between the other powers and interpreting the constitutionality of the law. The independence of the judiciary was strengthened since the establishment of the Fourth Constitutional Chamber in 1989 and has become a decisive interpreter of the authority and boundaries among the branches of government. The existence of horizontal control mechanisms, through which the executive and its agencies can be monitored and regulated, is an additional

Separation of
powers
10

component guaranteeing checks and balances in the separation of powers. One of these key mechanisms is the Comptroller General's office, which has the broad mandate to supervise the use of public funds not only on a legal basis, but also with respect to efficiency and outcomes.

Justice administration takes place through a differentiated autonomous organization and rational proceedings. The second article of the Organic Law of the Judicial Branch establishes that this authority is only subject to the constitution, law and its own decisions regarding matters within its competence. The legislature's majority decision rejecting the automatic re-election of a Supreme Court justice in 2012, due to political partisanship, detonated a conflict that transcended public opinion and generated a strong discussion on the validity of the arguments backing this decision and its effects on the independence of the judiciary. The reasons exposed by both sides for the conflict revealed major differences between senior officials of the two powers in regards to their respective realms of action. The ruling of the Constitutional Court, admitting procedural errors in Congress' decision, was obeyed and the judge was reinstated for eight more years. Even though the balance sheet disclosed respect towards the rule of law and democratic institutional framework, this episode brought an uncommon subject to public debate: the judicialization of politics. This refers to the non-conformity of other state powers, political parties and other organizations to the rule of law, as well as alleged abuses and meddling on behalf of the judiciary in matters of a political nature, actions that usually arise from the practice of settling governmental affairs in judicial instances. Judicial instances are trusted and their channels are used by citizens and private corporations. Even though they are not believed to be corrupt in general terms, cases of corruption and conflict of interests involving members of the judiciary have led to questioning with respect to its independence, particularly regarding local courts. Such was the case in 2014 when a criminal judge from Limon Province was accused of receiving payments from local drug lords to rule in their favor in a drug trafficking case.

The Costa Rican government has ratified international treaties, approved laws and supported watchdog entities against corruption. Citizen awareness and activism has risen, and all the media have helped uncover corruption cases of high-ranking public officials (such as former presidents, ministers and mayors). For example, in 2015 a criminal court sentenced a former Minister of Environment to a three-year suspended sentence for breach of public duty for favoring the concession of an open-pit gold mine granted to the British Columbia-based mining company Infinito Gold. Another case aired to the public was the significant questioning by the media of former President Chinchilla-Miranda in 2013 for using a private plane belonging to a Colombian businessman under investigation for his links to drug trafficking. Despite the resignation of a number of the former president's senior staff, and a public investigation by the Public Ethics Inspector, the official report noted that while the actions taken were clearly ethically questionable, the country's extensive anti-corruption laws did not apply to the president in this case.

Independent
judiciary

9

Prosecution of
office abuse

8

Other important cases have been left unresolved because most of the institutions involved (courts, the Office of the Public Prosecutor, the Office of the Attorney General, the Office of the Ombudsman and the Office of the Comptroller General, among others) are plagued by insufficient personnel and a lack of financial resources, but, at the same time, are confronted by an increasing and more complex workload. There is a generalized perception among citizens that public officials are corrupt. The Latin America public opinion survey Latinobarometro reported that in 2013, the leading problem perceived by the population was corruption (20%), considered far more pressing than crime and unemployment.

The 2014 Social Inclusion Index from America's Quarterly ranks Costa Rica among the three countries with high respect towards civil rights in the region (the others being Uruguay and Chile). Civil rights and non-discrimination are guaranteed by the constitution and enforced through various institutions, such as the Constitutional Chamber and the Office of the Ombudsman, providing citizens with channels to present grievances against the state in matters concerning their rights and interests. Despite the fact that the country ranks second, just below Uruguay, with regards to respecting women rights, women still face discrimination in the social and economic realm. Female domestic workers are subject to exploitation; they lack legal protections, receive the lowest minimum wage, and are excluded from social security programs. Despite the existence of domestic violence legislation, violence against women and children is a major problem. According to the policy think tank Programa Estado de la Nación, cases of domestic violence have increased from 5% of total cases pursued in the judiciary in 2004 to 7.5% in 2013. The Social Inclusion Index also shows Costa Rica tied for second to last (11th), along with Guatemala and Nicaragua, in regard to respect towards LGBT (lesbian, gay, bisexual, and transgender) rights, placing it in the bottom third of countries surveyed. In July 2013, the legislature passed the Law of Young People, which some believed created a loophole for the legalization of gay marriage. However, Family Court ruled that the language in the bill applied only to unions between a man and a woman. Freedom House (in 2014) affirms that indigenous rights are not a government priority and estimates 73% of the country's 70,000 indigenous people have poor access to health and education services, electricity and potable water. These groups have voiced strong concern regarding the loss of culture, contamination of their natural resources, and deprivation of land tenure – a concern, however, ignored until now by the corresponding governmental entities.

Civil rights
9

4 | Stability of Democratic Institutions

Political decisions are effectively prepared, made, implemented and reviewed by democratic institutions. The 2010-2014 legislative session approved the highest number of laws since 2002. An abundance of veto players within the state's institutional domain has made it more difficult to bring about change within the system. On the administrative level, the Comptroller General exercises strict financial and administrative control over the multiple organizations under its purview, which despite its necessity greatly reduces the flexibility of the executive. On a citizen level, the Constitutional Court has empowered individuals to appeal administrative action (or inaction) in every aspect of public service covered by the constitution. On a legislative level, procedural rules allow minority groups to block the approval of substantive reforms. More so than ever, legislators submit bills under discussion to the Constitutional Court for an evaluation of their constitutionality. According to the policy think tank Programa Estado de la Nación, political fragmentation and ideological polarization have decreased collaboration between the legislature and the executive, generating risks in their political performance. The practice of creating more laws has not ensured the resolution of the main challenges related to human development. In fact, a quarter of the laws approved correspond to international conventions and treaties. This trend has been one of the factors hindering the effective management of public affairs, making it difficult to reach rapid agreements, and reducing institutional effectiveness and efficiency.

Following the state government, local democratic institutions, particularly municipalities, play a key role in political delivery in Costa Rica. Consensus democracy rather than power concentration is the main characteristic in Costa Rican local government spheres, as none of the main political forces dominate. Their effectiveness and political reach is questionable, as data from the 2012 Latin American Public Opinion Project (LAPOP) survey shows that only 10% of the people interviewed affirmed requesting a service from their local government, of which three-fourths responded that their request was not met.

The legitimacy of democratic institutions is accepted by individuals, potential veto actors, and as well by entities and organizations able to concentrate political power, such as governmental bodies, political parties, associations, interest groups and civic organizations. Processes of lawmaking and policy implementation are in accordance with the rule of law. Efficiency problems are the product of the political scenario previously discussed.

