

COSTA RICA

UNITARY COUNTRY

LATIN AMERICA

BASIC SOCIO-ECONOMIC INDICATORS

Income group - UPPER MIDDLE INCOME Local currency - Costa Rican Volón (CRC)

POPULATION AND GEOGRAPHY

AREA: **51 100** km²

POPULATION: **4.758** million inhabitants (2014),
an increase of 1.1% per year (2010-14)

DENSITY: **93** inhabitants/km²

URBAN POPULATION: **75.9%** of national population

CAPITAL CITY: **San José** (23.4% of national population)

Sources: OECD, World Bank, UNDP, ILO.

ECONOMIC DATA

GDP: **71.0** billion (current PPP international dollars)
i.e. 14 918 dollars per inhabitant (2014)

REAL GDP GROWTH: **3.5%** (2014 vs 2013)

UNEMPLOYMENT RATE: **8.3%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **2 578** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **19%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.766** (high), rank **69**

TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGs
81	-	-	81
MUNICIPALITIES (CANTONES) AVERAGE MUNICIPAL SIZE: 58 735 INHABITANTS			

MAIN FEATURES OF TERRITORIAL ORGANISATION. According to the constitution, Costa Rica is divided into seven provinces, 81 municipalities and 478 districts. However, the seven provinces (directed by a government appointed by central authorities) have gradually weakened and are basically mere electoral districts. The only level of local self-government in the country is the municipality, led by municipal governments. These governments have been democratically elected since the new Municipal Code of 1998 (first elections held in 2002). While the districts also possess a democratically elected representative, their sole function is to communicate with municipalities on needs and requirements for the local population. Moreover, in 1970, the country was divided into six planning regions for administrative purposes, each hosting regional development councils formed by central government representatives to manage regional development.

MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES. The allocation of responsibilities to local governments is described in the new 9329 general law on the transfer of competence and resources adopted in 2010 (*Ley General de Transferencia de Competencias y Recursos a los Municipios*) aimed at promoting decentralisation. The law stipulates that any function not explicitly granted to central authorities is "decentralisable" (with the exception of education and healthcare). However, numerous responsibilities are not carried out by municipalities because of insufficient resources. Municipalities have both own and shared competencies. Their own competencies include urban planning, waste management, road maintenance, public lighting, parks, libraries, sport facilities etc., while shared competencies include participation to national health programmes, environmental protection, management of social subventions, public order and local economic development.

SUBNATIONAL GOVERNMENT FINANCE

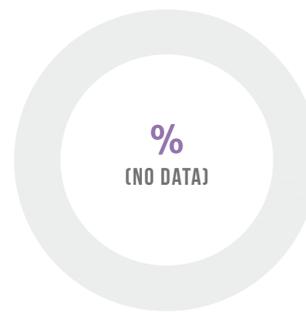
EXPENDITURE	% GDP	% GENERAL GOVERNMENT (same expenditure category)	% SUBNATIONAL GOVERNMENT
TOTAL EXPENDITURE (2013)	1.2%	4.1%	100%
CURRENT EXPENDITURE	1.0%	-	83.5%
STAFF EXPENDITURE	0.5%	4.1%	41.8%
INVESTMENT	0.2%	11.6%	15.9%

Costa Rica is a centralised country. Compared with the OECD countries, the SNG role in GDP and public expenditure is very low. Municipalities deliver few policies and services to citizens and play a marginal role in public investment. The lion's share of SNG expenditure is made up of staff expenditure.

EXPENDITURE BY FUNCTION

% SUBNATIONAL GOVERNMENT EXPENDITURE

GENERAL PUBLIC SERVICES
DEFENCE
SECURITY AND PUBLIC ORDER
ECONOMIC AFFAIRS
ENVIRONMENTAL PROTECTION
HOUSING AND COMMUNITY AMENITIES
HEALTH
RECREATION, CULTURE AND RELIGION
EDUCATION
SOCIAL PROTECTION



REVENUE BY TYPE	% GDP	% GENERAL GOVERNMENT (same revenue category)	% SUBNATIONAL GOVERNMENT
TOTAL REVENUE (2012)	1.2%	4.9%	100.0%
TAX REVENUE	0.7%	4.6%	53.9%
GRANTS AND SUBSIDIES	0.2%	-	15.3%
OTHER REVENUES	0.4%	-	30.9%

The majority of SNG resources come from taxation and other sources of own income (property income and user tariffs and fees), the share of central government transfer being particularly low.

TAX REVENUE. Municipal taxes include a property tax (40% of municipal tax revenue .i.e. 0.3% of GDP, a tax on economic activity (patents), liquor, public events, etc. All in all, taxes on goods and services represented 55% of municipal tax revenue in 2013. Tax rates are fixed by central authorities. Since the 1995 reform, municipalities have been in charge of collecting property tax instead of the central government. However, they cannot set the tax rate or base. Municipalities can propose new types of tax at the Legislative Assembly.

GRANTS AND SUBSIDIES. According to the Constitution, the central government has to transfer funds to local governments. The 2010 Law on the transfer of competence and resources provides the possibility to transfer 10% of national budget resources to the municipalities with a seven-year plan to reach this decentralisation objective. This law is currently being implemented. According to the law, distribution criteria for distribution of funds will be as follows: 30% distributed equally, 20 % distributed according to the number of inhabitants, 40% according to the municipal area and 10% based on the municipal poverty rate. Moreover, following the introduction of the Law for Simplification and Budgetary Efficiency, municipalities are granted a 7.5% share of fuel tax, and this transfer is earmarked for the maintenance and/or construction of roads. Most grants are capital grants.

OTHER REVENUES. Other revenues include property income (market stalls rents), municipal stamps and mainly sales of goods and services (licenses, water, waste management, parking fees, street cleaning). Their share in SNG revenue is twice that of central government transfers.

OUTSTANDING DEBT	% GDP	% GENERAL GOVERNMENT
OUTSTANDING DEBT (2013)	-	-

Municipalities can borrow only to finance investment projects (golden rule). They can contract debt towards the national banking system and the Institute of Municipal Development and Assistance (*Instituto de Fomento y Asesoría Municipal – IFAM*), a public organisation established in 1970, to promote and help develop municipalities, providing, among other activities, loans to the municipalities at preferential rates. Municipal borrowing is subject to authorisation from central authorities.

A joint- study of:



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Sources: IMF: Government Finance Statistics • Instituto Nacional de Estadística y Censos • <http://presidencia.go.cr/prensa/comunicados/gobierno-impulsa-proyecto-que-garantiza-mas-recursos-y-competencias-a-municipalidades> • OECD (2015), Costa Rica: Good Governance, from Process to Results, OECD Public Governance Reviews • Union National de Gobiernos Locales (2014) Resultados del Índice de Gestión Municipal del periodo 2013 • Municipalidad de la Unión (2014) Modelo Electronico de Liquidación Presupuestaria • Torrealba A. et al (2014) Visión General Del Sistema Tributario Municipal • Galilea S. et al (2011) Descentralización de servicios esenciales. Los casos de Brasil, Chile, Colombia, Costa Rica y México en salud, educación, residuos, seguridad y fomento, Publicación de las Naciones Unidas • Ordóñez J. (2010) Descentralización y gobiernos locales en Costa Rica: Bases para una reforma jurídica e institucional, Asociación Estudios para el Futuro.