

Assessment and recommendations

Contextualising the need for public governance reforms

The Republic of Costa Rica is one of the most stable democracies of the Americas. The Political Constitution of the Republic of 1949, including the abolishment of the army, fostered the provision of broad-based access to education and healthcare, as well as the creation of a robust system of checks and balances with a particularly strong position of the Comptroller General and a strong rule of law. Relatively stable, long-term economic growth has contributed to an important investment in basic social services, while a good endowment of human capital and natural amenities has further contributed to socio-economic progress.

Fragmentation of the political system and the public administration, next to an increasing number of socio-economic challenges, are putting pressure on the country's governance mechanisms and have resulted in decreasing trust in public institutions. Specific challenges include the following observations:

- The country has a fragmented public administration, which is characterised by an important number of subsidiary bodies of central government ministries and a large institutionally decentralised sector (e.g. semi-autonomous and autonomous bodies, state- and non-state-owned enterprises), with limited steering capacity by the centre of government and limited accountability mechanisms.
- A large share of the budget (about 50% of total consolidated general government spending, managed by the institutionally decentralised sector) falls outside the budget preparatory process headed by the Ministry of Finance and is excluded from direct scrutiny by the Legislative Assembly.
- Fiscal sustainability is under pressure, with one of the largest (and rising) deficits in the region, a low tax-to-GDP ratio in comparison with regional and OECD standards, and rising debt figures since the global financial crisis (currently about 36% of GDP*; IMF 2015 data), combined with a very high level of budgetary earmarking at constitutional and legal level (about 95% of central government expenditures are pre-assigned) – the latter being high even from a Latin American comparative perspective.
- Regional disparities in economic and social development exist across the country and, despite an expanding middle class, rising inequalities (i.e. rising Gini coefficient).

At Costa Rica's request, this Review advises on the “how” of effective governance reform in support of the government's strategic objectives to enhance centre of government co-ordination capacity, to improve monitoring and evaluation, to link the budget to strategic planning, to promote better human resources management and

* IMF (2015), “Costa Rica”, *IMF Country Report*, No. 15/29, www.imf.org/external/pubs/ft/scr/2015/cr1529.pdf.

integrity policies in procurement, and to achieve integrated national and regional development outcomes. As such, the Review seeks to contribute to Costa Rica's reform agenda which aims to sustain important historical achievements in terms of socio-economic development, and to provide enhanced and sustainable prosperity for its entire population.

Enhancing centre of government co-ordination capacity

The centre of government (CoG) in Costa Rica – composed of the Ministry of the Presidency, the Ministry of National Planning and Economic Policy (Ministerio de Planificación Nacional y Política Económica, MIDEPLAN), the Ministry of Finance and the Budgetary Authority – faces similar challenges to the CoG of many OECD Members. In a difficult fiscal context, CoGs need to ensure vision, leadership and innovation. In Costa Rica, this is all the more difficult as the country is confronted with high levels of political and public sector fragmentation (i.e. a particularly important institutionally decentralised sector), as well as some capacity constraints at both technical and strategic level, all putting pressure on the strategic policy-making capacity of the state and its service delivery capacity.

In order to strengthen the CoG's strategic capacity, the following recommendations can be formulated:

- Enhancement of the strategic role of the Ministry of the Presidency to support the quality of the decision-making process of the Council of Ministers, by reviewing agenda proposals on different dimensions. Such a review could cover a procedural check, a coherence check with the government's programme, a consultation check of relevant stakeholders, a legal conformity check, a regulatory standards check and a costing check. The balance between administrative and strategic support assured by the Ministry of the Presidency could subsequently be reflected in its organisational chart, fostering stability across different government periods, in order to build and preserve capacity.
- Structural investment in CoG capacity building, given the substantial turnover within CoG institutions in the past (reflecting turnover in the Costa Rican public sector in general, in line with the political cycle) and the substantial challenges for successful CoG co-ordination the country is facing. Primary beneficiaries for such training would be the Ministry of the Presidency and MIDEPLAN, and could cover technical training, as well as the development of soft skills, like negotiation and communication skills.
- Development of a clear policy on CoG steering of the institutionally decentralised sector, with a clear set of steering, co-ordination and control mechanisms; a strategy to gradually rationalise the institutionally decentralised sector in order to strengthen the CoG steering and co-ordination capacity towards the institutionally decentralised sector; and univocal guidelines regarding the creation of agencies. A clear definition of agency performance (i.e. going beyond quantitative indicators, and also addressing quality, effectiveness, equal access and responsiveness) and the development of a policy regarding the use of performance targets (to be used as an opportunity to improve communication, exchange, negotiation and mutual learning) are instrumental as well.
- Development of multi-stakeholder follow-up mechanisms of the National Development Plan, so as to not lose momentum and strengthen the ownership of

the plan. The government has made substantial efforts to strengthen the participatory dimension of the development of the National Development Plan. These efforts should now be sustained throughout its implementation.

