Office of Evaluation and Oversight

Approach Paper

Costa Rica
2011-2014

Country Program Evaluation

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CONTENTS

ABBREVIATIONS

BCCR	Central Bank of Costa Rica
CABEI	Central American Bank for Economic Integration
CCLIP	Conditional Credit Line for Investment Projects
CINDE	Coalición Costarricense de Iniciativas de Desarrollo [Development Initiatives Coalition of Costa Rica]
CONAVI	Comisión Nacional de Vivienda [National Housing Commission]
CPD	Country Programming Document
CPE	Country Program Evaluation
FDI	Foreign direct investment
ICE	Instituto Costarricense de Electricidad [Costa Rican Electricity Authority]
NSG	Non-sovereign guaranteed
OECD	Organization for Economic Cooperation and Development
OECD-DAC	Development Assistance Committee of the Organization for Economic Cooperation and Development
OVE	Office of Evaluation and Oversight
PBL	Policy-based loans
PCR	Project completion report
PMR	Performance monitoring report
PROCOMER	Promotora del Comercio Exterior de Costa Rica [Costa Rican trade promotion agency]
SG	Sovereign guaranteed
SMEs	Small and medium-sized enterprises
WDI	World Development Indicators.

I. INTRODUCTION

1.1 **This approach paper defines the scope and objectives of, and tools for, the Costa Rica Country Program Evaluation (CPE) for the 2011-2014 period.** This is the fourth time the Office of Evaluation and Oversight (OVE) will provide an independent look at the Bank's program with Costa Rica. OVE's first CPE (document RE-277, February 2003) covered the 1990-2001 period, marked by the country's unambiguous response to the debt crisis of the early 1980s, through an open trade model that resulted in substantial foreign direct investment (FDI). The second CPE (document RE-325, December 2006) covered the 2002-2006 period, which began with a slowdown in investment and tourism, due to exogenous factors, but then continued with a recovery in growth to rates that were high relative to regional averages.

1.2 **This evaluation covers the 2011-2014 period, during which the debate over the country's growth model sharpened.** The third (and most recent) CPE for Costa Rica covered the 2006-2010 period, which was marked by the detrimental impacts of the international financial crisis on economic growth and fiscal performance. Previous CPEs already indicated the political fragmentation, as revealed by the complex legislative process and the resulting difficulty with the ratification of loans. The 2006-2010 period was characterized by a deterioration of this debate, partly as a result of the government's investment of political capital in ratifying the Central American Free Trade Agreement (which was finally approved in a close-run referendum in 2007). Recent presidential elections continued this trend, accentuating the gaps between advocates of an open economy model, and those who believe it should be substantially curtailed.

1.3 **This evaluation will be governed by OVE's current Protocol for Country Program Evaluation (document RE-348-3), pursuant to which the past program will be evaluated to determine the extent to which its goals were achieved and to draw lessons.** CPEs seek to *"to provide information on Bank performance at the country level that is credible and useful, and that enables the incorporation of lessons and recommendations that can be used to improve the development effectiveness of the Bank's overall strategy and program of country assistance."* (document RE-348-3, paragraph 2). In addition to facilitating accountability, CPEs seek to identify lessons learned that could improve the Bank's program in the future through the implementation of specific recommendations (ibid. paragraph 3). Lastly, this CPE is one of a series of recent evaluations for middle-income countries like Costa Rica, such that its findings will contribute to the discussion of this crosscutting topic in the Bank.

II. THE COUNTRY PROGRAM CONTEXT, 2011-2014

A. Background

2.1 **Costa Rica is a relatively small country that, despite its exposure to external shocks, has managed to join the group of medium-high income countries.** With a population of 4.8 million and a relatively small land area, Costa Rica is vulnerable to climatic and external economic shocks.[1] Nevertheless, it has managed to achieve a per capita GDP of close to US$10,000 and has maintained an average rate of economic growth of 4.8% per annum over the last 10 years. This performance was fueled in recent decades by its highly open economy, which has attracted steady FDI flows and focused on exports of both services and higher value added products. In recognition of this performance, Costa Rica is progressing towards membership in the OECD.[2]

2.2 **In 1948 Costa Rica laid the groundwork for a welfare state with significant investments in human development that have largely been maintained.[3]** The country has enjoyed uninterrupted democratic government since 1948.[4] Costa Rica has urbanized rapidly compared with the rest of Central America.[5] The main institutions adopted vertically specialized organizational structures, leading to a certain degree of rigidity, but served to expand the coverage of public and social services. For several decades this model met the needs of a society with a traditional productive matrix and slow pace of technological change. However, since the 1980s globalization has created demands for strong growth and investment, which are increasingly at odds with the vertical structure of the Costa Rican State.

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1 In terms of its geographical size, Costa Rica is slightly larger than Switzerland; and in terms of population, it is comparable to Ireland (4.6 million) or Norway (5 million).

