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COUNTRY PROGRAM EVALUATION: COSTA RICA 2006-2010

Office of Evaluation and Oversight (OVE)

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CONTENTS

ABBREVIATIONS

BCCR	Central Bank of Costa Rica
CABEI	Central American Bank for Economic Integration
CCLIP	Conditional credit line for investment projects
CCSS	Caja Costarricense de Seguro Social [Costa Rican Social Security Administration]
CFAA	Country Financial Accountability Assessment
CID	Country Department Central America, Mexico, Panama, and the Dominican Republic
CNC	Consejo Nacional de Concesiones [National Concessions Council]
CONAVI	Consejo Nacional de Vialidad [National Roadways Council]
CPAR	Country Procurement Assessment Report
CPE	Country program evaluation
DGME	Dirección General de Migración Extranjera [Department of Immigration]
DR-CAFTA	Dominican Republic – Central America – United States Free Trade Agreement
FIDERPAC	Fundación Integral de Desarrollo Rural del Pacífico Central [Integral Foundation for Rural Development in the Central Pacific Region]
FTA	Free Trade Agreement
FUNDECOCA	Fundación Unión y Desarrollo de Comunidades Campesinas [Foundation for the Union and Development of Campesino Communities]
GDP	Gross domestic product
HDI	Human Development Index
ICE	Instituto Costarricense de Electricidad [Costa Rican Electricity Authority]
JBIC	Japan Bank for International Cooperation
IMAS	Instituto Mixto de Ayuda Social [Joint Social Welfare Institute]
Lanamme-UCR	Laboratorio Nacional de Materiales y Modelos Estructurales de la Universidad de Costa Rica [National Laboratory of Materials and Structural Models of the University of Costa Rica]
MAG	Ministry of Agriculture and Livestock
MIDEPLAN	Ministry of Planning and Economic Policy
MINAE	Ministry of the Environment and Energy
MOPT	Ministry of Public Works and Transportation
OECD-DAC	Organization for Economic Cooperation and Development-Development Assistance Committee
OVE	Office of Evaluation and Oversight
PBL	Policy-based loan
PDF	Project Development Facility
PEFA	Public Expenditure & Financial Accountability
PND	Plan Nacional de Desarrollo [National Development Plan]
PROCOMER	Promotora de Comercio Exterior de Costa Rica [Foreign Trade Corporation of Costa Rica]
PRODEV	Program to implement the external pillar of the Medium-term Action Plan for Development Effectiveness
RNC	Régimen No Contributivo de Pensiones [Noncontributory pension system]
SCF	Structured and Corporate Financing Department

SETENA	Secretaria Técnica Nacional Ambiental [Environmental Secretariat]
SMEs	Small and medium-sized enterprises
SNIT	Sistema Nacional de Información Territorial [National Territorial Information System]
VAT	Value-added tax

EXECUTIVE SUMMARY

The Bank's country strategy with Costa Rica 2006-2010 correctly identified the country's main development challenges in 2006 (the baseline used by the Bank to prepare the strategy): the difficulty of forging linkages between the most dynamic sectors and the rest of the economy as a result of differences in productivity, the lack of infrastructure, asymmetries in the business climate, and problems of access to financing; the widening gap between the demands of the more dynamic labor markets and the education system's capacity to provide those workers; and weakening of the government's capacity to finance investments as a result of a low tax burden and expenditure rigidities. Those challenges are contained in the six primary development constraints identified by the Government of Costa Rica in its Plan Nacional de Desarrollo [National Development Plan] 2006-2010 (PND) and are validated by the Office of Evaluation and Oversight (OVE) using reports prepared by the Programa Estado de la Nación [State of the Nation Plan] and diagnostic assessments made by other authors: (i) inability to reduce the poverty rate in prior years and an increase in levels of inequality; (ii) inability of the economy to produce a sufficient number of formal, well-paid jobs; (iii) slow growth in years of schooling of the population and low enrollment in senior high school; (iv) deterioration of the public safety situation and an increase in crime and drug trafficking; (v) limited effectiveness of the government's actions; and (vi) poor condition of the country's transportation infrastructure.

An analysis of the context in which the strategy was formulated and a review of the sector notes prepared by the Bank prior to the policy dialogue with the Government of Costa Rica show that, in most cases, the Bank had extensive and deep knowledge of the country's needs. The strategic objectives proposed by the Bank were broadly aligned with the objectives proposed by the government in the PND 2006-2010 and were consistent with the country's needs. In that general sense, the strategy was relevant. However, the design of the different projects under the assistance program was not always geared toward supporting achievement of those strategic objectives, and in some areas went against the explicit instructions of the PND. OVE's detailed analysis determined that the assistance program was not relevant in all strategic areas.

The country strategy 2006-2010 was relevant in terms of the strategic objective of building capacities for public expenditure management and macroeconomic scenarizing. However, due to economic problems, the Bank's support to the country for implementing fiscal reform was limited. The government thus proposed to deal with the country's fiscal vulnerability by increasing the efficiency and effectiveness of public spending, rather than by implementing the tax reform that would boost tax revenue. With respect to the objective of deepening the country's growth and international positioning model (aimed at strengthening linkages between Costa Rica's most dynamic economic sectors and the rest of the production system, especially small and medium-sized enterprises (SMEs)), since the strategy failed to identify how the different crosscutting interventions would leverage the impact that growth sectors can have on the economy at large and foster those linkages, it is difficult to judge the assistance program's relevance in meeting this objective. None of the proposed operations was explicitly designed to strengthen those linkages. In this strategic area, however, the assistance program addressed various competitiveness problems, such as road infrastructure (key for large companies) and access to financing (key for SMEs). The work done to improve access to financing for SMEs is positive and necessary. However, the actions taken—while they alleviate the situation—are not deep, cross-cutting and sustainable enough and do not address the root of the problem. Appropriate actions were identified in the *Matrix of Possible Interventions and Instruments to Support the Costa Rican Private Sector*, but were not put into practice. In this area, in the *narrowing of regional development gaps* subsector, the Bank did not correctly interpret how to address the problem and, after 2006, invested in the preparation of sustainable development strategies, even though the PND explicitly noted the government's apprehension to address those issues from a regional standpoint, because there were no regional political or institutional decision-making mechanisms in place. The projects approved were canceled, except *Sustainable Development for the Sixaola River Binational Watershed*. Investment loans proposing to create opportunities for inclusive economic growth did not materialize or were canceled. Support to improve access to and the relevance of secondary education was given through two nonreimbursable technical-cooperation operations. The Bank continues to provide support to the Government of Costa Rica and is currently assisting it with the design of an impact evaluation for the "Avancemos" program. In that sense, the support is relevant, albeit limited in scope.

With respect to country strategy implementation, the slowness of the legislative process has stalled sovereign guaranteed operations and severely restricted the Bank's action in Costa Rica since public sector borrowing—including operations with multilateral organizations—must be ratified by the Legislative Assembly in an environment where the rules governing parliamentary dynamics do not create the conditions or incentives to expedite decision-making. This situation is not new and also affects other multilateral organizations. It was initially identified by OVE in the first Country Program Evaluation (CPE) for Costa Rica for the period 1990-2001, presented in January 2003, and was again reported in the second CPE for the period 2002-2006, presented in December 2006. During the period 2006-2010, however, the situation worsened because the Executive Branch invested its political capital in the ratification of the Dominican Republic–Central America–United States Free Trade Agreement, which ultimately had to be ratified through a referendum in 2007 with 51.6% of the votes. The slowness of the legislative process was identified by the Bank in the strategy as an implementation risk. Although mechanisms were created to deal with that possibility, those mechanisms were subsequently disregarded—the high lending scenario was applied despite the fact that the requirement of ratification of previously approved loans was not met. The result is a strategy for an assistance program <u>at the design level</u> that was generally relevant and consistent with the country's needs and the government's priorities, but that failed to materialize because the operations were either not ratified by the Legislative Assembly or were canceled by the Executive. Delays in ratification and cancellations have made implementation of the Costa Rica sovereign-guaranteed assistance program the least efficient in the region—unlike the sovereign-guaranteed portfolio, execution of the non-sovereign-guaranteed portfolio is the most efficient in the region. The assistance program for the period 2006-2010 was based on a few operations approved under prior strategies, supplemented with nonreimbursable technical assistance and private-sector operations, largely financial in nature. As of May 2010, only one of the six operations approved under the country strategy 2006-2010 had been ratified by the legislature, but execution had not yet begun.

The fact that the efficiency of execution of the sovereign-guaranteed portfolio in Costa Rica is the lowest in the region is partly explained by the protracted ratification process, which also leads to lags in the preparation of disbursements, and in some cases, execution delays. Another factor affecting execution efficiency is the requirement to follow the procedures of both the Bank and the country's Office of the Comptroller General for procurement of goods and services. Costa Rica also has the largest number of canceled operations, and canceled amounts are the highest in the region. Preparation costs per dollar executed increase substantially as a result of those cancellations.

Few projects were being executed during the period 2006-2010 (Table 4) and few results can be documented with quantitative evidence, particularly if the projects in execution not included in the strategy are excluded—only three of the five investment projects in execution have indicators with a baseline and target associated with the general objective. Five investment projects approved under prior strategies were executed: *Regularization of Cadastre and Property Registry* (2000), *Improvement of Administration of Justice* (2001), *Sustainable Agricultural Development* (2002), *Health Sector Development* (2003) and *Sustainable Development for the Sixaola River Binational Watershed* (2004). The only project completed during this period was the *Health Sector Development* program. However, because the Ministry of Health underwent an organizational change during the project, it is unclear whether the gains made have been absorbed by the new structure and whether they will be updated and used in the future. Of the remaining projects, the one with the greatest execution difficulties is *Sustainable Development for the Sixaola River Binational Watershed*, which is very close to reaching the effective end of the planned execution period, but has only disbursed 3.3% of the amount approved. This project addresses the fight against poverty in a novel way in one of the country's most impoverished regions.

Results that can be documented are associated with operations financed by the Multilateral Investment Fund (MIF) and correspond to the expansion of loan services to rural microentrepreneurs, promotion of dynamic ventures, and rural community tourism.

RECOMMENDATIONS

1. The Bank needs to internalize the constraints imposed by the political economy affecting the legislative ratification process and, consequently, tailor the design of its operations and the timing of their presentation to the Legislative Assembly to minimize delays in the ratification process.

2. The working relationship the Bank establishes with the country through its Executive Branch should lead to operations that are aligned with the priorities of the general public and target areas of major strategic importance for a broad range of political players. Roadblocks in obtaining legislative ratification and the political capital that the Executive must invest in such process are an indication that only those projects identified as relevant and a priority by the State and the country as a whole for periods

longer than the strategy cycles will be submitted for ratification. Those problems, combined with the high project cancellation rate in Costa Rica, suggest that ignoring this recommendation would translate into the inefficient use of time and resources without advancing the country's development.

3. Ratification problems also suggest that the Bank should support the Executive in the preparation and detailed technical justification of the programs to be financed by the Bank. The previous evaluation also recommended involving the Legislative Assembly and keeping it apprised of the objectives and progress on the preparation of operations from the outset. The progress made once that recommendation was adopted was clear in the case of the conditional credit line for investment projects (CCLIP) for the *Transportation Infrastructure Program.*

4. One way to convince the Legislative Assembly of the merits of Bank-financed projects is to present evidence of the effectiveness of past projects. To that end, the Bank should make an effort to improve project evaluability and ensure that sufficient quality data is gathered to prepare impact evaluations for those projects.

5. The Government of Costa Rica asked the Bank to prepare projects (generally with complex designs) for large amounts, in order to lower the transaction costs associated with the legislative ratification process—and the Bank honored that request. Evidence suggests that, even though there is a guaranteed high-level political commitment to ratification within the Executive, this strategy does not guarantee success in terms of speeding up the legislative ratification process, as demonstrated by the CCLIP for the *Transportation Infrastructure Program* and the *Pro-Competitiveness Productive Investment Program*. In order for this strategy to be successful, the programs must have executing units with institutional capacity and must be well-justified from a technical standpoint, like the *CCLIP Electric Power Development Project 2008-2014*. In that case, it also helped that it is harder for legislators to influence where the Instituto Costarricense de Electricidad [Costa Rican Electricity Authority] (ICE) will expand its transmission and distribution grid than to influence where transportation infrastructure works are rehabilitated and reconstructed.

6. To make project execution more efficient, it is recommended that the Bank propose that the government use country systems for procurement of goods and services once the criteria and procedures set forth in the Strategy for Strengthening and Use of Country Systems (document GN-2538) and the Guide for Acceptance of the Use of Country Procurement Systems (document GN-2538-6) are met. The Bank has worked to strengthen these systems and the diagnostic reports (CFAA, CPAR, PEFA, and OECD-DAC) are in being completed; however, validation of the systems and the action plan agreed on with the country to authorize Bank use of its systems, if the country deems it prudent, would still be needed.

7. Together with the Executive, the Bank can identify strategic areas where there are opportunities to support the private sector. One of the possible solutions to the legislative ratification problem is to increase the use of private sector projects that do not require ratification. However, the Bank should ensure that those projects have an

impact on the welfare of the population. Operations with the private sector cannot be limited solely to financial transactions with no value-added that could be replaced by operations with commercial banks.

8. The Bank needs to make an effort to be more responsive in studying and designing new instruments that enable it to compete with other multilateral organizations in terms of price and flexibility and to overcome the obstacles in the ratification process.

Specific project-related recommendations:

9. The *Sustainable Development for the Sixaola River Binational Watershed* program is very close to reaching the end of the initial planned effective execution period, but has only disbursed 3.3% of the amount approved. It also presents certain design problems, and the ministry in charge of its execution is considered to be weak. The Bank needs to step up its monitoring efforts since this program presents a novel solution to the problem of poverty in one of the most impoverished regions.

10. Although the *Health Sector Development* program has already been completed, the conditions in the Ministry of Health could affect the use of the tools financed by the program. This is a critical time due to the organizational changes within the institution, and it would be wise for the Bank to consider lending the government support so the institution can start to use those tools and update them when necessary.

I. INTRODUCTION AND CONTEXT

1.1 This report presents the third evaluation by OVE of the Bank's strategies with Costa Rica. This evaluation corresponds to the country strategy for 2006-2010. Its objective is to describe the results of the Bank's activities in the country and to extract lessons learned to help increase the effectiveness of future Bank actions. This first chapter examines the environment in which the strategy was conceived and implemented.

1.2 As indicated in prior evaluations, the challenges the Bank faces working in Costa Rica are nothing new. In the 1990s, the problem lay in the mismatch between the visions of the Bank and the country: the Bank promoted structural reforms that most of the country opposed. In the first half of this decade, the problem was similar to the current problem and is related to the slowness of the legislative process: in the case of the previous strategy, the existence of conditionalities that had to be approved by the Legislative Assembly; in the case of the current strategy, difficulties securing ratification of the assistance program.

CONTEXT

1.3 With 4.5 million inhabitants and a gross domestic product (GDP) per capita of US$5,208 in 2006, Costa Rica is one of the Latin American countries with the highest Human Development Indices (HDI) and one of the most stable democracies in Latin America. In terms of the HDI components, Costa Rica is particularly well ranked in life expectancy and adult literacy rate, which is a reflection of efforts made by the Government of Costa Rica over the years to improve the quality of life of Costa Ricans.[1] The high investment in human capital and political stability has enabled the country to implement a development model considered to be successful and impossible to achieve were it not for its human capital (Rodríguez-Clare 2001).

1.4 Following Costa Rica's debt crisis in 1981, the country abandoned the import substitution model in favor of an export promotion model. This new model was based on foreign trade liberalization and the creation of a tax incentive system in an environment with a strong government presence in the production of goods and services and control of the financial system.[2] Although the success of its model is not the result of an explicit, consensus development plan seeking to attract high technology companies, the export diversification strategy pursued by Costa Rica since the 1980s has been successful.

1.5 Costa Rica has attracted multinational corporations and foreign investment, particularly in high technology sectors, and has developed its manufacturing and services industry. In 2006, the sector making the greatest contribution to economic growth was the manufacturing industry (State of the Nation 2007). Creation of the free trade zone (which exempts companies from paying import and export duties provided they meet the minimum requirements) and Intel's decision in 1996 to build a microchip assembly and testing plant on the outskirts of San José changed Costa Rica's foreign investment and export profile: Costa Rican exports originating in the free trade zone increased from 7.6% of total exports in 1991 to 52.1% in 2006 (22.3% of total exports corresponding to Intel) and the country's main export product went from being bananas to microchips (see Figure 1 in the annexes).

However, the free trade zone has had its greatest impact at the macroeconomic level through reduction of the trade deficit, increase in investment, job creation, and higher salaries: in 2006, the free trade zone created 45,201 direct jobs, 2.5% of total employment in Costa Rica, and the average wage was 50% higher than the average in the formal private sector. At the microeconomic level, the impact has been limited (Cordero and Paus 2008). Like the dissemination of technology, the linkages established between Costa Rican companies and multinationals operating in the free trade zone are few.[3] Problems related to linkages and the dissemination of technology are not just due to the restrictions of the country's size on local supply, but also to market failures that limit the ability of domestic companies to take advantage of business opportunities offered by multinationals and the incentives created by the free trade zone (State of the Nation Plan 2006).[4]

1.6 Thus, the boom experienced by the free trade zone companies has faced barriers in trickling down to the rest of the economy. Using the national targets defined in the PND 2006-2010 as its basis, OVE noted the primary problems for the country's development identified by the Government of Costa Rica in 2006, which was the baseline used by the Bank to prepare the strategy. The problems identified in the PND were also validated in reports prepared by the State of the Nation Plan and diagnostic assessments made by other authors, including the Bank through its sector notes that served as an input for the *Policy Dialogue Paper* with the Government of Costa Rica.[5] These main limitations can be summarized in the following points and will serve as a guide for analyzing the environment in which the strategy was developed:[6]

- Inability to reduce the poverty rate in prior years and an increase in inequality
- Inability of the economy to produce a sufficient number of formal, well-paid jobs
- Slow growth in years of schooling of the population and low enrollment in senior high school
- Deterioration of the public safety situation and an increase in crime and drug trafficking
- Limited effectiveness of the government's actions
- Poor condition of the country's transportation infrastructure

1.7 With respect to implementation of the strategy, the aspect with the greatest impact was what Straface (2008) calls hyper-gradualism, i.e. the slow progress of legislative output and of the policy-making process that characterizes the Costa Rican political system. Although the gradualist and consensual model has ensured the sustainability of reforms once approved and has been considered a positive aspect of the political system, in the last decade this model has prevented institutions from adapting to the country's challenges (State of the Nation 2005). The slowness of the legislative process has stalled sovereign guaranteed operations and severely restricted the Bank's action. Borrowing by the Costa Rican public sector, including operations with multilateral organizations, must be ratified by the Legislative Assembly in an environment where the conditions and incentives do not exist to expedite decision-making. Instead, fragmentation of the legislature, the minimal requirements necessary to veto laws, and the low level of party discipline allow minorities to delay the legislative process at no cost to the individual (see Table 1). In addition to the natural slowness of the process, during the period 2006-2010, the political capital of the Executive was invested in ratifying the Dominican Republic-Central America-United States Free Trade Agreement (DR-CAFTA) that was ultimately ratified by a referendum in 2007 with 51.6% of the votes.

