

BTI 2012 | Costa Rica Country Report

Status Index	1-10	8.84	# 10 of 128	
Political Transformation	1-10	9.40	# 6 of 128	➔
Economic Transformation	1-10	8.29	# 13 of 128	➔
Management Index	1-10	6.98	# 10 of 128	

scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2012. The BTI is a global assessment of transition processes in which the state of democracy and market economy as well as the quality of political management in 128 transformation and developing countries are evaluated.

More on the BTI at <http://www.bti-project.org>

Please cite as follows: Bertelsmann Stiftung, BTI 2012 — Costa Rica Country Report. Gütersloh: Bertelsmann Stiftung, 2012.

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Key Indicators

Population	mn.	4.7	HDI	0.744	GDP p.c.	\$	11569
Pop. growth ¹	% p.a.	1.5	HDI rank of 187	69	Gini Index		50.3
Life expectancy	years	79	UN Education Index	0.659	Poverty ³	%	5.4
Urban population	%	64.3	Gender inequality ²	0.361	Aid per capita	\$	23.9

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

Executive Summary

In the period under review, Costa Rica elected its first-ever female president, Laura Chinchilla, successfully confronted the challenges of the global financial crisis and continued the implementation of the complementary laws inherited from the Central America Free Trade Agreement (CAFTA) ratification process. These developments reaffirmed the strength of the country's political and economic institutions, evidencing its high level of transformative capacity. At the same time, structural and circumstantial factors limited the country's ability to progress faster.

While citizens' support for democracy appeared to be strong, trust in as well as identification with political parties has remained weak. Consequently, no clear pattern of consolidation emerged for the party system, which has been in a state of relative disarray since the 2002 elections. Fragmentation increased in the Legislative Assembly and the incoming government does not command a partisan majority. Congressional gridlock has thus far left the government without passage of any significant legislation within its priorities. During the Oscar Arias administration, social spending was increased in the advent of the global financial crisis, successfully attenuating its effects, but at the cost of rising public debt and a higher fiscal deficit. As part of the CAFTA implementation process, the telecommunications and insurance sectors were opened to competition. This was an important transformational development, given that these sectors were long-held government monopolies. However, state companies will remain as competitors in these markets, so the level of transformation will be attenuated by the degree to which they are able to retain their considerable market advantage.

The overall pace of economic and political transformation in the country will continue to be limited by structural factors that remained unchanged in 2009–2010. These include an increasingly complex public administration and a large number of veto players in the political system, including an assertive Constitutional Court and a minority empowered by lax legislative

rules of procedure. While gradualist policy-making may be desirable to the degree that it encourages consensus building and moderation, recent incidents suggest that it may increasingly be hampering the amount and quality of policy-making. Future transformational capacities will therefore depend on the ability to improve upon some of these features.

History and Characteristics of Transformation

Costa Rica is the longest continuous presidential democracy in the Western hemisphere, second only to the United States. One of its key transformation moments was the adoption of a new constitution in 1949, after a civil conflict in 1948. The constitution made the state a key player by entrusting it with the fulfillment of key social, economic, and (later) environmental rights, while maintaining important areas of the economy, such as banking, electricity and telecommunications, as state monopolies. It also entrusted the state with the administration of health, education and housing, spawning a network of autonomous institutions. The constitution also abolished the army and created an Electoral Tribunal in the rank of a fourth power. This constitutional model enabled key accomplishments. It solidified democratic institutions by enabling and assuring widespread participation and robust political party competition. It fostered strong public investments in human and physical capital and the rule of law, which served as the foundation for the development of the economy. Finally, it made possible the attainment of high levels of human development, balancing social and economic priorities, reducing poverty and inequality and protecting the country's environmental patrimony.

Yet, at the end of the 1970s the state-based model came under stress through the combined effects of internal inconsistencies and the adverse international conditions, leading to a process of structural reform in the early 1980s. But aggressive liberalization occurred only in the area of trade, where tariffs and duties were reduced drastically. Privatization was restricted to unprofitable state enterprises while state monopolies in banking, insurance and utilities were left untouched. Only gradually did liberalization advance in these areas, starting with the banking sector in the 1990s. A key transformation occurred in 2007, when the Central American Free Trade Agreement (CAFTA) was ratified in the country's first-ever referendum. The agreement encompassed a set of complementary laws that called for the opening of competition in telecommunications and insurance. However, as in banking, no privatization occurred. The state lost its monopolies but its firms have remained and compete against the private sector. Trade liberalization was accompanied by an aggressive strategy of international insertion based on the attraction of foreign investment and export promotion. This allowed Costa Rica to diversify its production base, first through non-traditional agricultural exports and later through high-tech industries clustered in free-trade zones.

Another key turning point was the establishment of a fourth constitutional chamber to the Supreme Court in 1989. The Supreme Court has jurisdiction over the protection of individual rights, the interpretation of the constitution and the settling of disputes among the branches of

government. With regard to the protection of rights, access to the court was made broad and virtually costless, in fact revolutionizing the exercise of constitutionally guaranteed individual rights and their protection. Access was also facilitated in matters of constitutionality, enabling challenges to laws and statutes, effectively activating a check that had been largely inoperative since 1949. While highly valuable and important, the court has become an assertive arbiter of political disputes, particularly as executive-legislative relations have become more quarrelsome and gridlocked. The court has also invaded the realm of administrative decision-making in its enforcement of individual rights. Because lawmakers can submit bills to the court for prospective opinions about their constitutionality, it has also become an important veto player in the legislative process.

In the mid-2000s the country was struck by a number of corruption scandals involving political elites, including pay-back schemes with multinational corporations that implicated three former presidents. This tarnished the reputation of the traditional parties National Liberation Party (Partido Liberación Nacional, PLN) and Social Christian Unity party (Partido Unidad Social Cristiana, PUSC) and brought about the collapse of the longstanding two-party system. It also generated widespread disenchantment with politics and politicians that translated into lower electoral participation and party identification. Higher party fragmentation has since required the formation of legislative coalitions but they have been unstable. However, political participation has partly recovered and support for democracy remains strong.

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

Transformation Status

I. Political Transformation

1 | Stateness

Despite increasing threats from drug cartels, the state's monopoly on the use of force has not been openly challenged. Worrying developments have been the patent inadequacy of the security forces against cash-laden drug traffickers. Examples include a woefully equipped and undermanned police and security force, which refused to patrol crime-ridden neighborhoods, and failed to detect the use of a secondary international airport by traffickers, discovered only after two fatal crashes. Another worrying development involves the violation of the state's sovereignty with the incursion of Nicaraguan troops along its northern border. Presence of troops is confined to a small, diffuse area and is not likely to expand. While Nicaragua claims this land is disputed, Costa Rica claims (and has shown in maps and other documents) that it is not. Since Costa Rica abolished its military in 1949 it must rely on international law to defend its territorial integrity, and it has mobilized intensively to do so through the Organization of American States (OAS) and the International Court of Justice. While these mechanisms move forward, however, the country has had to endure a foreign presence and environmental destruction on its territory.

The broad majority of the population accepts the legitimacy of the nation-state, although some of its institutions, particularly the Legislative Assembly, have low levels of trust and popularity. Despite complaints about the quality of some public services and officials there is no party or movement seeking to overthrow the state. Moreover, anti-system discourse that appeared during the campaign period for the referendum on CAFTA ratification, in which some actors threatened not to recognize the electoral results, was completely absent during the presidential campaign of 2010. Residents in rural areas tend to fare more poorly on social indicators than their urban counterparts, but this has not led to assertiveness beyond institutional mechanisms.

Question
Score

Monopoly on the
use of force
10

State identity
10

Although Article 75 of the constitution establishes Roman Catholicism as state religion, that same article recognizes freedom of religion. This has generated some tension with some sectors calling for the complete secularization of the state. Catholic archbishops have been vocal on key political issues, actively opposing gay marriage, in-vitro fertilization and contraception methods in sex education guides, among others issues. Nonetheless, the country has a long-established secular political order and state institutions have acted independently and often assertively against these views. The Constitutional Court banned (10 August 2010) a referendum on gay marriage broadly supported by the church on the basis of its unconstitutionality; the Ministry of Public Education approved a series of sex education guides opposed by the church; and the Supreme Electoral Tribunal imposed a gag order on bishops expressing political opinions on the basis of religious views. At the international level, a ruling by the Inter-American Commission of Human Rights ordered Costa Rica to reverse an earlier ban on in-vitro fertilization. These institutional checks have guaranteed the prevalence of individual beliefs, capacities and choice.

