Office of Evaluation and Oversight

Extended Country Program Evaluation

Costa Rica

2015-2022

IDB

IDB | Invest

Inter-American Development Bank, 2023
Office of Evaluation and Oversight
1350 New York Avenue, N.W.
Washington, D.C. 20577
www.iadb.org/evaluation

RE-581
November 2023

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Contents

Preface

This document presents the evaluation conducted by the Office of Evaluation and Oversight (OVE) of the Country Program of the Inter-American Development Bank Group (IDBG) with Costa Rica from 2015 to 2022, spanning two strategic planning periods. This marks the sixth independent evaluation conducted by OVE of the IDB Group's program in Costa Rica. Previous evaluations covered the periods 1990-2001 (document RE-277), 2002-2006 (document RE-325); 2006-2010 (document RE-377), 2011-2014 (document RE-472-3), and 2015-2018 (document RE-535-4).

This evaluation examines the Bank's relationship with Costa Rica over an extended period. As outlined in the OVE Country Products Protocol (document RE-348-8), Extended Country Program Evaluations (XCPE), such as this one, are independent assessments of the last two country strategies and the corresponding Country Program to evaluate their relevance, effectiveness, and sustainability. XCPEs focus on both accountability and learning, aiming to provide assessments to the Board of Executive Directors and the Management of the Inter-American Development Bank (IDB) and IDB Invest of the IDB Group's performance in the country and its Country Program. They also aim to share lessons learned to inform the Bank's future support, particularly in the context of the upcoming Country Strategy. XCPEs make recommendations expected to enhance the subsequent Country Strategy and Country Program.

The Country Program evaluation examines the design, implementation, and outcomes of operations approved under the Country Program with Costa Rica between 2015 and 2022, considering the national context and relevant strategic documents. To conduct this evaluation, OVE analyzed country data, studied project documents, and conducted interviews (both virtually and in person) with country authorities, project executing units, the private sector, representatives from other development agencies, and IDB Group staff at the Country Office and Headquarters. Additionally, OVE conducted a mission to the country in June 2023. OVE appreciates the participation and collaboration of these counterparts, which enabled a rich exchange of information and reasonable access to verify the program's outcomes.

Acknowledgents

This document was prepared by Roni Szwedzki (Team Leader), Odette Maciel, Dana Michael King, Carolina Romero, Elizabeth Salazar, Priscila Vera Jibaja, Maria Clemencia Monroy, Diego Del Pilar, and Ingrid Garay, under the supervision of Alejandro Soriano, Cluster Leader, and the direction of Ivory Yong, OVE Director.

Acronyms and Abbreviations

ADV	Advisory Services
AFD	French Development Agency
AFOLU	Agriculture, Forestry, and Other Land Use
AIDOQ	Aeropuerto Internacional Daniel Oduber Quirós [Daniel Oduber Quirós International Airport]
AMSJ	Área Metropolitana de San José [Metropolitan Area of San Jose]
ARESEP	Autoridad Reguladora de los Servicios Públicos [Public Services Regulatory Authority]
BCIE	Central American Bank for Economic Development
BNCR	Banco Nacional de Costa Rica
CAF	Andean Development Corporation
CCLIP	Conditional Credit Line for Investment Projects
CGR	Contraloría General de la República de Costa Rica [General Comptroller's Office]
COF	Country Office
CPC	Civic Peace Center
CPD	Country program document
CPE	Country program evaluation
CS	Country Strategy
FDI	Foreign Direct Investment
FI	Financial Intermediary
GDP	Gross Domestic Product
GO	Group of Objectives
ICE	Instituto Costarricense de Electricidad [Costa Rican Institute of Electricity]

IDB	Inter-American Development Bank
IDBG	Inter-American Development Bank Group
IMF	International Monetary Fund
IGR	Investment Grant
IMAS	Instituto Mixto de Ayuda Social [Mixed Institute of Social Assistance]
INV	Investment Loan
INA	Instituto Nacional de Aprendizaje [National Learning Institute]
IPG	Gender Parity Accelerators
ISM	Iniciativa Salud Mesoamérica [Mesoamerica Health Initiative]
KIF	Korea Infrastructure Development Co-Financing Facility for Latin America and the Caribbean
MEP	Ministerio de Educación Pública [Ministry of Public Education]
MOPT	Ministerio de Obras Públicas y Transportes [Ministry of Public Works and Transport]
MSMEs	Micro, Small, and Medium Enterprises
NGS	Non-sovereign Guaranteed
NR	Non-reimbursable
OECD	Organization for Economic Cooperation and Development
OII	Office of Institutional Integrity
OVE	Office of Evaluation and Oversight
PAHO	Pan American Health Organization
PBL	Policy-Based Loan
PBP	Programmatic Policy-Based Loan
PCR	Project Completion Report
PHR	Planta Hidroeléctrica Reventazón [Reventazón Hydroelectric Plant]
PPP	Public-Private Partnerships
ReTS	Recommendations Tracking System
SDL	Special Development Lending
SG	Sovereign Guaranteed
SINIRUBE	Sistema Nacional de Información y Registro Único de Beneficiarios del Estado [National Information System and Unique Registry of State Beneficiaries]
SMEs	Small and Medium Enterprises
SO	Strategic Objective
TC	Technical Cooperation
TFFP	Trade Finance Facilitation Program
UNFPA	United Nations Population Fund
VAT	Value-Added Tax
UNFPA	United Nations Population Fund
W&S	Water and Sanitation
XCPE	Extended Country Program Evaluation

Executive Summary

Context. Costa Rica is one of the most politically stable, socially progressive, and environmentally conscious countries in Latin America and the Caribbean. Between 2015 and 2022, the country successfully underwent a process to join the OECD, leading to the harmonization of national legislation, policies, and practices with international standards. Despite above-average regional economic growth, the country faced significant fiscal challenges during this period, which reached a critical point in 2018. In response, the Public Finances Strengthening Law was approved in December of that year and has had a significant impact on the country's fiscal balance, especially following the dissipation of the COVID-19 pandemic. Nevertheless, despite the dynamism associated with a growth model focused on trade openness and attraction of foreign direct investment, gaps between unlinked local businesses and multinational corporations in the country have not decreased, and there has been unequal economic growth at the regional level as well as a skills mismatch in the labor market. Productivity gaps between the dynamic sectors and the rest of the economy are exacerbated by regulatory issues, lack of competition in some markets - including the banking system - and poor infrastructure.

Objectives and Cross-Cutting Themes. From 2015 to 2022, the Inter-American Development Bank (IDB) Group formulated two country strategies covering four priority areas, 14 strategic objectives, and 27 expected outcomes across 11 groups of objectives. In the fiscal area, objectives were defined to support the tax system as well as expenditure control and efficiency. In infrastructure, objectives were set for transportation and logistics, energy, and water and sanitation (W&S). In the productive sector, objectives focused on competitiveness and the environment. Finally, in the social area, objectives were established in education, capacity building, and citizen security. Additionally, the country strategies included cross-cutting themes in i) gender and diversity, ii) institutional capacity and public management, iii) environmental sustainability and climate change, and iv) innovation.

Relevance of the country strategy objectives and design. The objectives of both country strategies were aligned with the country's development plans and the IDB Group's diagnostics. The relevance of the strategies was affected by a lack of selectivity and issues related to evaluability (including weaknesses in vertical logic) and monitoring. The objectives of the first Country Strategy were broad, implicitly covering several sectors and making it difficult to establish links between activities and expected outcomes. The second Country Strategy (CS) showed positive evolution in its design by setting more specific objectives and giving greater continuity to relevant themes from the legacy portfolio. However, the number of objectives created a dispersion of focus, especially considering the anticipated context of political fragmentation, fiscal challenges, and implementation difficulties. The feasibility of effectively contributing within the established timeframes was further reduced due to the introduction of complex issues in which, while relevant, the IDB Group did not have extensive previous experience, demonstrated results in the country, or a sufficient program to achieve the proposed scope.

Country Program: The program consisted of 163 operations, 129 (79%) sovereign- guaranteed (SG) operations and 34 (21%) non-sovereign guaranteed (NSG) operations, amounting to US$4,419.4 million, as well as other additional support from the IDB Group identified during the evaluation. The program included 51 legacy operations from previous strategy periods, which in 2015 still had an undisbursed balance of US$1,357.4 million, as well as 60 operations approved between 2015 and 2018 for US$1,185.7 million and 52 operations approved between 2019 and 2022 for US$1,876.3 million. In the second strategy period, most approvals were budget support operations in response to the double crisis (fiscal and pandemic), marking a significant shift in the use of instruments.

Program alignment. Both the approved and legacy program addressed all strategic objectives, with a strong degree of alignment with most objective groups. The accuracy of Country Program Document forecasts was low due to changes in government priorities and difficulties generating consensus. Some topics, such as competitiveness, labor training, and social protection, had weaker alignment, affecting the feasibility of contribution. Budget support, on the other hand, although approved in the context of COVID-19, managed to focus on fiscal and environmental strategic objectives.

Implementation of the program. During the period, the anticipated challenges for SG operations materialized, along with some unforeseen ones, such as the pandemic. 76% of the project portfolio faced at least one implementation problem; with projects in transportation and logistics, energy, and education encountering challenges most frequently. Delays in execution, coupled with low approvals, resulted in a high project age for investment operations, around six years as of December 2022 (the second highest in the Bank), with nearly 60% of approved financing undisbursed (above the Bank's average). Preparation and execution costs increased due to the higher costs of pipeline operations that were not approved and a smaller average size of approved operations. In response to execution challenges, the Bank promoted actions and sought to adapt the program with mixed results. Additionally, challenges arose for NSG work, most of which were not anticipated in the Country Strategy. Operational factors such as staff turnover and low use of the Country Strategy as a guiding tool posed additional challenges during the period. The cross-cutting themes were integrated into the country program across priority areas, as proposed in the country strategies. Finally, three out of four recommendations from OVE's Country Program Evaluation (CPE) 2015-2018 were substantially adopted and one was fully adopted.

Program contribution to the objectives. The Country Program's contributions to CS objectives varied, with a higher contribution in the fiscal area and moderate contributions to objectives where the aligned program did not progress at the planned pace. These contributions were the result of continuous and long-term support. Contributions were low for objectives that were broad and insufficiently covered, or where operations did not achieve results during the period.

In the *fiscal area*, the Inter-American Development Bank (IDB) made mostly high contributions to objectives related to expenditure control and increased tax revenues. The substantial contribution was helped by continuous and long-term support combining technical assistance (with a strong presence of specialists and sector experts in the country) and budget support linked to conditions with high structural depth. Key reforms include the design of a macro-fiscal framework for 2022-2027 (highlighting key technical inputs regarding the definition of the Fiscal Rule), electronic invoicing, and public employment reform. The reforms included in the programmatic series were also relevant during the COVID-19 crisis. In terms of results, improvements were observed in tax revenues as a percentage of GDP and in public expenditure control and debt management.

In the *infrastructure area*, the IDB made moderate contributions to objectives related to transportation, energy, and W&S; and low contributions to Public-Private Partnerships (PPP). The IDB implemented relevant actions for the expansion and rehabilitation of parts of the national and cantonal road network. Some improvements in the length and quality of roads and highways were reported. In W&S, the IDB made moderate contributions to addressing "brown agenda" challenges, mainly through legacy operations and technical support. Contributions to transportation and W&S objectives were achieved after a long period (beyond the original deadline) of associated operations' execution. In energy, the IDB made a high contribution to renewable energy generation, with a program that included support for hydroelectric and geothermal infrastructure; with moderate contribution to strengthening the electricity sector's financial structure and competitiveness.

In the *productive sector*, moderate contributions were observed in improving credit access for Small and Medium-Sized Enterprises (SME) through financial intermediaries (FIs), but the rest of the program was scattered and insufficient to address other stated objectives. The Bank used SG and NSG operations to support competitiveness goals, with mixed results from NSG operations supporting SME credit access but no contributions to the goal of increased productivity, which was supported by SG operations. Regarding the expected outcome of increasing exporting SMEs, the contribution was low through the Trade Finance Facilitation Program (TFFP) portfolio. The IDB made a low contribution to the objective of promoting the digital agenda. Meanwhile, IDB Invest recently mobilized resources to increase access to higher quality networks, which has not yet reported results. Finally, despite having several operations related to environmental topics, the contribution was low to reduction of emissions from agriculture, forestry, or other land uses.

In the *social area*, the IDB made a moderate contribution to secondary education objectives and a low contribution to preschool education, citizen security, and workforce training. The IDB made a moderate contribution to strengthening secondary education with operations focused on infrastructure that also reported improvements in the school environment. However, there was a low contribution to preschool education in vulnerable areas, with relevant but insufficient technical assistance to impact the objectives. The IDB did not contribute to the expected outcome of developing INA (National Institute of Learning) curricula due to the lack of operations. For both preschool education and vocational training, loan operations were prepared but not materialized. On the other hand, the IDB provided relevant technical support (resulting in the creation of SINIRUBE), which appears a promising tool for improving the coverage and efficiency of poverty reduction programs, though results are incipient. Finally, the program aligned with the expected outcome of reducing homicides is in the early stages of its execution.

Based on the findings of the evaluation of the IDB Group's country strategies and program in Costa Rica over an extended period, OVE has the following recommendations.

1. **Focus the new country strategy on key country challenges, defining objectives where the IDB Group can promote significant, long-term contributions.** Over the long term, the low selectivity of objectives diminished the Country Strategies' relevance. Major contributions were made in specific areas where the IDB Group accompanied a medium- and long-term reform process through a combination of instruments, bringing

expertise and maintaining close and continuous technical support. Therefore, OVE recommends that the new country strategy prioritize a few key objectives, to optimize the IDB Group's contribution through an appropriate combination of investment and budget support, taking into consideration: i) the state policies of the country, ii) the leveraging of the IDB Group's previous experience (both in country and abroad), iii) the deepening of results already achieved in the country, and iv) the expected ability to mobilize a program that is consistent with its achievement.

2. **Strengthen the integration of IDB Invest in the development of the new country strategy to promote synergies and enhance the IDB Group's contribution.** The previous CPE recommendation to support the country in attracting private investment and better integrate operations into the Country Program remains relevant. In this context, OVE recommends: i) strengthening the inclusion of IDB Invest in policy dialogue in order to align its role with the country's needs and conditions; ii) incorporating risk analysis into the strategy to achieve results and draw lessons from previous strategy cycles, and iii) clarifying roles and responsibilities when coordinating public and private windows to maximize synergies.

3. **Address operational factors in the country office that pose challenges to achieving country strategy objectives.** Staff turnover at both managerial and operational support levels presented challenges during the analysis period. Additionally, a lack of follow-up and utilization of the Country Strategy was observed. In this context, OVE recommends: i) establishing plans and processes to ensure continuity and knowledge transfer within the country office, ii) strengthening the evaluability of the country strategy and establishing routine monitoring of its progress (for example, through mid-term or annual reviews), involving Country Office staff and counterparts, and iii) strengthening the role of the country strategy and the annual programming to ensure continuity in strategic and operational dialogue even in situations of high staff turnover.