- Development of consultation principles to be adopted throughout the public sector, to ensure that citizen participation goes beyond the initial development of the National Development Plan. Such consultation principles would help policy makers to make the right judgments about when, with whom and how to consult.

Monitoring and evaluation as a policy tool to become result oriented

Sound monitoring and evaluation of the performance and progress of public interventions implies the capacity to detect policy challenges, define adjustments to facilitate decision-making processes, feed strategic information into the decision-making process, and communicate in a timely manner to decision makers in order to achieve the expected goals of public interventions. In addition, strong monitoring and evaluation can foster transparency and accountability, and provide stakeholders with information regarding progress in the accomplishment of government goals and commitments. While Costa Rica formally established a national monitoring and evaluation system about two decades ago, it still has not made the shift from a process-oriented towards a result-oriented monitoring and evaluation culture. The country faces challenges in using performance information strategically, in fine-tuning the coherence of its budget and policy cycle, and of policy evaluation capacity constraints across the public sector.

To foster the result-oriented focus of its current monitoring and evaluation system, Costa Rica should:

- Promote the use of a balanced set of result criteria across the public sector, not only focusing on criteria like efficiency, effectiveness and economy, but also incorporating criteria like quality, equal access and responsiveness.
- Develop a balanced approach between “accountability” and “learning” objectives of the evaluation system. A greater emphasis on, and higher visibility of, result achievement can provoke counterproductive incentives to overrate performance and/or to focus on targets which are easy to achieve (i.e. lack of ambitious goal setting). Moreover, it risks suppressing the opportunity to learn from occasional weak performance and policy failures, if no room is left to make mistakes and learn from them. The monitoring and evaluation system should strike a balance between a focus on goal achievement, on the one hand, and on understanding the “why” of good or bad performance, on the other hand.
- Focus on strengthening the capacity of all actors of the monitoring and evaluation chain. This implies, amongst others, a strategic approach across government to capacity development for data collection, data analysis, and reporting, communication and use of data. It is important to acknowledge that a supply of performance data does not imply that people know how to analyse and interpret the data and, subsequently, how to use the data. In addition, clear roles and responsibilities have to be assigned to different actors (i.e. suppliers and users of performance information). In order to ensure strategic resource allocation, it is important to develop a clear view on hierarchy of goals, and an appropriate timing and frequency for data collection and analysis which allows for proper feedback loops.

- Provide incentives to actors involved in the use of monitoring and evaluation data, i.e. empowerment to act upon performance information. Such empowerment could be linked to the ability to revise policy priorities and performance goals, identify corrective actions to address observed problems, including budgetary reallocation where needed, reward goal achievement, etc. Whereas roping in the institutionally decentralised sector is important to ensure achievement of strategic goals across government, this requires a specific set of incentives, given its level of autonomy.
- Allow for gradual development of the monitoring and evaluation system. Getting the system “up and running” (i.e. design the process, define the goals, identify the available monitoring and evaluation tools, detect capacity development needs, etc.) is a first step. Subsequently, the government can identify “systemic goals” of the monitoring and evaluation system, which could gradually become more ambitious, e.g. measurement of performance, identification of corrective measures, informing the budgetary process, incorporating risk assessments, etc. Each of these goals requires substantial resources and time to achieve. A particular point of attention is the development of a strategy on how to address cross-institutional goals. Such cross-institutional policy objectives tend to be numerous, whereas strengthening monitoring and evaluation of individual institutions risks reinforcing a silo-based approach.
- Promote citizen and stakeholder participation in the evaluation process, through polls or focus groups carried out periodically, to explore the public’s perception of government achievements.