No interference of religious dogmas
10

The Costa Rican state is organized on a unitary basis with centralized national ministries and a large decentralized sector, composed of functionally specialized institutions. More recently, there has been an effort to increase the autonomy, financial strength and administrative capabilities of municipal governments and to foster a greater decentralization of local services to municipalities, but with limited results. While at an administrative level the state has been successful in the provision of basic services, particularly in health and education, it has also evolved into a byzantine complex of entities and organizations, which has presented increasingly pervasive functional challenges. These challenges have been especially prominent in the area of transport infrastructure, where the state has not only failed to update the nation's ports, airports, roads and bridges to current day exigencies, but has also been unable to prevent their repeated collapse at a very high cost to the economy and society. Other notable failures in articulating basic services include the collection, treatment and disposition of sewerage and garbage. According to the policy think-tank Programa Estado de la Nación, an estimated 96% of residual domestic waters flow untreated into rivers and 30% of solid waste goes uncollected, also ending in rivers, streets or open lots.

Basic administration
10

2 | Political Participation

There are no constraints on free and fair elections. The Supreme Electoral Tribunal, established in the aftermath of civil confrontation sparked by electoral fraud in 1948, has evolved into a worldwide prototype of excellence in the organization and management of elections. The relevance of electoral participation was expanded with the institution of referenda (2006) as well as the direct election of municipal

Free and fair elections
10

executives and representatives (2002). Electoral registration is automatic and virtually costless with the acquisition of an identity card required for all citizens. Political parties receive state funding on the basis of the vote shares.

Electoral participation increased during the election for the first time since 1998, but abstention (31%) still remains high compared to historical levels. The election saw the implementation of a newly reformed electoral code, enacted in September 2009, with stricter rules for transparency and disclosure of financial contributions to political parties. The code also includes new requirements designed to increase gender parity in political representation. Female representation is high for international standards (currently 39% of all legislative seats). The December 2010 municipal election, where 81 city mayors were elected, had a very low participation level, at 28% of the national electorate. Participation was higher in more remote and sparsely populated districts, which suggests local governments are more relevant to citizens who, being furthest from central government, must rely more on municipalities.

Democratically elected political representatives have the 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.

Effective power to govern

10

Association and assembly rights are unrestricted for individuals and independent political or civic groups within the democratic regime. There are multiple groups in multiple sectors organized at the national, regional and local levels, which regularly exert their influence on government and public opinion. These groups are free to express their views in many ways, including via the press and Internet, but also through public mobilization and protest. Recent examples illustrate the effectiveness of organizations in countering government initiatives opposed by communities, including the reversal of open-pit mining concessions in Crucitas, and the blockage of a controversial aqueduct in Sardinal.

Association / assembly rights

9

An area in which association is not extensive is unionization in the private sector. While public sector unions are strong and active, less than 3% of the private labor force is unionized. This may be related to the use of solidarism as an alternative mechanism of labor organization, but could also have roots in the use of restrictive practices by employers and the existence of legal obstacles to the formation of unions.

Freedom of expression is unrestricted for citizens, groups and the press. A broad array of media outlets, from newspapers to radio and television, inform citizens and provide multiple perspectives on the news and current affairs. The oldest and most prominent newspaper, *La Nación*, while highly influential, does not dominate the media. *La Extra*, another daily of more popular extraction, closely matches its circulation. There are multiple specialized publications that cover different ranges of the ideological spectrum. Freedom House gave Costa Rica a score of 19 in its 2010 Freedom of the Press survey, where 0 to 30 is considered “free” and the regional average is 38 (“partly free”). Universities and research institutions regularly publish reports and organize public forums focused on critical social, political, and economic issues. The policy think-tank Programa Estado de la Nación publishes an annual evaluation of the state of the nation’s sustainable human development, pinpointing key aspects of the country’s social, environmental, political and economic reality. There are also citizen groups, such as the Citizen Observatory of the Media, organized to monitor and safeguard the freedom of expression.

Freedom of
expression
10

In recent years the press has played an important role demanding public accountability. Investigative reporting by print and television media exposed bribery scandals that implicated high-ranking politicians and multinational corporations, eventually leading to the indictments of two ex-presidents and other notables who are currently under trial for corruption. In the aftermath of these events, the media have continued to pursue this role with zeal, in the view of some, perhaps excessively.

3 | Rule of Law

There is a clear separation of powers with mutual checks and balances, structured around the constitution of 1949 and its subsequent reforms. The system establishes the three branches of government (executive, legislative, and judicial) adding a fourth, the electoral branch (the Supreme 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, hence rarely used. Control of the legislative agenda is shared with the Legislative Assembly, passing to the president only during extraordinary sessions. While the Assembly is the first branch of government, growing polarization and party fragmentation have weakened its decisiveness and complicated relations with the executive. This has increased the importance of the judiciary, particularly the Constitutional Court, which is charged with settling jurisdictional disputes between the other powers and interpreting the constitutionality of the law.

Separation of
powers
10

While the Constitutional Court has the power to control the legislature on procedural matters it has also sought to control it on the basis of substantive

constitutionality. For example, in June 2010 it ordered the legislature to adopt a specific constitutional text adding lack of probity to the valid causes for the impeachment of legislators. The Court's authority and legitimacy have enabled it to pursue this active course, but not without controversy, since some consider it an encroachment upon the constitutional powers of the Legislative Assembly. The result has been a growing power struggle between branches, with each calling for reforms that would isolate it from the influence of the other. There are currently several bills in congress offered by legislators to restrict the powers of the Constitutional Court.

An additional component of the separation of powers in the Costa Rican state is the existence of horizontal control mechanisms that oversee and regulate the activities of the executive and its administrative entities. These entities, which are decentralized, largely autonomous and functionally specialized, provide services in the health, financial, energy, telecommunications, insurance and water industries, among others. 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 administrative, legal, operational and labor management. Under such levels of decentralization and autonomy, the state must rely on its horizontal mechanisms for control. Principal among these is the Comptroller General's office, which has a broad and strong mandate to supervise the use of public funds, not only on the basis of legality but also efficiency and outcomes.

The judiciary is independent and free from unconstitutional intervention by other institutions. Isolated instances of corruption that have sprung up from time to time have been dealt with forcefully through prosecution and disciplinary action. The norms of independence are entrenched and zealously defended by all sectors. For example, allegations that Oscar Arias' Minister of the Presidency (who is also his brother) exerted pressure in October 2010 to derail a criminal investigation against him, thereby violating the independence of the judiciary, led to the opening of an inquiry against the Attorney General, which was underway during the period under review. The economic independence of the judiciary is guaranteed by a constitutional provision that assigns it 6% of the central state's expected revenues. Though transfers to the judiciary fluctuate from year to year, over the course of the past decade amounts have exceeded the mandated 6%, on average.

Costa Rica's legislation is generally up-to-date with international standards to combat public corruption and its ranking in global studies of corruption is good. To date, the key role played by the public sector in the economic life of the country has provided ample opportunity for public corruption. However, the evidence suggests that cases of corruption that are exposed will be prosecuted. In 2004–2005, prosecutors did not hesitate to imprison ex-presidents Rafael Calderón and Miguel Rodríguez to await trial when allegations about their roles in kick-back schemes

Independent
judiciary
10

Prosecution of
office abuse
8

involving Finnish and French multinationals were made public by the press. A third ex-president, José María Figueres, refused to return to the country for a separate investigation involving consulting work, for which he was later cleared. Any intimations of corruption since then have been met with public scandal and condemnation, even if they involved legal, but nonetheless opaque, practices. During the Oscar Arias administration, for instance, monies donated to the state by the Central American Bank for Economic Integration (BCIE) and the government of Taiwan were channeled through trust funds to hire consultants outside the rigors of public law. An investigation by the comptroller general cleared officeholders from legal wrongdoing, but chided them for attempting to avoid public scrutiny. In January 2011 the press revealed that a parallel criminal investigation could have been halted by indirect influence from the minister of the presidency. The Supreme Court immediately initiated disciplinary action against the attorney general, citing the need to preserve transparency and trust.

