What are Public Governance Reviews?

OECD Public Governance Reviews provide governments with a 360 degree perspective on their ability to deliver on government objectives. The reviews offer in-depth analysis through a peer review process, a diagnosis of issues at hand, actionable recommendations, capacity building and implementation support. The aim is to strengthen a country’s potential for sustainable, inclusive growth and to improve the well-being of its citizens.

Since 2007, over 15 Public Governance Reviews of OECD member and non-member countries have been conducted.

WHY A PUBLIC GOVERNANCE REVIEW OF COSTA RICA?

As part of ongoing efforts to improve public governance, the government of Costa Rica has asked the OECD to carry out a Public Governance Review to analyse the strengths and weaknesses of its public administration, and to identify ways to improve the performance of the state in order to ensure more effective and efficient service delivery for all citizens.

The Review contributes to the country’s reform agenda, which aims to sustain important achievements in terms of socio-economic development, and to provide enhanced and sustainable prosperity for its entire population.

These Highlights summarise the main findings of the six thematic areas of the Review:

- Centre of government co-ordination capacity
- Policy monitoring and evaluation
- Budgetary framework and strategic planning
- Human resources management
- Integrity policies in public procurement
- Multi-level governance
“The review provides an in-depth diagnosis of the main challenges that Costa Rica is facing in key areas of public administration, such as the capabilities of the central government and integrity in public procurement. I am very pleased, because the study not only generates a clear picture of our reality, but also provides a series of recommendations to address the challenges identified. The government is committed to implementing the measures required to promote, in this and other areas, a substantial change to improve the welfare of citizens and the efficiency and effectiveness of the state”

LUIS GUILLERMO SOLÍS RIVERA, President of Costa Rica

COSTA RICA 2014

<table>
<thead>
<tr>
<th>Population</th>
<th>4,938,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total area</td>
<td>51,100 km²</td>
</tr>
<tr>
<td>GDP/capita</td>
<td>USD 9,750</td>
</tr>
<tr>
<td>Annual GDP growth</td>
<td>3.7%</td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>9.7%</td>
</tr>
<tr>
<td>Life expectancy</td>
<td>80 years</td>
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</tbody>
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http://databank.worldbank.org/data/reports
A changing economy and society

Costa Rica’s political and economic model has been characterised for decades by high political stability and stable economic growth, allowing the country to perform well on social development deliverables like education and health. However, inequalities are on the rise, important economic pillars such as the high-tech industry and tourism have come under pressure, a fragmented public sector is struggling to deliver policies and services effectively, and citizens are increasingly losing trust in public institutions. To sustain past achievements, the country’s governance system needs to find ways to successfully cope with a changing economy and society.

MAJOR LONG-TERM ACHIEVEMENTS

- **Strong mechanisms to oversee state action and to protect human and democratic rights**, including the introduction of the Constitutional Chamber in 1989 and the Ombudsman in 1992.

- **Overall positive economic growth and relative monetary stability**, with an average of 5% growth rate throughout the 1990s. While growth slowed down in the 2000s, it remained significantly higher than in other Latin American countries.

- **Strong social development and improved living conditions**. New economic opportunities fostered by economic growth as well as the existing social security networks have contributed to social mobility and a growing middle class.

- **Commendable results in the areas of education, environmental protection and health**, including low illiteracy rates and a high average life expectancy.

SOCIO-ECONOMIC AND GOVERNANCE CHALLENGES

- **Regional disparities in economic and social development** across the country. In particular, there is a large urban-rural split.

- **Rising inequalities**. Despite an expanding middle class, the country’s Gini coefficient, as a measure of national income distribution, has been rising.

- **An economic model under pressure**. Increasing regional competition in key sectors such as tourism and high-tech industry is putting pressure on Costa Rica’s economic performance.

- **A fragmented public administration**, 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), with limited steering and accountability mechanisms.

- **A large share of the budget** (about 50% of total consolidated general government spending) **falling outside the budgetary preparatory process** headed by the Ministry of Finance and excluded from direct scrutiny by the Legislative Assembly.

- **Fiscal sustainability under pressure**, with one of the largest (and rising) deficits in the region, a low tax/GDP ratio according to regional and OECD standards, and rising debt figures, combined with a very high level of budgetary provisions at constitutional and legal level.