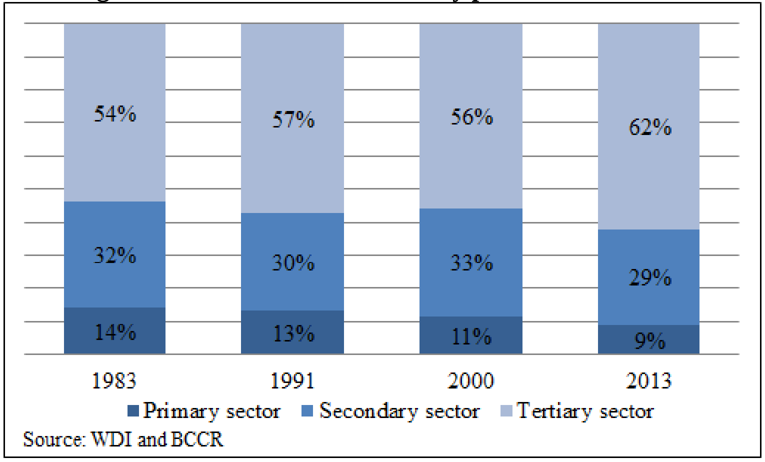
2 Among the Bank's borrowing member countries, only Mexico and Chile are members of the Organization for Economic Cooperation and Development (OECD). Colombia is also moving forward in its process of joining the OECD, along with Costa Rica. http://www.oecd.org/countries/costarica/

3 As part of this innovative model, Costa Rica was the first country in the region to disband its armed forces and implement a wide range of social and economic reforms, including government provision of public services. According to the United Nations Development Programme, investment in the social sector remained above the Latin American average over the following decades.

4 Up until 2002 there was a two-party system with the National Liberation Party and the Social Christian Unity Party alternately holding the presidency. Recent elections were won by the candidate for the more recently created Citizens' Action Party.

5 Between 1960 and 2013, the percentage of the urban population rose by 30 points to reach 65%. The rest of Central America (except Panama) saw an increase of less than 30 points (see World Development Indicators (WDI)).

Figure 2.1. Contribution to GDP by productive sector



2.3 **Costa Rica promoted an ambitious movement toward open investment and trade in the wake of the 1980s debt crisis.** Like several other countries in the region, Costa Rica went through a severe financial crisis in the early 1980s. It consequently abandoned its import substitution model and implemented reforms to liberalize the economy and promote trade agreements[6] and foreign investment.[7] The effort to attract Intel, led personally by the President of the Republic and an elite team of professionals, was an important milestone in this process.[8] Intel was followed by over 200 multinational firms, which deepened the national debate on the fiscal cost of the exemptions offered relative to the positive externalities for the country deepened.

2.4 **Foreign direct investment (FDI) produced a dynamic export sector that leveraged the country's advantages.**[9] In a context of stability, tax exemptions, and perceived comparative advantages in terms of human resources, the rule of law, location, and regulatory exemptions, FDI rose from 1% of GDP in 1980 to over 5% of GDP in 2013. This investment has manifested itself in large transnational corporations setting up production, logistics, and global services centers in the

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6 Since the 1980s, Costa Rica has signed one of the largest numbers of bilateral and multilateral trade agreements of any country in the region. These include agreements with Colombia, Central America, Chile, Canada, Panama, the United States, the Dominican Republic, Singapore, China, Peru, Mexico and the European Union.

7 Bilateral aid from the United States played an important role. At the end of Nicaragua's armed conflict in the 1980s, the United States Agency for International Development pulled out of Costa Rica, but left resources in trust to promote specific initiatives, for example contributing seed capital for the Development Initiatives Coalition of Costa Rica (CINDE), which has worked in partnership with the country's trade portfolio for the last 30 years.

8 Almost two decades ago—in April 1997—the first stone of the Intel plant was laid in Costa Rica, under the presidency of Mr. José Figueres Olsen.

9 In September 2013 the Ministry of Foreign Trade, PROCOMER, the Costa Rican Tourism Institute, and CINDE jointly launched the country brand: "*Esencial Costa Rica*" [Essential Costa Rica]. According to surveys and focus groups conducted during its preparation, Costa Ricans are regarded as being competent, welcoming, peace-loving, and driven to advance; and Costa Rica is seen as a green country, with huge biodiversity and a unique and accessible landscape in a privileged location, and is identified as a peaceful destination.

country, with a cumulative investment of around 40% of Costa Rica's 2013 GDP.[10] As a result, Costa Rica diversified its export basket from three main products to over 1,600. In addition, an environment-friendly tourism industry was promoted, which now accounts for about 4.5% of GDP. This sector vitalizes a value chain equivalent to 12% of GDP, already bringing in more foreign currency than traditional banana, pineapple, and coffee exports combined.[11]

2.5 **Since 1985 economic growth has been bolstered by these export-oriented sectors.** Since the early 1980s the proportion of the tertiary sector increased steadily, while that of the primary and secondary sectors decreased (see Figure 2.1). Between 1980 and 2012, exports rose from close to 27% of GDP to almost 37%. Although industry is the main export category (41% of total exports), services (including call centers and back offices) have been thriving in recent years, rising from close to 20% of exports in 2000 to 33% in 2013.[12] The remaining exports are from the agriculture sector, which also gradually consolidated, especially in categories in which the dominant suppliers tapped into the advantages of the aggressive trade agreements policy implemented by the country.

