

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

COSTA RICA AND IDB GROUP STRATEGIC AGREEMENT COUNTRY STRATEGY

2024 – 2027

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ABREVIATIONS

ACOPE	Asociación Costarricense de Productores de Energía
AFD	French Development Agency
ARESEP	Public Services Regulatory Authority
CABEI	Central American Bank for Economic Integration
CAF	Development Bank of Latin America and the Caribbean
CCLIP	Conditional credit line for investment projects
CCP	Civic centers for peace
CCSS	Costa Rican Social Security Fund
CDC	Country Development Challenges
CFIA	Colegio Federado de Ingenieros y Arquitectos de Costa Rica
CGR	General Comptroller of the Republic
CIEP	Centro de Investigación de Estudios Políticos
CIF	Climate Investment Funds
CNC	National Concessions Council
CPI	Public procurement of innovation
CS	Country Strategy
DCOP	Public Procurement Directorate
EIB	European Investment Bank
ENADIS	National Disability Survey
ENAHO	National Household Survey
ENUT	National Time Use Survey
EU	European Union
EUDR	European Union's Deforestation Regulation
GAFILAT	Financial Action Task Force of Latin America
GAM	Greater Metropolitan Area
GCF	Green Climate Fund
GDP	Gross domestic product
GEF	Global Environment Facility
GHGs	Greenhouse gases
ICE	Costa Rican Electricity Institute
IDB	Inter-American Development Bank
IED	Foreign direct investment

IMAS	Joint Institute for Social Welfare's
IMF	International Monetary Fund
INA	National Learning Institute
INAMU	National Institute for Women
INCAE	Instituto Centroamericano de Administración de Empresas
INEC	National Institute of Statistics and Censuses
IPG	Gender Parity Initiative
IVA	Value-added tax
IVM	Disability, old-age and death insurance
LAC	Latin America and the Caribbean
LACIF	Latin America Investment Facility
M&E	Monitoring and evaluation
MEIC	Ministry of Economy, Industry and Commerce
MEP	Ministry of Public Education
MER	Regional electricity market
MIDEPLAN	Ministry of National Planning and Economic Policy
MRV	Monitoring, Reporting and Verification
MSMEs	Micro, small and medium-sized enterprise
ND-GAIN	Notre Dame Global Adaptation Initiative
NDC	Nationally Determined Contributions
NDP	National Decarbonization Plan
OECD	Organization for Economic Cooperation and Development
ORP	Office of Outreach and Partnerships
OVE	Office of Evaluation and Oversight
PACI	Institutional Capacity Assessment Platform
PBL	Policy Based Loan
PCR	Project Completion Report
PEG	Generation expansion plan
PIMA	Public Investment Management Assessment
PISA	Programme for International Student Assessment
PMR	Product Market Regulation
PPP	Public-private partnership
PROCOMER	Costa Rican Foreign Trade Promoter
SDI	Social development index
SIECA	Secretary of Economic Integration of Central America

SIEPAC	Central American Electric Interconnection System
SINCA	Sistema Nacional de Cuidados y Apoyos para Persona Adultas y Persona Adulta Mayores en Situación de Dependencia
SINIRUBE	Sistema Nacional de Información y Registro Único de Beneficiarios del Estado
SNIP	National Public Investment System
SUGEVAL	General Superintendency of Securities
TFFP	Trade Finance Facilitation Program
UNDP	United Nations Development Programme
UNHCR	United Nations High Commissioner for Refugees
UNODC	United Nations Office on Drugs and Crime
VUCE	Window for foreign trade
VUI	Window for investment

INTRODUCTION

A NEW APPROACH FOR IMPACT

Costa Rica's Potential

Costa Rica has consolidated as a stable democracy, thanks to its strong rule of law and a social contract that has traditionally ensured wide coverage of education and social protection services, which acted as social elevators. The country's diverse ecosystems play a crucial role in the economy and societal well-being. Costa Rica is committed to protecting its natural assets and contributing to the global green agenda, as reflected in its National Decarbonization Plan. Additionally, until 2020, Costa Rica enjoyed higher levels of security compared to peer countries in the region. These factors have made Costa Rica an attractive destination for foreign investment, the main driver of its economy, allowing the country to produce medium-to-high sophisticated exports, particularly in the medical-pharmaceutical and technology sectors, as well as provide high-value-added services. These qualities have translated into economic growth above the average for Latin America and the Caribbean and, in recent years, even surpassed the country's historical average growth rate. Protecting and enhancing these factors will be essential for sustaining growth over time, leading to higher levels of well-being, especially among vulnerable populations, and positioning Costa Rica as a regional leader in sustainable development and solutions generator.

Country Strategy New Approach

The Country Strategy for Costa Rica (CS) 2024-2027 aims to maximize the impact of the IDB Group by emphasizing strategic selectivity while recognizing the unique challenges of operating in the country. This approach seeks to leverage resources, expertise, and strategic partnerships to address these challenges and capitalize on development opportunities. The strategic selectivity framework considers the government's objectives outlined in the National Development and Public Investment Plan 2023-2026, the new institutional strategy, IDB Impact+, and the regional development program "América en el Centro," as well as priorities identified in the Country Development Challenges (CDC). It is also grounded in the IDB Group's strategic positioning analysis in relation to other multilateral organizations, operational experiences, and lessons learned from previous strategy implementations. Lastly, it considers the risks associated with the strategy's implementation, using the IDB's new Risk Taxonomy (GN-2547-15), and outlines detailed mitigation measures. As a result, the strategy prioritizes pillars and programs with the highest transformational potential and capacity to generate impact.