- **Decreasing trust in public institutions**. According to the Gallup World Poll 2014, levels of trust in government have dropped from 53% to 40% between 2010 and 2014, which is substantially more than the average decline across OECD countries for the same period.

- **A complex legislative process**. Partly due to its relatively weak constitutional powers, but also to the shift from a bi-partisan to a multi-party system, the Executive is in a weakened position to put forward its legislative agenda.

- **A rebalance of power throughout the policy-making process**. The creation of the Constitutional Chamber (1989) and the considerable increase in the number of constitutional decisions have resulted in a shift in the distribution of power across the executive, the legislative and the judicial branches.
PUBLIC GOVERNANCE: THE WAY FORWARD

The 2015-2018 National Development Plan reflects the government’s will to move forward towards a more effective, efficient, participatory, open and transparent government that fosters inclusive growth. While important efforts have been made to modernise the country’s public governance system, further progress should be made to make Costa Rica a forward-looking, resilient state:

- **Strengthen the centre of government’s leadership and co-ordination capacity** as a response to high levels of political and public sector fragmentation.

- **Move from a process-oriented to a results-oriented monitoring and evaluation culture**, where relevant policy information is used strategically.

- **Address multiple budget-related challenges**, including high budget rigidities, a lack of fiscal space and weak fiscal constraints.

- **Modernise human resources management in the public sector** by reinforcing areas such as workforce planning, competency management and a transparent compensation system.

- **Develop a cohesive procurement vision, to move away from a fragmented and primarily ex ante control based approach.**

- **Reinforce the subnational governance level**, coherent with the 2001 constitutional reform.

Costa Rica’s president Luis Guillermo Solís poses with members of his new ministerial cabinet, in San Jose, April 14, 2014.
Across the OECD, the centre of government (CoG) is undergoing a shift from a primarily administrative support function to a position as strategic player with important responsibilities in fostering vision, leadership and innovation across the public sector.

**CURRENT CENTRE OF GOVERNMENT ARRANGEMENTS**

**Main actors**
- The Ministry of the Presidency is responsible for providing political and technical guidance to the President in decision making, fostering communication and co-ordination.
- The Ministry of Planning and Economic Policy (MIDEPLAN) – its primary duties include preparing the National Development Plan (NDP); checking the alignment between public investment projects and NDP priorities; approving investment projects of public agencies.
- The Ministry of Finance (Hacienda) co-ordinates the budgetary cycle for the central government budget (i.e. ministries and their deconcentrated bodies).
- The Budgetary Authority is in charge of advising the President on budgetary policy and proposing the budgetary guidelines for most of the public sector, including central government, decentralised bodies and state-owned enterprises.

**(Ad hoc) instruments**
- The National Development Plan, presenting the government’s policy agenda for the President’s four year term of office.
- The National Planning System, as the key mechanism for the monitoring and evaluation of public policies, plans, programmes, projects and strategic actions of the government in a systematic, public, independent, and participative way.
- Sector planning and co-ordination, defining the organisation of the sector co-ordination comprising central and decentralised institutions. The sector co-ordination responsibility lies with the head of the central government institution, not the institution itself.
- The Interministerial Planning-Finance Commission, with the objective to issue and standardise technical and methodological guidelines for programming, monitoring and evaluating budget execution at a strategic, sectoral and institutional level.
- Presidential Councils, composed of Ministers (or their representatives) and other public institutions. Their functions include advising on and co-ordinating public policies, as well as planning and designing objectives, goals, actions, indicators and control mechanisms.
- The Better Regulation Commission, as an advisory body attached to the Ministry of Economy, Industry and Trade, addressing issues of regulation and administrative simplification.
- Thematic cross-government co-ordination defined by law, such as for the fight against poverty.
CHALLENGES
The Centre of Government in Costa Rica faces the following challenges:

- Long-term vision, leadership and innovation in a difficult fiscal context.
- Political fragmentation, which puts pressure on the strategic leverage of the CoG.
- Public sector fragmentation, in particular because of the importance of the institutionally decentralised sector, with few steering and co-ordination mechanisms in place.
- Capacity constraints at both technical and strategic level across CoG actors, aggravated by substantial turn-over of staff due to government change.