However, even when prosecution occurs it takes a long time. The corruption trials for ex-presidents Calderón and Rodríguez took four and six years, respectively, to start, and it is likely that the appeals process will extend these periods for several years more. There is a generalized perception among citizens that their public officials are corrupt, even if most do not complain about experiencing corruption directly. The Latin American Public Opinion Project (LAPOP) survey 2010 shows that 83% of Costa Rican respondents in a nationally representative survey believe that corruption is somewhat or very generalized among public officials (up from 81% in 2008). Yet, only 10.1% of respondents report being victims of at least one act of corruption (down from 19.3% in 2006).

Civil rights and non-discrimination are guaranteed by the constitution and enforced through various institutions. These mechanisms provide citizens a channel to present grievances against the state in matters concerning their rights and interests. Foremost among them is the Constitutional Court, where individuals can seek recourse (“Amparo”) for the violation of constitutional rights. Access to the court is extremely open and virtually costless. Anyone (citizen or non-citizen) can present a writ without the need for a lawyer. No specialized language is required, only a description of the grievance. In 2009 the court processed 17,781 writs of complaint, the highest number since its founding in 1989. The court’s decisions carry the weight of law and cannot be appealed. The Ombudsman’s Office or Defender of the Inhabitants serves as an advocate of citizen rights and intervenes at the administrative and legal levels to remediate rights violations, both for individuals and groups. In 2009 the ombudsman processed 2,391 requests for intervention. According to the Latin American Public Opinion Project (LAPOP, 2010), about 70% of citizens consider that their basic citizenship rights are protected by the political system at or above a median level, and over 70% of citizens consider that the government protects human rights at or above the median level.

Civil rights
10

4 | Stability of Democratic Institutions

Democratic institutions are the effective means through which political decisions are prepared, made, implemented and reviewed in the country. However, their relative efficiency has been under strain. Fragmentation and ideological polarization have increased in the Legislative Assembly, where the governing party has not held a majority since 1994. The Laura Chinchilla administration was inaugurated with only 42% of the legislative seats. Together with factional divisions this has increased the difficulty of coordination between the legislative and the executive.

A profusion of veto players within the institutional domain of the state has increased the difficulty of enacting change within the system. At the administrative level, the comptroller general exercises strict financial and administrative control of the multiple organizations under its purview which while necessary greatly reduces the flexibility of the executive. At the citizen level, the Constitutional Court has empowered individuals against administrative action (or inaction) in every aspect of public service covered by the constitution. At the legislative level, procedural rules allow easy filibustering by minority groups, blocking the passage of substantive reforms. Legislators can also submit bills in process to the Constitutional Court for a review of their constitutionality. These regime characteristics have diluted the effectiveness of democratic institutions while also reducing accountability, by allowing the different players to blame each other for inaction.

Legislative enactments have sometimes suffered from poor quality. For instance, a new traffic law (considered of key importance given that traffic accidents are the main cause of violent death in the country) had to be reformulated several times, and a fourth bill is currently under discussion. Other examples of legislation that have fallen short of objectives and have faced multiple reforms are the Public Works Concession law and the Development Bank law. Still other reform initiatives, notably fiscal reform, have failed to reach a consensus at all. The legislative process has also been remarkably slow, with an average of 702 days to approve a bill. Only about 30% of the executive's bills are enacted. It bears emphasizing, however, that lawmaking and policy implementation follow the rule of law, and that the efficiency problems noted are the product of the political circumstances described above, in conjunction with the Legislative Assembly's own procedural rules. In the country's electoral system of closed party lists, deputies owe their election to party leaders, not voters. At the same time, no roll call records are kept on deputy votes, and deputies cannot be reelected for consecutive terms. This makes for weak mechanisms of accountability and, therefore, poor incentives for responsibility.

Performance of
democratic
institutions

8

All relevant actors accept the legitimacy of democratic institutions.

Commitment to
democratic
institutions
10

5 | Political and Social Integration

While organizationally institutionalized parties exist in Costa Rica, the party system has been relatively fluid since the end of the period of two-party rule in 2002, with a tendency to increase its fragmentation and ideological polarization, and no clear pattern of voter affiliation. This has corresponded with declining levels of electoral participation (somewhat attenuated in the most recent election in the period under review) and a reduction of party loyalty and identification.

Party system
7

The two-party period that ended in 2002 had been characterized by the predominance of the National Liberation Party (PLN) and Social Christian Unity Party (PUSC), which together have garnered upwards of 90% of the votes since. The election of 2002 was the first time in the country's history that the inability of either party to win a 40% plurality forced a second-round runoff. The public corruption scandals that erupted in 2004 completely discredited the traditional parties, but especially the PUSC, which was sidelined in the election of 2006 with only 3% of the popular vote. The Citizen Action Party (PAC), a center-left splinter from the PLN, emerged as a dominant figure in that election, losing the presidency by a mere 18,000 votes (1.1%), and gaining the largest opposition block with nearly 30% of the seats in the Legislative Assembly. However, PAC was unable to carry its electoral momentum into the election of 2010, not only losing the presidency but also yielding six seats of its legislative block to other parties. The Libertarian Movement Party (PML), on the other hand, emerged as a strong third block, increasing its legislative representation by a third and nearly tripling its votes for the presidency. Other minority parties, notably PUSC and Accessibility Without Exclusion (PASE), also increased their legislative blocks. Yet a clear and distinctive realignment along the patterns that were emerging in 2006 failed to materialize. Rather what occurred was a new reshuffling of the leading opposition actors, under continued dominance by the PLN. This dominance, however, was far from hegemonic given that the PLN was again denied a simple majority in the legislature, and actually lost one of its seats with regard to the 2006 election.

This highlights a phenomenon that appeared markedly in the 2010 election, where voters divided their presidential and congressional votes among different parties, particularly with regard to the major parties. This suggests a reduced level of party loyalty and identification on the part of voters, which is confirmed by the Latin American Public Opinion Project (LAPOP) survey for 2010. Only 40% of respondents in that survey said they sympathized with a political party and 75% of

respondents said they trusted political parties little or nothing. The policy think-tank Programa Estado de la Nación remarks in its 2010 study that electoral support of the party system since 2006 has been characterized by its fragility and volatility. Party loyalty tends to be short-lived and linked to the personality of party leaders rather than programmatic or ideological characteristics of the organization. A significant percentage of voters remained undecided throughout the 2010 presidential campaign and defined their vote at the very last moment. This was the case even for those voters declaring themselves sympathizers of a particular party, confirming the “soft” nature of party sympathies.

Ideological polarization among political elites has also been on the rise, particularly since 2002. The Project on Latin American Elites, a survey compiled by the University of Salamanca, shows that, according to the self-placement of legislators, the leading parties have been moving in opposite directions of the ideological spectrum, with the PLN inching to the right and the PAC to the left. From the perspective of the electorate, ideological views appear not to have changed much on average. The ideological self-placement of voters surveyed by LAPOP shows similar values for 2002 and 2010, around 6.2, consistently right of center. However, the standard deviation suggests a greater degree of variability in most recent periods.

Costa Rica has a broad range of interest groups, ranging from social movements and community organizations to unions and business and professional associations. There are currently about 19,000 registered civic associations, 243 unions, 725 cooperatives, close to 1,300 solidarist associations, and over 2,800 community development associations. The peak employer organization, the Union of Chambers, has 43 affiliates, which are associations themselves and in turn represent particular sectors of the economy. There have been numerous social movements involving collaboration between a broad spectrum of actors, organized and ad-hoc. Organized collective action episodes reported by the media typically number several hundred per year. Studies by the policy think-tank Programa Estado de la Nación show that the state is generally respectful of these actions, including social protests, and abstains from repressing or undermining them. At the same time, there are no organized movements that seek to undermine democracy or civil society. Latin American Public Opinion Project (LAPOP) surveys show that the percentage of Costa Ricans that engage in protest marches and demonstrations is small (around 5% in 2010) and significantly lower than the Latin American average.

Support for democracy as the best form of government or the most preferred political system remains consistently high. Expressed levels of diffuse support for democracy as a political system are captured by the system support index measured by the Latin American Public Opinion Project (LAPOP). For 2010, Costa Rica obtained a score of 63.2 on a 100-point scale. This index decreased for Costa Rica starting in the 2000s, reaching its second-lowest level in 30 years by 2006, and

Interest groups
9

Approval of
democracy
10

remaining virtually unchanged in 2008 and 2010. While this appears to suggest that levels of diffuse democratic support have settled at a new, lower equilibrium than in previous decades, it must be noted that the 2010 level is still among the highest in the region (Latin American average 53.2), second only to Uruguay. According to LAPOP, over 80% of Costa Ricans agree with the statement that “democracy is the best form of government despite its flaws.” Latinobarómetro shows that these levels of support also declined after 2002. However, unlike systemic support, democratic support seems to have recovered to the levels registered at the beginning of the 2000s. At the same time, while such levels still rank among the highest in the region, they no longer place Costa Rica at the very top, as was the case historically.

