

## Chapter 7

### Improving multi-level governance in Costa Rica

*This chapter describes the importance of effective and efficient multi-level governance to enhance national development outcomes for citizens and businesses. It highlights that Costa Rica's multi-level governance is based on a mix of institutionally autonomous and territorially decentralised entities with currently very limited leverage for the latter, given the minimal level of public expenditure at the sub-national level and basic responsibilities in terms of public service production and delivery. It also studies the effectiveness of the Costa Rican constitutional reform of 2001 to allocate more functions and resources to local governments. The chapter suggests ways to improve the delivery of services across the territory, and close the urban-rural gap through the use of contracts to facilitate the functional relation between the central government and municipalities; the creation of a network of community agents providing local government with capacity building; and the introduction of flexibility in the governance system to help tailor policies to places.*

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

## **Strong economic development since the 1990s, though unevenly distributed**

Since the end of the 1990s, Costa Rica has experienced impressive economic development. Not only has the country been able to bounce back from a long-lasting crisis, but it has also been able to change its economic model, moving from an import substitution strategy to trade openness and foreign direct investment (FDI) attraction. As a result, citizens enjoy a good access to basic services, which is reflected in the fact that Costa Rica displays very good performance in indicators measuring national human development and well-being. Costa Rica is a regional champion in terms of citizen welfare and economic performance (OECD, 2006).

The industrial shift of the country – as a response to the economic crisis of the 1980s – is reflected in the export composition. FDI flows have played a crucial role in national development and continue to be important for the government. World-class multinational enterprises (MNEs) have invested in the country, among which Intel, which has transformed the country into a net exporter of integrated circuits and microprocessors (OECD, 2012). The process of attracting Intel to Costa Rica helped shape the country's investment promotion strategy and the way investment promotion was conducted. Fundamentally, new relationships were forged between the government, the Costa Rican Investment Promotion Agency (CINDE) and investors; a cohesion that helped Costa Rica land more investment and furthered improve the investment climate. Intel sent a strong signal to other investors that put Costa Rica on the global map, and served as an important ally in investment promotion (World Bank, 2006). After Intel's investment, several world-class businesses, including banks and insurance companies, localised key sections of their global value chains in Costa Rica.

Since the 1990s, Costa Rica has also become well-known as a destination for ecotourism. The country is a world leader in this sector and the number of visitors has doubled, reaching almost 2.4 million per year in the last decade. Tourism has allowed the country to employ the semi-skilled workforce, thus reducing unemployment in rural areas, which also have become less dependent on agriculture activities. Tourism also generates important flows of foreign exchange, which ease the pressure on the recurrent deficits in current accounts (OECD, 2006). For all these characteristics, tourism represents a perfect complement to the specialisation in knowledge-intense manufacturing, especially due to the fact that it concentrates in areas with low population density ("rural" according to the OECD definition) along the coasts.

Despite the overall economic progress, territorial imbalances have emerged and there is an important rural-urban split. There are several territorial communities – especially along the Caribbean and Pacific coast and other peripheral areas – that lag behind. Internal migration is putting pressure on the metropolitan region of San José, and this may choke economic growth.

Citizens and businesses have begun demanding a larger basket of public services, thus putting pressure on the current system, which is largely based on the institutionally decentralised sector producing standardised services for all citizens. Municipalities are searching to materialise the autonomy granted by law, and to reinforce their capacity, to be able to tailor services to local needs.

## Sub-national authorities with a minor role in the overall governance system

### *Municipalities as the only sub-national authorities with administrative powers*

When compared with OECD Members, Costa Rica's governance is based on a system in which the central level, and in particular the institutionally decentralised sector, plays a key role in delivering policies and services, while sub-national authorities – including municipalities – are marginal. Costa Rica is a unitary country composed of seven provinces. Provinces are divided into 81 administrative units (*cantones*), each of them directed by a mayor who is elected every 4 years. The lower administrative level includes 423 districts. Only the central government and municipalities (or *cantones*) have administrative powers. The seven provinces are basically mere electoral districts and are used to organise voters and their political representatives. Finally, the planning system of Costa Rica, created in the 1970s, introduced six planning regions which implement territory-specific components of the national development strategy set at the central level. Planning regions host regional development councils, formed by representatives of the central government, which approve, execute and monitor regional development plans (the Limón Province Council is currently the most active one).