1. Poverty and inequality

1.8 Costa Rica's GDP per capita in dollars has grown steadily since 2000, except in 2009 when it fell by 3.2% as a result of the international crisis. Despite this growth averaging 8.8% between 2006 and 2009 and 4.8% in the last 10 years (reflected in an increase in the real income of the population), the country has had difficulties significantly reducing a poverty rate that in recent years and before 2006 had ranged between 18.5% and 21.7%.[7] Inequality has also increased (see Figure 2). This disconnect between economic performance and social equity is one of the country's main challenges (State of the Nation Plan 2004).

1.9 Between 2002 and 2006, the average monthly income per capita of decile 1 grew in real terms over six times more than the average monthly income per capita of decile 10 (both total income and employment income). However, real income growth was not reflected in a decline in poverty levels or in a reduction of the severity and intensity of poverty (see Figure 3). In addition to having larger households with a greater proportion of older adults and children (the average size of households from the lowest decile was 5.32 people versus 3.99 in the highest decile; dependency rates were 1.33 for the lowest decile and 0.6 for the highest decile, on average, between 2002 and 2006), employment conditions for workers from the lowest deciles were less favorable: they were more deeply affected by unemployment and underemployment, had a greater proportion of economically inactive adults, and had a lower proportion of fully employed adults.[8] They also had fewer years of schooling, a larger proportion was dedicated to agricultural activities, and a greater proportion worked in the informal sector of the economy. The inability of the economy to produce a sufficient number of formal jobs is one of the reasons that poverty has hovered around 20% for more than a decade.

1.10 In 2007, for the first time in 15 years, Costa Rica experienced a decline in poverty of 3.5 percentage points (two points in extreme poverty), which is largely explained by the 100% increase in the amount of the pension from the noncontributory pension system (in Spanish, RNC). That pension is available to those who have not contributed to any of the existing pension systems, or have not made the minimum number of contributions and <u>for whom monthly per capita income is less than the price of the basic food basket</u>, i.e. they are below the extreme poverty line (State of the Nation Plan 2006, 2007). In addition to reducing poverty, the increased pension reduced the intensity and severity of poverty at a cost of 0.29% of GDP in 2006 and 0.39% in 2007. In 2006, before the pension increase, the RNC had significant problems with unintended recipients: only 23.5% of its beneficiaries were actually below the extreme poverty line, while 55.2% were below the general poverty line. The difference (76.5% and 44.8% of beneficiaries under the general poverty criteria) did not meet the income requirements to be eligible for the pension (see Figure 4).[9]

1.11 However, the economic crisis that affected Costa Rica in 2008 worsened the situation for the disadvantaged population and some of the gains made in 2007 were reversed: unemployment increased by seven percentage points among workers from decile 1, compared to 0.9 among workers from decile 10 between 2008 and 2009, and average monthly employment income per capita fell by 6.2% in real terms for decile 1, compared to a 3.6% increase for decile 10. The effect of the economic crisis on the incomes of the poorest population was less severe than anticipated owing to lower inflation in 2009.[10]

2. Employment and formal jobs. Competitiveness problems

1.12 In 2006, 34.6% of jobs in the Costa Rican economy were considered informal (nonagricultural) and average employment-output elasticity in the previous decade was greater for the informal sector than for the formal sector of the economy.[11] An increase of 1% in GDP generated average growth of 1.43% in informal employment but just 1.36% in formal employment. Employment in the agricultural sector shrank 0.34% for every 1% increase in GDP between 1997 and 2006. The loss of productivity in Costa Rica since the late 1970s and difficulties faced by Costa Rican companies in establishing linkages with multinational companies are part of the problem.

1.13 According to figures from the Costa Rican Social Security Administration (CCSS), as of March 2009, most jobs in Costa Rica (51.7%) were created by large companies (more than 100 employees). However, those figures exaggerate the actual conditions in the Costa Rican job market and could lead to unwise decisions. In reality (as reflected in the Household Survey), the majority of jobs are created by micro and small enterprises, and most of those companies operate in the informal sector of the economy with the corresponding consequences. For example, the hourly wage of a worker in the informal sector who has completed primary education was 25.8% lower than the hourly wage of a comparable worker in the formal sector.[12] This difference can be translated into a poor worker versus a nonpoor worker, especially because workers in the informal sector work fewer hours on average. While the CCSS reports that microenterprises registered in the healthcare system generate 10.8% of total employment in Costa Rica, according to the Household Survey 2006, 47.1% of employees reported that they worked for a microenterprise (five employees or less).[13] Understanding the composition of the labor market is critical to designing public policies aimed at solving problems of the competitiveness of companies with the purpose of eliminating barriers to growth and creation of quality jobs. This is critical because competitiveness problems vary based on the size and orientation of companies.

1.14 While the most serious problem for micro and small enterprises, according to the Enterprise Survey, is access to financing (identified as the most serious problem by 23.3% and 20.8% of the companies surveyed, respectively), for medium-sized companies, the most serious problem is anticompetitive practices in the informal sector (20% of those surveyed), and for large companies it is the quality of road infrastructure (25% of those surveyed). Export companies are also affected by macroeconomic uncertainty. A total of 16.7% of those surveyed identified this as the most serious problem.[14] Those same problems were noted by entrepreneurs surveyed for the Global Competitiveness Report: inadequate infrastructure, access to financing, and inefficient government bureaucracy were identified as the primary problems by 16.9%, 15.5%, and 24.6% of those surveyed, respectively.

1.15 **Access to financing:** One of the main obstacles identified by companies in Costa Rica for the growth and operation of their businesses was the lack of access to financing. The lack of access to financing was also identified as the most significant barrier to exports after a lack of familiarity with the process. This difficulty becomes clear after comparing domestic lending to the private sector measured as a percentage of GDP in various Latin American countries: Costa Rica had a rate of 37.9% in 2006 compared to 88.4% for Panama and 81.9% for Chile. However, a large proportion of loans to the private sector are consumer loans. This has been particularly true in Costa Rica since 2000: the rate of lending to the private sector for home purchases as a percentage of GDP grew by 9.9 percentage points, while consumer loans grew by 6.6 percentage points between 2000 and 2009. However, lending to industry fell by 0.6 percentage points.

1.16 According to the Enterprise Survey, in 2005 just 14.9% of companies had access to financing for investments through the banking sector, and just 6.3% of working capital was financed with bank loans. In Chile, those figures were 29.1% and 22.6%, respectively. SMEs were affected to a greater extent by the lack of access to financing: while 46.7% of large companies surveyed stated that they used the banking system to finance investments, only 8.3% of microenterprises had access to those loans; 34.6% of export companies used bank loans to finance investments, compared to just 8% for nonexport companies. Although the financial system is naturally less inclined to extend loans to young, generally small companies because they are intrinsically more risky and comparatively more costly to serve, other factors could be exacerbating the problem of access to credit in Costa Rica. One of those factors is the "banking toll", i.e. the transfer of 17% of deposits payable within 30 days that private banks must make to the State banking system (at below-market rates) and the distortions that this "toll" causes.

1.17 Another factor is the Costa Rican laws affecting the credit market. For example, existing regulations restrict the use of movable property as collateral for loans, thereby limiting access to credit to companies with sufficient immovable property that can be used as collateral, usually large companies (86% of loans extended in Costa Rica are collateralized).[15] Both legal and procedural barriers in the use of certain assets as guarantees affects a large proportion of companies that are excluded from the credit markets even though they have sufficient assets. OVE simulations forecast an increase of up to 17.8 percentage points in the proportion of medium-sized companies with access to credit if the legal and procedural barriers preventing the use of movable property as collateral were eliminated.[16] This policy reform would have the greatest impact on access to credit, which is an obstacle to growth identified by 47.9% of SMEs and 44.6% of companies in general.[17] Other policies, such as improvements in procedures for repossession of collateral to make them faster and more efficient, and improvements in access, coverage, and quality of credit information could add an extra 9.6 to 11.3 percentage points to the proportion of medium-sized enterprises that would gain access to credit if they accompany the first reform. Policies such as partial loan guarantees can only somewhat increase access, at the cost of creating contingent liabilities for the State (simulations indicate that this policy could increase the proportion of medium-sized enterprises with access to credit by 11.9 percentage points assuming that the Government of Costa Rica will guarantee all such requests).[18] The increase in access to credit can be expected to have an impact on job creation in the medium term.

1.18 **Road infrastructure:** According to figures reported by the Ministry of Planning and Economic Policy (MIDEPLAN), public investment in the transportation sector in 1980 was 11.4% of GDP, and 42.7% of the gross fixed capital investment for that year corresponded to the government's investment in transportation—roads, ports, airports, and railroads. As a result of adjustments that had to be made by the country due to the debt crisis that affected Costa Rica in 1982, public investment in the transportation sector in 1985 fell to 1.7% of GDP. In the 1990s, that investment averaged just 0.41% of GDP versus an average of 0.63% of GDP between 2000 and 2006. For the latter period, gross fixed capital formation of the public sector averaged 3.9% of GDP, which is lower than the levels proposed by the World Bank for Latin America (between 4% and 6%) to attain the infrastructure levels of countries like South Korea or China.[19] The policy of the Government of Costa Rica has been to favor spending on education and health over infrastructure, and the fiscal adjustments that have had to be made have mainly affected the latter. Limited private sector participation due to problems that the Consejo Nacional de Concesiones [National Concessions Council] (CNC) has had with granting concessions has exacerbated the problem and resulted in deterioration of the country's transportation infrastructure.

1.19 The Laboratorio Nacional de Materiales y Modelos Estructurales de la Universidad de Costa Rica [National Laboratory of Materials and Structural Models of the University of Costa Rica] (Lanamme-UCR) estimated that in 2006 just 13.6% of the paved national road network was in a desirable condition, with a longer useful life, and requiring minimal routine maintenance to remain in good condition.[20] In all, 63.8% of the network was in poor or very poor condition and required a considerable investment (approximately US$300,000 per kilometer of road) to extend the useful life and be in good condition.[21] Another measurement made by Lanamme-UCR to assess irregularities in the road surface associated with fleet operating costs and passenger comfort determined that approximately 32.1% of the network had good surface regularity, 32.6% had moderate regularity, and 32.7% had poor regularity (2.5% could not be evaluated because the roads were severely deteriorated). Although the Consejo Nacional de Vialidad [National Roadways Council] (CONAVI) invested an average of US$42.6 million each year on road maintenance between 2004 and 2006, Lanamme-UCR determined that rather than appreciable improvements in the network, road deterioration had actually increased. The canton network is even more deteriorated than the national network.

1.20 **Macroeconomic uncertainty:** According to the Enterprise Survey 2005, macroeconomic uncertainty is the greatest obstacle to the operation and growth of companies doing business in Costa Rica (identified by 58.2% of companies that sell their production locally and 46.2% of export companies).[22] Episodes of increased inflation (the most recent between January 2007 and May 2009, which surpassed inflation expectations) and the volatility of the exchange rate and interest rates affect the ability of companies to plan long-term investments as a result of uncertainty surrounding future costs and returns (see Figure 5).[23] The risk associated with the uncertainty and volatility of these variables reduces the appropriability of the investment and, consequently, reduces incentives to invest. Controlling the exchange rate and making effective use of open market operations to reduce inflation is an impossible task in an open capital account scenario, especially when any setback occurs that triggers inflation.

1.21 In October 2006, the Central Bank of Costa Rica (BCCR) replaced the foreign exchange system based on mini-devaluations with a band system, which was intended to increase the flexibility of the exchange rate and limit the intervention of the BCCR.[24] The BCCR is also in the process of adopting a formal system of inflation targets that uses adjustments to interest rates and a flexible exchange rate as the main tools for controlling inflation.

3. Quality and coverage of the education system

1.22 The business sector does not identify the educational level of the workforce as a problem in Costa Rica.[25] However, the supply of skilled workers can become a bottleneck for the country to continue attracting foreign investment in high technology sectors and to form the linkages it is trying to develop between high technology sectors and the rest of the economy, especially if the country wants to facilitate the spread of technology and, consequently, to move up in the value chain. The educational level of the workforce is an individual problem precisely for those people who—because of their lack of skills—are limited to working in low-productivity sectors and earning wages that are insufficient to cover their basic needs and the needs of their families. Despite the fact that the government has consistently invested around 5% of its GDP in education—according to MIDEPLAN's System of Sustainable Development Indicators—outcome indicators for secondary education are concerning.[26] The primary and secondary retention and graduation rate in 2006 was just 27.2%, i.e. only 27.2% of the cohort enrolled in the first grade in 1996 successfully completed the eleventh grade in 2006,[27] although 67.8% of children enrolled in the first grade in 1996 had successfully completed the sixth grade in 2001.[28] These low retention and graduation rates are the result of low enrollment in senior high school and high repetition and dropout rates for secondary school in general (11.4% and 13.2% in 2006, respectively), mainly in the poorest sectors.[29] Although years of schooling have increased steadily since a decade ago from 7.39 to 8.46 years (tacking on more than one year of schooling between 1999 and 2009), part of that increase is due to older adults with very low levels of education who are eliminated from the statistics each year. The gain observed among people ages 18 to 40 is just 0.36 years for the poorest decile (from 5.59 in 1999 to 5.95 in 2009), while the most wealthy decile increased schooling by 0.64 years between 1999 and 2009 (from 12.1 to 12.74).

1.23 In 2006, the Government of Costa Rica introduced the "Avancemos" social welfare program designed precisely to promote young people from poor families staying in or returning to secondary school. In order to reduce repetition and dropout rates, changes took effect in November 2008 to allow secondary school students to repeat just the subjects that were failed rather than the entire curriculum, while also taking courses corresponding to the next grade level.

4. Crime, drug trafficking, and insecurity

1.24 Although levels of violence in Costa Rica are low compared to the rest of Latin America, crime, drug trafficking, and deterioration of the public safety situation in general have become a concern for Costa Ricans. The crime rate has increased in recent years: from 687.5 per 100,000 inhabitants in 2002 to 1,014.4 in 2007, the latest figure available.[30] The intensity of violence used in crimes has increased, as has drug trafficking. Cocaine seizures increased from an annual average of 833 kg between 2000 and 2005 to 6,863 kg between 2006 and 2007, the latest figure available. The judicial system has had difficulties handling the increased number of reports due to the increase in crime: while the number of reports filed with the Public Ministry increased from 88,942 in 2000 to 175,122 in 2008, the number of convictions for every 1,000 reports fell from 33 to 22 during the same period, and the number of convictions for every 100 completed trials also fell from 77 in 2000 to 62 in 2008.

1.25 This situation has caused the population to feel unprotected and to have a negative perception of the performance of law enforcement personnel. Latinobarómetro confirms that crime was identified in 2000 as the fourth most important problem after education, corruption, and inflation. In 2006, crime and inflation were considered the most important problems in Costa Rica. In 2008, the most recent year for which information is available, crime and the economic situation became the most important problems for Costa Ricans.

5. Limited effectiveness of the government's actions

1.26 In this area, the Government of Costa Rica identified as problems the need to strengthen the planning capacity of the State, particularly in the area of public investment, low tax collection, and the legal labyrinth of the Costa Rican public administration.

1.27 Tax receipts in Costa Rica in 2006 were low, even compared to Central American countries like Honduras and Nicaragua. Tax revenue in Chile amounted to 20.6% of GDP in 2006, compared to just 13.7% of GDP in Costa Rica. In a low-revenue environment, the only way to achieve a fiscal balance is to reduce expenditure and public investment, which requires the government to set spending and investment priorities. In 2005, the gross fixed capital formation of the public sector fell to its lowest level since 1991, and in 2006, social spending dropped to its lowest level in a decade (see Figure 6). This priority-setting takes on even greater importance when more than three-fourths of the central government's expenditures correspond to rigid expenses like wages, pensions, and debt servicing, not including the minimum spending mandates established by the Legislative Assembly.[31]

1.28 To ease the restrictions of low revenue, the Government of Costa Rica expressed its intent to carry out tax and fiscal reform, and also started working on improvements to the tax administration. Thanks to those improvements and economic growth, the Government of Costa Rica increased tax collection efficiency and tax revenue rose by 1.6 points of GDP between 2006 and 2008. Despite progress made until 2008, tax receipts fell by 1.9 points of GDP in 2009 from 2008; 83% of that drop was due to the reduction in customs duties collected due to the decline in imports. However, improvements were sustained in tax administration efficiency, as shown by the measure of productivity of the domestic sales tax (see Figure 7).[32]

1.29 With respect to public investment, Costa Rica did not have a country system in 2006 that would enable it to consolidate the investment of the entire public sector and to link those investments with the objectives proposed by the public policies presented in the PND and the national budget. It lacked tools to prepare and evaluate public investment projects and to establish indicators that would allow it to manage and measure the impact of those projects on the welfare of the population.