There is a high level of trust among citizens as measured by opinion surveys. In 2010 the Latin American Public Opinion Project (LAPOP) ranked Costa Rica as having the highest level of interpersonal trust in the Americas, ahead of Canada and the United States, and an increase with regard to 2008, when it ranked second (with Canada first). While there is a considerable number of civic organizations, 19,000 registered civic associations, 243 unions, 725 cooperatives, 1,300 solidarist associations, and over 2,800 community organizations, the degree to which individuals engage themselves with those organizations does not appear to be great, at least according to opinion polls and in regional perspective. Of five types of associations evaluated by LAPOP, religious, parents’, community improvement, professional, and women’s, only in religious associations did Costa Ricans affirm to participate in greater proportions than the Latin American average.

Social capital
9

II. Economic Transformation

6 | Level of Socioeconomic Development

Since the 1940s, Costa Rica has promoted active and sustained policies for social inclusion that have resulted in high levels of human development and declining poverty. However, more recently poverty reduction reached a plateau and even saw a reversal during the period under analysis. In recent years the country has continued to improve its level of human development, going from 0.841 in 2006 to 0.854 in 2009 UNDP’s Human Development Index. But this improvement has not been fast enough to maintain the country’s world ranking, which has fallen from 48 to 54. Poverty fell substantially throughout the latter half of the 20th century, but it was not until 2007 that it fell to 16.7% (3.3% for extreme poverty). This significant decline was due to robust economic growth and new redistributive social policies (non-contributory pensions and conditional cash transfers). However, the 2008 spike in global fuel and food prices and the world recession partially reversed these

Question
Score

Socioeconomic
barriers
7

gains. Poverty increased to 18.5% in 2009 (extreme poverty rose to 4.2%). While these poverty levels are similar for urban and rural areas, suggesting an absence of regional exclusion, it must be noted that human development levels tend to be lower in rural areas, suggesting a lower level of effectiveness of social services in those areas.

Inequality also rose considerably during this period. The income of the richest decile rose from 16 times that of the poorest decile in 2008 to 19.2 times in 2009. The Gini coefficient increased from 0.421 in 2008 to 0.437 in 2009, a marked deterioration. Costa Rica bucked the regional trend as one of the few countries that did not register an improvement in inequality during its high-growth period, 2005–2008. While household income in the poorest decile declined by 6.9% between 2008–2009, household income in the first decile rose by 11.6% in that same period. This was mostly due to increases in non-wage income (rents, interest, dividends, etc.) in the top decile. But, it also had to do with wage differentials favoring higher-skilled workers, a trend that has predominated since the late 1980s. This might suggest a structural element to poverty and inequality linked to the outwardly oriented economic development model adopted by the country since that period. However, all sectors have experienced real increases in income, even if in different proportions. In terms of gender, women have registered substantial gains in recent years but their position is still far from parity. Female participation in the workforce has increased steadily over the past 20 years and reached a historical peak in 2009 (42.1%). However, despite improvements the evidence shows that men fare proportionally better in terms of income and employment. During the 2008–2009 downturn, both men and women saw an increase in unemployment, but the loss of jobs was larger for women (3.7%) than for men (2.4%).

Economic indicators		2007	2008	2009	2010
GDP	\$ mn.	26322.0	29831.2	29255.8	35831.5
GDP growth	%	7.9	2.7	-1.3	4.2
Inflation (CPI)	%	9.4	13.4	7.8	5.7
Unemployment	%	4.6	4.9	-	-
Foreign direct investment	% of GDP	7.2	7.0	4.6	4.1
Export growth	%	9.9	-2.6	-6.0	5.4
Import growth	%	4.3	6.5	-19.9	15.2
Current account balance	\$ mn.	-1646.4	-2787.3	-576.0	-1438.7

Economic indicators		2007	2008	2009	2010
Public debt	% of GDP	29.6	36.0	38.4	39.4
External debt	\$ mn.	8405.6	9195.6	7978.5	8848.6
Total debt service	\$ mn.	906.4	1574.2	1223.2	1082.1
Cash surplus or deficit	% of GDP	-	-0.8	-3.4	-
Tax revenue	% of GDP	-	15.7	13.9	-
Government consumption	% of GDP	13.3	14.4	16.9	17.7
Public expnd. on edu.	% of GDP	4.7	5.1	6.3	-
Public expnd. on health	% of GDP	8.4	9.4	10.5	-
R&D expenditure	% of GDP	0.32	-	-	-
Military expenditure	% of GDP	0.0	0.0	0.0	-

Sources: The World Bank, World Development Indicators 2011 | International Monetary Fund (IMF), World Economic Outlook 2011 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2011.

7 | Organization of the Market and Competition

Market competition is consistently defined and implemented at the macro and micro levels. Most prices are determined competitively and currency is easily convertible. The freedom to enter contracts in any currency is legally protected, and there are no restraints on making and withdrawing investments. Article 19 of the constitution grants foreigners the same rights and obligations extended to nationals. In fact, the economy has flourished in recent years on the basis of foreign domestic investment. This has been so despite the fact that starting a business in Costa Rica, while not impossible, remains difficult. The World Bank's Doing Business Report 2011 shows it takes 60 days to start a new business, the same as in 2008 and higher than the Latin American average. The country ranks at 125 out of 183 in the overall index, a drop of four positions with regard to 2010. There are state-guaranteed rules for market competition meant to ensure equal opportunities for all market participants (Law 7472). The informal sector is considered small in comparison to other Central and Latin American countries, but about 32% of all workers were employed in this sector in 2009, including the self-employed, microenterprises, non-remunerated workers and domestic workers.

Laws to ensure competition are in place, and there is a National Commission for the Promotion of Competition (COPROCOM) charged with investigating and penalizing monopolistic practices or any other obstructions to the free functioning of the market. Several industries were for a long time excluded from competition

Market-based competition

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Anti-monopoly policy

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and kept as legal state monopolies, including insurance (1924), banking (1948), electricity (1949, 1967), and telecommunications (1963). The banking sector was opened to competition gradually throughout the 1980s and 1990s, while the ratification of the Central America Free Trade Agreement (CAFTA) and the subsequent passage of its complementary laws opened the insurance and telecommunications sectors in 2008. Despite some resistance from state-owned enterprises and a slow start in launching the competitive processes, including the creation of new regulatory entities, competition in telecommunications, cellular phones and commercial insurance is now underway. Telecommunications first opened up in 2009 with competition in Internet and other services, such as voice-over-IP. The first public auction for cellular frequencies was held at the end of 2010 and service by two private companies (Claro and Telefónica) is expected to start in 2011. Competition in the insurance market started in 2010 with medical and other policies. It will be extended to auto and liability insurance in 2011. Opening of the electricity sector, particularly through more extensive co-generation by the private sector, is still awaiting passage of a new regulatory law in the Legislative Assembly, a fact that attests to the relative inertia faced by these changes or transformations. While the financial sector has been competitive for several years the playing field is not entirely level. Only state banks enjoy an implicit state deposit guarantee. Moreover, the law requires private banks to transfer a percentage of their demand deposits to state banks, which then administer them under a special development regime. This mechanism has been denounced by private bankers as ineffective and costly, but proposed reforms in this area have failed to advance. The state retains exclusive rights to alcohol distillation, the importing, refining and distribution of petroleum and its derivatives, as well as the operation of railroads, ports and airports. While the latter have begun to be offered in concession to private parties, the regulatory framework has been subject to several changes and contracts have been plagued by difficulties. In sum, general developments point to a considerable broadening of competitive markets, but anti-monopoly policy remains inconsistent and limited by persistent legal reserves.

