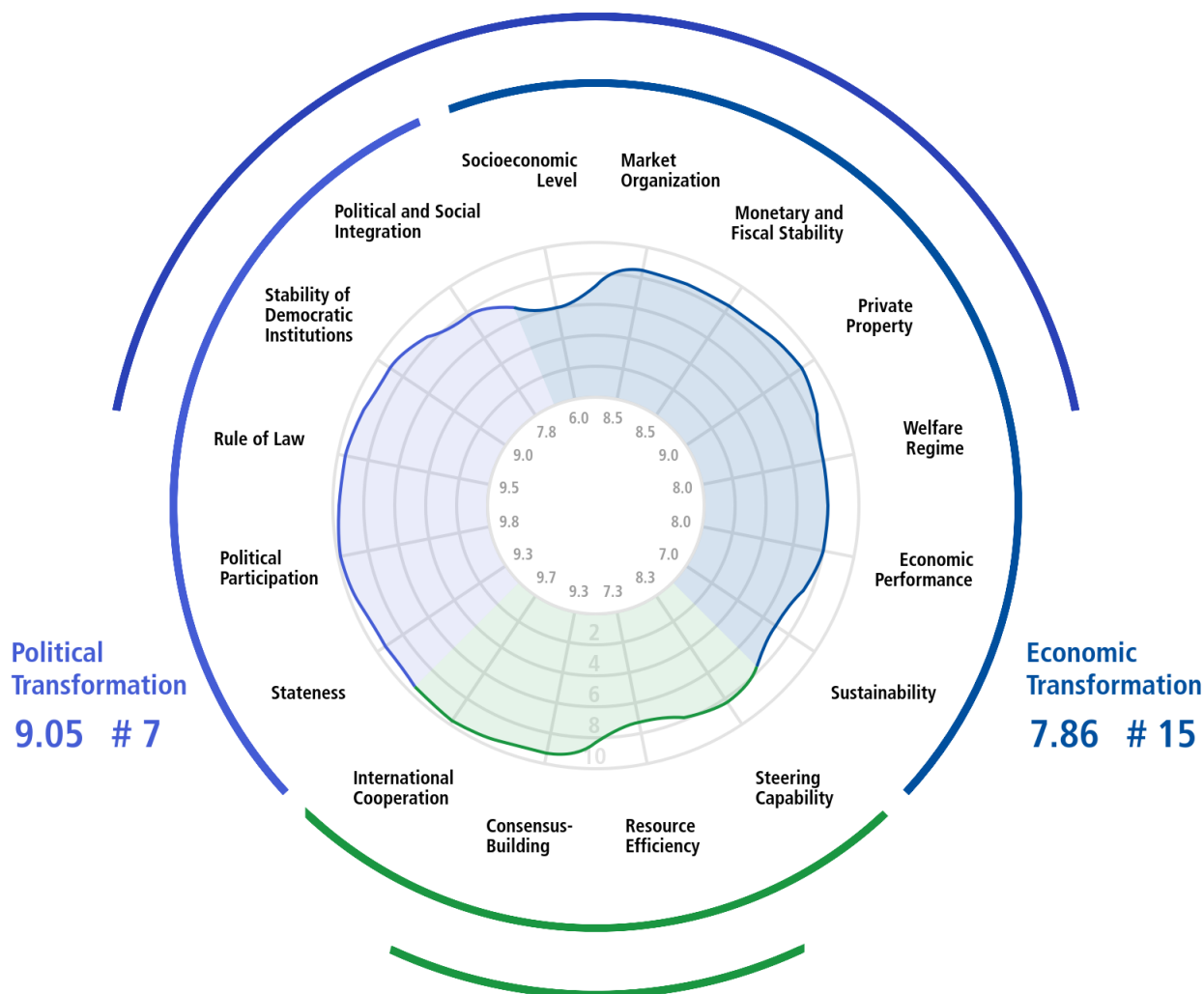


# Costa Rica

## Status Index

**8.45 # 12**

on 1-10 scale out of 137



**Political Transformation**  
**9.05 # 7**

**Economic Transformation**  
**7.86 # 15**

## Governance Index

**7.10 # 6**

on 1-10 scale out of 137

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2024. It covers the period from February 1, 2021 to January 31, 2023. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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**Key Indicators**

Population	M	<b>5.2</b>	HDI	<b>0.809</b>	GDP p.c., PPP \$	<b>24923</b>
Pop. growth <sup>1</sup>	% p.a.	<b>0.5</b>	HDI rank of 189	<b>58</b>	Gini Index	<b>47.2</b>
Life expectancy	years	<b>77.0</b>	UN Education Index	<b>0.753</b>	Poverty <sup>3</sup>	% <b>3.3</b>
Urban population	%	<b>82.0</b>	Gender inequality <sup>2</sup>	<b>0.256</b>	Aid per capita \$	<b>15.1</b>

Sources (as of December 2023): The World Bank, World Development Indicators | UNDP, Human Development Report 2021-22. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.65 a day at 2017 international prices.

## Executive Summary

In the review period, which covers the end of the Alvarado administration (2018 – 2022) and the beginning of the Chaves administration (2022 – present), Costa Rica experienced a recovery in economic growth and a reduction in unemployment, poverty and inequality. Important legislation played a vital role in restoring fiscal control, while authorities successfully maintained macroeconomic stability and addressed external price shocks through monetary and exchange rate policies, as well as borrowing. Despite the ongoing challenges posed by COVID-19, Costa Rica managed to uphold an active democratic life, high levels of human development and strong commitments to social protection, education and renewable energy.

The 2022 national election was held successfully, although with historically low levels of voter participation. Support for democracy remained low and variable, suggesting some ambivalence among citizens who are unsatisfied with how democracy functions. Contributing factors may be the low levels of economic performance and high crime rates. Trust in and identification with political elites remained weak. Party fragmentation in the legislature remained high, with President Chaves' party (Social Democratic Progress Party, PPSD) in the minority. The PPSD emerged as Chaves' electoral vehicle and thus has low levels of institutionalization. It relied on parallel structures during the campaign to avoid scrutiny of its sources and uses of funds, leading to criminal investigations. Chaves cast himself as an outsider and employed populist messaging, attacking traditional parties and the press. His confrontational rhetoric and some of his actions thus far have been deemed threatening to the separation of powers and freedom of the press. This has not been conducive to building effective executive–legislative relations and could make the adoption of necessary reforms difficult.

Despite high levels of social spending, poverty and extreme poverty levels remained at around 20% and 6% of households, respectively. Inequality levels have also remained high compared to past levels. Both poverty and inequality worsened with the pandemic, although government interventions helped mitigate the impacts. They improved with the restoration of economic growth, though not to pre-pandemic levels. Rural areas, ethnic minorities and women were particularly affected. Women earn less than men, have lower rates of market participation and

suffer from higher unemployment. While some market transformations in previous decades created a dynamic external sector, attracting considerable foreign direct investment, they also resulted in a two-tier labor market highly favorable to skilled workers but not to the unskilled, who represent a majority of the labor force. Despite high levels of spending, education has fallen short. Dropout rates at the secondary level are high, educational outcomes are low and there is a mismatch between the skills universities produce and those needed for the market.

Costa Rica became an OECD member in 2020 – an important milestone that will contribute to the country’s future economic and political transformation by making it accountable to best practices. Accession required a series of reforms that strengthened the regulatory framework for competition, bolstered key institutions such as the central bank and the National Statistics Office, created tools for fiscal control and introduced changes that will help combat corruption. However, legally sanctioned restrictions and monopolies still exist, creating an uneven playing field and limiting the gains from additional transformation. With an increasingly complex public administration and a large number of veto players in the political system – including an assertive Constitutional Court and a fragmented party system – change is difficult. Therefore, future transformational capacities will depend on the ability to improve upon some of these features.

## History and Characteristics of Transformation

Costa Rica is the longest continuous presidential democracy in the Western hemisphere, after the United States. The adoption of the 1949 constitution, and its subsequent reforms, established the country’s foundations for political and economic development. The state was transformed into a key player entrusted with the achievement of vital social, economic and, later, environmental rights – all while preserving important economic sectors such as banking, electricity and telecommunications as state monopolies. Additionally, the state took over the administration of health, education and housing and established a network of autonomous institutions. The constitution abolished the army and created an Electoral Tribunal, which functions as an autonomous fourth branch of government.

This constitutional model solidified democratic institutions by enabling and assuring widespread participation and robust political party competition. It also fostered strong public investments in human and physical capital and the rule of law, which served as a backbone for economic development. Additionally, it enabled the attainment of high levels of human development. However, it generated a complex state structure in which the central government coexists with decentralized and autonomous institutions that administer central state goals.

A key moment was the creation of a constitutional chamber in the Supreme Court in 1989. The court protects individual rights, interprets the constitution and settles disputes among government branches. Access to the court is open and virtually without cost. The court has transformed into an important arbiter of political clashes, particularly in increasingly contentious executive–legislative disputes, and has meddled in administrative decision-making when enforcing individual rights.

Because lawmakers can submit bills to the court to prove their constitutionality, it has become a key veto player in the legislative process.

In the last 70 years, differences between the legislative and executive branches have been settled through institutional channels, consolidating the democratic system. However, the country has endured periods of economic instability. At the end of the 1970s, the state-based model came under stress due to internal inconsistencies and adverse international conditions sparked by the OPEC shocks and world recession. Rising fiscal and trade imbalances, accompanied by growing debt, climaxed in runaway inflation and massive currency devaluation, leading to structural reforms in the early 1980s. During this period, liberalization evolved, particularly in the trading sector, with reductions in tariffs and duties. State monopolies in utilities, banking and insurance gradually experienced liberalization, starting with the banking sector in the 1990s. Lucrative state enterprises had already been privatized. An export-promotion strategy successfully attracted foreign direct investment (FDI), enabling diversification in Costa Rica's production. This began with non-traditional agricultural exports and then expanded to high-tech industries in free-trade zones. International investments also spurred the development of a vibrant tourist industry, based on the country's ecological riches, which currently attracts over three million visitors annually.