Strengthening the budget framework for strategic planning

Costa Rica has made the most of traditional budget systems, and has reached the limits of what these traditional systems can achieve. It now needs to take a step forward and look at modern budgeting practices in order to secure sustainable social and economic development. The country has taken steps towards programme budgeting and a medium-term expenditure framework, but it still encounters substantial challenges. While the budget process in Costa Rica is well institutionalised and regulated by the Constitution and Budget of the Republic Act, only a share of the budget is discussed by the Legislative Assembly, there is high budget rigidity, lack of fiscal space, weak fiscal constraints and limited budget transparency in terms of readability of available documents. In order to finance new government priorities, Costa Rica runs significant budget deficits, which threaten fiscal sustainability. In addition, the government has a very limited control over the allocation and performance of general government and total public spending, so it is necessary to find a mechanism to monitor the institutionally decentralised public institutions and make sure their plans are coherent with the National Development Plan. Given the limited capacity of the government to reallocate funds from one spending area to another, it is all the more important to improve the efficiency and effectiveness of the use of funds within each spending area, and to reallocate funds from one programme to another within the mandated spending floors. While budget rigidities constrain budget decisions, there is room to improve spending efficiency and prioritisation within the mandated expenditure.

To move beyond a mechanistic budgetary allocation process and develop a sustainable fiscal path, the following actions can be undertaken:

- Create and ensure fiscal space by:
 - Reviewing the formulas of budgetary earmarks, e.g. needs- or population-based, rather than revenue- or GDP-based.
 - Strengthening the planning system with a clear CoG leadership, sector leaders identifying a limited set of medium-term objectives, empowered ministers to carry out resource reallocation, and overall fostering of public accountability of progress.
 - Carrying out spending reviews to identify options for reductions of baseline spending and to reallocate spending, in order to ensure optimal value for money of public spending, being a particular challenge in a context of high budgetary earmarking. Allowing institutions to keep the identified savings and allocate them to new priorities is a good incentive to ensure their co-operation in the identification of possible savings.
 - Envisaging time limits (“sunsets”) for new programmes backed by sound evaluations, sufficiently ahead of the sunset date, and/or pay-as-you-go rules by conditioning the allocation of resources to new programmes to the termination or reduction of others by a similar amount.
 - Reinforcing performance-informed budgeting practices, including for the institutionally decentralised sector.
- Align the institutionally decentralised sector with government priorities through:
 - Strengthened accountability, monitoring and evaluation mechanisms and development of a checklist to apply when considering the creation of an institutionally decentralised agency (i.e. addressing relevance, level of autonomy, legal personality, control mechanism, sunset clauses). Such a checklist could also be the basis for a review of the current institutionally decentralised sector.
 - The development of conditionalities associated with budgetary transfers from the central government to the institutionally decentralised sector (e.g. addressing objectives, performance targets, etc.).
 - The creation of a high-level policy co-ordination body, including representatives of the decentralised institutions.
- Ensuring fiscal sustainability by:
 - Reactivating the well-designed constitutional requirements on fiscal discipline (e.g. through a fiscal responsibility law covering fiscal rules regarding revenue, expenditure, budget balance and debt).
 - Developing a comprehensive medium-term fiscal framework, complemented with a medium-term expenditure framework, backed by a system of top-down budgeting which sets aggregate public financial targets and sector ceilings.
 - Clustering the responsibility to issue and monitor the compliance and implementation of fiscal rules within one institution, by either assigning that role to an already existing independent institution or by creating an independent fiscal institution, but with particular attention for the democratic legitimacy of such an institution.

- Adopting tools and procedural rules to make the fiscal examination of permanent legislation more rigorous, in order to make sure that the long-term fiscal cost of legislation is correctly understood and taken into account by the Legislative Assembly when voting it.
- Considering the creation of a single centrally controlled treasury fund for all public revenues and expenditure, including the institutionally decentralised institutions.

Supporting human resources management

Costa Rica consistently ranks highest in the region on civil service development indicators. But due to the structure of public employment – which is divided into a number of administrative divisions – a new set of modern challenges has emerged. The Constitution of 1949 and the subsequent Civil Service Statute of 1953 established the Civil Service Regime to regulate public employment in the national executive branch, which includes ministries and their subsidiary bodies – a total of 47 entities covering about one-third of public employees. Outside the Civil Service Regime, most public institutions have their own legislation regulating public employment and human resources management (HRM) practices. In addition, collective agreements in various institutions grant employees privileges regarding pay, bonuses, incentives and working hours, which vary from one institution to the next. This myriad of legislation and collective agreements leads to a plurality of HRM systems and policies, which results in significant disparity in the treatment of employees across institutions. The institutionally decentralised entities tend to offer better salaries and benefits, with greater employment flexibility.