Table 2.1 - Challenges in the Electricity Sector
Institutional framework. The Costa Rican Electricity Authority (ICE) is a State-owned utility company that has been responsible for the electricity sector and telecommunications since it was created immediately after the 1948 revolution. The possibility of private electricity generation was opened up in 1990, and again in 1995, but the ICE still dominates the sector with around 80% of installed capacity. The regulatory body, ARESEP, is institutionally and financially weaker than the ICE.
Coverage. Costa Rica has one of the highest electricity distribution coverage rates in the region. Coverage rose from 47% in 1970 to 99% in 2013, even reaching remote, low-income population groups, but generating obvious challenges in terms of recouping the investment in transmission lines.
Demand. The rapid average growth in electricity demand (5.4% a year) means generating capacity needs to double every 15 years. Around 23% of this demand comes from industry, with use by households and services accounting for over 70%. Energy efficiency is an important consideration in this latter segment of consumption.
Generation. Costa Rica has one of the region's cleanest generation matrixes, with over 90% of its electricity coming from renewable sources. Constraints on public investment have led the country to partially open the sector up to private investment—initially up to 15% of total generating capacity, and more recently a further 15% under BOT schemes (build, operate, and transfer to the State).

2.6 **However, the export sector accounts for a relatively small proportion of employment.** The 2012 Export Census prepared by PROCOMER indicates that the

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[10] OVE estimates based on data from the Central Bank of Costa Rica. The enterprises include Intel, Procter & Gamble, Hewlett-Packard, Boston Scientific, Allergan, Hospira, Baxter Healthcare, Dell, Amazon, IBM, Western Union, Bank of America, and Citigroup. Indeed, the IDB has also based some of its corporate service centers in the country.

[11] According to 2014 data from the World Trade and Tourism Council (WTTC).

[12] Mainly represented by electronic products and high value added medical devices requiring skilled labor, particularly in the science, technology, mathematics, and engineering areas, along with organizational and teamwork skills.

export sector generated 553,690 direct jobs: 27.8% of total employment in the country. Of these, 75% involved activities related to the export of goods and 25% to the export of services. Of total jobs generated by the export of goods, the agriculture sector represented 53% and industry, the remaining 47%. The activities in the export-processing zones stand out for their large share of total exports but their low use of labor (2.6% of the labor force in 2010). In addition, the enterprises under the export-processing zones arrangement enjoy certain tax exemptions that make their fiscal contribution relatively low as well.

2.7 **Despite its achievements, this growth model is facing critical challenges.** First, the benefits of the more fast-growing export sector do not seem to have sufficiently spilled over into the rest of the economy. Second, the country's comparative advantages have been eroding, partly as a result of insufficient public investment and fiscal constraints that make it unlikely that this situation will be reversed in the short term. Third, the international financial crisis has led to a significant drop in the export of goods and in demand for services such as tourism, which has reduced the tolerance of export market-oriented enterprises for giving into pressure to contribute to the country's fiscal balance.[13]

B. Main development challenges

2.8 **The State's governability and efficiency have been affected by the growing fragmentation of and judicial involvement in public policy.** The proliferation of political parties has made consensus very hard to achieve. This has slowed down legislative processes and has led to a loss of timeliness in the approval of public policies. The country also lacks an effective system for building consensus that would allow it to generate solid medium- and long-term national plans, except within a few State-owned sector enterprises—such as the Costa Rican Electricity Authority (ICE)—which are managed in a relatively independent manner and plan for longer term investments, but lack a multisectoral vision.[14] The lack of consensus also slows down conflict resolution, leading to specific disputes being taken to the Constitutional Chamber of the Judicial Branch (Court IV), which rules according to rights, without taking the fiscal cost of its rulings into account.[15]

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[13] Intel recently announced the closure of its microprocessor plant in Costa Rica, while Bank of America announced it would be closing its global Hispanic back-office operations in the country.

[14] The existing national plans are mainly government plans, coinciding with four-year presidential terms of office. The Ministry of Planning (Mideplan) has lost standing, with its limited capacity for results-based budgeting and execution of investment plans. The Office of the Comptroller General has become a significant presence in public sector implementation processes, with a complex system of ex ante and ex post controls.

[15] As an example of the effect of this mechanism, a rural teacher recently lodged an appeal with the Constitutional Chamber alleging harm to health caused by the dust from a nearby gravel road. The Chamber ruled that this constituted a violation of rights and ordered the National Road Council to start laying asphalt on national highway 160 within not more than 18 months. The Chamber made no mention of the cost, but it is estimated that paving similar roads nationally would require an investment equivalent to over 5% of GDP.

