

# BTI 2014 | Costa Rica Country Report

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This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2014. It covers the period from 31 January 2011 to 31 January 2013. 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	0.773	GDP p.c.	\$	12945.9
Pop. growth <sup>1</sup>	% p.a.	1.4	HDI rank of 187	62	Gini Index		50.7
Life expectancy	years	79.5	UN Education Index	0.713	Poverty <sup>3</sup>	%	6.0
Urban population	%	65.1	Gender inequality <sup>2</sup>	0.346	Aid per capita	\$	7.0

Sources: The World Bank, World Development Indicators 2013 | UNDP, Human Development Report 2013. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

## Executive Summary

The period under review covers the first half of President Laura Chinchilla's four-year administration. After successfully confronting the challenges of the global financial crisis, the government took measures that yielded strong economic performance, despite the crisis in Europe. Following a referendum in 2007, Costa Rica continued the implementation of laws associated with the Central America Free Trade Agreement (CAFTA), which came into effect in 2009. These developments reaffirmed the strength of the country's political and economic institutions, evidencing its high level of transformative capacity, even though structural and circumstantial factors limited the country's ability to progress more rapidly.

Citizens' support for democracy was undermined somewhat by economic concerns and political disappointment. While identification with political parties is influenced by an early pre-campaigning period, trust in political parties remained weak. Indeed, according to a 2012 Latin American Public Opinion Project (LAPOP) survey, a lower share of citizens in Costa Rica than anywhere else in the Americas believe politicians and political parties are interested in what they think. Consequently, no clear pattern of consolidation emerged for the party system, which has been in a state of relative disarray since the 2002 elections.

Under the Oscar Arias administration, social spending was increased as a reaction to the global financial crisis, successfully attenuating its effects. However, this resulted in rising levels of public debt and a higher fiscal deficit has persisted into the Chinchilla administration. In 2010 – 2011 the government failed to balance its budget, and maintained a deficit in 2012. However, levels of public debt remain at a manageable level. As part of the CAFTA implementation process, the telecommunications and insurance sectors were opened to competition. This was an important transformational development given that these sectors were long held as state monopolies. Public and private entities today compete against one another in these markets, so the level of

transformation is now challenged by the relations between state, market and the competition regulator.

The overall pace of economic and political transformation in the country will continue to be limited by structural factors which remained unchanged in 2011 – 2012. Urgently needed reforms requested by political leaders and the public were taken up in 2013. These include improvements in public spending efficiency and an urgently needed tax reform, but very limited legislative progress had been made as of the time of writing. Other issues of public concern include attempts to slant the constitutionally granted balance of powers toward the executive branch, and efforts to influence public institutions motivated by economic and political interests. Poverty and inequality represent important sources of structural exclusion as well as a division of society that social policies and sustained levels of economic growth have been unable to reduce. While gradualist policymaking may be desirable to the degree that it encourages consensus building and moderation, recent incidents suggest that it may increasingly be hampering the amount and quality of policymaking. Future transformational capacities will therefore depend on the ability to improve upon some of these features.

## History and Characteristics of Transformation

During the first half of the 20th century, Costa Rica had a sporadically democratic polity marked by widespread poverty. After civil conflicts in 1948, a Constituent Assembly drafted and approved the 1949 constitution, entrusting the state with key democratic tasks such as the fulfillment of social and economic rights, while retaining important areas of the economy, such as banking, electricity and telecommunications, as state monopolies. The state was also given administration of health, education and housing issues, generating a network of autonomous institutions. The Supreme Tribunal of Elections was established and made responsible for organizing elections and counting votes. Since that time, the entire adult population has had the right to vote in quadrennial scheduled elections deemed free and fair, in which all political forces are able to compete for office. This constitutional model, which also abolished the army, has helped the country achieve high levels of human development, a balance between social and economic priorities, and a reduction in poverty and inequality.

In the last 60 years, disagreements between the legislative and executive powers 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 during 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. Trade liberalization was accompanied by strong market-opening strategies aimed at attracting foreign investment and promoting 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. The liberalization process was later intensified through the ratification of the Central American Free Trade Agreement (CAFTA), following the country's first-ever referendum in 2007. This agreement included a set of laws that called for competition within the telecommunication and insurance sectors, meaning that the state gave up its monopolies although its firms have remained competitive against the private sector.

A key judicial milestone was the establishment of a fourth constitutional chamber within the Supreme Court in 1989. The court's jurisdiction includes the protection of individual rights, the interpretation of the constitution and the settlement of disputes between branches of government. The exercise and protection of constitutionally guaranteed individual rights was enhanced when access to the court was broadened and made practically costless. Access was also facilitated by making it simpler to mount challenges to laws and statutes, effectively changing the institutional setting that had been in place since 1949. The court has become a decisive intermediary of political disputes, particularly as executive-legislative relations have become more quarrelsome and even gridlocked. It has also invaded the realm of administrative decision-making through its enforcement of individual rights and has become an important veto player in the legislative process.

In 2004, the country was struck by a number of corruption scandals involving political elites, including payback schemes involving multinational corporations that implicated three former presidents. This tarnished the reputation of traditional parties including the National Liberation Party (Partido Liberación Nacional, PLN) and the Social Christian Unity Party (Partido Unidad Social Cristiana, PUSC) and brought about the collapse of the longstanding two-party system. It also generated a widespread disenchantment with politics and politicians that has translated into lower rates of electoral participation and party identification. The higher levels of party fragmentation since this time have required the formation of legislative coalitions, but they have been unstable. However, political participation rates have partly recovered and support for democracy remains strong.

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

Costa Rica has so far managed to keep a lid on the security crisis largely attributed to the spread of international drug trafficking organizations (DTOs) throughout the Central American isthmus. The state's monopoly on the use of force has not been openly challenged. According to the World Health Organization (WHO), the country has maintained the lowest homicide rate among its Central American neighbors, with 10 homicides per 100,000 inhabitants in 2012. Nevertheless, this represents an increase from the 8 per 100,000 registered in 2005. The public has grown more concerned about security issues, with this issue now ranking second after economic worries in polls ranking the country's main problems. The current administration has increased the efficiency of anti-crime and anti-drugs efforts, largely due to the drug-control police (PCD).

Unresolved territorial disputes along Costa Rica's northern border with Nicaragua are also a source of national concern and international attention. Both countries have filed claims on the issue at the International Court of Justice in The Hague. The Costa Rican government's recent construction of a 130-kilometer road along its bank of the San Juan River and Nicaragua's proposal for the construction of an interocean canal have both exacerbated the tensions.

The broad majority of the population accepts the legitimacy of the nation-state, though some of its institutions, including the president, its government and the Legislative Assembly, command low levels of trust and popularity. The year 2011 saw the highest number of public protests and demonstrations in 17 years. Demands are diversifying, with some rooted in old problems such as indigenous land rights, while others are complaints about infrastructure quality, corruption or bill proposals. There is no party or movement seeking to depose the state. All rights, including the human rights of indigenous populations, are recognized throughout the country. Some policy challenges remain with respect to the recognition of native groups' land property rights, and the need to create conditions for these groups' participation in

Question  
Score

Monopoly on the  
use of force  
10

State identity  
10

the formulation, application and assessment of development plans that affect them directly. Residents of isolated and rural areas continue to show some social and economic disadvantages compared to their urban counterparts, though this has not led to protest outside the context of institutional mechanisms.

Although Article 75 of the constitution establishes Roman Catholicism as the state religion, the same article recognizes the freedom of religion. This has generated some tension within some sectors calling for the complete secularization of the state. Catholic archbishops have been advocates of key political issues, actively opposing gay marriage, in vitro fertilization and the teaching of contraception methods in sex education guides, among other issues. Nonetheless, the country has a long-established secular political order and state institutions have acted independently and often assertively against these views. In 2012, a bill granting civil union rights to same-sex couples was strongly opposed by two deputies from evangelical parties in congress on grounds of religious beliefs. Both parties were accused of violating the constitution, and a motion was filed before the Supreme Tribunal of Elections (TSE). The bill has been revived and reintroduced to the assembly, this time with support from President Laura Chinchilla, who wants congress to recognize civil union rights of same-sex couples. (After the end of the evaluation period, in July 2013 the Legislative Assembly “accidentally” approved same-sex unions; for more on this see the Independent’s article “Costa Rica: Congress ‘Accidentally’ Legalises Gay Marriage”).