4. **Improve project preparation and implementation through a strategic use of technical cooperation (TC) and technical support.** The previous CPE identified challenges associated with project preparation, delays in the legislative ratification process, and executing entities' capacity. The XCPE confirms that these challenges persist. Therefore, OVE recommends: i) focusing client support TCs on the new country strategy's key objectives, ii) focusing technical support on pre-investment (for existing and new projects) to reduce implementation risks and delays, iii) anticipating possible delays in the ratification process during project preparation, and iv) supporting implementation through non-reimbursable, TC funds.

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Country Context 2015-2022

1.1 Costa Rica is one of the most politically stable, socially progressive, and environmentally conscious countries in Latin America and the Caribbean. It is currently considered a consolidated democracy, with high ratings on the EIU Democracy Index.[1] In recent years, the country has based its economic model on openness to foreign trade and foreign direct investment (FDI). Between 2015 and 2021, Costa Rica successfully pursued accession to the OECD, leading to harmonization of legislation, policies, and practices with international standards.[2] These policies were accompanied by efforts to position the country as a regional leader in environmental conservation. In this context, Costa Rica has experienced economic growth rates above the Latin American and Caribbean average.[3] However, the country also faces macroeconomic, productive, and social challenges, given greater difficulty establishing medium- and long-term consensus due to a fragmented political system.

A. Macroeconomic situation

1.2 Despite growth levels above the regional average, Costa Rica faced significant fiscal challenges, leading to the approval of the Public Finances Strengthening Law in 2018. After the international crisis of 2008-2009, the central government implemented permanent spending measures that created a gap between revenues and expenditures.[4] This led to an increase in the national debt (from 24% of GDP in 2008 to 56% in 2019), high gross financing needs (12.6% of GDP in 2019), and a fiscal deficit of 6.7% in 2019. To address the fiscal imbalance, the Central Bank and the Ministry of Finance used Treasury Bills in 2018 to alleviate the Central Government's liquidity challenges. Additionally, in that same year, the country approved the new Public Finances Strengthening Law[5] to modernize tax, spending, and financial oversight. On the revenue side, the law replaced the general sales tax with a value-added tax (VAT) that expanded the tax base to include services and introduced new income tax brackets. On the expenditure side, public employees' salary bonuses for exclusivity and annuities were reduced. With respect to institutional aspects, the reform included the creation of a fiscal expenditure rule for the entire non-financial public sector.[6]

1 It ranks 17th among 167 countries and is in second place in Latin America after Uruguay (Economist Intelligence Unit, 2022).

2 Costa Rica became the 38th member of the OECD in 2021 (OECD, 2021).

3 Costa Rica's economy grew at an average rate of 3.1% between 2015 and 2022, while Latin America grew at 2.3% (IMF, 2023b).

4 Salaries of central government employees were increased until they matched the 50th percentile of salaries in the rest of the public sector.

5 An attempt to pass a fiscal reform in 2012 was unsuccessful.

6 Although, in the end, local governments were excluded from the scope of the fiscal rule.

1.3 The fiscal reform has had a significant impact on the central government's financial balance, which became more evident after the dissipation of the COVID-19 pandemic. Once approved, the reform gradually took effect, resulting in increased revenue during the second half of 2019. However, the onset of the pandemic in 2020 caused the central government's revenues to drop that year (the fiscal deficit rose to 8% of GDP and the debt increased to 66.5% of GDP).[7] In response, Costa Rica signed an Extended Fund Facility program with the International Monetary Fund (IMF) in 2021.[8] As economic activity gradually recovered, fiscal revenue followed suit, reflecting the reform measures. Economic growth was 7.8% in 2021[9] and 4.3% in 2022 (more than compensating for the 4.3% drop in 2020), and the central government's primary balance improved from -2.2% of GDP in 2018 to 2.1% in 2022, achieving an almost 4% fiscal adjustment.

1.4 Despite the positive fiscal outlook, there is room for additional reforms to strengthen public finances. Some of these measures were proposed in 2020 through a new fiscal reform equivalent to around 5% of GDP,[10] which, however, did not advance due to public opposition. Currently, the country plans to implement measures to further strengthen public finances, such as a reform of both personal and corporate income taxes (including the creation of a global income tax). Meanwhile, the program signed with the IMF has remained on track, meeting successive goals in reviews up through mid-2023. According to the IMF (2023), although the proposed bills would improve the tax system and even with advancements in targeting, coverage, and efficiency of social protection programs (paragraph 1.10), challenges remain in terms of financial oversight (for example, improving the coverage of the fiscal rule).

B. Productivity and employment

1.5 Costa Rica's growth model has been focused on trade liberalization and attracting foreign direct investment, although the linkage between local companies and multinational corporations has been relatively weak. The country is one of the top FDI recipients in Central America and Latin America (5.6% of

7 Debt interest payments increased from 3.4% to 4.7% of GDP between 2018 and 2021.

8 Its objectives encompass issues related to debt management, inflation control, Central Bank independence, fiscal targets, targeting of social protection programs, and public employment, Public Employment Law of 2022.

9 Even above the Central Bank's projections of 3.4%.

10 The reform included transitional measures such as an extraordinary tax on profits and remittances, as well as permanent measures such as the elimination of exemptions and the global income tax project. Plan to overcome the fiscal impact of the pandemic: Proposal to negotiate with the IMF.

GDP between 2000-2021). Most FDI comes from the United States (68% in 2018) and is concentrated in the manufacturing (51%), services (22%), and real estate (12%) sectors.[11] Costa Rica exhibits structural heterogeneity in its economy, with a thriving, modern, and dynamic export segment,[12] and another segment consisting of Small and Medium Enterprises (SMEs) that are not integrated into the international economy. The lack of linkages between these segments, coupled with the low capacity of national companies to innovate, results in productivity differences and unequal growth rates between these two economies.[13] These disparities also explain the unequal growth at the geographical level, with activity and productivity concentrated in the Greater Metropolitan Area.

1.6 There are significant productivity differences between sectors of the economy and as compared to peer countries. In fact, productivity growth in the agricultural, industrial, and services sectors was lower in Costa Rica compared to its structural peers.[14] Additionally, the productivity gaps between sectors in Costa Rica were high in 2016: compared to the agricultural sector (Costa Rica's least productive sector), the transport, storage, and communications sector is 4 times more productive, manufacturing is 3.2 times more productive, and financial intermediation is 3 times more productive.

1.7 The labor market mismatch between supply and demand, as well as increased informality, has hindered the transition to more productive and higher-quality jobs. According to the OECD (2017a), there is a mismatch between the skills workers possess and those employers need. The unemployment rate stands at around 11%, well above the OECD's 5% average, indicating that the workforce may lack the skills to be absorbed by the most dynamic sectors of the economy. While the trade liberalization policy increased employability in sectors such as business services and advanced technology, the workforce maintained low levels of education and training (only 39.4% of the population aged 25-64 has completed secondary education).[15] Moreover, Costa Rica went from being one of the countries with the lowest informality rates in Latin America in 2011 (36%) to being close to the regional

11 COMEX, 2023. The services sector does not include tourism.

12 This stems, in part, from efforts since the 1990s to attract foreign direct investment in high technology (such as the establishment of an Intel manufacturing plant that attracted other companies), Ulku & Zaourak, 2021.

13 Monge, 2016.

14 Ulku & Zaourak, 2021.

15 In addition, the proportion of graduates in STEM (Science, Technology, Engineering, and Mathematics) fields is 20%, which is low compared to the OECD (26%) and even Latin America (22%), OECD, 2022.

average, with nearly 43%[16] of workers in informal employment. Possible factors for this shift include the progressive increase in labor costs since 2014 and difficulties in registering formal businesses, resulting in significantly higher costs compared to the OECD average.[17]

1.8 These challenges are exacerbated by regulatory problems and lack of competition in some markets, including the banking system. Productivity gaps can result from distortions that hinder workers' mobility and resource allocation between sectors.[18] For example, excessive regulations (such as administrative burdens, licensing systems, and permit issuance in some markets) act as entry barriers that hinder competition. Costa Rica has stricter product market regulations than other OECD countries. High prices in certain categories (such as rice, milk, and vehicles) suggest a high market concentration, lack of competition, tariffs, and an inadequate regulatory framework.[19] On the other hand, there are also regulations that create asymmetries in the banking system. The system is concentrated in public banks (three public banks control approximately 60% of total assets while the remainder is controlled by 11 private entities). Some of the asymmetries are due to the requirement that non-banking public entities deposit cash in public banks and the deposit insurance offered to savers in the public system. Additionally, state banks must contribute to public funds,[20] reducing their competitiveness and reinvestment capacity, to the detriment of the system. Furthermore, the electricity market (which has one of the most significant monopolies) has maintained high electricity prices compared to countries like Mexico, China, and the United States.[21]

1.9 Lastly, infrastructure remains a barrier to growth and competitiveness in the country. The road network is dense compared to other Central American countries, but its quality is poor. The World Economic Forum Road Quality Index (2020) 2019 rating of 3 for country was lower than the Latin American

16 First quarter of 2023, INEC, 2023. Key labor market indicators.

17 Social security costs account for 20.9% of labor costs. On average among OECD member counties, these costs reach 13.5%. Corrales, 2021, associates the increase in informality with the increase in the minimum contributory base defined by the CCSS (Costa Rica's social security agency) since 2014. The costs of establishing a business are almost double the OECD average and three times that of other Latin American members, OECD, 2023.

18 Ulku & Zaourak, 2021. See Annex I Country Context.

19 OCDE, 2023a, and Van Patten, 2021.

20 Public banks contribute 5% of profits to CONAPE (National Commission for Education Loans, by its Spanish acronym). The Banco de Costa Rica and the Banco Nacional contribute an additional 10% to the Cooperative Development Institute, 15% to the Disability, Old Age, and Death Regime of CCSS, 3% to the National Emergency Commission , and 5% to Fofide.

21 World Bank, 2015.

average of 4 and the OECD average of 5. The country also faces deficiencies in governance, planning, and budget execution for new infrastructure projects, as well as maintenance. The sector's institutional framework is highly fragmented and comprised of eight independent entities in addition to the Ministry of Public Works and Transportation (MOPT), each with specific responsibilities, which leads to duplicated functions and delays in project preparation and execution.[22]

C. Social and environmental development

1.10 Costa Rica's poverty levels have remained stagnant, while there are challenges in targeting and managing a multiplicity of social protection programs. The country is classified within the group of countries with very high human development[23] due to its high levels of life expectancy, education, and per capita income. However, poverty levels have remained around 20% for the past 25 years and inequality has been on the rise.[24] Although poverty is multidimensional, two factors do not favor its reduction: the lack of opportunities in the job market (as mentioned previously) and the low targeting and effectiveness of social programs. For example, some social programs of the Mixed Institute of Social Assistance (IMAS) have experienced significant leakages.[25] In general, 24% of beneficiaries of poverty reduction social programs are households with high and middle incomes (OECD, 2020). Besides, there are many social protection programs and associated institutions (21 institutions manage 35 separate programs) that show low effectiveness in redistributive terms (OECD, 2020a). In recent years, the government has sought to improve targeting through the National Information System and the Unique Registry of State Beneficiaries (SINIRUBE) (OECD, 2020a). In terms of health, although the National Health Service (the Costa Rican Social Security Fund) is considered successful in providing almost universal access to healthcare services, according to the OECD (2017b), challenges persist in terms of governance, access, quality, efficiency, and financial sustainability.

1.11 Costa Rica is among the Latin American and the Caribbean countries that invest the most in education as a percentage of GDP; yet, it faces challenges in terms of educational efficiency and learning outcomes. The country dedicates a high proportion of GDP to education: 6.2% of GDP in 2018, one of the highest

22 OECD, 2023a.

23 Costa Rica is ranked 58th out of 191 countries, UNDP, 2022.

24 OECD, 2023.

25 The Avancemos Program and the Family Well-being Program have experienced leakages of 25% and 40%, respectively, Delgado, 2017.

levels in the OECD.[26] Nevertheless, it has the highest percentage of students not completing secondary education among OECD countries (54.5% vs. the organization's average of 19.1%). In terms of learning, performance on the 2018 PISA test was below the OECD average. Challenges also exist with respect to infrastructure, teacher selection, teacher evaluation, curriculum, governance, and regulation of the Boards for Education and Administration for resource management.[27]

1.12 Though the country has one of the lowest homicide rates in Latin America, this rate has been increasing. The homicide rate per 100,000 inhabitants rose from 9.9 in 2013 to 11.4 in 2021, a 16% increase (UN, 2023). According to the State of the Nation program (PEN, 2022), the high homicide rate is driven by organized crime in socially and economically deprived areas, with a concentration of criminal activities in the provincial capitals of Limón (Huetar Caribe) and Puntarenas (Central Pacific). The perception of insecurity and crime has also increased (CIEP, 2023).

1.13 Lastly, Costa Rica is renowned for its environmental policies and commitment to attaining carbon neutrality by 2050. Sustainable development strategies include payment for environmental services, export of high-quality and environmentally sustainable coffee, nature-based tourism, and an almost 100% renewable energy matrix. The 2018 Decarbonization Plan focused on: i) the energy matrix, ii) the industrial sector (including the transportation sector), iii) waste, and iv) agriculture, forestry, and other land uses. However, challenges persist in achieving these goals. For example, due to the country's fiscal situation, reduced resources were allocated to the National Forestry Financing Fund (which funds payments for environmental services), leading to a decrease in the annual area contracted under the program (down by 83.1% between 2020 and 2021) (PEN, 2022).

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26 The country is constitutionally mandated to allocate at least 8% of GDP to education, which has not been achieved due to budgetary constraints.

27 OECD, 2023, OECD, 2023a y OECD, 2023b.

02

The IDB Group in Costa Rica: 2015-2022

A. IDB Group country strategy with Costa Rica

2.1 Between 2015 and 2022, the IDB Group formulated two Country Strategies with four priority areas and 11 groups of objectives.[28] The first Country Strategy (2015-2018) set four strategic objectives (SO) and eight expected outcomes. The second Country Strategy (2019-2022) established 14 strategic objectives and 19 expected outcomes, which were organized into four priority areas. OVE grouped the objectives from both country strategies into 11 groups of objectives, which are used throughout the XCPE to present the analysis (see Table 2.1 and Annex II-Section II). The objectives maintained continuity across both Country Strategies, apart from expected outcomes for social protection and integration, which were discontinued. The second Country Strategy incorporated expected outcomes on topics not covered in the previous Country Strategy for water and sanitation (W&S), environment, digital agenda, citizen security, and Public-Private Partnerships (PPPs) as a result of dialogue with the government (see Annex II, Section II). Additionally, the Country Strategies included four cross-cutting themes relevant to the country: institutional capacity and public management; gender and diversity; climate change; and innovation with a focus on the digital agenda.