Performance of
democratic
institutions

8

Commitment to
democratic
institutions

10

5 | Political and Social Integration

Costa Rica's party system is fairly stable even though the degree of political party fragmentation is increasing, voter volatility is high and political parties lack social rooting. The democratic system provides the basis for meeting the challenges posed by a multiparty system and by citizen demands upon the political system. The problems of political representation within Costa Rican democracy are not attributable to the multiparty system. A study carried out by the policy think tank Programa Estado de la Nación indicates that the weak internal structures of the political groups are a key factor in understanding this deterioration. While all political parties lack thorough and up-to-date membership registers, some parties virtually disappear during non-election periods due to resource shortage: they lack permanent headquarters outside the capital city; the link between national and local leaders does not occur through party networks; and their political formation activities, besides being intermittent, receive little stimulus from centralized structures. According to the Latin American Public Opinion Project (LAPOP) survey for 2012, only 26% of respondents said they sympathized with a political party, and 83% of respondents said they trusted political parties only a little or not at all (an increase from 75% in 2010).

Moreover, Costa Rica showed the Americas' lowest level of agreement with a statement asserting that politicians represent citizens (25%) or listen to citizens (21%). This corresponds with congressional party fragmentation and the level of polarization evidenced by the formation of alliances. Furthermore, even though efforts have been made to promote spaces for the participation of various social sectors (workforces, women and businesses, among others), parties have poor ties with organized groups in society and generally lack the capacity to represent citizens' interests. In consequence, the political identity of Costa Ricans is weak and rarely a determining factor in electoral decisions. This resulted in a scenario of high volatility in voters' preferences during the 2014 elections.

The results of the 2014 elections confirm the multiparty format of the country's political system. The legislative elections reached the highest level in the effective number of parties since 1953 (4.92), as well as the highest number of parties represented (nine). This is the greatest political fragmentation in 61 years. In regards to the actual results, the vote count revealed that the National Liberation Party (PLN) obtained 18 seats (the second lowest number in its history); the Citizen Action Party (PAC) 13 seats; the Broad Front (FA) nine seats (including representation from all provinces and the highest number of seats obtained by a leftist party); the Social Christian Unity Party (PUSC) eight seats; the Liberal Movement (ML) four; three conservative religious parties obtained four seats; and one seat won by a provincial party controlled by a former leader of PUSC. Citizens voted for change in the

Party system
7

presidential elections by choosing a PAC candidate (Luis Guillermo Solís Rivera) for the first time in history and leaving behind the bipartisanship of the PLN and PUSC, which has predominated since the 1980s. PAC triumphed in the first round by surpassing PLN by a little more than 1%, but did not obtain the overall 40% established by the constitution. This forced a second round in which PAC gained strong support and was able to succeed by winning 1,338,321 votes (77.8%) against 382,600 votes (22.2%) supporting PLN, the largest margin of victory in Costa Rican history. This is explained, to a large extent, by the early withdrawal of PLN candidate Johnny Araya Monge.

Costa Rica has a broad range of interest groups, ranging from social movements and community organizations to unions and business and professional associations. The policy think tank Estado de la Nación has identified three basic tendencies from intense social mobilizations that arose during the Chinchilla-Miranda administration, which are key in understanding the systemic nature of representative patterns. First, in many cases a particular group mobilizing for a specific theme was later legitimized by other sectors, resulting in some form of alliance. In consequence, common fronts with a wider participation of interest groups were constituted. Second, these alliances implied the participation, to a greater or lesser degree, of at least four main actors from the public sector: public employee unions (notably the National Public Employee Association – ANEP), the National Teachers Society, public universities and the peasant and farmer sector. There is also strong representation of the private sector gathered under the UCCAEP (the Costa Rican Union of Chambers and Associations of the Private Business Sector). While public sector unions are strong and active, rates of unionization are low (less than 3% of the private labor force is unionized). And third, contested issues were usually a matter of high social impact, affecting a broad segment of society. Therefore, there is a broad range of interest groups that are cooperative and tend to balance one another. No organized movements seek to undermine democracy or civil society. The majority of social and political groups strongly defend Costa Ricans' constitutional rights.

Approval of the democratic system in Costa Rica continues to follow the downward trend demonstrated in the last couple of years. This reduction deepens a long-term trend of declining support for the system, which has coincided with the decay and re-composition of the party system, volatility in voter preferences, corruption scandals, and low levels of political participation. The system support index captured in 2013 by the Latin America public opinion survey Latinobarometro achieved its lowest level since it was first measured in 1979, reaching 53 points on a scale from zero to 100. In fact, Costa Rica is the country that has suffered the largest drop in democracy approval in the region, having lost 27 points since 1996. In addition, the same survey demonstrates a significant reduction in the level of satisfaction with democracy (35%) and perception of progress (15%), increased support towards authoritarian alternatives in certain circumstances (increasing from 7% in 1996 to 17% in 2013),

Interest groups
9

Approval of
democracy
8

as well as a noticeable deterioration of confidence and support of the government (20%) and the president (26%). In terms of approval of government management, Costa Rica scored 20%, occupying the last place in Latin America where the average is 49%. Despite all these negative figures, the country ranks second in the region in terms of overall satisfaction with life (88%).

There is a high level of trust among Costa Rican citizens. According to the Latin American Public Opinion Project (LAPOP) 2012 survey, nearly 75% of the population believes that they can trust other members of their community, ranking among the highest levels of interpersonal trust in the Americas. As an example of social self-organization, the country has a growing number of non-profit NGOs that channel funds from different sources (i.e., individuals, groups, companies, institutions, governments, companies and foreign entities, among others), which are formed by people providing technical assistance to foster cooperation and support for a specific cause (i.e. cultural, environmental or social). While the construction of social capital is supported by the use of social networks, which have developed in Costa Rica to become a strong means of organizing social mobilizations towards specific causes, exposing wrongdoings and reclaiming social justice. The 2013 Latin America public opinion survey Latinobarometro shows that Costa Rica is among the countries in the region with a comparatively higher daily rate of Internet use (29%) and use of social networks (48%).

Social capital
9

II. Economic Transformation

6 | Level of Socioeconomic Development

The position of the country in terms of human development remains relatively high, though with modest performance. Poverty combined with inequality continues to be among the most serious constraints to economic transformation, posing a risk of getting structurally ingrained. The country's score on the UNDP's Human Development Index rose slightly from 0.761 in 2012 to 0.763 in 2013, but fell from 62nd position to 68th. According to the policy think tank Programa Estado de la Nación, insufficient progress in education has contributed to the lower HDI ranking. Despite efforts to reduce this lag, the population had completed an average of 9.4 years of education in 2013, just 1.6 years more than in 1993, with only 40% of the population having completed secondary level education in 2014.

The incidences of poverty and extreme poverty have remained close to 20% and 6%, respectively, since 1994 (scoring 20.7% and 6.4% in 2013). Inequality continues to become increasingly pronounced. The Gini coefficient obtained for 2013 was 0.524,

Question
Score

Socioeconomic
barriers
6

the highest level in decades. Paradoxically, these inequality levels are taking place in a context of real household income growth for five consecutive years. However, the benefits of economic growth have been concentrated in the wealthiest groups (fifth quintile), whose income increased 3.7%, while for the poorest population (first quintile) income is down by 3.4%. Other indicators also reveal that social inequality has tended to expand, as the income of the richest deciles rose from 19.2 times that of the poorest deciles in 2009 to 27 times in 2013. Poverty levels are similar in urban and rural areas, suggesting an absence of regional exclusion, though inequality is still higher in rural regions. In terms of gender, the incidence of poverty is higher among women. Female workforce participation rates have increased steadily, from 35% in 2000 to 36.3% in 2010 and 36.5% in 2013. Despite improvements, evidence shows that men do better in terms of income and employment. In 2013, the Gender Inequality Index fell slightly from 0.346 in 2012 to 0.344 in 2013, with Costa Rica ranking 63rd out of 152 countries.