No interference of religious dogmas  
10

The Costa Rican state is organized on a unitary basis with centralized national ministries, functionally specialized institutions and decentralized municipal governments. At an administrative level, the state is successful in the provision of basic services, particularly health, education, access to electricity and telecommunications with a national scope. Improvements have continued in some areas, for example in terms of access to Internet, while there has been an overall reduction in per capita social investment. Divergences persist in regions where functional challenges have resulted in tensions between centralized institutions and municipal governments. Conflicting competences, limited financial resources and administrative capabilities affect results in several areas, including basic services and infrastructure. An analysis of municipal management performed by policy think-tank Programa Estado de la Nación, assessing on the basis of performance on the Municipal Human Development Index (IDHC), outlined differences between regions in the level of human development, including a comparatively higher incidence of security concerns in coastal municipalities. In 2011, most of the 81 municipalities were concentrated in the middle range of the index. The 10 municipalities with higher ranks were all located in the Central Region. However, this region also shows wide variance, with the municipality showing the lowest IDHC level located in the Central Valley (Alajuelita).

Basic administration  
10

## 2 | Political Participation

There are no constraints on free and fair elections. The Supreme Tribunal of Elections (TSE), established in the aftermath of civil war sparked by electoral fraud in 1948, has evolved into a worldwide prototype of excellence in the organization and management of elections. Electoral participation has expanded over the last decade with the institution of referenda regulation law (2006), the country's first national referendum (2007), and the direct election of municipal executives and representatives (since 2002). Other mechanisms of direct democracy have also been experienced for the first time in recent years, as in the case of a recall election of the city mayor in Perez Zeledón city (2012). Electoral registration is automatic and virtually costless with the acquisition of the identity card required for all citizens. Political parties receive state funding on the basis of vote shares. The TSE oversees political finances based on powers derived from the new Electoral Code (2009). However, electoral transparency could be improved through legislative improvements and upgrades to the technical capacity of the entities involved.

Free and fair  
elections

10

Electoral participation rates increased for the first time since 1998 during the election of Laura Chinchilla (2010 – 2014), but abstention rates (31%) still remain high compared to historical rates. According to the TSE, the share of female electoral candidates and public-sector officeholders (52%) is high by international standards. Voter turnout rates in the last municipal elections, in which 81 county mayors were elected, were very low, corresponding to just 28% of the national electorate in the past election (2010).

Democratically elected political representatives have the effective power to govern. There is no single group or individual capable of exercising an absolute de facto form of veto power. While there are powerful actors capable of influencing the course of public affairs, notably business groups, public unions, the clergy and the press, none can exercise an uncontested veto. No single group can stop the enactment of decrees or legislation without due process, and then only if the Constitutional Court rules that the legislation or decrees in question are unconstitutional. However, there have been a growing number of well-publicized cases in which formal institutions including the Constitutional Court have been influenced by powerful actors. One example of these was the political pressures exerted in the case of open-pit mining concessions in Crucitas. In 2012, the attorney general reported to the Supreme Court that for the past six years a number of groups have sought to control various institutions in the country; however, he did not give any specifics.

Effective power to  
govern

10

Costa Rica's constitution and labor code guarantee association and assembly rights. These freedoms are unrestricted for individuals and are independent of membership in any political or civic group. There are multiple groups in a number of sectors, organized on the national, regional and local levels, which regularly exert their

Association /  
assembly rights

9

influence on the government and public opinion. The year 2011 represented a high point with respect to the number of collective actions, with a total of 632 protests. In a few, protesters reported police repression, including the use of force and tear gas to disperse crowds. The Constitutional Court declared that an irrational use of force had been applied in one of the most recent protests. Private-sector unionization is not widespread, however. While public-sector unions are strong and active, less than 3% of the private labor force is unionized. This may be related to the use of solidarism as an alternative mechanism of labor organization, though it also is rooted in the use of restrictive practices by employers and the existence of legal obstacles to the formation of unions. This problem is not new; for many years the International Labor Organization (ILO) has criticized the government's failure to promote unionization and collective bargaining in the private sector. An ILO mission in 2011 pointed out an increase in direct contract arrangements without the participation of unions.

Freedom of expression is unrestricted for citizens, groups and the press. A broad array of media outlets, from newspapers to radio and television, inform citizens and provide multiple perspectives on the news and current affairs. La Nación, the oldest and most prominent newspaper, continues to be highly influential, though it does not dominate the media. El Diario Extra, another daily newspaper with a more popular approach, closely matches La Nación's circulation. There are multiple specialized publications that cover different ranges of the ideological spectrum. Universities and research institutions regularly publish reports and organize public forums focused on critical social, political and economic issues. The policy think-tank Programa Estado de la Nación publishes an annual evaluation regarding the situation of the country's sustainable human development, pinpointing key aspects of the country's social, environmental, political and economic reality. Citizen groups such as the Citizen Observatory of the Media monitor and safeguard the freedom of expression.

In recent years the press has played an important role in demanding public accountability. Investigative reporting by print and televised media have exposed bribery scandals which have implicated high-ranking politicians and multinational corporations. These have eventually led to the indictment of two ex-presidents and other notables currently being tried for corruption. In the aftermath of these events, the media have continued to play this investigative role with a certain eagerness perceived by certain sectors as somewhat excessive. The controversial Information Crime Law (2012), known as the "Gag Law" (Ley Mordaza), attempts to increase the government's ability to regulate political investigations, stating that persons could face a jail term of up to 10 years if they improperly procure or obtain secret political information; information about national police forces; information about security policies concerning the means of defense or foreign relations of the State; or information which affects the fight against drug trafficking or organized crime. Lawyers and members of the Journalists Association of Costa Rica have already

Freedom of  
expression  
10



presented a document declaring the law as unconstitutional and are submitting the matter to the Inter-American Court of Human Rights.

### 3 | Rule of Law

There is a clear separation of powers with mutual checks and balances, structured around the constitution of 1949 and its subsequent reforms. The system establishes the three branches of government (executive, legislative and judicial) adding a fourth, the electoral branch (the Supreme Tribunal of Elections). From a comparative perspective, the Costa Rican executive is relatively weak. Its decree powers are limited, hence rarely used. Control of the legislative agenda is shared with the Legislative Assembly, passing to the president only during extraordinary sessions. While the Assembly 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.

While the Constitutional Court has the power to control the legislature on procedural matters, it has also sought to control it on the basis of substantive constitutionality. The court's authority and legitimacy have enabled it to pursue this active course, but not without increasing controversy, since some consider it an encroachment upon the constitutional powers of the Legislative Assembly. The struggle between branches and alleged conflict between the legislative and the judicial powers reached a moment of climax in 2012, when the legislature rejected the re-election of attorney Fernando Cruz to the Constitutional Court. From one point of view, this was considered part of a vindication of the legislative powers of the Legislative Assembly or restoration of checks and balances after a series of controversial judicial rulings that affected the governing National Liberation Party (PLN). In the end, the attorney kept his position in the court, an important result given that a variance in preferences and evaluative criteria is the sign of a healthy democratic system. As of the time of writing, legislators had proposed several bills that would restrict the powers of the Constitutional Court.

An additional component of the separation of powers in the Costa Rican state is the existence of horizontal control mechanisms through which the activities of the executive power and its administrative entities can be monitored and regulated. Chief among these is the Comptroller General's office, which has a broad and strong mandate to supervise the use of public funds not only on legal basis, but also with respect to efficiency and outcomes.

Separation of  
powers  
10

The judiciary is made up of four chambers (Salas I, II, III and IV, the last of which is the Constitutional Court), along with justice courts, judges, attorneys and many other professionals. The administration of justice takes place through a differentiated organization and rational proceedings. The judiciary is independent and free from unconstitutional intervention by other institutions. The economic independence of the judiciary system is guaranteed by a constitutional provision assigning it 6% of the central state's expected revenues. Conversely, well-publicized cases of corruption and conflict of interest involving members of the judiciary have been too frequent to be isolated instances, and there are tensions with respect to its independence. The number of complex cases with broad social relevance has drawn the judiciary into the center of national debates, and kindled political tensions with other public institutions including the executive and its ministries, the legislature, and business groups. The legislature's rejection of attorney Fernando Cruz's re-election to the Constitutional Court serves as a case in point. Apart from the violations of constitutional procedure, the case set a bad precedent and was considered to be a violation of judicial independence, since it was apparent that his rejection was based on political grounds. Cruz's votes in key cases, including his opposition to the CAFTA, to open-pit mining concessions in Crucitas and to the formation of legislative commissions, had affected the interests of the governing PLN.