NEXT STEPS | CENTRE OF GOVERNMENT

- Enhance the strategic role of the Ministry of the Presidency in supporting the quality of the decision-making process of the Council of Ministers.
- Encourage structural investment in centre of government capacity building through technical training and the development of soft skills, with the Ministry of the Presidency and MIDEPLAN as primary beneficiaries.
- Develop a clear policy and a set of instruments to ensure centre of government steering of the institutionally decentralised sector.
- Develop consultation principles to be adopted throughout the public sector to make sure that citizen participation goes beyond the initial development of the NDP.

NATIONAL DEVELOPMENT PLAN

The new NDP 2015-2018 is based on three pillars:

1. PROMOTE ECONOMIC GROWTH AND QUALITY EMPLOYMENT
2. FIGHT POVERTY AND INEQUALITY
3. OPEN GOVERNMENT, TRANSPARENCY, EFFICIENCY AND FIGHT AGAINST CORRUPTION

Monitoring and evaluation as a tool to become result-oriented

Although Costa Rica formally established a national monitoring and evaluation system about two decades ago, it has not fully made the shift to result-oriented monitoring and evaluation. Challenges include the strategic use of performance information, the fine-tuning of the budget and policy cycle, and policy evaluation capacity constraints.

CURRENT MONITORING AND EVALUATION ARRANGEMENTS

- **A comprehensive legal framework for monitoring and evaluation** – Costa Rica has developed an extensive legal framework for both monitoring and evaluation.

- **A clear institutional set-up** – the National Evaluation System (SINE) is managed by MIDEPLAN, which co-ordinates actions of the other ministries and institutions, as well as with sectors. It is defined as an instrument for evaluating national development and social welfare through monitoring and evaluation of the results of the NDP and other planning instruments, and for promoting accountability and feedback.

- **The FOCEVAL programme** (launched in 2009) – the programme is a strategic partnership with the German government focused on raising awareness and promoting a culture of evaluation and transparency as a basis for public policy decision-making.

- **Review of monitoring and evaluation activities** – the government is currently reviewing its monitoring and evaluation activities, with the aim of strengthening the strategic added value of both activities (e.g. through the introduction of a quarterly reporting mechanism for strategic NDP projects).

**MAIN ACTORS INVOLVED IN THE NATIONAL EVALUATION SYSTEM (SINE)**

<table>
<thead>
<tr>
<th>Role</th>
<th>Responsibilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>President of the Republic</td>
<td>Political decision based on monitoring and evaluation reports on pre-established strategic priorities.</td>
</tr>
<tr>
<td>MIDEPLAN</td>
<td>SINE co-ordinator, responsible for issuing guidelines and leading the monitoring and evaluation processes.</td>
</tr>
<tr>
<td>Public institutions</td>
<td>Implementation, monitoring and evaluation of public policies, plans, programmes and projects, through its planning units.</td>
</tr>
<tr>
<td>Ministry of Finance</td>
<td>Allocation of financial resources. Control over public expenditures (central government).</td>
</tr>
</tbody>
</table>
MONITORING AND EVALUATION AS A TOOL TO BECOME RESULT-ORIENTED

CHALLENGES

Making the most of investments in monitoring and evaluation requires a commitment to:

- **Address missing links.** These missing links start at the planning system – about 60% of the ministries do not have a strategic plan according to information provided by MIDEPLAN – and culminate at the very end of the monitoring and evaluation cycle (lack of feedback mechanisms based on available monitoring and evaluation information).

- **Strategic use of performance information.** Whereas MIDEPLAN is entrusted with co-ordinating SINE and providing technical guidance on monitoring and evaluation procedures, SINE was not always used as the institutional support network for research and strategic analysis in the past.

- **Fine-tuned budget and policy monitoring.** There remain important challenges to enhance the compatibility between the SINE methodologies and the more traditional budget monitoring.

- **Address capacity constraints.** Historically, MIDEPLAN has had an agenda for training and skills development. However, there persists a need for permanent training and skills development and for embedding the acquired skills in daily management practices.

NEXT STEPS | MONITORING AND EVALUATION

- **Promote a result-oriented monitoring and evaluation culture** across the public sector.

- **Develop a balanced approach between ‘accountability’ and ‘learning’ objectives,** to safeguard the opportunity to learn from occasional weak performance and policy failures.