Identified Pillars of Intervention and Expected Impact

The CS establishes three priority pillars: (i) resilient infrastructure and climate action; (ii) enabling environment for the private sector; and (iii) social contract protection. It includes gender and diversity, climate change adaptation and decarbonization, and institutional strengthening as cross-cutting areas.

Under the first pillar, **resilient infrastructure and climate action**, the CS 2024-2027 seeks to strengthen key infrastructure for the productive system by improving the road network, making it more resilient to climate phenomena, and modernizing the physical infrastructure at border crossings. It will also continue supporting the country in its energy transition and the consolidation of a more efficient electrical system, powered by renewable energy. Additionally, the IDB Group will continue

catalyzing resources to finance initiatives that support the commitments outlined in the National Decarbonization Plan. Specifically, the strategic objectives within this first pillar will focus on (i) improving the quality and resilience of transportation infrastructure; (ii) improving the reliability of the electrical system; and (iii) mobilizing climate finance.

The second pillar, **enabling environment for the private sector**, aims to stimulate greater private sector participation in economic development. On one hand, actions will concentrate on facilitating international trade by simplifying procedures alongside the modernization of physical infrastructure and providing exporters, importers, and production chains with innovative financial solutions, as well as promoting reforms that incentivize foreign investment. Secondly, the IDB Group will support the strengthening of the public-private partnership (PPP) framework to encourage new partnerships that reinforce and expand infrastructure. Thirdly, the IDB Group will continue providing competitive financing to micro, small and medium-sized enterprises (MSMEs), promoting financial inclusion and the growth of the entrepreneurial ecosystem, with an emphasis on women-led businesses. Specifically, the main strategic objectives of this second pillar will focus on (i) facilitating regional integration, (ii) strengthening the PPPs regulatory and institutional capacity, and (iii) increasing financial inclusion.

The third pillar, **social contract protection**, aims to ensure the long-term sustainability of one of the foundations of Costa Rica's economic and social success. First, the CS 2024-2027 will concentrate on improving the quality and efficiency of education to address learning gaps and facilitate youth integration into the labor market. Second, interventions will focus on mitigating the deterioration in security experienced in recent years, complementing comprehensive violence prevention programs developed by the Bank in previous strategies, aiming to increase police effectiveness, reduce youth crime in intervention pillars, and lower recidivism rates.¹ Third, it addresses the challenge posed by Costa Rica's rapidly aging population. The IDB Group will support the country's efforts to strengthen the social protection system for vulnerable elderly populations due to disability or functional dependence. Specifically, the strategic objectives of this third pillar will concentrate on (i) strengthening educational services to recover learning, (ii) preventing crime among at-risk youth, and (iii) strengthening the social protection system.

The interventions planned under the CS 2024-2027 will be reinforced and operationally aligned with the cross-cutting areas of gender and diversity, climate change adaptation and decarbonization, and institutional strengthening. They will also integrate with sectoral reforms proposed in four areas: (i) the national public investment system, (ii) the national care system and promotion of gender equality, (iii) transport, cargo logistics, and trade facilitation, and (iv) regulatory frameworks for public management.

The IDB Group's support during the CS 2024-2027 will be provided through (i) new operations with high-impact potential, both with and without sovereign guarantees, (ii) the ongoing project portfolio, and (iii) non-reimbursable technical assistance and advisory services.

¹ Since 2011, the Bank has supported the Costa Rican government implementing its citizen security strategy through two credit operations (CR-L1031, CR-L1137, the latter currently in execution). These programs include actions to improve the institutional capacity of entities within the security and justice ecosystem, such as the construction of civic centers for peace—spaces designed to address the root causes of violence and promote citizen security through community participation—and the modernization of police infrastructure, specifically police stations, with standardized spaces for the comprehensive deployment of the preventive and community policing model.

The CS 2024-2027 will promote synergies between IDB Group windows and leverage resources and strategic partnerships with other donors to maximize the benefits of effectively combining the IDB Group's strengths, resources, experience, and efforts. The three windows will aim to work in coordination, sharing knowledge, seeking integrated financial solutions, scaling innovative solutions, and promoting regulatory, institutional, and market reforms that facilitate private sector participation. Specifically, five potential areas for synergy development are identified: (i) climate finance, (ii) PPP development, (iii) financial inclusion for MSMEs, (iv) innovation and digital transformation, and (v) social protection, eldercare, and the silver economy.

Partnership Costa Rica- IDB Group

The collaboration between Costa Rica and the IDB Group has been crucial in driving the country's sustainable and inclusive development, focusing on priority areas such as public finance, infrastructure, productivity, and human capital development. The IDB Group has supported deep fiscal reforms, including the one approved in 2018, which involved the implementation of a fiscal rule and modernization of the tax collection system, contributing to improve macroeconomic stability and optimizing public spending management. In infrastructure, the IDB Group has played a key role in enhancing the road network and strengthening the energy sector, improving territorial connectivity and promoting energy diversification. Regarding regional integration and trade, the IDB Group has facilitated the modernization of border crossings and supported foreign trade financing. These efforts have been complemented by initiatives to strengthen the entrepreneurial ecosystem, with special attention to MSMEs and key sectors such as science and technology. On the social front, the support has concentrated on reinforcing citizen security and preventing violence. Additionally, during the pandemic, the IDB Group responded swiftly to assist Costa Rica, helping maintain economic stability and protecting vulnerable populations. Over the years, the IDB Group has been a key partner in helping Costa Rica advance its development priorities, promoting sustainable, inclusive, and resilient economic growth.