Starting in the 1980s, Costa Rica pursued active trade liberalization as part of a development strategy based on global integration and export orientation. At present the country can be considered widely liberalized with a trade-to-GDP ratio of 96.4% and an average weighted tariff of 2.4% (2009). Its non-weighted average tariff is around 6%, which is lower than the Latin American average. The Heritage Foundation in its Index of Economic Freedom considers that non-tariff barriers are relevant, but the World Trade Organization (WTO) stated in its latest examination of the country's policies (2007) that the use of those instruments has been limited. More recently, however, the country has exposed itself to WTO sanctions by exceeding its cap on agricultural subsidies for rice for three years in a row (2007–2010). The country reformed its export promotion mechanisms in 2009 to make them compliant with WTO norms. Costa Rica joined the General Agreement on

Liberalization of
foreign trade

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Tariffs and Trade (GATT) in 1990 and ratified the WTO treaty in 1994. It has been an active participant in the multilateral trade system, including the trade negotiations of the Doha round, while at the same time actively pursuing bilateral and preferential free trade agreements. To date, it has signed free trade agreements with the United States, Dominican Republic and Central America (CAFTA), the Caribbean Community of Nations (CARICOM), Canada, Chile, Mexico and Panama. In May 2010, an Association Agreement was signed between the Central American countries, including Costa Rica, and the European Union. Costa Rica also recently signed free trade agreements with China and Singapore that are awaiting ratification, and obtained observer status with the Asia-Pacific Economic Cooperation (APEC) forum. The country is dedicated to the pursuit of international trade and is aided in its efforts by two state entities, the Ministry of Foreign Trade (COMEX) and the Promoter of Foreign Trade (PROCOMER), and a private export promoting office (CINDE).

The banking system is solid and governed according to international standards that include prudential supervision and capital adequacy requirements. All intermediaries must be registered and unregulated players, while a problem in the past, are rare today. There are strict disclosure rules and information on market participants is available to the public. Capital adequacy ratios range from 10% to 14%, above the minimum Basel standards (8%). Loans grew aggressively during the period of high economic growth starting in 2002 but without jeopardizing loan quality or the solvency of the financial system. The global financial crisis slowed this growth, but it did not have widespread negative repercussions on the financial system. While the economic slowdown did affect the payment capacity of borrowers, causing an uptick in arrears, the effect was temporary and manageable (well below the international benchmark of 3% of loans non-performing). The regulator of the financial sector (SUGEF) was credited with competently anticipating and successfully managing the effects of the crisis. Three state banks are the dominant players in the market with almost 45% of all assets and 47% of all liabilities. Following in importance are 11 private banks, including foreign-owned entities, which represent about 29% of the system's assets. The rest of the sector is made up of financial companies, financial cooperatives and two special banks. Despite advances in prudential regulation, the financial system suffers from high credit spreads, a sign of inefficiency. The financial depth of the system (measured as the ratio of loans to GDP, 54% in 2008) is relatively high for regional standards and has grown considerably in recent years (from 43% in 2005). However, it is still low in comparison to more developed markets. The system suffers from a patchwork of legislation governing the different intermediaries. Not only do state banks enjoy an implicit state guarantee unavailable to private competitors, but special entities like the Banco Popular have unique tax and reserve requirement exemptions. A comprehensive reform bill has been circulating for several years but

Banking system

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its prospects of advancing in the legislature are uncertain.

8 | Currency and Price Stability

Costa Rica's Central Bank maintains a high level of professionalization and has pursued consistent anti-inflationary and foreign exchange policies. Most recently, the Central Bank has focused its policy on inflation, which reached historical lows in 2009 and 2010 (4% and 5.8%, respectively). Single-digit inflation levels below 6% for two consecutive years had not been experienced in Costa Rica since 1978. This represents a turnaround from the high inflation levels of 2008 (13.4%), which were partly the product of high international food and energy prices. The bank also abandoned a longstanding crawling peg exchange regime in favor of a crawling band system, in which the colón is allowed to float between predefined (and adjustable) upper and lower limits. The move, while consistent with inflation targeting, has made the exchange rate more volatile. Large influxes of foreign investment have led to a significant appreciation of the currency with respect to the U.S. dollar (over 13%). While this may have contributed to keeping prices low, it has affected the competitiveness of tradable sectors, including tourism, and has boosted the trade deficit significantly.

Anti-inflation /
forex policy

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The government's fiscal and debt policies support macroeconomic stability, but they have not reached a level where they are insulated against short-term fluctuations of the economic cycle and the international sector. Fiscal deficits were brought under control as economic growth rose, with small surpluses (less than 1% of GDP) reached in 2007 and 2008. These balances deteriorated as the government responded to the global financial crisis with expansive fiscal policies and as revenues fell with economic output. Deficits returned in 2009 and 2010 at 3.4% and 5.36% of GDP, respectively. Current budgetary estimates by the government place the deficit at 5.5% of GDP in 2010 and a similar level in 2011. The growing deficit has also impacted public debt, which increased to 42% of GDP in 2009. This increase was the largest in 10 years, but total debt levels remain manageable and low compared to historic levels. This macroeconomic relapse presents important challenges for the new government if it is to preserve stability, and it has responded by proposing a fiscal reform package that would transform the sales tax into a value added tax, increase its rate and expand its base. While spending will also be targeted, reductions will be limited to discretionary items, which are few. Much will depend on the currently uncertain political prospects of the reform.

Macrostability

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9 | Private Property

Property rights and regulations on acquisition, benefits, use and sale are well-defined and enforced. Public interest exceptions may lead to an override of these

Property rights

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rights, but always following due process and adequate compensation. The public registry that tracks property rights has been vulnerable to fraud. For example, in July 2009 legal authorities reported over 500 claims of illicit property sales and transfers in the course of a year, most of which involved forged signatures. However, a host of investments and reforms have been undertaken to modernize the registry and improve its security.

Private companies are viewed as primary engines of economic production and are given appropriate legal safeguards, starting with the constitution. However, there is a long history of state involvement in the economy, which has included the preservation of legal public monopolies in several areas. The ratification of the Central America Free Trade Agreement (CAFTA) in 2007 and the implementation of its complementary laws opened most of these areas to competition, but not through privatization. This means that state enterprises will compete alongside private companies in telecommunications, insurance and banking, among others. Although the effects of this opening are unpredictable, state enterprises enjoy a considerable market advantage due to their long tenure and can be expected to continue being important players. The state also has the ability to contract public services with private concessionaires, as it has done in certain large-scale infrastructure projects, such as airports, ports and roadways.

Private enterprise

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10 | Welfare Regime

There has been a broad and sustained effort to develop social safety nets capable of compensating for social risks and preventing poverty. Social investment by the state encompasses universal programs (health and education), contributive programs (pensions), and selective programs targeted to vulnerable segments of the population (conditional cash transfers). Universal programs represent the largest share of public spending (57%), followed by contributive programs (20%) and selective programs (11.5%), which have the fastest growth. This social investment, which grew in absolute and per capita terms despite the economic crisis (by 3.3% in 2009), has a large redistributive effect which has tended to grow in recent years, mainly due to selective programs. In 2009 social investment tripled the average pre-transfer household income of the population's first decile and doubled that of the second. Also in 2009, non-contributory pensions helped to lower poverty by almost two percentage points while conditional cash transfers (Avancemos) lowered poverty by almost half a percentage point. Despite this, social investment has been insufficient to counter an increase in overall income inequality, and there is still a significant portion of the most vulnerable population (the poorest 20%) that is not covered by the selective programs that target it. Social programs are organized through a wide range of government organizations and there is no centralized source of information about funding. However, data from FODESAF, a key state

Social safety nets

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entity in the management of selective programs, indicates that the main sources of funding are payroll taxes and direct government transfers. Universal programs in health and pensions are managed by the Social Security organization (CCSS), which is also funded mostly through tri-partite payroll contributions complemented by government transfers. While the CCSS maintains an investment trust to cover its pensions for invalidity, old age, and death (IVM), the financial structure is pay-as-you-go and there is concern about the future strength of the fund, due to population ageing. The coverage of universal services is high; about 65% and 61% of the economically active population in health and pensions, respectively, with most of the remaining population covered as dependants and/or beneficiaries of selective programs.