Independent  
judiciary  
9

Public servants and politicians are accountable when they break the law and engage in corrupt practices. Costa Rica's legislation generally conforms to international anti-corruption standards. While the opportunity for corruption exists due to the key role played by the public sector in economic life, abuse of office is strictly prosecuted under the rule of law. Prominent figures including ex-presidents and public servants have been indicted and prosecuted. However, even if prosecution does take place, cases often take a long time to reach a conclusion, or are even dismissed for exceeding the legal time period allotted. For example, the corruption trials of ex-presidents Rafael Angel Calderón and Miguel Angel Rodríguez took four and six years respectively, and it is likely that the appeal process will extend these periods for several years to come. There is a generalized perception among citizens that public officials are corrupt. The Latin American Public Opinion Project (LAPOP) 2012 survey found that 84.47% of Costa Ricans believed corruption to be somewhat or very generalized among public officials (a rise from 83% in 2010). Moreover, 20.7% of respondents said they had been victims of some form of corruption, an uptick that puts the level similar to that experienced in 2006 (19.3%). However, the interpretation of this data must be understood within context, not only in terms of what citizens demand from their political systems, but also with an eye to the increasing levels of transparency and societal scrutiny.

Prosecution of  
office abuse  
8

Civil rights and non-discrimination are guaranteed by the constitution and enforced through various institutions. These mechanisms provide citizens a channel to present grievances against the state in matters concerning their rights and interests. Foremost

Civil rights  
10

among them is the Constitutional Court, where individuals can present a demand (“Amparo”) complaining of a violation of constitutional rights. Access to this court is extremely accessible and virtually without costs. Anyone (citizen or non-citizen) can present a written statement without the need for a lawyer. No specialized language is required, only a description of the grievance. The court’s decisions carry the weight of law and cannot be appealed. In 2011, the court processed 16,293 complaint statements of this sort, nearly 1,300 less than in 2010. The Ombudsman’s Office or Defender of the Inhabitants (Defensoría de los Habitantes) office is another important mechanism that serves as an advocate of citizen rights and intervenes on an administrative and legal level in cases of rights violations, in behalf of individuals or groups. According to the Latin American Public Opinion Project’s 2012 survey, about 65% of Costa Rican citizens consider their basic citizenship rights to be protected by the political system, above the median regional level (48%). However, this represents a decline relative to 2010 (about 70%). The current situation concerning minority groups’ civil rights evidences some gaps in the protection of equality before the law. Examples of this include application of indigenous law and rights for same-sex couples. Demands on these issues have been submitted to the Inter-American Court of Human Rights.

#### 4 | Stability of Democratic Institutions

Political decisions are effectively prepared, made, implemented and reviewed by democratic institutions. 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. Legislators can also submit bills under discussion to the Constitutional Court for an evaluation of their constitutionality. In addition, the lack of clear cabinet objectives communicated to legislative party groups decreases the capacity to create stable coalitions. When Laura Chinchilla’s administration was inaugurated, her National Liberation Party (PLN) held just 42% of the legislature’s seats. Combined with the effect of interfactional divisions, this has increased the difficulty of coordination between the legislative and the executive. The situation is similar in local governments, where the PLN has progressively lost power in each local council since 2008. According to the policy think-tank Programa Estado de la Nación, consensus democracy rather than power concentration is the main characteristic in Costa Rican local government spheres, as none of the main political forces dominate. This democratic dynamism makes it difficult to reach rapid

Performance of  
democratic  
institutions

8

agreements, reducing institutional effectiveness and efficiency. By allowing the various players to blame each other for inaction, these characteristics have diluted the effectiveness of democratic institutions while also reducing accountability.

Processes of lawmaking and policy implementation are in accordance with the rule of law. Efficiency problems are the product of the political environment described above (see Performance of democratic institutions). Government bodies, political parties, associations, interest groups and civic organizations, potential veto groups, and other individuals and organizations able to concentrate political power all accept the legitimacy of democratic institutions.

Commitment to  
democratic  
institutions  
10

## 5 | Political and Social Integration

The 2010 election represented part of the ongoing restructuring of a multiparty system. Yet a clear and distinctive realignment along patterns apparently emerging in 2006, with the Citizen Action Party (PAC) as a dominant figure, failed to materialize. Instead, a new reshuffling of the leading opposition actors occurred, with the National Liberation Party (PLN) continuing to dominate. However, this dominance is far from hegemonic, given that the PLN was again denied a simple majority in the legislature, gaining just 42.1% (or 24 of 57) of the legislative seats, and also that voters divided their presidential and congressional votes between different parties. The PAC got 19.3% of the vote (11 seats), the Libertarian Movement Party (ML) emerged as a strong third bloc with 15.8% (9 seats), and other minority parties, notably the Social Christian Unity Party (PUSC) and Accessibility Without Exclusion (PASE), also increased the size of their legislative blocs with 10.5% (6 seats) and 7% (4 seats) of the vote. Party system fragmentation remains moderate (the effective number of parties is 3.9), with slightly higher fragmentation levels than those reported in 2010. This suggested a reduced level of party loyalty and identification on behalf of voters. 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. The policy think-tank Programa Estado de la Nación remarks in its 2011 study that for the first time since 1969, the presidency of the Legislative Assembly (Directorio Legislativo) was controlled by an alliance of opposition named Alianza por Costa Rica first formed by the PAC, the ML, the PUSC, the PASE and Frente Amplio (FA). The alliance criticized the scarce willingness of the executive branch, the presidency and the government's faction in the congress to reach national agreements with the various parties. In the course of the legislative term, the covenant

Party system  
7

was broken, in part motivated by a deal between PAC and PASE with the executive branch for the approval of a fiscal reform plan. Soon afterward, the weakened Alianza's control was overturned by a new coalition that this time included the PLN and the minority RN and PASE parties. This group obtained sufficient votes to take over the presidency of the Legislative Assembly. Considering these political circumstances, the decline in public confidence in politicians, the fragmentation of the political parties, the level of polarization, and the degree of voter volatility, it is increasingly difficult for the party system to articulate and aggregate societal interests, as legislative and negotiation processes are becoming more complex.

Costa Rica has a broad range of interest groups, ranging from social movements and community organizations to unions and business and professional associations. There are currently about 19,500 registered civic associations, 243 unions, 725 cooperatives, close to 1,300 solidarist associations, and more than 3,300 community development associations. The primary employer organization, the Union of Chambers, has 43 affiliates that are associations themselves and in turn represent particular sectors of the economy. There have been numerous social movements involving collaboration between a broad spectrum of actors, both on an organized and ad-hoc basis. The policy think-tank Programa Estado de la Nación reported that the year 2011 showed the highest incidence of protest since 1995. Actors with significant rates of mobilization include public sector workers, followed by neighborhood groups (local development associations, civic committees and other groups) and professionals. Recent protests have involved more than 18 groups, expressing their disagreement with government positions on a diversity of issues including opposition to newly passed laws, defenses of work and labor conditions, and calls for greater public participation in decision-making processes. The state has generally been respectful of these actions, including street protests, and has abstained from repressing or undermining them. However, some cases of police repression were reported in 2012. No organized movements seek to undermine democracy or civil society. The majority of social and political groups strongly defend Costa Ricans' constitutional rights.

Support for democracy has declined in the period under review. Expressed levels of diffuse support for democracy as a political system are captured by the system support index measured by the Latin American Public Opinion Project (LAPOP), on which Costa Rica obtained a score of 55.9 on a 100-point scale in 2012. This level is considerably lower than the 2010 index score of 63.2, and the lowest since 2002. This striking drop appears to suggest that previous equilibrium levels have been undermined. It must be noted that the 2012 level is still higher than the Latin American average (53.2), but is no longer among the highest in the region, placing the country at 10th place in the index, after Mexico. However, LAPOP also reported that more than 87% of Costa Ricans agreed with the statement that "democracy is the best form of government despite its flaws." On a regional level, the Latin America

Interest groups  
9

Approval of  
democracy  
9

public opinion survey Latinobarómetro reported that in 2011, for the first time since the Asian crisis, this level of support declined in parallel with the drop in GDP. In Costa Rica's case, economic worries and political issues are behind this dissatisfaction. Despite improvements in macroeconomic indicators, the latest Unimer poll of 2012 showed that the economy is now the chief concern for Costa Ricans, overtaking security, which had previously topped the survey during Chinchilla's government. In comparing levels of support for democracy across time, the 2012 LAPOP survey also reveals decreasing approval rates concerning each of the five items asked for: a sense that basic rights are protected, agreement that the courts guarantee a fair trial, pride in the political system, citizens' general respect for the political system's institutions, and normative commitment to the political system. In summary, the five dimensions of system support hang together at a low level, and when summed into an index, support for the political system has decreased from 67.6 in 2004 to 55.9 in 2012.