- **Focus on capacity strengthening** of all actors of the monitoring and evaluation chain.

- **Provide incentives** to actors involved in the use of monitoring and evaluation data, such as rewarding goal achievement.

- **Allow for gradual development of the monitoring and evaluation system,** with a focus on getting the basics right and subsequently identifying more ambitious goals.

- **Promote citizen and stakeholder participation** in the evaluation process.

EVIDENCE-BASED DECISION MAKING

OECD practice suggests that the following elements are required to obtain and use the ‘right evidence’:

- a sound methodology that allows for proper consideration of the immediate and long term nature of the issue and of the rationale supporting different options for policy intervention (including doing nothing);

- good data for analysis;

- public access to the data, assumptions and methodologies used to frame the issue and identify options to address it, so that it can be scrutinised and the analysis replicated independently;

- time to carry out this analysis properly and to consult the general public on its results;

- a capable and skilled public service, including people skilled in quantitative methods;

- a ‘receptive policy-making environment’ – that is, political leaders who are willing and able to decide on the basis of the evidence presented.

Costa Rica made the most of traditional budget systems. It now needs to take a step forward and look at modern budgeting practices in order to make sure that the priorities expressed in the National Development Plan are actually financed and the corresponding programmes implemented, while ensuring long-term fiscal sustainability.

CURRENT BUDGETARY ARRANGEMENTS

- The budget process is well institutionalised – regulated by the Constitution and by the Financial Administration Act of the Republic and Public Budgets. The national budget is issued for 1 year, from 1 January to 31 December. The annual budget is based on goals and priorities that must be linked to the National Development Plan.

- A clear institutional set-up of the national budget – the co-ordination of the budget process is assured by 4 key actors.

MAIN ACTORS INVOLVED IN THE NATIONAL BUDGET PROCESS

<table>
<thead>
<tr>
<th>National Budgetary Authority – Ministry of Finance</th>
<th>Prepares the annual budget and issues a medium-term fiscal framework (current year plus four years) for the central government</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budgetary Authority</td>
<td>Issues “guidelines” on budget policies, wage, employment, debt and investment matters</td>
</tr>
<tr>
<td>Technical Secretariat of the Budgetary Authority – Ministry of Finance</td>
<td>Provides technical reports to support the discussions and decisions of the Budgetary Authority</td>
</tr>
<tr>
<td>Central Bank</td>
<td>Prepares macroeconomic assumptions</td>
</tr>
</tbody>
</table>

OECD RECOMMENDATION ON BUDGETARY GOVERNANCE (2015)

1. Manage budgets within clear, credible and predictable limits for fiscal policy;
2. Closely align budgets with the medium-term strategic priorities of government;
3. Design the capital budgeting framework in order to meet national development needs in a cost-effective and coherent manner;
4. Ensure that budget documents and data are open, transparent and accessible;
5. Provide for an inclusive, participative and realistic debate on budgetary choices;
6. Present a comprehensive, accurate and reliable account of the public finances;
7. Actively plan, manage and monitor budget execution;
8. Ensure that performance, evaluation and value for money are integral to the budget process;
9. Identify, assess and manage prudently longer-term sustainability and other fiscal risks;
10. Promote the integrity and quality of budgetary forecasts, fiscal plans and budgetary implementation through rigorous quality assurance including independent audit.

STRENGTHENING THE BUDGET FRAMEWORK FOR STRATEGIC PLANNING

CHALLENGES

Specific challenges related to financing and implementing NDP priorities include:

- **Insufficient co-ordination with the institutionally decentralised sector.** As the funding schemes of the institutionally decentralised sector are rigid, the government cannot re-allocate funds from one spending area to the other according to emerging priorities. In addition, co-ordination of the institutionally decentralised sector is weak.

- **Insufficient co-ordination of capital budgeting across public institutions.** The multiplicity of budgets and lack of co-ordination mechanisms have consequences on public investment. There is no enforcement mechanism to ensure that investments of the institutionally decentralised public sector institutions are aligned with the NDP.

- **Limited budget transparency in terms of readability of available documents.** Due to inconsistencies in the institutional classifications used by the different ministries, and the different datasets available, it is difficult to establish the link between objectives, goals, indicators and available resources.