Economic indicators		2005	2010	2013	2014
GDP	\$ M	19964.9	36298.3	49236.7	49552.6
GDP growth	%	5.9	5.0	3.4	3.5
Inflation (CPI)	%	13.8	5.7	5.2	4.5
Unemployment	%	6.6	7.3	7.6	-
Foreign direct investment	% of GDP	4.3	5.1	6.7	4.7
Export growth	%	12.8	5.5	3.6	-1.7
Import growth	%	12.4	16.5	2.1	-4.0
Current account balance	\$ M	-981.0	-1143.2	-2332.6	-2269.8
Public debt	% of GDP	37.5	29.1	36.3	39.7
External debt	\$ M	6518.7	8546.9	17442.8	-
Total debt service	\$ M	843.4	1020.1	3014.6	-

Economic indicators		2005	2010	2013	2014
Cash surplus or deficit	% of GDP	-	-4.3	-	-
Tax revenue	% of GDP	-	13.4	-	-
Government consumption	% of GDP	13.8	17.7	17.8	17.8
Public expnd. on education	% of GDP	-	-	6.9	-
Public expnd. on health	% of GDP	5.5	7.1	7.4	-
R&D expenditure	% of GDP	-	0.48	-	-
Military expenditure	% of GDP	0.0	0.0	0.0	-

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | International Monetary Fund (IMF), World Economic Outlook, October 2015 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2015.

7 | Organization of the Market and Competition

Market competition is consistently defined and implemented both macro-economically and micro-economically as property rights are respected, administered pricing is low, currencies are always traded and the legal system facilitates market competition. Even though a number of service subsectors that were previously state monopolies have been opened to competition, the state continues to be very present in certain service market segments. Opening up processes has been pursued in order to ensure development of conditions of effective competition. There are state-guaranteed rules for market competition meant to ensure equal opportunities for all market participants (Law 7472). Article 19 of the constitution grants foreigners the same rights and obligations extended to nationals. The economy has flourished in recent years on the basis of foreign domestic investment, whose inflows have increased at an impressive pace growing on average 13% per year during the last decade. According to the Organization for Economic Cooperation and Development (OECD), the legal regime for foreign investors in Costa Rica is more open than average. The World Bank's Doing Business Report 2015 shows it takes up to 24 days to start a new business, just at the world's average (23 days), though showing remarkable improvement compared to the 60 days of 2013. The country is ranked 118th out of 185 in the global index in this regard, and 83rd in the overall global index concerning the ease of doing business. Even though the informal sector is considered to be small in comparison to other Central and Latin American countries, figures from the National Statistics and Census Institute show it has increased from 36% to 45% between 2010 and 2013.

Market-based
competition

8

Comprehensive competition laws exist in Costa Rica, though they are enforced inconsistently. In addition to laws ensuring competition (Article 46 of the constitution; Law 7472), Costa Rica's National Commission for the Promotion of Competition (COPROCOM) is in charge of investigating and penalizing monopolistic practices or any other obstructions to the free functioning of the market. Public services are comprehensively regulated by the Regulatory Authority for Public Services (ARESEP), an entity in charge of supervising and overseeing the services delivered by both public and private providers. The state retains exclusive rights over alcohol distillation; importation, refinement and distribution of petroleum and its derivatives; and, in most cases, the operation of railroads, ports and airports. Even though concessions have begun to be offered to private companies, the regulatory framework has been subject to several changes and contracts have been plagued by difficulties. Other key economic sectors were long excluded from competition and maintained as legal state monopolies. A gradual opening to competition started in the 1980s within the banking sector, while the ratification of the Central America Free Trade Agreement (CAFTA) and the subsequent passage of its associated laws opened the insurance and telecommunications sectors in 2008. Some previous state monopolies were notably affected by CAFTA, though they still retain an important share of the market. For instance, the state insurance company holds 89% of the general insurance market share, while in telecommunications the state electricity company lost roughly 30% of its mobile market and 80% of its mobile broadband customers between 2010 and 2012. Complaints of anti-competitive practices within the insurance sector were investigated by antitrust authorities in 2014, who charged the state insurance company with a fine for discouraging potential competitors from entering into competition in that market. Liberalizing reforms in the electricity and telecommunications sectors continue, while antitrust and competition rules are enforced by the public comptroller known as the Superintendence of Telecommunications (SUTEL). The electricity sector remains under state control, though private generation is allowed up to 30% of the market share. The Chinchilla government desisted from continuing with the project of opening the electricity sector because of a lack of agreement among stakeholders, unions and interested parties. Meanwhile, the Solís government announced the creation of a commission that will take a year and a half to diagnose the problems of the country's energy sector.

Anti-monopoly
policy
8

Costa Rica has continued liberalizing its foreign trade regime, mainly through participation in preferential trade agreements, while at the same time maintaining a proactive policy of attracting investment. The country can be considered widely liberalized, with a trade-to-GDP ratio of 74% (2013) and an average weighted tariff of 3.1% (2010), which implies a strong dependence on international transactions within the country's economy. In its Index of Economic Freedom 2015, the Heritage Foundation reports that the trade-weighted average tariff rate is low, as there are relatively few non-tariff barriers and the government has upgraded its customs procedures. However, the country did recently expose itself to sanctions from the

Liberalization of
foreign trade
10

World Trade Organization (WTO) by exceeding its cap on agricultural subsidies on rice for several years. As a founding member of the WTO, the country has been an active participant in multilateral trade system, including the Doha round trade negotiations. To date, the country has signed free trade agreements with the United States, Dominican Republic and Central America (CAFTA), the Caribbean Community of Nations (CARICOM), Canada, Chile, Mexico, Panama, China, Singapore and Colombia. The European Union and Central America concluded a new association agreement in 2012, with a trade agreement being provisionally applied in 2013. Relationships with China continue to facilitate exports and promote tourism following the approval of a free trade agreement (in place since 2011). Discussions over future Chinese investments in strategic sectors, such as oil refining and tax-free industrial zones, were discussed in 2015 during a meeting between leaders of the two countries. Efforts have been directed towards entering the Trans-Pacific Partnership (TPP), which Costa Rica is one of several countries that has expressed interest in joining. The country is dedicated to the pursuit of international trade and is aided in its efforts by two state entities, the Ministry of Foreign Trade (COMEX) and the Promoter of Foreign Trade (PROCOMER), as well as the private export promotion office (CINDE).