II. THE BANK'S PROGRAM IN COSTA RICA

2.1 This chapter analyzes the relevance of the design and objectives of the strategy and assistance program (i.e. the degree to which they were compatible with the country's needs and with the development plans and priorities of the Government of Costa Rica), as well as the coherence of the assistance program (i.e. the degree to which measures were adopted that favor internal and external synergies within the program). It includes an evaluation of the validity of the diagnostic assessment and strategy, and of the sufficiency and consistency of the assistance program with the strategy in the framework of economic and social developments, political economy problems, and the focus of other Costa Rican development partners. This exercise is not related to execution of the assistance program, which will be discussed in Chapter IV.

RELEVANCE, POSITIONING, AND COHERENCE

2.2 The general objective of the country strategy 2006-2010 was to help deepen economic growth and social progress in Costa Rica. To that end, the Bank defined three strategic areas for action: (i) strengthening the macroeconomic and public expenditure management framework, which sought to address the country's fiscal vulnerability by boosting tax revenue and improving the efficiency and effectiveness of public spending; (ii) deepening the country's growth and international positioning model, which included strengthening linkages between Costa Rica's most dynamic economic sectors and the rest of the production system, especially SMEs; and (iii) creation of opportunities for inclusive economic growth to narrow the opportunity gap among Costa Ricans.

2.3 In general, the Bank's strategic objectives were aligned with the objectives proposed by the Government of Costa Rica in the PND 2006-2010 and were consistent with the country's needs. In that general sense, the strategy was relevant. With respect to the assistance program suggested to achieve those strategic objectives, the Bank proposed following sector strategies and executing projects for the different sectors discussed below. However, the design of those projects was not always geared toward supporting the achievement of strategic objectives, or did not faithfully adhere to the explicit stipulations of the PND. A detailed analysis determined that the assistance program was not relevant in all of the strategic areas, as is shown below.

1. Strengthening the macroeconomic and public expenditure management framework

a. Capacity-building for public expenditure management

2.4 The Bank proposed strengthening of the National Public Investment System: it continued with execution of the program to implement the external pillar of the Medium-term Action Plan for Development Effectiveness (PRODEV-A) and approved PRODEV-B. Those operations were perfectly aligned with the PND's Institutional Reform pillar (government coordination sector), which called for the "creation of a national public investment system for prioritizing, streamlining, and improving the efficiency of public investment". Those programs provided technical support for the design and implementation of that system.

2.5 The strategy for fiscal risk management for natural disasters proposed by the Bank was not included in the government's priorities in the PND and did not materialize through the IDB because the negotiations and designing the instrument took too much time. However, the Government of Costa Rica took steps to obtain a loan with a *Catastrophe Risk Deferred Drawdown Option* (CAT/DDO) for US$65 million from the World Bank. That loan is a source of bridge financing that can be partially or fully disbursed if the country declares a state of emergency as a result of a natural disaster.

b. Support for tax reform implementation and macroeconomic scenarizing

2.6 The strategy in this area depended on the actions taken by the Government of Costa Rica. The Bank was tentatively prepared to support the Government of Costa Rica with a policy-based loan (PBL) associated with fiscal reform laws, one of the government's priorities identified in the PND.[33,34] It also offered technical assistance through preparation of a macroeconomic consistency model and debt sustainability analysis (financed with PRODEV-A).

2.7 Although it was approved in 2000 with other objectives in mind, the project in the portfolio for *Regularization of Cadastre and Property Registry* was expected to help increase the tax receipts of municipios. This program is also aligned with the priorities of the Government of Costa Rica under the Productive Policy pillar (financial sector), which "proposed a Regularization of Cadastre and Property Registry program so as to have a Land Registry Information System (SIRI) and a National Territorial Information System (SNIT)."[35] However, the program was restructured in September 2006 because its original design underestimated execution costs and times, and the original budget did not include technical activities such as pilot tests or verification of maps necessary to form the cadastre. For example, with respect to map validation, the program did not foresee that the available information would be on a much less precise scale than necessary (1:40,000, instead of 1:1,000 and 1:5,000). The scope of the program had to be reduced and went from covering the entire national territory to just 61.1% of property. Cadastre mapping activities would only be carried out in 57 of the 81 cantons originally planned for inclusion.

2.8 In December 2008, in response to the international financial crisis, the Bank approved the *LiquidityProgram for Growth Sustainability* for US$500 million to increase the liquidity of the financial system, which started to push bank lending rates upward and to tighten credit for the goods-producing sector of the economy.

Because the government decided not to carry out fiscal reform, the Bank actions that could be considered were geared toward strengthening the macroeconomic framework, namely (1) prompt approval of the *Liquidity Program for Growth Sustainability*, which was later canceled; and (2) the *Regularization of Cadastre and Property Registry* program, which was expected to increase the tax receipts of municipios. Although the Bank's action was limited due to problems with the design of the operation and the political environment, OVE considers that the program was consistent with the country's needs and the government's plans in this area. With respect to building public expenditure management capacity, the Bank gave technical support to the government through nonreimbursable technical-cooperation operations in the development and implementation of a National Public Investment System; however, because it did not have an appropriate instrument, it did not respond in a timely manner to the request to support the government in creating a strategy for fiscal risk management in the event of natural disasters. This notwithstanding, OVE considers that the Bank has also been relevant in this area. A review of the sector notes prepared in 2005 that served as the basis for the country dialogue indicates that the Bank correctly identified the country's needs in this sector.

2. Deepening the country's growth and international positioning model

a. Support for the Infrastructure Development Plan

2.9 In the energy sector, the CCLIP was approved to finance ICE's investments, which was the only program corresponding to the country strategy 2006-2010 to be ratified by the legislature, along with a nonsovereign guaranteed operation designed to improve ICE's debt profile.[36] A nonreimbursable technical-cooperation operation for US$1.5 million also financed technical, social, environmental, financial engineering, and interagency integration studies for ICE's Boruca-Veraguas hydroelectric project, and, prior to that, a technical-cooperation operation to assess the financial sustainability and governance of ICE. The Government of Costa Rica did not identify any activities related to the electricity sector as a priority within the PND. However, the PND states that the country is trying to "lay the groundwork to become the first country in the world producing 100% of the electricity it consumes using renewable sources of energy by the year 2021".

2.10 In the road sector, the first and second multisector CLIPP operations were approved to improve the conditions of the road network. The second operation emphasized the transportation infrastructure in the cantons. The total amount of the credit line is US$850 million, of which US$300 million corresponds to the first operation and US$60 million to the second. The second operation was approved by the Bank even though the first operation had not been ratified, and consequently, had not disbursed the 50% of resources required for approval of subsequent operations, because those operations are executed by different agencies within the Ministry of Public Works and Transportation.[37] In addition, the preparation phase of the first operation was financed through a nonreimbursable technical-cooperation operation for US$1.5 million intended to "ensure that the Road Infrastructure program (CR-L1022) includes designs for the procurement and construction of works for the first year of execution". It was decided that the CCLIP would be used to reduce transaction costs in the legislature and to speed up the ratification process. The goal was legislative ratification of the CCLIP in its entirety, as occurred with the CCLIP for the electricity sector, so that the Legislative Assembly would not have to approve each operation. Contrary to expectations, the Legislative Assembly ratified the CCLIP umbrella without ratifying either the first or the second operation, because the full list of works to be rehabilitated and reconstructed was not clear (despite the Bank's US$1.5 million investment and because general elections were forthcoming).[38] Ratification of the first operation was contingent upon presentation of a full list of the projects proposed for financing.[39] To a certain extent, the CCLIP has been a straightjacket for the Bank's later action in the transportation sector by keeping US$850 million in funds committed. Unlike the electricity sector, where ICE uses technical criteria to decide how to develop generation projects and where to expand the transmission and distribution grid, in the transportation sector, legislators can negotiate where rehabilitation and reconstruction will take place, giving preference to their own cantons over the rest of the country. Failure to internalize the political economy problems has led to delays in ratification.[40]

2.11 The Bank also continued execution of the MIF project for institutional strengthening of the CNC. The government identified the CNC as one of the priority government agencies that needed to be reformed under its Institutional Reform pillar (government coordination sector), where "improvements [were considered necessary] in critical areas of citizen services and country economic activity handled by agencies of the Executive in order to streamline, simplify, and raise the quality of services."[41] Although no operations materialized, the strategy had anticipated that once the CNC was strengthened, the Private Sector Department of the Bank (now the Structured and Corporate Financing Department (SCF)), could provide financing to concessionaires in the area of transportation, and identified some potential projects.

2.12 In the water and sanitation sector, the technical-cooperation operation continued to finance the necessary documentation for involving the private sector in expanding and upgrading the coverage and quality of the sewerage system in the province of Heredia.[42] A technical-cooperation operation was approved to prepare the necessary studies and designs to finance the *Water and Sanitation Program for the Subnational Level in Costa Rica*, which has not yet been approved. Although this action is not strictly aligned with the PND, the Government of Costa Rica proposed the "development and execution of the National Plan for Integrated Management of Water Resources" as part of the Environment, Energy, and Telecommunications Policy pillar of the PND. This plan set out to support the "municipalities to strengthen their participation in planning of water resources management and in delivery of the corresponding water and sanitation services". This technical-cooperation operation helps to identify what actions are needed to increase water infrastructure in 30 municipios operating their own systems. To some extent, the Bank's support was ahead of the plans of the Government of Costa Rica.

b. Enhancement of competitiveness and promotion of industry linkages

2.13 The Bank kept the *Pro-Competitiveness Productive Investment* program in the portfolio. At the government's request, and in order to speed up legislative ratification of the loan, three individual projects were consolidated into a single package: the *Production Development and Job Creation Project*, the *Pro-Competitiveness Science and Technology Project*, and the *Participatory Rural Roads Rehabilitation Project*. The first two projects are complex (comprising a large number of activities and organizations) and were not fully aligned with the government's PND. For example, the first component of the first project involved the institutional strengthening of 11 agencies of the Executive, none of them defined as a priority by the government. The only proposal under this component aligned with the PND was the financing of the agricultural census and sector production surveys.[43] The third project was aligned with the country's priorities by supporting the "program to improve road surfaces and bridges of Costa Rica's canton network". This package of projects was ultimately associate with CAFTA which led to rejection and delayed ratification in the Legislative Assembly. The package has not yet been ratified.

2.14 The Bank also kept the *Sustainable Agriculture Development* program in the portfolio, which is aligned with various proposals made by the Government of Costa Rica in the PND, such as strengthening of technical assistance processes; use of sources of nonbank financing, including the Ministry of Agriculture and Livestock (MAG); and promotion of the projects of small and medium-sized producers that use environmentally-friendly technologies through technical support and supply of adequate information.

2.15 The Bank also supported Costa Rica in this sector through various instruments designed to increase access to financing: three factoring operations, three operations to expand loan services for rural microentrepreneurs and a program to deepen agricultural diversification with a credit component based on producer partnerships, one program to study the feasibility of a business accelerator in the Instituto Nacional de Biodiversidad [National Biodiversity Institute], one program to promote franchises as a form of growth, and one program to promote technology-based SMEs that includes a component for creation of an angel investors network. Lines of credit under the foreign trade facility were also approved through SCF for Banco de Costa Rica, Banco Lafise Costa Rica, Banco Improsa, Banco Nacional de Costa Rica, and Banco Promerica Costa Rica for US$89 million.

2.16 Projects were approved to promote cleaner production for SMEs, improve the quality of financial information through adoption of international financial reporting standards and international standards on auditing, and support for Costa Rica's Pensions Superintendency to strengthen regulation and supervision of the insurance market, which was recently opened to free competition. All of these operations were financed with grants.

2.17 Even though the Government of Costa Rica did not identify any activities related to increased access to financing for micro, small, and medium-sized enterprises (MSMEs) as a priority, it acknowledges in the PND that access in practice is limited and that this affects their potential for growth and job creation. In addition to support from the MIF and SCF, the Corporation approved loans for Banca Promérica S.A., Financiera Desyfin S.A., BAC San José S.A., Financiera CAFSA S.A., and Arrendadora CAFSA S.A. to finance SMEs, and directly financed several companies. The *Matrix of Possible Interventions and Instruments to Support the Costa Rican Private Sector* proposed a "review of the legal framework and system for transactions secured with real estate and personal property, and to improve mechanisms for recording them, in order to help the financial system provide better access to credit for microenterprises and small businesses", which are actions that address the root of the problem. However, no actions materialized along those lines.

2.18 Despite the fact that these operations could be aimed at improving the competitiveness of some companies, the Bank did not propose any operations during this period to directly promote the industry linkages that are so needed for Costa Rica to create formal, quality jobs.

c. Narrowing of regional development gaps and support for sustainable tourism

2.19 The Bank proposed continuing the sustainable development programs that were approved under the previous strategy but that had not been ratified by the Legislative Assembly: the Sustainable Development Program for the Sixaola River Binational Watershed and Sustainable Development Program for the Atlantic Huetar Region. Those programs were conceptualized under the *Indicative Land Use Management Plan* and seek to preserve the natural heritage, change existing production models to ensure sustainability, guide public investment in infrastructure and basic services, increase the capacity and coordination of national institutions responsible for resource management, and strengthen local governments both administratively and financially.

2.20 Execution was also continued of three nonreimbursable technical-cooperation operations geared toward supporting the Government of Costa Rica in preparing strategies for the sustainable development of the Central Pacific Region and the Brunca Region in the province of Puntarenas, which were consolidated into a single strategy through the third technical-cooperation operation. A new nonreimbursable technical-cooperation operation was approved for preparing strategies for the sustainable development of the Chorotega and Huetar Norte regions.

2.21 In this area, the technical assistance program failed to correctly interpret the proposals of the Government of Costa Rica under its Productive Policy pillar (productive sector) regarding how to address the problem. The support required by the Government of Costa Rica was limited to the promotion of “programs to contribute to the development of rural communities in regions with a low Social Development Index through projects capable of generating local value-added, quality jobs, and improvements in the incomes of producers”. The PND mentioned, however, that it had “avoided references to the territorial dimension of public action” because the “regionalization schemes used to decentralize public sector action...are heterogeneous—when not contradictory and dysfunctional” and “with very few exceptions, there are no political or institutional mechanisms for decision-making at the regional level”. It asserted that “in those circumstances, it is nearly impossible to plan, budget, or execute public policies on a regional basis”. The PND went on to state that the Government of Costa Rica “has serious doubts...as to the usefulness of assuming regional planning schemes without first fostering deep reforms that make regionalization in the country both operational and viable”. The assistance program in this area was contrary to the government’s needs and priorities with respect to form and, therefore, was not very relevant. After 2006, the Bank approved US$600,000 for the preparation of sustainable development strategies for the Chorotega and Huetar Norte regions, even though the PND explicitly noted the apprehension of the Government of Costa Rica to address those issues from a regional standpoint.[44] Thus, it is not surprising that those projects have been canceled—Sustainable Development of the Atlantic Huetar Region—despite the Bank’s US$1.75 investment million from 2003 to 2007 to prepare those programs.[45]

2.22 The only program that was not canceled—because it was located in one of the poorest regions of the country with a high concentration of indigenous people and because it was a binational project—was the Sustainable Development Program for the Sixaola River Binational Watershed. However, that program has some design problems that the executing agency attributes to the operation's design. For example, the activities to be financed by the different components are contingent on demand from the potential beneficiaries; however, the most vulnerable population has very limited capacity to organize, and as a result there is a risk that its priority needs would not be addressed. In all, 95% of the population residing in the upper and middle region of the watershed is indigenous, it is the poorest population, and most do not hold title to their land; there is the risk that the most vulnerable population could be excluded from the compensation for regenerating and reforesting the banks of watercourses, because there are limited resources from the local counterpart, in the view of the executing agency. In addition, the complexity and variety of activities proposed by the program make them difficult to coordinate. MIDEPLAN was initially charged with execution. That task was later handed over to the Ministry of the Environment and Energy (MINAE), but it was ultimately decided that MAG should be the executing agency because the productive component is the one with the greatest resources—even though MAG also has institutional limitations for leading coordination and is considered to be one of the weakest ministries. The Bank's experience with the Sustainable Development Programs indicates that, for them to be executed successfully, there need to be very strong agencies capable of coordinating the work of the different institutions involved—which in the case of Costa Rica would include the MAG, MINAE, the Ministry of Public Works and Transportation (MOPT), the Ministry of Health (MINSA), the National Commission for Risk Prevention and Emergency Response (CNE), and Mayor's Office of Talamanca.

2.23 In the tourism sector, the PND expressed that the protected areas system "is not allowed to manage the resources it generates and, consequently, national parks lack adequate financial, material, and human resources for their maintenance and protection". The *Tourism in Protected Wilderness Areas* program proposed by the Bank sought to address that problem by supporting institutional strengthening of the Sistema Nacional de Áreas de Conservación [National System of Conservation Areas] (SINAC) to achieve its financial sustainability. That program also sought to make the necessary investments to develop or rehabilitate infrastructure based on the Sustainable Tourism Plans of each protected area. One nonreimbursable technical-cooperation operation would finance those plans in seven new areas and would produce detailed plans and environmental assessments for the investments already identified in the three Sustainable Tourism Plans that had been completed.[46] Those programs were aligned with the PND under its Environment, Energy, and Telecommunications Policy pillar, which proposed to "increase infrastructure and services in national parks and their respective areas of influence to improve and permit the development of new sustainable, high-quality tourism products". The Bank also supported the tourism sector through a MIF project geared toward strengthening rural community tourism aligned with the "program to promote diversification of the supply of tourism products, which favors the incorporation of new tourist attractions, the participation of local communities, and the development and insertion of SMEs in the tourism supply chain".

d. Increase in environmental management capacity

2.24 The Bank supported Costa Rica in the environmental management area through six nonreimbursable technical-cooperation operations, three of which were to prepare the project for Coastal Management in Puntarenas—*PDF-A Management and Conservation of Marine and Coastal Ecosystems in Puntarenas, PDF-B Management of Marine and Coastal Resources in Puntarenas, Plans for Integrated Coastal Management in Puntarenas*—and the rest for defining the *Strategy and National Plan for Integrated Management of Water Resources* and strengthening of *Environmental Management Capacities in the Ministry of the Environment and Energy*. These operations were aligned with the PND under its Environment, Energy, and Telecommunications Policy pillar, which proposed the "preparation and execution of the National Plan for Integrated Management of Water Resources" and the "program to promote a comprehensive environmental agenda that allows Costa Rica to position itself globally as a leader in nature conservation".