I. BUILDING A NEW COUNTRY

STRATEGY: PURPOSE AND APPROACH

A. STRENGTHENING STRUCTURES THAT GENERATE LASTING GROWTH AND INCLUSION

- 1.1 Costa Rica remains a stable democracy, with a solid rule of law and a high degree of social cohesion, which translates into quality of life indicators above the regional average.²** Political and social stability has been built on a social contract whose main pillars include broad coverage of education and social protection services and relatively high levels of security.³ Additionally, Costa Rica is making progress in the implementation of programs and projects associated with achieving environmental and climate goals with the aim of achieving net-zero emissions by 2050, as contemplated in its National Decarbonization Plan (NDP) and completed its full accession to the Organization for Economic Cooperation and Development (OECD) in 2022. These factors have made it an attractive country for foreign investment and a net recipient of migration, which represents 10% of the population, the second highest percentage in LAC, and 11% of the labor force, one of the highest in the region. The migrant population, in addition to moderating demographic aging, also revitalizes a declining workforce and contributes diverse skills that complement those of native workers.⁴
- 1.2 Costa Rica is one of the 20 countries with the greatest biodiversity in the world, where ecosystem services are fundamental to the functioning of the economy and the well-being of society.** The country has a vast marine ecosystem—its territorial waters are 11 times its land area—and a land surface that encompasses diverse ecosystems.⁵ More than 26% of the territory is protected under different management categories.⁶ Ecosystem services have an intrinsic economic value, with direct impacts on key sectors such as fishing and tourism. It is estimated that mangrove forests provide annual carbon sequestration benefits equivalent to US\$1,500 million (approximately 1.7% of GDP).⁷ Additionally, mangroves and coral reefs help to preserve coastal communities and infrastructure by providing natural protection against storms, waves, and rising sea levels.
- 1.3 Over the last decade, Costa Rica's economic growth has exceeded the LAC average (3.6% vs 3.0%), driven by a model of attracting foreign direct investment (FDI) and promoting exports, which is primarily concentrated in the free trade zone regime.⁸** The free trade zone relevance has

² Costa Rica ranked 17th out of 165 countries in [The Economist's 2023](#) Democracy Index; it also has the third highest life expectancy in LAC (77 years vs 72 in LAC).

³ In 2022, enrollment rates in primary and secondary education in Costa Rica were 95% and 92%, respectively, higher than the LAC averages (93% and 77%, respectively); Costa Rica also had the fourth highest coverage rate of essential health services in LAC in 2021; the average homicide rate per 100,000 inhabitants between 2010 and 2020 in LAC (23.1) was double that of Costa Rica (10.7).

⁴ [Characteristics and Economic Impact of Migrants and Refugees in Costa Rica \(FMI, 2023\)](#).

⁵ The marine ecosystem includes coral reefs, mangroves, seagrass beds, the open ocean, the deep sea, sandy and rocky coasts, estuaries and lagoons. Terrestrial ecosystems, on the other hand, encompass forests, wetlands, páramos and mangroves. The main causes of biodiversity change and ecosystem degradation in the country are habitat loss (land use changes), unsustainable mining, overexploitation of resources, pollution and sedimentation, and climate change.

⁶ The National System of Conservation Areas (SINAC) integrates eleven spaces distributed throughout its territory, both terrestrial and marine, in which protected wild areas are located, defined as a "defined geographical space, officially declared and designated with a management category by virtue of its natural, cultural and/or socioeconomic importance, to meet specific conservation and management objectives". (DE-34433, Biodiversity Law Regulation, No. 7788, Art.3, inc. a) [Costa Rica Biodiversity National Policy 2015-2030](#).

⁷ For example, the Nicoya Gulf, which contains 20,739 hectares of forest and is one of the largest mangrove ecosystems in Costa Rica, is estimated to have an annual cumulative value of ecosystem services equivalent to US\$408 million for improvements in fishing, coastal protection, and carbon sequestration (Hernández-Blanco, Costanza, and Cifuentes-Jara, 2018 ["Economic Valuation of Ecosystem Services Provided by Mangroves in the Nicoya Gulf"](#)).