2.9 **The Costa Rican State maintains a strong presence in key sectors of the economy.** Unlike most countries in the region, Costa Rica has not privatized its public utilities. Even where there has been a certain level of openness to private investment (such as in telecommunications, finance, and energy), State-owned enterprises retain considerable market power. Indeed, as a result, some two thirds of public expenditure and investment are not managed from the central government but rather from these State-owned enterprises and agencies, which operate as autonomous bodies. On the other hand, the level of budget decentralization to subnational entities is among the lowest in the region, accounting for just 2% of the national budget.

2.10 **The public finances have been deteriorating, partly as a result of the international financial crisis.** Although Costa Rica had gradually managed to straighten up its fiscal situation, the international financial crisis led to a countercyclical fiscal policy with no increase in tax revenue. Between 2009 and 2013 the fiscal imbalance was between 3.4% and 5.4% of GDP and public debt has been trending upward, rising to over 35% of GDP in 2013. The fiscal situation is even more worrisome as recent fiscal reform plans launched by the outgoing government have been blocked, and during the electoral campaign the incoming government made a commitment not to raise taxes for at least two years.

2.11 **Costa Rica's competitiveness is under pressure on several fronts.** The private sector faces considerable red tape and excessive regulation. The oligopolistic structures in some sectors—particularly energy—lead to relatively high costs, and rates have doubled with respect to 2005. Costa Rica's human capital is beginning to show signs that it is not equal to the country's production-oriented aspirations, and that more science, mathematics, and engineering skills are required. The deterioration of physical infrastructure means investments are needed in order to support productive flow, but the public sector has some significant weaknesses in terms of financing and executing them.[16] Recent failed attempts at participation in concessions have generated mistrust of this instrument.[17]

2.12 **Lastly, the country needs to redouble the effectiveness of its investment in human capital and ensure the overall consistency of public policies.** With high levels of spending relative to the region, education, health, and basic services coverage has expanded considerably, reaching a significant portion of the population.[18] However, sector performance is uneven, with coverage at close to 100% in electricity and potable water; Costa Rica falls below almost all the

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[16] For example, the 2013-2014 Global Competitiveness Index ranked Costa Rica 125th for its highway system and 128th for its ports, out of a total of 148 countries.

[17] The latest widely reported case was the cancellation of a 30-year concession contract with the Brazilian firm OAS for the extension and management of 60 kilometers of highway between San José and San Ramón, at a cost to the State of tens of millions of dollars. Another example is the cancellation in 2010 of a mining concession with the Canadian-owned firm Industrias Infinito, which is still in litigation.

[18] In 2012, 94% of the population had access to a sanitation system, and 97% had access to an improved supply of potable water.

countries of Central America in the area of wastewater treatment, with only 3.6% being treated.[19] This in fact reflects a certain level of inconsistency with other pillars of public policy, such as the one positioning Costa Rica as an ecological country. Another example is the deterioration of education quality measurements and the low retention rate in secondary education, which are in contrast with the country's commitment to generating jobs in high value added sectors.

2.13 **Despite the country's clear progress, around 20% of the population remains in poverty and a sense of "duality" has deepened in a society with traditionally egalitarian values**.[20] Over the last 20 years, around 10% of the population has remained in a situation of structural poverty. Over the same period, transitory poverty has also remained at around 10% and has been determined primarily by the fragility of access to employment. This is compounded by the effect of Costa Rica's migration pattern; the country attracts net positive migration, mainly of low-income people from Nicaragua.[21] In the years preceding the 2010 elections, crime rates increased and became an important topic during that presidential campaign. Although the crimes rates have dropped and remain low in comparison with the region, the perception of insecurity has a place in public opinion. These effects combine to generate a growing "duality" in a society with a traditional sense of equality, by creating a separation between those who can afford private security, education, or health care, and those who cannot.

III. THE BANK'S STRATEGY AND PROGRAMMING IN COSTA RICA, 2011-2014

A. Country strategy 2011-2014

3.1 **In 2010 the incoming government published its National Development Plan 2011-2014, timed to coincide with the presidential term of office.**[22] The plan rested on four pillars of activity: Social Welfare; Citizen Security and Social Peace; Environment and Land-use Planning; and Competitiveness and Innovation. Within these, priority was given to investments to improve the security situation (which had been a subject of concern during the campaign), upgrade the country's physical

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[19] In fact, 72% of the population still uses septic tanks to dispose of wastewater, according to the 2011 report of the National Water Laboratory. Source: Angulo, 2013.

[20] The 2013 Gini coefficient rose to 0.524, the highest for the 1990-2013 period. See WDI and *Estado de la Nación*.

[21] According to the National Statistics Institute, approximately 6% of the population is of Nicaraguan origin. This group is generally low income, thus placing a burden on social protection systems. Unlike some of the neighboring countries, less than 3% of Costa Rica's population lives abroad—compared with over 20% for countries like El Salvador—so Costa Rica does not benefit from significant flows of remittances from emigrants.

[22] The country strategy refers to this document because it is the longest term formal planning document in effect nationally in Costa Rica. Nevertheless, there is longer term planning in State-owned utility companies, particularly the ICE, in the areas of electricity and telecommunications.

infrastructure (with emphasis on highways and ports), and boost social investment (including education and preschool care).