> The strategy failed to identify how the different crosscutting interventions would heighten the impact of the expanding sectors on the rest of the economy. None of the operations described above was explicitly geared toward strengthening linkages between Costa Rica's most dynamic economic sectors and the rest of the production system, and in that sense there is no consistency between the assistance program and the objective of the strategy. However, in the strategic areas, the assistance program addressed several general competitiveness problems, such as road infrastructure (key for large companies) and access to financing (key for SMEs), although it was not specified how those actions would strengthen the linkages. The work done to improve access to financing for SMEs is positive and, above all, necessary. However, the actions taken are not deep, cross-cutting and sustainable enough and do not get to the root of the problem, namely a credit bureau with low coverage and poor quality of information, problems with liquidating collateral, restrictions on the type of assets than can be used as collateral, etc.—most of which were identified in the *Matrix of Possible Interventions and Instruments to Support the Costa Rican Private Sector* presented in the strategy. The executing agency's perception is that the design problems in the Sustainable Development Program for the Sixaola River Binational Watershed increase the risk of excluding more disadvantaged groups from some program activities, for example, compensation for regenerating and reforesting the banks of watercourses. In the area of *narrowing of regional development gaps*, the assistance program went against the explicit stipulations of the Government of Costa Rica—the sector note associated narrowing of those gaps with regional planning without considering existing problems related to the different regionalization plans of the various government institutions, when those plans were available. The sector notes in the infrastructure and environment area reflect the Bank's knowledge of those sectors; in the area of competitiveness and productive chains, which are intrinsically more complex, OVE considered it necessary to develop a more complete and comprehensive vision that explicitly delineated and set priorities for actions that had to be taken to forge those linkages.

3. Creation of opportunities for inclusive economic growth

a. Amelioration of physical milieu in high-poverty urban centers

2.25 The nonreimbursable technical-cooperation operation (approved before the country strategy 2006-2010 was established) continued to be used to prepare the *Urban Poverty Alleviation* program, which targeted 13,000 families living in conditions of inequality and exclusion in urban fringe settlements (40,000 families were estimated to live in precarious conditions in urban fringe settlements) and was planned for approval in late 2006. That program was aligned with the PND, which in its Social Policy pillar (social sector and fight against poverty) proposed to "provide housing, infrastructure, and basic services to that population such that a 50% reduction could be achieved in the number of families living in makeshift settlements and in slums". The program for US$50 million was approved in

December 2006 and was subsequently canceled in October 2007. The World Bank approved a grant called *Towards a National Policy of Neighborhood Improvement and Slum Eradication* in July 2008 for US$500,000.

2.26 The nonreimbursable technical-cooperation operation was also continued to prepare the *Heritage Preservation and Urban Development* project, which is geared toward restoring run-down public spaces in the Carmen district adjacent to the city center. This operation was not identified as one of the government's priorities in its PND.

b. Support the launch of a social safety net and improve access to secondary education and employment training and make them more relevant

2.27 A nonreimbursable technical-cooperation operation was approved to provide technical assistance to support monitoring and evaluation of the conditional cash transfer pilot project called "Avancemos" and preparation of a broader Social Development Program to be implemented in the future. The evaluation was intended to provide important data for determining supply deficiencies and identifying the need to expand access to secondary education among the poor that the Bank was also prepared to support. Working in the area of secondary education was one of the recommendations of the previous evaluation. This operation was fully aligned with the priorities of the Government of Costa Rica in its Social Policy pillar (social sector and fight against poverty), where it proposed creating the "Avancemos" program. That program consists of cash transfers paid to beneficiary families on the condition that their adolescent children stay in school. In December 2009, the Bank approved a technical-cooperation operation to improve the quality of instruction of English as a second language, financing the development of a technical-pedagogic conceptual framework and conducting pilot tests to evaluate pedagogic models to improve learning.

> In the area of creating opportunities for inclusive economic growth, the Bank's assistance program was not very relevant in terms of amelioration of the physical milieu in urban centers—although the project was approved and the problem was identified in the PND, the government canceled the operation. Support to improve access to and the relevance of secondary education was fully aligned with the country's needs and the government's priorities, and although the project never materialized, the Bank did incorporate the technical-cooperation operation to improve the quality of instruction of English as a second language. The Bank continues supporting the Government of Costa Rica with respect to the social safety net: currently, the Office of Strategic Planning and Development Effectiveness (SPD) and the Education Division (EDU) are supporting the Government of Costa Rica in the design of an impact evaluation for the "Avancemos" program, and in that regard support is relevant even though the scope is limited. Sector notes prepared for this sector reflect broad Bank knowledge of those sectors.

4. Other programs

2.28 The Bank continued executing the *Second Phase of the Administration of Justice* program and the *Health Sector Development* program, which were approved and being executed before the country strategy 2006-2010 was established, although they were not reflected in the strategy. In the second case, the goal was to strengthen the governing capacity of the Ministry of Health and to develop the capacity of the CCSS to design, test, and evaluate a pilot program for health promotion—this last component was subsequently eliminated.

That program was aligned with the priorities of the Government of Costa Rica in its Social Policy pillar (health sector), which proposed strengthening of the lead agency functions of the Ministry of Health.

III. BANK EFFICIENCY IN PROGRAM EXECUTION

3.1 This chapter discusses efficiency in implementation of the assistance program or the extent to which the design and delivery of assistance had the best returns possible. Due to the lack of tools to measure returns on project implementation, proxy variables were used, such as programmed assistance versus assistance actually approved, preparation costs, and execution costs. As a proxy variable to measure the time allotted by executing agencies for the design and implementation of projects, the Bank's times for preparation and execution of loans approved during the strategy period (2006-2010) and for programs executed during the same period but approved previously were used.

PROGRAM EXECUTION

3.2 The strategy proposed two scenarios: a base scenario estimated at US$304 million and a high scenario for which the amount was not explicitly indicated in the strategy.[47] Use of the high debt scenario was evaluated in 2008 and was subject to: (1) greater fiscal headroom that would allow the Government of Costa Rica to meet its debt sustainability objectives, i.e. maintain or reduce the level of public debt as a percentage of GDP; and (2) legislative ratification of three projects awaiting ratification, in addition to the projects approved in 2006 and 2007.[48] This last point was related to one of the recommendations of the previous evaluation, which suggested that the Bank work with the existing portfolio as its primary intervention program. This also reflected the high level of uncertainty about the strategy that had characterized programming for the period 2002-2005: the maturation time required for passage of laws and ratification of loans. Although delayed ratification of the Bank's operations was identified as an implementation risk of the strategy (a risk that was expected would increase in the second half of the period), mitigation measures were limited to the use of innovative instruments and to alignment of the projects with the country's development program.[49]

During the May 2006-May 2010 legislative term, and according to the Legislative Assembly's records, three World Bank loan contracts were approved for US$167.5 million (Law 8558 to finance the Education Equity and Efficiency Project, Law 8711 or Catastrophe Risk Deferred Drawdown Option, and Law 8725 to finance the Port-City of Limón Project); one loan contract from the Japan Bank for International Cooperation for ¥15.001 billion (Law 8559 to finance the Metropolitan San José Environment Improvement Project); one framework agreement for financial cooperation with the European Investment Bank was approved; one loan contract with the Central American Bank for Economic Integration (CABEI) for US$35 million (Law 8685 to finance the Integrated Water Resources Management Program) and two loan contracts with the IDB for US$509.22 million (Law 8639 to finance the Sustainable Development Program for the Sixaola River Binational Watershed and Law 8722 to finance the Electric Power Development Project 2008-2014)—World Bank and IDB projects have subsequently been approved. The average amount of time that elapsed between signing of the loan contract and its ratification by the Legislative Assembly was 8 months for the JBIC, 13 months for the World Bank, 24 months for the IDB, and 29 months for CABEI. Ratification of the framework agreement for financial cooperation with the European Investment Bank took 48 months from signature.

CABEI introduced new forms of financing that has enabled it to overcome the public sector borrowing restrictions—BOT, build-operate-transfer; BLT, build-lease-transfer; and works concessions. Through building leasing projects with an option to buy, CABEI will participate as developer and lessor of the Casa Presidencial (the President's Residence) and the Legislative Assembly building in Costa Rica; it will use the same instrument to finance the Pailas geothermal project with ICE.

3.3 The amount ultimately approved during the period 2006-2010 was US$1.225 billion, although 40.8% (US$500 million) corresponds to the *Liquidity Program for Growth Sustainability in Costa Rica*, an emergency program approved by the Bank in response to the precautionary request from the Government of Costa Rica to deal with the potential effects of the global economic crisis. This entire program was ultimately canceled by the Government of Costa Rica in June 2009.[50] After deducting this emergency loan and the *Urban Poverty Alleviation* program, which was also canceled in its entirety in October 2007, the amount approved during the period 2006-2010 corresponding to sovereign guaranteed operations and active to date is US$629 million (see Table 1, highlighted projects), a larger amount than anticipated in the base scenario, although the second condition for approval of the high scenario was not met: legislative ratification of the pending projects. In fact, as of May 2010, there is still one project from the previous strategy (2002-2005) awaiting ratification, and of the three projects approved during 2006 and 2007, one was canceled and one has not yet been ratified by the Legislative Assembly. The two active projects approved in 2008 and 2009 are still awaiting legislative ratification.[51]

3.4 The portfolio with the non-sovereign-guaranteed sector (MIF and SCF) approved during the period 2006-2010 amounted to US$305.3 million: US$302 million in SCF loans, US$2.7 million in MIF grants, and US$550,000 in MIF loans. In addition, a total of US$9.3 million was approved in the form of technical-cooperation grants (23 operations) (see Table 1).

3.5 Given the existing problems with securing loan ratification—a situation that similarly affects other multilateral organizations—the Bank has not started to execute any of the public sector loans approved during the country strategy 2006-2010; the portfolio in execution during this period corresponds to loans from prior strategies, some of them in execution for 10 years. The need for broad consensus in the Legislative Assembly for ratification of the projects has delayed execution and has translated into very low portfolio efficiency. By the time the loans are ratified, their relevance has changed, some loans must be modified, and execution has to start from scratch, since it is pointless for the executing agencies to prepare for the execution of projects that might not be ratified or for which the timing of ratification is unknown. This causes additional delays: the time between ratification and eligibility in the case of Costa Rica is 16.6 months, while in the other countries of the region where ratification is required, the time is 6 months (see Table 2).[52] The problem associated with legislative ratification of projects was initially identified by OVE in the first Country Program Evaluation for Costa Rica for the period 1990-2001, presented in January 2003. It was reported again in the second Country Program Evaluation for Costa Rica for the period 2002-2006, presented in December 2006. Although the Bank has extensive and clear knowledge of the country's problems, as shown in the sector notes prepared before developing the country strategy 2006-2010, it still faces challenges working with Costa Rica in a political system dependent on the time-consuming process of consensus-building.

3.6 A comparison of Costa Rica with other countries of the region where ratification is required shows that for the period 2006-2010 and by end date of this evaluation (31 May 2010), projects in Costa Rica were awaiting ratification for an average of 28.4 months, versus an average of 7.6 months for the rest of the countries.[53] Projects approved during the previous strategy (2002-2006) took 35.1 months to obtain legislative ratification, compared to an average of 12.3 months for the rest of the countries.[54] Projects approved during the period 1990-2001 took 12.9 months to obtain legislative ratification, compared to 10.7 months for the rest of the countries (see Table 2). The *Sustainable Development for the Sixaola River Binational Watershed* project took a total of 49.8 months (more than one presidential term) for ratification. This project was designed to be executed in parallel with the *Sustainable Development of Bocas del Toro* project in Panama. The synergies between these projects that could have been achieved have not materialized due to delays in approval and execution of the Costa Rican project.

3.7 Only one investment project was completed during the period 2006-2010, namely the *Health Sector Development* program, which according to the Bank's information systems exceeded the anticipated execution time by 1.5 months (31.5 actual months of execution versus 30 months planned for execution).[55] The other four investment projects in execution have significant lags. As of today's date, two of them average an actual additional 34 months with respect to the execution period planned in the loan documents: the *Second Phase of the Administration of Justice* program and the *Sustainable Agriculture Development* program. The *Sustainable Development for the Sixaola River Binational Watershed* project is very close to reaching the end of the planned execution period, but has only disbursed 3.3% of the amount approved. Only the *Regularization of Cadastre and Property Registry* project could be completed in the anticipated amount of time, although its initial scope was considerably scaled back after its restructuring. Of the three investment projects executed during the period 2002-2006, just one was executed in a period of time that actually exceeded the period established in the loan documents—by 32.6 months.

3.8 Although difficulties in securing ratification have affected the efficiency of implementation of the assistance program, the problems discussed in Chapter II have also contributed to delays in ratification and subsequent execution. Two examples are the CCLIP *Transportation Infrastructure* program and the *Regularization of Cadastre and Property Registry* project. Another factor identified by the executing units surveyed is the requirement to follow both the Bank's procedures and those required by the Office of the Comptroller General for procurement of goods and services. Those requirements differ, and when combined reduce the efficiency of execution. One example of the problems that the procedural differences can generate is found in the *Health Care Sector Development* program. That program voided bidding processes and was unable to approve consulting services due to inconsistencies between the Bank's requirements and those of the Office of the Comptroller General.

3.9 Another measure of efficiency is the costs of portfolio preparation and execution. Preparation costs per million approved in Costa Rica are similar to the average for the countries of the Country Department Central America, Mexico, Panama and the Dominican Republic (CID), excluding Costa Rica (see Figure 8). However, Costa Rica has the largest proportion of cancellations, which substantially increases the average cost of preparation: Costa Rica canceled 46.7% of the amount of the portfolio approved during the period 2006-2010 and 33.3% of the number of projects. The other CID countries that canceled operations were Panama, which canceled 42.6% of the amount but just 4.4% of the number of projects, and the Dominican Republic, which canceled 23.8% of the amount and 8.3% of the number of projects (see Table 3)—the projects canceled by Panama and the Dominican Republic were emergency loans to contend with the global financial crisis. Costa Rica canceled the emergency loan and an investment loan for *the Urban Poverty Alleviation* program. With respect to execution costs, delays in the ratification and launch of projects translate into execution costs for the Costa Rica sovereign-guaranteed portfolio that far exceed the costs for the rest of the CID countries. Accumulated execution costs per million disbursed for 2009 were 162% higher than the average for the region, excluding Costa Rica. Implementation of the assistance program for Costa Rica is the least efficient in the region (see Figure 8). The situation is different for the non-sovereign guaranteed portfolio, which had cumulative execution costs per million disbursed in 2009 of just US$476 compared to US$107,237 for the sovereign guaranteed portfolio which requires ratification—the regional average for the non-sovereign guaranteed portfolio, exluding Costa Rica, is US$18,213.

3.10 In terms of project evaluability, only three of the five investment projects in execution have baseline and target indicators associated with the general objective that could be used to evaluate the projects in the future. This does not mean that the indicator is appropriate or that the data are being gathered. For example, just 40% of the outcome indicators and 25.7% of the output indicators defined for the projects in execution present monitoring data in the Project Performance Monitoring Reports (PPMRs). This situation is concerning, first because given the legislature's reticence to ratify the projects, the evaluations can be used as evidence of their effectiveness to convince the legislature of the merits of the projects awaiting ratification, and second, given that there are very few investment projects in execution, the Bank must be able to give greater attention to monitoring the development of those projects and the possibility of evaluation in the future.

IV. RESULTS

4.1 This chapter summarizes the Bank's effectiveness, or the extent to which the assistance program achieved the proposed objectives. The results were evaluated at the loan level. The analysis was not made at the sector or thematic pillar level, or at the level of the strategy as a whole (considering the program's cumulative results), because very few of the programs have results. In addition, the impact of the programs was analyzed in the few cases where this was possible, along with the long-term contribution to changes in development conditions and the sustainability of the results, where possible.

EFFECTIVENESS, IMPACT, AND SUSTAINABILITY

4.2 Most of the indicators defined in the strategy to measure progress in the different areas are irrelevant since the proposed operations either were not intended to affect processes that, in turn, would alter the behavior of those indicators, or, if they did, they were not approved, were canceled, or have not yet been ratified by the Legislative Assembly and have not begun to be executed. The first group includes the case of investment expenditure as a proportion of the central government's budget; the World Economic Forum's growth competitiveness index (see Box 2); national procurements made by companies in free trade zones; growth of exports; and poor households with access to financial services. The second group includes: redesigned procurement processes; tax revenue as a percentage of GDP; primary surplus; public debt as a percentage of GDP; ICE's actual installed capacity; percentage of the road network in good condition; open unemployment by region; and households in urban centers with critical unmet needs.

1. Strengthening the macroeconomic and public expenditure management framework

a. Capacity-building for public expenditure management

4.3 PRODEV-B is still being executed and so far there are no concrete results. With respect to nonfinancial products, the IDB and the World Bank completed the Public Expenditure Review agreed upon in the strategy and currently, at the government's request, the IDB and the World Bank are conducting a Public Expenditure and Financial Accountability assessment, in order for the government to acquire the tools to improve financial management systems and practices.[56] Through PRODEV-A, the Bank financed preparation of a macroeconomic consistency and debt sustainability analysis model that enabled the Ministry of Finance to present the legislature with a multiyear budget for the first time in 2008, thus lifting the restriction that limited the analysis of investment projects to one year, and making it possible to project the impact of those investments on future spending.[57] These models have also sparked the interest of some municipios.

b. Support for tax reform implementation and macroeconomic scenarizing

4.4 Even though the *Support for Fiscal Modernization* PBL did not materialize, the technical preparatory work for that operation has translated into technical support for the government for preparing tax reform. The Bank also supported the government in removing Costa Rica from the OECD's blacklist, after that organization had flagged it as one of four jurisdictions that had not pledged to meet the internationally agreed tax standard.[58] An August 2010 review rated Costa Rica a jurisdiction that is committed to the internationally agreed tax standard, but that had not yet made substantial progress in implementing it.[59] Regarding tax receipts, in the municipios, revenue from property taxes increased by an average of 11.5% annually in real terms between 2006 and 2009. The indicators compiled by the executing agency of the *Regularization of Cadastre and Property Registry* program were not available to verify whether the increase is related to the project; however, a comparison of the increase in receipts in municipios where headway has been made in delivering the computer platforms indicates that from 2008 to 2009 receipts rose between 6 and 16 percentage points over municipios that had not received the platforms.