⁸ The free trade zone refers to a special regime that exempts national and foreign companies from paying taxes with the aim of incentivizing FDI, trade, and job creation.

been increasing, currently representing 15% of economic activity. It produces 66% of exported goods, highlighting manufactures in the health sector (precision and medical equipment), food, and technology (electronic components), and is the main exporter of business, and information and communication services. It also concentrates 11% of national employment, with wages 46% higher than the national average.⁹ Despite economic growth above the LAC average, the productivity gap with respect to developed countries persists. While productivity increased by 30% in the last decade, it remains 57% below the OECD average.¹⁰

- 1.4 The government has progressed on its fiscal consolidation with the implementation of the 2018 tax reform, and successfully concluded a program with the International Monetary Fund (IMF) in 2024.** The 2018 tax reform had as its main milestones the improvement of tax collection efficiency—with the introduction of value-added tax (VAT) and a reform of the income tax—and the implementation of a fiscal rule that limits spending growth. In June 2024, the country completed an extended arrangement program with the IMF, initiated in 2021. As a result, the government went from having structural primary deficits of 2.6% of gross domestic product (GDP) to primary surpluses of 1.8%, allowing the central government's debt to return to a sustainable path.
- 1.5 However, medium-term economic and social stability may be compromised by the persistence of infrastructure gaps, the challenges faced by the private sector, and the worsening of education, security, and social protection indicators.** The government's ability to address these challenges is determined by the application of the fiscal rule, which sets the growth of spending, and the high interest debt burden (4.8% of GDP in 2023), limiting the resources it can allocate to public investment, education, security, and social programs.
- 1.6 Public investment has maintained a declining trend and private investment has been insufficient to close the capital gap that the country requires and to address climate challenges.**¹¹ Adverse hydrometeorological phenomena accelerate the deterioration of infrastructure (estimated to have an annual impact of 0.3% of GDP) and low investment and maintenance results in low-quality infrastructure. As a result, 37% of road infrastructure is in poor or very poor condition, making it difficult to connect peripheral regions with the Greater Metropolitan Area (GAM) and international markets. Other key infrastructure for international trade and regional integration, such as rail corridors, ports, airports, and border crossings and their access roads, are obsolete, nearing the end of their useful life or their capacity limits. This is reflected in Costa Rica being the OECD country with the greatest lag in indicators of international trade management efficiency and infrastructure quality.¹² The electricity system also continues to face efficiency challenges, despite improvements in the last decade. The maintenance and modernization of generation, transmission, and distribution systems, including the adoption of smart grid technologies, are necessary to achieve efficient management that allows for the quality and reliable service of the growing demand of industry and households at competitive prices. Although the country has the capacity to generate almost all of its electricity from renewable sources, mainly hydroelectric, in 2021 electricity represented 23% of total energy consumption, while fossil fuels, mainly for transportation and industry, accounted for 66%.¹³ On the other hand, the high concentration in hydroelectric generation (73% of total electricity) leaves the system vulnerable to prolonged periods of drought (for example, El Niño phenomenon), in which it is necessary to resort to thermal generation, which is much more expensive and polluting.¹⁴

⁹ The average growth of the free trade zone regime between 2010-2023 was 10.3% and that of the definitive regime was 3%.

¹⁰ Costa Rica ranks third to last in productivity (GDP per hour worked) among OECD countries.

¹¹ Public and private investment was 2% and 14% of GDP in 2023 (6% and 14% of GDP in 2010).

¹² In 2023 it ranked 66th (out of 139 countries) and 68th (out of 131 countries) in the World Bank's Logistics Performance Index.

¹³ [Source: International Energy Agency \(IEA\)](#). Through its Nationally Determined Contribution (NDC) and the NDP, Costa Rica has committed to initiate the process of decarbonization of the economy. This requires the transformation of the development model and represents a challenge in terms of investments and policy design in at least 8 major areas: (i) mobility, (ii) energy, (iii) buildings, (iv) industry, (v) waste management, (vi) agriculture, (vii) land use, and (viii) nature-based solutions.

¹⁴ Costa Rica went from meeting 99% of the national electricity demand with renewable sources in 2021 to 91% in 2023.

- 1.7 Challenges persist in creating a more enabling environment to stimulate the private sector's contribution to closing the development gaps.** Regulatory and operational barriers hinder international trade, foreign direct investment, and private sector participation in sectors such as transport, electricity, or water and sanitation.¹⁵ At the same time, the duality of the economy persists with highly productive companies integrated into global value chains and a majority of small domestic companies with low productivity that only supply the domestic market.¹⁶ Limited fiscal space and existing infrastructure gaps open up the opportunity to structure public-private partnerships. In this sense, Costa Rica has an adequate regulatory framework for its development, although there are regulatory and institutional aspects, related to the preparation, sustainability and performance and impact evaluation of projects that need to be strengthened.¹⁷ On the other hand, 97% of companies in Costa Rica are MSMEs, generating 37% of GDP and 35% of employment.¹⁸ Access to finance is one of the main problems they face, especially those led by women.¹⁹ Less than 9% of commercial bank loan portfolios are allocated to productive sectors, such as agriculture and manufacturing. This generates a financing gap for MSMEs equivalent to 9% of GDP (estimated at 15% if the informal sector is considered).²⁰ On the other hand, climate finance, both public and private, is still incipient. Although Costa Rica has benefited from climate finance programs and has developed a sustainable finance taxonomy that will facilitate the issuance of thematic bonds, the institutional framework needs to be strengthened, and business models modernized to increase access to climate finance for companies and households.²¹
- 1.8 The Costa Rican social contract is at risk due to the challenges faced by education, the increase in insecurity, rapid population aging, and the persistence of poverty and inequality.** Poverty remains at levels similar to a decade ago (22% in 2023 vs. 21% in 2010), and income and territorial inequalities have not decreased. The challenges in education, the main social elevator, persist, despite Costa Rica allocates more resources than the average OECD countries (6.3% of GDP vs. 5.1%). The outcomes achieved do not correspond to this level of investment. Educational deficits in mathematics and reading are equivalent to four years behind the OECD average, and secondary school graduation rates are the lowest in the OECD.²² These challenges are even greater in the country's peripheral regions, where socio-economic development indicators are lower.²³ Additionally, the training students receive does not facilitate their access to the labor market, which results in high youth unemployment (22% vs. 11% in the OECD). Lower female participation in the labor market also persists, despite women achieving higher levels of education.²⁴ One of the main causes is the unpaid care work performed within the household, including the care of adults, children, and people with disabilities. This situation could worsen due to the country's demographic outlook, as Costa Rica is one of the fastest-aging countries in the coming decades, posing challenges for the financial sustainability and operational efficiency of public pension and healthcare systems, as well as care and social protection networks. The disability, old-age and death insurance (IVM in Spanish), managed by the Costa Rican Social Security (CCSS) and primary public pension system, is expected to be exhausted by 2047 under current conditions. At the end of 2023, only 36% of people over 65 years of age received old age pensions through the IVM. In 30 years, the projection is that the population over 65 excluded from the