Another significant transformation occurred with the ratification of the Central American Free Trade Agreement in 2007. This agreement led to increased competition in the telecommunications and insurance sectors. However, as in banking, there was no privatization. While the state lost its monopolies, its firms now compete with those in the private sector. Consequently, this change improved the competitiveness of markets but did not completely level the playing field. Furthermore, the country's accession to the OECD in 2020 involved reforms aimed at strengthening the regulatory framework for competition. These reforms also sought to improve conditions in the banking sector, including the establishment of a deposit insurance regime for all banks. Additionally, the reforms strengthened the central bank and the National Statistics Office, while introducing fiscal control tools to bolster public finances. The enactment of a fiscal rule in 2018 and a Public Employment Law in 2022 have enhanced the country's prospects for placing public finances on a sustainable trajectory. However, the successful implementation of these measures still requires significant commitment and discipline from the government.

The first year of the COVID-19 pandemic generated an economic contraction, destroying employment and gutting fiscal revenues. The authorities managed to preserve macroeconomic stability and helped mitigate the impacts. However, both poverty and inequality worsened.

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

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

The state's monopoly on the use of force remains unchallenged, but it faces considerable threats in the area of citizen security. Inroads by drug trafficking organizations have made the Central American region dangerously prone to violent crime, with homicide rates averaging four times the global rate. While Costa Rica has not reached the levels of criminal violence of the countries in the Northern Triangle (Honduras, Guatemala, and El Salvador), its homicide rates nearly doubled between 2000 and 2015, from 6.1 to 11.5 deaths per 100,000 inhabitants and hit a historical high, 12.2 deaths per 100,000 inhabitants, in 2017. While homicides fell slightly between 2018 and 2019, they started rising again in 2020 and reached their 2017 level in 2022 with a total of 628 committed homicides, according to Insight Crime. A significant portion of these deaths are attributable to local drug gangs, which are usually surrogates for international cartels, according to national security officials. The state has responded with a series of policies, including social violence prevention, stricter gun control, improved coordination of intelligence, and better funding and training for police.

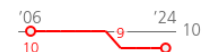
Territorial disputes with Nicaragua continue to be a source of national concern but have receded after Costa Rica obtained favorable rulings from the International Court of Justice in the Hague reasserting its sovereignty over its maritime boundaries and a disputed stretch of land on the Atlantic coast.

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

Question  
Score

Monopoly on the  
use of force

9



1

State identity

10



1

the right to acquire citizenship without discrimination. Costa Rica has over 400,000 legal migrants (2019) according to the United Nations, 8.23% of its population, 71% of them from Nicaragua. The country is welcoming to refugees and migrants, although it instituted temporary entry restrictions on public health grounds due to the COVID-19 pandemic. Growing numbers of Venezuelan migrants have appeared in the country on their way to the United States, sometimes remaining stranded.

Although Article 75 of the constitution establishes Roman Catholicism as the state religion, that same article recognizes freedom of religion. This has generated calls from some sectors for the complete secularization of the state. Catholic archbishops and clergy, together with evangelical political parties, are vocal on key political issues, actively opposing in-vitro fertilization, abortion and same-sex marriage. This last issue turned the 2018 presidential election into a referendum on gay rights after the Inter-American Court of Human Rights issued a ruling obligating Costa Rica to legalize same-sex marriage. Fabricio Alvarado, an evangelical pastor and currently a congressman, mobilized conservative opposition to the ruling, promising to remove the country from the court's jurisdiction if he won. He won the first round, but not the second, and the Constitutional Court eventually ruled the ban against same-sex marriage unconstitutional and discriminatory. His Restauración Nacional party elected 14 deputies to the legislature in 2018, the largest number ever for an avowedly confessional party. The group fractured with Alvarado's departure to form an alternative political party, Nueva República. During the 2022 election, this party elected seven deputies, while Restauración elected none.

At an administrative level, the state successfully provides basic services on a national scale. Access to electricity, sanitation and basic water sources are virtually universal reaching 99.9%, 99.8% and 97.9% of the population, respectively. In recent years, the state has improved its handling of wastewater. It has also increased tax revenues through improvements in collection and better enforcement. Executive capacity has been questioned in the area of transportation infrastructure, where projects face continuous delays and cost overruns. The social security system (CCSS) has faced criticism for long health service queues and irregular drug availability. Actuarial evaluations have also revealed that reserve funds may become insufficient in a matter of years in the absence of reforms. It has become well established that salaries in the public sector exceed those in the private sector and are on an unsustainable growth trajectory due to a complex system of perks and benefits. A reform of this system was passed under the Alvarado administration and will come into effect in 2023, unifying base salaries and limiting salary growth.

No interference of religious dogmas

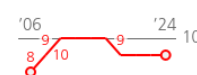
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1

Basic administration

9



1

## 2 | Political Participation

There are no constraints on free and fair elections. The Supreme Electoral Tribunal has evolved into a worldwide prototype of excellence in the organization and management of elections. Electoral registration is automatic, and the tribunal provides citizens with identity cards. Political parties receive state funding based on their vote shares. Electoral participation was expanded with the institution of plebiscites and referendums (2006) as well as the direct election of municipal executives and councils (2002). Citizens living abroad have been able to vote at consulates and embassies since 2013. Incarcerated individuals are eligible to vote, and ballot boxes have been available in jails since 1996. In 2020, elections for the country's 81 municipal governments were held separately from national elections for the second time, with 86 political parties, many of them subnational, fielding candidates. The number of political parties fielding candidates at the national level has also been on the rise, with over 25 participating in the first round of the 2022 presidential election and six obtaining representation in the legislature.

General elections were held on February 6, 2022, to elect the president, the vice president and all 57 members of the National Assembly. Since the presidential nominees failed to gain 40% of the vote, a run-off election was held in early April 2022. The anti-establishment contender, Rodrigo Chaves Robles of the recently formed right-wing Social Democratic Progress Party (PPSD), emerged victorious with 53% of the vote. His top contender, ex-President Jose Maria Figueres from the centrist National Liberation Party (PLN), won 47% of the vote. Despite accusations of sexual harassment against Chaves, he managed to win by positioning himself as a political outsider and focusing on job creation and the economy. He also claimed to represent the popular will and ran a campaign that decried traditional politicians and parties. Figueres was also scrutinized, as he was implicated in influencing state contracts in exchange for financial compensation during his previous presidency. Despite the contenders' scandals, the elections ran smoothly and were deemed free and fair. Voter turnout was however low.

Regarding the legislative elections, no one party won a majority of deputy seats. The PLN won the most seats (19), followed by the PSSD (10) and four other parties each won between six and nine seats.

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

Free and fair elections

10



1

Effective power to govern

10



1



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

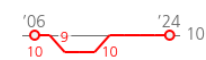
In March 2020 and in response to the COVID-19 pandemic, the government declared a state of emergency that allowed restrictions to be placed on gatherings. Although these restrictions curtailed the right to assemble, they were carried out through established legal procedures and deemed necessary to address the public health crisis. There is no indication of discriminatory enforcement of these restrictions, which were lifted as the health crisis subsided.

Freedom of expression is unrestricted for citizens, groups and the press, as guaranteed by Articles 26–29 of the constitution. A broad array of press outlets, from newspapers to radio, television and the internet, inform citizens and provide varied perspectives on the news and current affairs. The country is ranked eighth out of 180 countries in the 2022 Reporters Without Borders’ Press Freedom Index and deemed the best Latin American country in terms of respecting freedom of expression. However, ownership of the media is concentrated, limiting its pluralism.

State actors have at times attempted to restrain these rights, but they have been rebuffed through the system of checks and balances. For example, in 2014 the Constitutional Court invalidated orders issued by the General Prosecutor to monitor the communications of journalists at the newspaper *Diario Extra*. In 2015, the Solís administration (PAC) proposed a new law that would have established limits to free expression, effectively punishing the use of certain types of language. This widely decried “gag law” was rebuffed, and later that year the legislature dropped three articles of a 1954 law that contained similar provisions but which had long ceased to be enforced. In July 2022, the incoming Chaves administration used sanitary permits as a pretext to shutter a subsidiary of the daily newspaper *La Nación*, in retaliation for its critical reporting about the party and its candidate during the presidential campaign. The Constitutional Court reversed the order in October 2022, calling it a violation of press freedom and a gross misuse of power, ordering the state to pay punitive damages. The administration also appears to have used unsubstantiated tax fraud charges to pursue the owner of *CRHoy.com*, a digital newspaper that has also been critical of the president. The president has also acknowledged that one of his

Association /  
assembly rights

10



1

Freedom of  
expression

9



1

ministers paid trolls to attack critical journalists and deputies through social media without condemning his action. These actions have rightly been condemned as inimical to press freedom and erosive of the separation of powers.

### 3 | Rule of Law

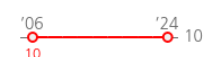
There is a clear separation of powers with mutual checks and balances, structured around the constitution of 1949 and its subsequent reforms. The system establishes three branches of government (executive, legislative, and judiciary), adding a fourth, the electoral branch (the Supreme Electoral Tribunal). From a comparative perspective, the Costa Rican executive is relatively weak. Its decree powers are limited and subject to ratification by the Legislative Assembly, which means they are rarely used for substantive legislative purposes. Control of the legislative agenda is shared with the Legislative Assembly. In recent years, legislation emerging from the chamber and originating from the executive has been decreasing. At the same time, party fragmentation, evidenced by a growing number of effective parties, and ideological polarization have weakened the decisiveness of the legislature and complicated relations with the executive. This has increased the importance of the judiciary, particularly the Constitutional Court, which since 1989 has been charged with settling jurisdictional disputes between the other branches and interpreting the constitutionality of laws.

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

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

Separation of powers

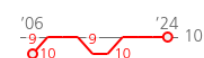
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Independent judiciary

10



1

members of the judiciary to dismiss charges against him by the Electoral Tribunal and the Attorney General's office in 2022, this was widely decried as an inappropriate violation of judicial independence.

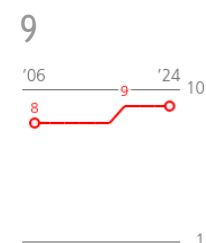
The courts enjoy widespread trust and are used by citizens and private corporations as an arena to settle disputes. They are not believed to be corrupt in general terms, but cases of corruption do emerge and are prosecuted. A pointed example occurred in 2018 when accusations of influence peddling led to the first ever firing of a Supreme Court Magistrate. The judge was charged with improperly interfering with several judicial procedures involving a businessman accused in a fraudulent scheme to import Chinese cement, with whom he maintained a close relationship. An inquiry led to the expulsion of the judge from the Supreme Court in February 2018, and the legislature revoked his investiture as magistrate in April of that same year. The Attorney General at the time and three other magistrates were also implicated in the cement case and received disciplinary sanctions.