Table 3.1. Sector priorities in the 2011-2014 Strategy

Sector	Sector Objectives
Transportation	• To rehabilitate and maintain transportation infrastructure • To adapt it to growth in demand • To strengthen the sector's institutional functioning
Energy	• To strengthen the institutional and regulatory framework of the energy sector, with emphasis on the electricity subsector • To develop installed electric power generation capacity • To consolidate the sustainability of the energy matrix
Citizen security	• To strengthen the capacity of the State to combat organized and common crime • To develop social protection programs for violence prevention and citizen security
Early childhood development	• To consolidate a social safety net from early childhood
Health	• To strengthen and expand the health care system.
Innovation	• To increase investment in R&D • To increase private investment including investment in R&D • To promote the development of technical/scientific human capital

3.2 **The Bank directly endorsed most of the government's pillars of activity, with the exception of Environment and Land-use Planning.** The Bank's Country Strategy with Costa Rica for 2011-2014 (document GN-2627), approved in August 2011, focused on the following sectors: (i) transportation; (ii) energy; (iii) citizen security; (iv) early childhood development; (v) health; and (vi) innovation (see Table 3.1). The Country Strategy was directly aligned with three of the four pillars. As to the fourth pillar—Environment and Land-use planning—the Bank already had operations with undisbursed balances under way when the Country Strategy was formulated.

3.3 **The Country Strategy also identified a series of crosscutting issues, such as managing government procurement and interagency coordination.** According to the strategy, a joint IDB and World Bank evaluation identified the following challenges for public procurement: (i) the high degree of regulatory fragmentation; (ii) lack of integration between budgeting and procurement, (iii) the absence of a single portal with information about the country's procurement; (iv) lack of an accreditation system; and (v) control systems not geared to optimization of spending. In the Country Strategy the Bank undertook to strengthen the institutional capacity of the lead government procurement agency and the information system functions. The Country Strategy mentioned interagency coordination as a risk, but did not specify any mitigating actions.

B. The Bank's portfolio of operations 2011-2014

3.4 **The Country Strategy envisaged a lending framework of US$1.060 billion for sovereign guaranteed (SG) operations, 93% of which has been fulfilled, with six months left before the end of the strategy period.** Since 1 January 2011, the Bank has approved US$984.4 million, consisting of five SG loans for Costa Rica. This represents close to 93% of the amount of approvals anticipated for the period. The average amount per loan was almost US$200 million, but with high variability between sectors: the smallest for US$35 million and the largest for US$400 million.

3.5 **The transportation and energy sectors accounted for two thirds of SG approvals in the 2011-2014 period.** The two largest loans approved were US$400 million in the transportation sector[23] and US$250 million in the energy sector, which together represented two thirds of the amounts approved. The remainder was distributed among education (US$167 million), citizen security (US$132.4 million), and small and medium-sized enterprise (SME) development and innovation (US$35 million). Lastly, the absence of Bank loans in the health sector,[24] which had been identified as a priority in the country strategy, stands out (see Figure 3.1), the country having opted to work primarily with the World Bank.

3.6 **The Country Strategy also indicated the growth potential for the Bank's NSG operations, but without specifying numerical targets, given that these operations depend on individual clients' demand.** The Country Strategy envisaged financing hydroelectric projects, power generation with other renewable sources, road, port, and airport infrastructure, physical infrastructure for the national early childhood care and development network, primary and tertiary health infrastructure, and interventions aimed at SMEs. Unlike what was anticipated in the Country Strategy, NSG loans have not been approved in the majority of the sectors mentioned.

3.7 **Since January 2011, eight NSG loans were approved, for a total of US$388.5 million: one large energy operation with the ICE and seven traditional operations with financial institutions, mainly in support of SMEs.** During the strategy period, an innovative operation for US$200 million was approved—combining a loan and and a guarantee—to support the financing of the country's major hydroelectric project (Reventazón). The remainder (US$188.5 million) was channeled through lines to financial institutions—including Costa Rica's two large State-owned banks—with the objective of providing support for SME financing and promoting trade and mortgage portfolios.

[23] In 2013, the Transportation Infrastructure Program was approved, in the amount of US$400 million, with an added amount of US$50 million from the China Cofinancing Fund administered by the IDB. This same fund coinvested US$25 million in another operation for Banco Nacional de Costa Rica, this time coupled with an NSG operation of the IDB's.

[24] In 2012, the 2015 Mesoamerica Health Initiative (CR-G1001), administered by the IDB, approved US$2 million in nonreimbursable funds for Costa Rica for the prevention of teen pregnancy.

3.8 **In addition, over 50 nonreimbursable technical-cooperation operations were approved during the strategy period for a total of US$32 million.** These include regional operations in which Costa Rica has had significant participation,[25] Special Programs, and Investment Grants. The CPE will not individually analyze these technical-cooperation operations included in the portfolio under evaluation, but will consider them in the context of sector analyses. Similarly, 12 operations from the Multilateral Investment Fund were approved during the period for a total of US$20 million and 11 from the Inter-American Investment Corporation for US$95 million, which will not be examined directly in the CPE, except where relevant in the context of the IDB's sector work.