¹⁵ For example, the water and sanitation sector is governed by a 1942 law and depends on an operator and governing body that needs to be modernized and strengthened. An opening of the sector would allow private participation to expand to larger projects.

¹⁶ Monge-González y Torres Carballo (2015). [The Dynamics of Entrepreneurship in Costa Rica: An Analysis of Firm Entry, Exit, and Growth Rates](#). Cited in World Bank (2023). [Costa Rica - Systematic Country Diagnostic Update](#). Washington, D.C.: World Bank Group.

¹⁷ [The Infrascopes 2021-2022](#).

¹⁸ According to the official definition of SMEs and MSMEs of the Ministry of Economy, Industry and Commerce (MEIC) in the [General Regulations to Law No. 8262 for Strengthening of Small and Medium Enterprises](#). This definition is based on a formula that includes among its parameters the average number of personnel employed, the value of annual net sales and the value of net fixed assets during the last fiscal period.

¹⁹ Fifty-four percent of microenterprises show some type of restriction in access to credit, reaching 56% in the case of women-owned businesses and 21% in the case of male-owned businesses.

²⁰ Estimated gap for 2017, according to [MSME FINANCE GAP: Assessment of the Shortfalls and Opportunities in Financing Micro, Small and Medium Enterprises in Emerging Markets](#) (IFC, 2017).

²¹ Examples of climate finance include the IMF's resilience and sustainability facility, at the public level, and IDB Invest's green and blue loans to the private sector. In 2024 the General Superintendency of Securities (SUGEVAL) published Costa Rica's first [Sustainable Finance Taxonomy](#).

²² In 2021, the high school graduation rate in Costa Rica was 69%, while in the OECD it was 86%.

²³ According to the social development index (SDI), which includes five dimensions (economic, electoral participation, health, education and security), the cantons with the highest SDI are concentrated in the central region, while the peripheral cantons have low and very low SDI.

²⁴ The unemployment gap between women and men is the highest among OECD countries (7 p.p. in Costa Rica vs. 0.5 p.p. OECD average).

IVM will double. Additionally, social contributions are exhibiting a declining capacity to fund public health insurance, a condition that will be aggravated by demographic aging. At the same time, crime has increased in recent years, reaching a rate of 17.2 homicides per 100,000 inhabitants in 2023, a historic high and close to the LAC average (19.9).²⁵ The combination of poverty, low educational returns, and lack of job opportunities increases the likelihood of young people participating in or becoming victims of crime. In fact, 45% of homicides in 2023 were individuals under 30.

- 1.9 The government's National Development and Public Investment Plan 2023-2026 outlines seven national goals: economic growth, public debt, unemployment, poverty, inequality, citizen security, and decarbonization.** The strategic pillars of this CS align with the objectives of the National Development and Public Investment Plan 2023-2026.

B. KEY INSIGHTS FROM THE COUNTRY STRATEGY 2019-2022

- 1.10** The portfolio operational monitoring, the semi-annual progress and completion reports, and the conclusions of the independent review of the CS 2019-2022 by the Office of Evaluation and Oversight (OVE) will inform and guide the execution of the CS 2024-2027 at the strategic, operational, and development effectiveness levels.

- 1.11 At the strategic level, the following five lessons learned are highlighted:**