The banking sector in Costa Rica continues to be dominated by state banks, which own approximately 65% of total banking assets. Costa Rica's banking system is solid and administered according to international standards that include prudent supervision and capital adequacy requirements. All intermediaries must be registered and unregulated players are currently rare, though they were a problem in the past. There are strict disclosure rules and information on market participants is available to the public. Capital adequacy ratios have normally ranged between 10% to 14%, reaching 14.8% in 2013, thus surpassing the minimum Basel standards (8%). While the economic deceleration did affect the payment capacity of borrowers, causing a slight uptick in arrears since 2009 and continuing through 2013 (where nonperforming loans reached 1.7% of the total loan portfolio), the effect was still below the international non-performing loan benchmark of 3%. The financial sector regulator (SUGEF) anticipated and successfully managed the effects of the global financial crisis 2007-2008. In its Index of Economic Freedom 2015, the Heritage Foundation reports that the growing financial sector has gradually become more open to competition, though state-owned banks continue to dominate the sector and capital markets are not fully developed. Twelve private banks follow state banks in importance, including foreign-owned entities, while the rest of the sector is made up of financial companies, financial cooperatives and two special banks. Despite advances in cautious regulation, the financial system suffers from high credit spreads and the difference in yield between public and private bonds of the same maturity, a sign of inefficiency. The financial depth of the system (measured as the ratio of loans to GDP: 56.5% in 2013) is relatively high for regional standards and has grown considerably in recent years (up from 43% in 2005). A number of reforms were

Banking system

8

introduced to discourage offshore banking operations and to improve the supervision of the banking sector that is based on risk.

8 | Currency and Price Stability

Monetary policy has been directed towards consolidating the low inflation rates maintained since 2009, while exchange-rate policy has been based on the exchange-rate band system. In 2013, inflation scored 3.7%. This was the lowest level in decades, marking five consecutive years of unprecedented single-digit inflation. Price stability was a result of low inflationary expectations, improved by exchange rate stability. Since the crawling band system was adopted in 2006 by the central bank, the alignment of expectations has improved, though it took several years. During 2013, the exchange rate fluctuated around the lower limit of the band with minor volatility. However, this stimulated a shift towards lines of credits in U.S. dollars and strong capital inflows that led to currency appreciation. The central bank intervened in order to defend the band floor from affecting trading on the foreign currency exchange market (Monex), initiating a new period of volatility and almost certainly increasing prices. In 2014, the foreign exchange rate detached from the lower limit of the band and sped the devaluation of the colón, with strong daily oscillations. The situation is also explained by a convergence of international factors beyond the bank's control.

In macroeconomic terms, the economy experienced deceleration in 2013, reducing its annual rate of GDP growth from an average 4.9% in the last three years to 3.5%, though this is still satisfactory thanks to the strong performance of domestic demand. Monetary policy has been consistent in controlling inflation and exchange rate policies. Exports suffered an important drop, growing only by 3.6% compared to a growth of 9.5% in 2012. A context of low external demand and currency appreciation for most of the year contributed to these results. The most dynamic activity was tourism, which roughly doubled its expansion rate. The withdrawal of Intel from Costa Rica is beginning to generate a heavy blow on export figures. A continued current account deficit of nearly 5% of GDP in 2013 was experienced as the volume of imports grew by 4.1%.

Though Costa Rica managed to weather the global economic downturn in 2009 by expanding public spending while maintaining financial stability, the country's fiscal position has deteriorated since then. Fiscal consolidation is therefore a major concern for its macroeconomic stability. Governmental budgetary estimates placed the deficit at 5.4% of GDP in 2013. A containment policy avoided accelerating growth rates of primary expenditure, though did not reduce it. In addition, Costa Rica maintains a number of other tax and financial incentive programs to stimulate various productive and social activities. Without new revenues and given the rigidity of government spending, growing expenditures also impacted public debt levels, which increased

Anti-inflation /
forex policy

9

Macrostability

8

from 35% of GDP in 2012 to 36% in 2013. Maintaining these imbalances not only put macrostability at risk, but also the capacity to introduce more opportunities for the population.

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 processes and with adequate compensation. The Costa Rican government employs measures to protect the properties of its citizens and foreign investors. Its constitution includes laws on private land tenure. The government minimizes ownership restrictions on private land to promote its use for tourism and commercial purposes. According to the Heritage Foundation's 2015 assessment of property rights, contracts are generally upheld and investments are secure in the country, though the judicial system is slow and resolving a contract-related legal dispute is quite complicated. According to the International Intellectual Property Alliance (IIPA), enforcement efforts are missing and copyright piracy remains at unacceptable levels in Costa Rica.

Property rights
9

Private companies are viewed as primary engines of economic production and are given appropriate legal safeguards, backed by the constitution. However, privatization processes of basic service companies have been disallowed. Liberalization has been a gradual process over the course of Costa Rican history. The ratification of the Central America Free Trade Agreement (CAFTA) in 2007 and the implementation of its complementary laws opened most sectors to competition, though not through privatization. This means that state enterprises will compete alongside private companies in telecommunications, insurance and banking, among other areas. In most cases, the effects of this aperture have ended with state enterprises continuing to stand as important players and created positive impacts on economic growth. Government consumption represents 17.9% share of GDP. At the same time, it is estimated that opening the telecommunications market increased the share of total foreign domestic investment inflows from 8% in 2002 to 40% in 2012. The state also has the ability to contract public services to private concessionaries, as has been done in the context of certain large-scale infrastructure projects such as airports, ports and roadways. Apart from not being privatized as such, market openings and concessions largely comply with market principles. However, civil society groups have repeatedly staged protests against corruption cases within concession contracts; for example, delays and influence-trafficking investigations ended with the cancellation of Brazilian company OAS's roadway concession in 2013. Other alternatives for facilitating investments are still underrated, including strengthening partnerships between government, universities, R&D and private sector.

Private enterprise
9

10 | Welfare Regime

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). Universal programs represent the largest share of public spending (57%), followed by contributive programs (20%) and selective programs (11.5%), which are growing very quickly. Universal programs in health and pensions are managed by the Department of Social Security (CCSS), which is funded mostly through tripartite payroll contributions complemented by government transfers. Investment in universal programs just recovered the per capita levels from 2010. The coverage of universal services is high; about 70% of the economically active population are covered by health and pension plans, with most of the remaining population covered as dependants and/or beneficiaries of selective programs.

Despite this, social investment has been insufficient to counter an increase in overall income inequality, there is no unemployment insurance – though the law requires employers to pay up to eight months of severance pay to dismissed employees – and there is still a significant portion of the most vulnerable population that is not covered by the programs ostensibly targeted toward them. Workers without any compensation for social risks (14.5% without health insurance from CCSS) work in agriculture, construction, trade and domestic cleaning.

The financial problems of the CCSS persist, but at least investment in health is no longer diminishing. A source of concern is the continued expansion of the investment trust to cover funding for accidents, old age and death pensions (IVM), which affects financial sustainability. Selective social programs are progressive and effective in targeting groups, although there is room for improvement. According to the policy think tank Programa Estado de la Nación 2014, conditional cash transfers reduced the inequality levels of targeted groups by 1.4 percentage points, according to the Gini coefficient. Still, it is estimated that 25% of the program's resources do not reach the targeted group, mainly those in the middle range.

Costa Rican institutions make an effort to maintain historical achievements in human development and provide equal opportunity, though progress is slow. Inequality of income distribution reached historical levels in 2013 (0.524 measured by the Gini coefficient), revealing that the benefits of economic growth have been concentrated among the wealthiest groups, while the situation of the poorest population sectors has deteriorated. Access to health is broad, with a consistent quality of service provided across socioeconomic levels and geographic areas. Access to education, while improving, is still far from universal. The average level of schooling achieved within the population between 18 and 64 years of age is 9.4 years, with only 40% of the

Social safety nets
8

Equal opportunity
7

population having completed a secondary-level education. These indicators worsen with people living in poverty.