Costa Rican institutions strive to provide equality of opportunity, but with varying levels of success. Access to health is broad with constant quality of service across socioeconomic levels and, increasingly, over geographic area. But access to education, while improving, is still far from universal. Average schooling for the population between 18 and 64 is 8.9 years and only 37.7% manages to complete a secondary education level. Women and members of ethnic or other minorities have equal access to education, health and other services. Gender equality has been a longstanding policy goal, and a series of laws and institutions (such as the Ley de Igualdad Real de la Mujer and the Instituto Nacional de las Mujeres) have been created to pursue it. Significant advances have accrued in female participation rates in the labor force (42%), and female representation rates in politics (39% of legislative seats, 37.5% of cabinet posts, and, currently, the presidency). However, parity is still elusive. Women earn less than men and fare worse under economic duress. The monthly average income of women is about 80% that of men (although there is considerable variation according to occupational categories). During the recent economic downturn, whereas unemployment rates increased for both male and female workers, they increased significantly more for the latter, thus affecting their income levels to a greater degree. In terms of other minorities, the province of Limon, where most of the population of African descent is concentrated, has lower social indicators and higher levels of crime than the rest of the population.

Equal opportunity
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11 | Economic Performance

Economic performance in 2008 and 2009 was affected by the global financial crisis and particularly the economic recession in the United States, which is the main market for Costa Rican exports, including tourism, and its main source of foreign investment. According to World Bank Indicators, GDP registered a small increase in 2008 (2.61%) but fell by 1.5% in 2009 (1.24% and -2.8% in per capita terms, respectively). The Central Bank expects GDP to have grown by about 4% in 2010 and is predicting a similar level of expansion (4.3%) for 2011. In all, given the

Output strength
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magnitude of the global crisis, the negative impact on growth may be considered moderate and the recovery swift. However, this level of growth, which is lower than the Latin American average (5%), might be insufficient to lower poverty, which is expected to rise again in 2010, reaching 21% of the population, and unemployment, which is expected to remain around 7.5%. Because the economic recovery was driven in large part by fiscal stimulus, the government now faces a challenging budgetary situation, with a projected deficit of 5.5% of GDP in 2010. Some of the expansionary spending promoted by the government in 2009 and 2010, like public employment, is non-reversible, which means that the administration will now have to find new spending reductions and/or raise revenue through better tax collection or new taxes. Tax revenues fell from 15% to 13.5% of GDP in 2009 as a result of the economic contraction. This figure does not account for payroll contributions to social security and other social programs. If included, total revenues fell from 23% to 21.7% of GDP. The larger gap between spending and revenues drove public debt to 42% of GDP. While still manageable, this increase is the largest of the last decade. There are concerns that inflation could rekindle, and the Central Bank recently revised its estimate for 2011 upwards from 4% to 5%. This level, however, is low by historical standards and would represent a reduction from the 5.8% registered in 2010. Trade balances improved in 2009 despite a 7.5% contraction in exports, as imports fell by more than three times as much. Preliminary data suggests that this situation was reversed in 2010 as import growth (22%), aided by economic recovery and exchange rate appreciation of about 13%, outpaced export growth (9%), generating a current account deficit of 5% of GDP. Strong capital inflows, which were the main drive behind the exchange rate appreciation, served to finance the foreign deficit, which is high and probably unsustainable.

12 | Sustainability

Environmental concerns are at the core of public policy. The right to a healthy and ecologically balanced environment is constitutionally established (Article 50) and hence subject to enforcement through special environmental courts as well as the constitutional court. The 2010 Environmental Performance Index gives Costa Rica a high score, ranking it third among 163 countries. This reflects the country's long-established environmental stewardship, which includes reserving more than 25% of its territory under protected status, aggressively recovering its forest cover and compensating private landowners for ecological services generated in forested areas. In 2010 the country was awarded the "Future Policy 2010" prize for its Biodiversity Law at the U.N. Summit on Biodiversity. However, as the 2010 Estado de la Nación report cautions, the country's record is more nuanced when analyzed from the perspective of its carbon footprint, water management and the sustainability of its economic practices. While most of the country's electricity is produced from renewable sources, electricity only accounts for a quarter of the

Environmental
policy
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energy resources consumed. The remaining energy needs are filled through highly contaminating hydrocarbons. As a result, greenhouse gas emissions outpace the country's absorption capacity, despite its goal to become carbon-neutral by 2021. In addition, 96% of residual domestic waters are thrown into rivers without treatment, generating high levels of contamination in the country's Pacific basin (to remedy this, a vast project with 400 km of new sewerage and a massive treatment plant will start in 2011). As far as the sustainability of economic practices, the expansion of export-based agriculture has driven intensive use of fertilizers and pesticides and placed new pressure on water sources. Government policies in 2009–2010 also appeared contradictory as environmentally destructive activities like open-pit mining were endorsed, at great political controversy. This may in part be due to the highly fragmented regulatory framework governing environmental policy with numerous bodies and entities plagued by overlapping mandates and responsibilities.

Education is a key component of social policy, with pre-school and general basic education (until the ninth grade) obligatory, universal, and free, and the public budget for education at all levels constitutionally mandated at a minimum of 6% of GDP (Article 78). As a result, literacy rates exceed 96% of the population ages 15 and over, and there is a complex institutional network devoted to education at the primary, secondary and tertiary levels. While universal coverage has been achieved at the primary level, that is not the case at the secondary level, where only 72% of the relevant population (ages 13 to 17) is enrolled and desertion rates are close to 11% (2009). However, both indicators improved in the period under consideration with desertion actually reaching its lowest level since 1995. Performance also lags in terms of graduation rates, as only 43% of students entering the seventh grade graduate from high school. In response, the government has deployed a highly successful conditional cash transfer program (Avancemos) to keep students in high school. It has also increased spending in education. While for years total expenditures failed to reach the constitutionally mandated 6%, in 2009 and 2010 it approached 7% (on average). Average years of schooling in 2009 were 8.9, slightly higher than the level in 2007 (8.7). In general terms, the country's relative achievement in education as measured by the United Nations Education Index is 0.88, lower than other Latin American countries with comparable human development levels, like Uruguay and Chile. Tertiary education is important in Costa Rica, and much of the research conducted in the country is funded through universities. However, registered research and development spending remains low, at about one-third of a percentage point of GDP.

Education policy /
R&D
7

Transformation Management

I. Level of Difficulty

Structural constraints on governance are moderate with rising poverty and inequality rates, severe infrastructural deficiencies, and the risks imposed by international drug trafficking among the most worrisome factors. The deterioration in poverty and inequality levels despite increased social spending and new redistributive social policies suggests a high level of difficulty constraining the governance capacity of political leaders. The inability to improve the country's crumbling infrastructure also suggests the existence of structural constraints. The contracting of public works through concessions to private operators has failed repeatedly, generating substantial delays and financial costs. The roadways connecting the capital to its two main ports on the Atlantic and Pacific coasts are vulnerable to landslides, which have been exacerbated by adverse climate conditions, generating constant shutdowns. Bridges along the Inter-American highway have also been shut down by damages, forcing costly interruptions of traffic. Recalcitrant unions beset the operation of the main port on the Atlantic coast, imposing high costs and low efficiency on the trading sectors. At the same time, heightened pressure on drug traffickers in Mexico and its border with the United States have driven cartels toward Central America, already an important transit route for the drug trade, increasing the risks of organized crime and drug-related violence.

Structural
constraints
4

Traditions of civil society are strong. There are about 19,000 civic associations, 243 unions, 725 cooperatives, close to 1,300 solidarist associations, and over 2,800 community development associations currently registered in the country. However, active individual engagement with civic organizations does not appear to be high. According to the Latin American Public Opinion Project (LAPOP), Costa Rica has the highest level of interpersonal trust in the Americas, with a mean level of 70.2 (on a 100-point scale), above Canada and the United States. This is an indicator of strong social capital.

Civil society
traditions
2

There are no violent incidents based on social, ethnic or religious differences. Some contentious social and economic policy issues have generated conflict, but these so far have been resolved without greater incident through institutional channels.

Conflict intensity
1

Besides the debate surrounding the ratification of the Central America Free Trade Agreement (CAFTA) and its complementary laws in October 2007, recent examples include environmental issues, such as opposition to open-pit mining in Crucitas or the construction of an aqueduct in Guanacaste, and social issues, such as the controversy surrounding gay marriage.

II. Management Performance

14 | Steering Capability

The current and previous governments set strategic priorities through a national development plan (Plan Nacional de Desarrollo), with detailed goals and objectives for all government institutions, divided by sectors and regions. Within the executive, the Ministry of Economy and Planning (MIDEPLAN) is tasked with the development, execution and coordination of the plan. It also forms part of a National Evaluation System, together with the Ministry of Finance, the presidency of the republic, and the planning units of decentralized institutions, that follows the plan through its execution. The comptroller general also conducts periodic evaluations of the national plan, which are made available to the public. Strategic priorities have corresponded with an effort to perfect the institutions of democracy and a socially inclusive market economy. The 2011–2014 development plan emphasizes four central pillars: social well-being, citizen security, sustainable development and competitiveness and innovation. In terms of concrete policies in the short-term, the government has indicated that it will prioritize fiscal reform and citizen security.