Table 2.1. Consolidated objectives 2015-2022

Country Strategy 2015-2018 Strategic Objective	Country Strategy 2019-2022 Strategic Objective	Group of Objectives
Fiscal Area: Strengthening Public Finances		
1. Supporting fiscal sustainability and expenditure efficiency	5. Improve the country's revenue levels.	Tax system
	6. Enhance public expenditure oversight institutions.	Public Expenditure
Infrastructure Area: Development of Quality and Resilient Infrastructure		
2. Enhancing the quality, efficiency, and sustainability of productive infrastructure	7. Improve the coverage, quality, and resilience of transportation services and infrastructure for regional integration.	Transportation and logistics
	8. Strengthen the financial structure and competitiveness of the electricity sector.	Energy
	9. Strengthen the institutional framework for PPPs.	PPPs
	10. Address the key challenges of the Brown Agenda in the water and sanitation sector.	Water & Sanitation

28 The term "group of objectives" refers to a set of objectives that aim to contribute to similar challenges and may or may not be present in both country strategies, OCDE, 2023.

Country Strategy 2015-2018 Strategic Objective	Country Strategy 2019-2022 Strategic Objective	Group of Objectives
Productive Area: Improving Productivity and Reducing Productivity Gaps.		
3. Enhancing the competitiveness of SMEs.	11. Improve the supply of, and access to, financial products relevant to the productive sector, with a focus on SMEs, women-led SMEs, and the export sector.	Competitiveness
	12. Reduce the productivity gap between SMEs and large companies.	
	13. Improve the business environment through support to the country's Digital Agenda.	
	14. Reduce net emissions from agriculture, forestry and other land uses.	Environment
Social Area: Accumulation of Human Capital for Inclusion and Competitiveness		
4. Strengthening the human capital accumulation strategy.	15. Reduce dropout rates in secondary schools.	Education and Capacity Building
	16. Improve the quality and relevance of training for 21st-century jobs.	
	17. Increase preschool education coverage with an emphasis on areas of higher vulnerability and risk.	
		Social Protection
	18. Reduce homicides in the country's 40 most affected districts.	Citizen Safety

Source: Prepared by OVE, based on the Country Strategy 2015-2018 (document GN-2829-1) and the Country Strategy 2019-2022 (document GN-2977).

2.2 Both Country Strategies foresaw close coordination with other partners, primarily in the fiscal and environmental sectors (see Annex II, Section III). During the analysis period, the various partners' support was relatively segmented by sector, with several converging on specific issues at the government's behest (see Annex II, Section III). In this context, the IDB established close collaboration in budgetary support operations, especially in fiscal matters, following the arrival of the IMF and its Extended Service Program, and in decarbonization operations, where it channeled support from the French Development Agency (AFD) and the Korea Infrastructure Development Co-Financing Facility for Latin America and the Caribbean (KIF). In other sectors, coordination was associated with specific infrastructure projects, including co-financing or parallel financing with Japan (in W&S and energy) and Spain (in W&S), with the European Investment Bank (in energy), and with the China Co-Financing Fund (in transportation). In the social sector, the Mesoamerica Health Initiative (ISM) involved coordination with several donors, as well as with collaborators such as the Pan American Health Organization (PAHO) and the United Nations Population Fund (UNFPA). There was also coordination with the AFD to support the Gender Parity Accelerators (IPG). IDB Invest also mobilized resources during the period, primarily for telecommunications and financial intermediaries[29] (see Annex IV, Section III). Finally, there was no coordination with other partners such as the Central American Bank for Economic Integration (CABEI), the Andean Development Corporation (CAF), and the World Bank; all of which maintained a presence in the country.

2.3 The risks identified by both Country Strategies anticipated implementation challenges for the SG portfolio, including delays in legislative approval, fiscal problems, and the risk of natural disasters. The second Country Strategy also included macroeconomic risks and project start-up delays due to not having an advanced degree of pre-investment preparation[30] and executing agency weaknesses. Mitigation measures proposed by the Country Strategies included maintaining constant dialogue with the government and the Legislative Assembly and preparing contingent credit lines for emergencies. Additionally, they planned for the cross-cutting integration of climate change adaptation measures and continued support for the country's decarbonization goals. The second Country Strategy further proposed accelerating pre-investment by using available funding from projects in implementation, providing technical assistance to improve operational designs, and reviewing tender documents prior to their publication. Furthermore, coordination with the General Comptroller's Office was planned, to identify improvements in procurement processes.

2.4 The objectives of both Country Strategies were aligned with the country's development plans, but the relevance of the strategies was diminished by their lack of selectivity. The objectives were aligned with the medium-term priorities outlined in the country's development plans and development challenges identified in IDBG documents (see Annex II, Table II.1.1). However, their relevance was hampered by their low selectivity. The objectives of the first Country Strategy were broad, implicitly covering several sectors and making it difficult to establish connections between activities and the outcomes expected by the Bank.[31] The second Country Strategy demonstrated positive evolution in its design by setting more specific objectives and giving greater continuity to relevant topics from the legacy

29 US$626 million (core) were mobilized with a balance of US$229 million, through ten operations. One operation accounted for 64% of the mobilized amount. Four operations with three financial intermediaries accounted for an additional 30%.

30 Studies, designs, bidding documents, acquisition execution strategies, expropriations plans, and assumptions of land title, easements, and social and environmental management plans, among others.

31 OVE's Country Program Evaluation: Costa Rica (2015-2018) mentioned that the level of generality of the first Country Strategy's results indicators made it "difficult to see how IDBG's country program could affect them; in other cases, the activities and related results indicators arguably did not address some of the key challenges in the sectors."

portfolio.[32] However, the quantity of objectives created a dispersion in focus, given the anticipated context of political fragmentation,[33] fiscal challenges, and implementation difficulties. The feasibility of effectively contributing within the established timelines was further reduced by the introduction of complex issues in which, although relevant, the IDB did not have extensive prior experience (such as the Digital Agenda), demonstrated results in the country (such as W&S, PPPs), or sufficient programming to achieve the proposed scope (as in SME productivity).

2.5 Additionally, there were challenges associated with the Country Strategies' evaluability and monitoring frameworks. Both strategies exhibited weaknesses in vertical logic: 8 strategic objectives were excessively broad while 2 expected outcomes were defined at a higher level than their strategic objective and another 2 were defined at the level of outputs or activities. Furthermore, out of the 28 proposed progress indicators (associated with the 27 expected outcomes of both Country Strategies), it was only possible to update 64% up to 2020 and only 32% up to 2022.[34] The lack of data was primarily due to the use of indicators from ad-hoc surveys that were not repeated (17.9%), the infrequency in conduct of national surveys used (10.7%), as well as issues with discontinuation of indicators (3.6%). The productive sector faced significant challenges in this regard; lacking progress data for five out of seven expected outcomes. Finally, for 8 of the original proposed indicators, no progress could be measured (see Annex II, Section IV).

B. The IDB Group program with Costa Rica 2015-2022

2.6 The IDB Country Program consisted of 163 operations with a total value of US$4,419.4 million. The program included 51 legacy operations from prior periods that, as of November 4, 2015 (the start of the strategy period, in accordance with the OVE Country Products Protocol - document RE-348-8), still had an undisbursed balance of US$1,357.4 million. In addition, it included all approvals that took

32 The legacy portfolio for the first Country Strategy was significant (US$1.217 billion in SG operations and US$109 million in NSG operations). Both Country Strategies had different approaches to following up on this portfolio. The first one did not include objectives in W&S, urban development, citizen security, and health, though there were legacy operations still in implementation. The second one, on the other hand, reincorporated W&S objectives (with legacy operations that had not yet closed (CR-L1024/2010 and CR-X1009/2010)), as well as topics and projects not aligned to the first Country Strategy, such as citizen security (CR-L1137/2019), which had been prioritized in the country strategy 2011-2014.

33 See CPE Costa Rica 2015-2018, paragraph 1.10.

34 To enhance the measurement of expected outcomes' progress in this report, and in coordination with Management, alternative indicators were proposed for 25.6% (8) that did not have updated information (see Annex II, Section IV).

place over the period (from November 4, 2015 to December 31, 2022): 60 operations for US$1,185.7 million, approved between 2015 and 2018 (first Country Strategy), and 52 operations for US$1,876.3 million approved between 2019 and 2022 (second Country Strategy).[35] Eighty-five percent of the total Country Program amount corresponds to SG operations, while 15% is related to NSG operations.

2.7 The Country Program covered all groups of objectives (GOs), with a strong alignment in most GOs and weak alignment in three.[36] Alignment was strong for objectives corresponding to 8 GOs (marked in green in Table 2.2) but was partial for 7 expected outcomes corresponding to 3 GOs (marked in yellow); which affected the feasibility of contributing to those objectives. Ultimately, both the legacy portfolio and the operations approved during the two Country Strategies made it possible to deploy a program that was relatively aligned with the set of objectives, although 3 GOs had weaker alignment.[37] In the *Competitiveness area*, SG support was associated solely with a legacy investment loan (approved in 2012) and TC operations addressing various topics. Additionally, while NSG support was strongly aligned, it was not coordinated with SG support. In Education and *Capacity Building*, the alignment was weak and the lack of approval for planned projects limited further support. *Social Protection* was addressed only through TCs approved during the first Country Strategy. Lastly, unaligned operations were mostly TCs associated with: (i) emergency response, (ii) previous or subsequent Country Strategy objectives, and (iii) cross-cutting themes or client support topics.

Table 2.2. IDBG Program 2015-2022: Alignment with strategic objectives by Group of objectives (number of operations and amount in US$ millions)

Groups of Objectives		Legacy			EBP 2015-2018			EBP 2019-2022			Total
		SG	NSG	NR	SG	NSG	NR	CGS	SGS	NR	
Fiscal Area: Strengthening Public Finances											
Tax system	#			1	1		2	1		2	**7**
	US$M			0.1	350		0.2	250		0.3	**600.6**
Public expenditure	#			5	1		2	3		2	**13**
	US$M			0.8	350		0.3	750		0.3	**1,101.4**

35 The Country Strategy 2019-2022 was approved, and went into effect, on November 13, 2019. (document GN-2977).

36 Alignment indicates the extent to which the country program included operations addressing the strategic objective and all of its associated expected outcomes, as well asthe likelihood that these operations, if implemented as planned, would result in an advance toward the expected outcomes.

37 In *Competitiveness*, 2 of the 4 associated objectives were partially aligned. *Education and capacity building* had partial alignment with 3 out of its 4 strategic objectives, and *Social Protection* was partially aligned to its only strategic objective. Operations may be aligned with more than one objective and, in turn, with more than one group of objectives. For more details, please refer to Annex III.

Groups of Objectives		Legacy			EBP 2015-2018			EBP 2019-2022			Total
		SG	NSG	NR	SG	NSG	NR	SG	NSG	NR	
Infrastructure Area: Development of High-Quality and Resilient Infrastructure											
Transportation & logistics	#	4	1	3	4	1	3			4	**20**
	US$M	644	3.1	2.2	289	0.1	1.1			1.4	**940.9**
Energy	#	2	3	3	2	3	2		1	2	**18**
	US$M	213.1	51.4	1	200	37.1	0.8		0.1	0.7	**504.2**
PPP	#				2		2				**4**
	US$M				125		0.9				**125.9**
Water & Sanitation	#	1		1			1			1	**4**
	US$M	73		20.2			0.3			0.1	**93.4**
Productive Area: Improving Productivity and Reducing Productivity Gaps											
Competitiveness	#	3	18			10	8		11	7	**57**
	US$M	144.8	17.7			99.6	2.4		330.8	1.3	**596.6**
Environment	#						2	2		2	**6**
	US$M						3.9	530		1.3	**535.2**
Social Area: Accumulation of Human Capital for Inclusion and Competitiveness											
Education and Capacity Building	#	3		3	1	2	7	2		9	**27**
	US$M	276.9		2	100	12.1	2.6	265		3.5	**662.1**
Social Protection	#			3			5			3	**8**
	US$M			1.6			2.9				**4.5**
Seguridad ciudadana	#				1		1				**2**
	US$M				100		0.2				**100.2**
Others											
COVID-19 Response	#							5	3	8	**16**
	US$M							1,065	74	2.5	**1,141.5**
Non-Aligned	#		2	14		8	8		4	11	**47**
	US$M		40	3.3		79	2		30.1	3.4	**157.8**
Total[c]	**#**	**11**	**9**	**31**	**6**	**15**	**37**	**6**	**10**	**38**	**163**
	US$M	**1,271.8**	**109**	**30.6**	**939**	**190.5**	**15.2**	**1,525**	**360.8**	**31.6**	**4,419.5**

Source: OVE, based on Enterprise Data Warehouse, Analitika, and Maestro.

Note: [a] Green = strong alignment, Yellow = weak alignment. [b]The table assigns operations' total financing amount to the objectives to which they are aligned. In those instances where an operation was aligned with more than one objective, its total loan amount is reported under each objective. [c]The sub-totals of each segment of the Country Program do not correspond to the sum of the amounts in each column as the financing amount of some operations was reported more than once.

2.8 The SG Country Program underwent a significant shift, transitioning from a portfolio predominantly composed of Investment Loans (INV) to one focused on budgetary support. The active INV portfolio decreased by more than half from the first to the second Country Strategy (dropping from 16 INV at the beginning of the first Country Strategy to 7 INV by the end of the second). This reduction was due to the gradual closure of legacy projects and a paucity of new INV approvals during the second Country Strategy. Consequently, the investment program continued only in the areas of transportation, energy, and citizen security through loans approved prior to the second strategy period (see Annex II, Chart II.8.1).[38] In transportation and energy, this was facilitated through CCLIPs approved in 2015 and 2019.

2.9 The lack of INV approvals occurred within a context of low programmatic predictability due to shifting priorities and difficulties in reaching consensus. The accuracy of forecasts made in annual programming exercises was generally low (only 59% of the 87 proposed operations were approved). INV approvals were even less predictable, with only 6 out of 11 planned operations approved. One of the unapproved projects - a Loan Based on Results (CR-L1140) to support education and workforce training - was affected by the shift in priorities during the first year of the pandemic. However, other projects planned during the pandemic, such as one to support economic recovery (CR-L1146), were also not approved. The one INV operation approved during the second Country Strategy (CR-L1144/2020) - which aimed to provide assistance to vulnerable populations affected by COVID-19 - was later canceled due to a lack of consensus during its ratification process.[39] Technical Cooperation (TC) projects also had low predictability, with a majority of approved projects not having been anticipated, and in response to emergencies (natural disasters, COVID-19 response) as well as for strengthening of executing unit capacity and implementation support.

2.10 On the other hand, substantial budgetary support was provided in response to the dual crisis (fiscal and pandemic) the country faced during the period. Following the 2018 fiscal reform, the Bank and the government prioritized the approval of (planned) budget support,[40] and maintained its prioritization once the pandemic hit. From 2019 to 2022, two programmatic policy-based lending (PBP) series and one Special Development Lending (SDL) were approved (comprising 76% of approvals and resulting in 73% of the disbursements) (see Annex II, Sections V and VIII). The PBPs amounted to US$1.130 billion (28% more

38 In 2015, the legacy portfolio consisted of 11 INV operations, the oldest of which had been approved in late 2006. As of the end of 2022, 8 of these had completed disbursement and 3 remained active. During the two strategy periods covered by this evaluation, 6 new INV operations were approved, of which 1 was closed (natural disaster INV) and another was canceled. By the end of 2022, the portfolio had 7 active INV operations.