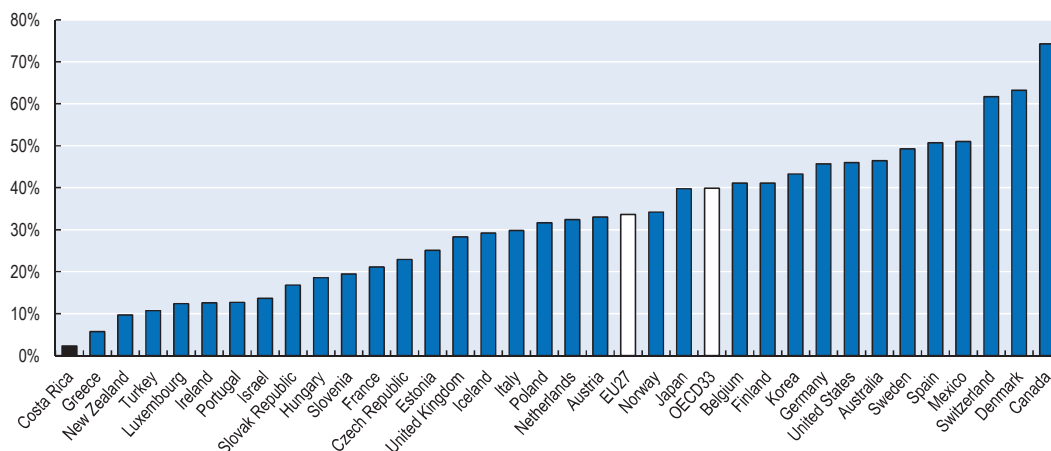
The Constitution allocates a large, yet undefined, power to municipalities. Their action is mostly framed and organised by the central government and national regulation. The general principles of territorial decentralisation are set forth in the Political Constitution. Since 1949 several reforms have strengthened sub-national governments. Since 1998, local governments have been elected directly by citizens and are perceived as key stakeholders by the public. In general, municipalities are responsible for managing and providing some municipal public services; setting and collecting municipal fees and taxes; convening citizens to popular consultations; promoting participatory and inclusive local development; and advancing local public policies in favour of gender equality. Some municipal governments are responsible for administering a large territory, which encompasses a large number of districts. By agreement with other municipalities or with the appropriate government agency or body, the municipality may carry out, jointly or individually, services or works in the canton or region. Finally, the municipality has the authority to dictate the urban regulatory plan and all guidelines pertaining to spatial planning. However, the constitutional mandate is very broad and general, meaning that municipalities are not in charge of a specific policy or public sector.

Local governments raise their own taxes. For most municipalities, their own taxes represent the greatest source of revenues. Municipalities are entitled to collect municipal taxes such as property tax (real estate), register (patents) and services provided to citizens (waste collection, for instance). Besides their own taxes, municipalities also receive transfers from the central level. In fact, the Constitution states that the central level has to transfer funds to local governments. According to the legal framework (Laws No. 7755 and 8114), the government allocates transfers to municipalities based on criteria such as the extension, population and position of the social development index of the municipalities, though this is not necessarily the perception of stakeholders, as expressed during interviews.

Compared with the OECD average, Costa Rica's public expenditure is low; the institutionally decentralised sector accounts for a large share of it, while the territorially decentralised sector only accounts for a minor share. In particular, sub-national expenditure is low in all domains, meaning that Costa Rica's territorial authorities play a marginal role in delivering policies and services to their communities, including direct

investment or public procurement; representing a fraction of the average contribution of sub-national authorities in OECD Members.

Figure 7.1. **Public expenditure by the territorially decentralised sector in Costa Rica**



Source: Government of Costa Rica (2014), “Background report”, unpublished working paper and OECD data.

### ***The role of federations of municipalities and cantonal councils for co-ordination***

Most of Costa Rica’s municipalities are organised in federations. These intermediate institutions – which were introduced in Costa Rica by the Municipal Code of 1970 – can have different aims. For instance, some of them have the purpose to lobby in favour of local governments with the central power, in order to promote decentralisation of power in the country. Other federations work to scale up policies and services to larger territorial communities. Finally, there are federations that provide a common framework to national and local institutions operating within a common territory. Currently, there are 12 federations in Costa Rica. All of them possess legal personality, and have their own budget and administrative autonomy.

Federations may represent an asset for Costa Rica’s multi-level governance system. In particular, there are some federations that play an important role in Costa Rica’s governance. One of them is FEDOMA (*Federación Occidental de Municipalidades de Alajuela*). FEDOMA federates 11 municipalities in the central region, including Alajuela, which is the second-largest city in Costa Rica. The federation is active in promoting decentralisation in the country and provides its members with capacity-building activities in several fields. Another important federation is the FGLCFN, which is active in the north of the country, in the area bordering Nicaragua. This is a poor area of the country, which is based on agriculture and did not benefit from the development of the country related to FDIs or tourism activities. The local population suffers from the lack of good infrastructure and services, and the three municipalities in the area are experiencing a net demographic loss. Taking advantage of the recent national policy *Tejiendo Desarrollo* (Box 7.1) – which could be translated as “weaving development” and whose aim is to support locally created development initiatives – the federation has started functioning as a regional development agency, which promotes very specific development interventions in the area.

### Box 7.1. Tejiendo Desarrollo: “Weaving development”

*Tejiendo Desarrollo* is a policy framework supporting community-led development processes, which was recently introduced in Costa Rica. The objectives of the network are the following: to promote the participation of civil society in development processes, to articulate the sectoral organisation of the government and to design policies that respond to the priorities of local actors.

The National Development Plan describes the network and its two key components: to promote development processes in specific territories (10 territories which comprise 34 cantons) and to develop a National Policy on Regional and Territorial Development with civil society participation led by the Ministry of National Planning and Economic Policy (Ministerio de Planificación Nacional y Política Económica, MIDEPLAN).