3.9 **During the approximately six months remaining in the Country Strategy period, loans totaling about US$162 million are expected to be approved**. According to the Bank's annual program for 2014—prepared before the presidential elections—two SG loans were expected to be approved for the energy sector (US$54 million) and transportation (US$100 million) and an NSG loan for the energy sector (US$8 million). In addition, US$7.2 million in technical cooperation funding was expected to be approved. These potential operations are subject to the dialogue with the new government, but their preparation will be included within the scope of this CPE.

3.10 **The CPE will also consider all operations approved before 2011 (portfolio inherited from previous cycles) that were largely executed during the period.**[26] Because these undisbursed balances were handled during the evaluation period, the CPE will take into account operations that, as of 1 January 2011, had a significant balance (over 20% of the original amount). The total amount undisbursed was US$899 million, distributed across 51 operations: US$698 million from seven SG loans, US$153 million from eight NSG loans, and US$47 million from 36 technical-cooperation operations.

3.11 **The undisbursed SG portfolio was concentrated in the two sectors in which the Bank continued to approve the bulk of its financing during the Country Strategy period: transportation and energy.** As of 1 January 2011, there were two transportation operations (approved in 2008) with a balance of US$341 million and one energy operation (approved in 2007) with a balance of US$234 million. In addition, there were two water and sanitation operations (approved in 2004 and 2010) with US$81 million still to be disbursed, one for cadaster modernization

[25] Half of these technical cooperation operations are regional operations managed by the Bank. Not all the regional technical-cooperation operations involving Costa Rica were selected by OVE as part of the portfolio under evaluation; only those in which the Country Office played an important role in their execution or that involved amounts of over US$1 million.

[26] The inherited portfolio includes all those operations that on 1 January 2011 had an undisbursed balance of over 20% of the originally approved amount. However, operations below this threshold will be taken into account if necessary to complete the sector analysis.

(approved in 2000) with US$21 million undisbursed, and one for the environment (approved in 2006) with US$19 million undisbursed.

3.12 **In summary, the total portfolio being evaluated is comprised of 134 operations for a total of US$2.474 billion (see Table 3.2).** The portfolio consists of the following groups: (i) projects approved during the period of the strategy; (ii) projects that were in loan pipeline A and technical cooperation pipelines A and B in 2014; and (iii) projects that as of 1 January 2011 had a significant undisbursed balance in the period under analysis (inherited portfolio). The portfolio being evaluated does not include policy-based loans.[27] In fact, the last policy-related package dates back to 1995 (Structural Adjustment Program III). Except for an emergency loan in 2008 (later cancelled), since then the Bank has developed its portfolio on the basis of investment loans, attempting—with varying success—to connect them through programmatic approaches.[28]

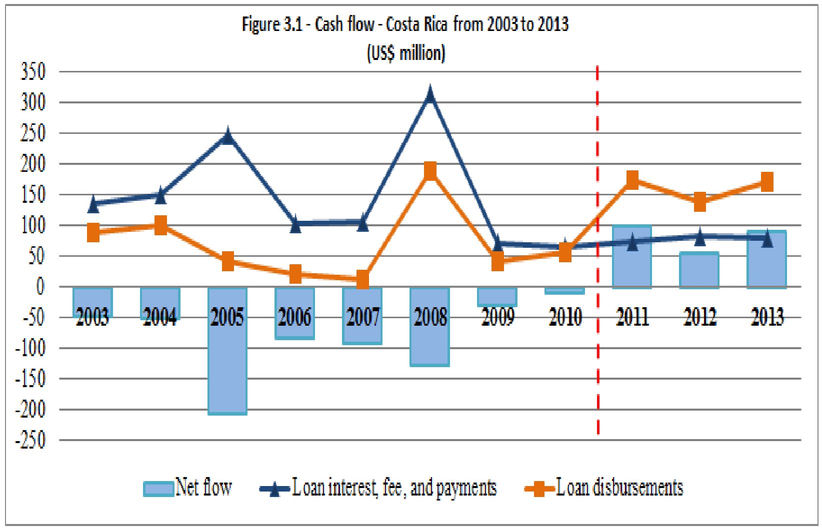
Table 3.2. Total portfolio Costa Rica 2011-2014 being evaluated (US$000)

Instruments	Balance 2011	Approvals 2011-2014	Pipeline 2014	Total
SG loans	698,155	984,441	154,000	1,836,597
NSG loans	153,053	388,500	8,000	549,553
Technical cooperation	47,926	32,768	7,216	87,910
Total	**899,135**	**1,405,709**	**169,216**	**2,474,060**

27 According to interviews conducted by OVE, the parliamentary ratification process required for external loans becomes difficult when the borrowing is connected to items that do not involve concrete investments in infrastructure. It is believed that the Assembly expresses reservations about proposals for loans that involve investments in consulting assignments or quick-disbursing funds related to policies.