Women and members of ethnic or other minority groups have equal access to education, health and other services. Significant progress has been made in terms of female participation rates within the labor force (36.5%) and female representation in politics (33% of legislative seats in the 2014 elections). Despite the established norm of a minimum of 40% female representation in politically elected seats, this figure has suffered a reduction in comparison to the 2010 elections (39%) due to technical differences between vertical parity (within the lists) and horizontal parity (among the lists in different provinces). However, parity is still elusive and women still confront various forms of social exclusion. Female-headed households were identified as the most susceptible to poverty (40%). Similarly, a greater breach within labor contracts affects the extremely poor, youth, immigrants and disabled people to a larger extent.

11 | Economic Performance

Considering the macroeconomic data, economic performance is relatively positive. However, drawbacks in export competitiveness, unemployment and a tendency towards debt offset output strength. In a context of slow recovery from the 2009 economic crisis, the Costa Rican economy grew by 3.5% during 2013, well below previous levels (5% in 2010, 4.5% in 2011 and 5.1% in 2012).

This economic slowdown not only had negative impacts on the labor market and the ability to reduce poverty, but also on competitiveness and social welfare. A moderate unemployment rate (8.5%) is the highest in the last 15 years. Export competitiveness in terms of the proportion of products that enter dynamic markets, excluding microchips and integrated circuits, decreased from 79% to 42% in the 2007-2012 period. Moreover, a moderate and volatile GDP growth has been coupled with a gradual increase of factor payments made to foreign citizens from capital invested in the country.

The country's debt and cash deficit have continued to grow. The gap between government spending and revenues (including interest payments) reached 5.4% of the GDP in 2013, while public debt reached nearly 36% of the GDP. The main reason was a permanent increase in spending as result of the expansion occurring between 2006 and 2010. Besides, tax revenue fell from 13.4% of the GDP in 2010 to 13.3% of GDP in 2013, as a result of economic contraction. Monetary and exchange rate stability is improving within a context of low inflation (3.7%), though Costa Rica is an expensive country compared to the Latin American average in terms of GDP (PPP) per capita.

Output strength
8

12 | Sustainability

Costa Rica has great environmental strengths that are part of its international image as a responsible and innovative nation in environmental matters. However, the country is slow and lagging in implementing transformations in the management of environmental institutions. Conservation continues to be the greatest strength of the country, which includes preserving more than 26% of its territory under protected status. Meanwhile, the country continues to be unsustainable in the use of natural resources from the perspective of its carbon footprint, water management record, and the sustainability of its economic practices. Raising awareness about these matters occurred when the release of the 2014 Environmental Performance Index ranked Costa Rica 54th among 178 countries, after holding the fifth position in 2012. As the policy think tank Programa Estado de la Nación notes, methodological changes increasing the number of indicators might explain such a significant drawback in a short period of time, nevertheless a shocking warning.

Despite the expansion in forest coverage from 51.4% of the territory in 2005 to 52.4% in 2013, continued patterns of energy consumption based on highly contaminating hydrocarbons result in greenhouse gas emissions that outpace the country's absorption capacity. Nevertheless, the Ministry of Environment declared in 2014 that Costa Rica is within 19% of its goal of becoming carbon neutral by 2021. To make this even more difficult, the use of fossil fuel sources for electricity production increased 44% between 2012 and 2013, triggered by a reaction to dependence on hydroelectricity, which has been vulnerable to changing weather patterns in recent years. In addition, the country continues to provide little attention to its lack of wastewater management. Political controversy remains concerning Environmental policy in 2013. The policy think tank Programa Estado de la Nación remarks that in the last decade, environmental motivations for social protest grew from 1.8% (as a share of all cited reasons for protest) to 7%, reaching the highest level in the last four years.

Education is a key component of social policy, with preschool and general basic education (until the ninth grade) obligatory, universal and free, and public budget for education at all levels constitutionally mandated at a minimum of 6% of GDP (Article 78). As a result, literacy rates exceed 97% within the population aged 15 years and over, and there is a complex institutional network devoted to education at primary, secondary and tertiary levels. While universal coverage has been achieved at primary level, only 85% of the eligible population (ages 13 to 17) is enrolled at the secondary level, and dropout rates are close to 9.3% (2014). These are improvements from 2012 (83.9% and 10.2%, respectively), which demonstrate a positive response to a conditional cash transfer program (Avancemos) designed to keep students in high school. Recent administrations have also increased spending in education in

Environmental
policy
7

Education policy /
R&D
7

monetary terms and as a percentage of the GDP, approaching 7.3% in 2013. During the same year, the population had an average of 9.4 years of completed education, slightly higher than the level in 2011 (8.9 years), but just 1.6 years more than in 1993. The percentage of the population that is economically active with complete secondary education reached 44% in 2013, a positive result compared to 28% in 1993, but insufficient for a country that focuses on the development of technology and productivity. Moreover, investment in research and development remains low, barely 0.5% of GDP. The Economic Commission for Latin America (ECLA) recommended that Costa Rica increase investment in innovation from the private sector and spending from the public sector, redirecting existing resources from other ministries to the promotion of R&D programs.

Transformation Management

I. Level of Difficulty

Stagnant poverty rates and deterioration in basic and social infrastructure and services are the main structural constraints on governance capacities. Though still remaining moderate, their persistence is troublesome, affecting the governance capacity of political leaders. Costa Rica suffers an impasse in poverty levels, as the 20% figure has been stagnant for over 20 years, regardless of increased social spending and new redistributive social policies. Furthermore, the deterioration in education, social security and infrastructure are also producing social fragmentation and increase the level of difficulty for governance. Although the country has taken a stand concerning the quality of primary education, it has an accumulated deficit in secondary school infrastructure and there are existing gaps between the education being offered, scientific and cultural development, and the demands of the labor market. Moreover, an aging population and chronic degenerative diseases affecting the population segment without adequate health care are putting pressure on the need to increase coverage and the quality of universal health and pension programs managed by the Social Security Institute (CCSS). One of the greatest challenges the country faces is the maintenance and modernization of large-scale infrastructure projects such as airports, ports and roadways. Investments in this area have not kept pace with economic growth, while effective and independent audits of public infrastructure have failed repeatedly, generating substantial delays to users and high financial costs assumed by the state.

Structural
constraints
4

Costa Rica has a plurality of community, labor, business, cultural, religious and recreational associations. The participation of persons in these civil society organizations is not based on intimidation, legally sanctioned corporatism or political clientelism. There are about 19,500 civic associations, 243 unions, 725 cooperatives, close to 1,300 solidarist associations, and more than 3,300 community development associations registered in the country (as of 2011). However, an undetermined number of these organizations operate informally, without being registered by the corresponding public institutions and there are no precise records regarding the number of affiliates. Social organizations reveal important sub-national differences, as community and producer associations predominate in rural counties, whereas labor unions and solidarist associations are concentrated in urban centers and banana-

Civil society
traditions
2

producing areas. There is a high level of trust among citizens. According to the 2012 Latin American Public Opinion Project (LAPOP) survey, nearly 75% Costa Ricans believe that they can trust other members of their community, ranking among the highest levels of interpersonal trust in the Americas.