The following institutions are part of the core group of this network: Office of the First Lady, MIDEPLAN, the Institute of Municipal Development and Assistance, the Rural Development Institute and the National Directorate for Community Development

The extended network counts the participation of the Ministry of Agriculture and Livestock), Ministry of Public Works and Transport, the Joint Social Welfare Institute, the Ministry of Work, the Ministry of Housing and Urban Development, the Ministry of Culture, the – Vice-Ministry of Youth, the National Institute for Women, the National Commission for Emergencies, National Institute of Rural and Urban Housing, National Institute for Vocational Training, Costa Rican Tourism Board, Vice-Ministry of Telecommunications, Ministry of Environment and Energy, Costa Rican Institute for Water Supply and Sewerage, National System of Conservation Areas, Ministry of Economy, Industry and Trade, Ministry of Sports.

*Source:* Decree No. 38536 of 2015 and Directive No. 006 of 2015.

However, Costa Rica’s system of municipal federation faces a series of challenges that should be dealt with to take full advantage of these intermediate institutions. According to the International City/County Management Association (2004), the system of federations suffers from the fact that most federations do not have strategic plans (vision or mission) that integrate the shared interest of their members. This causes their inactivity. Another key problem is that several federations were created under the influence of national organisations, non-governmental organisations and international co-operation agencies. So, they are not the product of a bottom-up process. Third, not all of the members of a given federation are treated in the same way and the strongest municipalities have used federations to gain political influence in a larger territory.

The cantonal councils for inter-institutional co-ordination (*Consejo Cantonal de Coordinación Institucional*, CCCI) are another type of intermediate institutions, created to co-ordinate sectorial policies at the municipal level. As of 2015, 51 municipalities – out of the total of 81 – have created their CCCI. CCCIs involve representatives from the central government and other public institutions in charge of delivering services at the municipal level, including autonomous agencies. All CCCIs have a technical secretariat that produces a co-ordination plan based on the needs of the municipalities and on the feedback of the institutional bodies involved in the council. Mayors have the role of facilitating the implementation of these plans, thus taking over the role of co-ordinators of other institutions active in the territory they govern. The central government – i.e. MIDEPLAN – provides councils with technical support, monitoring and evaluation activities, but not with funds; municipalities have to cover the operating costs of CCCIs.

CCCI have the potential to become key hubs within the national governance system, but they are still confronted with important challenges. CCCIs are the product of a

bottom-up process, triggered by local mayors. Also, cantonal councils respond to a key need of Costa Rica's governance: improve the co-ordination of autonomous agencies and between them and local government. Finally, CCCIs contribute to the knowledge pooling – which means that all stakeholders accept to put together information to lead policy making (Barca, 2001) – the country needs to orient public investment choices at a time at which the government is trying to design and implement a new economic strategy that follows up to the one based on FDI attraction. However, challenges remain. First, poor municipalities may lack capacities and funds to create CCCIs. This is particularly true for poor rural municipalities which often do not have the resources to guarantee the functioning of the institution (an office, some basic human resources, etc.). In these cases there is a need for support, at least for the first years of functioning of CCCIs. Second, representatives from public companies and autonomous agencies do not always recognise the technical leadership of local mayors and the CCCI secretariat, which negatively affects the capacity of councils to co-ordinate policies. Third, citizens have limited possibilities to participate in the councils. The possibility to involve local stakeholders, including private business, has been initially ignored by the legislator, who considered the presence of the mayor as sufficient to represent all the instances of local constituencies in a given CCCI. Only recently has the law been amended to give citizens the possibility to play a more active role in these local instances.

### **The important role of the institutionally decentralised sector**

Compared with the OECD average, Costa Rica's public expenditure is low; the institutionally decentralised sector accounts for a large share of it, while the territorially decentralised sector is a minor one. In particular, sub-national expenditure is low in all domains, meaning that Costa Rica's territorial authorities play a marginal role in delivering policies and services to their communities, including direct investment or public procurement; representing a fraction of the average contribution of sub-national authorities in OECD Members.

A large part of public expenditure is executed by the institutionally decentralised sector that is in charge of producing key services. The institutionally decentralised sector is a key actor of Costa Rica's multi-level governance system and delivers services mostly related to Costa Rica's social welfare system, such as healthcare, food security, child care, etc. Within this system, institutionally decentralised institutions execute about 50% of total public expenditure. The institutionally decentralised sector has substantially contributed to the good performance of Costa Rica in terms of access to basic services, but the large number of institutions may cause duplication, put pressure on public expenditure and also limit co-ordination among sectorial policies and between levels of government. Major institutions include, for instance, IMAS – which tops the ranking and is in charge of cash transfers and pro-poor policies. In 2012, IMAS generated more than 1% of Costa Rican public expenditure. Another important agency is PANI (Patronato Nacional de la Infancia), which is in charge of child welfare throughout the country. PANI serves all children and adolescents residing in Costa Rica. PANI is organised in a network of territorial offices, located in all provinces. Another important agency is the National Council for Rehabilitation and Special Education (Consejo Nacional de Rehabilitación y Educación Especial, CNREE), whose purpose is to plan, co-ordinate, advise and oversee the activities of all social actors involved in the inclusive development of people with disabilities.