- **High budget rigidities and lack of fiscal space.** The room for manoeuvre is very limited. About 95% of central government expenditures are pre-assigned. In addition, tax revenue as a percentage of GDP are low in Costa Rica compared to OECD countries, as well as other Latin American countries.

- **Weak fiscal constraint.** In practice, Costa Rica has no effective fiscal constraint, and no mechanism for facilitating and enforcing medium-term fiscal discipline in the central government budget. This results in systematic budget deficits.

- **Limited budget transparency in terms of readability of available documents.** Due to inconsistencies in the institutional classifications used by the different ministries, and the different datasets available, it is difficult to establish the link between objectives, goals, indicators and available resources.

**NEXT STEPS | BUDGET FRAMEWORK**

- **Create and ensure fiscal space** by reviewing the formulas of budgetary earmarks; strengthening the planning system; carrying out spending reviews; envisaging time limits (‘sunset’) for new programmes and reinforcing performance informed budgeting practices.

- **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; the development of conditionalities associated with budgetary transfers; and the implementation of high-level policy co-ordination.

- **Ensure fiscal sustainability** by re-activating the well-designed constitutional requirements on fiscal discipline; developing a comprehensive medium-term fiscal framework; clustering the responsibility to issue and monitor the compliance and implementation of fiscal rules within one institution; adopting tools and procedural rules to make the fiscal examination of permanent legislation more rigorous; considering the adoption of a single, centrally-controlled treasury fund.

**EARMARKED FUNDS AND MANDATORY EXPENDITURE IN 2014 NATIONAL BUDGET**

<table>
<thead>
<tr>
<th></th>
<th>Billion Colones</th>
<th>Share (%)</th>
<th>Share of GDP (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total budgeted expenditure</td>
<td>6,649</td>
<td>100</td>
<td>24.7</td>
</tr>
<tr>
<td>By constitutional mandate</td>
<td>2,290</td>
<td>34.4</td>
<td>8.5</td>
</tr>
<tr>
<td>By legal mandate</td>
<td>1,497</td>
<td>22.5</td>
<td>5.6</td>
</tr>
<tr>
<td>Mandatory expenditure</td>
<td>2,528</td>
<td>37.9</td>
<td>9.4</td>
</tr>
<tr>
<td>Debt service</td>
<td>1,933</td>
<td>29.1</td>
<td>7.2</td>
</tr>
<tr>
<td>Interests</td>
<td>774</td>
<td>11.6</td>
<td>2.9</td>
</tr>
<tr>
<td>Amortization</td>
<td>1,159</td>
<td>17.4</td>
<td>4.3</td>
</tr>
<tr>
<td>Wages (excl. MEP and PJ)</td>
<td>585</td>
<td>8.8</td>
<td>2.2</td>
</tr>
<tr>
<td>Other expenditure (1)</td>
<td>344</td>
<td>5.2</td>
<td>1.3</td>
</tr>
</tbody>
</table>

Costa Rica has established a professionalised civil service underpinned by a commitment to merit-based public employment. However, a myriad of legislation and collective agreements has led to a plurality of human resources management systems and policies, which results in significant disparity in the treatment of employees across institutions.

**CURRENT HRM ARRANGEMENTS**

- **The Civil Service Regime (CSR)** - the Constitution of 1949 and the subsequent Civil Service Statue 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 cover about one-third of public employees. Within and across these entities, there is a relatively consistent employment framework, with common pay scale, job classification and terms and conditions of employment.

- **The Civil Service Directorate General (CSDG)** - this entity acts as the central co-ordinating agency for public employment and HRM policies for the 47 entities of the CSR.

- **Fragmented arrangements outside the Civil Service Regime** – most public institutions have their own legislation regulating public employment and HRM practices. In addition, collective agreements in various institutions give employees privileges regarding pay, bonuses, incentives, working hours, which vary from one institution to the next.

- **The Budgetary Authority** – many institutions outside the CSR fall under the scope of the Budgetary Authority. The Budgetary Authority establishes and monitors the number of employees for each institution under its scope and determines payment policies according to guidelines issued by the President and the Ministry of Finance.

**CHALLENGES**

To develop a modern HRM system, Costa Rica currently faces the following challenges:

- **Lack of timely and accurate workforce data.** It is difficult to get an exact picture of the structure of public employment and the number and distribution of public employees, as there is no central database to collect employee statistics in the CSR or beyond.