4.5 Even though the *Liquidity Program for Growth Sustainability* was canceled, the government underscored the "responsive, efficient manner" in which the October 2008 request for financing was handled—the Bank approved the request in a period of two months. In the government's opinion, this operation created market confidence—OVE, however, was not able to verify the effect that the announcement of that news had on indicators on interbank money market transactions (average rate, number of transactions, or transaction amount).

2. Deepening the country's growth and international positioning model

a. Support for the Infrastructure Development Plan

4.6 The only operation in the electricity sector that was executed in the analysis period was the nonsovereign guaranteed operation designed to improve ICE's debt profile. That operation, given its strictly financial nature, did not directly contribute to improving the welfare of the Costa Rican population because the loan did not have the ability to affect electricity generating capacity. The operation made it possible to retire US$381 million in debt with Credit Suisse, the Overseas Economic Cooperation Fund (OECF), and the IDB maturing in June 2008, December 2010, and July 2014, and to replace it with a syndicated loan between the IDB and Citigroup with a grace period of three years and maturing in February 2023 and 2018, respectively. However, ICE noted that the Bank's support created confidence in the capital markets and enabled it to extend the maturity of its debt. Although ICE's loan operations can be structured by commercial banks, ICE indicated that the IDB provides support in the form of preinvestment studies that private commercial banks are unwilling to finance.

4.7 The operations intended to support road infrastructure have not yet been ratified by the legislature and have not been able to improve the quality of the network. Problems with execution of the MIF project *Institutional Strengthening of the National Concessions Council* prevented any concessions from receiving advisory services under the project.[60] Although some activities were completed, knowledge transfer to the institution has been limited and work still needs to be done for it to take root as the lead agency of the concessions system. This project did not achieve the proposed targets: the number of projects granted in concession with support from the program did not achieve the target of four concessions by 2010. One of the recommendations made in the previous evaluation was to monitor this project more closely due to the difficulties faced by the CNC.

b. Enhancement of competitiveness and promotion of industry linkages

4.8 None of the projects executed during the period was designed for, or had the capacity to, boost the competitiveness of Costa Rican companies so as to increase the competitiveness index by 7.5% in the short term. It was also unreasonable to expect a 30% increase in country procurements made by free trade zone companies or an 8% annual increase in exports, which were the indicators defined in the strategy. This type of general indicators that are unrelated to the activities proposed by the Bank should be avoided in the future.

4.9 The projects financed by the Bank in this area were modest, contrary to the indicators defined in the strategy. In practice, the *Sustainable Agriculture Development* program lacks a monitoring and tracking system, despite having been designed as a pilot operation. The only possible evaluation has to be based on non-quantitative evidence and it will be impossible to determine whether the program has achieved the objective of increasing revenue and improving the quality of life of families. In this regard, the opportunity was missed to produce information for an impact evaluation that could be presented to the legislature as evidence of the benefits of Bank-financed operations. Anecdotally, the program has been more successful at granting *Certificates of Environmental Benefits* for the use of environmentally-friendly practices than at providing technical assistance.[61] This is consistent with the fact that the producers interviewed for the midterm evaluation indicated that they perceive greater advantages at the level of environmental improvements than at the level of increased competitiveness. Although Banco Nacional de Costa Rica signed an agreement to open a line of credit that would facilitate financing of the investments required by the producers participating in the program, the authorities indicated in the midterm evaluation that producers have not used the credit line. The program has been successful in terms of financing *comprehensive instructional farms*—which has generated higher-than-expected demand—with the goal of sharing information with other producers.[62] However, implementation of competitiveness training sessions that should be given to producers, specialists, and service providers has been slow.

4.10 In the area of access to financing, midterm evaluations of operations to expand credit services to rural microentrepreneurs (Foundation for the Union and Development of Campesino Communities (in Spanish, FUNDECOCA) and the Integral Foundation for Rural Development in Central Pacific Costa Rica (in Spanish, FIDERPAC)) show that those operations have achieved the proposed objectives.[63] In the case of FUNDECOCA, the infusion of funds permitted an increase in the number of communal credit committees from 38 to 46, and an increase in the number of rural communities served from 98 to 114. It also increased the number of loans from 1,374 to 1,833, and the size of the average loan grew from US$640 to US$770. In addition to this growth, it reduced the portfolio of loans less than 30 days in arrears from 7% to 4.6% (corresponding to changes between 2005 and 2006). In 2006, 42% of customers were women (the proposed target was 40%). In the case of FIDERPAC, the results are slightly more modest: the number of communal credit committees increased from 46 to 51, and the number of rural communities served increased from 160 to 175; the number of loans increased from 2,402 to 2,659, and the size of the average loan fell from US$550 to US$512. In this case, the portfolio of loans less than 30 days in arrears increased. These figures correspond to changes between 2004 and 2005. In 2005, 33% of customers were women, compared to 44% in 2007 (the proposed target was 40%).

4.11 The MIF's technical-cooperation operations to promote factoring were canceled after an average of 23.7 months of execution, although the lines of credit were used and renewed on at least two occasions. The financial environment forced the companies to abandon their plans to expand to other Central American countries.

4.12 The MIF project *Promotion of Dynamic Entrepreneurship* strengthened the incubator for technology companies and has generated sufficient interest from investors to ensure its continuity. The number of angel investors forming part of the network exceeds the target by 220%. However, the network has had difficulties achieving the proposed target with respect to the number of business plans received that are of high enough quality to be presented to investors, and that are ultimately financed by "angels".

c. Narrowing of regional development gaps and support for sustainable tourism

4.13 The only project in execution in this area is the Sustainable Development Program for the Sixaola River Binational Watershed. However, that project has disbursed less than 5% of its resources and cannot be evaluated yet.

4.14 The MIF project *Rural Community Tourism in Costa Rica and its Replication in Central America* has made some headway despite delays in execution of consulting assignments: new members have joined the cooperatives network, but the offering of tourism products has not increased. The project has not yet been able to increase the number of local linkages or the number of direct jobs. However, owing to marketing efforts, the number of tourist visits increased despite the unfavorable economic situation. Sales of the executing agency (COOPRENA) increased by 214% (an annual average of 74% in real terms, from 2006 to 2008), although the profit margin is still low and does not guaranty financial sustainability. Marketing has been focused on members of the network of cooperatives offering lodging products, while members offering theme tours have garnered less attention.

d. Increase in environmental management capacity

4.15 The nonreimbursable technical-cooperation operation designed to support MINAE in the preparation of an institutional modernization operation for US$24 million is in the process of cancellation. The target proposed by the strategy, i.e. restructuring of MINAE in 2010, was not achieved.

3. Creation of opportunities for inclusive economic growth

a. Amelioration of physical milieu in high-poverty urban centers

4.16 The operation geared toward achieving this objective was canceled.

b. Support the launch of a social safety net and improve access to secondary education and employment training and make them more relevant

4.17 The projects geared toward supporting this sector were the nonreimbursable technical-cooperation operation designed to support monitoring and evaluation of the "Avancemos" pilot project for conditional cash transfers and preparation of a Social Development Program, and the nonreimbursable technical-cooperation operation, which is still in execution, aimed at improving instruction of English as a second language.

4.18 The indicator defined in the strategy to measure progress in this area was the percentage of youth from the lowest income quartile that completed secondary school. This indicator changed from 13.4% in 2006 to 16.1% in 2009 for young people ages 17 to 25 from the lowest income quartile, i.e. a gain of 2.7 percentage points. For the highest income quartile, the indicator rose from 61.0% to 66.7%, i.e. a gain of 5.7 percentage points.

4.19 The analysis of the payment system for the "Avancemos" program financed by the technical-cooperation operation helped in making the decision to select the Instituto Mixto de Ayuda Social [Joint Social Welfare Institute] (IMAS) as the only "Avancemos" operator starting in 2008. Studies were carried out for purposes of preparing an inventory and review of the procedures and requirements of the selective social programs for each institution and establishing measures to simplify and streamline those procedures; a manual was created for applying the technical briefs of the selective social programs; and the development strategy for the Social Protection and Inclusion System was formulated. However, those outputs must be implemented if they are to have an impact on the efficiency and effectiveness of public social spending. The technical-cooperation operation also contributed to establishment of the master beneficiary registry as part of the reform of the Social Development and Family Allowances Fund Act (in Spanish, FODESAF Act). The Information System for Integrated Management of Selective Social Programs (in Spanish, SIGIPSS) should utilize the master beneficiary registry to identify its target population. Adoption of the recommendations from the different studies is expected to result in winners and losers at the institutional level, which can create resistance at the political level, thus delaying implementation and gains in program efficiency and effectiveness.

4.20 For example, the "Avancemos" program has some targeting problems: according to the Multiple Use Household Survey 2009 (HS2009), 7.4% of beneficiaries were outside the age range accepted by IMAS rules (6.4% were under 12 and 1.0% were over 25), and 12.8% of the beneficiaries were not enrolled in secondary school (an increase from 11.2% in 2008). The household survey questions are designed in such a way that it is impossible to tell what percentage of the "Avancemos" beneficiaries is not attending any level of schooling.[64] The survey also revealed that the program does not focus on the most disadvantaged households. Instead, it is biased towards families with incomes in the 16th to 20th percentile. A comparison with conditional cash transfer programs in Chile, Brazil, Mexico, and Panama reveals the poorer quality of "Avancemos" targeting (see Figure 9).

4.21 A preliminary exercise carried out by OVE on the program's impact on young people staying in secondary school has encouraging results. That exercise shows that "Avancemos" increased the percentage of young people ages 17 to 25 who remain in the last year of secondary school (academic and vocational) by 20.5 percentage points in urban areas and 39.8 in rural areas.[65] However, those results should be taken with a grain of salt. This was a preliminary exercise and presents limitations in that it is based on secondary information gathered ex post. The quality of the data and the design of the survey used (HS2009)—especially the fact that only those attending school are asked if they receive "Avancemos" assistance—makes it difficult to draw definitive conclusions. Even if not all beneficiaries graduate, this increase bodes well for positive results in the future.[66]

4. Other programs

4.22 In the case of the *Second Phase of the Administration of Justice Program*, OVE completed an impact evaluation of the program (including the first phase of the program launched in 1996) to estimate the effect on the efficiency of the judicial system. The evaluation concluded that the modernization program was successful at increasing the number of cases heard by 6% and reduced the cost per case tried by US$75. In addition to those results documented in the impact evaluation, the program supported the creation of "Casas de Justicia" [legal aid centers] intended to increase out-of-court dispute resolution: between 2000 and 2004, the "Casas de Justicia" received 748 cases for mediation, and an agreement was reached by the parties in 70% of those cases. In 2006, that figure rose to 1,596 cases, with an agreement reached by the parties in 42.5% of cases. The program also helped increase the rate at which food assistance cases are settled in the courts: the case settlement rate—defined as cases settled as a percentage of the number of cases pending—increased from 15.03% in 2004 to 19.2% in 2009, despite the fact that the number of cases filed with the courts has grown annually.

4.23 In the case of the *Health Sector Development* program, the Bank financed different activities to strengthen the lead agency function of the Ministry of Health, including the creation of tools such as measurement of the disease burden, study of satellite accounts, survey of household spending on health, a supply and demand model for human resources that would make it possible to set priorities for public spending on health care, and public policy-making. In addition, the following were financed: various training workshops and a national seminar to disseminate information generated and provide materials, upgrade infrastructure, and procure equipment.[67] The final evaluation shows that 84% and 76% of those interviewed in the health care areas and regional offices indicated that the program had strengthened the Ministry's lead agency function. However, this evaluation shows no evidence that the tools financed are being used. It is likely that the interview participants associate their response with the supply of materials, equipment, and personnel training.[68] In fact, because the Ministry of Health underwent a change in its organizational structure during the project, it is unclear—after meetings with Ministry personnel—whether the progress made has been absorbed by the new structure and whether the tools will be updated and used in the future. The project did not monitor the outcome indicators proposed in the logical framework, which was a missed opportunity to present evidence to the legislature on the merits of Bank-financed operations.[69]