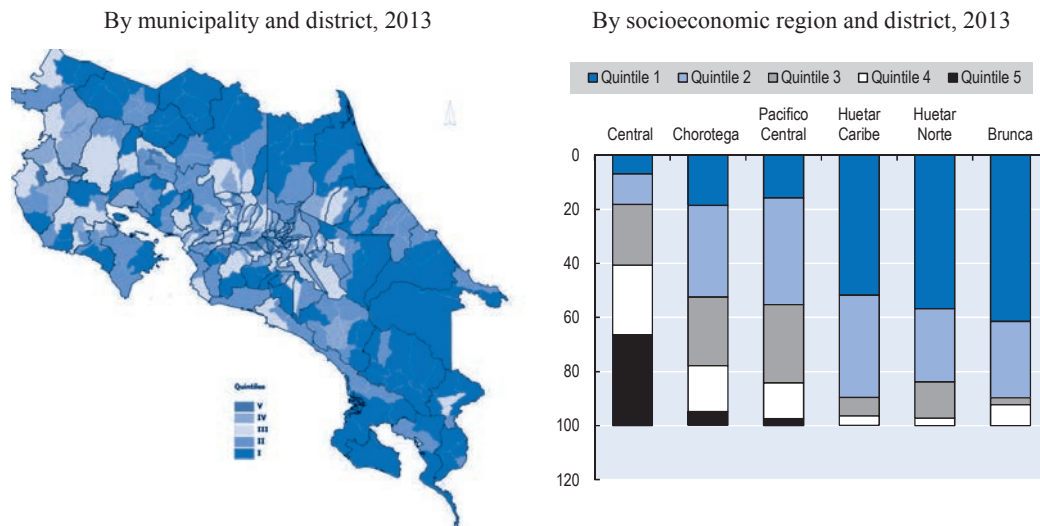
## Emerging challenges

Costa Rica has been successful over the past two decades, but new challenges are emerging that are questioning the institutional framework to achieve economic performance. For instance, the human geography of Costa Rica has become more complex, regional disparities and an evident urban-rural split are emerging. Due to economic development, citizens demand a larger basket of public services, which is also diversified according to their specific needs. Costa Rica has also to deal with exogenous forces. For instance, international competition to attract FDIs in knowledge-intensive industries has been dramatically increasing, also from other Latin American countries. Key partners such as Intel and Bank of America have decided to reduce their investment in Costa Rica and this may influence the behaviour of other international players. Export competition in traditional sectors related to tropical agriculture is also mounting.

### *Lower access to basic public services for rural poor population*

The rural poor population has, on average, less access to basic public services. Accessibility to public services depends on income and location. Reduced access to basic services has territorial features: according to Trejos (2008), there is a difference between accessibility to education in urban and rural areas. The share of households with no access to basic services (including water sanitation, healthcare and primary education) is almost four times lower in the Central planning region (which is where the capital San José is located) than in the regions of Huetar Caribe and Huetar Norte, which are the poorest and most rural territories in the country. The urban-rural split in terms of service accessibility is also reflected in Costa Rica's Social Development Index (composed of eleven socioeconomic indicators), with stronger performance situated in urban areas.

Figure 7.2. Social Development Index in Costa Rica



*Note:* This map is without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

*Source:* MIDEPLAN (2013), “Indice de desarrollo social”, <http://www.mideplan.go.cr/component/content/category/249:indice-de-desarrollo-social.html>.

It is not clear whether the state meets the actual expectations of citizens in terms of accessibility to services and public goods. There could be at least three shortcomings in the current system *vis-à-vis* citizens. First, it may fail to provide citizens in different areas of the country with tailored services (i.e. the current rural-urban split). Second, it may negatively affect co-ordination of sectorial policies. For instance, as different services such as education and transport are dealt with by different agencies, co-ordination of policy delivery – especially when done in non-urban areas – is limited by the lack of a common institutional framework. Third, it is not clear to whom autonomous agencies are accountable. Lack of accountability in the public sector may cause low participation rates in Costa Rica. According to the UNDP (2013), the country has the lowest participation rates in the region.

Costa Ricans have developed negative expectations about the future performance of the public sector. According to a recent research done by the UNDP (2013), a significant percentage of Costa Ricans considers that the quality of basic services, including education and in particular healthcare – two sectors in which the country has a positive record of improvement – will decline in the next decade. The negative perception could also depend on the fact that the process of devolution of powers to municipalities is largely incomplete. Since 1998, citizens can elect their mayors. As shown above, this gave them the impression that municipalities – which can be considered as the forefront of the government as a whole – can have an impact on public policies. This is a false perception that puts pressure on the local governments and also gives citizens the impression of a dysfunctional public sector. There are also negative expectations concerning the possibility to participate in the public sector, which confirm the scarce level of accountability in the current governance system.