- **A complex compensation system.** Currently the Costa Rican salary system is difficult to control, adjust, target, and manage, due in part to the lack of an integrated database on public employment, no fiscal ceiling that limits the pay envelope, complex combinations of bonuses and allowances.

**FUTURE COMPETENCIES NEEDED FOR AN AGILE, INNOVATIVE PUBLIC SERVICE – FOUR META-COMPETENCIES IDENTIFIED BY OECD COUNTRIES**

1. **Creative thinking**
   - Creativity and innovation

2. **Strategic thinking**
   - Vision and future orientation

3. **Cooperation**
   - Working collaboratively across boundaries and relationship building

4. **Flexibility**
   - Flexibility and change management

http://dx.doi.org/10.1787/9789264166707-en
that differ greatly from employee to employee, and an interrelated web of collective agreements and legislation that tie increases in salary of one group to another.

- **Fragmented approach to competency management.** Many institutions are not able to evaluate candidates with regards to specific competencies needed to meet organisational goals and few institutions align their annual training plan to a long-term strategy based on organisational goals.

- **Performance management is not linked to broader organisational goals.** Within the CSR, the performance assessment system suffers from a high level of complexity and ratings inflation.

- **Limited institutional and individual leadership development.** Costa Rica does not currently target training programmes towards managers or future managers. However, this is a new priority of the CSDG, which has recently created a new division for management training.

### HIGHLIGHTS

- **Improve the quality and consistency of workforce data** to improve transparency and enable more informed HRM decision making.

- **Evolve towards a more merit-based, transparent and sustainable compensation system, including non-monetary incentives.** Simplify the current compensation system by beginning a gradual transition towards a ‘single salary’ system. Given the legal constraints, it may only be possible to implement this policy for new employees.

- **Introduce competency management** as a foundation for more strategic human resources management, by building upon the existing job classification system and eventually integrating this competency framework into planning, recruitment/selection, mobility and development practices.

- **Simplify the performance management system and increase its effectiveness by linking the individual efforts of employees to larger organisational goals.** 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.

- **Enhance the coherence of its CSR through strengthened institutional and individual leadership.** This could include the development of management accountability structures to ensure delegation is met with capacity and accountability at the level of individual organisations. Additionally, the Human Resources Chief Management Assembly and the Technical Advisory Council should be used more effectively and the strategic management of senior civil servants could be strengthened.

### NEXT STEPS | HUMAN RESOURCES MANAGEMENT

- **Improve the quality and consistency of workforce data** to improve transparency and enable more informed HRM decision making.

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Supporting integrity policies in public procurement

Costa Rica has a longstanding tradition of committing to achieve proper management of public funds. Different reforms have been carried out in recent years to strengthen the legal and institutional framework of the country’s public procurement system and fight corruption. However, there is a need to further fine-tune procurement-related functions and increase transparency and accountability.

CURRENT PUBLIC PROCUREMENT ARRANGEMENTS

- **Key actors** – the Comptroller General, the Ministry of Finance (Department of Property Management and Public Procurement, DPMPP), the Digital Government Technical Secretariat, and specialised units within each institution are the key actors in the procurement process.

- **The Procurement Act**, enacted in 1995, is the most important legislation regarding procurement and defines the procurement plan and procedures. Other institutions, such as the Costa Rican Electricity Institute, have their own public procurement rules.

- **Recent reforms** were carried out at different levels, both for the legal framework and the institutional set-up. The Procurement Act was revised in 2006, which promoted the adoption of framework agreements.

- **Importance of general government public procurement** – it accounted for approximately 15% of GDP (excluding oil revenues) and 30% of general government expenditure in 2014.

CHALLENGES

Public procurement in Costa Rica is predominantly framed as an administrative task, rather than focusing on the strategic leverage of the procurement function. To shift towards a more strategic perspective on procurement, the following challenges have to be addressed:

- **No centralised purchasing body or procurement authority** exists with a strategic mandate to provide a cohesive procurement vision, guidelines, co-ordination and performance management criteria.

- **A strongly fragmented procurement system**. There are several platforms in place. The multiplicity of procurement bodies limits opportunities for creating economies of scale and lowering prices.