Costa Rica has ratified international treaties, approved laws and supported watchdog organizations against corruption. In general, it applies the anti-corruption measures effectively. In April 2022, then President Carlos Alvarado signed a law aimed at preventing the indefinite re-election of municipal officials, such as mayors, by popular vote. This measure was implemented to ensure a rotation of power and deter corruption. While allegations of corruption are thoroughly investigated and prosecuted, including cases against former presidents, ministers, judges and mayors, the legal process often tends to be protracted and frequently fails to result in charges against the accused. Recently, six mayors were allowed to return to their posts after being temporarily detained and suspended for suspected acts of corruption at the end of 2021.

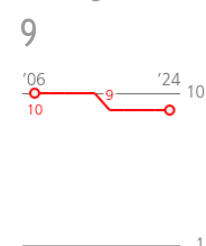
Citizen awareness of and activism against abuse of office are high, partly because of a vigilant media. The 2021 Americas Barometer shows that 58% of respondents believe that more than half of politicians are corrupt. However, this is lower than the regional average (65%). Trust in the judiciary, as captured by these polls, remains stable.

Civil rights and nondiscrimination are guaranteed by the constitution and enforced through the Constitutional Court and the Ombudsman's Office. The Constitutional Court allows individuals to seek recourse ("Amparo") for the violation of constitutional rights. Access to the court is extremely open and virtually costless. Anyone (including non-citizens) can present a writ without needing a lawyer or specialized language. Only a description of the grievance is required. The court's decisions carry the force of law and cannot be appealed. The Ombudsman's Office (or Defender of the Inhabitants) serves as an advocate for citizen rights and intervenes at the administrative and judicial levels to remediate rights violations, both for individuals and groups. However, in recent years, the Ombudsman has been embattled by accusations of ineffectiveness and mismanagement. According to the

#### Prosecution of office abuse



#### Civil rights



2021 Americas Barometer, 44% of Costa Ricans believe their basic rights are protected, the fifth highest level in the region. However, commenting on a case of employee physical abuse in 2022, the U.N. Special Rapporteur on contemporary forms of slavery said Costa Rica's legal and administrative protections for such kinds of abuse are weak and potentially biased in favor of employers. The country has Latin America's third-highest rate of incarceration, according to World Prison Brief 2019, with problems of overcrowding, poor sanitation and violence in prisons. Laws exist to protect against domestic violence, but violence against women and children remains a problem.

A 2015 constitutional amendment defined Costa Rica as a multiethnic and pluricultural republic, highlighting the historical relevance of racial and ethnic minorities not formerly acknowledged in the country. Together with laws and regulations safeguarding the rights of Indigenous peoples, promoting female electoral inclusion and preventing violence against women, these institutional structures evidence a formal intention to protect minority rights. However, inequalities persist in the degree of access to these rights. Freedom House (2022) affirms that the LGBTQ+ community faces persistent discriminatory attitudes and practices from law enforcement officials. Indigenous people, who make up about 3% of the population, face discrimination. There are no Indigenous representatives in the legislature, and land disputes involving protected holdings of Indigenous communities persist.

#### 4 | Stability of Democratic Institutions

A profusion of veto players within the state's institutional domain has increased the difficulty of facilitating change. Costa Rica has a relatively weak executive with practically no decree powers and a limited veto. Enacting its agenda depends on its ability to negotiate and generate political agreement, if not consensus. The shift from a two-party (1990 – 2002) to a multiparty system (2002 – 2018) with increasing levels of party fragmentation has made this difficult. The Estado de la Nación finds that bills in the last six years required over 20 months, on average, to be approved by the legislature. This situation improved in the last two years, with the average falling to 14 months, but it is not known whether this will continue.

Fragmentation and ideological polarization have increased in the legislative assembly, where the government party has not held the majority since 1994. The current government of President Rodrigo Chaves, like that of his predecessor, controls only 18% of the seats in the legislature, and its legislative group is only the second largest (of six). Together with factional divisions within political parties, this has increased the difficulty of coordination between the legislative and the executive.

At the legislative level, procedural rules allow minority groups to block substantive reforms. Legislators can also submit bills for constitutional review. At the administrative level, the Comptroller General exercises strict financial and administrative control over the multiple organizations under its purview. While

Performance of democratic institutions

8



necessary, this greatly reduces the flexibility of the executive. At the citizen level, the Constitutional Court has empowered individuals against administrative action (or inaction). These regime characteristics have diluted the effectiveness of democratic institutions and reduced accountability by allowing the different players to blame each other for stasis.

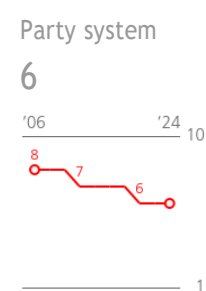
There have been considerable efforts to transfer more competencies and resources to municipal governments and allow the citizenry to elect local representatives directly. Yet, the effectiveness and political reach of these governments remain limited. The America's Barometer (2016/17) shows that only 7% of respondents attend municipal meetings, and 64% of eligible voters did not vote in the 2020 municipal elections.

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



## 5 | Political and Social Integration

Although Costa Rica has established institutionalized political parties, the party system has been relatively fluid since the end of two-party rule in 2001. This trend has been characterized by growing fragmentation and ideological polarization, along with a notably tenuous and fluctuating voter affiliation. This has corresponded with declining levels of electoral participation and a reduction in party loyalty and identification. Party discipline has also diminished, as evidenced by an increase in the number of elected legislators breaking from the party they were elected under. During the Alvarado administration, 10 deputies, or 17.5% of all legislators (a fraction as large as the governing party's group), were in that condition. The effective number of parties increased from an average of 2.3 during the two-party period to an average of 4.9 in the four elections since 2010.



Several studies from Estado de la Nación have highlighted the fragility and volatility of electoral support for the party system since 2006. Party loyalty tends to be short-lived and linked to the personality of party leaders rather than programmatic or ideological characteristics of the organization. According to the latest Latinobarómetro report, in 2020, only 10% of respondents said they had a lot to some trust in political parties, down from 17% in 2018. In the most recent national election (2022), almost 65% of voters did not vote for the same party they had supported in the previous one (2018), the highest change since 1958. This is not surprising when

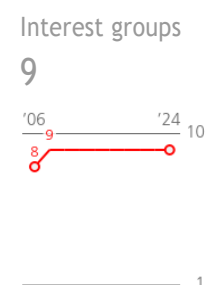
we consider that the party that won the presidency (Partido Progreso Social Demócrata) ran in its first election in 2022. Voters also tend to split their votes, supporting different parties for the executive and Congress. This tends to result in a divided government where the legislature is controlled by opposition parties. The governing party of the past two administrations (2018 and 2022) has controlled a mere 18% of the seats in the legislature.

Ideological polarization has also been increasing, particularly since 2002. The two largest parties, Liberación Nacional (PLN) and Acción Ciudadana (PAC), have been moving in opposite directions along the right-left spectrum, as measured by the University of Salamanca's political elites survey. Notably, it was a newly formed party featuring a political outsider that won the 2022 election. Voter discontent with the old parties and a desire for change appear to have been key factors explaining its success. That same election saw the total collapse of the PAC. Despite winning the presidency in the past two elections (2014 and 2018), the party was unable to elect a single deputy in 2022. While the 2018 election evidenced polarization around sociocultural issues like same-sex marriage, abortion, sexual education guides and religion, these issues were not as present in 2022.

Costa Rica has a broad range of interest groups. There are currently several thousand registered civic associations, 3,901 community development associations and 376 cooperatives. Unions represent about 15% of the workforce, with about 83% of those unionized working in the public sector. An additional 23% of the workforce is represented by solidarist associations. The peak employer organization (UCCAEP) has 49 affiliates, which are associations in themselves and in turn represent most of the productive sectors of the economy. This broad network of associations and interest groups is an effective channel for mediation between society and the political system.

According to Estado de la Nación, most social mobilizations are staged by organized workers, of which public sector unions are decidedly the dominant group. They are followed in importance by neighborhood and family associations and other civic groups. Organized collective action episodes reported by the media averaged 373 between 1992 and 2021, but they notably declined during the Solís Rivera presidency, with the final year of the administration (2017) registering the lowest number of episodes on record (176). This trend continued during the Alvarado administration, mostly due to COVID-19, except for 2018 when collective action episodes rose significantly as various sectors mobilized to oppose fiscal reforms.

The state is generally respectful of collective actions and abstains from repressing or undermining them. Road blockages, which are frequently employed by protesters as a disruption tactic, have become increasingly contentious and, in 2020, led to violent confrontations with police. The blockages were ruled unconstitutional and ordered removed, and the government opened criminal proceedings against those promoting them. This led to claims that protesting had been criminalized. There are no organized



movements that seek to undermine democracy or civil society. The Americas Barometer (2016, 2018) shows that the percentage of Costa Ricans that engage in protest marches and demonstrations is, on average, about 9%.

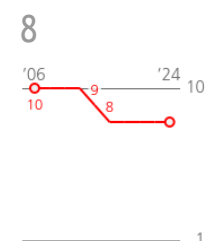
Since 2012, Costa Rica has experienced a downward trend in approval of democracy that is consistent with the higher volatility of electoral preferences, lower levels of political participation, and high levels of disenchantment with corruption that the country has experienced. The Americas Barometer measures the levels of diffuse support for democracy through an index of five questions that probe respondents' respect for democratic institutions, norms and rights. This index captures the generalized attachment of citizens to the more intangible objects of the political system and its institutions. In 2012, Costa Rica scored its lowest value for the index since 1978, 55.8 (of 100). The index recovered slightly in 2014, fell in 2015, recovered again in 2016, and fell once again in 2018 and 2019. Such variability suggests some ambivalence about democracy among the citizenry. Because mean levels of system support for democracy capture the inherent value citizens place in democratic institutions, they should be relatively stable in the short run. A new question was introduced in the 2021 Americas Barometer to assess which systems of government the public would prefer, given low levels of support for democracy. Costa Rica had the fourth-largest proportion of respondents (64%) saying they would prefer one that guarantees basic income and services, even if they had to give up elections.