The current National Development Plan includes public employment as a priority and recognises the role of effective HRM to strengthen the public institutions of the Costa Rican government. The following reforms will help the country to further capitalise on its current human resource management strengths:

- Improving the quality and consistency of workforce data in Costa Rica is a fundamental step to improve the transparency of the sector and enable more informed HRM decision making. When linked to salary information, it will also help to better manage and control the costs of the workforce, an important challenge Costa Rica is facing.
- Evolving towards a more merit-based, transparent and sustainable compensation system including non-monetary incentives. The current compensation system can be simplified by beginning a gradual transition towards a “single salary” system, meaning an amalgamation of base salary and bonuses and allowances. Any additional payments on top of the base salary need to be universal and made as transparent and simple as possible. This does not need to initially result in a reduction of salary for any staff, and given the legal constraints, it may only be possible to implement this policy for new employees. This means taking a long view (up to 35 years) which therefore increases the urgency to begin. Pay reform should also be linked to broader budget reforms. This, however, would depend upon the development of more strategic HRM frameworks which would emphasise competency-based management, performance management and professional public sector leadership.

- Introducing competency management as a foundation for more strategic human resources management. Using a common competency framework for planning, recruitment and selection, mobility and development will provide Costa Rica with a solid foundation to address its current and future HR needs. Competency management can help to ensure that the civil service of Costa Rica has the range of skills needed to achieve the government's long-term goals. A competency framework enables organisations to better fill competency gaps identified in the workforce planning process while maintaining a high level of objective merit throughout the process. It also supports horizontal and vertical mobility and agility by helping to define common career paths and provides an effective and efficient way of aligning staff development investments with identified organisational requirements.
- Strengthening performance management can play a vital role in linking the individual efforts of employees to larger organisational goals. The focus should be on simplifying the current guidelines and developing managers to implement the new programme. IT platforms can support performance assessment, providing a transparent mechanism to compile and share assessment information. However, the primary focus has to be first and foremost on developing an understandable tool that can be easily applied by managers and staff at all levels of the system with appropriate incentives for good performers. Pay for performance should not be an immediate priority. Instead, consideration should be given to improving the assessment ratings, training managers and staff to use them, and eventually linking them to career development and advancement. Finally, the system would benefit from a clear, transparent and fair policy for under-performers focused first on attempting to develop staff, with eventual dismissal for continued under-performance.
- Building institutional and individual leadership. Costa Rica's central HRM authority is increasingly delegating some of its responsibilities to HRM offices of individual institutions under its authority. Supporting ministries and agencies in an increasingly delegated environment suggests the need to consider new tools and methods. These could include the use of management accountability frameworks, a simplified centralised policy framework, and the use of communication tools and forums to ensure effective dialogue and sharing of best practice experience. Furthermore, the emphasis on management development should include both formal training to close gaps in leadership and management capabilities as well as active learning methods to ensure managers' competencies remain up to date. Leadership and management development activities are most likely to be effective when they are defined as a high priority by the government, and could be guided by a task force of senior managers to ensure their buy-in from the beginning.

Supporting integrity policies in public procurement

Costa Rica has a long-standing tradition of making efforts to achieve proper management of public funds. These go back to 1825 (creation of the Courts of Accounts by Congress), with additional milestones like the creation of the Comptroller's Office in 1950, supplemented with a sound legal framework. Different reforms to strengthen the legal and institutional framework of the country's public procurement system have been carried out in recent years. However, there is a need to further fine-tune

procurement-related functions and to increase transparency and accountability. Despite public procurement's impact on the national budget, Costa Rica currently does not benefit from the strategic leverage of the procurement function, as it is perceived as an administrative task. Procurement does not fully achieve its strategic potential due to the lack of a fully cohesive framework, orienting all institutions towards clear priorities and objectives and encouraging public servants to see this function as something more than an administrative checklist.