- **Ex-post controls in Costa Rica are limited**, as opposed to a general trend in many OECD countries to move away from *ex-ante* audit assignments and towards *ex-post* audit assignments and greater focus on internal controls and performance.
Different financial thresholds exist among institutions to carry out different procedures. Most OECD countries have a single set of thresholds, independent from the budget size of individual procurement entities.

High percentage of limited tendering. 82% in terms of number and 40% in terms of the procedures were awarded through limited tendering, in contrast to most OECD countries, where public bidding is the most common procurement procedure.

Lack of a professionalised procurement workforce. Procurement officials adopt a compliance-based approach to procurement, rather than a strategic approach based on outcomes, since there is no professionalised procurement workforce.

Lack of an institutionalised mechanism for civil society to participate in the procurement process.

Agree on a single procurement platform which covers the whole public sector, including the autonomous entities. 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 an authority to set a national procurement vision and to work in a cohesive manner toward clear priorities and objectives.

Apply a unique set of financial thresholds for procurement procedures, clarify good practices for contract clustering, and develop a system to track decisions and enable the identification of irregularities and potential corruption cases.

Enhance the professionalisation of the procurement workforce by providing adequate incentives to attract highly qualified officials and by updating officials’ knowledge and skills on a regular basis to reflect regulatory, management and technological evolutions.

Enhance stakeholder involvement throughout the different stages of the procurement process.

OECD RECOMMENDATION ON PUBLIC PROCUREMENT (2015)

www.oecd.org/gov/ethics/
Recommendation-on-Public-Procurement.pdf
Improving multi-level governance

Working together and striking a balance between the interests, capacities and objectives of national and sub-national levels is essential for more effective public policy outcomes. Despite important economic development since the 1970s, Costa Rica displays significant territorial imbalances and a rural-urban split. A constitutional reform of 2001 has formally allocated more power and budget to sub-national levels. Yet, the associated budgetary transfer (10%) has not been carried out.

CURRENT MULTI-LEVEL GOVERNANCE ARRANGEMENTS

- 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 four years. The lower administrative level includes 423 districts. Only the central government and municipalities (or cantones) have administrative powers.

- The Constitution allocates substantial, yet undefined, power to municipalities – municipal actions are mostly framed and organised by the central government and national regulation.

- An important role for the institutionally decentralised sector in service delivery – a large part of public expenditure is executed by the institutionally decentralised sector which is in charge of producing key services.

- The role of federations of municipalities and cantonal councils – these represent a potential asset for Costa Rica’s multi-level governance system. For example FEDOMA, which federates 11 municipalities in the central region, provides capacity-building for its members.

- Low levels of public expenditure at the local level – the institutionally decentralised sector accounts for a large share of public expenditure, while the territorially decentralised sector accounts for a minor share. Municipalities currently represent only about 4% of total general government consolidated expenditure.

TEJENIDO DESARROLLO – ‘WEAVING DEVELOPMENT’

Tejiendo Desarrollo is a recently introduced policy framework supporting community-led development processes. The objectives of the network are the following:

- to promote 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 MIDEPLAN.

http://documentos.mideplan.go.cr/alfresco/d/d/workspace/SpacesStore/cd1da164-866b-4f6f-bd96-b2b2ee0525b7/2015-2018%20Alberto%20Ca%C3%B1as%20Escalante%20WEB.pdf
To foster genuine multi-level governance throughout the country, Costa Rica needs to address the following challenges:

- **Limited access to basic public services for the rural poor population.** Accessibility to basic public services in Costa Rica depends on income and location. Reduced access to basic services has territorial features.

- **Foreign Direct Investment and tourism have developed weak links with local businesses.** Current trends in Costa Rica’s productive framework challenge the national governance system. International competition to attract FDIs in knowledge-intensive industries has been dramatically increasing and there is a need to enhance the country’s competitiveness through local linkages and reduce current geographic disparities in job creation.

- **The limited role of sub-national authorities.** When compared with OECD countries, Costa Rica’s governance is based on a system where 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. In particular, sub-national expenditure is low in all domains.

- **Shortcomings of the current institutional framework vis-à-vis citizens.** The system fails to provide citizens with tailored services in different areas of the country (i.e. the current rural-urban split). Due to economic development, citizens demand a large range of public services, which are also diversified according to their specific needs. In addition, citizens’ negative perception and expectations can be fuelled by a largely incomplete process of devolution: citizens can elect their mayors since 1998, but the latter have limited resources to develop and implement policies.