The period under review straddles the end of the Oscar Arias administration and the beginning of the Laura Chinchilla administration. At the end of the period under review, the Chinchilla government was in power for only eight months, so judgments about its ability to implement policies can only be limited. Yet, the record to date shows that the government has not been very effective with regard to implementation. In great part this is due to lackluster coordination of executive-legislative relations. The governing party controls only 24 of the 57 legislative seats (42%) and its group is not entirely disciplined or loyal. As a result, it has led the government into a series of politically embarrassing situations, such as a failed attempt to raise salaries in the legislature, an event that badly damaged the president's image. A factional struggle has emerged between Chinchilla, who lacks an established social and political following, and the more seasoned National Liberation Party (PLN) leaders that were instrumental in her nomination as a presidential candidate. This led an important number of the party's deputies to

Question
Score

Prioritization
9

Implementation
7

openly declare allegiance to Rodrigo Arias, a likely contender for the presidency in 2014, exposing the government's political weakness. While Chinchilla penned a coalition agreement with the Libertarian Party that in theory would ensure the advancement of a common agenda, to this date the government has not been able to claim passage of any key legislation. It has also been much criticized for failing to articulate a comprehensive plan for citizen security, especially given that it was a central promise during the presidential campaign.

In addition, several ministries in the executive, such as public health, agriculture, and public works and transport, have been losing administrative capabilities throughout the years, due to the combined effects of spending restrictions and anachronistic civil service regulations. This has impacted their planning, but especially their implementation capabilities. A notable example is the area of public works and, especially, infrastructure, where projects are often not executed, or executed poorly, despite the availability of financial resources. A salient example is the inability to repair a section of a key bridge on the Inter-American highway that has turned the ministry of public works into the object of public derision.

The government has acted innovatively in response to complex policy challenges. However, in at least one case, that of the crisis surrounding a territorial incursion by Nicaragua, there is evidence of a failure to learn from past experience. In September of 2010 the foreign minister, without any technical basis, declared before the Legislative Assembly that he had no objections to Nicaraguan plans to dredge the San Juan River, which borders the two countries. He did so despite the precedent set by two of his predecessors who opposed the dredging in 2006 and 2008 unless studies could demonstrate that it would not impact Costa Rica negatively. The foreign minister's acquiescence prompted Nicaragua to initiate the dredging almost immediately, unleashing the chain of events that led to a territorial incursion and claims of environmental damages. However, Costa Rica adapted to the developing circumstances, reacting innovatively and vigorously as the mounting evidence revealed the true extent of the problem. Because Costa Rica has no armed forces it must rely on international laws and institutions to defend its rights of sovereignty. So it launched a campaign involving broad international denunciations, appeals to the Organization of American States and, eventually, a suit before the International Court of Justice. The incident also laid bare the inadequacy of border protection mechanisms, leading the government to propose, *ex post facto*, the creation of a specialized border patrol as well as measures to improve the training and capabilities of police forces. In its policy responses the government usually relies on good practices, international cooperation and consultancy of academic experts and practitioners. In this it follows an established tradition of technocratic involvement in Costa Rican government, often through hired consultants.

Policy learning

7

15 | Resource Efficiency

The government makes relatively efficient use of available human, financial and organizational resources, but it is burdened by a highly complex and diverse administrative structure. 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. This poses great challenges for coordination, management and control. Politicians and opinion leaders have repeatedly pinpointed the need for state reform, but it has been elusive. Indeed, the number of state entities has continued to grow. 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 limitation. Given the practical impossibility of firing a civil service employee, many entities have devised ways to hire around it, creating enclaves of variant dynamism within the state. Policy-making is highly centralized as municipalities depend on authorizations from the national legislature for all relevant decisions, including setting local service and tax rates. In a measure of policy-making centralization compiled by the World Economic Forum, Costa Rica averages a 2.4 score in a scale of 1 to 7, with 1 being totally centralized. Since the Latin American average for this index is 2.48, Costa Rica is slightly more centralized in its policy-making than the rest of the region.

Efficient use of
assets

7

The government did not have a balanced budget in 2009 and 2010 and it is likely to maintain a deficit of about 5.5% of GDP in 2011. However, levels of public debt remain at a manageable level. Despite an increase with respect to 2008, total public debt, domestic and external, was at 34% of GDP in 2009, significantly lower than the average for the preceding decade (43%). Though complex, the budget planning process is transparent and closely scrutinized by the public comptroller. Its latest annual report showed that in 2009 the government violated the legal provision that current expenditures be funded only through revenues. About 15% of the government's 2009 expenditures were funded through debt. This situation will likely be repeated in 2010.

At the level of the executive the government has the necessary tools to coordinate conflicting objectives into a coherent policy, but contradictions occur and the task can be complicated when it requires coordination with the legislature. Since the president names ministers without being subject to ratification, she commands the direct loyalty of her cabinet and is at liberty to organize and coordinate it as she deems necessary. Among the institutional mechanisms employed to ensure coordination are regular cabinet meetings (Consejo de Gobierno) where government priorities are set and discussed. Another mechanism is the appointment

Policy
coordination

7

of special ministers tasked exclusively with coordinating key policy objectives across sectors. An example is the minister of social wellbeing and family, whose job is to harmonize the various organizations within the state working toward social objectives. But the complexity of the public sector and its fragmentation into multiple organizations and agencies pose difficult coordination challenges that sometimes threaten the coherence of policies. A salient example has been the tension between economic development policies and environmental policies. According to the policy think-tank Programa Estado de la Nación these coordination problems stem from the inherent weaknesses of decision-making mechanisms amid a very complex legal and administrative structure that involves multiple organizations with overlapping jurisdictions and redundant functions.

While there are institutional mechanisms, such as the Ministry of the Presidency, designed to facilitate coordination with the legislature, it is at this level where the harmonization of conflicting objectives has been most elusive. Increased party fragmentation and polarization have made programmatic differences between government and opposition more likely. The government established a coalition with parts of the opposition, the Governability Pact, but it has not facilitated the passage of legislation. Factional struggles between the president and party leaders have made it difficult for her to coordinate her own legislative fraction. By January 2011, of 23 bills submitted by the executive only one had advanced to second debate and been approved as law. Another 35 bills were in committee and had made little progress due to a profusion of motions filed and consultations submitted to the Constitutional Court. Many of the government's deputies have made public profession of their conflicting loyalties, politically weakening the president in front of the opposition and public opinion and raising doubts about her capability to coordinate policy-making.

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

Anti-corruption
policy

8

received by parties in the previous election, smaller parties may be handicapped in their ability to garner financing. Most state entities have internal auditors that closely monitor their spending and, in addition, the Comptroller General (Contraloría) rigorously audits their accounts. Public entities may sometimes employ direct purchasing mechanisms that exempt them from the rigors of the public bidding process. While this may open the door to acts of public-private collusion, it is worth remembering that the acts of corruption unveiled in 2004 were public bids. That such acts of corruption do not remain with impunity is of primary importance as a deterrent for corruption. The Costa Rican judiciary fulfills this role through its prosecution efforts, but cases often advance too slowly.

16 | Consensus-Building

All major political actors agree on the goal of consolidating democracy and a market economy. However, as befits a plural democratic context, there are different views regarding the optimum strategy for attaining it. The debate about the Central America Free Trade Agreement (CAFTA) centered on these differences, particularly with regard to the centrality of state intervention in the economy and the relevance of trade liberalization. The opponents to ratification included, among others, the main opposition party, the Citizen Action Party (PAC), a majority of university students and faculty, public sector unions, old leaders of the National Liberation Party (PLN), and a collection of local and grassroots organizations. Their coalition was broad and diverse, and members differed in their reasons for opposing ratification. One central objection was against the liberalization of long-held state monopolies, including telecommunications and insurance. Opponents held that these entities had been instrumental to the country's idiosyncratic development path, enabling the exercise of solidarity in favor of the most disadvantaged. While not all opponents were against free trade, many claimed that CAFTA was not the best way to promote exports and development. They argued that liberalization should be based on national priorities and ideals, not the logic of globalization, following, where necessary, a more selective process for opening the economy. Once the dispute was resolved via referendum (7 October 2007) opponents accepted the result, but they have remained critical as liberalization has proceeded.