In order to strengthen the institutional framework and the transparency and accountability of the public procurement process, Costa Rica should:

- Agree on a single procurement platform that covers the whole public sector and the whole procurement cycle, including the institutionally decentralised sector. In order to ensure transparency, provide equal access to information for all suppliers, and promote competition and reinforce supplier trust, the country will need to ensure a proper integration of the multiple existing platforms. This would also require training and raising the awareness of public officials. The platform could also establish a system of red flags or mechanisms to track decisions and enable the identification of irregularities and potential corruption cases in public procurement.
- Consider the creation of a public procurement authority, within the limits of the Constitution, to set a national procurement vision, and set procurement priorities and objectives, including savings and policy objectives such as the promotion of small and medium-sized enterprises, and encourage green procurement and innovation. This public procurement authority could also consolidate goods and services, and promote a more expansive use of framework agreements including the institutionally decentralised sector. An awareness campaign could be undertaken to establish trust and confidence among the different actors on the benefits of a procurement authority.
- Allow a gradual reduction of *ex ante* controls if public entities can demonstrate improvements in internal control and risk management. The Comptroller General will need to monitor and evaluate the quality of internal controls and can start to pilot this possibility on an entity or sector base. In addition, an institutionalised communication network amongst internal control units could be facilitated. This implies a reassessment of the role of the Comptroller General, within its constitutional mandate, implying a review of the continued relevance of its existing assignments and exploration of new ones.
- Roll out of a series of practical measures to increase the transparency of the procurement process, like the application of a unique set of thresholds for procurement procedures, identification through e-procurement tools of good practices for contract clustering, better needs identification and adequate planning, and the development of a system to track decisions and enable the identification of irregularities and potential corruption cases.
- Enhance the professionalisation of the procurement workforce. The country could invest in providing adequate incentives to attract highly qualified officials and updating officials' knowledge and skills on a regular basis to reflect regulatory, management and technological evolutions. This could be boosted by developing a formal job description for procurement officials and introducing a specific code of conduct for them.

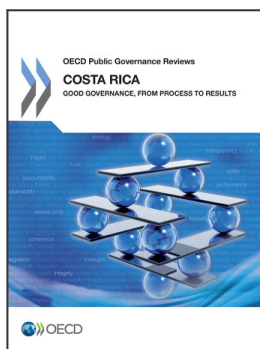
- Enhance stakeholder involvement through the different stages of the procurement process. Direct accountability to the public and other stakeholders is a fundamental means of increasing transparency and integrity in decision making.

Improving multi-level governance

Despite important economic development since the 1970s, Costa Rica displays significant territorial imbalances and a rural-urban split. Municipalities currently represent only about 4% of total general government consolidated expenditure. A constitutional reform of 2001 has formally allocated more power and budget to sub-national levels of government. Yet, the associated budgetary transfer (10%) has not been carried out, municipalities still have a limited range of responsibilities and their work continues to be widely determined by national structures and regulations, due in part to financial and institutional capacity limitations. The reform process has stalled since 2001, and most reforms have remained “on paper”. The new government elected in 2014 has put decentralisation and governance among the priorities of its agenda and started working to implement past reforms.

To improve the delivery of services across the territory, and close the urban-rural gap, it is recommended to:

- Use contracts to facilitate the functional relation between the central government and municipalities. The advantage of a contract is that it helps identify a specific task to devolve to a given municipality. It clarifies the scope of the devolved activity and even its timeline, if relevant. Finally, the contract also helps clarify the expected outcome, thus facilitating monitoring and evaluation and contributes to the enhancement of institutional trust (routine).
- Create a network of community agents providing local government with capacity building. In order to promote standardisation and exchange of information, existing cantonal councils for co-ordination could be networked by MIDEPLAN, which would serve as the central hub and would be in charge of training the agents to be sent to municipalities. Agents would provide local mayors with technical information and support to deal with the institutionally decentralised sector. Federations of municipalities may also be involved to connect local experiences and identify good policy practices across municipalities. The councils should involve citizens and non-governmental organisations in the identification of key local assets and economic drivers, which should be taken into account in local development strategies. This may positively affect social capital in the country and help increase trust in the government, since municipalities are the forefront of the public sector.
- Introduce flexibility in the governance system to help tailor policies to places. Costa Rica needs to put in place a governance system that is able to generate a range of policies that adapt to the different features of the communities they intend to serve. This requires flexibility and also the possibility to experiment with different territorial systems. The current regional development network, led by the Presidency of the Republic, may promote territorial experiments in which different governance mechanisms are implemented.



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