Variability is more common with specific support for democracy, which is linked to the general performance of the democratic system. This is gauged by asking respondents how satisfied they are with the functioning of democracy in their country. The proportion answering that they were very satisfied or satisfied in the Americas Barometer fell from 73.4% to 51.9% (2014 – 2021). The expressed belief in democracy as the best system of government despite its flaws (Churchillian democracy), a more abstract assessment of democratic support, has also fallen, from a high of 80% in 2010, to 68% in 2021. In all, democratic approval levels have not been restored to the higher levels seen in the past and remain highly variable.

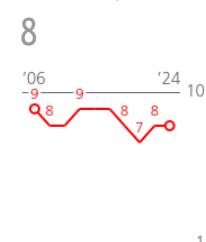
Costa Ricans have a relatively high level of respect for political institutions, with a score of 77 out of 100 in the Americas Barometer 2021, the second highest for the region.

The level of interpersonal trust as measured by opinion surveys is moderate and decreasing. In 2010, the Americas Barometer ranked Costa Rica as having the highest level of interpersonal trust in the Americas, ahead of Canada and the United States. The percentage of respondents that consider the people in their community to be somewhat or very trustworthy has fallen in every survey since, going from a high of 77% in 2010 to 62% in 2021. However, at over two-thirds, this level supports the notion that there is a fairly high sense of solidarity and trust among the citizens.

Approval of democracy



Social capital



At the same time, there is a considerable number of civic associations, unions, solidarist associations, cooperatives and community development associations in the country. This suggests a fairly high level of voluntary and autonomous organization in Costa Rican society. But the degree to which individuals engage themselves with those organizations does not appear to be great. Of the five types of associations evaluated by Americas Barometer – religious, parents', community improvement, political and women's – only in the case of religious associations did 50% or more of respondents say they participate at a significant level.

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

The Costa Rican state has implemented social inclusion policies that have led to significant advances in human development. However, poverty levels have remained stagnant at around 20% and extreme poverty at around 6% since 1994. Based on household surveys conducted by the National Statistics and Census Institute, income inequality has risen from a Gini coefficient of 0.495 in 2006 to a historic high of 0.524 in 2021. Preliminary results for 2022 indicate a decline in the Gini coefficient to 0.504, but current levels remain significantly higher than those observed in the 1990s (0.461).

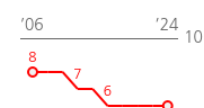
In 2021, Costa Rica's Human Development Index score was 0.809 (ranked 58th). However, when adjusted for inequality, the score drops by 18%, resulting in a 17-point decrease in ranking. The wealthiest 10% of the population holds 37% of the total income, with the top 1% accounting for 19.1%, while the bottom 40% has only 12.1%. Unfortunately, this distribution has not improved over the past decade. Consequently, Costa Rica is no longer considered one of the most equitable countries in Latin America.

Poverty levels are higher in rural areas (28.3%) than in urban areas (21.1% in 2022). They also tend to be higher in households where the head of household is unemployed, female or has a low educational level. The Brunca region (located on the southern Pacific bordering Panama) has the highest poverty incidence at 34%, nearly double the lowest level found in the Central Valley region (18%), which is home to the majority of the population. The Huetar Norte region (north central, bordering Nicaragua) and the Huetar Caribe region (north Atlantic) both have poverty levels above 30%. Although the Brunca and Huetar Caribe regions account for only about 16% of the national population, they are home to the majority of the country's Indigenous people. In contrast to poverty, inequality is lower in rural areas than in urban areas.

Question  
Score

Socioeconomic  
barriers

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Costa Rican women had a higher life expectancy at birth than men, at 79.8 years compared to 74.4 years in 2021. They also have higher levels of education. However, their average income per capita, as estimated by UNDP, is only 71% of that earned by men. Consequently, their human development level falls below parity with men, as indicated by a Gender Inequality Index score of 0.256 in 2021.

Economic indicators		2019	2020	2021	2022
GDP	\$ M	64417.7	62395.6	64616.5	<b>68380.8</b>
GDP growth	%	2.4	-4.3	7.8	<b>4.3</b>
Inflation (CPI)	%	2.1	0.7	1.7	<b>8.3</b>
Unemployment	%	10.8	16.4	15.1	<b>11.5</b>
Foreign direct investment	% of GDP	4.2	3.4	5.6	<b>5.2</b>
Export growth	%	4.3	-10.6	0.0	<b>30.0</b>
Import growth	%	-2.3	-12.9	0.0	<b>21.0</b>
Current account balance	\$ M	-825.2	-631.7	-1604.5	<b>-2706.1</b>
Public debt	% of GDP	56.4	66.9	68.0	<b>63.8</b>
External debt	\$ M	29800.8	31269.3	33787.8	-
Total debt service	\$ M	3145.0	3000.4	3069.6	-
Net lending/borrowing	% of GDP	-	-	-	-
Tax revenue	% of GDP	13.4	12.3	14.1	-
Government consumption	% of GDP	16.8	17.7	16.5	<b>15.6</b>
Public education spending	% of GDP	6.7	6.6	6.3	-
Public health spending	% of GDP	5.2	5.6	-	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	-	-	-	-

Sources (as of December 2023): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

## 7 | Organization of the Market and Competition

Market competition is consistently defined and implemented at both the macro and micro levels. Most prices are determined competitively, and currency is easily convertible.

Entering contracts, regardless of the currency used, is protected by law and there are no restrictions on making and withdrawing investments. To ensure equal opportunities for all participants in the market, there are state-guaranteed rules for market competition (Law 7474). According to Article 19 of the constitution, foreigners are granted the same rights and responsibilities as citizens. However, the OECD has reported limitations on foreign acquisitions of land and real estate in coastal and frontier areas. Furthermore, there is a clear preference for local suppliers in public procurement processes. Foreign suppliers can only participate in international tenders if there is reciprocity. Additional restrictions exist in the energy sector, with state monopolies in petroleum refining and in the transmission and distribution of electricity. Private parties have limited ability to generate power, and foreign investments are capped at 65% and 49% equity shares in electricity generation and road freight transport companies, respectively. Additionally, permits for domestic road freight traffic are only granted to nationals or local companies, with nationals holding the majority of shares.

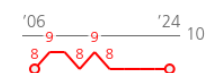
According to International Labour Organization data, informal employment increased from 35% in 2011 to 36.6% in 2020. However, the Costa Rican Statistics and Census Institute reports higher informality levels: 44% in the last trimester of 2022. Both sources show higher informality rates for women than men. Costa Rica maintains a policy of being receptive to asylum-seekers and other migrants, which enables the cross-border mobility of labor. However, the Migration Policy Institute reports that migrant laborers, especially Nicaraguans, may face subtle barriers and discrimination.

Laws are in place to ensure competition. There is a National Commission for the Promotion of Competition (COPROCOM) that is responsible for investigating and penalizing monopolistic practices. COPROCOM is affiliated with the International Competition Network. The insurance and telecommunication sectors, which had been state monopolies since 1924 and 1963, respectively, were opened up by the 2007 Central America Free Trade Agreement and complementary laws. Additionally, the electricity sector was partially opened to allow for private entities to generate power, but with a cap of 30% of national installed capacity (as stipulated by Law 7200).

While these actions have increased market competitiveness, legally sanctioned monopolistic limitations still exist. In the electricity sector, transmission, distribution and export are state monopolies. While regulated by the Autoridad Reguladora de Servicios Públicos, the state-owned Instituto Costarricense de Electricidad (ICE)

Market  
organization

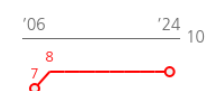
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Competition policy

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holds considerable sway over the direction of the sector. Reports by the Comptroller found that some of ICE's administrative and investment practices have unnecessarily inflated electricity prices. Private generators depend on ICE to set contracts to bid for half the capacity they are entitled to generate. A decision by the company to stop buying electricity from seven private generators in December 2020 forced several of them to close, raising questions about the sector's juridical security.

The state also retains monopolies in alcohol distillation, the importing, refining and distribution of petroleum and its derivatives, and the operation of railroads, ports and airports – although the latter have been offered in concession to private entities. State companies maintain important market shares where they previously held monopolies. The state insurance company (INS) retains a monopoly on workplace risk insurance, which represents about 20% of total premiums. Beyond this, the INS controls about 61% of the market (2022). It is dominant in auto (71%), life (58%) and fire (74%) insurance but has been losing market share in most areas and is increasingly challenged by private health providers, in which sector its share has dropped to 26%. State banks are also dominant. They enjoy an explicit state deposit guarantee not available to private competitors and a monopoly on deposits from state-owned institutions, which allows them to control about 70% of the local currency market for demand and savings deposits. In telecommunications, the state company lost roughly 48% of its mobile phone market to private competitors between 2010 and 2019.

The constitution expressly prohibits private monopolies. However, sector-specific laws and judicial decisions exempt several markets from competition regulations, generating monopolistic practices that limit competition and distort prices in sectors such as ground and maritime transport, sugar and rice. Two laws passed in 2020, as part of the country's accession to the OECD, will partially address this issue. One law strengthens the regulatory framework for competition, providing COPROCOM with greater autonomy, independence and resources. The other law establishes a deposit insurance regime, covering both private and public bank deposits up to \$10,000, which includes approximately 96% of deposits.

Costa Rica has continued to liberalize its foreign trade regime through participation in preferential trade agreements, both bilateral and multilateral, while maintaining a proactive strategy to attract foreign direct investment. According to the World Bank, the country is widely liberalized, with a 2021 trade-to-GDP ratio of 70.6%. The WTO reports a simple average of the most-favored nation applied tariff of 5.6%. The U.S. International Trade Administration states that there are no significant trade barriers to the entry of most goods and services, although the requirement of a Good Manufacturing Practices Certificate for the registration of pharmaceutical and cosmetic products is considered the single remaining non-tariff barrier. In 1990, Costa Rica joined the General Agreement on Tariffs and Trade, becoming a founding member of the World Trade Organization in 1994. It has actively participated in the multilateral trade system, including the negotiations of the Doha round. To date, the

Liberalization of  
foreign trade

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country has signed 15 regional trade agreements, including agreements with the United States, Dominican Republic and Central America, the Caribbean Community of Nations, Canada, Chile, Mexico, Panama, China, Singapore and Colombia. Costa Rica is also a party to the association agreement signed between the European Union and Central America in 2012. In May 2020, Costa Rica became the first Central American country and the fourth Latin American country to be admitted to the Organization for Economic Cooperation and Development. Additionally, it has observer status with the Asia-Pacific Economic Cooperation forum and the Pacific Alliance and has made efforts to join the Trans-Pacific Partnership. Two state entities, the Ministry of Foreign Trade and PROCOMER, are dedicated to pursuing international trade and investment, along with the private export promotion office CINDE.