- a. Uncertainty in the legislative approval timelines for operations.** The time between the Bank's approval of operations and their ratification affected the performance of ongoing operations, leading to increases in timelines and costs due to unforeseen price hikes. In some programs, this also impacted the relevance of the specific objectives and outcome indicators defined during the design phase, due to significant changes in the context. To mitigate this issue within the framework of the new CS, the use of Conditional Credit Line for Investment Projects (CCLIP) will continue to be promoted. This financial instrument facilitates a programmatic vision and has proven effective in sectors such as transportation and energy, reducing the time between operations related to the same agenda and minimizing significant changes to the original program conditions. Additionally, monitoring mechanisms for effectiveness will be strengthened, allowing to anticipate modification and/or reformulation of operations.
- b. Coordination of the IDB Group to maximize the reach of thematic agendas and maintain a broad territorial presence.** Collaboration and complementarity among the IDB Group's windows have enabled the simultaneous provision of technical assistance and advisory services in thematic areas such as climate change and gender, among others. This has benefited various actors throughout the value chain in different sectors and regions. In a context of increasing priority to foster private sector participation, coordination among the three IDB Group windows will continue to be a strategic element. This coordination will support, among other things, the implementation of better and more efficient institutional arrangements, encourage the participation of large private companies in flagship projects, provide comprehensive support to MSMEs, and facilitate the accompaniment of new high-potential ventures.
- c. Balance in the prioritization of technical assistance for operational support and the creation of new agendas and dialogue spaces.** The implementation of projects faced recurring challenges, stemming from technical uncertainties during the pre-investment stages and limitations in the capacity of executing entities in project management. In this context, technical cooperation resources were essential instruments for providing operational solutions, although their availability was lower compared to the resources allocated to developing new agendas and knowledge. During the CS 2024-2027, and in coordination with government counterparts, the prioritization of

²⁵ The average between 2010 and 2019 was 10.6 homicides per 100,000 people.

assistance resources will be strengthened to achieve a more balanced distribution, aligned with the portfolio, to facilitate new areas of dialogue and provide greater continuous and flexible operational support from project preparation through to closure.

- d. **Importance of innovative financial instruments to address crises.** The Trade Finance Facilitation Program (TFFP) proved to be a key instrument in mitigating the adverse effects of the global crisis of 2020 and 2021 by ensuring the continuity of international trade flows. Its countercyclical nature helped stabilize various productive sectors and prevent further disruptions. To consolidate these achievements and promote financial inclusion, efforts will continue to drive the development of innovative solutions aimed at small and medium-sized exporting enterprises, particularly those operating in underserved and vulnerable segments, and those led by women.
- e. **Increased focus on supporting local businesses.** IDB Lab demonstrated flexibility in supporting various segments and sectors of the entrepreneurial ecosystem across different regions of the country. To maximize its impact, during the CS 2024-2027, the three windows of the IDB Group will be linked to work on cross-cutting strategies that address improvements in the governance of public policies supporting high-potential entrepreneurship, the strengthening of incubation and acceleration service offerings, and the design of hybrid public-private co-investment fund programs to stimulate the early-stage financing market.

1.12 At the operational level, the IDB Group's role stands out for its constant and close collaboration with executing units and ministries, as well as its ongoing support in implementing complex projects. An analysis of the IDB Group's portfolio reveals factors related to knowledge, capacity, and experience that have limited the efficient execution of projects in Costa Rica. For the CS 2024-2027 period, the IDB Group will consider four key lessons.

- a. **Specialized strengthening of executing institutions.** The predominance of an infrastructure-intensive project portfolio revealed institutional capacity limitations for managing contracts under regulations different from local ones (for example, FIDIC) and restrictions for timely coordination between institutions involved in the same project. In this regard, synergies with strategic actors, such as local academic institutions experienced in contract management and dispute resolution, will be enhanced. Additionally, during the pre-investment and project registration stages, support will be provided to facilitate interaction between leading ministries and entities responsible for environmental, social, and public service agendas, among others.
- b. **Innovation in the supervision of remotely located projects to ensure investment sustainability.** Projects under execution that foresee a transfer of responsibilities for the investments made from the national to the subnational level require increased monitoring and support from the Bank to ensure their subsequent maintenance and operation. During the CS 2024-2027, technical assistance will be provided for monitoring and supervision mechanisms, both on-site and through innovative remote methods, to facilitate the transfer of projects to local authorities. Special emphasis will be placed on projects with a broad territorial footprint, which demand greater dialogue with local actors to ensure better follow-up and complaint management schemes, and to reinforce the sense of ownership among beneficiaries.
- c. **Knowledge transfer for safeguard compliance.** Challenges persist in the consistent and systematic application of the Bank's environmental and social safeguards during project execution, due to factors such as staff turnover, increasing project complexity, and the constant evolution of the environmental regulatory framework. To address this, training, knowledge transfer, and capacity-building activities will continue in ministries and executing units, aiming to ensure effective compliance with safeguards and mitigate risks associated with environmental and social liabilities. The participation of local communities, municipalities, and relevant institutions will be prioritized in the early stages of projects to ensure greater consensus and social ownership, leading to more sustainable and effective management.

- d. **IDB Invest has been a pioneer in the use of thematic bonds to finance transformative projects.** IDB Invest demonstrated comparative advantages in designing thematic bonds, positioning itself in the use of a B Bond structure to finance hydroelectric infrastructure and participating in the launch of an international sustainability-linked bond to reduce the digital divide and improve broadband quality.²⁶ In this regard, IDB Invest will continue exploring support alternatives to reduce the country's infrastructure gaps, including the use of innovative and high-impact financial instruments.