There are no violent conflicts based upon social, ethnic or religious differences. There is great public scrutiny of public institutions. Society demands more and better explanations from democratic institutions, provoking political deliberation and strengthening social control over the state. Social tensions and economic policy issues have been expressed through a larger than average amount of protest in the past two decades. During the Chinchilla-Miranda presidential period (2010-2014), there were 888 street protests, surpassing the 500 mark only for the second time in history. On average, a third of collective actions corresponded to street protests. Police repression, including the use of force and tear gas to disperse crowds, was reported in few cases. The high level of mobilization proves that different sectors and societal groups (such as unions of public employees and educators, university sectors and transportation associations) prefer supporting collective action in order to be heard by politicians, rather than employing institutional mechanisms. Their demands continue to be diversified, including calls to improve the health, education and infrastructure sectors.

Conflict intensity

1

II. Management Performance

14 | Steering Capability

The government sets and maintains strategic priorities. However, it encounters obstacles. The political agenda of the presidency is defined at the beginning of each administration through a binding national development plan (Plan Nacional de Desarrollo) that contains detailed goals and objectives for all government institutions, divided according to sectors and regions. Strategic priorities have been aligned with an effort to improve the institutions of democracy and a socially inclusive market economy. On a longer-term perspective, the central pillars of the plan are set on emphasizing social well-being, sustainable development, and competitiveness and innovation. Public security and the fight against corruption have been incorporated in the political agenda in response to emerging threats.

In terms of concrete policies, at the beginning of the Chinchilla administration (2010-2014) the government indicated that it would prioritize fiscal reform and citizen security. In terms of expenditure, infrastructure development and anti-poverty efforts were the main priorities on the national agenda. However, particularly after a tax

Question

Score

Prioritization

9

reform bill was dismissed in 2012 by the Constitutional Court due to procedural errors, these priorities were superseded by measures aimed at containing the country's growing fiscal deficit. Although postponing important social and infrastructural investments does carry some risk, the government has shown a certain political capacity for longer-term action beyond immediate or electoral concerns. This has been demonstrated in the areas of public security and the mobilization of foreign investment. However, the effectiveness of implementing projects begun under previous administration contrasts with the government's capacity to prioritize and organize its own policy measures. These tasks are a challenge for the government of Luis Guillermo Solís and a matter of particular urgency, given the mounting deficit. However, given the government's weak position in Congress, efforts to approve significant reforms, including fiscal ones, will encounter difficulties.

Despite government capacity to set and maintain strategic priorities, room for implementation is quite limited. First, the main fiscal and debt metrics remain, as the country has been unable to bring its deficit back to pre-2009 levels, and second, it is highly unlikely that the economy will grow again at previous rates (from 2003-2007) in the next five years, which would allow for increases in fiscal revenues. The country has a rigid budgetary system in which 79% of total expenditures are committed to covering constitutional and legal obligations. Adding to these obligations are debt service, wages and transfers that must be paid. Together, they absorb 95% of the total expenditures. Hence, only a 5.2% margin is left for implementing the government's own policies. According to the policy think tank Programa Estado de la Nación, this situation ranks Costa Rica as the country with most inflexible spending among the group of high human development nations in Latin America.

However, budgetary constraints are only part of the cause for delays and problems in various areas of governance during the period under review. Within the public works sector, for example, particularly infrastructure, there is budget underutilization and limited capacity on behalf of project implementation units, deficiencies in environmental regulations, and additional managerial limitations regarding the application of concession and expropriation laws. All are highly relevant to tackling the country's crumbling infrastructure and issues associated with competitiveness and growth.

The executive also confronts policy problems related to budgetary control of autonomous institutions, which often split from the government's general guidelines. The Comptroller General formulates the guidelines and rules of the corresponding institutions' budgetary policy for further approval by the executive. However, since 2001, many relevant institutions including social security (CCSS), electricity and telecommunications (ICE) and public universities have been excluded from its competences. In this way, the executive lost a relevant mechanism for commanding and controlling the financing aspects of these institutions.

Implementation

7

By the same token, during the 2013-2014 period, the Chinchilla administration managed to have 71% of its proposed legislation approved, different from previous periods when most approved legislation originated under earlier administrations, mainly in the Arias-Sanchez period. Policies approved included legislation to facilitate access to housing for young people and the middle classes, legislation to institutionalize the continuity of programs targeting vulnerable populations, such as the National Network for Child Care and Development (Red de Cuido), and regulations for biomedical research and a narcotics law. While more laws were passed than by previous administrations, some did not respond to national priorities, or lacked provisions for adequate funding. These various elements contributed to shortcomings in the implementation of the government's electoral platform, as well as in its long-term development strategy. Among the demands unattended to by the Chinchilla administration was tax reform, which has become a major challenge for the incoming government. The Solís administration aimed to introduce new revenue measures by early 2015, though successful implementation will be difficult, and the impact on the fiscal deficit insufficient to tackle the debt burden. Therefore, the introduction of only gradual fiscal reforms is expected.

In developing policy responses, the government has usually relied on good practices, international cooperation and expert advice. However, in other areas of governance, the government has demonstrated limited flexibility and an inconsistent learning process. An example of this behavior is the gap between the enactment of programs containing expenditures and the creation of revenue sources to fund them. This is particularly important for Costa Rica because in recent years the country has been unable to replace failed policies, such as the fiscal reform, with innovative ones. As pointed out by the policy think tank Programa Estado de la Nación, the systematic decoupling of the state's obligations from their fulfillment is one of the main explanations for citizens' discontent. However, there is a tendency to approve legislation expanding state competences without new resources to make them effective. Such is the case for the constitutional reform that increases the minimum expenditure on education from 7% to 8% of the GDP as of 2014, or the mandate to transfer at least 7% of income tax revenue to the Costa Rican child welfare authority (PANI), despite lacking the corresponding fiscal basis to fulfill it. The situation is aggravated by the current scenario of restricting public expenditure due to fiscal deficit. Increasing state competences should be hand-in-hand with an economic foundation for their correct implementation.

Policy learning

7

15 | Resource Efficiency

Highly complex administrative structures stand in the way of efficient government use of human and financial resources. The public sector is made up of more than 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. This complicates efficient coordination, management and control. Politicians and opinion leaders have repeatedly called for state organizational reform, but it has been elusive. While municipalities manage increasing levels of resources, they continue to be dependent on authorizations from the national legislature and more often than not lack executive capacity. While the country has a long-established civil service (created in 1951), it does not encompass all public sector employees and its effectiveness varies across areas. In some cases, it provides for merit-based professionalism, while in others it is a source of rigidity and constraint. Given the practical impossibility of firing a civil service employee, many entities have devised ways to hire around it, creating enclaves of variant dynamism within the state. According to the Inter-American Bank, by the year 2013 Costa Rica was in the group of Latin American countries with a medium level of civil service development. At the same time, Costa Rica's weak and rigid budgetary system situates it as the most inflexible budget in the region. Despite the fact that the Costa Rican state is short of funds, it collects most of its income from taxes and fees. However, low deviation of actual budget expenditures from the planned budget ends up being at the expense of public investment. Budget planning and implementation are transparent, but effective auditing fails, particularly since public investment implementation is affected by delays and corruption.