As demonstrated by opinion surveys in 2012, there is a high level of trust among citizens. According to the Latin American Public Opinion Project (LAPOP) 2012 survey, nearly 75% Costa Ricans believe that they can trust other members of the community, a level quite similar to that of 2010, and one that ranks among the highest levels of interpersonal trust in the Americas. While there is a considerable number of civic organizations – 19,000 registered civic associations, 243 unions, 725 cooperatives, 1,300 solidarist associations, and more than 2,800 community organizations – the degree to which individuals engage themselves with those organizations does not appear to be overwhelming, at least according to opinion polls and from a regional perspective. Out of five types of associations evaluated by LAPOP (religious, parents, community improvement, professionals and women groups), Costa Ricans exceeded the Latin American average in terms of participation only for religious associations. The policy think-tank Programa Estado de la Nación remarks in its 2011 study that local participation and local organizations tend to be most vital in communities with lower levels of human development, in which citizens perceive that the state does not attend to their needs on either a national or local level.

Social capital  
9

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Since the 1940s, Costa Rica has promoted active and sustained policies for social inclusion that have resulted in high levels of human development and declining levels of poverty. However, in recent years, the government has been unable to translate respectable rates of economic growth into policies that further reduce the poverty rate

Question  
Score

Socioeconomic  
barriers  
7

or arrest the increasing levels of inequality. Poverty reduction has reached a plateau, and while the position of the country in terms of human development remains relatively high, overall progress since the early 2000s has been moderate in international comparison. The country's score on the UNDP's Human Development Index rose only slightly from 0.768 in 2010 to 0.773 in 2012, coming in 62nd on the HDI 2012 and seventh among Latin American countries, just behind Cuba, Panama and Mexico. The incidences of poverty and extreme poverty have respectively remained around 20% and 6% since 1994, except for 2007 and 2008. Inequality also rose during 2011. The Gini coefficient increased from 0.508 in 2010 to 0.515 in 2011, a marked deterioration. The average income increased in 2011 in part due to the role of noncontributory pensions and conditional cash transfers. However, social inequality has tended to expand, as the income of the richest decile rose from 16 times that of the poorest decile in 2008 to 19.2 times in 2009. This trend continued during 2012, as the richest decile increased its per capita income by 11.6%, while the income of the poorest rose only by 2.5%. Poverty levels are similar in urban and rural areas, suggesting an absence of regional exclusion, but inequality is still higher in rural regions. In terms of gender, the incidence of poverty is higher among women, though the difference as compared to men is less than in 2009, partly because women have been the main target of conditional cash transfer programs. Female workforce participation rates have increased steadily, from 35% in 2000 to 43.5% in 2010 and 45.7% in 2011. However, despite improvements, the evidence shows that men fare better in terms of income and employment.

Economic indicators		2009	2010	2011	2012
GDP	\$ M	29431.4	36346.2	41072.5	<b>45152.7</b>
GDP growth	%	-1.0	5.0	4.4	<b>5.1</b>
Inflation (CPI)	%	7.8	5.7	4.9	<b>4.5</b>
Unemployment	%	7.8	7.3	7.7	-
Foreign direct investment	% of GDP	4.6	4.0	5.3	-
Export growth	%	-6.1	5.8	5.9	<b>8.6</b>
Import growth	%	-18.7	16.5	9.3	<b>7.0</b>
Current account balance	\$ M	-576.0	-1281.2	-2202.9	<b>-2376.2</b>
Public debt	% of GDP	27.2	29.2	30.9	<b>34.8</b>
External debt	\$ M	8164.3	8521.6	10291.5	-
Total debt service	\$ M	1286.4	971.8	1592.6	-

Economic indicators		2009	2010	2011	2012
Cash surplus or deficit	% of GDP	-3.4	-4.3	-3.5	-
Tax revenue	% of GDP	13.8	13.4	13.8	-
Government consumption	% of GDP	16.7	17.6	18.0	<b>17.9</b>
Public expnd. on edu.	% of GDP	6.3	-	-	-
Public expnd. on health	% of GDP	7.0	7.1	7.6	-
R&D expenditure	% of GDP	0.54	-	-	-
Military expenditure	% of GDP	0.0	0.0	0.0	<b>0.0</b>

Sources: The World Bank, World Development Indicators 2013 | International Monetary Fund (IMF), World Economic Outlook 2013 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2013.

## 7 | Organization of the Market and Competition

Market competition is consistently defined and implemented at the macro and micro levels. Most prices are determined competitively and currency is easily convertible. The freedom to enter contracts using any currency is legally protected, and there are no restraints on making and withdrawing investments. Article 19 of the constitution grants foreigners the same rights and obligations that are extended to nationals. In fact, the economy has flourished in recent years on the basis of foreign domestic investment. According to the Economic Commission for Latin America and the Caribbean (ECLAC), inflows of foreign direct investment into Central America increased 36% in 2011, with Costa Rica ranking second within the sub-region behind Panama. However, starting a business in Costa Rica, while not impossible, remains difficult. The World Bank's Doing Business Report 2013 shows it takes up to 60 days to start a new business, a period equal to that of 2008 and still higher than the Latin American average. The country is ranked 128th out of 185 in the global index in this regard, and 110th in the overall global index concerning the ease of doing business. There are state-guaranteed rules for market competition meant to ensure equal opportunities for all market participants (Law 7472). 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. The informal sector is considered to be small as compared to other Central and Latin American countries, though 32% of the workforce was employed in this sector in 2011, including the self-employed, microenterprises, and nonremunerated or domestic workers.

Market-based  
competition

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In addition to the laws ensuring competition, 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. A number of key economic sectors were long excluded from competition and maintained as legal state monopolies. These include insurance (since 1924), banking (1948), electricity (1949) and telecommunications (1963). The banking sector was opened to competition gradually throughout the 1980s and 1990s, 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. Liberalizing reforms in the electric power and telecommunications sectors continue, while antitrust and competition rules are enforced by a public comptroller known as the Superintendence of Telecommunications (SUTEL).

Anti-monopoly  
policy

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The telecommunications state monopoly was first opened in 2009 with competition in Internet and other related services. The first public auction for cellular frequencies was held at the end of 2010, with two private companies (Claro and Telefónica) entering the market. Within a few months of launching their networks, these new companies had secured around 500,000 customers between them. Difficulties related to the extension of permits and licensing, particularly on a local level, continue to present some barriers to effective competition. Competition within the insurance sector started in 2010 with medical and other policies, and was extended in 2011 to include vehicle and liability insurance. The 2012 market share of private insurers totaled slightly more than 13%, excluding compulsory insurance programs, meaning that the market share of private insurers as a whole reached 9.8%, an increase of 9.2 percentage points from 2010. Opening of the electricity sector is still awaiting passage of a new regulatory law in the Legislative Assembly, clearly demonstrating the relative lethargy faced by these transformations.

The financial sector has been competitive for several years, though the competitive playing field is not entirely level, as only state banks enjoy an implicit state deposit guarantee and are administered under a special development regime. The state retains exclusive rights to alcohol distillation; the importation, refinement and distribution of petroleum and its derivatives; and in most cases the operation of railroads, ports and airports. Although airport concessions have begun to be offered to private parties, the regulatory framework has been subject to several changes and contracts have been plagued by difficulties. In sum, general developments point to a considerable broadening of competitive markets, but anti-monopoly policy remains inconsistent and limited by persistent legal barriers.

Since the 1980s, Costa Rica has pursued active trade liberalization as part of a development strategy based on global integration and export orientation. At present, the country can be considered widely liberalized, with a trade-to-GDP ratio of 80.6% and an average weighted tariff of 2.4% (2009 – 2011), which implies a strong

Liberalization of  
foreign trade

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dependence on international transactions within the country's economy. In its Index of Economic Freedom 2013, the Heritage Foundation reports that the trade-weighted average tariff rate is quite low and that there are relatively few non-tariff barriers. However, the country did recently expose itself to WTO sanctions by exceeding its cap on agricultural subsidies on rice for three years in a row (2007 – 2010). The country reformed its export promotion mechanisms in 2009 to make them compliant with WTO norms. Costa Rica joined the General Agreement on Tariffs and Trade (GATT) in 1990 and ratified the WTO treaty in 1994. It has been an active participant in the multilateral trade system, including the Doha round trade negotiations, while at the same time actively pursuing bilateral and preferential free trade agreements.