1.13 At the development effectiveness level, the following six lessons will be considered for the new IDB Group's strategic cycle:

- a. **Redouble efforts to ensure greater focus and capacity to evaluate the IDB Group's value proposition.** The CS 2019-2022 identified relevant areas of work, though with limited prioritization, in a country context of reduced fiscal space and high political fragmentation. The lack of selectivity was reflected in a scattered results matrix, covering a wide range of priority areas (4), strategic objectives (14), and expected outcomes (19). Additionally, in several cases, the results could not be monitored due to the discontinuity of indicators or data collection issues. This lesson has been incorporated into the design of the CS 2024-2027 and will be considered during its implementation to measure the impacts of the IDB Group's interventions.
- b. **Enhancing market competition.** The bidding processes associated with the execution of infrastructure-intensive projects have shown instances of market concentration, increasing risks to integrity and achieving goals on time and within budget. During the CS 2024-2027, market soundings of potential bidders will be promoted, and virtual mechanisms for the broad dissemination of information (data rooms) will be established. The aim is to alert the market and strategic actors, such as sector chambers, about new specific requirements in specialized tenders and to encourage greater participation from companies and consortia.
- c. **Strengthening the pre-investment stages.** While the executed projects had high-quality studies and designs, in some projects financed through consecutive programs within the same sector, coordination challenges were identified, specifically linked to land acquisition and the relocation of public utility networks. This disconnect has resulted in delays in execution timelines and increased gaps between what was planned and what was achieved. During the CS 2024-2027, roadmaps will be defined from the preparation stage to anticipate delays in expropriation processes or coordination of schedules with other entities and to define, with the relevant legal authorities and stakeholders, expedited mechanisms and realistic work plans for meeting the goals.
- d. **Strengthening institutional capacity for the success of new development agendas.** The lack of prior experience by organizations in managing programs—such as those supporting innovation and digital transformation—has impacted the effectiveness of the Bank's programs, negatively affecting sustainability and relevance. Additional mechanisms will be established beyond the Institutional Capacity Assessment Platform (PACI) to assess the capacity of public institutions to introduce new thematic agendas.
- e. **Maintaining regular portfolio reviews with a focus on results.** In a dynamic environment, disruptive external events, such as pandemics and climate shocks, often affect both the vertical logic and the assumptions on which projects were originally designed. This, in turn, limits the usefulness of traditional portfolio review approaches (focused on monitoring physical and financial progress) and heightens the risks of achieving the development objectives of the operations. Under the CS 2024-2027, Costa Rica will scale up a pilot for results-based portfolio reviews, initiated in 2024, which will implement an early monitoring and risk tracking system with effectiveness assessments to apply corrective actions in advance.

²⁶This B Bond was the largest issued by a local telecommunications company and the first issued by IDB Invest under the 144th Regulation S of the U.S. Securities Act of 1933. This structure has also facilitated additional resource mobilization by institutional investors.

- f. Complementing supervision exercises for operations by incorporating effectiveness criteria throughout the project cycle.** Traditionally, project supervision has focused on assessing physical and financial performance, critical procurements, and other execution challenges that vary according to the sector. While this approach is essential, it does not necessarily include reflective exercises prior to the preparation of Project Completion Report (PCR) that assess the likelihood of achieving results over time and the scope of the specific objectives defined at the project design level. During the CS 2019-2022, the incorporation of technical dialogues on results would have allowed for anticipating: (i) reductions in product targets due to changes in unit prices of construction inputs impacting infrastructure sectors (transport, energy, water, and education); (ii) the need to adjust result indicators due to methodological changes or in the frequency of data collection (citizen security); (iii) the redesign of the bidding process due to scale limitations in regional markets (energy); or (iv) the loss of relevance of certain agendas during changes in administration (water and sanitation). As evidenced by the operational performance indicator, incorporating criteria such as relevance, effectiveness, efficiency, and sustainability early in technical and fiduciary supervision exercises can have a positive impact, enabling proactive design of actions to accelerate goal achievement, and, if necessary, updating the results framework in projects where the relevance of the indicators has changed over time or due to contextual factors.

C. FOCUS ON SELECTIVITY TO DELIVER TANGIBLE IMPACT

WHY SELECTIVITY TO ACHIEVE IMPACT

- 1.14 The importance of selectivity.** The IDB Group's selectivity framework ensures the optimal allocation of resources to areas with the highest impact and transformative potential. This increases the likelihood of achieving significant and sustainable results. Furthermore, it enables the prioritization of the country's key areas, effective risk management, and the anticipation of challenges with tailored mitigation strategies. An additional benefit is the possibility of replicating successful solutions in other contexts. The framework also optimizes internal synergies within the IDB Group and strengthens collaboration with public and private institutions, allowing partners to align on common objectives to maximize the impact on the country's development.
- 1.15 Summary of the strategic selectivity framework.** The IDB's selection of priority areas in Costa Rica for the 2024-2027 period is based on a selectivity framework aligned with the institutional strategy IDB Impact+, the regional development program "América en el Centro", and the national priorities. This exercise identifies high-impact areas, considering institutional priorities, the IDB Group's strengths, its experience in specific sectors, and operational risks. The approach is structured around four dimensions: (i) strategic alignment; (ii) the IDB Group's positioning through its instruments; (iii) operational effectiveness; and (iv) execution risks. These dimensions guide the selection of interventions under three pillars that include nine strategic objectives.²⁷

HOW DO WE SHARPEN FOCUS

- 1.16 Strategic alignment of priorities.** The CS 2024-2027 starts with a combination of the country's development priorities, reflected in the national and regional medium- and long-term planning documents—[National Development and Public Investment Plan 2023-2026](#), National Strategic Plan 2050, [Regional Plans](#), [Territorial Economic Strategy for an Inclusive and Decarbonized Economy 2020-2050](#), [Nationally Determined Contribution \(NDC\)](#) y [National Climate Change Adaptation Plan 2022-2026](#)—along with the development principles established in the IDB Group's strategy, its regional initiatives (América en el Centro and the Alliance for Security, Justice, and Development), sector