While the government can assemble diverse objectives into coherent policy, it does not always do so, especially since the state apparatus is too unwieldy to allow for simple implementation. Salient examples are provided by economic development and environmental policies. In the 2011-2013 period, there were some concrete actions to coordinate and integrate the public sector with regards to climate change actions. These include the creation of an inter-ministerial council and a technical inter-ministerial committee working on the definition of concrete measures to mitigate climate change effects, later incorporated in the 2015-2018 National Development Plan. However, there are other strategic areas where institutional coordination must be improved, such as among the diverse areas that shape Costa Rican foreign policy or in the promotion of territorial planning and rural development. For this to happen, the Institute of Rural Development (INDER) has to coordinate with other institutions that work on a regional level, including the Electricity and Telecommunications Institute (ICE), the Transport and Public Works Ministry and the Ministry of Planning, as well as with the rural development councils and other civil society organizations. According to the policy think tank Programa Estado de la Nación, these coordination problems stem from the inherent weaknesses of decision-making

Efficient use of assets

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Policy coordination

7

mechanisms within a very complex legal and administrative structure that involves multiple organizations with overlapping jurisdictions and redundant functions. While there are institutional mechanisms such as the Ministry of the Presidency designed to facilitate coordination with the legislature, it is at this level where the harmonization of conflicting objectives has been most elusive. Increased party fragmentation and polarization also make programmatic differences between government and the opposition more likely, which further undermine policy coordination among ministries and agencies.

Costa Rica has laws, regulations and penalties to combat corruption, though the availability of resources required to enforce those laws has been limited. The country has also ratified the Inter-American Convention Against Corruption and the U.N. Convention Against Corruption, which obligate subscribing nations to implement criminal sanctions for corruption. The Attorney General, State Litigator, Ombudsman's Office, and Organization of Judicial Investigation (OIJ) work in conjunction with each other in an effort to combat corruption. The Comptroller General exercises strict financial and administrative control over the multiple organizations under its purview, as it is responsible for approving or rejecting public contracts, auditing results, and detecting instances of corruption. In addition, most entities have internal auditors who closely monitor their entities' spending. On a citizen level, the Constitutional Court has empowered individuals to contest administrative action (or inaction) in every aspect of public service covered by the constitution.

According to the Costa Rican Criminal Code, public officials convicted of receiving bribes are subject to prison sentences of up to 10 years. Bribery scandals have been exposed due to the coupled participation of mechanisms and agencies willing and able to investigate and uncover acts of corruption, together with an assertive media that is no longer timid about publishing stories linking public officials to corrupt acts. Despite the trial and conviction of high-ranking politicians, public institution officials and corporations, other important cases have been left unresolved as the institutions that monitor and control accounts of corruption continue to suffer from inadequate human and financial resources to attend to an ever-increasing and complex workload which demands costly legal research. There is a generalized perception among citizens that public officials are corrupt. The 2013 Latin America Public Opinion survey reported that more respondents than previously identified corruption as the most important problem (20%), surpassing even crime and unemployment.

In regards to the regulation of party financing, the Supreme Electoral Tribunal is responsible for auditing political parties' financing and holds them responsible for receiving illegal contributions and for accepting donations from individuals that exceed the legal limit; they must file monthly income reports during electoral periods and quarterly reports during non-electoral periods. The 2009 Electoral Code improved the sanctions regime by providing penal provisions a wider scope, which complements the establishment of fines that the electoral body can impose.

Anti-corruption
policy
8

16 | Consensus-Building

All major political actors agree on the goal of maintaining Costa Rica's longstanding and nearly consolidated democracy. Nevertheless, there is some deterioration in the general public's opinion. The Latinobarometro survey demonstrated a reduced level of support for democracy (from 65% in 2011 to 53% in 2013). Public dissatisfaction with social and political policies has become more evident in recent years, manifesting in a variety of ways including an increasing number of public demonstrations, politicians' low popularity ratings and political fragmentation. Demands reveal disagreement with specific policies and public administration failures, as well as social disparity, rather than a broader questioning of democracy or general development and transformation goals.

Consensus on goals
10

All major political actors also agree on the goal of consolidating a market economy with significant social safeguards, and political dispute is merely concerning the "right" politics to achieve these goals. As with democracy, however, the Latinobarometro survey registered a hesitant approval of the market economy as the only system for development (falling from 59% to 57% between 2011 and 2013). Market-based competition has historically been contested by various organizations and unions, especially in the electricity and telecommunications sectors. These groups accuse the public comptroller of favoring transnational corporate interests, but their power has been reduced as compared to other actors.

There are no anti-democratic veto actors with anti-democratic interests, such as the military or influential economic actors. Some social movements oppose reform through extra-parliamentary and sometimes contentious means, but not with anti-democratic intent.

Anti-democratic
actors
10

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 and those who are disillusioned with existing political institutions. Issues such as alleged corruption cases, same-sex marriage, concessions to private companies, the informal transportation sector and education-sector wages also generate conflict. Social protests of greater intensity have raised new challenges to the institutional framework, which has had difficulties in managing conflicts and responding to the demands of the population. However, their resolution has been kept within institutional boundaries. There is no party or movement seeking to depose the state. Cleavage-based conflict is prevented by the political leadership's ability to establish as broad a consensus as possible across dividing lines. For example, it does this by addressing the most urgent popular demands, while also incorporating the concerns of the private sector. Indeed, the center-left ruling party is doing the same. All rights, including human rights, are recognized throughout the country.

Cleavage /
conflict
management
8

The political leadership enables civil society participation in a large number of areas and assigns an important role to many civil society actors in public discussions, but also shows a tendency to engage in top-down agenda setting and policy formulation. Enabling civil society is further impeded by a low level of citizen participation in any form of organization, thus undermining their legitimacy. While there are a considerable number of civic organizations, the degree to which individuals engage with those organizations does not appear to be overwhelming, at least according to opinion polls and in regional comparison.

Nevertheless, different spaces for and forms of civil society participation have been formally created or have emerged through informal channels. When new laws are enacted or existing laws reformed, it is typical for the organized representatives of sectors affected by the laws to be given space to voice their concerns before legislative committees. Some government policies, like those governing minimum wages and salary increases, for example, are decided in consultation with the organized representatives of workers or employers. There are also examples of participatory policy-making at the local level, such as the formulation of County Plans for Local Human Development, the constitution of citizen audits and some exercising of participative budgets.

However, social movements that have emerged to oppose government policies in the areas of electric power generation, telecommunications, trade, mining and public works have received less attention by the government. Though the Chinchilla administration met with members of some of these groups and listened to their views and interests, the president did not always take them into account. In sum, there are many areas where civil society participation could be enhanced, including incorporating civil society into the assessment of the social and environmental impacts of projects in the planning and development of zoning regulations.

The victory of the Citizen Action Party (PAC) is a result of this amalgamation of civil society demands, and President Solís tries to enhance citizen participation.