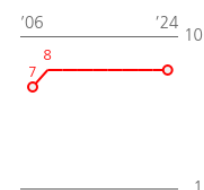
The banking system is stable and regulated in accordance with international standards. All intermediaries must register with the Superintendencia General de Entidades Financieras (SUGEF), whose regulatory framework was recently enhanced by the legislature. There are 43 supervised institutions: 15 banks (four state-owned, 11 private); 21 savings and loan cooperatives; five non-bank financial institutions; and three other specialized savings and loan organizations. The OECD reports a significant level of concentration in the banking sector, with state banks controlling 60% of assets.

Strict disclosure rules exist. Information on market participants is available to the public. Capital adequacy requirements have remained at around 10% for several years, but actual ratios are much higher, averaging over 17% in 2020. The IMF describes the banking sector as adequately capitalized, liquid and with a relatively low percentage of non-performing loans (2.5%, although the rate is rising in the aftermath of the pandemic), but with low profitability and high exposure to foreign exchange fluctuations. Approximately 37% of credit to the private sector is in foreign currency, mostly to unhedged borrowers. However, stress tests suggest that the system is well positioned to absorb sizable shocks, including those from exchange rates.

About 40% of bank liabilities are in foreign currency. Banking spreads are high due to market distortions unique to the country. State banks have a competitive advantage because their liabilities are guaranteed by the state. This advantage is further compounded by the requirement for public institutions to deposit their funds with state banks, allowing state banks to capture up to 70% of the market for local deposits. In order to fund a development banking program, private banks must transfer 17% of their demand deposits to state banks, to which state banks also contribute a 5% tax on their profits. These distortions, as noted by the OECD, fragment the banking market, hamper efficiency, limit competition and result in high interest rates. A reform passed in 2020, which instituted a deposit guarantee for all banks, is a positive development, but it is the only measure implemented thus far.

#### Banking system

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## 8 | Monetary and fiscal stability

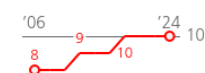
The central bank exercises significant autonomy and consistently pursues and communicates its plans to achieve monetary stability. The bank formulates a monetary program that is widely publicized and regularly adjusted to manage expectations. According to the IMF, monetary policy has been successful in controlling inflation and lowering inflation expectations. The use of a flexible exchange rate, with a managed band system within a market-determined exchange rate, has helped mitigate the impact of external shocks. In 2019, central bank independence was strengthened through legislation that requires the election of its president in years separate from the national electoral cycle and removes the voting power of the finance minister on its board.

The arrival of COVID-19 in the first quarter of 2020 found the country with low growth and high unemployment. The interruption of international travel aggravated these conditions due to the economic importance of tourism. Inflation fell to 1.2% during the first six months of the year and to a negative 0.17% in July. The bank responded by lowering the policy reference rate to 0.75%, its lowest level to date, by purchasing government securities in the secondary market to improve liquidity, and by lowering reserve requirements from 15% to 12%. GDP growth rebounded strongly at 7.8% in 2021 and is estimated to be 4.3% in 2022. An international context characterized by supply chain disruptions and rising fuel prices resulted in high inflation levels, and monetary policy shifted to a restrictive stance at the end of 2021. Between December 2021 and November 2022, the central bank raised its policy interest rate by 820 basis points and increased reserve requirements back to 15%. A gradual reduction in the international price of fuel and raw materials, a strong recovery of the tourism sector, and an inflow of \$1.45 billion in loans from the Latin American Reserve Fund, the World Bank and the Inter-American Development Bank bolstered international reserves and led to an appreciation of the currency relative to the dollar by about 14% in the second semester of 2022. The bank is projecting GDP growth of 2.7% for 2023.

Until recently, government budget policies have not been conducive to fiscal stability. Over the last 35 years, the central government has had a deficit every year except two (2007 – 2008). High levels of spending after 2008, without corresponding revenue increases, drove the deficit in 2017 and 2018 to around 6% of GDP. The deficit approached 7% of GDP in 2019 due to lackluster growth and sustained public spending. The pandemic worsened the fiscal outlook as measures to combat infection reduced economic activity (and therefore revenues), while the response to its health and social impacts raised spending. As a result, the deficit reached a historic 8% of GDP in 2020.

### Monetary stability

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### Fiscal stability

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However, fiscal reforms in 2018 and the passage of a Public Employment Law in 2022 marked a turning point. The 2018 reforms modified the salary supplements paid to public employees, subjecting them to performance reviews and preventing automatic growth. They also entailed a fiscal rule that limits the growth of public expenditures, changed the sales tax into a value-added tax, broadening its base, and introduced a 15% tax on capital gains. The reforms also established two new tranches of income tax for higher earners and increased the tax rate on earnings paid by cooperatives. The Public Employment Law orders and rationalizes the compensation of public employees, which accounts for more than half of government revenues. It was part of a 2021 agreement with the IMF for a \$1.75 billion, three-year Extended Fund Facility loan that will greatly contribute to stabilizing the country's fiscal situation.

These changes, coupled with significant fiscal discipline exercised by the Alvarado administration (despite considerable resistance from public sector institutions), resulted in a three-point reduction of the 2021 fiscal deficit, which was 5% of GDP at the end of the year. While still high, this level is more manageable and comes with a primary surplus – meaning that government revenues exceed expenses before interest payments – making reductions in public debt possible. The public debt reached 68% of GDP in 2021. The central bank predicts a continuation of this trend toward lower deficits with growing primary surpluses in 2023 and 2024.

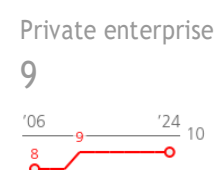
## 9 | Private Property

Property rights are secure, and contracts are generally upheld. Rules and regulations relating to property acquisition, benefits, use and sale are well defined and enforced. In certain situations where there is a public interest, these rights may be overridden, but always through a proper legal process and with adequate compensation. The government maintains appropriate registries and strives to protect the property rights of both its citizens and foreign investors. However, foreigners who wish to acquire state concession property can only do so by entering a minority partnership with a Costa Rican citizen, unless they have been residing in Costa Rica for at least five years. While the rule of law guarantees these rights, the judicial system often experiences delays in resolving legal disputes, which reduces its overall effectiveness.

Private companies, which are considered the primary engines of economic production, are provided with appropriate legal safeguards, as outlined in the constitution, while state involvement in the economy has a long-established history that includes public monopolies in various sectors. Although the Central American Free Trade Agreement was ratified in 2007 and its complementary laws enacted, allowing for competition in certain sectors, privatization was not the method employed. State enterprises, including those in telecommunications, electricity



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generation, insurance and banking, continue to compete alongside newly established private companies. Although the playing field is not entirely level and state enterprises enjoy certain advantages, the entry of private competitors has played a role in expanding the market, reducing prices and improving quality. Furthermore, the state has increasingly relied on private enterprises to act as contractors for large infrastructure projects rather than utilizing concessionaires. Given the state's budget limitations, this trend is likely to continue as an area of growth for private investors. A recent legal reform has enhanced the regulatory framework for competition, granting greater autonomy, independence and resources to the public entity responsible for promoting and regulating competition.

## 10 | Welfare Regime

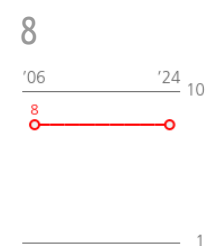
There has been a broad and sustained effort to develop social safety nets capable of mitigating social risks and preventing poverty. Social investment by the state includes universal programs, such as health and education, as well as contributory programs like pensions and programs targeted at vulnerable segments of the population, including conditional cash transfers and non-contributory pensions. Universal programs represent the largest share of public spending, accounting for a combined 25% of GDP in 2020 (6.9% in health, 6.96% in education, 8.1% in social protection and 2.4% in housing).

Health and pensions are managed by the social security organization (CCSS), which is funded mostly through tripartite payroll contributions complemented by government transfers. The coverage of universal services is high, with approximately 70% of the economically active population covered for health and 63% for pensions. The remaining population is covered as dependents and/or beneficiaries of selective programs.

According to the World Bank, health indicators for the population are good, with a high life expectancy at birth (80.5 years), low under-five mortality rates (8 per 1,000 live births) and relatively low maternal mortality rates (6 per 1,000 live births).

Despite this, social investment has been unable to permanently reduce poverty below 20% or halt an increase in income inequality. It is estimated that approximately 25% of the most vulnerable population is not covered by targeted programs. There is no unemployment insurance; however, payroll taxes contribute to the capitalization of individualized severance accounts that workers can access if they lose their jobs. In recent years, the CCSS has encountered significant administrative and financial challenges. Its hospitals have struggled to meet the growing demand for specialized treatments as chronic diseases displace infectious ones. An aging population has resulted in a higher ratio of dependents-to-working population, leading to funding issues. Likely reforms will necessitate an increase in payroll contributions, a reduction in pension benefits, an increase in the minimum retirement age or a

Social safety nets



combination of these measures. Nonetheless, employer contributions are already high by OECD standards and may contribute to informal employment. In 2017, the CCSS raised the payroll contribution of workers by one percentage point.

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

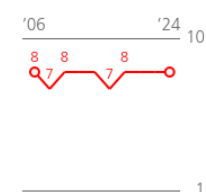
Costa Rican institutions strive to provide equality of opportunity, but they have varying levels of success. Access to health care is broad, with consistent quality of service across socioeconomic levels and, increasingly, across geographic areas. However, access to education, which is the primary source of opportunity, is still far from universal. There is a high dropout rate, even with conditional monetary transfers (Avancemos) aimed at offsetting the opportunity cost of schooling for poor families. These outcomes are not due to insufficient investments, as Costa Rica spends more on education than the average among OECD countries. The gross enrollment ratios are 115% for primary education, 142% for secondary education and 57.7% for tertiary education.