To date, the country has signed free trade agreements with the United States, the Dominican Republic and Central America (CAFTA), the Caribbean Community of Nations (CARICOM), Canada, Chile, Mexico, Panama, China and Singapore. In May 2010, an association agreement was signed between the Central American countries, including Costa Rica and the European Union. Costa Rica has also acquired an observer status within the Asia-Pacific Economic Cooperation (APEC) forum. Future Chinese investments in strategic sectors such as oil refining and tax-free industrial zones were discussed in 2012 during a meeting between leaders of the two countries, though this prospect has generated internal debates. In 2012, Costa Rica also opened FTA negotiations with Colombia with the additional intention of joining the nascent Pacific Alliance economic bloc. 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).

Costa Rica's banking system is solid and administered according to international standards that include prudential 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 from 10% to 14%, above the minimum Basel standards (8%), even reaching 15.1% in 2012. Loans grew aggressively during the period of high economic growth, starting in 2002, without jeopardizing loan quality or the solvency of the financial system. The global financial crisis slowed this growth, but it did not have widespread negative repercussions on the financial system. While the economic slowdown did affect the payment capacity of borrowers, causing a slight uptick in arrears since 2009 that continued through 2012 (when nonperforming loans reached 1.8% of the total loan portfolio), the effect was still below the international non-performing loan benchmark of 3%. The financial sector regulator (SUGEF) was credited with competently anticipating and successfully managing the effects of the crisis. Three state banks dominate the market with almost 45% of all assets and 47% of all liabilities. Following in importance are 11 private banks, including foreign-owned

Banking system

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entities, which represent about 29% of the system's assets. The rest of the sector is made up of financial companies, financial cooperatives and two special banks. Despite advances in prudential regulation, the financial system suffers from high credit spreads, or 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: 53% in 2011) is relatively high for regional standards and has grown considerably in recent years (from 43% in 2005). However, it is still low in comparison to more developed markets. The system suffers from a patchwork of legislation governing intermediaries. Not only do state banks enjoy an implicit state guarantee unavailable to private competitors, but special entities such as the Banco Popular have unique tax and reserve-requirement exemptions. A comprehensive reform bill has been circulating for several years, but its prospects of advancing in the legislature are uncertain.

## 8 | Currency and Price Stability

Costa Rica's central bank maintains a high level of professionalization and has pursued consistent anti-inflationary and foreign exchange policies. Most recently, the central bank has focused its policy on inflation, which in 2012 reached an annual rate of 4.5%. Costa Rica had not experienced inflation levels below 6% for two consecutive years since 1978. This represents a turnaround from the high inflation levels of 2008 (13.4%), which were partly the product of high international food and energy prices. In October 2006, the bank also abandoned a longstanding crawling peg exchange regime in favor of a crawling band system, in which the colón is allowed to float between predefined (and adjustable) upper and lower limits. The move, while consistent with inflation targeting, has made the exchange rate more volatile. Large influxes of foreign investment have led to a significant appreciation of the currency with respect to the U.S. dollar, including a rise of more than 13% between 2010 and 2011. While this may have contributed to keeping prices low, it has reduced the competitiveness of tradable sectors and tourism, while increasing imports; in sum, this has boosted the trade deficit significantly.

In macroeconomic terms, the Costa Rican economy is doing very well, having increased its annual rate of GDP growth to 4.6% in 2012, while simultaneously controlling inflation. In consequence, according to a Nomura Securities report, real GDP growth outpaced inflation for the first time in "recent memory." In 2012, exports grew by 10.9%, led by a 43.4% rise in the volume of exported Intel microchips. In spite of this, a continued current account deficit of near \$2.2 billion was projected for the end of 2012, as the volume of imports grew by 10.6%. Fiscal deficits were brought under control as the pace of economic growth increased in 2007 and 2008. However, deficits returned in 2009 and 2010 as the government implemented expansionary policies as a reaction to the global economic downturn. Budgetary estimates by the

Anti-inflation /  
forex policy

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Macrostability

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government placed the deficit at 4.5% of GDP in 2012, the second-highest deficit in the region after Guatemala. The growing deficit has also impacted public debt levels, which increased to 47.4% of GDP in 2012. The Supreme Court invalidated a tax reform in April 2012, undermining expectations that the tax base would be expanded and stability preserved. However, deficits have to date remained manageable, as they are financed partly by economic growth and foreign inflows such as tourism and direct investments.

## 9 | Private Property

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. According to the Heritage Foundation's 2013 assessment of property rights, Costa Rica has experienced something of a setback, with scores falling back to the level of 2010. Contracts are generally upheld and investments are secure, but the judicial system is slow, and resolving a contract-related legal dispute is quite complicated. Foreign real-estate investors have found it difficult to obtain clear titles, and the enforcement of intellectual property rights is often ineffective. The public registry that tracks property rights has been vulnerable to fraud. However, a host of investments and reforms have been undertaken to modernize the registry and improve its security.

Property rights  
9

Private companies are viewed as primary engines of economic production and are given appropriate legal safeguards, starting with the constitution. However, there is a long history of state involvement in the economy, which has included the preservation of legal public monopolies in several areas. 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, but not through privatization. This means that state enterprises will compete alongside private companies in telecommunications, insurance and banking, among other areas. Although the effects of this opening remain unpredictable, state enterprises enjoy a considerable market advantage due to their long tenure and can be expected to continue being important players. The state also has the ability to contract for public services with private concessionaires, as it has done in the context of certain large-scale infrastructure projects such as airports, ports and roadways. Apart from not being privatization as such, market openings and concessions largely comply with market principles. Notwithstanding, unions have repeatedly protested against these "privatizations"; for example, ICE workers opposed the Energy Contingency Bill in 2011, while port workers protested against the concession granted to a Netherlands-based container management multinational in 2012.

Private enterprise  
9

## 10 | Welfare Regime

There has been a broad and sustained effort to develop social safety nets capable of compensating for social risks and preventing poverty. Social investment by the state encompasses universal programs (health and education), contributive programs (pensions), and selective programs targeted to vulnerable segments of the population (conditional cash transfers). Universal programs represent the largest share of public spending (57%), followed by contributive programs (20%) and selective programs (11.5%), which are growing most quickly. The government has continued programs begun by two previous administrations to provide conditional cash transfers for education, and added two more focused on support for extremely poor families and child care. Despite this, social investment has been insufficient to counter an increase in overall income inequality, and there is still a significant portion of the most vulnerable population that is not covered by the programs ostensibly targeted toward it. For example, the policy think-tank Programa Estado de la Nación 2011 remarks that the Childrens' Education and Integral Attention Program, Cen-Cinai, reaches 47.8% of potential beneficiaries within the poor population. The same study points out that real social investment suffered a contraction in 2011, mainly due to budgetary problems and the failure of the tax reform proposal. This brought the expansion seen between 2006 and 2010 to an end. 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. The coverage of universal services is high; about 65% and 61% of the economically active population are respectively covered by health and pensions plans, with most of the remaining population covered as dependents and/or beneficiaries of selective programs. While the CCSS maintains an investment trust to cover funding for accident, old age and death (IVM) pensions, the financial structure is pay-as-you-go, and there is some concern that population aging could undermine the fund's strength in the future. Indeed, the sustainability of Costa Rica social security system is already considered to be at risk; in 2011, a political crisis was generated by deficits in the CCSS health insurance program, with accusations of wasted resources, deficient management and bias toward particular private groups.

Costa Rican institutions make an effort to provide equal opportunities, but with varying levels of success. Access to health is broad, with a consistent quality of service provided across socioeconomic levels and increasingly over geographic area. However, 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 8.9 years, with only 37.7% of the population having completed a secondary-level education. Women and members of ethnic or other minority groups have equal access to education, health and other services. Gender equality has been a longstanding policy goal, and a series of laws and institutions (such as the Ley de

Social safety nets

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Equal opportunity

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Igualdad Real de la Mujer and the Instituto Nacional de las Mujeres) have been created to pursue it. According to the National Institute of Statistics and the Supreme Tribunal of Elections, significant advances had been made by 2010 in terms of female labor force participation rates (45.7%) and female representation rates in politics (39% of legislative seats, 37.5% of cabinet posts, and currently the presidency). However, parity is still elusive. Women earn less than men and fare worse under economic duress. The monthly average income of women is about 80% that of men (although there is considerable variation according to occupational category). During the recent economic downturn, whereas unemployment rates increased for both male and female workers, they increased significantly more for the latter, thus affecting their income levels to a greater degree. In terms of other minorities, the province of Limón, where most of the population of African descent is concentrated, has lower social indicators and higher levels of crime than do other areas.