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

Civil society participation
8

Reconciliation
n/a

17 | International Cooperation

In accordance with the principles of effective cooperation based on the OECD Paris Declaration (2005), the Accra Agenda for Action (2008), and the Monterrey Consensus (2002), Costa Rica makes good use of international support for its own development agenda. This agenda, defined in the National Development Plan 2015-2018, harmonizes midterm actions with long-term orientation towards economic growth and employment, poverty and inequality reduction together with environmental sustainability, and pursues the achievement of the U.N. Millennium Development Goals. The 2010-2013 period also witnessed 90% of the resources from international cooperation partners concentrated in four priority sectors: environment and energy (48.1%); public construction and transportation (21.7%); finances, economy, and industry (13.9%); and health and social development (6.2%). As pointed out by the Ministry of Planning, there is still room for improvement, especially with regards to implementing a higher percentage of international cooperation projects with less developed peripheral regions.

Effective use of support

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Costa Rica, like most Latin American countries, has been affected by declining levels of official development assistance. In response to this situation, the country continues to explore alternative frameworks, such as South-South cooperation and triangular cooperation, exchanging successful experiences and good practices among countries of similar or lower relative development or in partnership with developed countries. Currently, the country has South-South cooperation programs with Latin American countries like Mexico, Argentina, Chile, Uruguay, Peru and Colombia, as well as triangular cooperation projects with Spain and Germany. More than financial resources, these new modes of cooperation provide invaluable benefits in terms of opportunities to learn from international know-how and experience exchange among countries. However, Costa Rica does not yet manage a fund for South-South cooperation that would leverage actions and technical cooperation projects among developing countries. Moreover, other sources of development cooperation have been gaining traction. Traditionally, multilateral cooperation has been more dominant than bilateral cooperation, though the latter has come closer to the former during the 2010-2013 period, to a great extent due to increased relations with China.

Costa Rica has traditionally exerted an outsized international influence with regard to its physical and economic power. During 2013 and 2014, Costa Rica remained engaged in the promotion of human rights, peace and democracy at international forums. Together with trade and sustainable development, these issues also dominated the agendas of diplomatic missions abroad. In this period, the country stood as a leader in the Central American region by actively managing presidential visits from three strategic trading and political partners. Bilaterally, Costa Rica has prioritized approaching strategic partners to increase cooperation on infrastructure,

Credibility

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education and technology. As a central axis of its foreign policy, Costa Rica further promoted its incorporation in the Organization for Economic Cooperation and Development (OECD) and its full membership in the Pacific Alliance.

Overall, international cooperation resources (reimbursable and non-reimbursable) reached a historical level during the 2010-2013 periods (\$4,940 million), most corresponding to external loans. The government has achieved a level of confidence in attaining its reform policies with the international community. However, the country received an investment downgrade rating by Moody's in 2014 in response to institutional failures in addressing Costa Rica's growing fiscal deficits and debt. According to Moody's, the new Solís administration, which took office in May of this year, has indicated it will only gradually introduce fiscal consolidation.

Costa Rica belongs to and supports regional and international integration organizations. The country is an active participant in the Central American Integration System (SICA) and, as a signatory of the Central America Free Trade Agreement (CAFTA), is notably active in the Central American Secretariat for Economic Integration. Political leadership is also engaged in different initiatives to build and expand cooperation relationships and ties with regional neighbors. Most recently, Costa Rica served as president pro tempore of CELAC, the Community of Latin American and Caribbean States, and San José hosted CELAC's 2015 Summit, which focused on fighting extreme poverty in Latin America. In addition to multilateral efforts, the country makes use of bilateral instruments to handle relations with Panama and Nicaragua, such as the Cross-Border Cooperation Agreement between Costa Rica and Panama to unite efforts against organized crime and poverty. There is no such agreement between Costa Rica and Nicaragua, though there are several bilateral commissions to promote cross-border development. Moreover, together with the rest of SICA countries, the Central American Strategy for Rural Territorial Development (ECADERT) was launched in 2010, aiming to create opportunities for and to strengthen the capacities of rural populations, and to transform their living conditions.

Efforts to strengthen ties with the rest of Central America have been obstructed by the incursion of Nicaraguan troops along the northern border in 2010. Subsequent to this event, relationships with this country have been marked by disputes before the International Court of Justice in The Hague. Far from decreasing, tension between the two countries has intensified due to environmental impacts caused by the dredging of the San Juan River by the Nicaraguan government, its interest in redefining territorial and maritime boundaries, and Nicaraguan President Daniel Ortega mentioning the possibility of disputing the territories of the Costa Rican province of Guanacaste. Lacking an army, Costa Rica is dependent on diplomacy to foster amicable relations with its neighbors. However, these issues have generated ample debate on how to confront what Costa Ricans consider an aggressive neighbor.

Regional
cooperation
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Strategic Outlook

Costa Rica must tackle its structural limitations in terms of transformation capacity. If the country wants to maintain and deepen its significant accomplishments in the economic, social and political realms, it will require a set of political measures to counteract inequality, create jobs and introduce administrative reforms aimed at enhancing implementation capacity. During the period under review (2013-2015), the country's economy was managed so as to sustain macroeconomic balances in terms of economic growth and low inflation, although at the expense of opportunity, stability and solvency. Income distribution has reached historical levels of inequality (0.524, according to the Gini coefficient), increasing governance constraints and social unrest. To counteract the widening gap between rich and poor requires a new set of policies, including increasing investment in infrastructure, education and social programs, as well as promoting high-tech innovation and establishing a flexible regulatory framework for investments.

Moreover, the Solís government, which came to power pledging to boost competitiveness, create jobs and attract investment, must also bring years of rising fiscal deficit under control. In 2014, the central government's deficit reached the highest level in the past 10 years (5.4% of GDP), limiting its capacity to make urgently necessary social investments. In a scenario without fiscal reform, the central government's deficit and the overall public debt are projected to reach 8% and 58% of GDP, respectively, by 2019. One solution would be to raise taxes; however, various unsuccessful attempts to pass fiscal reform over the last decade have faced congressional gridlock and adverse constitutional court rulings.

The new composition of the legislative assembly is more fragmented than in the past, complicating the approval of any tax reform. So, while enjoying the benefit of electoral support for its president, the incoming government still needs several partners in parliament to secure majorities, something extremely difficult to envisage under the present constellation of seats.

What is becoming evident is that the simplistic approach of previous administrations to economic growth, macroeconomic stability, and opening up to international markets was insufficient to generate human development and an acceptable distribution of wealth. The weakening of the external sector, together with the fiscal crisis, force the introduction of profound modifications to economic development policies in order to foster progress. One urgently needed strategic policies is the maintenance and modernization of the country's infrastructure projects, such as airports, ports and roadways. Investments in these long-neglected areas have to keep pace with economic growth, and need to be implemented under more effective and independent scrutiny than in the past to ensure cost-effectiveness and competitiveness. In addition to concession contracts, other financial arrangements should be integrated to facilitate investments, including strengthening partnerships between government, universities, R&D and the private sector. Citizens' demands for participation must be considered in all policy strategies. It is necessary to formulate answers through a profound and inclusive dialogue in order to build more plural and balanced results, with the overriding objective of facilitating a more inclusive development style, reestablishing faith in public politics and institutions and practicing a more participative approach to a common future.