There are no anti-democratic veto actors with anti-democratic interests, such as the military or influential economic actors. Some social movements oppose reform through extra-parliamentary and sometimes contentious means, but not with anti-democratic intent. During the campaign for ratification of the Central America Free Trade Agreement (CAFTA) some groups employed anti-democratic rhetoric, stating that they would disregard the majority outcome if it were "wrong" (contrary to them). However, the public condemnation was widespread and this type of

Consensus on goals
9

Anti-democratic
actors
10

language has not been heard since.

The political leadership has prevented cleavage-based conflict from escalating, especially by seeking to govern through consensus. The two-party system was organized around the traditional divisions inherited from the 1948 civil conflict, but a set of equally divisive cleavages has not emerged since its collapse. Instead, conflicts have centered on specific issues that, because they cut across party lines, have not provided a stable basis for party realignment. The discord surrounding the Central America Free Trade Agreement (CAFTA), gay marriage, water rights, open-pit mining and the use of coastal areas are all examples of such issues. However, while these issues have inspired conflict their resolution has remained within institutional boundaries. Aside from the specific issues mentioned, the dominant emergent cleavage today might be between those who benefit from the current socioeconomic circumstances and those who feel themselves excluded, including those who do not consider themselves adequately represented by and are disillusioned with existent political institutions.

Cleavage /
conflict
management
9

The political leadership enables civil society participation and assigns an important role to civil society actors in deliberating and determining policies. When new laws are enacted or existent laws are reformed, it is typical that organized representatives of sectors affected by the laws are given space to voice their concerns before legislative committees. Many government policies, like those governing minimum wages and salary increases, for example, are decided in consultation with organized representatives of workers and employers. Interest groups also utilize non-institutionalized channels to represent their interests. Social movements have emerged to oppose government policies in electricity, telecommunications, trade, mining and public works. Yearly, collective action, such as marches and protests, range in the several hundred and the state is generally respectful of such action. Yet there are areas where civil society participation could be enhanced. For example, the policy think-tank Programa Estado de la Nación notes that the key to improving the social and environmental impact of productive activities is the incorporation of citizen participation in the planning and development of zoning regulations.

Civil society
participation
8

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

Reconciliation
n/a

17 | International Cooperation

The political leadership makes well-focused use of international assistance to implement its long-term development strategy. Recent loan agreements with the Inter-American Development Bank, the IMF and the World Bank will allow

Effective use of
support
9

investments in key priorities like infrastructure, debt restructuring and monetary stability. A massive project to develop sewerage networks and a treatment plant that will prevent the flow of solid waste into rivers and the Pacific Ocean will be initiated in 2011 with funding from the Japanese cooperation agency. During the Oscar Arias administration, the reestablishment of diplomatic relations with China led to important cooperation agreements, including China's purchase of \$500 million of Costa Rican bonds. Costa Rica is also a beneficiary of the Central American Regional Security Initiative (CARSI), through which the United States will channel \$165 million to Central American countries for the improvement of law enforcement and the fight against drug trafficking and organized crime. In a 2010 "debt-for-nature swap" the United States condoned \$23 million of Costa Rican debt in exchange for investments in the country's biodiversity. Costa Rica also relies on agreements with the United States to patrol its coasts and protect against drug-trafficking vessels. The country was a signatory to the 2010 European Union-Central America Association Agreement, which rests on the "pillars" of political dialogue, trade and cooperation. Costa Rica will benefit from cooperation assistance for its regional integration efforts, including the reduction of technical obstacles to trade, and its social cohesion policies. The latter include poverty reduction, gender equality, education and citizen security.

The government is considered a credible and reliable partner by the international community. Costa Rica has traditionally exerted an outsized international influence with regard to its physical and economic power. It has represented Latin America as a temporary member of the United Nations Security Council three times, the latest of which was in 2008. It has also promoted international treaties and conventions in the areas of arms control, disarmament, international cooperation and environmental protection. Most recently it played an active role in the global climate summit, held in Cancun, Mexico. The country is in good standing with international financial institutions, where its economic policies have received positive endorsements. In 2010 the country received an investment grade rating by Moody's for the first time in 12 years.

Credibility
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The political leadership actively and successfully builds and expands cooperative neighborly and international relations. Costa Rica belongs to and supports regional and international integration. As a signatory to the Central America Free Trade Agreement (CAFTA), it is also an active participant in the institutions of Central American integration, notably the Central American Secretariat for Economic Integration (SIECA). Lacking an army, Costa Rica is dependent on diplomacy to foster amicable relations with its neighbors. In addition to multilateral efforts in recent years it has promoted the use of bilateral commissions to handle relations with Panama and Nicaragua. However, divergent levels of human development, democratic institutionalization, and rule of law between Costa Rica and the rest of Central America have often hindered deeper integration. Costa Rica does not

Regional
cooperation
9

participate in the Central American Parliament or the Central American Court. The Laura Chinchilla administration began with an emphasis on deepening ties to Central America, but that objective was trumped by events such as the incursion of Nicaraguan troops along the northern border. Costa Rica subsequently took the case before the International Court of Justice at The Hague, where the case is currently in progress. Regional tensions also increased with Costa Rica's recent impugnation of what it considered the illicit appointment of a new Secretariat for Central American Economic Integration (SIECA) secretary.

Strategic Outlook

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

The Costa Rican state has constantly expanded its scope, adding layer upon layer of organization, producing a vast institutional structure which poses insurmountable challenges of coordination and control. Correcting this should not mean gutting the state of key functions but rather strengthening its capabilities so that it may accomplish those functions more rationally and expeditiously. While this might eliminate redundant or wasteful spending, it may also require greater resources. So a reform of the tax system should have priority, both to ensure that revenues are sufficient for the level of services and also that taxes are collected fairly and efficiently, keeping evasion and elusion to a minimum. As a corollary, the budget of autonomous institutions should be brought under the purview of the legislature, which currently does not have oversight over its spending. In turn, budgetary controls should be implemented to ensure the efficiency of all expenditures. Strengthening the implementation capabilities of the state would allow Costa Rica to consolidate its gains in social policy and tackle key deficiencies in infrastructure, environmental policy, citizen security and human capital. Problems in these areas are often related more to the quality of management and administration than to a lack of resources.

Political reforms are also necessary to improve the quality and responsiveness of representation. Costa Rican society has become more numerous, plural, urban and educated, but the political system has remained largely unchanged. This richer social context must find representation in the country's political institutions and conditions must favor the recovery of trust in political parties and the legislature. While there are many options with regard to the institutional designs that could be adopted, there are some general objectives that should be targeted. For example, representation should be proportional to the size of the population. In Costa Rica the number of deputies has not changed since 1961, despite a trebling of the population. Representatives should have incentives to build political careers in the legislature, developing a record and demonstrating their accountability to the electorate. In Costa Rica this is inhibited by a ban on continuous reelection. The short-term horizon imposed by this limitation precludes specialization and hampers the learning effects of experience, impacting the quality of deliberation and legislative outputs. Finally, institutional mechanisms should facilitate the creation of legislative majorities, as well as their flexible re-creation under conditions of gridlock. By more closely

linking the fate of the government to its ability to maintain a viable coalition, this would provide incentives for better coordination between the executive and the legislature, something the current political system does not do well.

Gains could also be obtained from fine-tuning parliamentary procedures. Cross-national comparisons show that the Costa Rican legislature is unduly permissive on several dimensions, including the use of the floor and the presentation of amendments. Together with the ability to consult the constitutionality of bills, this often leads to obstructionist tactics. However, the costs of these tactics must be balanced against their value to minorities as protection and negotiation mechanisms. Reforms should aim to provide an institutional environment that, while inclusive, also fosters negotiation and consensus, thereby lessening the relevance of obstructive tactics. A more coherent legislature with improved mechanisms for coordination with the executive would likely foster a rebalancing of power among the branches of government, lessening the need for judiciary adjudication.

Increased avenues for direct citizen participation could complement these reforms of the representative system. While the plebiscite, referendum and popular initiative have been added to the Costa Rican political system, increasing the venues for citizen participation might well contribute to the accountability and responsiveness of elected representatives. Examples include the use of participatory budgeting, health and education councils, and other forms of participative innovation that have been used successfully throughout the Latin American region.