## 11 | Economic Performance

According to the World Bank, Costa Rica's economy grew by 4.7% in 2010 and 4.3% in 2011. During 2012, the economy grew by 4.5%, which was well above the worldwide average. Despite this growth, more than 21.6% of the population remained in poverty in 2012, while the unemployment rate was 7.9%. This can in part be explained by the fact that production is primarily driven by capital- or technology-intensive activities, rather than labor-intensive sectors. Moreover, the country's debt has continued to grow. Because the post-2009 economic recovery was driven in large part by fiscal stimulus and central government expenditures, the government currently faces a challenging budgetary situation. Tax revenue fell from 13.8% to 13.5% of GDP in 2010 as a result of economic contraction, though it improved to 15.5% of GDP in 2012. The gap between spending and revenues has driven public debt to nearly 45% of GDP. While still manageable, this increase was the largest in a decade. In spite of this, the budget presented to the legislature for 2013 was 7.7% higher than that of 2012, funded 57% from current revenues and 43% with debt.

Inflation levels remain below 6%, which is low by historical standards. Exports grew at high rates in late 2011 and early 2012, but imports – mainly raw materials and intermediate products – still outstripped exports. Trade balances remain negative at levels similar to those reached in 2008, pushed by economic recovery and an exchange rate appreciation of about 13%. The current account deficit rests at about 5% of GDP. FDI inflows broke records in 2011 and 2012, with this sector representing a particular priority of the Foreign Trade Ministry. This has contributed to the strengthening in the national currency, making local companies less competitive within the export market. As a consequence, the Costa Rican government has announced plans to limit the inflow of foreign investment in order to prevent speculation.

Output strength  
8

## 12 | Sustainability

Environmental concerns are at the core of public policy. The right to a healthy and ecologically balanced environment is constitutionally established (Article 50) and hence subject to enforcement through special environmental courts as well as the constitutional court. The 2012 Environmental Performance Index gives Costa Rica a high score, ranking it fifth among 163 countries. This reflects the country's long-established environmental stewardship, which includes reserving more than 26% of its territory under protected status, aggressively recovering its forest cover and compensating private landowners for ecological services generated in forested areas. In 2012, the country was given an award by the Ozone Secretariat of the United Nations Environment Program for changes implemented in production systems as well as for legislation controlling ozone depleting substances.

Environmental  
policy  
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However, as the policy think tank Estado de la Nación report cautions, the country's record is more nuanced when analyzed from the perspective of its carbon footprint, water management record, and the sustainability of its economic practices. While most of the country's electricity is produced from renewable sources, electricity accounts for only a quarter of the energy resources consumed. The remaining energy needs are filled through highly contaminating hydrocarbons. As a result, greenhouse gas emissions outpace the country's absorption capacity, despite its goal of becoming carbon-neutral by 2021. Furthermore, the use of oil sources for electricity production has been increasing, reaching a 9% share in 2011, the highest such level in 15 years. In addition, 96% of residual domestic waters reach the rivers without any treatment, generating high levels of contamination in the country's Pacific basin. As far as the sustainability of economic practices, the expansion of export-based agriculture has driven intensive use of fertilizers and pesticides and placed new pressure on water sources. Government policies during 2010 – 2012 appeared contradictory, and have caused political controversy. Examples include the consideration of electricity generation within protected natural areas and the proposed introduction of genetically modified organisms into the country. The contradictions may be in part due to the highly fragmented regulatory framework governing environmental policy, with numerous bodies and entities plagued by overlapping mandates and responsibilities.

Education is a key component of social policy, with preschool and general basic education (until the ninth grade) obligatory, universal and free, and the 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 the primary, secondary and tertiary levels. While universal coverage has been achieved at the primary level, only 72% of the eligible population (ages 13 to 17) is enrolled at the secondary level, and dropout rates are close to 11% (2011).

Education policy /  
R&D  
7

Performance also lags in terms of graduation rates, as only 42% of students entering the seventh grade graduate from high school, with a trend that shows increasing disparities across socioeconomic levels. In response, the government has deployed a successful conditional cash transfer program (Avancemos) designed to keep students in high school. It has also increased spending in education in monetary terms and as a percentage of the GDP. While total expenditures did fail for several years to reach the constitutionally mandated 6%, spending approached 6.6% of GDP in 2011. In 2011, the population had an average of 8.9 years of completed education, slightly higher than the level in 2007 (8.7 years), but just 1.8 years more than in 1990. Tertiary education is considered important in Costa Rica, and much of the research conducted in the country is funded through universities. According to the Ministry of Science and Technology, current R&D expenditure totals barely 0.5% of GDP, though the goal is 1%.



## Transformation Management

### I. Level of Difficulty

Structural constraints on governance are moderate, with rising poverty and inequality rates, severe infrastructural deficiencies, and the risks associated with international drug trafficking among the most worrisome factors. The deterioration in poverty and inequality levels despite increased social spending and new redistributive social policies suggests a high level of difficulty constraining the governance capacity of political leaders. The Latin American Public Opinion Project (LAPOP) 2012 remarks that even though Costa Rica has historically experienced inequality levels lower than those of other countries in the region, they have been increasing. Additionally, the aging of the population, corruption, and the waste of institutional resources associated with the universal health and pension programs managed by the Department of Social Security (CCSS) are threatening its future financial health.

Structural  
constraints

4

Inability to improve the country's crumbling infrastructure also suggests the existence of structural constraints. Efforts to contract with the private sector for public works by providing concessions to private operators have failed repeatedly, generating substantial delays and financial costs. The roadways connecting the capital to the country's two main ports on the Caribbean and Pacific coasts are vulnerable to landslides, a condition continuously exacerbated by adverse climate conditions, and are perpetually subject to closures. Bridges throughout the whole country, including on the Inter-American Highway, have occasionally been closed due to damage to their outdated infrastructure, forcing costly traffic interruptions. The strategic modernization of the main import/export harbor and the country's only oil refinery in the Caribbean port of Moín has been plagued with controversy. The most recent attempt involved a cooperation framework agreement with China that some argued was not economically feasible. On the other hand, heightened pressure on drug traffickers in Mexico and along its border with the United States have driven cartels toward Central America, already an important transit route for the drug trade, increasing the risks of organized crime and drug-related violence.

Civil society traditions are strong in Costa Rica. 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, active individual engagement with civic organizations does not

Civil society  
traditions

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appear to be high. According to the Latin American Public Opinion Project (LAPOP) 2012, all countries of the Americas (excluding the United States and Canada) score below the mid-point of 50 on the issue of engagement, indicating low average rates of community participation. Costa Rica is among the six countries with lower-than-average rates of community participation; its score of 20.8 is below that of Venezuela (22.6), but higher than last-place countries Argentina (14.2) and Uruguay (12.4). In its 2011 study, policy think-tank Programa Estado de la Nación remarks that communal associations are more concentrated in communities with lower levels of human development, where citizens perceive that the state cannot attend to their needs on either a national or local level. Thus, communities with high and medium Human Development Index (HDI) scores average 50 associations, as opposed to an average of 80 in those with lower HDI. According to the LAPOP, Costa Rica has the highest level of interpersonal trust in the Americas, with a mean level of 70.2 (on a 100-point scale), a level above that of Canada and the United States. This is an indicator of strong social capital.

During the period under review, there were no violent incidents motivated by social, ethnic or religious differences. However, contentious social and economic policy issues have generated a critical rise in the incidence of social conflicts with political effect. In 2011, there were 632 protests, which though still low in comparison to other countries, represented one of the highest frequencies of collective action since 1995, as reported by the policy think-tank Programa Estado de la Nación. The majority of conflicts and problems deal with issues which have been ongoing for a decade or more, and which continue to be addressed inappropriately. These include violations of indigenous land rights; concerns over the environmental impact of oil exploration/exploitation and mining, large hydroelectric dams and shark finning; solutions to national infrastructural problems; management and regulation of the transport sector; and a broad range of issues ranging from tax reforms to the rights of same-sex couples. To date, these conflicts, including social mobilizations, have been resolved by means of formal institutional channels. However, isolated events have raised concerns about police repression and the criminalization of social protest. Moreover, social conflicts that reach the judiciary help to increase its relevance as a political actor.