Female and male enrollment are equal in primary education, while female enrollment is slightly higher in secondary and tertiary education (1.1 and 1.2, respectively). However, women do not have equal employment opportunities. Their workforce participation rate in 2021 was 43%, which is 26 percentage points lower than men's. The main reason for this disparity is the large burden of unpaid household work that women have. Women spend about 21% of their hours on such work each week, compared to 8% for men. Female unemployment was twice as high as male unemployment in 2022. Due to difficulties securing full-time employment, women tend to work fewer hours per week than men. Additionally, women have higher rates of informality and face an earnings gap relative to men. Over the past 20 years, this gap has averaged close to 10% and was 8.3% in 2022. This cannot be explained by differences in educational attainment and is more pronounced for women in the lower quintiles of income distribution.

Female representation in politics is significant. There is parity of representation at the cabinet level in the current (Chaves) administration, as there was during the previous (Alvarado) administration. In the legislature, 47.4% of the seats in the 2022 election went to women, an increase over the three previous elections (2010, 2014 and 2018) and higher than the legal mandate requiring 40% of available electoral positions to be open to women. In the judiciary, women represent 53% of all judges, but predominantly in its lower-tiered courts. While 60% of judges in tiers 1 and 2 are women, that percentage falls to 29% for tier 5. Only 39% of Supreme Court magistrates are women. At the municipal level, only 7% of mayors and 40% of council members elected in 2020 were women.

Equal opportunity

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The country's Indigenous populations and Afrodescendants also face greater barriers to opportunities, as evidenced by lower levels of human development in the Brunca and Huetar Caribe regions, where many of them live. These regions also have higher poverty levels compared to the Central Valley region.

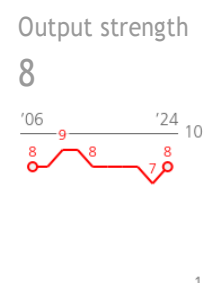
## 11 | Economic Performance

Costa Rica is an upper middle-income country with the fourth-highest GDP per capita in Latin America, at \$21,199 (PPP constant 2017 international in 2021). However, real GDP growth has slowed since 2017 and experienced a 4% decline in 2020 due to the pandemic. Growth has since rebounded strongly in 2021, reaching 7.8% and is projected to reach 4.3% in 2022. Most sectors have now regained their pre-pandemic levels of output, driven by robust exports and domestic consumption. Foreign direct investment quickly recovered in 2021, and the tourism sector has also been gradually regaining its pre-pandemic strength. However, public spending had a limited stimulative impact due to efforts to constrain it and comply with limits imposed by a new fiscal rule.

One of the country's greatest challenges has been generating dynamic job opportunities in the domestic sector. While output recovered in the aftermath of the pandemic, employment has lagged. This means there has been a rise in labor productivity, but it has involved social costs. Current unemployment levels hover around 12%. The emphasis placed on foreign direct investment has privileged skill-intensive jobs, which are well remunerated but not numerous, given the lack of backward linkages in the export sector. The result has been a dual labor market where most of the workforce remains in low-productivity, low-paying jobs in the informal or service sectors. According to the OECD, skill mismatches are high, with universities emphasizing the social sciences and humanities at the expense of STEM. At the same time, educational achievement, as measured through PISA scores, is low and declining. Keeping skill premiums high contributes to wage inequalities, which are exacerbated by high public sector salaries.

Inflation – which had been low and in the single digits for the past 13 years – grew at an annual rate of 10% during the first half of 2022, closing the year at 7.9%. Most of the increase was due to high prices for fuel and food caused by the international disruption of supply chains in the aftermath of COVID and the war against Ukraine. Robust economic growth as the country rebounds from the pandemic was also a contributing factor. The central bank raised interest rates aggressively in response, so that inflation has remained within the boundaries of what other OECD members have experienced. However, this will likely inhibit growth.

Despite a complex environment, the government has maintained fiscal control, while the central bank has preserved macroeconomic stability. However, the conditions will remain challenging. At current debt levels, the fiscal rule will only allow for 2.6%



growth in spending, which will require considerable discipline and restraint. The recent approval of \$5 billion in foreign bond issues by the legislature will provide some flexibility for the government, while reducing the interest service on the debt.

## 12 | Sustainability

Costa Rica is recognized as a leader in environmental protection and conservation. The right to a healthy, ecologically balanced environment is established in Article 50 of the constitution – reformed in 2020 to include the right to access to water – and subject to enforcement through special environmental tribunals and the Constitutional Court. More than 25.5% of Costa Rica’s land and 27.9% of its maritime area are protected. A significant portion of its forest cover has been recovered and maintained in the last three decades. Costa Rica has also won plaudits as a leader in renewable energy. However, the country’s record is less positive regarding the sustainability of its extractive and economic practices.

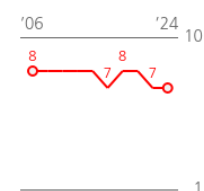
Greenhouse gas emissions currently exceed the country’s absorption capacity, despite its goal to become a zero-net-emissions economy by 2050. After a pandemic-induced reduction, emissions returned to their previous level in 2021. The country generates almost 100% of its electricity from renewable sources, but electricity accounts for only a quarter of the energy resources consumed. Of the remaining energy needs, 72% are primarily met through hydrocarbons, with the transportation sector responsible for 60% of this consumption. Approximately 55% of carbon emissions originate from the energy sector. According to Estado de la Nación, the number of automotive vehicles in Costa Rica doubled between 2005 and 2021, and the country has struggled to establish clean mass transit alternatives. It aims to electrify 85% of public transport and transition 95% of private cars to zero-emission vehicles by 2050, but accomplishing this will require significant investments. As of 2023, hybrid and electric vehicles accounted for less than 1% of the total fleet. In 2019, nearly half of the monitoring stations in key urban areas showed nitrogen oxide concentrations that exceeded World Health Organization limits.

Only 25% of the population does not rely on septic tanks, and just 15.5% of those domestic residual waters are treated. This is in contrast to the world average of 60%. Septic tanks pose seepage risks to subterranean water sources. Agricultural exports, which necessitate intensive fertilizer and pesticide use, have significant environmental impacts. The agricultural sector is responsible for 20.5% of carbon emissions. Overexploitation of coastal and marine fisheries has led them to a clear decline, with some already exhibiting signs of collapse.

According to the Global Footprint Network, Costa Rica exceeded its biologically productive land and water (biocapacity) by approximately 60% in 2018 and compensated through trade, liquidating regional ecological assets or emitting waste into the global commons. Costa Rica ranked 68th out of 180 countries in the 2022

Environmental  
policy

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Environmental Performance Index, which measures the priority given by countries to environmental health and ecosystem vitality. While its score of 46.3 out of 100 marked a notable improvement of four points over the last 10 years, Costa Rica has slipped by 16 positions in the ranking since 2020.

Costa Rica has adopted a national decarbonization plan that aims to achieve carbon neutrality by 2050. It has also implemented a national plan for electricity supply that strives to rely entirely on renewables through a diversified matrix of sources. The government has imposed bans on open-pit mining and fossil fuel exploration and extraction in the country. However, in a disappointing move for environmental groups both domestically and internationally, lawmakers in February 2023 excluded the Escazu Agreement from their agenda, effectively ending its chances of ratification. The Escazu Agreement is an international agreement that was negotiated in Costa Rica and aims to enhance public access to environmental information regarding development plans.

Education is a critical component of social policy, with preschool and general basic education (until ninth grade) being mandatory, accessible to all and provided free of charge. The public budget for education at all levels is constitutionally mandated to be a minimum of 8% of GDP (Article 78). Public education is available at all levels, including preschool, secondary and tertiary, as well as technical and vocational education. Adult literacy rates surpass 97% of the population, and primary-level education has almost universal coverage. However, at the secondary level, only 80% of the eligible population is enrolled, and dropout rates are high, with nearly a third of 15-year-olds leaving school. Tertiary education has a high enrollment rate, with 61% of high school graduates attending. More than 75% of students at state universities come from public schools and most receive full financial support. Nevertheless, the OECD reports that there is an overrepresentation of enrollments in social science and humanities fields and an underrepresentation in science, technology, engineering and math fields. The average number of years of schooling for the population stands at 9.3 (2019). According to the U.N. Education Index (2021), Costa Rica is ranked 39th out of 134 BTI countries considered and sixth in the Latin American region, with a score of 0.753.

Actual spending on education has ranged between 6.4% and 6.9% of GDP since 2010, according to the World Bank. The OECD estimates that when taking into account teachers' pensions, spending is close to 9% (2020). Despite this high spending, educational outcomes remain low. Only half of the population aged 25 to 34 in Costa Rica has completed secondary education, compared to 85% in Chile, 72% in Argentina, 70% in Colombia and 66% in Brazil. The average for OECD countries is 85%. In PISA evaluations, Costa Rican students perform 76 points lower than the average for OECD students, which is equivalent to a two-year lag in schooling. Additionally, domestic testing results are also unsatisfactory. However, there have been improvements in preschool enrollment. Implementing targeted cash transfers

Education policy /  
R&D

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(Avancemos) and the establishment of a special unit to support disadvantaged schools and students have improved retention rates. The number of young individuals (aged 15 to 24) who are neither employed nor enrolled in education has decreased but is still around 10%.

Investment in research and development remains low, at around 0.4% of GDP in 2018, which is less than 25% of the target level for developed economies and far from the OECD average (2.7% in 2021). The country serves as the home to high-tech companies, with many of them investing significantly in research facilities. Notably, INTEL Corp. and AD-ASTRA Rocket Company, Microsoft and Baxter Medical are among the prominent investors. Universities also contribute significantly to research activities, accounting for about 60% of total investment. It is uncertain whether this level of investment can be increased to increase linkages and spillovers for the economy, despite being the government's stated goal.

## Governance

### I. Level of Difficulty

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

A rigid spending structure beset by constitutional mandates, automatic public salary increases, generous public pensions with unfunded mandates, and recalcitrant public unions limit the government's ability to contain expenses. The fiscal outlook improved with the passage of a fiscal reform in 2018 and a Public Employment Law in 2022. On the revenue side, the fiscal reform broadened the tax base by instituting a value-added tax, created two new tranches of income tax for higher earners and increased the tax rate for cooperatives. On the expenditure side, it changed public salary supplements to nominal terms and subjected them to performance reviews. It also established a fiscal rule that limits the extent to which current expenditures can increase. The Public Employment Law established a national salary scale to rationalize and help control remunerations in the public sector. While these are positive developments, fiscal stability will depend on the government's ability to enforce the fiscal rule, which faces considerable opposition across the public sector. Many public entities have already sought and obtained exemptions. In 2022, President Chaves undercut the restrictive power of the fiscal rule by decreeing that its mandated spending increase should be calculated with reference to the previous year's budgeted, as opposed to spent, amounts.