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ANNEX

Figure 1

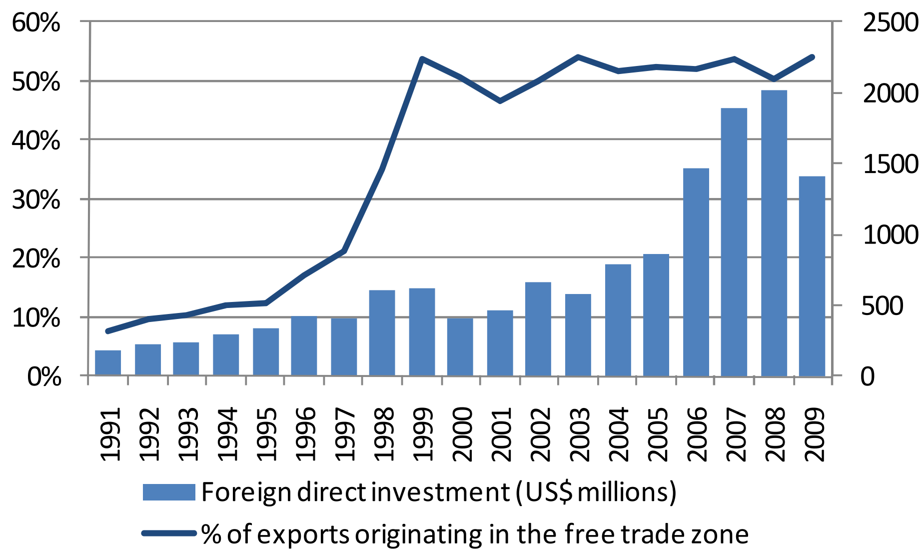


Figure 2

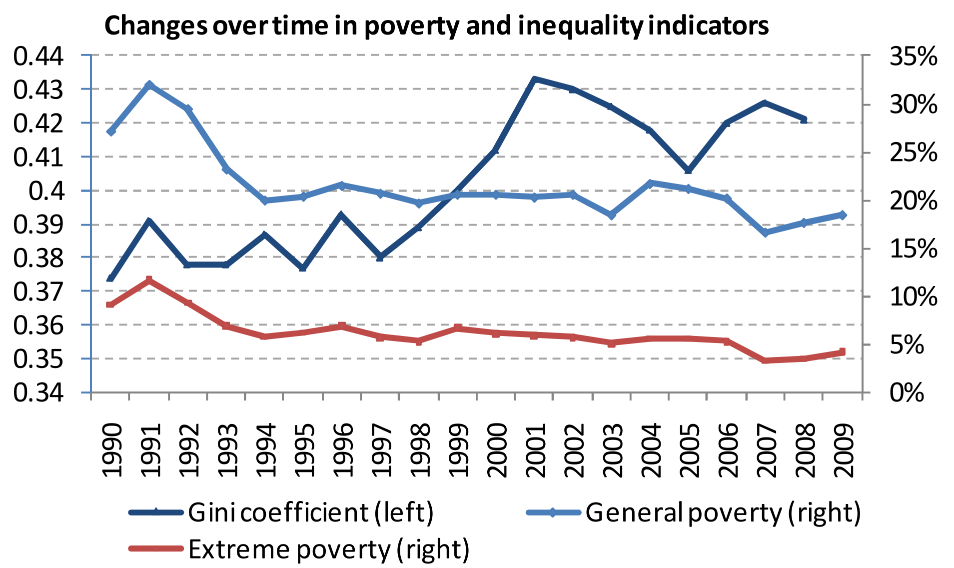


Figure 3

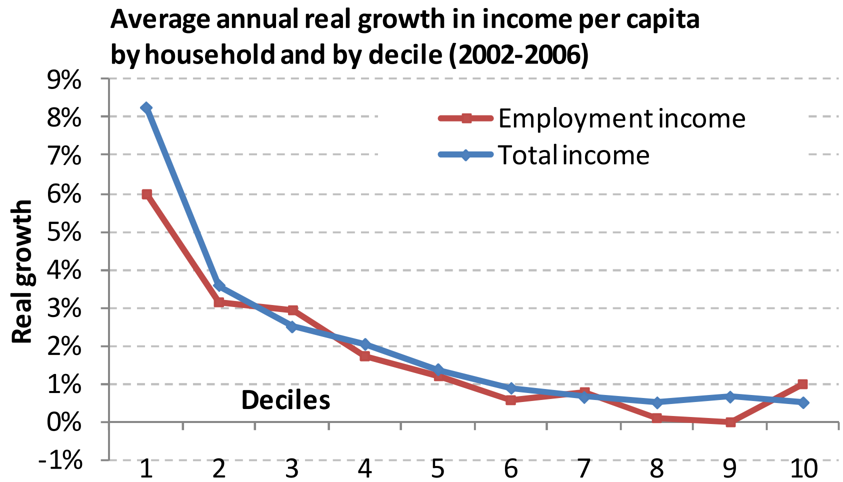


Figure 4

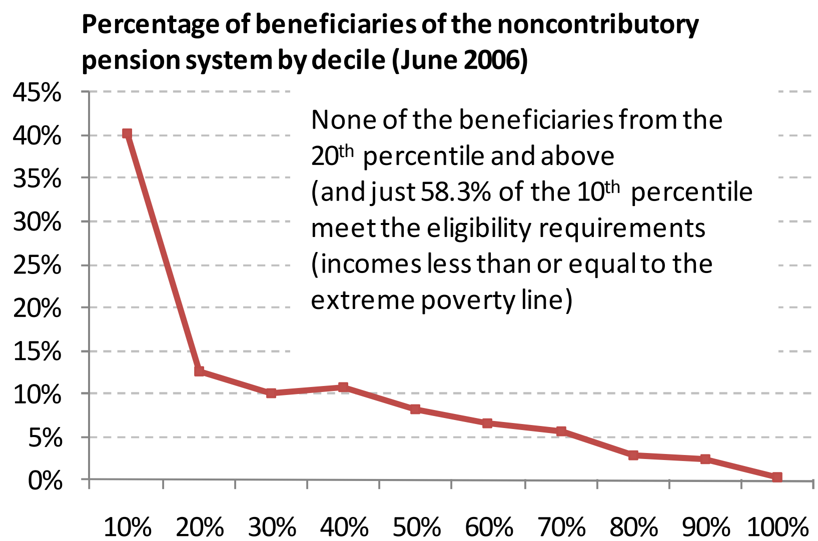


Figure 5

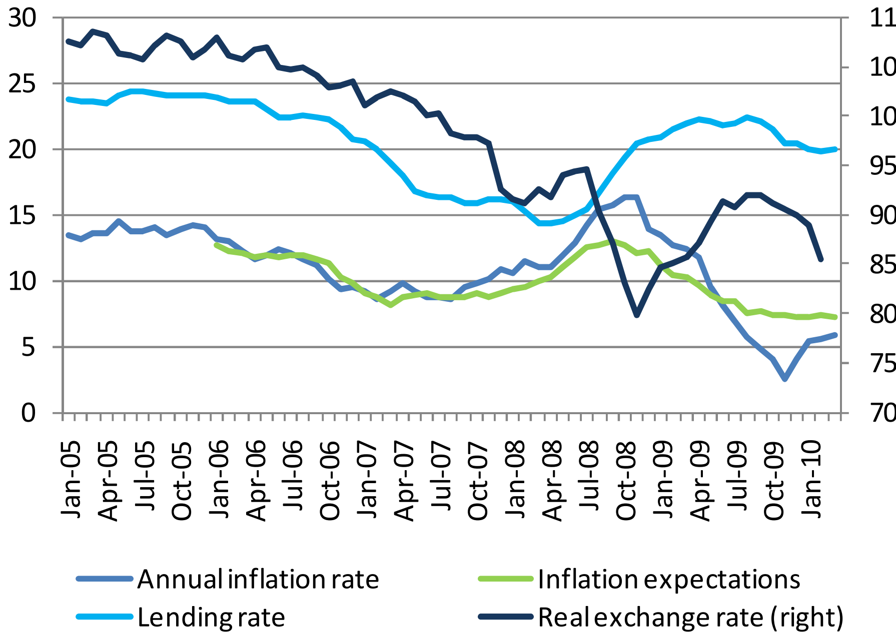


Figure 6

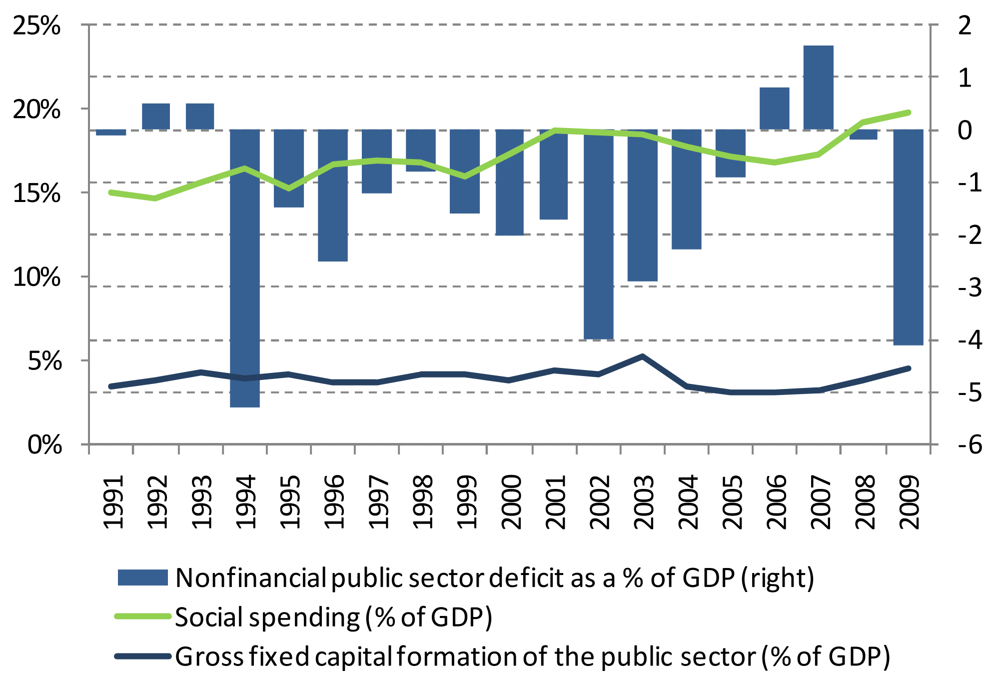


Figure 7

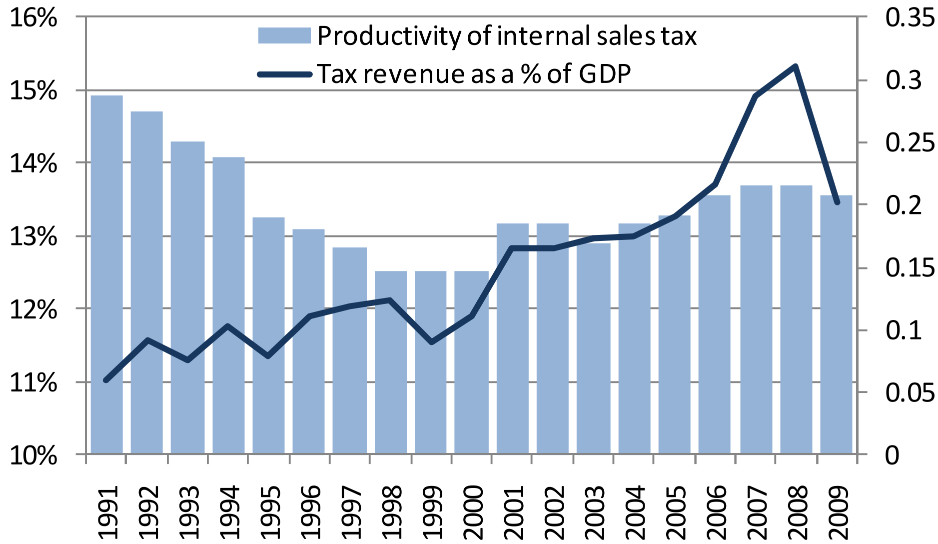


Figure 8

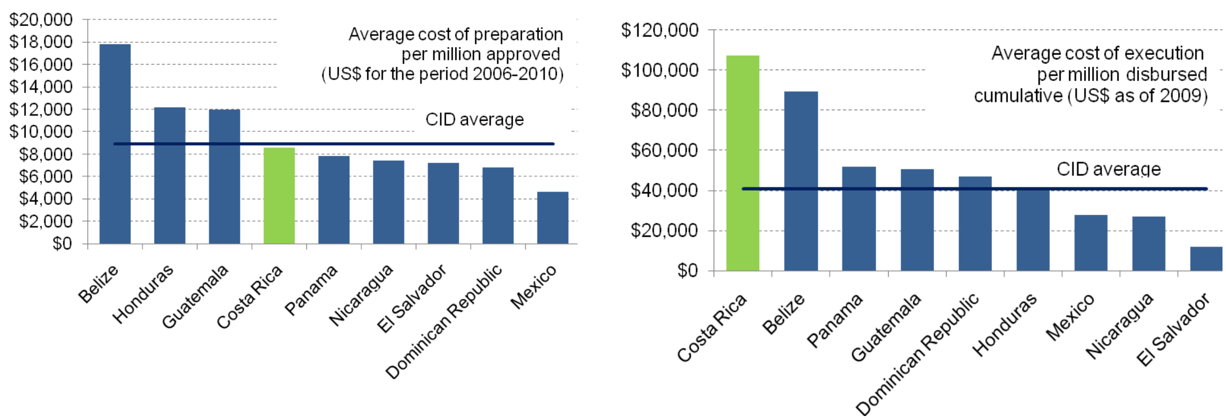
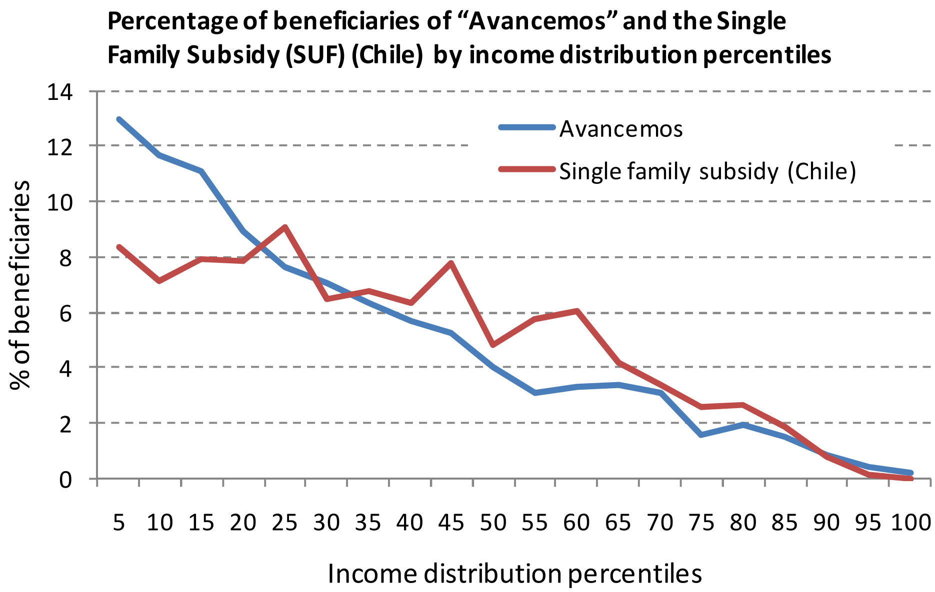


Figure 9



Percentage of beneficiaries of "Avancemos" and the Single Family Subsidy (SUF) (Chile) by income distribution percentiles
Avancemos
Single family subsidy (Chile)
% of beneficiaries
0
2
4
6
8
10
12
14
5 10 15 20 25 30 35 40 45 50 55 60 65 70 75 80 85 90 95 100
Income distribution percentiles

Box 1. Legislative process in Costa Rica

The Costa Rican political system went from being a two-party system until the mid-1990s to a multiparty system. The number of political stakeholders has increased, raising the transaction costs of building consensus. While in 1990 the two majority parties held 88% of the votes in the Legislative Assembly (95% of seats), in 2010, the two majority parties accounted for 55% of the votes (61% of seats). However, the rules governing the parliamentary dynamic have not adapted to the new conditions on the ground and the parliamentary minorities can use regulations to draw out discussions in the legislature to the point of bringing proposals from the Executive to a standstill, as occurred with fiscal reform in the last four presidential terms. For example, by taking the floor and using the discussion time assigned to each motion made or amendment proposed, legislators can prolong discussions for as long as amendments are proposed (15 minutes for <u>each</u> motion made or amendment proposed). Between 1986 and 1998, the approval percentage for legislative initiatives proposed by the Executive in Costa Rica was the lowest in the region. Only 41% of those initiatives were approved during that period (Payne 2006). Between 2006 and 2009, that percentage fell to 31% (Straface 2010).

Another factor affecting the legislative process is the prohibition against consecutive reelection of legislators (only nonconsecutive reelection is allowed), which inhibits the development of parliamentary careers and the specialization of legislators: 87% of legislators in the period 2006-2010 did not have prior legislative experience, which means that most have to learn the ground rules. In addition, because Costa Rica's Legislative Assembly is small (the smallest in the region), legislators must sit on multiple committees—up to 9 different committees—in an environment where there are very few legislators to do all the legislative work. In addition, politicians who wish to continue their career do not rely on the president in office (who also cannot be reelected) for advancement and, consequently, tend to prefer personal agendas over national ones, leading to a breakdown of party loyalty: 52% of proposals presented in the period 2006-2009 were local or sectoral in nature.

Another means available to the parliamentary minorities to stall the legislative process is the Constitutional Chamber. Since 1989, when the Constitution was amended to create the Constitutional Chamber within the Supreme Court and with jurisdiction over specific matters involving the Constitution and the violation of constitutional rights, legislators and private citizens have turned to the Constitutional Chamber to challenge the constitutionality of proposed legislation. This has been an important factor in slowing the pace of reforms. The Constitutional Chamber receives an average of 330 files each year, and takes 22 months on average to reach a decision on those cases.

Straface estimates that since 1994, it takes an average of 600 days for a law to be passed in Costa Rica. As a result of this situation, the production of new laws is very low and most (80%) of the regulations for the period 2007-2009 correspond to adoption of international instruments and modifications to existing regulations.

Box 2. Selection of outcome indicators

One of the indicators selected to measure results in the *deepening the country's growth and international positioning* sector, specifically in the area of *enhancement of competitiveness and promotion of industry linkages*, was the World Economic Forum's (WEF) Growth Competitiveness Index. The strategy aimed to bring about a 10% increase in the index from 3.72 in 2005 to 4 in 2010—the increase in reality is 7.5%.

A detailed analysis of this indicator shows that, although very convenient, it is not well suited to measuring results in this specific area of intervention for the Bank. This index is built on three pillars: technological progress; the quality of the public institutions that must guarantee respect for the rule of law; and the macroeconomic environment, which must be stable to promote growth. The three pillars are measured through three indices: technology, public institutions, and macroeconomic environment, which are weighted differently depending on whether or not the country in question is a core innovator—this criterion depends on the country's number of US patents per million inhabitants, and the threshold is 15 patents per year per million; Costa Rica registered zero in 2005. The technology index for non-core innovators has 18 subindicators, and the information comes both from hard data—such as the gross secondary enrollment rate—and from information compiled through the annual WEF survey—such as "Are laws relating to ICT (electronic commerce, digital signatures, consumer protection) well developed and enforced?" The public institution index is composed of 7 subindicators and the macroeconomic environment index, 10.

The Growth Competitiveness Index is quite complex and subject to variations in the 35 subindicators, most of which are completely unrelated to the programs proposed by the Bank in the area of *enhancement of competitiveness and promotion of industry linkages*. The 35 subindicators are as follows:

1. What is your country's position in technology relative to world leaders?
2. Companies in your country are not interested/aggressive in absorbing new technology?
3. How much do companies in your country spend on R&D relative to other countries?
4. What is the extent of business collaboration in R&D with local universities?
5. US utility patents granted per million population.
6. Gross tertiary enrollment rate most recent available year.
7. Is foreign direct investment in your country an important source of new technology?
8. Is foreign technology licensing in your country a common means of acquiring new technology?
9. How extensive is Internet access in schools?
10. Is there sufficient competition among ISPs in your country to ensure high quality, infrequent interruptions and low prices?
11. Is ICT an overall priority for the government?
12. Are government programs successful in promoting the use of ICT?
13. Are laws relating to ICT (electronic commerce, digital signatures, consumer protection) well developed and enforced?
14. Cellular mobile subscribers per 100 inhabitants
15. Internet users per 10,000 inhabitants
16. Internet hosts per 10,000 inhabitants
17. Main telephone lines per 100 inhabitants
18. Personal computers per 100 inhabitants
19. Is the judiciary in your country independent from political influences of members of government, citizens or firms?
20. Are financial assets and wealth clearly delineated and well protected by law?
21. Is your government neutral among bidders when deciding among public contracts?
22. Does organized crime impose significant costs on business?
23. How commonly are bribes paid in connection with import and export permits?
24. How commonly are bribes paid when getting connected with public utilities?
25. How commonly are bribes paid in connection with annual tax payments?
26. Is your country's economy likely to be in a recession next year?
27. Has obtaining credit for your company become easier or more difficult over the past year?
28. Government surplus/deficit
29. National savings rate
30. Inflation
31. Real exchange rate relative to the United States
32. Lending-borrowing interest rate spread
33. Public debt

34. Institutional Investor country credit rating
35. Is there waste in public spending in your country, or does it provide needed goods and services not provided by the market?

It is important to note that the make-up of this index has changed, adding or eliminating subindicators, and may not be comparable from one year to the next. What's more, in 2006 the Growth Competitiveness Index was replaced by the Global Competitiveness Index, which had 116 subindicators.

The objective of the area of *enhancement of competitiveness and promotion of industry linkages* was to "strengthen linkages between Costa Rica's most dynamic economic sectors [tourism, electronics, services, technology] and the rest of the production system, especially SMEs". To that end, the following were proposed as crosscutting sector strategies: "strengthen the financial sector's capacity to supply funding for the production system, especially SMEs" and "enhance the climate for science and technology investment and innovation".

Upon analyzing the first set of policies, the diagnostic assessment of the strategy identified "the marked segmentation existing in the market between local- and foreign currency borrowing terms and conditions", "underdeveloped secured transactions system, together with the regulatory requirements of the Superintendency for Financial Institutions", and the "crowding out [effect that lending to the State to finance the deficit has on] lending to private-sector segments" as the main reasons behind the problems of access to financing. The activities proposed in the strategy related to improving access to financing are described in paragraph 2.15 (factoring, expanding loan services for rural microentrepreneurs; feasibility of a business accelerator; a program to promote franchises as a form of growth, and one program to promote technology-based SMEs that includes a component for creation of an angel investors network). Of the 35 sub-indicators in the Growth Competitiveness Index proposed as outcome indicators in this area, only 2 of them (27 and 32) are related to improved access to financing. It is unlikely, however, that the two sub-indicators would be affected by the proposed operations. In the case of the first one—"Has obtaining credit for your company become easier or more difficult over the past year?"—the target population of the proposed operations (rural microentrepreneurs, franchisees, and fledgling companies) is not the same population of companies surveyed annually by the WEF. In the case of the second—Lending-borrowing interest rate spread —none of the operations proposed by the Bank had the capacity to affect that spread.