### ***Foreign direct investment and tourism have developed weak linkages with local businesses***

FDIs and tourism have developed weak linkages with local businesses and current trends in Costa Rica's productive framework challenge the national governance system. In 2014, key investors, including Intel, decided to drastically reduce their activities in Costa Rica. A number of assessments of Costa Rica's economy (OECD, 2013; Paus and Gallagher, 2006; Cordero and Paus, 2008) illustrate the limited extent of backward linkages from FDI and identify two main causes: limited potential for spillovers for part of the foreign investment and the limited domestic absorptive capacity for linkages. Surveys administered to suppliers and multinational enterprises in Costa Rica revealed few cases of positive technology transfer from an MNE to its suppliers (Alfaro and Rodríguez-Clare, 2004). It is possible that, despite being successful in attracting FDIs, the country has lacked a coherent long-term development strategy. Cordero and Paus (2008) identify a structural problem in Costa Rica's strategy to attract FDI: it has been based on tax cuts and trade liberalisation. These measures may not be compatible with a long-term development strategy that develops the country's ability to create and maintain an adequate stock of country-specific assets of the type that are required for the continuous attraction of FDI flows.

The country may also fail to take advantage of its full potential in tourism activities. The success of tourism depends on large-scale developments – hotels/resorts with a large number of accommodation realised by international investors – rather than on local small and medium-sized businesses (Peralta Quesada and Solano Umanzor, 2009). This model puts pressure on natural amenities and – as in the case of FDIs – may fail to involve national actors in a process of long-term sustainable development. Local stakeholders –



mayors of tourist municipalities – met during a study visit mentioned that the autonomous agency in charge of road maintenance in their territories do not consult with them and concentrate their interventions on roads that are not important for tourists visiting the area. Although anecdotal, this feedback questions the capacity of the national autonomous agencies to deal with the changing social and economic environment of the country.

In practice, what happens in Costa Rica is that, with the exception of the metal-mechanic and plastics sectors, foreign tech companies make most of their purchases of local products and services in non-critical areas such as labels and packaging or support activities like security, cleaning and food. Foreign companies have demonstrated little interest to develop a network of local suppliers, for reasons of economies of scale, trust and quality control (OECD, 2013). Costa Rica may need to put in place a policy to improve backward linkages between MNEs and local businesses. This requires an all-round industrial strategy which is also based on the capacity to deliver policies and services – including infrastructure and higher education – to regions where the MNEs and potential suppliers are located.

Sub-national governments are not prepared to deliver tailored public services and promote regional development. This is due to lack of capacities and also financial resources. It is possible that the presence of the agencies, which in some cases have territorial offices, may have caused a sort of institutional inertia in local governments that have limited their activities to a very limited number of sectors. In fact, the only sectors in which municipalities have exclusive responsibility are “treatment of waste” and “public adornment” (Government of Costa Rica, 2014). Public authorities may need to pool information together with sub-national stakeholders, including municipalities and districts, in order to be able to design and deliver effective policies to all citizens, regardless their location in the country.

### **Promoting inclusive growth and reducing regional disparities through multi-level governance**

The national reforms of the multi-level governance system go in the right direction but need to be implemented, and to involve sub-national authorities. Costa Rica is committed to improve service accessibility and policy delivery across the country. Public authorities are knowledgeable about the need to keep improving the performance of the public sector to promote inclusive growth in the country. Within this context, a long series of institutional reforms have been implemented with the aim to promote the role of municipalities (and intermediate levels) within the national governance system. In 1970, a reform transformed municipal executives into mayors elected by municipal councils. The regulation evolved again in 1998, when the new municipal code allowed citizens to vote for the mayor. According to national stakeholders, the reform did not have the expected impact over citizen engagement with public policies. In the three elections held after the reform – 2002, 2006 and 2010 – participation rates were 23%, 24% and 27.9%, respectively. Although there are regional differences, the average level remains very low. It is possible that the situation will improve in 2016, when a new system of local election – with a time lag of two years with respect to national elections – will be put in place. In 2001, there was a key constitutional reform which allocated more functions and resources to municipalities. In particular, the reform established a progressive and automatic increase of the share of public revenues allocated to municipalities. This should have achieved 10% of the government budget – excluding the budget allocated to autonomous agencies – once completed. The reform did not modify the fiscal basis at the

municipal level, meaning that the additional resources should have been transferred from the central government.

The reform process has stalled since 2001, and most reforms have remained basically “on paper”. The result is that municipalities continue having a marginal role within Costa Rica’s public sector, and this despite their increased visibility *vis-à-vis* citizens, as assessed above. Moreover, the lack of implementation has generated uncertainty in the system. This is the case of the constitutional reform of 2001, which allocated more responsibility to municipalities but did not modify their capacity to collect fiscal revenues in their communities. More importantly, the new competences of municipalities overlap with those of some autonomous agencies, so there is need for co-ordination. However, the attempts to improve policy co-ordination, in particular through the CCCIs, have been relatively unsuccessful.