39 The *Program to Protect Jobs and Income for Vulnerable Populations* (CR-L1144), a US$245 million investment loan operation, was approved and canceled in 2020. It was a hybrid program accompanied by a $20 million donation (CR-J0001), which was also canceled.

40 According to the CPE 2015-2018, although it had been planned since 2016, the PBL was not approved for several years in part because the country had not implemented the required fiscal reforms. It was finally approved in June 2019 after the fiscal reform was passed, which was still formally within the validity period of the first Country Strategy.

than planned). While these operations provided support in the context of COVID-19 (see Box 2.1), they were focused on GOs related to fiscal and environmental topics and ensured that the planned approval amount for the 2019-2022 Country Strategy period was met.

Box 2.1. IDBG operations in response to the COVID-19 pandemic (2020-2022)

The Bank's programming in response to the COVID-19 pandemic focused on fiscal objectives with financing amounting to $500 million. In 2021, a Policy-Based Loan (PBL) and an SDL were approved to provide budgetary support, as part of the IDB's institutional, pandemic-response strategy (www.iadb.org/en/coronavirus#). The $250 million PBL (CR-L1145/2021) was the second in a programmatic series supporting fiscal reform. The SDL (CR-L1148/2021), also for $250 million, was aligned with an existing IMF program to support the country's macroeconomic stability. While the SDL aligned with a priority area for COVID-19 response (*public policy and fiscal management*), the PBL was identified as a COVID-19 response with the understanding that liquidity support that year was partially in response to the pandemic. Nevertheless, its conditions, defined prior to the pandemic by the first PBP operation, were not updated to introduce specific, COVID-related measures.

Additionally, specific TC projects were approved in the GOs related to Education and Capacity Building, the Transportation and Logistics GOs, and the Fiscal GOs. CR-T1220/2020 (2020, completed) aimed to support the design and piloting of a return-to-school strategy focused on the most vulnerable among the secondary school population, to address the effects of COVID-19 on dropout and graduation rates, and to support 21st-century skills development. The CR-T1231/2020 (2020, 55% disbursed) aimed to support youth through a hybrid, secondary school model. CR-T1232/2020 (2020, 76% disbursed) and CR-T1243/2021 (2021, 49% disbursed) aimed to mitigate the pandemic's effects on employment (including support for the design and evaluation of in-person and virtual job training). CR-T1224/2020 (2020, 100% disbursed) aimed to support the development of an action plan to reactivate public transportation and infrastructure projects amidst the pandemic. CR-T1226/2020 (2020, 100% disbursed) aimed to provide support to identifying post-pandemic fiscal sustainability measures.

As part of its "protect and alleviate" and "reactivate"[a] strategy, IDB Invest approved four long-term loans totaling $91 million during 2020 and 2021. Additionally, the TFFP played a countercyclical role during the pandemic to maintain liquidity in international trade flows. Four out of the 7 operational lines were approved in 2020, and 62% of total TFFP disbursements occurred between 2020 and 2021. Additionally, 4 financial intermediaries received funding through an IDB Invest regional operation (Investment fund to support SMEs in the context of the pandemic).[b]

While pandemic programming has made some progress in implementation, particularly in terms of delivering outputs, operations are still at too early a stage of implementation to observe movement toward their expected outcomes.

[a] Document CII/GN-419. Refer to Annex IV for more details on the measures adopted in the TFFP.
[b] Through this regional operation, IDB Invest made an investment (Equity Investment (Debt Fund)) in a fund aimed at mobilizing capital for SMEs through financial institutions in emerging markets.

Source: COVID Dashboard (link), Monitoring Reports (PMR), Convergence and interviews.

2.11 Despite their prioritization, budgetary support operations were not exempt from difficulties in achieving consensus; which led to the cancellation of one SDL. Unlike other borrowing country members that sought extraordinary support from the Bank during the COVID-19 pandemic, as previously mentioned, Costa Rica faced challenges in 2020 in reaching political consensus to approve loans aligned with such support. In the case of budgetary support to promote macroeconomic stability, a US$250 million SDL (CR-L1148/2021) was approved in 2021, after another SDL for the same amount, approved in 2020, was canceled due to lack of ratification in the Legislative Assembly. This cancelation forced the government to turn to the local debt market, which offered a higher placement rate than the IDB, generating an additional $5 million in costs for the country at a time of liquidity shortage (Annex II, Section VIII). More recently, the PBL CR-L1147, approved by the IDB in July 2022, has also faced delays in its ratification and is still pending ratification despite all of its conditionalities having been met.

2.12 In addition, the depth[41] of the PBLs varied, with deeper conditions when the Bank managed to channel support for a specific reform over a long period. Most of the policy conditions in the fiscal series *Fiscal Sustainability Support Program* (CR-L1081/2019 and CR-L1145/2021) were of high depth (69% in total for the two programmatic loans). These measures focused on the approval and implementation of laws to control public expenditure growth and increase tax revenue. The depth level of the series reflected the Bank's support for fiscal reform in the country in the decade prior to the first PBL's approval and continued support after its approval until the closure of the second operation. In contrast, most of the policy conditions in the programmatic series *Towards a Green Economy: Support for Costa Rica's Decarbonization Plan* (CR-L1142/2020 and CR-L1147/2022) were of low depth (71% in total for the two programmatic loans). These measures focused on the presentation of work plans, official communications, and reports (see Annex II, Section VI).

2.13 Operational support TCs increased from 2019 onwards, although the TC portfolio was mainly composed of client support operations that did not mobilize the INV portfolio. *Client support* (not linked to a loan operation) remained predominant in the portfolio, representing 83% of the TCs from 2015-2022. These focused on three sectors: i) Social Investments (18%), ii) Science and Technology (15%), and iii) Education (12%), although their topics were broad. *Operational Support* (linked to a loan operation)

41 The depth of policy conditions is categorized as "high" when conditions lead to lasting changes, "medium" when they can have an immediate but not lasting effect, and "low" if, alone, they will not result in significant change. For further details on this classification, see Annex II, Section VI.

increased from 11% of the TC portfolio during the first strategy period to 22% in the second and was used to drive policy reforms, strengthen institutional strategies, and support both execution (pre-investment studies and action plans related to social and environmental safeguards, as well as support for supervision) and disbursement processes (operational management). Support was particularly relevant for the fiscal area (as detailed in Chapter 3) and to accelerate older operations. Additionally, the Country Program included 3 regional TCs managed from the Country Office that promoted key technical inputs such as the draft Fiscal Rule legislation. One of these, aligned with the fiscal area[42] (RG-T2953/2017) supported dialogue with the Ministry of Finance and the Legislative Assembly.

2.14 On the other hand, the NSG portfolio showed an evolution in the types of instruments used and ways of operating; and sought to support the Competitiveness GO, although with minimal coordination with the public sector window. IDB Invest approved financing operations for just over US$551 million during the analysis period, with few approvals between 2017 and 2019 and heavy concentration in both strategies on projects aimed at strengthening the competitiveness of SMEs by increasing their access to credit. Over the period, the portfolio shifted from mostly senior loans to financial intermediaries to more diverse and higher additionality instruments, such as thematic bond issuances associated with senior loans or credit guarantees (Box 2.1). In other sectors, the NSG portfolio was scattered and, while there were NSG operations contributing to other GOs, these decreased in number during the second Country Strategy and became focused on the Competitiveness GO. It is worth noting that the *Competitiveness* GO also had aligned SG operations, but there was minimal articulation between public and private sector interventions, especially considering the scope proposed in the Country Strategies for these objectives.[43]

42 The *Fiscal Area* also received support from other regional operations that were managed from IDBG headquarters in Washington DC. Some of the topics covered included studies related to the wage bill and public employment (RG-T2435/2014), policy reform (RG-T3756/2020 and RG-T3696/2020), and transfer and exchange of tax information (RG-T3203/2018).

43 Some SG loans and TCs were also aligned with SO3, SO12, and SO13. A notable example is the *Innovation and Human Capital for Competitiveness Program* (CR-L1043/2012). However, overall, the SG portfolio was weakly aligned to this objective given the expected outcomes and was not articulated with the NSG portfolio.

Box 2.2. IDB Invest financing to the private sector in Costa Rica (2015-2022)

During 2015-2022, the NSG portfolio underwent changes in focus areas, project types, instrument use, and client relationships. Legacy operations (projects approved before 2015) included senior loans to SMEs for amounts less than $1 million, senior loans for infrastructure and energy financing such as a concession airport, a biomass co-generation plant, and the Reventazón hydroelectric plant; as well as lines for cooperatives focused on mortgage financing.

During the Country Strategy 2015-2018, approved projects totaled $231 million and were characterized by their thematic dispersion. Most were aligned to the strategic objective *SME financing through financial intermediaries* (SO3), but other issues were also financed through senior loans, such as the construction of a private university focused on STEM education, the construction of a hotel near San José airport; as well as a factoring line for the acquisition of mobile phones, that had a weak alignment to the Country Strategy objectives. The mobile phone transaction used factoring, a product not common in the country, and provided an opportunity for the approval of a subsequent transaction with a regional client that was strongly aligned to the second Country Strategy.

During the 2019-2022 Country Strategy, $320 million in financing was approved, mostly in support of SME credit through financial intermediaries but with a broader range of products. The business relationship matured between IDB Invest and financial intermediary clients who demonstrated operational capacity to develop innovative financial instruments, in keeping with IDB Invest's Action Plan for Micro, Small, and Medium Enterprises of 2018.[a] This led to the first issuance of a social bond by a public bank in the country and a guarantee for the first issuance in Central America of a sustainable bond in international markets for a domestic private bank. Both bonds received advisory services to support the development of frameworks for their issuances. The partial credit guarantee aimed to cover the capital for bond issuance and apply the funds to growing the bank's green and social portfolios. In other sectors, funding was provided for the acquisition and expansion of a pharmaceutical production plant that supplied the regional market. Industrial warehouses in the free trade zone were also financed (with sustainable components through an ADV), as well as a project financing 4G/5G network infrastructure through the issuance of a sustainability-linked bond.

[a] Document CII/GN-364-1.

C. Program implementation

2.15 During the period, challenges identified in the Country Strategy for SG operations materialized, along with some unforeseen issues such as the pandemic. Seventy-six percent (76%) of the project portfolio faced at least one implementation challenge;[44]

44 The subset comprises 25 projects, out of which 17 faced at least one implementation challenge. This analysis identified 15 categories of challenges that projects could encounter, including budgetary constraints, legal issues, COVID-19, and staff turnover, among others. It's worth noting that 19 SG operations faced challenges in preparation

with projects in Transportation and Logistics, Energy, and Education encountering challenges most frequently. The most recurrent of expected challenges were executing units' low institutional and management capacity, pre-investment concerns, changing government priorities, coordination with counterparts, and delays in legislative approval (see Annex II-Section VIII). Each of the 6 INV approved during the 2015-2022 period experienced at least one execution challenge, with the most common being problems in pre-investment preparation, including delays in processes and complexity in bidding documents and preliminary studies. Unforeseen challenges arose due to the pandemic, causing temporary delays in the construction and supervision of physical works (Transportation and W&S) and in follow-up meetings. Additionally, integrity weaknesses were detected in transportation operations, which also contributed to delays.

2.16 Initial delays in implementation coupled with low approvals led to a high project age for INV projects. Since the INV loans approved during the analysis period were in sectors and with executors with which the IDBG had previous experience, registration to approval times of INV operations was shorter than in the 2011-2014 period (see Annex II, Section VIII). However, times for ratification, as well as from eligibility to first disbursement, remained high and exceeded those in other countries that also require legislative ratification or approval.[45] This resulted in an increased incidence of extensions in active INV projects.[46] Lengthy execution periods combined with low approvals led to a rise in the average age of INV projects to around 6 years by December 2022 (the second highest in the Bank), with nearly 60% of approved amounts undisbursed (above the Bank's average).

2.17 Preparation and execution costs increased. Costa Rica has maintained relatively low INV preparation and execution costs as compared to other Bank borrowing countries. However, preparation costs per million approved increased relative to 2011-2014, due to higher costs associated with pipeline operations that were not approved and the smaller average size of approved operations. Additionally, execution costs per million disbursed increased due to the slow disbursement

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and execution after the implementation of the Fiscal Rule in 2019, due to the limit on current expenditure that affected the ability to execute approved loan resources and influenced the total cancelation of 2 out of the 19 operations.

45 The time until first disbursement increased by almost five months, which is twice the average time of comparator countries.

46 However, in 2018, out of 10 active INV projects, only three had been extended; with extensions ranging from 1 to 24 months. By 2023, out of 6 active operations, two had accumulated extensions of over 48 months and another two had been extended for more than 24 months.

start of operations approved during the period; which even some legacy projects' accelerated disbursement toward the end of their execution did not make up for (see Annex II, Section VIII).

2.18 Faced with execution challenges, the Bank took action and sought to adapt the program, to mixed results. Measures taken included: (i) supporting the government during ratification processes in the Legislative Assembly (providing inputs, making presentations), though this remained a challenge; (ii) using Conditional Credit Lines (CCLIPs) to reduce ratification risk for transportation projects and promote programmatic vision; (iii) engaging with the Comptroller General of the Republic (CGR) to improve procurement processes; (iv) increasing technical assistance to expedite execution in delayed operations and to assist with socio-environmental issues (such as in energy); (v) reviewing execution mechanisms (for example, introducing ICE (Costa Rican Institute of Electricity) as a supervisor in a water project or making adjustments to trusts (see Box 2.3)). Some of these measures aligned with the previous CPE's third recommendation (see Box 2.4) and, in certain cases, led to accelerated disbursements (such as in innovation, water, and cantonal roads). However, there were also partial[47] and total cancellations (see Annex II, Section VIII) and expected outputs that were not delivered within the anticipated timeframes, underscoring the recommendation's continuing relevance. Lastly, in response to increased integrity risks, the Office of Institutional Integrity, together with the Country Office and the Bank's Transportation Division, worked on risk detection and management. This led to a recommendation to strengthen due diligence and communication channels with project teams.

47 Five INV operations experienced partial cancellations totaling $90 million for projects in energy, transportation, education, and innovation. The primary reasons for these cancellations were (i) delays in ratification by the Legislative Assembly and (ii) discrepancies between budgeted and executed amounts.

Box 2.3. Use of trusts for the construction of public education infrastructure

The Problem. In its analysis of lessons learned from the 2011-2014 period, the 2015-2018 Country Strategy highlighted delays caused by execution mechanisms and bidding processes, emphasizing (i) rigid and vertical decision-making processes in procurements and (ii) deficiencies in executing agencies' planning, scheduling, and procurement management. These issues continued during the analysis period, leading to the use of trusts in Education and Transportation projects.