Regarding "enhancing the climate for science and technology investment and innovation," under the *Pro-Competitiveness Productive Investment Program*, the Bank proposed the *Pro-Competitiveness Science and Technology Project.* Of the 35 indicators in the Growth Competitiveness Index proposed as an outcome indicators in this area, only 2 of them (3 and 4) could be related to activities proposed in this operation—How much do companies in your country spend on R&D relative to other countries? and What is the extent of business collaboration in R&D with local universities?

In both cases, these subindicators have no capacity to move the proposed indicator to the 2010 target. The indicators related to enhancing access to financing have an individual weight of 2.38% and 1.98% on the proposed Growth Competitiveness Index, and for those associated with science and technology it is 0.26% each.

If these 4 subindicators achieve the maximum value found in the sample of countries analyzed, they would move the indicator from 3.72 to 3.81 under the assumption that the other sub-indicators do not change (which is below the proposed 2010 target).

Table 1. Operations approved during the country strategy 2006-2010

Number	Name	Type	Year	Original amount approved (US$)	Actual amount approved (US$)	Status	% disbursed (May 10)	Planned in the strategy
Strategic line 1: Strengthening the macroeconomic and public expenditure management framework								
Sector 1.1. Capacity-building for public expenditure management								
CR-T1027	Comprehensive Review of Public Spending in Costa Rica	Grant	2006	83,510	83,510	Active	90.40%	X
CR-T1029	Program to Improve the Efficiency of the Public Administration	Grant	2008	1,600,000	1,600,000	Active	21.82%	X
Sector 1.2. Support for tax reform implementation and macroeconomic scenarizing								
CR-L1033	Liquidity Program for Growth Sustainability in Costa Rica	Loan	2008	500,000,000		**Canceled**		
Strategic line 2: Deepening the country's growth and international positioning model								
Sector 2.1. Support for the Infrastructure Development Plan								
CR-L1009	First Development Program for the Electricity Sector 2008-2011	Loan	2007	250,000,000	250,000,000	Active	0.00%	X
CR-L1022	First Road Infrastructure Program	Loan	2008	300,000,000	300,000,000	Awaiting ratification	0.00%	X
CR-L1023	Canton Road Network Program	Loan	2008	60,000,000	60,000,000	Awaiting ratification	0.00%	X
CR-L1012	Refinancing of ICE's debt	Loan	2007	171,000,000	171,000,000	Completed	100.00%	X SCF
CR-L1037	Expansion of the Juan Santamaría International Airport	Loan	2009	45,000,000	45,000,000	Active	0.00%	SCF
CR-T1017	Complementary Studies for the El Diquís Hydroelectric Project (Boruca-Veraguas)	Grant	2006	1,500,000	1,500,000	Active	18.36%	X
CR-T1030	Strengthening of ICE and Other Technical Studies	Grant	2007	500,000	500,000	Active	91.27%	X
CR-T1037	Support for Preparation of the Road Infrastructure Program	Grant	2007	1,500,000	1,500,000	Active	57.50%	X
CR-T1034	Water and Sanitation Program for the Subnational Level	Grant	2008	1,413,920	1,413,920	Active	19.68%	X

Sector 2.2. Enhancement of competitiveness and promotion of industry linkages								
CR-L1010	Banco Nacional de Costa Rica – TFFP	Loan	2007	40,000,000	40,000,000	Active	0.00%	SCF
CR-L1020	Banco Improsa S.A. – TFFP	Loan	2007	5,000,000	5,000,000	Active	0.00%	SCF
CR-L1021	Banco de Costa Rica – TFFP	Loan	2007	40,000,000	40,000,000	Active	0.00%	SCF
CR-L1027	Banco Lafise Costa Rica - TFFP	Loan	2008	1,000,000	1,000,000	Active	0.00%	SCF
CR-S1005	Deepening of Agricultural Diversification	Loan	2006	550,000	550,000	Active	85.49%	MIF
CR-M1012	Strengthening and Growth of SMEs through Franchises	Grant	2008	644,120	620,900	Active	8.57%	X MIF
CR-M1013	The Central Market as an Engine of Economic and Cultural Development in Alajuela	Grant	2008	673,000	673,000	Active	0.00%	MIF
CR-M1007	ICTs for Development of Eco-SMEs in the Agricultural and Forestry Sectors	Grant	2007	135,500	125,000	Active	75.28%	MIF
CR-M1014	Promotion of SME Exports through TICA EXPORTA 2.0	Grant	2009	195,000	195,000	Active	0.00%	MIF
CR-T1026	Evaluation of the National Innovation System: Institutional Framework. Legal and Regulatory.	Grant	2007	45,000	45,000	Completed	100.00%	X
CR-T1028	National Innovation System	Grant	2007	17,192	18,221	Completed	100.00%	X
CR-T1047	Incubator of Technology Companies in INBio	Grant	2008	80,000	80,000	Active	96.52%	X
CR-T1018	Labor Market in Costa Rica: Dynamic Analysis of Gender and Minority Groups	Grant	2006	39,050	18,628.19	Completed	100.00%	X
CR-T1046	Technological Optimization and Productive Scaling of Pargo la Mancha	Grant	2008	80,000	80,000	Active	62.36%	
CR-T1044	Support for Regulation and Supervision of the Costa Rican Insurance Market	Grant	2008	39,179	39,178	Completed	100.00%	

CR-T1059	SABESP-AyA Collaboration in Business Management of Projects	Grant	2009	18,700	18,700	Active	42.90%	
Sector 2.3. Narrowing of regional development gaps and support for sustainable tourism								
CR-L1001	Tourism in Protected Wilderness Areas Program	Loan	2006	19,000,000	19,000,000	Awaiting ratification	0.00%	X
CR-M1006	Rural Community Tourism in Costa Rica and its Replication in Central America	Grant	2006	1,092,048	1,062,048	Active	51.49%	X MIF
CR-T1019	Sustainable Development of the Chorotega and Huetar Norte Regions	Grant	2007	600,000	2.237	Completed	100%	X
CR-T1021	Plans for Sustainable Tourism and Design of Investments in Protected Wilderness Areas	Grant	2007	240,000	232,519	Completed	100%	X
Sector 2.4. Increase in environmental management capacity								
CR-T1023	Plans for Integrated Coastal Management in Puntarenas	Grant	2006	250,000	245,433	Completed	100.00%	X
CR-X1003	PDF-B Management of Marine and Coastal Resources in Puntarenas	Grant	2007	250,000	232,800	Completed	100%	X
CR-T1025	Environmental Management Capacities in the Ministry of the Environment and Energy	Grant	2006	148,000	148,000	Active	46.51%	X
Strategic line 3: Creation of opportunities for inclusive economic growth								
Sector 3.1. Amelioration of physical milieu in high-poverty urban centers								
CR-0145	Urban Poverty Alleviation	Loan	2006	50,000,000		**Canceled**		X
Sector 3.2. Support the launch of a social safety net and improve access to secondary education and employment training and make them more relevant								
CR-T1024	Support for the Social Development Strategy	Grant	2006	300,000	300,000	Active	85.73%	X
CR-T1055	Improving the Quality of Instruction of English as a Second Language	Grant	2009	1,500,000	1,500,000	Active	67.3%	
CR-T1060	Development of Skills to Improve the Enterprise-University Linkage	Grant	2009	34,370	34,370	Active	0.00%	X

Other programs								
CR-T1041	Support for Emergency Flood Relief	Grant	2007	200,000	200,000	Completed	100.00%	
CR-T1048	Support for Responding to Damages Caused by Tropical Storm Alma	Grant	2008	200,000	200,000	Completed	100.00%	
CR-T1058	Nonreimbursable Technical-cooperation Operation to Respond to Earthquake Damage in Costa Rica	Grant	2009	200,000	200,000	Completed	100.00%	

Source: Prepared by the Bank.

Table 2. Times for Ratification and Eligibility in Costa Rica

Country Program	Countries	Approval-ratification (months)	Ratification-eligibility (months)
1990-2001	CR	12.89	28.69
	ES, HO, NI, DR, GU, BL	10.70	13.78
2002-2006	CR	35.10*	19.97
	ES, HO, NI, DR, GU, BL	12.29	15.15
2006-2010	CR	28.41**	N/A**
	ES, HO, NI, DR, GU, BL	7.60	6.04

(*) One of the 4 loans approved but not ratified as of 31 May 2010.
(**) Four of the 4 loans approved but not ratified as of 31 May 2010.
Notes: Where the ratification date is not available in Bank systems, the signature date of the loan contract is used as a proxy. For Belize, only loans subject to ratification (those over US$5 million) are considered.

Table 3. Cancellations of projects approved during the respective periods

		Number of loans approved*	Original amount of approved loans (US$)*	Number of loans 100% canceled	% of total amount canceled (partially and totally)	Amount canceled (US$)
1990-2001	CR	13	1,293,710,000	0	24.07%	311,390,784
	CID excluding CR	219	24,020,463,131	5	31.19%	7,492,234,517
	BL	7	101,733,000	0	5.14%	5,225,743
	DR	18	1,097,452,000	0	13.17%	144,585,383
	ES	33	1,927,534,000	1	6.62%	127,687,450
	GU	25	1,328,836,300	2	17.52%	232,830,965
	HO	39	1,560,341,439	1	21.37%	333,409,290
	ME	33	15,126,090,392	1	39.31%	5,945,685,537
	NI	43	1,212,230,000	0	3.17%	38,488,122
	PN	21	1,666,246,000	0	39.87%	664,322,027
2002-2006	CR	5	161,807,000	1	12.70%	20,548,389
	CID excluding CR	102	6,745,344,720	14	9.45%	637,689,896
	BL	0		0	0	
	DR	14	551,800,000	3	8.59%	47,400,000
	ES	7	381,200,000	6	73.77%	281,200,000
	GU	9	528,170,000	2	15.06%	79,561,287
	HO	27	493,804,720	1	12.09%	59,687,053
	ME	10	3,970,400,000	1	2.53%	100,461,524
	NI	20	474,510,000	0	5.21%	24,741,129
	PN	15	345,460,000	1	12.92%	44,638,902
2006-2010	CR	6	1,179,000,000	2	46.65%	550,000,000
	CID excluding CR	127	10,424,874,725	2	9.72%	1,013,560,737
	BL	8	77,972,000	0	0.00%	
	DR	12	1,261,500,000	1	23.78%	300,000,000
	ES	6	960,000,000	0	22.25%	213,560,737
	GU	21	1,463,160,000	0	0.00%	
	HO	18	356,329,975	0	0.00%	
	ME	18	4,703,000,000	0	0.00%	

	NI	20	429,919,750	0	0.00%	
	PN	24	1,172,993,000	1	42.63%	500,000,000

* Investment projects and PBLs.

Table 4. Program in execution 2006-2010

Sovereign guaranteed operations	**Non-sovereign-guaranteed operations**
• Regularization of Cadastre and Property Registry (2000) • Improvement of Administration of Justice (2001) • Sustainable Agricultural Development (2002) • Health Sector Development (2003) • Sustainable Development for the Sixaola River Binational Watershed (2004)	• Refinancing of ICE's debt • Expansion of Credit Services for Low-income Rural Microenterprises • Expansion of Credit Services for Low-income Rural Microenterprises
Nonreimbursable technical-cooperation operations	**Nonreimbursable technical-cooperation operations for the private sector**
• Program to Improve the Efficiency of the Public Administration (PRODEV-B) (*) • Support for the Social Development Strategy (*) • Complementary Studies for the Boruca-Veraguas Hydroelectric Project • Water and Sanitation Program for the Subnational Level • Support for Preparation of the Road Infrastructure Program	• Rural Community Tourism in Costa Rica and its Replication in Central America • Program to Promote Dynamic Entrepreneurship • Cleaner Production in the Business Sector • Institutional Strengthening of the National Concessions Council (*)

Note: Includes technical-cooperation operations in excess of US$550,000 that have disbursed more than 50% of the amount approved. (*) Projects for less than US$550,000 were included because they directly support the strategy's objectives.

Table 5. Prior CPE recommendations

CPE 1990-2001 (summary) • The need to prepare the dialogue and programming in close consultation with the government, the political class, and the end beneficiaries, in view of the importance of and need for agreements, is crucial for conferring credibility on the programming results. Consensus can be facilitated by conveying a sense of urgency regarding the critical problems facing the country and would ease the complexities that arise from splintered election results. • Include performance problems in programming in the country dialogue, since it is crucial to overcome them for the future effectiveness of the Bank's portfolio. • The initiatives for operations to help address the development issues agreed upon in the programming should focus on overcoming the country's vulnerability in a manner that is consistent with the characteristics and pace of the Costa Rican decision-making process. The new programming exercise should take the following main elements into account: (a) flexible use of the lending instruments; (b) experiments with instruments that are more effective for achieving the development results, which can be monitored ex post; (c) broader and closer work with a more divided political system; and (d) greater involvement with the end beneficiaries of the programming to make them aware of the importance and speed of change. • The programming rationale based on the approval of adjustments and reforms today to reap the benefits tomorrow (resisted by the sociopolitical context) should give way to a rationale that attaches higher priority to the sustainable performance and verifiable productivity of projects at the beginning and the end, as part of gradual processes of reform or reducing vulnerability, that have public legitimacy. • It has not been demonstrated that the adoption of policies is a sufficient condition to make Bank operations effective; the absence of such decisions is simply an indicator that the time is not right for designing a given operation or having it approved by the Board of Executive Directors. If adoption of policies by a country is a necessary condition, we need to be certain that such policies have been approved before including them in operations. • Excessive gradualism to avoid the breakdown of preexisting political agreements on the structural reforms adopted can be an obstacle, imposing excessive costs on the decision-making process or extending the times beyond desirable limits. • Despite the difficulties, the programming process (dialogue, approval of the country program, and project design, approval, and implementation) should take place, to the extent possible, within a single government's term of office to avoid the risks mentioned. • The importance of holding a dialogue with the political system on the lines of reform should be included in the programming agenda, moving closer to all the branches of government and to society. This would be facilitated if multi-year budgets were approved to include Bank programming. Technical cooperation from the Bank is fundamental in expanding the dialogue and participation by stakeholders. • Agreeing with the country on a path that adds timeliness to the results sought by the programming would remove a strong restriction on approval of operations with the country. Introducing 'commitments by results' into the Bank's programming with the country is a contractual arrangement that is recommended since it is the way in which Costa Rica is seeking to define its strategic actions, allocate the budget, and establish annual goals and performance indicators. This would eventually facilitate the inclusion of fiscal and institutional commitments to improve the performance of the projects in the pipeline or those that are being executed but which suffer from difficulties in maintaining their headway. • The dialogue with the country will be better received and therefore more appropriate to achieve the development objectives, if it is timely, reflects the lessons of the evaluation, and adequately recognizes the risks arising from the scenario in which the operations are being carried out, which has a crucial impact on project design and the design of project components. • Programming over the last decade needs to be realigned to allow for more flexible and independent decisions by Management on changes in direction and periodic reviews, so that the Bank can respond rapidly. Greater independence is compatible with stress on the evaluability of project designs, more automatic reformulations when external risks occur, and better quality of the information on monitoring provided to the Board of Executive Directors, which should focus on the extent to which the risks were identified and overcome. Smaller operations, perhaps involving multiple stages, and high elasticity of impact in terms of efficiency and effectiveness appear to be more recommendable in the current context.

- The Bank should use the case of Costa Rica to transform the programming process into one that is more oriented to results, to reflect the efforts that the country is making along the same lines. This requires, in addition to renewed stress on the importance of the evaluability of programming designs and projects, the establishment of benchmarks for development impact expressed in relevant and measurable indicators that can be verified afterward. Baselines and milestones that make it possible to construct work plans and information systems to guide and support the Bank's supervisory activities also need to be established. One conclusion that can be drawn from the evaluation of the use by the Bank of monitoring and internal evaluation instruments is that the Bank should focus more on effectiveness for development and not just on operations administration and the efficient management of financial resources and disbursements.

CPE 2002-2006 (Summary)

- <u>The Bank should not structure its programming exercises around targets and objectives relating to structural reforms. The Bank's support for such efforts on the country's part should focus on technical assistance and on economic studies and analyses.</u>
- The new country strategy should be based on the lessons learned from previous programming efforts and should propose realistic approval levels in keeping with conditions in the country.
- In view of the amount of time it takes to design new operations and secure their approval, <u>the new country strategy should view the existing portfolio as its main vehicle of action in the country for the next few years</u>. This approach will maximize the benefits to be derived from the country strategy through the use of technical-cooperation operations supplemented by nonfinancial products (NFPs).
- <u>In order to minimize potential difficulties in obtaining ratification for its operations, the Bank should keep the Legislative Assembly apprised of the objectives and progress on their preparation from the outset.</u>
- Competitiveness continues to be a clearly relevant issue for the country. Two points should be made in this connection:
  - The Bank should support the country's efforts to determine whether or not its recent growth model is deepening its economic and social dualization. An understanding of this phenomenon is of critical importance in designing complementary programs and policies to reduce poverty and inequality;
  - The Bank should continue to track the DR-CAFTA ratification process and support the country in the design of policies to minimize its impact (if ratified) on any groups adversely affected.
- The Bank should also assist the country to meet the challenges posed by the elimination of free trade areas and other tax incentives, which is scheduled to occur in 2009. Particular attention should be devoted to the design and implementation of new instruments for promoting and attracting foreign direct investment.
- <u>Support for secondary education should be a priority for the Bank in Costa Rica. There is clear evidence that this sector represents a bottleneck for the country's future, and the Bank has a long history of relative success in this area that can be drawn upon.</u>
- The Bank should clearly map out its comparative advantages and value added, and then prioritize its actions in the infrastructure area on that basis.
- <u>The continuing weaknesses of the CNC, which are part of the reason for the problems encountered in the country's concessions process, raises some question as to the wisdom of continuing to support it before planning out operations with the private sector which may not do well.</u>
- In view of the specific limitations affecting the Bank's progress in promoting private-sector participation in Costa Rica, a close and well coordinated working relationship between the MIF and the Private Sector Department could benefit the operations of both. The same holds true, in cases where political support is forthcoming, for technical-cooperation operations designed to deal with bottlenecks that are impeding the private sector's participation. It is recommended that the country strategy for 2006-2010 adopt an integrative approach to the public and private areas of Bank action.