In 2014, a new government put decentralisation and governance among the priorities of its activity and started working to implement past reforms. The new political orientation depends on the large regional disparities, and in particular on the urban-rural split, which are becoming more and more evident in the country. This approach is reflected in the National Development Plan for 2015-18. The NDP has identified three strategic priorities: promote national growth and jobs; reduce poverty rates; improve the public sector’s openness, transparency and accountability. The programming document illustrates key differences in terms of service accessibility at the regional level and in particular the existing split between the metropolitan area of San José (Región Central) and the rest of the country.<sup>1</sup> It also discusses the quality of services, rather than merely looking at the quantity (or production). The fact that the policy looks at these dimensions – accessibility and quality – triggers the need of adopting a more place-based approach to policy making which requires better vertical and horizontal co-ordination within the public sector. The NDP also mentions the importance of involving local stakeholders and constituencies in the definition and delivery of policies. This is another aspect that requires the actual devolution of responsibilities, resources and capacities to sub-national communities.

The recently established network controlled by the Presidency of the Republic of Costa Rica – *Tejiendo Desarrollo* (see Box 7.1) – brought about important innovations in the national approach to multi-level governance. A first key innovation is the focus on rural and peripheral areas. Over the past decades, public policies have supported urbanisation and in particular the area of San José. The new policy approach aims at closing the gap between rural and urban in terms of service delivery and economic opportunities, also taking into account the increasing importance of economic activities such as tourism and industrial agriculture (pineapple for instance). This connects with a second important innovation, which relates to the role of FDI within the national economy. While attracting foreign investors topped the agenda of Costa Rica’s governments since 1990s, the current government is more focused on the valorisation of national assets and investment opportunities. Policy supporting national economic actors may, in fact, help in developing backward linkages between FDIs and local suppliers. A third innovation in the system is the focus on capacity building for sub-national authorities and in particular for municipalities. National authorities consider capacity building as a key challenge for multi-level governance. However, although promising, a key limit of the current approach may be represented by the limited direct involvement of municipalities or their federations. In this sense, the governance adjustments that are currently explored are closer to the concept of deconcentration of national authorities rather than devolution of government powers.

## Recommendations

The government has to identify an efficient level of decentralisation for the country. In general, a first step to assess the performance of decentralisation (or centralisation) arrangements is to identify clearly who is in charge of what, in terms of design, regulation, budget and implementation in the policy sector that government wishes to improve. Triviality in this “institutional mapping” approach is merely apparent: many actors will be seen at first glance to be overlapping in their functions with others, while being dependent on others’ decisions and being influenced by the use of one administrative tool or another. Overlapping per se is not a concern if co-ordination among stakeholders in public policy delivery is effective. If not, various co-ordination “gaps” can explain some failure in efficiently managing public policies. The national government may need to carefully assess the current governance system in order to identify these institutional “holes”.

### ***Use contracts to facilitate the functional relation between the central government and municipalities***

The implementation of the governance reform in Costa Rica seems to be challenged by a vicious cycle: the central government, including agencies, cannot allocate more responsibilities to municipalities as they lack capacities; however, municipalities cannot acquire new capacity without experiencing more responsibilities. To break this dynamic, the national authority may consider the use of contracts. 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 contributing to the enhancement of institutional trust (routine).

Contracts could be extended to other institutional entities, besides municipalities. For instance, federations of municipalities could be part of a contract with the national government, and be in charge of supporting municipalities in the delivery of a given service. Federations could provide tailored capacity-building activities or other tasks related to information co-ordination, monitoring, communication, etc. Involving them would provide them with a scope and a clear mission. CCCIs are other entities that could be part of a contract between municipalities and the national government and take over specific tasks related to the delivery of a given service or policy.

There are several examples of inter-institutional contracts that Costa Rican authorities could take into account. For instance, a good practice is that of Colombia’s *contratos plan* (Box 7.2). These contracts are binding agreements signed by the central government and sub-national authorities that commit together to deliver policy interventions that are coherent with the regional development strategy (and then with the National Development Plan of Colombia). In particular, these contracts provide sub-national authorities, including departments (Colombia’s intermediate tier of government) and municipalities with targeted financial resources and with capacity building: the possibility to learn how to improve policy delivery through a learning-by-doing process. It is worth noting that in the example, the central government considers municipalities as peers and does not take advantage of its larger capacity and position in the legal framework to impose strict conditions on sub-national governments.

### ***Create a network of community agents providing local government with capacity building***

As discussed above, Costa Rica has become a dual country in which there is a relatively rich metropolitan region and rural territories that tend to lag behind. This split depends also on the lack of capacity in rural regions, which affects the capacity of these territories to capitalise on their assets. As the government is trying to reorient the economic strategy of the country and tone down the focus on FDI attraction, it would need to promote the development of untapped resources, including natural amenities and manufacturing in peripheral areas. The current governance system limits this possibility as it does not provide the centre with the needed information about local potential, which is necessary to orient investment decisions.

#### **Box 7.2. *Contratos plan in Colombia***

Colombia's *contratos plan* is a governance tool that helps align investment agendas at the national and local level, improving accountability and transparency and providing sub-national authorities with capacity building. The contract is a binding agreement between the central government and a department, a group of departments or a group of municipalities. The parties commit to co-ordinate their investment agendas among sectors and across tiers of governments. In addition, they agree to deliver their interventions within a given timeline.