Execution Mechanism in Education. To expedite execution and bypass regulatory constraints, the Executive Branch, through the Ministry of Public Education (MEP), established a Public Works Development Trust with Banco Nacional de Costa Rica (BNCR) to carry out the Program for Construction and Equipping of Educational Infrastructure (CR-L1053/2012). The trust was approved in 2013 through Law 9124, which authorized its establishment with lease contracts, for financing for the program with sovereign guarantees. Additionally, the Bank supported the loan with a TC aimed at strengthening its implementation.

Implementation. The introduction of the trust mechanism did not significantly improve implementation agility and flexibility. The project remained subject to regulatory constraints (under Law 9124, for example, in terms of resources and time), so many of the execution challenges persisted. Likewise, unlike the trusts used in road projects with the Ministry of Public Works and Transportation (mainly for payment administration, in this case), the trust itself functioned as the borrower (with state guarantee) without the capabilities of a ministry (e.g., in budget management) and without resolving the original issue of lack of experience in design, construction, and maintenance of this type of works. This resulted in higher-than-planned construction costs and the need to reduce the project scope (scaling down the works to 46.6% of the original target).

2.19 Modest improvements were also observed in the use of national fiduciary systems, associated with support from regional TCs. From 2018 to 2022, there was increased usage of five out of ten national systems (see Annex II). The Country Program provided support to strengthen the use of national systems through regional TCs managed from headquarters and focused on long-term reforms - including the procurement law's modernization and implementation and the adoption of International Public Sector Accounting Standards - which will not be completed until after 2023.

2.20 On the other hand, challenges arose for NSG work, most of which were not foreseen in the Country Strategy. In the 2015-2022 period, OVE identified NSG projects affected by several risks that could lead to lower-than-expected development outcomes. These include: (i) macro or market risks, which affected active operations[48] or reduced opportunities to generate new operations; (ii) changes in client objectives (e.g., when one

48 For example, this led to the repayment of one operation, the request for restructuring of another due to liquidity issues during the pandemic, and the failure of three cooperatives to meet targets.

financial intermediary (FI) abandoned its goal of expanding its SME portfolio); (iii) lack of client experience or capacity in specific segments (e.g., when a financial intermediary sought greater participation in a SME segment that was not its focus); (iv) challenges in projecting financial intermediaries' targets (and difficulty in developing projections beyond two years); and (v) challenges to the enabling environment (e.g., lack of consolidated taxonomies in the country for thematic bond issuances, or concentrated markets such as the financial and telecommunications markets). DELTA monitoring is in line with the materialization of these risks, reporting an 8% drop in the average score during supervision.

2.21 Operational factors in the Country Office (COF) during the period posed additional challenges for the accumulation, management, and use of Bank experience. These factors included (i) staff turnover and (ii) the limited use of the Country Strategy as a guiding tool for the program. Staff rotations at the managerial and operational levels posed challenges for building relationships with strategic counterparts, maintaining institutional memory, as well as continuity of dialogue. Specifically, the Country Office had three different Representatives from 2019 to 2022, which was noted in interviews with counterparts. Additionally, there was rotation of the short-term consultants who provide operational support and project supervision, posing challenges for the accumulation of operational experience. The private sector also experienced a turnover of Investment Officers (IO) focused on financial institutions,[49] which posed similar challenges for the NSG portfolio. Moreover, COF interviewees agree that the Country Strategies were not used to guide and monitor the Bank's work. For example, it was not utilized by technical and operational staff to align actions and activities, guide project design and implementation, identify and pursue collaboration opportunities, or monitor results associated with Country Strategy objectives. According to interviewees, although this was aggravated during the period by changes in priorities and the country's context, there was also a lack of mechanisms for appropriation of the document.

2.22 Cross-cutting themes[50] were integrated into the Country Program throughout the priority areas, as outlined in the Country Strategy (see Annex II, Section VII). *Gender and diversity* was included in 34% of SG operations and 25% of NSG operations.

49 Following the departure in 2017 of a COF investment officer focused on FIs, the position was filled by regional staff until 2022, when a new officer joined the COF.

50 A cross-cutting theme is considered incorporated into an operation if elements of the theme are included in the project design in (i) its diagnosis, (ii) its general or specific objectives, (iii) component(s) and/or activity(ies), or (iv) its indicators (outputs or results) in the Results Matrix. Percentages do not include regional operations.

As foreseen in the Country Strategy, this theme was primarily included in infrastructure operations through actions to promote female employment in non-traditional sectors; in the productive area, with financing for women-led enterprises; and in the social area, through the Mesoamerican Health Initiative and training in citizen security on gender-based violence.[51] *Institutional capacity and public management* was included in 63% of SG operations. Although emphasized in the fiscal area, with actions to strengthen budgetary practices and public employment (as indicated in the Country Strategy), the majority (four out of five) of INV approved over the period incorporated the theme; through actions such as support for management systems, training for ministry personnel, strengthening of municipalities, and improving information for decision-making. Climate change was included in 34% of SG operations and 42% of NSG operations, with a greatest emphasis in infrastructure and productivity, as outlined in the Country Strategy.[52] Finally, *Innovation* with a focus on the digital agenda was included in 47% of SG operations in some key topics of the priority areas, but only in 13% of NSG approved from 2019 onwards. In the *fiscal area*, TCs to advance electronic invoicing were highlighted. In the *infrastructure area*, georeferencing of municipal roads and digitization of the electrical transmission system were proposed. In the *social area*, promoting interoperability of the Data Analysis and Technical Support for Police Operations (DATAPOL) with other police platforms was proposed, and in social protection, the development of the National Information System and SINIRUBE stands out (see Chapter IV). In the *productive area*, actions were included to develop software tools and automate processes for private sector clients (see Annex II, Section VII).

51 The theme was integrated into at least one operation of the 11 GOs, going beyond the areas that were originally identified in the Country Strategy for its inclusion (infrastructure, SMEs, violence, and health). Additionally, regional TCs (RG-T3446/2019, RG-T3509/2019, RG-T3624/2020, RG-T4064/2022) included actions aimed at supporting the implementation of the IPG in the country.

52 The Country Strategy addressed adaptation aspects through resilient infrastructure, as well as support for the National Decarbonization Plan and climate-smart agriculture, among others.

Box 2.4 Implementation of the recommendations of the 2015-2018 CPE during 2019-2022

OVE issued four recommendations endorsed by the Executive Board, which were recorded in the Recommendations Tracking System (ReTS) in 2019. They were removed from the system in the 2022 cycle as substantially adopted (recommendations 1, 2, and 3) and fully adopted (recommendation 4).

Recommendation 1: The IDBG made progress in implementing the recommendation to support the country in its efforts to achieve fiscal sustainability (through fiscal reform and structural changes aimed at improving expenditure efficiency and service delivery). Specifically, the Country Strategy included strategic objectives in line with the recommendation. At the Country Program level, two PBP (CR-L1081/2019 and CR-L1145/2021) focused on fiscal sustainability reform were highlighted, along with several TCs supporting the design of a macro-fiscal framework for 2022-2027 and fiscal policy and planning in response to COVID-19. In terms of expenditure efficiency and public services, CR-T1226/2020 supported the review of Public Expenditure in cross-cutting sectors (procurement and social policy), including the Non-Financial Public Sector, which also supported outlining the government's Fiscal Strategy for 2023 (see Chapter IV).

Recommendation 2: This recommendation focused on identifying opportunities to attract private investment through PPPs (particularly in infrastructure). The IDBG made progress in implementation at the activity level, conducting studies for the structuring of a road PPP and pre-feasibility studies for road section PPP project under the "Road Infrastructure Program and Promotion of Public-Private Partnerships" (CR-L1139/2019). However, no PPP projects materialized during the period. Specific operational synergies between IDB and IDB Invest windows were identified (for example, in the Reventazón Hydroelectric Plant) (see Chapter IV). The recommendation also suggested better integrating IDB Invest operations into the Country Program. Progress has been made in improving access to financing through financial intermediaries and thematic bond placements. There was also some progress in strengthening value chains (a loan for an industrial park in a free trade zone and a reverse factoring line currently in execution) and providing local currency credit (authorization was obtained to issue local currency bonds). This recommendation remains relevant.

Recommendation 3: This recommendation was to find ways to improve the implementation of IDB projects (including the recommendation to collaborate with the government to reduce delays in the ratification process, to account for the long implementation delays, and to consider the experience and incentives of Project Executing Units). Management reported progress in specific follow-up actions for operations during the parliamentary ratification process. However, implementation delays continued during the period, resulting in the cancelation of some operations in 2020. Management also reported operational dialogue with the General Comptroller's Office to identify actions to streamline execution, particularly with respect to the recursive regime in procurement processes financed by the IDB and the introduction of a module in the Integrated Public Procurement System (SICOP) to allow objections to public procurement processes to be filed. This has been an advance for procurement processes, but challenges persist, requiring additional technical support in areas such as pre-investment and contract monitoring. The recommendation also suggested better supervision and monitoring of technical cooperations. Management reported staff training on use of the Bank's TC monitoring system (TCM) and the submission of TC Mission Reports within the required deadlines and specifications. This recommendation remains relevant.

Recommendation 4: This recommendation focused on continuing to support the country in its environmental leadership and to address environmental efficiency challenges. The Bank included the cross-cutting theme of sustainability and climate change in the Country Strategy, which was incorporated into 34% of SG operations (see paragraph 2.7). In addition, the strategic objective of "Reducing net emissions in agriculture, forestry, and other land uses (AFOLU)" was included, although the contribution of the Country Program has been low (see Chapter III). Of these, the IDB project to expand Nationally Appropriate Mitigation Action (NAMA) in the coffee sector to farms receiving eco-systemic payments stands out. Management reported the development of a low-emission coffee campaign for 35 plots with three benefit pilots enrolled in the coffee NAMA. On the IDB Invest side, Management reported several projects from Costa Rica that had been registered in the IDBG repository of lessons learned on sustainable practices. With respect to "brown" environmental challenges, infrastructure actions in the W&S sector were supported.

Source: OVE with information from the ReTS, documentary review, and interviews.

03

IDB Group Program Results 2015-2022

3.1 This chapter presents the contribution of the IDB Group program to the Country Strategies' objectives and examines the sustainability of its outcomes. As discussed in the XCPE approach paper (document RE-581), this section analyzes the contribution of IDBG (through its Country Program as well as other support) to the objectives of the country strategies. With the exception of the PBP, SDL, and NSG operations, the executed program consisted of legacy operations and the few operations approved during the first Country Strategy period. Therefore, the reported contribution and sustainability mainly reflect these more advanced operations. The rest of the Country Program operations and other supports (such as technical assistance and resource mobilization) are also considered to the extent that they have shown progress toward outcomes. This analysis is based on triangulation of internal and external sources, including database analysis, document review, interviews, and field visits (detailed information in Annexes III and IV). OVE conducted in-person and remote interviews with implementers, authorities, IDBG specialists, and sector experts in the country for all loan operations, as well as larger and/or more relevant Investment Grants (IGR) and TC. The progress of CS outcome indicators was also considered and information from complementary indicators was collected (see Annex II-Section IV).

3.2 The IDB Group's contributions to the objectives varied, with a high contribution in the fiscal area where there had been long-term, IDBG support and moderate contributions to objectives where operations did not progress as planned and/or showed partial advances in results. (Table 3.1) In the fiscal area, contributions, mostly *high*, were sustained through continuous and long-term support that combined technical assistance as well as budgetary support linked to high depth conditions and achieved timely results. In energy, there was also a *high* contribution to one expected outcome, as the Bank deployed relevant interventions that strengthened renewable energy generation. *Moderate* contributions were observed when i) the aligned program was executed over a long period (longer than originally planned) and/or ii) showed partial progress in planned outputs and/or results (in Transportation and Logistics, Energy,[53] W&S, secondary education, and SMEs' access to credit).

3.3 Low contributions mostly occurred in the productivity and social areas. Several factors explain these *low* contributions: i) IDBG did not have a suitable Country Program to cover the scope of the objectives (weak alignment), either due to the absence or low coverage of operations directly linked to expected

53 With respect to SO8 "strengthening the financial structure and competitiveness of the electricity sector" and the associated expected outcome of redesigning the tariff structure.

outcomes (preschool education and capacity building) or because the support was scattered and poorly coordinated to address objectives (Digital Agenda), ii) because associated operations were in early stages of execution (border crossings and citizen security) or have been completed but have not yet indicated delivered results (social protection program targeting and efficiency), iii) due to the low depth of associated PBLs (environment), iv) or a combination of some of these factors (PPP and SME productivity).

3.4 With respect to the sustainability of the results, it was strengthened when complementary support was provided in management and institutional capacity aspects, although challenges persist. Maintenance challenges were identified in the national road network and in educational infrastructure, and challenges related to long-term strategic planning for investments in W&S. In the fiscal area, IDB provided follow-up support after the approval of reforms, reducing the risk of their interruption. In energy, the Bank's technical support to promote the sector's financial sustainability stands out (see Annex IV).

Table 3.1. Country program contribution to objectives[a]

Priority areas and objectives of the Country Strategies		Contribution	Expected Outcome 🟢 High 🟡 Medium 🔴 Low
Priority Area 1. Fiscal			
SO1	Supporting fiscal sustainability and expenditure efficiency (2015-2018)	Medium	🟢🔴
SO5	Improving the country's revenue levels (2019-2022)	High	🟢
SO6	Enhancing public expenditure oversight institutions (2019-2022)	High	🟢
Priority Area 2. Infraestructure			
SO2	Enhancing the quality, efficiency, and sustainability of productive infrastructure (2015-2018)	Medium	🟡🔴🟢
SO7	Improving the coverage, quality, and resilience of transportation services and infrastructure for regional integration (2019-2022)	Medium	🟡🟡🔴
SO8	Strengthening the financial structure and competitiveness of the electricity sector	Medium	🟡
SO9	Strengthening the institutional framework for Public-Private Partnerships (PPPs) (2019-2022)	Low	🔴
SO10	Addressing the key challenges of the Brown Agenda in the water and sanitation sector (2019-2022)	Medium	🟡

Priority areas and objectives of the Country Strategies		Contribution	Expected Outcome 🟢 High 🟡 Medium 🔴 Low
Priority Area 3. Productive			
SO3	Enhancing the competitiveness of SMEs. (2015-2018)	Medium	🟡
SO11	Improving the supply and access to financial products relevant to the productive sector, with emphasis on SMEs, women-led SMEs, and the export sector (2019-2022)	Medium	🔴 🟡
SO12	Reducing the productivity gap between SMEs and large companies (2019-2022)	Low	NC[b]
SO13	Improving the business environment based on the country's Digital Agenda (2019-2022)	Low	🔴 🔴
SO14	Reducing net emissions from agriculture, forestry and other land uses	Low	🔴 🔴
Priority Area 4. Social			
SO4	Strengthening the human capital accumulation strategy (2015-2018)	Medium	🟡 🔴
SO15	Reducing dropout rates in secondary education (2019-2022)	Medium	🟡
SO16	Improving the quality and relevance of training for 21st-century jobs (2019-2022)	Low	NC
SO17	Increasing preschool education coverage with an emphasis on areas of higher vulnerability and risk (2019-2022)	Low	🔴
SO18	Reducing homicides in the country's 40 most affected districts (2019-2022)	Low	NC

Source: OVE.
Notes:[a]The points correspond to expected outcomes for each strategic objective (see Annex II, Section IV and Annex III).
[b] NC: No contribution to expected outcomes.