Conflict intensity

1

## II. Management Performance

### 14 | Steering Capability

The political agenda of the presidency is defined at the beginning of each administration through a binding national development plan (Plan Nacional de

Question  
Score

Prioritization

9

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. The 2011 – 2014 development plan emphasizes four central pillars: social well-being, citizen security, sustainable development, and competitiveness and innovation. In terms of concrete policies, at the beginning of the administration 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, as the review period progressed, particularly after a tax reform bill was thrown out by the Constitutional Court, 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, macroeconomic development, 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. The advantages of continuity with respect to the retention of experienced ministers and advanced projects and programs was undermined by the subsequent lack of stability and multiple ministerial changes in response to shocks (mainly corruption scandals) and weak inter-institutional coordination.

Administrative issues created important delays and caused problems in many areas of governance during the period under review. A number of examples were evident within the public works sector, particularly with respect to infrastructure, where projects were seldom fully executed or were executed defectively despite the availability of sufficient financial resources. Examples include the Transport and Public Works Ministry's inability to repair sections of the Inter-American highway and the Housing Ministry's incomplete execution of a housing bond project. President Chinchilla's administration has also suffered from several ministerial departures, including the resignation of Finance Minister Fernando Herrero, a key supporter of the tax reform proposal. These departures undermined support for the government agenda, resulting in poor intragovernment relations and considerably affecting the president's popularity. A Mitofsky poll released in 2012 rated the popularity of President Chinchilla at 26%, the lowest such rating of any Latin American president.

At best, and often at a price, the PLN can count on support by splinter parties to reach the majority needed to pass legislation. During its first three years in office, the government managed to have an average of one-quarter of its proposed legislation approved, some of which had already been submitted by the previous administration. Policies approved included the tax reform (which was subsequently vetoed by the

Implementation  
6

courts), FTAs with China and Singapore, insurance-sector regulation, a customs integration with Central America, and international credits for infrastructure. 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 long-term development strategy. Public policy and activity often responded to circumstantial events and demands. In addition, an unforeseeable distraction was presented by a Nicaraguan incursion in the San Juan River border area, which absorbed much attention and required emergency funding for the ensuing international court case in The Hague. Moreover, a very costly infrastructure project along the border was plagued by serious allegations of widespread corruption which remain under investigation. Progress made in areas such as public security and control of macroeconomic indicators, in which the government was effective in implementing its own policies, passed nearly unnoticed by the media and the general public.

In developing policy responses, the government has usually relied on good practices, international cooperation and the advice of experts. However, in other areas of governance, the government has demonstrated limited flexibility and an inconsistent learning process. Tax reform and environmentally oriented foreign policy both serve as examples of this behavior. Previous administrations have also made proposals for comprehensive tax reform, but none were able to build a consensus on the complex issue. Though the present government's plan did win parliamentary approval, its ultimate failure in the courts demonstrated that the government had not learned sufficiently from previous experiences. With respect to environmentally oriented foreign policy, the priority given to carbon neutrality and climate change strategies under the past administration (although subject to serious contradictions toward the end) has not been followed up. Although a focus on strengthening commercial ties is in accordance with Costa Rica's international interests, linking environmental goals with efforts to market the country's reputation for ecotourism and sustainable development could bring larger returns. However, to date, there are no institutionalized mechanisms linking environmental and foreign policy areas, marking a serious weakness in the country's external relations.

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,

Efficient use of  
assets  
7

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.

Urgently needed reforms requested by political leaders and the public were part of bill proposals in 2012 and 2013 that sought to improve public spending efficiency and reform the tax system, but very limited legislative progress has been made to date. There has not been a balanced budget for several years (the deficit amounted to 4.5% of GDP in 2012), and prospects for balance in the near future are not strong.

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. Since the president names ministers without her choices being subject to legislative ratification, she commands the direct loyalty of her cabinet and is at liberty to organize and coordinate it as she deems necessary. Among the institutional mechanisms employed to ensure coordination are regular cabinet meetings (Consejo de Gobierno) at which government priorities are set and discussed. Another mechanism is the appointment of special ministers tasked exclusively with coordinating key policy objectives across sectors. An example of this category is the minister of social well-being and family, whose job is to harmonize the various state organizations working toward social objectives. However, the complexity of the public sector and its fragmentation into multiple organizations and agencies pose difficult coordination challenges that sometimes threaten policy coherence. A salient example of such tension is provided by economic development and environmental policies. According to the policy think-tank Programa Estado de la Nación, these coordination problems stem from the inherent weaknesses of decision-making mechanisms amid 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 have made programmatic differences between government and opposition more likely. Many of the government's deputies have made public profession of their conflicting loyalties, politically weakening the president in front of the opposition and the public, and raising doubts about her

Policy  
coordination  
7

capability to coordinate policymaking. Within the legislature, the executive's credibility was affected by the formation of coalitions that suffered from a lack of effectiveness, a short-term perspective and low flexibility.

Integrity mechanisms manage to contain instances of government corruption, though sometimes the process is slow. The 2004 corruption scandals that involved high-ranking public officials, including two former presidents, lowered the public tolerance for corruption, increased the vigilance of social actors, and led to the passage of enhanced legal mechanisms of control (Anti-Corruption Law 2004). These legal mechanisms include stricter reporting requirements for public officials, including for the declaration of assets and potential conflicts of interest. Party finance regulations were also reformed to increase transparency and end the use of satellite organizations to circumvent controls (new Electoral Code 2009). However, the regulation failed to eliminate the use of debt bonds as a financing mechanism for the political parties. This created a loophole to circumvent the newly established restriction that only individuals can make financial contributions to parties, as corporations and other entities can purchase the bonds. Since ownership of corporations can be anonymous, this undermines the transparency of private funding. At the same time, because funds are repaid by the state on the basis of the actual share of the votes received by parties in the previous election, smaller parties may be handicapped in their ability to garner financing.

Most state entities have internal auditors that closely monitor their spending, and the Comptroller General (Contraloría) also rigorously audits their accounts. Public entities may sometimes employ direct purchasing mechanisms that exempt them from the rigors of the public bidding process. While this may open the door to acts of public-private collusion, it is worth remembering that the incidents of corruption unveiled in 2004 were associated with public bids. The fact that these incidents are subject to prosecution is of primary importance as a deterrent for corruption. The Costa Rican judiciary fulfills this role through its prosecution efforts, but cases often advance too slowly.

Recent years have witnessed escalating numbers of corruption cases within formal institutions, including the judiciary, heightening the public perception of government corruption. The policy think-tank Programa Estado de la Nación remarks that these issues have to be understood within the context of media coverage of corruption trials, as well as of increasing judicial transparency and accountability. That is, the public has become aware of these issues not only because there has been a rise in their frequency of occurrence, but also because there is a more information available and more opportunity for scrutiny.

Anti-corruption  
policy  
8

## 16 | Consensus-Building

All major political actors agree on the goal of consolidating democracy and a market economy. However, as befits a pluralist democratic context, there are different views regarding the optimum strategy for attaining this goal. The debate over the Central America Free Trade Agreement (CAFTA) was driven by these differences, particularly with regard to the centrality of state intervention in the economy and the relevance of trade liberalization. While not all opponents were against free trade per se, many (including the Citizen Action Party (PAC), academics, public sector unions, and local grassroots organizations) argued that CAFTA was not the best way to promote exports and development. They contended that liberalization should be based on national priorities and ideals rather than the logic of globalization, and that a more selective process for opening the economy should thus be pursued. Once the dispute was resolved via referendum (taking place on 7 October 2007) opponents accepted the result, but they have remained critical as liberalization has proceeded.

Consensus on goals  
10

Public dissatisfaction with social and political policies has become more evident in recent years, manifesting in a variety of ways including the creation of the opposition legislative coalition, the rising number of demonstrations and the president's low popularity rating.

Demands reveal disagreement with specific policies and public administration failures rather than a broader questioning of democracy or general development and transformation goals, however. In the case of the opposition coalition, the policy think-tank Programa Estado de la Nación remarks that this alliance was motivated, among other reasons, by concerns about political, economic and media power concentration within a certain sector unrepresentative of national interests, as well as by the ongoing weakening of Costa Rica's institutional framework.

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 political leadership has prevented cleavage-based conflict from escalating, but there are important signs of division that merit attention. The two-party system was organized around traditional divisions inherited from the 1948 civil conflict, but no set of equally divisive cleavages has emerged since its collapse. Instead, conflicts have centered on specific issues that cut across party lines, and thus have not provided a stable basis for party realignment.