Emphasis ours.

ENDNOTES

[1] In the HDI components of combined gross enrollment ratio for primary, secondary, and university education and GDP in purchasing power parity per capita, Costa Rica is not as highly ranked as in the first two components—28th and 44th versus 94th and 73rd of a total of 182 countries, respectively. Costa Rica is ranked 54 overall among 182 countries, similar to Mexico's rank but with a much lower GDP per capita.

[2] The strong opposition to the Free Trade Agreement (FTA) with the United States of America was more due to resistance to ending the government monopolies as a result of ratification of the treaty than resistance to the treaty itself. The FTA sparked a lot of opposition because it required the passage of 13 laws that would affect the operation of government agencies, such as the Caja Costarricense de Seguro Social [Costa Rican Social Security Administration] (CCSS), and required the end of government monopolies in the telecommunications and insurance sector.

[3] Costa Rica Provee (a program of the Foreign Trade Corporation of Costa Rica (PROCOMER) dedicated to promoting the sale of goods and services by SMEs to high-technology multinational companies domiciled in Costa Rica) reported the development of 108 linkages in 2005 for US$3.2 million, while there were 124 industrial companies in the free trade zone. PROCOMER reports that 11.6% of total expenditure by free trade zone companies in 2006 corresponded to the local market. However, that figure includes agricultural companies for which national expenditure was 87.5% of total expenditure, and machinery, electrical equipment, and parts companies, for which national expenditure was just 2.1% of total expenditure. Companies in the free trade zone are exempt from the payment of duties on imported raw materials and may have few economic incentives to develop a network of local suppliers.

[4] The market failures identified by Cordero and Paus (2008) are associated with imperfect information (about the technology and quality required) and coordination failures (that Costa Rica Provee is trying to solve), in addition to problems of access to financing and high risks. They assert that those failures exist due to the lack of a development strategy that maps out the priorities and roles of the different sectors and stakeholders in achieving those priorities.

[5] The challenges identified by the Bank were: (i) difficulty of forging linkages between the most dynamic sectors and the rest of the economy as a result of differences in productivity, the lack of infrastructure, asymmetries in the business climate, and problems of access to financing; (ii) the widening gap between the demands of the more dynamic labor markets and the education system's capacity to provide those workers; and (iii) weakening of the government's capacity to finance investments as a result of a low tax burden and expenditure rigidities.

[6] In areas where the Bank had no interventions, these points will be analyzed in 2006 and where they stand in 2010. In areas where the Bank did have interventions, only the status in 2006 will be analyzed and any changes are discussed in Chapter IV.

[7] The rate of extreme poverty ranged from 5.1% to 6.9% in the same period.

[8] Unlike other countries of the region, poverty levels are not very different between the urban and rural population. The gap was narrowed from 8.1 percentage points in 2002 to 4.7 in 2006. However, poverty is concentrated in certain areas: in the Chorotega region in the cantons of Upala (46.1% of extreme poverty, 100% among immigrants with less than five years in the country), La Cruz (29.1%), and Hojancha (24%); and in the Brunca region in the cantons of Coto Brus (18.8%) and Buenos Aires (16.6%).

[9] These results are consistent with the findings of the *Public Expenditure Report* prepared by the World Bank and the Inter-American Development Bank, which indicates that the infiltration rate of non-poor into social assistance programs is higher in Costa Rican programs (CEN-CINAI and school cafeterias) than in programs in countries like Peru ("Glass of Milk") or Mexico ("Opportunities").

[10] Inflation fell to historical lows of 4.05% in 2009, the lowest level in decades. Analysts attribute the drop to the effect of the international economic crisis on the Costa Rican economy, particularly on consumption and international trade.

[11] Informal workers were defined as nonagricultural workers without a university education who are self-employed, or salaried workers at establishments with five employees or less, domestic workers, or unpaid workers. Government employees are excluded. The formal sector includes all other nonagricultural workers.

[12] Adjusting for years of schooling, size of the company, and gender.

[13] According to the Enterprise Survey, Costa Rican companies surveyed estimate that only 72.9% of all employees hired by those companies are reported to the CCSS.

[14] For this exercise, export companies are considered to be those that sell more than 80% of their production directly to foreign countries.

[15] On the one hand, 25.5% of the assets of Costa Rican companies correspond to land and buildings, and 66.7% of loans are secured by those assets. On the other hand, accounts receivable and inventories account for 45.2% of total assets but only secure 5% of loans.

[16] For example, reforms should include improvements in the process of establishing guarantees (permit the use of movable property, future assets); definition of a single rule of priority through a public registry for all lenders, loan operations, and collateral; and modernization of systems to publicize guarantees that might have been established using the borrower's assets.

[17] Percentage of companies that consider access to financing to be a significant or very serious obstacle.

[18] The assumption is that all companies with assets valued at 50% or more than the guarantee required by the banks would be subject to a partial guarantee by the Government of Costa Rica to meet the requirement.

[19] Marianne Fay and Mary Morrison, "Infrastructure in Latin America & The Caribbean: Recent Developments and Key Challenges," The World Bank Finance, Private Sector and Infrastructure Unit for Latin America & the Caribbean Region, August 2005.

[20] A falling weight deflectometer was used for the evaluation to measure the pavement's bearing capacity, with the purpose of determining the expected life of the roads. If deflection is high under the load, the road is deteriorating quickly and cracks and potholes will soon appear. Maintenance/reconstruction costs are 12.1 times higher than the cost of maintenance if the deflection of the road is low, in which case the pavement has the capacity to withstand vehicle traffic without major deterioration. The deflection ranges used in the evaluation are: less than 0.25 mm (low deflection); between 0.25 and 0.45 mm (moderate); between 0.45 and 0.70 mm (high); and more than 0.70 mm (very high).

[21] See Lanamme-UCR, "Gestión de Infraestructura Vial, Desarrollo Sostenible y Equidad en el 2006 [Management of Road Infrastructure, Sustainable Development, and Equity in 2006]" in the Twelfth Report on the State of the Nation in Sustainable Human Development.

[22] This exercise included companies that sell more than 90% of their production in the domestic market.

[23] Domestic financing of the public sector deficit keeps lending rates high and limits resources available for the private sector.

[24] In January 2009, the BCCR announced a widening of the band, raising the rate of increase of the upper end of the exchange rate band from 6 centimos to 20 centimos per day.

[25] One of the concerns expressed by Intel when deciding to locate a plant in Costa Rica was the availability of sufficient mid-level technicians and, for that reason, the company requested improvements in technical education as part of its conditional agreement with the Government of Costa Rica. As a result, a one-year certification program was created (certificate program in the manufacture of semiconductors) for secondary school graduates (academic and technical schools), along with a one-year associate's degree from Instituto Tecnológico de Costa Rica [Costa Rican Institute of Technology] focused on technical courses such as the manufacture of semiconductors, microelectronics, and materials science (degree program in the manufacture of semiconductors).

[26] The net coverage rate for primary education is close to 100%.

[27] The secondary school graduation rate in Costa Rica is 28.3%, compared to 47.4% in Chile.

[28] Herrera and Pang (2005) studied expenditure efficiency in 140 countries and determined that Costa Rica is one of the least efficient countries in the area of public spending on education: the country uses more inputs than necessary given the outcomes produced. In contrast, Costa Rica is one of the most efficient countries in the area of public spending on health care. See Herrera and Pang, "Efficiency of Public Spending in Developing Countries: An Efficiency Frontier Approach." World Bank Policy Research Working Paper 3645, June 2005.

[29] According to World Development Indicators (WDI), the repetition rate in Costa Rica in 2006 exceeded the average for Latin America, as is the case for Argentina, Brazil, Peru, Uruguay, and Venezuela.

[30] This rate corresponds to reports received by the Organismo de Información Judicial [Judicial Investigation Organization] (OIJ) related to robbery (three types: assault, robbery of homes or commercial establishments, vehicle robbery), theft (two types: simple theft or negligence and cattle rustling), fraud (two types: simple fraud or scams and check fraud), extortion, sex trafficking, drug trafficking and sale (including marijuana), and money laundering.

[31] For example: 6% of GDP for education; 6% of the central government's revenue for justice; 50% of vehicle taxes and 22.5% of fuel taxes for CONAVI; 3% of the budget for housing subsidies; etc.

[32] Productivity is calculated as the quotient of revenue in terms of GDP over the tax rate, and can be interpreted as percentage points of GDP collected for every percentage point of the value-added tax (VAT). It can give a clear idea of changes in the productivity of the taxing authority. Assuming that all goods and services are subject to VAT and there is zero tax evasion and avoidance, this productivity ratio should be close to 1. However, even in the absence of tax evasion and avoidance, the ratio is less than one because not all goods and services consumed in the country are subject to VAT. If the tax base does not change, any increases in this indicator can be wholly attributed to gains in the efficiency of the taxing authority.

[33] The previous evaluation recommended "not structuring the programmatic exercise based on targets and objectives related to structural reforms", but instead to support such efforts through technical assistance and economic studies and analyses. Even though the Bank's support for the tax area was through technical assistance, it was initially planned to be through a PBL.

[34] Under the Productive Policy pillar (financial sector), the Government of Costa Rica proposed the following draft legislation for remittal to the Legislative Assembly: (1) Value-added Tax Bill; (2) Corporate Tax Bill; (3) Solidarity Tax to Strengthen Housing Programs Bill; (4) Reform of the General Income Tax Law; (5) Tax Code Reform Bill; (6) Tax Transparency Bill; (7) Rights and Responsibilities of Taxpayers Bill.

[35] This program was modified in September 2006 with the purpose, among others, of expanding the scope of the SNIT and the system for collection of municipal property taxes.

[36] The nonreimbursable technical-cooperation operation for Strengthening of ICE and Other Technical Studies financed the necessary studies for the design of these operations.

[37] Both operations under the CCLIP would be executed by the Ministry of Public Works and Transportation—the first through the National Roadways Council and the second through the Public Works Division. Paragraph 3.10 of document PR-3280-2 indicates that "[s]hould a given executing agency of the MOPT request a second operation, it will need to satisfy the eligibility criterion requiring 50% disbursement or 75% commitment of the funds of the previous operation, pursuant to the guidelines governing the CCLIP."

[38] The issue discussed in Table 1 related to legislator preference for individual (local) agendas over national agendas also appears to have played a role. Discussions on ratification by the Legislative Assembly allow legislators to negotiate where works are going to be rehabilitated and reconstructed, giving preference to their cantons over the rest of the country.

[39] In order to minimize potential difficulties in ratification of its operations, the previous recommendation was for the Bank to keep the Legislative Assembly apprised of the objectives and progress on the preparation of operations from the outset.

[40] As indicated in the International Monetary Fund document, "Costa Rica: Staff Report for the Second Review under the Stand-By Arrangement," regarding the World Bank budget support loan, the proximity of the general elections (February 2010) did not bode well for its approval before mid-2010.

[41] In the PND, together with: the Secretaría Técnica Nacional Ambiental [Environmental Secretariat] (SETENA), Dirección General de Migración y Extranjería [Department of Immigration] (DGME) of the Ministry of the Interior, National Cadastre of the Property Registry, National Pension Office of the Ministry of Labor and Social Security, and the Civil Service Office.

[42] The Bank financed preliminary engineering studies through a technical-cooperation operation with French funds.

[43] The PND proposed improvements to critical service areas for citizens and the economic activity of the country handled by the following agencies of the Executive: SETENA: DGME of the Ministry of the Interior; National Cadastre of the Property Registry; CNC; National Pension Office of the Ministry of Labor and Social Security; and the Civil Service Office.

[44] The operation was finally canceled in 2010. Only US$2,237 was used.

[45] The PND 2002-2006 also does not indicate an interest by the government during that period in Sustainable Development Programs.

[46] The seven protected areas are: Poas Volcano, Cahuita, Arenal Volcano, Irazú, Tortuguero, Rincón de la Vieja, and Caño Negro.

[47] The greatest proportion of Costa Rica's external debt as of December 2009 was in the hands of multilateral organizations: of the total external debt of US$3.583 billion, US$1.798 billion corresponded to multilateral organizations, and US$1.350 billion to bond holders. The IDB's balance as of December 2009 was US$701 million: 39% of the multilateral debt and 19.6% of the total external debt.

[48] At that time, approved programs awaiting ratification were: *Sustainable Development for the Sixaola River Binational Watershed* (approved in July 2004 and finally ratified by the Legislative Assembly in August 2008), *Support for Reforms for Competitiveness* (approved in June 2005 and not yet ratified); and *Sustainable Development of the Atlantic Huetar Region* (approved in February 2005 and finally canceled in September 2008).

[49] The Country Partnership Strategy for Costa Rica prepared by the World Bank, identified the slowness of the legislative ratification process as the strategy's main implementation risk and proposed the following mitigation measures: (i) operations targeting areas of great strategic importance for a wide range of political stakeholders; (ii) appropriate size of operations to ensure a high level of political commitment within the Executive; and (iii) close collaboration in every phase of project preparation with the Executive to build a broad consensus—including between members of the Legislative Assembly—on the content of the operations.

[50] The cost of the instrument offered by the World Bank was more economical for Costa Rica.

[51] A review of the World Bank document entitled *Status of Projects in Execution* in Costa Rica in 2009 indicated that two of the six loans in the portfolio were still awaiting ratification.

[52] Corresponds to projects in execution in Costa Rica approved under prior strategies, including projects approved between 2000 and 2004. In the case of the other countries, this figure corresponds to projects approved during the period 2006-2010. In Costa Rica, projects approved between 2006 and 2010 cannot be used because none of those projects has been ratified.

[53] The countries of the region that require legislative ratification are the Dominican Republic, El Salvador, Honduras, Nicaragua, Guatemala, and Belize; in the case of the latter, legislative ratification is only required for loans over US$5 million.

[54] One of the four projects approved during this period in Costa Rica has still not been ratified.

[55] Time since the date of eligibility of the project.

[56] Although the Bank had previously participated in preparing PEFAs, this is the first time it is spearheading the preparation of one.

[57] Particularly recurrent expenditures related to the operation and maintenance of investments.

[58] The internationally agreed tax standard, which was developed by the OECD in cooperation with non-OECD countries and which was endorsed by G20 Finance Ministers at their Berlin Meeting in 2004 and by the UN Committee of Experts on International Cooperation in Tax Matters at its October 2008 Meeting, requires exchange of information on request in all tax matters for the administration and enforcement of domestic tax law without regard to a domestic tax interest requirement or bank secrecy for tax purposes. It also provides for extensive safeguards to protect the confidentiality of the information exchanged.

[59] The other jurisdictions on the 2009 blacklist were Uruguay, the Philippines, and Malaysia. In 2010, the jurisdictions that have not implemented the agreed standard and that are not rated as tax havens are: Costa Rica, Guatemala, the Philippines and Uruguay; those rated as tax havens include Belize and Panama, among others.

[60] Turnover of personnel and changes in the focus of the CNC's role during the life of the project prevented teams from being formed with technical personnel from the CNC and consultants hired by the program to work under specific contracts and to learn as the different phases of the concessions were coordinated.

[61] Including practices such as the use of living fences, protection of springs, use of organic fertilizers, biological pest control, soil protection, etc.

[62] The maximum amounts for recognition of environmental benefits and technical assistance are US$4,500, and US$10,000 for each comprehensive instructional farm.

[63] Those programs did not define outcome indicators with baselines and targets in the loan documents. However, a consultant established a baseline in 2005. The objectives of those programs was to expand credit services to microentrepreneurs, increase the participation of women, expand operations to new, unserved rural communities, and strengthen the institutional capacity of the communal credit committees.

[64] The survey participants are only asked if they receive an "Avancemos" scholarship if they attend some level of schooling; those who do not attend are not asked.

[65] This is the difference between the percentage of youth in that age range who completed the penultimate year of secondary school and continued on to the last year of secondary school in the beneficiary group and the control group.

[66] The overall percentage of youth in this age group that completed the penultimate year of secondary education and are attending the final year of secondary education is 11.2%. The percentage is 16.4% for young people from the control group in urban areas and 7.7% in rural areas after matching.

[67] The disease burden is an indicator used for the first time in Costa Rica with the purpose of setting priorities for public spending on health care and public policy-making. That indicator measures the mortal and nonmortal consequences of different diseases and injuries and gathers information that indicators like mortality, life expectancy, or incidence of infectious diseases (which are less prevalent in Costa Rica) are incapable of reflecting. The development gains experienced in Costa Rica in recent decades has led to a decline in the mortality rate and a rise in life expectancy at birth. Moreover, noncommunicable diseases have become more significant, but their effects are not reliably reflected in traditional indicators. Although consultants estimated the number of lost years of healthy life due to premature death and disabilities (81.2 per 1,000 inhabitants) and determined that the loss is greater for men than for women and more often due to disability than premature death, OVE is not sure whether the way the information was presented is useful for public policy-making. The information appearing in the report reviewed by OVE presents general figures on lost healthy years of life, without indicating population distribution by gender, geographical area, or age, which suggests that it is difficult to make decisions about what should be the priority when the policies are defined. The heaviest share of the disease burden corresponds to respiratory difficulties and asphyxia in the perinatal period, followed by automobile accidents and alcohol dependency (the latter two causes are number 2 and number 1 among men, respectively). Alcohol dependency has greater weight in nonpriority cantons (with a low incidence of poverty) than in priority cantons (with a low social development index).

[68] In all, 69% of health care areas and 76% of regional offices considered that the program was successful at strengthening the lead agency function with respect to the supply of materials; 94% and 88%, respectively, considered the program to be successful with respect to equipment provided; and 75% and 75%, respectively, considered the program to be successful with respect to training.

[69] Indicators related to the components that were not eliminated.