A. Fiscal area

1. Fiscal system and public expenditure GO (SO1, SO5, and SO6)

3.5 IDB made a mostly high contribution to objectives related to public expenditure control and increased tax revenues due to the Bank's presence in the country and its prioritization of support to fiscal reform. During the evaluation period, the IDB had a strong presence in the country with specialists and experts in the sector. Effective technical dialogue was undertaken with the executive and legislative branches of the government, and non-reimbursable financing was widely and continuously used for the reforms' preparation and implementation support. Thus, after almost a decade of technical assistance and non-reimbursable financing,[54] in 2019, the Bank approved the first operation of a two-part, PBP programmatic series. Five of the 8 conditions of this first PBP were met prior to its approval as a

54 Since 2010, more than $1 million dollars in TCs administered by the Country Office and Headquarters were approved to deepen technical dialogue and conduct studies on fiscal matters, public employment, and budget (CR-T1073/2011, CR-T1097/2014, RG-T2435/2014, RG-T2953/2017, and CR-T1127/2017).

result of the Bank's technical assistance. Notable, for example, was the preparation of technical inputs for the approval of the Fiscal Rule, which was the first in the region to limit "the growth of current expenditure, conditioning it to the level of indebtedness and the growth of gross domestic product".[55] Subsequently, the Bank continued to provide technical assistance to advance the implementation of reforms and open new areas of dialogue, such as strengthening national systems to address tax evasion and other financial crimes.[56] On the other hand, the IDB Group collaborated closely with the IMF and played a key role in successfully supporting government compliance with the commitments and conditions included in budgetary support operations focused on fiscal sustainability.

3.6 The reforms included in the programmatic series laid the foundation for a path to fiscal sustainability and were relevant in the context of the COVID-19 crisis. The PBPs (CR-L1081/2019 and CR-L1145/2021) had majority high-depth conditions (see Annex II-Section VI). Among the main reforms promoted were the design of a macrofiscal framework for 2022-2027, electronic invoicing, and public employment reform. Additionally, technical and financial support was provided to sustain the reforms and to enhance fiscal planning in response to COVID-19.[57] In terms of results, improvements were observed in tax revenues as a percentage of GDP and in controlling public expenditure, as well as in debt management. On the other hand, the contribution to the Expected Outcome of improving the efficiency of poverty reduction programs is low. While some social spending studies were conducted as part of the first PBP and relevant technical support was provided to the Presidential Social Council and the Mixed Institute of Social Assistance (IMAS) for the design and implementation of the updated algorithm for targeting social protection programs and SINIRUBE (CR-T1126/2015), there is no updated information regarding improvements in the fiscal cost of leakages in social protection programs (see Annex II, Section IV).

3.7 In terms of sustainability, support for post-reform, follow-up action has reduced the risk of the reforms' interruption. Once conditions were met and both programmatic series disbursed in full, the Bank continued to provide non-reimbursable support to ensure reform implementation. In particular, CR-T1252/2022 (currently underway) supports the Ministry of Finance to strengthen fiscal management and public expenditure. At the

55 IDB (2019b).

56 RG-T3203/2018 supported exchange of tax information (OECD et al, 2022); RG-T3696/2020 financed the conduct of a cost-benefit analysis of personalized VAT implementation (IDB, 2022a); CR-T1226/2020 assisted in designing the 2022-2027 macro-fiscal framework; and RG-T3756/2020 supported a regional study on gender parity in public administrations in the region (IDB, 2022b).

57 Costa Rica maintained fiscal sustainability during the pandemic and met both the quantitative and qualitative conditions set by the IMF to receive emergency financing.

same time, the regulation and implementation of the Public Employment Framework Law (a condition that had been removed from the second PBP due to the reprioritization of the legislative agenda in the context of the pandemic) was approved in 2022 and entered into effect in March 2023. This law has progressed with the implementation of transitional salary scales, although the definition and implementation of final scales remain pending.

B. Infrastructure area

1. Transportation and logistics GO (SO2 and SO7)

3.8 The IDB Group made a moderate contribution to objectives related to transport infrastructure through the expansion and rehabilitation of sections of the national and cantonal road networks. The IDB supported the rehabilitation of the national road network by expanding the Cañas-Liberia highway (54 km in length on the Pacific corridor) (CR-L1022/2008), expanding National route 160 in the Playa Naranjo Paquera section (22.5 km), and expanding the Limonal-Cañas project (20.81 km) (CR-L1032/2013, ongoing). Additionally, there are partial advancements in the expansion of National Route 2 between Tara and La Lima (which includes three overpasses). With respect to the cantonal road program, the first phase (CR-L1023/2008) supported the rehabilitation of over 430 km of roads, while the second phase (CR-L1065/2018, ongoing) focuses on rehabilitating another 224 km (target: 411 km). It is worth noting that these achievements occurred after a long period of execution, with multiple extensions beyond the original deadline and high investment costs.[58] Additionally, in 2017, the IDB supported the rehabilitation of bridges and roads (58 sections) affected by Tropical Storm Nate (CR-L1135).[59] In terms of the country strategies' expected outcomes, moderate improvements in the length and quality of national roads are reported (see Annex II, Section IV). On the other hand, with respect to the expected outcome of reducing emissions generated by the transport system, TC support was provided but no progress toward results was identified. At the level of the Country Strategy's expected outcomes, moderate improvements were reported in the length and quality of roads nationally (see Annex II, Section IV).[60] On the IDB Invest side, an

58 The 2015-2019 CPE highlighted that investment costs per kilometer in roads were high compared to the regional average.

59 The Project Completion Report (PCR), validated by OVE, reported an average daily traffic (from all routes) 75% higher than the target.

60 CR-T1119/2014: Support for the comprehensive Sustainable Urban Mobility Program for San Jose; CR-T1113/2014: Options for integrating electric vehicles into the public sector; CR-T1224/2020 support for electrification of public transportation (buses).

airport infrastructure loan (Coriport CR3941A-02/2015) for the improvement, operation, and maintenance of Daniel Oduber Quirós International Airport (AIDOQ) achieved its passenger transport goals.[61]

3.9 With respect to border crossings, the contribution was low and there were moderate advancements toward the regional integration goal. The contribution to the expected outcome for border crossings (within SO2) was low from 2015-2018, partly because the main associated operation (CR-L1066/2015) only reached eligibility toward the end of the first strategy period. The operation is still underway and, despite its start-up delay, moderate progress has been reported in the construction of border crossing points. With technical support, the Proposal for Procedures of the National Coordinated Border Management Model was finalized, and the Bilateral Coordination Committee with Panama was established.[62] In 2021, the Customs Code was implemented and tablets for phytosanitary procedures were provided.[63] With respect to results, Management reports progress in the maximum cargo processing capacity at land border crossings (see Annex II, Section IV).

3.10 In terms of sustainability, improvements in the cantonal road network were observed, although there are medium-term maintenance risks. With respect to the national road network, available information indicates that the quality of interventions has been satisfactory and has adhered to construction standards.[64] However, challenges persist in maintaining the works[65] and maintenance contracts in line with service standards that support an improvement in routine and preventative maintenance have not been implemented. With respect to the cantonal road network, routine maintenance in line with service standards of 1,790 km/year (out of a target of 2,590 km/year) has been achieved with microenterprises, and over 250 officials have been trained in municipal road management. OVE identified progress in maintaining the cantonal road network already completed (IDB supported a three-year agreement with nearly 40 municipalities and the National Road Fund), although there are differences in municipalities' capacity, funding risks, and a

There are no improvements in transportation emissions or congestion costs (see Annex II, Section IV).

61 The operation contributes to SO2 but not to expected outcomes (see Annex III).

62 Of note is the approval by the Legislative Assembly in 2019 of the Framework Agreement to Implement Integrated Binational Control Systems at Border Crossings between Costa Rica and Panama.

63 With respect to the customs information system, consultations for process reengineering for a Single Investment Window started in 2022.

64 PCR for CR-L1022 (Cañas-Liberia section) and OVE field visit, June 2023.

65 The PCR for CR-L1022 reports that maintenance (the responsibility of CONAVI) is performed more on a corrective basis rather than routinely or preventatively.

lack of a medium- and long-term strategy.[66] Additionally, the construction sector providing these services is concentrated, presenting challenges for competition.

2. Energy GO (SO2 and SO8)

3.11 With respect to the energy sector, the IDB Group made a high contribution to increasing energy generation from renewable sources. The IDB aimed to contribute to renewable energy generation through infrastructure (hydroelectric and geothermal) as well as transmission works, grid reinforcements and strengthening of measurement tools. Subsequently, it was proposed to strengthen the financial structure of the electricity sector (next paragraph). With respect to energy generation infrastructure, IDB and IDB Invest provided notable support for the design, planning, and construction of the Reventazón Hydroelectric Plant (PHR), completed in 2016, through a legacy, SG investment operation (CR-L1049/2012),[67] an NSG loan (CR-L1056), and technical cooperation.[68] In general, the state-owned electricity generation company, ICE, demonstrated good management capacity for these types of projects, and with IDB support, the project took significant measures to mitigate environmental and social impacts. The Reventazón Hydroelectric Plant increased installed renewable energy capacity by 305.5 MW or nearly 10% (the largest) in the country, supplying energy to approximately 500 thousand households (40% of the total).[69] In addition, the Guanacaste Geothermal Project (CR-L1070/2015, 60% disbursed, and CCLIP CR-X1014/2015) through which 55MW of generation capacity was installed in the Pailas II Geothermal Plant (completed in 2019 and in operation) stands out. Additionally, the IDB supported the modernization and construction of substations, the installation of over 1,100 photovoltaic systems, the reinforcement of 373 km of the distribution network, and the installation of 36,800 smart meters. On the other hand, a legacy NSG project (CR-L1071/2015) financed the TicoFrut biomass cogeneration plant, which made moderate progress in renewable generation (results lower than expected in the early years of operation).

3.12 The IDB's contribution to the objective of strengthening the financial structure and competitiveness of the electricity sector, which includes the comprehensive redesign of the electricity tariff structure, was moderate and supported primarily through TCs and complementary technical assistance. Through two TCs

66 PCR for CR-L1023 and OVE field visit.

67 Along with CR-L1009/2007, under CCLIP CR-X1005. Echeverría, Carlos, et al., 2019.

68 CR-T1074 and CR-T1086 to mitigate environmental and social impacts.

69 OVE's validation of PCR CR-L1049 reports a partially successful project rating. Also, see Echeverría, Carlos, et al., 2019, and this IDB blog.

(CR-T1190/2019 and CR-T1219/2020), the IDB provided technical assistance and promoted relevant knowledge exchange to analyze ICE's operational and financial sustainability, enhance technical capacities in tariff-related matters, and drive actions aimed at improving efficiency in service provision. With ICE and the Regulatory Authority for Public Services (ARESEP), progress was made in analyzing more efficient rates as well as proposals for hourly rates for the residential sector and medium-voltage rates based on consumption patterns, among others.[70] However, the implementation of the new tariff structure, the monitoring of its results and the analysis of the need for corrective measures is expected to occur from 2023-2025. Additionally, the IDB (with INV and TC resources)[71] supported international regulatory case studies for the National Decarbonization Plan, training for officials on managing electric energy losses, modernizing the National Energy Control Center, database design, and digitization of the electricity transmission system. Moreover, the IDB facilitated negotiations with various entities in the electricity sector, supported the restructuring of ICE's debt,[72] and issued its first thematic bond (Sustainability-Linked Bond) in international markets (US$ 300 million). In terms of results, a reduction in ICE's operating costs (US$ 200 million in 2020 and US$ 41 million in 2021) is reported,[73] along with improvements between 2019 and 2022 in the operational margin and the debt-to-equity ratio of the ICE Group (see Annex II, Section IV).

3.13 With respect to sustainability, there are lessons on safeguards management upon the completion of energy infrastructure projects and progress to report in the financial sustainability of the sector. Considering the complexity and environmental risks of the Reventazón Hydroelectric Plant (Category A), the project took significant measures to mitigate environmental and social impacts, with substantial support from the IDB, resulting in international recognition for hydroelectric project sustainability.[74] However, at the closure of CR-L1049/2012 (which includes Reventazón Hydroelectric Plant and the substation modernization), some environmental and social mitigation measures were still pending.[75] Nevertheless, additional

70 In 2021, some tariff schemes began to be applied. Refer to ARESEP, 2022, and report CR-T1190.

71 PCRs for CR-X1005 and CR-L1049.

72 In 2020, ICE renegotiated the payment terms of Reventazón, reducing ICE payments for three years. Additionally, in 2021, a transaction was completed to convert the balance of two loans from the IDB into colones.

73 Final Report o CR-T1190.

74 In 2019, Reventazón was awarded the Blue Planet Prize.

75 OVE's validation of the PCR for CR-L1049/2012 rated the project's sustainability as Partially Unsatisfactory due to pending measures a project closure and financial sustainability aspects.

information indicates that these aspects have been or are being addressed.[76] Furthermore, since the start of Reventazón's operation, ICE has managed certain issues well, such as the appearance of a crack that required repairs. With respect to financial sustainability, the 2015-2018 CPE identified the lack of focus on ICE's efficiency and losses as challenges for the sector's sustainability, which could affect the maintenance of investments. In this regard, the ICE Group has made recent progress in its financial situation,[77] although there is still room for improvement (challenges in electricity generation and supply costs as well as reduced sales due to lower demand growth).

3. Group of objectives: PPP (OE9)

3.14 The IDB Group made a low contribution to the objective of strengthening the institutional framework for Public-Private Partnerships (PPP) and structuring new PPP projects. The SG portfolio (CR-L1065/2018 and CR-L1139/2019) made progress only at the level of some activities, such as the conduct of structuring studies for a road PPP and pre-feasibility studies for a PPP road segment project. However, projects have not yet been materialized. Through these operations, an exploratory phase of the asset management/recycling mechanism for road infrastructure maintenance was initiated but not implemented. IDB also supported the government in reviewing proposals for regulatory modifications for concessions and PPPs, but there has been no progress in the achievement of results. A significant operation (payment-for-services instrument) (CR-R0001/2023), which is beginning execution, aims to promote private participation in public infrastructure in the Water and Sanitation (W&S) sector. This operation assesses the feasibility of concessions in the sector and would support the Costa Rican Institute of Aqueducts and Sewers in the comprehensive management of solid waste in the province of Cartago and the canton of Desamparados. The Metropolitan Electric Train, for which the IDB provided technical assistance at various stages, did not materialize but was intended to be developed under a concession scheme (see Annex IV-Box A.IV.1.2).The private sector window supported a legacy operation that financed the concession of an airport (Coriport CR3941A-02/2015), one of the few successful concessions to date despite the loan's prepayment.[78]

76 OVE validation of the PCR for CR-L1049.

77 In 2022, Fitch gave ICE a B rating and reported a stable outlook.

78 International passenger arrivals increased from 1.3 million to 1.6 million at Juan Santamaría Airport and from 378,000 to 525,000 at AIDOQ between 2014 and 2017 (Statistical Tourism Yearbook 2017, as reported in the CPE 2015-2018).