28 Indeed, the Bank has tried a lending modality with more programmatic approaches in energy (2007) as well as transportation (2008), with different results. In energy, the Assembly approved the full loan without requiring the executing agency (ICE) to come back for approval of the individual tranches. In transportation, the executing agency (MOPT/Conavi) was required to return for individual approvals, which dilutes most of the advantages of the Conditional Credit Line (CCLIP).

3.13 **Since 2011, the increase in disbursements and reduced interests, fees, and loan repayments reversed the net flow of resources between Costa Rica and the Bank, which became positive toward the country.** This reversal was partly due to the fact that payments to the Bank remained stable, while disbursements rose considerably with respect to previous periods (see Figure 3.1).



IV. Evaluation Dimensions and Questions

4.1 **This CPE will look at the traditional evaluation dimensions of *relevance, effectiveness, implementation, and sustainability.*** The areas evaluated by OVE are in line with practices suggested by the Development Assistance Committee of the Organization for Economic Co-operation and Development (OECD-DAC). These areas provide a full overview of the program, not only in terms of its importance, but also its outcomes and the means used to obtain them. OVE will stress the analysis of elements that kept the Bank's work relevant in Costa Rica, even when the country had access to alternative sources of funding. Close attention will also be paid to the features of implementation that made Costa Rica a country in which execution was unusually slow relative to the Bank's other borrowers.

A. Relevance

4.2 ***Relevance* measures the extent to which the objectives of the Bank's program are aligned with the country's needs (relevance of objectives) and how the program's design aligns with the achievement of these objectives (relevance of design).** Relevance is a concept with a strong ex ante strategic component, although sustained relevance only emerges during program implementation. The relevance of the objectives needs to consider the changing nature of the country's needs, particularly those related to the strengthening of Costa Rica's competitiveness. For its part, the relevance of the design includes an analysis of the instruments the Bank has used, including the conspicuous absence of policy reform instruments. Key questions to be asked during relevance analysis will include:

- How **consistent** were the objectives of the Bank's program in Costa Rica with the four pillars of activity formulated by the government; and how were these objectives adapted as priorities changed?
- To what extent did setting these program objectives allow the Bank to **position** itself as the country's partner of choice on long-term development matters, particularly in terms of boosting Costa Rica's competitiveness and its connection to the elimination of bottlenecks in the provision of infrastructure?
- To what extent did the Bank use its **knowledge** instruments effectively (including technical cooperation) so that they played a significant role in this positioning as Costa Rica's preferred partner?
- To what extent did this knowledge become more relevant for Costa Rica, going beyond mere diagnostic assessments to contribute to the **development and implementation of practical solutions** to the country's policy challenges, such as enhancing the effectiveness of public spending and investment?
- Was the Bank's program designed to have a **catalytic effect** that would increase its relevance in a middle-income country such as Costa Rica, where the Bank's flows are relatively small? And in this regard, to what extent did the program seek to attract coinvestment and coordinate with other initiatives?

B. Effectiveness and implementation

4.3 **This part of the analysis combines the two concepts relating to the achievement of program outcomes: effectiveness and implementation.** *Effectiveness* refers to the "extent to which the objectives [of the program agreed by the Bank and the country] were achieved" (RE-348-2, p.10). *Implementation* includes the set of elements such as efficiency measured by the extent to which "the resources/inputs (funds, time, etc.) have been turned economically [or efficiently] into [these] outcomes" (Glossary of Evaluation Terms, OECD-DAC, p.21), and crosscutting elements, such as the use of country systems and the quality of service or support of the Bank's Representative in the country. In relation to the program's effectiveness and implementation, answers to the following questions will be sought:

- To what extent where the **strategic objectives achieved** (summarized in Table 3.1 and in the logical frameworks of the operations approved between 2011 and 2014)? If there were differences in performance between operations of different types or in different sectors, what caused them and what lessons can be learned?
- To what extent were the designs of Bank operations well **matched to the country's execution capacity** (e.g. the possibility of using country systems, or the existence of interagency coordination challenges)? In particular, the

experience of the electricity sector will be compared with that of highways, where the Bank has adopted a clear co-execution model for Costa Rica.

- What **bottlenecks** affected execution periods and costs? What caused them and what measures did the Bank take to try to mitigate them, including both work on parliamentary ratification issues and programmatic operation approaches, government procurement, and the Comptroller General's role in the area of ex ante control?
- What **crosscutting elements** provided effective support for the country's development, including the role of the Bank's Country Office in Costa Rica, timely access to subject experts (such as on fiscal topics, or membership in the OECD), and the use of Bank systems to back up country systems?