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

Structural  
constraints

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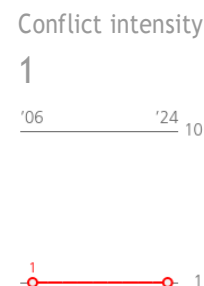


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The COVID-19 pandemic accentuated these structural challenges, exacerbating poverty among the most vulnerable and increasing overall inequality. Unequal access to equipment and connectivity, together with staffing problems experienced during the pandemic, created an “educational blackout” (as government officials refer to it) that will worsen already poor educational outcomes in public education. This will limit the opportunities of young Costa Ricans, becoming a future structural constraint.

The traditions of civil society are strong. There are currently several thousand registered civic associations, 3,901 community development associations and 376 cooperatives. Unions represent about 15% of the workforce. Solidarist associations represent an additional 23% of the workforce. However, opinion polls suggest that the degree to which individuals engage with those organizations is not great. The level of self-declared interpersonal trust among citizens, an indicator of social capital, is moderate and in a declining trend. There is a considerable level of citizen participation that occurs outside of formal organizations. About 25% of all public declarations, meetings and assemblies, and public manifestations were undertaken by unaffiliated citizen groups, including students of all levels and parents. Citizens also actively engage through institutions like the Ombudsman’s office, where requests for intermediation number in the tens of thousands.

There are no violent incidents based on social, ethnic or religious differences. Some contentious social and economic policy issues have generated conflict, but these have typically been resolved through institutional channels, without greater incident. There are significant levels of popular mobilization to protest policies and exert pressure for political and socioeconomic goals. Recent mobilizations include marches for post-material objectives, notably gender equality, animal rights and environmental rights. While most protests target the state and often involve street blockages, police violence or repression are rare. However, during 2020, there was a spate of violent confrontations with police when they attempted to remove blockages that were ruled illegal by the Constitutional Court. This led to the opening of criminal proceedings against movement leaders. COVID-19 did not affect the frequency of mobilizations but did change their nature, as most actions during 2020 were to protest the restrictions imposed by the government to mitigate the pandemic.



## II. Governance Performance

### 14 | Steering Capability

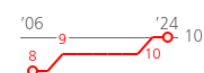
The executive is required by law to specify its strategic priorities in a national development plan (Plan Nacional de Desarrollo), with detailed goals and objectives for all government institutions, divided by sectors and regions. The Ministry of Economy and Planning (MIDEPLAN) is tasked with the development, execution and coordination of the plan, which articulates the executive's agenda for the four-year presidential period. There is a national evaluation system that follows the plan through its execution, and the Comptroller General also evaluates it periodically. The 2023 to 2026 development plan defines Costa Rica's key challenges as: reigniting the economy, improving the health and organization of public finance through resilient fiscal measures, strengthening and linking planning and budgeting, reducing informality and improving the quality of employment, dealing with poverty in all its dimensions, strengthening the performance of health care, modernizing and improving the quality of infrastructure, reducing citizen insecurity, fighting corruption and continuing to work for inclusion, environmental progress and culture. It then sets goals for seven key variables: economic growth, public debt, unemployment, poverty, inequality, citizen security and decarbonization. The development and implementation of the plan centers around 13 strategic areas in which the work of all state sectors and institutions is expected to converge around the executive's coordination. The plan prioritizes mitigating the economic and social effects of COVID-19, advancing fiscal sustainability and fostering development while maintaining low carbon emissions and strengthening macroeconomic stability.

These planning documents are apt diagnostics that identify the main strategic challenges the country faces. They set specific goals, instrumentalized through variables with predefined, measurable indicators, and assign responsibilities for follow-up and reporting. They also describe coherent policies that, if adopted, have the potential to accomplish significant transformations that are congruent with democracy and a market economy. The country has sufficient organizational resources and expertise to conduct evidence-based policymaking and regulatory impact assessments, as well as strategic planning. However, this does not translate de facto into implementation. Political, bureaucratic and financial barriers can derail the best-made plans. The fiscal crisis of the last few years, aggravated by the pandemic, created a unified purpose for lawmakers in a fragmented, polarized legislature to pass key structural reforms, such as the fiscal rule and the Public Employment Law. Whether a similar catalyst will also allow the country to complete the structural reforms it needs to retake control of its strategic direction remains uncertain.

Question  
Score

Prioritization

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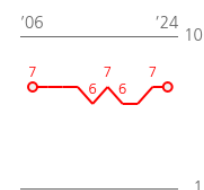
The recently out-of-office Alvarado administration was able to overcome severe political challenges and implement meaningful reforms in the midst of the COVID-19 pandemic. Despite a weak electoral mandate, low popularity ratings and intense social protest, the government managed to have one of the most productive legislative periods in recent history. This included setting the foundations for fiscal sustainability and securing the country's accession to the Organization for Economic Cooperation and Development (OECD). After contracting in 2020, the economy rebounded with great resilience in 2021 and 2022. However, the country has not fully recovered from the social impacts of the downturn, with high unemployment and informality now compounded by inflation, while the fiscal situation remains precarious.

Like his predecessor, President Chaves must govern in this challenging context with an opposition-controlled Congress that is fragmented and polarized. Moreover, factors related to Chaves' accession to power and his personal style of leadership introduce new elements that could complicate implementation. His electoral vehicle was a fledgling political party with a weak ideological basis and shallow institutional structures. In the preliminary stages of the campaign, he used parallel structures to fund it, which are now the object of criminal investigation. Adeptly employing social media platforms, Chaves cast himself as an outsider untainted by traditional politics, a man of action who embodied popular concerns and spoke the people's language. This appealed to an electorate disenchanted by corruption scandals and worried about the perceived inability of politicians to deal with the most pressing economic and public health problems. Yet, his personalistic approach has also included using divisive rhetoric against opponents and detractors. He has repeatedly referred to the "scoundrel press" and called journalists "paid assassins," while also denigrating members of the judiciary and the legislature. The president's confrontational tactics may hinder the government's ability to build consensus, limiting its implementation of strategic priorities. In the few months he has been in power, he has not passed any substantive legislation. His directive to estimate spending based on the proposed previous budget, rather than on the one executed, has weakened the fiscal rule inherited from the previous administration. Additionally, his public statements about the Public Employment Law have sowed confusion, raising doubts about whether its implementation will be effective.

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

#### Implementation

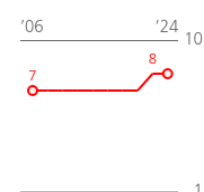
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#### Policy learning

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stringency. So does the Public Employment Law (10159), passed in 2022. It is expected to curtail the uncontrolled growth of public salaries, which are the highest in the OECD as a percentage of tax revenues.

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

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

## 15 | Resource Efficiency

The government, for the most part, makes efficient use of the available human, financial and organizational resources. Notwithstanding, complex administrative structures continue to hinder human and financial resources to some extent. The public sector is composed of over 300 entities of diverse juridical and functional nature. The 19 ministries of the executive are subdivided into 80 subunits with different degrees of financial and administrative autonomy.

Constitutional and legal mandates make most public spending inflexible. These factors make coordination, management and control challenging. While the country has a long-established civil service (1951), it does not encompass all public sector employees, and its relative effectiveness varies across areas. In some cases, it guarantees merit-based professionalism while, in others, it is a source of rigidity and constraint. Given the practical impossibility of firing a civil service employee, entities devise ways to hire around it, creating enclaves of variant dynamism within the state. Most posts are subject to competitive recruiting procedures and protected from political dismissal. Strong public sector unions have obtained concessions over the years that have raised average levels of compensation in the public sector well above those in the private sector. Benefits include seniority clauses and other statutory recognitions, as well as special incentive and severance packages. They are compounded by a variety of defined-benefit pension regimes in which costs far exceed individual contributions and must be paid out of the state budget. This has had

Efficient use of assets

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a snowball effect on public spending and seriously limited its resource efficiency, which has generated periodic fiscal deficits and a growing public debt. However, a likely inflection point was reached with the passage of the 2018 fiscal rule and the 2022 Law of Public Employment. Along with administrative reforms to improve tax collections, these stand out as efforts to reform and modernize public administration.

The Public Comptroller's Office is an independent and effective auditor of budget resources that ensures the legal use of funding. The World Bank ranked Costa Rica 70th out of 192 countries in the world and third among the 20 countries in Latin America and the Caribbean in its 2022 government effectiveness index.

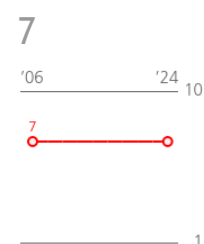
At the level of the executive, the government has the necessary tools to coordinate conflicting objectives into a coherent scheme, but the state apparatus is too unwieldy to allow for policy implementation across all issue areas. Since the Legislative Assembly does not ratify a president's ministers,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

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

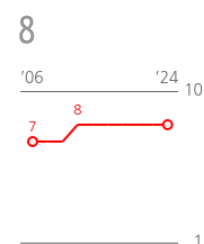
The executive's main tool for advancing its policy priorities is the prerogative to set the legislative agenda twice yearly during extraordinary sessions. But the proportion of approved laws convoked by the executive has been less than one-third since 2002 and was 14% in 2021/22.

Costa Rica has laws and regulations against corruption and has ratified international treaties like the Inter-American Convention Against Corruption and the U.N. Convention Against Corruption that commit the country to combating it. Criminal prosecution of corruption is spearheaded by the Attorney General and a special criminal investigative police force (OIJ). A special state office (Procuraduría de la Ética) functions as an anti-corruption watchdog for the public sector, and the Comptroller General exercises strict financial and administrative oversight over all public entities, approving or rejecting contracts and public bids, performing audits, and detecting instances of corruption. A legal reform adopted in 2020 by OECD

Policy  
coordination



Anti-corruption  
policy



recommendation strengthened the rules against international bribery. Most public entities also have internal auditors who closely monitor their spending. These regulators ensure the transparency of the procurement process, although they also make it cumbersome and slow, which is one of the factors that has encumbered the public sector's managerial capacity in areas like infrastructure.