4. Water and sanitation GO (SO10)

3.15 The IDB Group made a moderate contribution to the objective of addressing Brown Agenda challenges[79] in the W&S sector and increasing sanitary sewer coverage, mainly through legacy operations and technical assistance. The Bank's support in the sector occurred solely through legacy INV and investment grant operations approved prior to 2015 and that continue in execution (CR-L1024/2010 and CR-X1009/2010). These were complemented with TCs approved during the period.[80] Operations progressed at the output level but with significant delays as compared to original planning.[81] In the Metropolitan Area of San José (AMSJ), there are advancements in the rehabilitation and construction of sewer networks and collectors in the northern and southern zones. In particular, environmental improvement works advanced (Maria Aguilar Diversion Project and Aserrí Extension, completed) and the Tiribí Collector Diversion (scheduled to finish in 2023). Progress was also reported in designs for the rehabilitation and expansion of the sanitary sewer system in the AMSJ, but no progress is reported in the implementation of the program to facilitate intra-household connections. In peri-urban areas of the AMSJ, the rehabilitation of a storage tank (in La Carpio) to buffer water deficits during high-demand periods was completed, along with the works of the El Llano aqueduct (phase II). However, the rehabilitation and expansion of six out of seven residential potable water systems was still to be completed as of 2022.[82] Finally, partial progress was made in rural potable water systems, where two out of six residential systems were rehabilitated and expanded, and rehabilitation works for four aqueducts advanced, while the bidding for the expansion of the San José de Upala aqueduct is pending.[83] The results of the interventions will be reported at the close of the program, which is expected in 2024.

79 Agenda focused on environmental threats to health arising from inadequate drinking water supply, sanitation, drainage, and improper waste management, among other issues.

80 CR-T1101 (2014-2018), CR-T1180 (2018-2021), and CR-T1253 (2022) supported the implementation of CR-L1024. These operations included institutional strengthening, improvements in procurement processes, and project supervision.

81 Eleven years have passed since the signature of operations CR-L1024/2010 and CR-X1009/2010 (September 2012), and almost nine and ten years, respectively, since their eligibility (December 2014 and 2013, respectively). The operations' implementation accelerated toward the end of the second Country Strategy. The March 2018 supervision report indicated disbursements of only 12.6% of the INV and 3.9% of the investment grant, while the most recent data shows disbursements exceeding 90%.

82 In 2023, the pproject began financing five of these systems with IDB and counterpart resources.

83 The original tender for the improvement of the Upala aqueduct was finalized. Management estimates that by the end of this project phase, sanitation coverage will increase to 55% in the AMSJ. This data corresponds to a total of 225,562 connection services and an estimated served population of 789,000 people, according to the

3.16 The sustainability of investments requires long-term strategic planning. The benefits of the project financed by the IDB can probably only be realized with additional long-term investments in the sector, as some of the installed network sections during Phase I will not be operational upon completion. Future interconnection work is required to ensure effective household connections to the network.[84] More generally, long-term strategic planning is needed for construction of secondary networks. It is worth noting that some of these challenges were also identified in the 2015-2018 CPE and remain relevant. Positively, the Bank's technical assistance in the sector is noteworthy, particularly in the formulation of the National Wastewater Sanitation Policy 2016-2045,[85] the first step in defining general W&S priorities with respect to the Millennium Development Goals. With respect to rural systems, the IDB supported the equipment of six Administrative Associations of Aqueduct and Sewer Systems to strengthen the operation and maintenance of the systems. However, only one of these was trained to provide services and the implementation of the community development plan is still pending.

C. Productive area

1. Competitiveness GO (SO3, SO11, SO12, and SO13)

3.17 The Bank approved SG and NSG projects to improve the competitiveness of SMEs and their credit conditions (SO3 and SO11), but only the NSG projects made a moderate contribution. 75% of NSG transactions were aligned with the objectives to increase credit to SMEs, with mixed performance. Twelve projects achieved a high contribution, 10 of these through financial intermediaries, surpassing the target for portfolio growth. Meanwhile, 12 transactions made a moderate contribution, managing to increase the amount of credit or the number of loans to SMEs but not reaching the set goals.[86] In four projects, there was no contribution as the target portfolio decreased. The more recent operations in execution, which present instruments with higher additionality,[87] have not yet reported results (only

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updated Feasibility Study of the PMA-AMSJ (October 2022). The Project Monitoring Report indicated a baseline of 0% and a target of 64% sanitation coverage in the AMSJ, with a baseline of 0 households having access to wastewater treatment.

84 The IDB proposes to promote an operation to advance Phase II of the PMA-AMSJ.

85 MINAE, et al. (2016). Developed in collaboration between the Ministry of Environment and Energy, the Ministry of Health, and the Costa Rican Institute of Aqueducts and Sewers; and with financial support from the IDB, BCIE, and KfW.

86 Includes loans to financial intermediaries, and financial institutions.

87 Like Promerica (11866-03/2020), through the issuance of a thematic bond in the Panama stock market; BNCR (13280-01/2021), through a private issuance of a social bond, and Davivienda (14246-01/2022), through the creation of green financing lines.

two loans under supervision showed progress).[88] The four NSG projects aligned with SO13 did not contribute to the expected outcome of steadily increasing credit to SMEs.[89] On the other hand, support for export SMEs (RE11.1) made a low contribution and only through the TFFP portfolio (one operation with high contribution, one with low contribution, and five still without contribution). Nevertheless, the TFFP's countercyclical support was appreciated by clients that were interviewed. No progress information was available for the progress indicators used in the Country Strategy matrices to monitor these expected outcomes.

3.18 On the other hand, there were no contributions reported to increasing SME productivity (SO12) due to lack of SG results and the lack of information on NSG projects' contribution. A legacy operation (CR-L1043/2012), which closed in 2021, aimed to contribute to productivity growth and partially addressed barriers to innovation. However, it was not sized adequately given the magnitude of the problem and encountered problems associated with coordination and change in priorities that led to unsatisfactory effectiveness. A technical cooperation (CR-T1236/2020) funded the development of studies and analysis related to FDI, talent development, and agro-industrial productive linkages; as well as support and technical assistance for the articulation between institutions linked to a loan (CR-L1146) in pipeline that has yet to be approved. Related NSG operations, which were weakly aligned, lacked outcome indicators associated with productivity.

3.19 With respect to the objective of promoting the Digital Agenda (SO13), the program had a low contribution. The Country Program supported the advancement of expected outcome 13.1 through projects with the public sector, channeling modest support through four technical cooperations (CR-T1171/2017, CR-T1184/2018, CR-T1206/2019, and CR-T1245/2021) for the development of strategies, pilots, and studies that did not lead to further actions during the period. This expected outcome was also supported through the integration of cross-cutting activities in the fiscal, infrastructure, logistics,[90] and citizen security areas, although associated results are not available. IDB Invest also supported expected outcome 13.2, mobilizing

88 Both loans to Promerica (11752-03/2019 and 11866-03/2020) are progressing in volumes, although they are still below the target (as of December 2022). Regarding partial progress (Promerica's 2022 Sustainable Bond Report), the environmental impact was calculated at 464.28 KG CO2 emissions mitigated per year due to the energy generated (16,464KWh) through solar panels financed with the bond resources. Additionally, seven women-led companies were financed.

89 Out of the 4 SG operations aligned with the strategic objective, only two provided financing to SMEs (CR- G1006/2018 and CR-L1043/2012) but they did not address or improve credit barriers for SMEs.

90 Through CR-L1066/2015, start-up inputs were developed for the Enterprise Architecture and Digital Transformation project of the Ministry of Finance.

resources to increase access to higher-quality networks: two recent operations supported the issuance of a bond that would provide resources to a telecommunications company to finance 4G/5G fiber optic infrastructure expansion. These operations have not yet reported results.

3.20 The sustainability of NSG operations was favored by factors such as client selection and technical support when it was suitable for their needs. Some clients show a greater commitment to goals aligned with those of IDB Invest (in terms of SMEs, gender, or sustainability in general). This commitment is evident in client actions that do not necessarily depend on the project, such as corporate strategies with supervision metrics and goals agreed with investors, investment/spending plans involving governance reforms, and new operational systems or hiring human resources in line with goals.[91] In addition, when the advisory service supported changes that were later adopted by the client in accordance with its characteristics and needs, the results were maintained. Finally, in cases of repeated clients, when there was an evolution in the relationship, a new operation (with new products or instruments) could build on previous results, favoring sustainability.[92] In general, continued support and closeness to the client by key staff (Investment Officers, Portfolio Team Managers) were highlighted as important factors by clients.[93] Finally, it was mentioned in interviews that sustainability would be favored by the development of common taxonomies or regulatory improvements, although this requires upstream work (not necessarily at the client level).

2. Group of objectives: environment (SO14)

3.21 Despite having multiple operations aimed at reducing net emissions in agriculture, forestry, and other land uses (AFOLU), the contribution to this environmental objective was low. The environmental portfolio supported a wide range of sub-sectors and included operations in response to natural disasters, sustainable socio-economic development, the reduction of emissions which included issues that were not always aligned with the expected outcome, and in line with the Bank's cross-cutting and emergency support. The inclusion of a specific objective in the second Country Strategy provided greater

91 For example, IDB Invest approved a loan for green financing to a financial intermediary that had developed a strategy and range of financing products for this segment of its own initiative.

92 For instance, IDB Invest transitioned from financing SME credit lines to financing bond issuances for financial intermediary clients, who were able to develop thematic frameworks for their issuances with the help of an advisory service.

93 OVE identified that following the merge-out, at the beginning of the analysis period, there were personnel changes that hindered project and client monitoring. However, this trend has been reversed in recent years, with clients noting increased engagement from IDB Invest.

visibility to work in the area, and the expected outcomes were addressed by two PBLs and four technical cooperations. The PBLs in the series, approved in 2020 and 2022, incorporated three technical components of which one focused on reducing net emissions in AFOLU. The associated conditions were generally low in the first PBL and moderate in the second.[94] Three technical cooperation operations (CR-T1148/2019, CR-T1201/2019, and CR-T1218/2020) financed support to the PBP component aligned with the second Country Strategy, including the design of mechanisms for eco-systemic management, software updates for monitoring, the design of a territorial decarbonization strategy, and the expansion of Nationally Appropriate Mitigation Actions (NAMAs). These were necessary inputs for reform but insufficient for full implementation. The greater depth in the second programmatic loan reflects the more advanced stage of implementation of the three supporting TC operations, which financed activities to support meeting the conditions. The approval of CR-T1259/2022 at the end of the second period has given continuity to this support. As of the present evaluation, the conditions of both PBLs have been met, although ratification by the Legislative Assembly and disbursement of the second PBL are still pending, and it is still too early to assess results.

D. Social and human capital area

1. Education and capacity building GO (SO4, SO15, SO16, and SO17)

3.22 The IDB made a moderate contribution to the objectives related to strengthening secondary education through operations focused on school infrastructure; however, its contribution to preschool education was low (with relevant but insufficient TCs). The Country Strategies set objectives for secondary education throughout the 2015-2022 period (SO4 focusing on graduation and SO15 focusing on dropout), which were covered by an INV (CR-L1053) to support educational infrastructure, along with TCs.[95] Through the investment loan (approved in 2012 and closed in 2021), the IDB financed the construction and/or renovation of 48 infrastructure projects (including 26 secondary schools with sports facilities and 11 multi-purpose courts), creating 2,705 additional secondary

94 The seven policy conditions related to AFOLU emissions shifted from an overall rating of low depth in the first PBL (five low depth and two medium depth) to a medium depth rating of the second PBL (two low depth, four medium depth, and one high depth).

95 CR-T1092 was utilized for the design, supervision, and management of CR-L1053 works. CR-T1159 was used to create proposals for improving technical education, efficiency in educational spending, and preventing dropout rates in secondary education. Some of the outputs served as inputs into the design of CR-L1140.

school spaces (66% of the program's target).[96] Improvements in the school environment and academic progress were also reported.[97] In terms of results, the IDB reported a 95.6% reduction in the dropout rate in intervention schools (from 8.3% to 0.36% between 2016 and 2020) and a 64.1% reduction in the repetition rate (from 17.8% to 6.4% during the same period). Despite not achieving coverage goals, progress in these indicators is relevant to contributing to the secondary school graduation rate. The citizen security operation CR-L1031/2011 reported the year-on-year dropout rate in secondary schools in intervention areas of the Civic Peace Centers financed by the project decreased by 4 percentage points as of the project's closure. At the national level, there is a reduction in the intra-annual exclusion rate in secondary education (see Annex II, Section IV).

3.23 With respect to the objective of increasing coverage in preschool education in vulnerable areas (SO17), the contribution was low due to low coverage in the Country Program. The IDB provided support to this objective through TCs that designed models and pilot evaluations, although these were not sufficient interventions to advance the ambitious goal set for 2019-2022. CR-T1134/2015 designed a pedagogical model to improve mathematical and logical thinking in preschool and implemented a pilot of the model.[98] CR-T1208/2019 (90% disbursed) analyzes the effects of a private financing pilot on improving the quality of early childhood services as well as female labor insertion and permanence. During the period, one project (CR-L1140) aligned with the objective was prepared but, due to a change in priorities during the pandemic, it was not approved.

3.24 Furthermore, the IDB had a low contribution to the objective of improving the quality and relevance of vocational training (SO16), without contributing to the expected outcome of developing curricula for the National Learning Institute (INA) with the participation of the productive sector (proposed for 2019-2022). Part of the low contribution to vocational training is due to a limited Country Program (low coverage) to impact the objectives. Two operations prepared during the period (CR-L1146 and CR-L1140), which included activities for skills upgrading and support to INA, did not materialize due to a change in government priorities. Also, a hybrid operation to protect jobs

96 The goal was to build 103 projects. The baseline for student enrollment was 3,607, the target was 7,710, and the enrollment of 6,312 students was achieved (OVE Validation of PCR CR-L1053).

97 Both indicators are based on information collected from teachers in intervention schools (the pandemic prevented the collection of student information as originally planned). Ibidem.