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**Use contracts** to facilitate the functional relation between the central government and municipalities. A contract helps to identify a specific task to devolve to a given municipality, clarifies the scope of the devolved activity and even its timeline, if relevant. In addition, a contract helps to clarify the expected outcomes, contributing to greater trust in institutions.

**Create a network of community agents** to provide 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.

**Introduce flexibility in the governance system** to help to 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 the possibility to experiment with different territorial systems.
OECD public governance and territorial development directorate – areas of work

The OECD Public Governance and Territorial Development Directorate helps countries implement strategic, evidence-based and innovative policies to strengthen public governance and improve citizens’ trust in government. The areas of work addressed in Costa Rica’s Public Governance Review build upon the Directorate’s daily work. This work involves carrying out policy analysis and peer reviews, facilitating policy committees and networks, and developing recommendations, instruments and principles.

AREAS OF WORK ADDRESSED IN COSTA RICA’S REVIEW

**Centre of government**
Moving away from the traditional role of serving the executive from an administrative perspective, centres of government are now playing a more active role in policy development. OECD work on centres of government explores how governments can adapt the institutions at the Centre in order to play this expanded and more outward-looking role. As part of its work on centres of government, the OECD convenes the Network of Senior Officials from Centres of Government in annual meetings.  
http://www.oecd.org/gov/cog.htm

**Monitoring and evaluation**
In the quest for inclusive outcomes, governments are increasingly making use of monitoring and evaluation systems to maximise the use of scarce resources and ensure that the results achieved reflect the intended outcomes. Recently, the OECD convened a symposium on public sector performance and annually organises the Senior Budget Officials Network on Performance and Results.  
http://www.oecd.org/gov/budgeting/seniorbudgetofficialsnetworkonperformanceandresults.htm

**Human resource management**
Public administrations need the right people in the right place, at the right time, and with the right skills, if they want to meet today’s challenges. The OECD’s work on strategic workforce management, including reviews of human resource management in government, highlights governments’ efforts to promote strategic workforce planning.  
http://www.oecd.org/gov/pem/

**Integrity and public procurement**
Integrity is essential for building strong institutions resistant to corruption. The OECD developed a set of recommendations to enhance integrity and prevent corruption in the public sector and to ensure a strategic use of public procurement. The OECD carries out reviews on public sector integrity and public procurement to help policy makers improve policies, adopt good practices and implement established principles and standards.  
http://www.oecd.org/gov/ethics/

**Multi-level governance**
Sub-national governments provide substantial public services and they are close to the citizen. Therefore, effective multi-level governance plays an important role in delivering inclusive growth outcomes. The OECD publishes territorial reviews at the national, regional and metropolitan levels and promotes good practices in the area of multi-level governance of public investment.  
Regional development helps governments foster competitive dynamic regions to achieve their economic, social and environmental objectives. 
http://www.oecd.org/gov/regional-policy/

Regulatory policy helps governments achieve their policy objectives through the use of regulations, laws and other regulatory instruments.
http://www.oecd.org/gov/regulatory-policy/

Gender – empowering and encouraging women to participate in the public sphere is essential to ensure a balanced perspective on policy making and is associated with improvements in social outcomes. 

Justice – The OECD work on justice services aims at supporting improved citizen access to justice by strengthening citizen focus of justice services. 

Additional Areas of Work

http://www.oecd.org/gov/govataglance.htm

**Open government** – including the opening up of government processes, proceedings, documents and data for public scrutiny and involvement – is now considered a fundamental element of a democratic society.
http://www.oecd.org/gov/open-government.htm

**Digital government** explores how governments can best use information and communication technologies to embrace good government principles and achieve policy goals.
http://www.oecd.org/gov/public-innovation/

**Public sector innovation** – governments are finding new ways of operating and responding to public needs in a globalised and networked world characterised by rising citizen expectations and financial constraints. These efforts are supported through the OECD Observatory of Public Sector Innovation.

**Below**: Luis Guillermo Solís Rivera, President of Costa Rica and Angel Gurría, Secretary-General of the OECD. Paris, France, 5 June 2015.