Cleavage /  
conflict  
management  
8

The Central America Free Trade Agreement (CAFTA), gay marriage, open-pit mining and hydroelectric projects in indigenous territories are all examples of such

discord-producing issues. However, while these issues have inspired conflict, their resolution has taken place through institutional channels. Aside from the specific issues mentioned, the dominant emergent cleavage today might be between those who benefit from the current socioeconomic circumstances and those who feel themselves to be excluded, including those who do not consider themselves adequately represented by and are thus disillusioned with existing political institutions. According to the 2012 Latin American Public Opinion Project (LAPOP) survey, the country has experienced notable reductions in levels of support for the political system as compared to 2010 (with a share of 55.9% in 2012 compared to 63.2% in 2010). In terms of political tolerance towards persons who are critical of the political system as such, a score of 53% (66.7% in 2010) suggests Costa Rica slightly underperforms, as it trails the regional average (54.1%) somewhat.

The political leadership enables civil society participation and assigns an important role to civil society actors in the course of policymaking. When new laws are enacted or existing laws are reformed, representatives of sectors affected by the laws are typically given an opportunity to voice their concerns before legislative committees. Many government policies, such as those governing minimum wages and salary increases, are decided in consultation with the representatives of worker and employer organizations. Civil society actors also have opportunities to voice their opinions on other policy issues, for example by popular initiative in pushing for new laws or by providing local-level input on environmental regulations. Interest groups also utilize noninstitutionalized channels to represent their interests. Social movements have emerged to oppose government policies in the areas of electric power generation, telecommunications, trade, mining and public works. The Chinchilla administration has met and listened to the views and interests of some of these groups, but does not always take them into account. Several hundred marches or protests also take place every year, which the government generally treats with respect. However, there are areas where civil society participation could be enhanced. For example, the policy think-tank Programa Estado de la Nación notes improving the social and environmental impact of productive activities will require incorporating citizen participation into the planning and development of zoning regulations.

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

The principles of effective cooperation are based on the OECD's Paris Declaration of 2005, substituting partnership for aid, putting ownership at the center of demand-driven cooperation so as to implement national priorities as part of long-term development strategies, and giving special attention to mutual accountability and to

Effective use of support  
9



the avoidance of duplication. Costa Rica has loan agreements with the Breton Woods institutions enabling high-priority investments in infrastructure, research and development, debt restructuring and monetary stability. Since the establishment of diplomatic relations with China in 2010, agreements have been reached to facilitate trade, establish a police academy and expand the national refinery. The establishment of a tax-free industrial zone is also being discussed. For security issues and the fight against international drug-trafficking, the country benefits from U.S.-supported regional security initiatives such as the Central American Regional Security Initiative (CARSI) and marine patrols, and is signatory to the European Union-Central America Association Agreement of 2010 promoting dialogue, trade and cooperation. Likewise it will benefit from regional integration efforts that will reduce technical obstacles to trade, and promote social policies aiming at poverty reduction, gender equality, improved education and public security. However, as an upper-middle income country, Costa Rica has limited access to international support, having as a result to explore alternative modalities such as south-south cooperation exchanging successful experiences and good practices. This has taken place in areas such as biodiversity, where the national INBio Institute is liaising with Benin and Bhutan in a program facilitated by the Netherlands, as well as in border initiatives with Ecuador and Peru, Argentina and Chile, Panama and Nicaragua. In the coming years, the government must orient resources toward comparatively less developed regions of the country.

The government is considered a credible and reliable partner by the international community. Costa Rica has traditionally exerted an outsized international influence with regard to its physical and economic power. It has represented Latin America as a temporary member of the United Nations Security Council three times, the latest of which was in 2008. It has also promoted international treaties and conventions in the areas of arms control, disarmament, international cooperation and environmental protection. Most recently it played an active role in the global climate summit held in Cancun, Mexico. The country is in good standing with international financial institutions, where its economic policies have received positive endorsements. In 2010, the country received an investment grade rating by Moody's for the first time in 12 years. In 2012, Costa Rica became the first recipient of the World Bank's Carbon Fund, allowing access to \$63 million within the context of the Payment for Environmental Services Program. This is the first time a national program has been supported by carbon funds from this global initiative. The country was selected because of innovative policies that have been tested and implemented over the course of two decades.

The political leadership is actively engaged in building and expanding cooperative neighboring relationships and international ties. Relationships with the rest of Central America have experienced ups and downs, although differences have been solved through institutional channels for conflict resolution. Costa Rica belongs to and

Credibility  
10

Regional  
cooperation  
8

supports regional and international integration. As a signatory to the Central America Free Trade Agreement (CAFTA), it is also an active participant in the institutions of Central American integration, notably the Central American Secretariat for Economic Integration (SIECA). Lacking an army, Costa Rica is dependent on diplomacy to foster amicable relations with its neighbors. In addition to multilateral efforts in recent years, it has promoted the use of bilateral commissions to handle relations with Panama and Nicaragua. However, divergent levels of human development, democratic institutionalization, and adherence to the rule of law between Costa Rica and the rest of Central America have often hindered deeper integration. Costa Rica does not participate in the Central American Parliament or the Central American Court of Justice. The Chinchilla administration began with an emphasis on strengthening ties with the rest of Central America, but that objective was trumped by events such as the incursion of Nicaraguan troops along the northern border. Costa Rica subsequently took the case to the International Court of Justice at The Hague, where the case is currently in progress. Tensions continued in 2012 following rulings by Nicaragua-based Central American Court of Justice, whose jurisdiction is not recognized by Costa Rica and Panama. These events have not undermined Costa Rica's commitment to regional cooperation; indeed, the country has made new proposals for institutional reforms and new regional strategies to strengthen trade and fight against drug trafficking.

## Strategic Outlook

Costa Rica must tackle the structural limitations that increasingly threaten progress if it is to maintain and deepen its significant accomplishments in the economic, social and political realms. This will require a set of administrative reforms aimed at enhancing the state's execution and implementation capabilities, strengthening the accountability of legislators, encouraging better coordination between government powers, and providing for consistent policy prioritization.

During the period under review, the country's economy was managed so as to sustain macroeconomic balances while achieving impressive growth rates, new job growth and low inflation rates. On the other hand, growing fiscal and management problems represent a potentially serious weakness in the country's development model. The reform of the tax system remains a top priority, both in order to ensure sufficient revenues for the level of services provided, and to ensure that taxes are collected fairly and efficiently, keeping evasion and elusion to a minimum. However, this concern should not trump other national priorities.

Management and execution capacities should also be improved. Accountability should be strengthened so as to enable political leaders to set and attain clear goals. Strengthening the state's implementation capabilities would allow Costa Rica to consolidate its social policy gains while tackling key deficiencies in the areas of infrastructure, environmental policy, citizen security, human capital and inequality. Problems in these areas are often related to the quality of management and administration rather than to a lack of resources.

In its first three years in office, the administration managed to pass numerous laws; however, only one-quarter of legislation proposed ultimately won approval. Some legislation proposed did not respond to national priorities, or lacked provisions for adequate funding. Some public policies and government activities were essentially reactions to circumstantial events and demands, enacted under pressure from interest groups, rather than the product of long-term strategies. In the legislature, party fragmentation is still moderate but increasing. The governing PLN party can count on the support of splinter parties in order to pass legislation when necessary. However, the capacity to create stable coalitions suffered due to the lack of clear cabinet objectives communicated to the legislative party faction. These elements contributed to shortcomings in the implementation of both the present government's electoral platform and its long-term development strategy. Increasing public dissatisfaction with the political system's outputs has manifest itself in a variety of ways, including the creation of the opposition legislative coalition, numerous demonstrations and the president's low popularity ratings.

Political reforms are necessary to improve the quality and responsiveness of representation. Costa Rican society has become more numerous, plural, urban and educated, while the political system has remained largely unchanged. This increasingly diverse social context must find representation within the country's political institutions, and conditions must enable a recovery of trust in political

parties as well as in the legislature and judiciary. Reforms should aim to provide an institutional environment that is inclusive but also fosters negotiation and consensus, thereby lessening the relevance of obstructive tactics. A more coherent legislature with improved mechanisms for coordination with the executive would likely foster a rebalancing of power among the branches of government, keeping the judiciary as an independent mediator when necessary.

Finally, socioeconomic balance is of central importance for democratic stability. Wealth distribution has steadily been favoring the rich, with growing portions of a once-dominant middle class gradually descending toward the poverty line. This structural exclusion shows the limits of Costa Rica's socioeconomic model, as the country has been unable to reduce poverty and inequality despite sustained economic growth. Considering Costa Rica's long democratic history, these are important signs indicating where the political leadership should focus its attention in future national political projects.