C. Sustainability

4.4 **"Sustainability refers to the likelihood that actual and anticipated results will subsist beyond the program period" (RE-348-2, p. 11).** Although it is built in from the design stage and consolidated during execution, sustainability is a concept with a strong ex post content that involves estimates of the ability to sustain results going forward. This implies a certain level of understanding of the causal mechanisms, including the degree to which they may be attributed to the Bank or the contribution it may have made to them. The CPE aims to answer the following questions in relation to sustainability:

- What evidence is there that the Bank's program has contributed to **sustainable outputs and outcomes**? What mechanisms appear to have made a positive or negative contribution to this sustainability? And to what extent can these be attributed (qualitatively or quantitatively) to the Bank?
- To what extent did the Bank anticipate the challenges of sustainability and try to mitigate them by clearly introducing the **concept of continuity** in program design and operations? Did it take legal, organizational, technical, market, and/or financial continuity into account?
- What **level of institutionalization** did the Bank's program and operations achieve with regard to the country's institutional structures? And what mechanisms were most effective at establishing this adoption by the country of the services and capacities developed by the program and operations?

V. METHODOLOGY, ORGANIZATION, AND TIMETABLE

5.1 **The evaluation will draw upon a diverse set of sources of information to answer these questions.** These include interviews with key respondents: current and former government officials, project executing agencies, Bank sector specialists, international cooperation agencies (particularly CABEI and the World Bank), IDB project beneficiaries, and academics and members of civil society familiar with Costa Rica's development challenges. Workshops (using both focus group and brainstorming formats) will be run; and the Bank's internal evaluation and supervision documents (subject to validation by OVE) will be examined.

5.2 **OVE will supplement the interviews, workshops, and documentary review with statistical analysis of internal and external databases.** These databases include those of the administrative budget (BUDGET), project preparation (OPUS), contract terms (OPMAS), procurement (PRISM), staff time usage (TRS), evaluation of staff performance (E-performance), financial transactions (LMS), and the Bank's monitoring systems (PMR). The statistical processing of these databases does not intend to establish causality. Rather, OVE will try to relate these descriptive statistics on the program and explore the plausibility that certain combinations have produced positive or negative impacts.

5.3 **Based on this information, the CPE will perform several analytical exercises.** Among others, OVE will build a database containing all the *formal program objectives* set forth in the country strategy and operations, including their indicators, baselines, targets, and annual progress. In order to analyze *operation performance*, OVE will supplement the information found in the PMRs and PCRs with information collected via a short project analysis form. OVE anticipates that this information search will be necessary as most of the portfolio under evaluation lacks PCRs, given that they were not required at the time. Lastly, OVE will seek to ensure that the CPE's recommendations are based on lessons from the Costa Rica program (based on its input-output-outcome sequences), as well as external sources (comparing the experiences of other countries with similar objectives or situations).

5.4 **This evaluation of the Country Program with Costa Rica will be carried out by a multidisciplinary team under the supervision of the Director of OVE**. The team will consist of Alejandro Soriano, Héctor Valdés Conroy, Roni Szwedzki, Miguel Soldano, Darinka Vasquez, Rafael Brisco, Ana Ramírez-Goldin, José Fajgenbaum, and Juan Felipe Murcia. To maximize the usefulness of the evaluation, OVE proposes to establish a fluid dialogue with the Bank's Management and, in particular, with the Country Office in Costa Rica. To facilitate this process, at least two missions to the country will be carried out, the main tasks of which will be to: (i) identify the main aspects of the relationship between the Bank and the country; (ii) collect data and validate the documentary review; (iii) visit specific projects to collect information on executing agencies and beneficiaries; (iv) run workshops and focus groups; and (v) present the results of the CPE and clarify the recommendations with the country authorities (at their request).

5.5 **The timetable has been designed to tie in closely with the decision-making process for the new country strategy.** According to the protocol for country program evaluation, "[t]he results of a CPE should be provided at a time in which the government is willing to make strategic decisions about the use of external assistance." In practice, timely consultation involves the "goal of having a draft report available for consideration by country authorities within the first few months of a new administration." Costa Rica's new administration took office on 8 May 2014.

5.6 **The suggested timeline for the evaluation is therefore to produce a draft for discussion with Management and the Government of Costa Rica in September, but to seek to maximize opportunities to share early findings.** As set forth in this approach paper, this CPE will adhere to the format and methodology of other CPEs produced by OVE. As part of this process, the OVE team will seek to maximize the interaction with Management at the Country Office and Headquarters, and with country counterparts. This will be achieved using a combination of tools, including interactive work sessions as well as interviews. The proposed timetable is set forth in the table below:

Activity	Date
Context analysis - 1st mission to Costa Rica	24 February 2014 - 7 March 2014
Project Analysis/Workshops and focus groups - 2nd mission to Costa Rica	26 May - 6 June 2014
Ideas sessions with Country Office in Costa Rica and Regional Management	Early July 2014
First draft for internal discussion by OVE	Late August 2014
Draft circulated and submitted to Management. Draft submitted to the Government of Costa Rica for consideration	September 2014
Final document delivered to the Office of the Secretary	October 2014
Presentation to the Board's Programming Committee	November 2014
Presence of OVE during the presentation of the Country Strategy with Costa Rica to the Board	Date to be determined