Colombia's negotiated territorial development is part of a broader national strategy whose aim is to create institutions and capacity that can support development policies. Contracts were introduced in 2012 by the national Law on Land Use (*Ley Orgánica de Ordenamiento Territorial*, LOOT) and by the National Development Plan 2010-2014, "*Prosperidad para Todos*". The LOOT is a key achievement for Colombia because it demonstrates that public authorities have regained control of the national territory after decades of conflict. Its intent is to improve Colombia's multi-level governance, and provides public authorities with flexible governance instruments to deliver policy interventions where they are needed the most. The *contrato plan* was instituted as a result of the 2011 reform of royalty payments. This important reform distributes revenues generated by extractive activities to all departments in the country. Sub-national authorities can use this additional revenue to co-finance interventions listed in the contracts. Finally, contracts also connect with innovative approaches to rural development that seek to improve service delivery to poor households in remote communities.

As of 2013, seven *contrato plans* had been signed in Colombia, for a total (anticipated) investment of USD 6.7 billion, over five years. The policy affects almost 6 million citizens, most of whom live in rural/remote areas in nine departments. The contracts identify infrastructure, and in particular road connectivity, as their main objective. Basic services such as healthcare, education and water sanitation are also priorities. While these objectives are supported by national transfers earmarked by the central government to all departments and municipalities, the contracts add flexibility to the policy and allow sub-national authorities to tailor action to their specific needs. In short, departments and municipalities have more funds, the possibility of co-ordinating different sources of investment from different levels of government (co-financing mechanisms) and improved capacity to promote development and fight poverty.

Contracts are not a panacea in the Colombian context, but they have generated some positive results. For instance, they have "reactivated" development planning at the department level. Department plans, in fact, identify measures to be taken within the contracts. Another key advantage is the opportunity for learning that the contracts provide departmental governments. They offer sub-national authorities the possibility of working with national representatives as they execute the measures, including large infrastructure projects. In general, contracts are a first attempt in Colombia to connect spatial planning with development policy.

Source: OECD (2014), *OECD Territorial Reviews: Colombia 2014*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264224551-en>.

The lack of a knowledge-pooling system is a challenge faced by several OECD Members. In the Canadian province of Quebec, for instance, many rural communities were suffering from structural economic and demographic decline due to job losses in sectors they were depending on such as forestry or fishery. The provincial government was trying to provide them with help, but was unable to identify alternative economic specialisations. So, it decided to create an extended and co-ordinated network of development agents to provide declining rural communities with the capacity to self-identify development opportunities and set policies accordingly. Once territorial development strategies were set, the provincial government was able to successfully allocate financial help to rural communities (Box 7.3).

### Box 7.3. Quebec's experience with development agents supporting rural territories

In Quebec, the provincial government has implemented a rural development policy – the Rural Pact – that aims to strengthen technical capacity (programming), social capital and participation in sparsely populated regions. This requires that each community identify a seven-year development plan and use funds from the centre to carry it out. Rural development agents are essential in this framework for creating a vision for local development in territorial communities and helping policy implementation and monitoring, to guarantee accountability. Rural development agents help local committees and project promoters in developing investment projects, facilitate knowledge sharing and help monitor the national rural development policy. County governments or regional development centres can hire the agents financed by the government of Quebec's rural pact commitments.

The 136 current agents receive annual updated training, organised by the advisory body Solidarité Rurale du Québec and financed by Quebec's Ministry of Rural Development and Land Occupation. This training includes annual meetings of agents from all over the province and an interactive online portal that facilitates the exchange of experiences. The commitment, qualification and experience of rural development agents, along with a competitive salary, are important for their success. It is the agents' responsibility to link local project developers with county governments and municipalities, but also to develop connections between project developers and the funding instruments available in the regional development centres. Since successful local development depends on a community's capacity to facilitate connections across different socio-economic groups, the agents also have a major role to play in building bridges between social and economic development and creating teams of people and groups in a given territory who otherwise do not necessarily interact. Finally, the collective experience of the network of rural agents is important for the government's efforts to develop its rural development policy; it was consulted, for instance, in preparing the second round of the seven-year rural policy, in 2007. The funding provided by the Directorate for Public Governance and Territorial Development is a critical element. To guarantee that qualified people are hired, and to avoid excessive turnover, development agents are well compensated. Funds are provided by both the provincial government and county governments. In counties where development challenges are more intense, the provincial government assumes the largest share of the salaries, and can also provide the community with several agents.

Source: OECD (2010b), *Rural Development Policy Reviews: Québec, Canada 2010*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264224551-en>.

This good practice could inspire Costa Rica's governance and regional development policy. Providing lagging territories with community developers could help promote trust in government while also improving citizen participation, which is considered to be low in the country. For instance, Costa Rica could promote the generalisation of CCCIs to all

territories, including rural areas. The central level could allocate some funds to those municipalities that do not have the possibility to cover the operating costs of the council.<sup>2</sup> In order to promote standardisation and exchange of information, CCCIs could be networked by MIDEPLAN, which would serve as 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 public companies and autonomous agencies. Federations of municipalities may also be involved to connect local experiences and identify good policy practices across municipalities. CCCIs 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.