98 Their impact evaluation found that children in the treatment group improved their mathematical and linguistic skills as compared to the control group (0.15 standard deviations).

and incomes during COVD-19, which included vocational training (CR-L1144/2020 and CR-J0001/2020) and was canceled (Box 2.2). Nevertheless, the IDB supported an action plan for INA's reform (CR-T1154/2017), hiring experts to improve the relevance and quality of its training offerings and to support its capacity in order to better fulfill its role as the national training system manager. Lastly, some TC projects (CR-T1231/2020, CR-T1232/2020, and CR-T1243/2021) supported measures to improve training offerings, training models, and curricular content to promote industry-recognized technical skills in young people and incorporate individuals into productive activities. On the other hand, IDB Invest approved an operation that was weakly aligned with SO16 (not with the expected outcome), which has not made contributions due to its low progress toward its goals. The loan was accompanied by advisory services to support the design of an academic mentoring program for women in STEM.[99]

3.25 The main challenge to the sustainability of contributions are related to maintenance of the educational infrastructure. All completed educational centers financed by CR-L1053/2012 were constructed in accordance with existing regulations and currently have the levels of budget allocation as well as teaching and administrative staff necessary to operate. The trust (managed by BNCR) includes a legal obligation to provide maintenance of the infrastructure for the duration of the trust's existence and, subsequently, this responsibility will pass to the Ministry of Public Education (MEP). Nevertheless, there are risks related to (i) not having sufficient funds, (ii) BNCR or MEP not having adequate operational capacity, and (iii) socio-environmental risks. To mitigate the first two risks, BNCR and MEP developed a manual that defines roles and responsibilities for the maintenance of the works and identified the need to complement the trust with additional funds from MEP. As for socio-environmental risks, these were associated with the termination of contracts by several contractors, resulting in seven works being left unfinished. In turn, this generated liabilities related to the deterioration of the works, sources of pollution, vandalism, and more. The Bank prepared an Environmental and Social Corrective Action Plan to contain these risks and verified that maintenance and security contracts for the seven works were in force during the completion phase of these works (scheduled for the end of 2023). However, OVE found that the seven works have not yet started.[100]

99 The project was of short duration and limited scope but allowed the development of the FAST (Female Advancement in Science and Technology) initiative, which has been continued by the University.

100 PCR CR-L1053, OVE's validation of the PCR, and OVE field visit, June 2023.

2. Social protection GO (SO4)

3.26 The IDB provided relevant technical assistance to support improving poverty reduction programs' coverage and efficiency,[101] but the results are still in their early stages. Between 2015 and 2023, no loans were approved for social protection or health. However, TCs and investment grants aligned with the expected outcome were implemented. CR-T1126/2015, also aligned with the fiscal objective (see SO1), provided technical and financial support to IMAS (for an updated targeting algorithm and SINIRUBE). It is worth noting that despite its establishment in 2013 (Law No. 9137), the first version of SINIRUBE was launched in 2017 with IDB support.[102] Since then, its utilization by social sector institutions has significantly expanded[103] to include socio-economic information for 95% of the population as of 2022 and nearly 80% of the benefits provided by public programs. The platform is currently in a period of positioning and consolidation, covering the vast majority of social benefits. The remaining 20% of benefits correspond to local government programs that are in the integration phase.[104] SINIRUBE represents a promising tool, and although it signifies progress, it is still early for this to translate into improvements in efficiency and coverage indicators[105] and there is room for improvement in targeting and reducing fragmentation. Another noteworthy initiative was the ISM (CR-G1001/2012 and CR-G1004/2015), focused on areas with a high concentration of poverty and health disparities,[106] which supported the update of the national comprehensive healthcare standard for adolescents, the implementation of mechanisms (screening) to identify at-risk adolescents, and the design of the Adolescent Information System.[107] The results of the impact assessment of ISM (conducted with CR-T1111/2014) show a statistically significant reduction in teenage pregnancies, particularly for the 10-14 years old age group in the intervention

101 Relates to expected outcome 4.2 of SO4.

102 In addition, with CR-T1211/2020, the proposal for a SINIRUBE Interoperability Master Plan was developed in 2022.

103 Monje, Karol & Tejerina, Luis 2023, and SINIRUBE portal (https://www.sinirube.go.cr/). More than ten institutions have active agreements, including IMAS, MIDEPLAN, and the Ministry of Housing and Human Settlements. In 2019, a directive (No. 060-MTSS-MDHIS) formalized the need to use this system for prioritizing poverty alleviation programs.

104 Ibidem.

105 In some social protection programs, 40% of households have medium or high incomes, OECD, 2023a.

106 The intervention was implemented in approximately 10% of Costa Rica's 469 districts.

107 Integrated platform connecting several sources of adolescent data, including unified health electronic records.

districts.[108] Finally, with CR-T1158/2017 and CR-T1211/2020, the IDB supported technical inputs for the formulation and approval of the National Care Policy 2021-2031, which seeks to implement a care system for people in a situation of dependency.

3. Citizen safety GO (SO18)

3.27 The project aligned with the 2019-2022 Country Strategy objective to reduce homicides continued activities supported under an operation that closed during the first Strategy period, is in the early stages of its execution, and does not yet have contributions to report. The citizen security operation CR-L1137/2019, approved in 2019 and aligned with SO18, experienced delays in reaching eligibility (in May 2021) and is in an early stage of implementation (6% disbursed). A TC, CR-T1204/2019, supports its implementation.[109] It is worth noting that while the first Country Strategy (2015-2018) did not include explicit citizen security priorities, the portfolio included the legacy operation CR-L1031/2011 (Program for Violence Prevention and Social Inclusion Promotion) that closed before the start of the second Country Strategy, thus not contributing to SO18. Th investment supported advancements in three areas: (i) the construction and launch of seven Civic Peace Centers (CPCs);[110] (ii) the development of a curriculum for the training of prison police and public officials, and (iii) the construction and equipment of Productive Units to support prisoner rehabilitation (with spaces for education, training, industrial workshops, and production centers). Additionally, positive results were reported in reducing the criminal incidence of at-risk youth in intervention communities before the Country Strategy 2019-2022.[111] The index of underage perpetrators, the assault rate, and the self-reported robbery and assault index in intervention areas decreased by 307%, 180%, and 520% respectively as compared to national rates.[112] In addition, the TC Intra CR-T1147/2016 financed a knowledge exchange in

108 Bancalari, Antonella; Bernal, Pedro, et al. (2021). Impact Evaluation of Mesoamerica Health Initiative on Adolescent Fertility in Costa Rica. Panel data from 2000 to 2019 were used.

109 Since September 2019, CR-T1204 has financed pre-investment activities (community consultations prior to the design of four new CCPs, procurement processes for the construction of police delegations, plan for police technological infrastructure, and preparation of TORs for an IT manager).

110 CPCs are physical and community spaces that aim to create development opportunities for at-risk youth aged 13 to 17. They provide extracurricular educational services as part of their violence prevention strategy.

111 The 2015-2018 CPE concluded that the operations in the first Country Strategy's program "contribute to the goal of human capital accumulation and are clearly relevant to the country's overall development priorities."

112 Annex VIII of the 2015-2018 CPE and comprehensive evaluation of the CPCs available here. December 2022.

justice projects.[113] Despite these results, a national increase in the homicide rate per 100,000 inhabitants was observed between 2018 and 2022 (see Annex II, Section IV).

3.28 The sustainability and deepening of the achievements of the legacy Country Program are favored by continuity in policies and support to the sector. While new operations are in their initial stages, OVE finds the success of the legacy operation (reduction in criminal incidence among at-risk youth in the areas of influence) largely depends on the continuity of the CPCs and their activities. In this regard, the Bank and the Government have promoted policy and operational measures, such as defining a National Agenda for Violence Prevention and Social Peace Promotion 2019-2022,[114] as well as maintenance criteria for the Centers, and inter-institutional agreements to support their operation.[115] The new INV (CR-L1137/2019), which will fund an extension of the CPC network, if implemented properly, could support these aspects. However, there are ongoing risks related to funding for the maintenance of the centers in the medium- and long-term.

113 The technical cooperation funded an exchange for two officials from the Costa Rican Ministry of Justice to the National Rehabilitation Institute of Uruguay.

114 “Alianzas para la Paz” coordinates government action in the area of citizen security.

115 The legacy operation financed maintenance manuals for each CPC, which should be applied preventively, and promoted the signing of inter-institutional agreements between the Ministry of Justice and Peace, the municipalities where they were installed, and the institutions providing services.

04

Conclusions and Recommendations

4.1 At the beginning of the evaluation period, Costa Rica faced increasing debt levels that threatened the Central Government's fiscal balance. In response, and with IDB support, the Public Finances Strengthening Law was approved in 2018; addressing these challenges by expanding the tax base and imposing limits on the increase in current expenditure of the non-financial public sector. The onset of the COVID-19 pandemic, nearly a year later, led to a drop in government revenues, diminishing the effects of the fiscal reform. In response, Costa Rica signed an Extended Fund Facility program with the IMF in 2021 and entered into agreements with various donors for budgetary support, including the IDB Group. However, political fragmentation in the Legislative Assembly hindered consensus necessary to ratify two of the six budget support loans approved by the IDB Group.

4.2 In these circumstances, the Country Strategies addressed the country's main challenges, including fiscal ones, but their relevance was affected by lack of selectivity and evaluability issues. The objectives of the two strategies covered a wide spectrum of development needs and, in some cases, introduced complex issues where the IDB Group lacked significant prior experience (such as the Digital Agenda), demonstrated results in the country (Water and Sanitation, Public-Private Partnerships), or a sufficient program given the scope outlined in the objectives (increasing SME productivity, improving the efficiency of poverty reduction programs, and promoting skills development). With respect to the objectives introduced in the second Country Strategy, the breadth of the approach remained, despite anticipated political fragmentation and fiscal challenges, as well as persistent implementation difficulties, which reduced the viability of effectively contributing to the objectives within the established timelines. These challenges were compounded by evaluability weaknesses, including vertical logic problems, expected outcomes defined at an inadequate level, and indicators in the Country Strategies' results matrices that did not allow tracking of progress towards the objectives.

4.3 Successive crises (fiscal and pandemic) resulted in a significant response from the IDB Group with budgetary support, while the investment portfolio declined due to the absence of approvals. Budgetary support played a key role in meeting short-term financing needs, simultaneously supporting the Bank's strategic objectives. On the other hand, the investment portfolio was affected by shifts in priorities and difficulties in generating consensus, in a context of implementation of fiscal rules and fiscal deterioration resulting from the pandemic, leading to a lack of investment loan approvals during the second Country Strategy and a significant reduction in active loans. Most objectives were addressed by legacy projects or those approved during the first Country Strategy. Considering execution problems (including delays in parliamentary approval), the portfolio's overall age increased.

4.4 Operational factors such as staff turnover and the failure to use the Country Strategy as a program guide posed additional challenges. During the period there was high staff turnover at the managerial and operational levels. The IDB Group's Country Office was led by three different representatives between 2019 and 2022. There was also staff turnover at the IDB and IDB Invest, hindering continuity in operational experience. While there were SG and NSG interventions supporting the same objectives (such as in energy), there was little public-private articulation, and the integration of NSG operations into the Country Program mostly occurred in terms of SMEs' access to credit. Overall, it was observed that the Country Strategies were not used to guide and monitor the Bank's work. For instance, there were no periodic reviews or measurements of progress towards strategic objectives and expected outcomes, nor mechanisms for their appropriation by staff. Taken together, these factors posed challenges for building and consolidating relationships with strategic counterparts and clients with a programmatic basis in certain sectors, for maintaining institutional memory, and for providing continuity in dialogue.

4.5 Nevertheless, the IDB Group made high and medium contributions to multiple objectives, especially in cases where there was relevant and sustained long-term support. The contribution was mostly high for fiscal area objectives, where continuous long-term technical support, combined with budget support loans, resulted in timely outcomes. In other areas (particularly in infrastructure), contributions were medium for objectives whose aligned program did not progress at the planned pace due to implementation challenges, but where the Bank maintained support and sought to resolve delays. In competitiveness, the contribution was medium based on NSG operations supporting access to credit through financial intermediaries during both strategic periods. Overall, the medium contribution stemmed from operations that made partial or mixed progress in outputs, and achieved outcomes that were below planned targets.

4.6 Contributions were low for objectives not adequately covered by the Country Program or where operations did not show results, mostly in the areas of competitiveness and social development. Several factors influenced these low contributions, including: i) the lack of a suitable Country Program to cover the scope of the objectives, either due to the absence or low coverage of operations or because the support was scattered and poorly articulated, ii) aligned operations were in early stages of execution, or completed but without progress in results, iii) the low structural depth of associated operations, or iv) a combination of these factors.

4.7 Continued support over an extended period favors the sustainability of contributions, although challenges persist. In infrastructure, the main risk factor is associated with weaknesses in planning, management, and budget execution for maintenance. The reduction of the investment portfolio could have implications not only for the potential to generate future contributions but also for sustaining achieved contributions. In NSG operations, sustainability was favored by factors such as client selection and technical support when tailored to their needs.

4.8 Based on the findings resulting from the evaluation of the IDB Group's strategies and program over an extended period, OVE formulates the following recommendations:

1. **Focus the new country strategy on key country challenges, defining objectives where the IDB Group can promote significant, long-term contributions.** Over the long term, the low selectivity of objectives diminished the Country Strategies' relevance. Major contributions were made in specific areas where the IDB Group accompanied a medium- and long-term reform process through a combination of instruments, bringing expertise and maintaining close and continuous technical support. Therefore, OVE recommends that the new country strategy prioritize a few key objectives, to optimize the IDB Group's contribution through an appropriate combination of investment and budget support, taking into consideration: i) the state policies of the country, ii) the leveraging of the IDB Group's previous experience (both in country and abroad), iii) the deepening of results already achieved in the country, and iv) the expected ability to mobilize a program that is consistent with its achievement.

2. **Strengthen the integration of IDB Invest in the development of the new country strategy to promote synergies and enhance the IDB Group's contribution.** The previous CPE recommendation to support the country in attracting private investment and better integrate operations into the Country Program remains relevant. In this context, OVE recommends: i) strengthening the inclusion of IDB Invest in policy dialogue in order to align its role with the country's needs and conditions; ii) incorporating risk analysis into the strategy to achieve results and draw

lessons from previous strategy cycles, and iii) clarifying roles and responsibilities when coordinating public and private windows to maximize synergies.

3. **Address operational factors in the country office that pose challenges to achieving country strategy objectives.** Staff turnover at both managerial and operational support levels presented challenges during the analysis period. Additionally, a lack of follow-up and utilization of the Country Strategy was observed. In this context, OVE recommends: i) establishing plans and processes to ensure continuity and knowledge transfer within the country office, ii) strengthening the evaluability of the country strategy and establishing routine monitoring of its progress (for example, through mid-term or annual reviews), involving Country Office staff and counterparts, and iii) strengthening the role of the country strategy and the annual programming to ensure continuity in strategic and operational dialogue even in situations of high staff turnover.

4. **Improve project preparation and implementation through a strategic use of TCs and technical support.** The previous CPE identified challenges associated with project preparation, delays in the legislative ratification process, and executing entities' capacity. The XCPE confirms that these challenges persist. Therefore, OVE recommends: i) focusing client support TCs on the new country strategy's key objectives, ii) focusing technical support on pre-investment (for existing and new projects) to reduce implementation risks and delays, iii) anticipating possible delays in the ratification process during project preparation, and iv) supporting implementation through non-reimbursable, TC funds.

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