The constitution (Article 30) guarantees public access to all information pertaining to the state and its entities, and most public entities provide the media and citizenry access to their information. However, state entities have invoked state secrecy, an exception allowed by law, to deny public access to sensitive information. State-owned enterprises have also withheld information, claiming the need for secrecy in order to remain competitive. The final arbiter on the matter is the Constitutional Court, which has repeatedly established precedent by forcing state entities to comply with public disclosure. A National Integrity and Corruption Prevention Strategy (ENIPC) was launched in 2021 to help coordinate the multiple laws and organizations dealing with public corruption and to define priorities for action.

A new Transparency Law (#20,799) was passed in 2022, guaranteeing the right of individuals to request and access public information and the government's obligation to provide it. Public information includes everything government entities do, except items that could imperil public security or are expressly declared state secrets. President Alvarado vetoed some articles of the law limiting the scope of access to information, deeming them unconstitutional. A second law to improve the transparency of budgeting was passed in late 2022. It requires the recording of cabinet meetings and their verbatim transcription into written minutes. President Chaves has argued against the legal validity of this requirement and refused to implement it, despite having promised during his presidential campaign to broadcast cabinet meetings live.

The Criminal Code establishes prison sentences of up to 10 years for public officials convicted of receiving bribes. A strict anti-corruption law was passed in 2004 in response to corruption scandals involving high-ranking officials, including three ex-presidents. It established stricter reporting requirements for public officials, including the disclosure of personal assets and conflicts of interest. These laws, together with a vigilant and assertive media, drive officials to investigate and pursue cases of corruption. In 2021, for example, three criminal investigations (Azteca, Diamante and Cochinilla) exposed bribery and payback networks in public works involving two state agencies and several municipalities. However, prosecutions are lengthy and often result in failed convictions or suspended sentences. A 2018 study by Estado de la Nación found substantial differences in the levels of probity required across sectors of public administration, as well as differences regarding sanctions and the level of discretion allowed in their application. Such deficiencies can diminish the effectiveness of corruption prevention at the administrative level.

## 16 | Consensus-Building

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

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

There are no significant veto actors with anti-democratic interests, such as the military or influential economic groups, that would obstruct reforms. Contentious tactics used by social movements to oppose policy, such as street blockades, have resulted in violent confrontations with the police, but these are better understood as a form of civic resistance without anti-democratic intent. President Chaves' rhetoric has raised some alarm regarding his respect for the separation of powers. His statements against the press have also sparked concern. However, strong institutional responses have kept him in check. While it is too soon to assess how this will evolve or even whether he will continue to engage in this behavior, there is no reason to suggest at the moment of writing that reformist elements, such as the Comptroller General, the courts and the Congress, may not co-opt him into continuing with the implementation of recent reforms or the adoption of new ones.

Consensus on goals

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Anti-democratic actors

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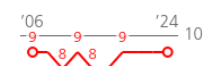
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The political leadership has prevented cleavage-based conflict from escalating by promoting dialogue and respect for the country's democratic traditions. Appeals to long-standing practices of consensus-building and incremental change have contributed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

The political leadership enables civil society participation in many areas and assigns an important role to civic leaders in policy discussions, but it also shows a tendency to engage in top-down agenda-setting and policy formulation. Different spaces have been created to enable the participation of civil society. When new laws are enacted or existing laws are reformed, it is typical for the organized representatives of sectors affected by the laws to be heard by legislative committees. In a recent example, the Chaves administration convened representatives of public employees from various sectors in 2023 to discuss solutions to what he sees as inconsistencies in the Law of Public Employment. Some government policies, like those governing minimum wages and salary increases, are defined in consultation with the organized representatives of workers and employers. There are also examples of participatory policymaking at the local level, such as the formulation of County Plans for Local Human Development, the constitution of citizen audits, and some level of participatory budgeting. Social movements are another form of civil society participation and take part in hundreds of marches and protests each year. Yet, low levels of citizen engagement with formal organizations, at least according to opinion polls and regional comparisons, seem to suggest that more could be done to enable civil society participation. For example, civic groups could be engaged in the assessment of the social and environmental impacts of projects in the planning and development of zoning regulations, as well as other activities at the local level. For a time, the voice of Indigenous communities was largely ignored by the state in its

Cleavage /  
conflict  
management

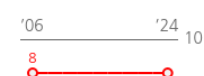
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Public  
consultation

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pursuit of large hydroelectric projects that impacted their territories. An intervention from the United Nations Special Rapporteur for Indigenous Rights reminded the state of its obligation under international treaties to engage those communities in a prior consultation process, and a statute regulating and establishing the procedures for such a mechanism was finally published in 2018 after a seven-year delay.

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

Reconciliation

n/a

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## 17 | International Cooperation

The political leadership makes well-focused use of international assistance to implement its long-term development strategy, which is to generate inclusive economic growth that is in harmony with the environment. It recognizes the importance of international cooperation to achieve this and has actively pursued joining international forums, such as the OECD (which it joined in 2021), to increase its international projection and improve its governance structures. Costa Rica has established cooperative agreements with Mexico, Argentina, Chile, Uruguay, Perú and Colombia. As a middle-income country, the country has seen a considerable reduction in direct flows of international assistance, with the emphasis shifting away from concessionary aid to international loans. Traditionally, most cooperation has come from multilateral organizations, primarily the Inter-American Development Bank, the Central American Bank for Economic Integration, the International Monetary Fund and the World Bank. More recent flows have seen an increase in bilateral cooperation, mainly from China but also from Japan, Italy, Germany, South Korea, the United States, the Netherlands, France and Spain. Most of the funding from these sources has been directed toward the areas of energy and environment, public works and transportation, economic and financial development, and health and social development. The country is currently under an Extended Fund Facility with the IMF, which has contributed to its short-term fiscal stability and to structural reforms that will have long-term impacts on fiscal management and public employment. Other structural reforms were pursued as part of the country's accession process to the OECD.

Effective use of support

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Costa Rica has traditionally exerted an outsized international influence relative to its physical and economic power. It has represented Latin America as a temporary member of the United Nations Security Council on three occasions. It has also promoted international treaties and conventions in the areas of arms control, disarmament, international cooperation and environmental protection. Most recently, it was instrumental in the negotiation and approval of the 2017 Treaty for the Prohibition of Nuclear Arms. The government pursues the promotion of human rights, peace and democracy as a matter of foreign policy. Together with trade and sustainable development, these issues dominate the agendas of its diplomatic missions abroad and in international forums. The country is in compliance with international agreements and in good standing with international financial institutions. It has acceded to rulings from the Inter-American Court on Human Rights ordering the restoration of in-vitro fertilization and the legalization of same-sex marriages. Costa Rica is the only Central American country receiving refugees from conflicts in Venezuela, the Northern Triangle of Central America, Colombia and Nicaragua.

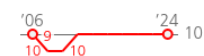
The political leadership actively and successfully builds and expands cooperative, neighborly and international relations. The country is part of the Central American Integration System (SICA), the Central American Free Trade Agreement and the Community of Latin American and Caribbean States. It has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

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

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

### Credibility

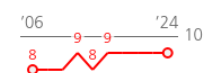
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### Regional cooperation

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## Strategic Outlook

In order to maintain and deepen its socioeconomic, environmental and political accomplishments, Costa Rica must tackle the structural limitations it faces. This requires administrative reforms to enhance the state's execution and implementation capabilities, as well as political reforms to improve representation, strengthen the accountability of legislators and encourage better coordination between the executive and legislative branches.

The expansion of Costa Rica's state administrative apparatus has produced a vast institutional structure that is difficult to coordinate and control. Its capabilities need to be strengthened to better accomplish key functions, especially in areas that boost productivity and inclusion, such as education, infrastructure development and public finance. Strengthening the state while balancing fiscal revenues and expenditures is the greatest challenge going forward. An important first step was the 2018 Fiscal Reform Law to constrain public spending, the approval of an agreement signed with the IMF in 2021 and the passage of the Public Employment Law that will rationalize the structure and regulate the growth of public employee salaries.

Political reforms also need to improve the quality and responsiveness of representation in order to restore trust in the political system. First and foremost, representation should be proportionate to the size of the population; despite population growth, the number of deputies has remained unchanged since 1961. Representatives should also have incentives to build political careers in the legislature, allowing them to develop a track record and be accountable to the electorate. However, this is currently hindered by a ban on continuous re-election. Additionally, institutional mechanisms should promote the strengthening of political parties and facilitate the formation of legislative majorities. A more cohesive legislature, equipped with improved mechanisms for coordination with the executive, would likely lead to a rebalancing of power among the branches of government and reduce the need for judicial adjudication by the Constitutional Court.

President Chaves' election, however, presents unprecedented challenges. He rose to power, decrying traditional politicians and parties, attacking the media, and claiming to represent the popular will. He built a parallel campaign funding structure that evaded scrutiny by the Electoral Tribunal and is now the object of a criminal investigation. His rhetoric has been confrontational and disrespectful regarding the separation of powers, sowing doubt about the integrity of the judiciary and legislature. He has called journalists "political assassins" and the press a "scoundrel," enlisting the help of trolls to attack and denigrate journalists through social media. He has used his bureaucratic powers against news organizations in ways the Constitutional Court describes as illegitimate and in open violation of the right to freedom of expression. If these actions continue and are successful, they will present a threat to liberal democracy.

While challenges persist, the outlook for the economy is brighter than expected, despite restrictive monetary and fiscal policies that will likely hamper growth in the short term. Post-COVID-19, Costa Rica's GDP rebounded strongly. Timely adjustments in monetary policy contained rising inflation, which is expected to fall within the central bank's inflation target range (2% to 4%) in



2023. The central government had a primary surplus in 2022, its first since 2008. Plentiful international reserves from tourism and international credit drove an appreciation of the currency relative to the dollar. However, poverty remained above its 2019 level, and while unemployment fell considerably, it was the second-highest rate in the OECD at the end of 2022.

The country's recent reforms for its accession to the OECD and its agreement with the IMF are crucial initial measures for achieving fiscal stability and sustainability. However, the success of these reforms hinges on their complete implementation, which must overcome resistance in the public sector and counteract the political incentive to delay. To sustain progress, it is necessary to enhance productivity by streamlining burdensome regulations, reducing barriers to competition and addressing informality. Moreover, education must be enhanced, and tertiary education should be aligned with labor market requirements.