### ***Introducing flexibility in the governance system could help tailor policies to places***

Despite its relatively small size, Costa Rica is a diverse country in which territorial communities face different challenges and opportunities. Within this context, a policy that would be effective in promoting the development of the metropolitan area of San José may have no impact in a rural territory on the Atlantic coast. This depends on the different economic framework, but also on the different sets of skills that are possessed by local governments and institutions. Regional diversity is evident when assessing the quality of specific public services such as education, which tend to be lower in rural areas, as discussed above. For all of these reasons, 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.

Policy diversity (in response to regional diversity) is a common feature in OECD Members. There are Members like Germany or Italy that have been dealing for several decades with structural dualism in their country, and that were forced to create a very different policy and governance framework to respond to the different needs of territories: on the one hand, competitive regions able to compete at the global scale; and on the other hand regions suffering from the lack of basic infrastructure and services.

Despite being a small and relatively homogenous country, Costa Rica may benefit from Sweden's experience with "variable-geometry" governance. This flexible system has allowed adjusting the policy reform to the characteristics of the different regions (densely populated cities vs. sparsely populated rural areas; Box 7.4). The result is that the country has been able to promote the competitiveness of urban areas, while also providing rural remote areas with investment and tailored social policies. As in the case of Sweden, Costa Rica needs to promote economic development in rural areas, without compromising the competitiveness of its main urban hub. There is evidence (OECD, 2015) that institutional fragmentation reduces the economic performance of metropolitan areas, causing lower productivity levels. Conversely, rural areas – characterised by low population densities – benefit from local institutions as these facilitate policy co-ordination and provide them with voice and visibility *vis-à-vis* the central government. Accordingly, rural Costa Rica may benefit from intermediate institutions active in peripheral areas. The current regional development network, led by the Presidency of the Republic, may promote territorial experiments in which different governance mechanisms are implemented.

#### **Box 7.4. Sweden implements bottom-up governance reform to experiment with different solutions**

The case of Sweden illustrates that a country can experiment with multi-level governance with a trial and error process. In Sweden, government power is allocated mostly to municipalities and the central level. However, pressures to change the system have increased since the mid-1990s, particularly with the entry of Sweden into the European Union in 1995 and the new direction of Swedish regional policy. Sweden's decentralisation has been a largely bottom-up process, as the national government has not imposed a single model on the counties. A bottom-up strategy is uncommon in OECD Members, as most local government reforms have been imposed by the national government.

Since the late 1990s, Sweden has developed different regionalisation options in different regions, i.e. decentralisation has been pursued in an asymmetric manner. There have been three “waves” of regionalisation reforms:

- The first took place from 1997/98 to 2002, with the creation of “pilot regions” in Västra Götaland (three counties including the city of Göteborg) and Skåne (with Malmö as its main centre). In these regions, directly elected regional councils have taken over responsibility for regional development from the county administrative boards. Directly elected regional bodies also have responsibility for former tasks of the county councils (mainly healthcare). This phase has been described as a trial of limited duration and scope. However, because of strong regional support, the regional pilot project was prolonged for Skåne and Västra Götaland after 2002.
- The second wave (2002-07) was less ambitious in scope. The national government no longer pushed for the creation of pilot regions with a full set of competencies for regional development but to form regional co-ordination bodies (depending on the agreement of municipalities). The regional co-ordination bodies are indirectly elected and funded by a member fee. They are also partially funded by the national government for the tasks taken over from the county administrative boards. They are responsible for co-ordinating regional development work and deciding upon certain government envelopes for regional development and infrastructure planning, such as roads and the broadband network. The members of the regional co-ordination bodies can also decide that the council should focus on other issues, such as public transport, cultural institutions, tourism, business development and international co-operation.
- The third wave, took place between 2007 and 2009. It can be described as a renewed bottom-up demand for regionalisation. This reform gives adjacent counties the possibility to merge and convert themselves into regional authorities. The government supported the extension of the pilot region model to all Swedish regions, to simplify and harmonise territorial governance.

Source: OECD (2010a), *Territorial Policy Reviews: Sweden 2010*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264081888-en>.

## Notes

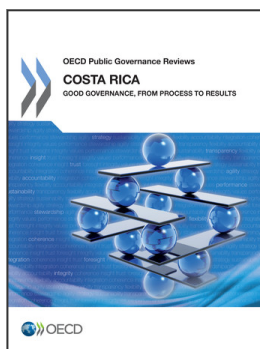
1. For instance, citizens living in the Región Central have up to two years of schooling more than citizens living in other areas of the country. Likewise, healthcare coverage is very good in the metropolitan area of the capital, but challenging in rural areas, where some 20% of citizens are not covered by the national health system.
2. This would be a way to allocate the increasing funds the central government is supposed to transfer to municipalities, as indicated by the 2001 reform of the Constitution.

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