²⁷ The CS 2019-2022 proposed 4 pillars of intervention with 14 strategic objectives.

frameworks, and action plans.²⁸ This initial integration of general themes, which includes 13 potential areas of work, was cross-checked with the active dialogue topics with the government, stemming from requests for operational support and the Bank's specialized knowledge. As a result of this filtering, nine thematic areas—operational and dialogue—were preliminarily identified where the IDB Group can focus its value proposition: sustainable transport, climate action, renewable energy, regional integration, private sector development, financial inclusion, skills development, citizen security, and social protection.

1.17 Strategic positioning of the IDB Group. An analysis was conducted of the Bank's role compared to other multilateral actors in Costa Rica to identify strategic opportunities and solidify the institutional offering. The results of this exercise reveal that the IDB is the country's main multilateral partner and a key and long-standing ally in the fiscal, transport, and environmental sectors.²⁹ It is also the only participant in the sectors of citizen security, energy, and integration and trade. Additionally, IDB Invest contributes to the financial inclusion of companies, including MSMEs, and individuals, as well as to the facilitation of international trade, in partnership with financial institutions, and maintains active operations in the sectors of science and technology, energy, industry, and sustainable tourism. This analysis highlights that IDB Invest and IDB Lab's activities provide financial support for development and add value through innovative solutions, with financial instruments that incorporate sustainability and inclusion themes, enhance the sophistication of capital markets, and have played a countercyclical role in situations such as the pandemic.

1.18 Operational experience and effectiveness. To capture the operations performance, an index of operational experience and effectiveness was constructed, evaluating three elements: (i) execution alerts in operations throughout their lifecycle; (ii) effectiveness, measured in terms of relevance, efficiency, and sustainability; and (iii) programmatic maturity or trajectory.^{30,31} This index allows for the quantitative and qualitative identification of areas and sectors where the IDB Group has the potential to maximize its impact and improve its programmatic focus. In terms of alerts, the portfolio performance is consistent, showing that extensions and delays associated with ratification or signing after approval by the Bank are a recurring factor. In terms of effectiveness, there is a high contribution in the fiscal, climate change, and energy agendas, stemming from the nature of the operations and financial instruments used (mainly policy-based loans). In the energy sector, completion reports show greater institutional capacity for execution compared to other sectors related to infrastructure development, contributing to the achievement of goals. Under the effectiveness dimension, it was evident that many programs are on track to meet development objectives, for which close, more frequent monitoring and follow-up on goal fulfillment will be essential. Regarding maturity and programmatic trajectory, continuity in agendas such as infrastructure and those under the social sector has allowed for deeper and more consolidated programmatic visions that transcend administrations, also supported by technical assistance resources. Overall, the operational experience index highlights the need for the IDB Group to continue focusing on the sectors of transportation, energy, integration, education, and citizen security to maximize its impact.

²⁸ The sectoral classification of the National Development and Public Investment Plan 2023-2026 includes the country's strategic priorities: Environment and Energy; Public Works and Transportation; Education; Health; Welfare, Labor and Social Inclusion; Housing, Habitat and Territory; Productive and Regional Development; Agriculture; External Action; Public Finance; Public Safety and Justice; Science, Technology, Innovation and Telecommunications; and Culture.

²⁹ At the end of 2023, the IDB portfolio represented 31% of multilateral financing, followed by the IMF (25%) and the World Bank (25%), the Central American Bank for Economic Integration (CABEI) (11%), and the Development Bank of Latin America and the Caribbean (CAF) (8%).

³⁰ First, the index evaluates the activation of operational alerts during the execution of 22 sovereign-guaranteed operations approved, executed, and closed between 2019-2022. These results are weighted by the size of the portfolio of each sector to avoid penalties in those sectors with a longer history. Second, the index measures effectiveness by assessing all PCRs during the previous strategy period. In the absence of PCRs, the results of the Extended Evaluation of the Country Program: Costa Rica, 2015-2022 conducted by the OVE are considered. Both sources of information provide objective and external evaluations of progress towards strategic objectives, highlighting sectors where expected results have been achieved (such as in the fiscal area), sectors that despite challenges during execution maintain a positive trajectory towards achieving results (such as in transport, energy, integration, education, and public safety), and sectors where execution challenges persist and no immediate opportunities are identified to achieve results (such as water and sanitation and science and technology), although the possibilities for dialogue and knowledge development remain. Third, the index assesses the programmatic maturity of the sectors, recognizing that the probability of significantly influencing sectoral development is linked to the number of approved and ongoing programs.

³¹ The IDB's continuous monitoring of sectoral operations constitutes a valuable source of information for comprehensively evaluating performance in program execution and identifying factors that maximize impact and strengthen its programmatic approach.

1.19 Risk assessment. Additionally, the risks and both internal and external factors that may condition the achievement of development objectives are analyzed, and corresponding mitigation strategies are defined. Costa Rica's portfolio faces risk levels ranging from moderate to high, encompassing factors such as political and economic challenges, project execution delays, integrity issues, and social and environmental concerns. Several projects are experiencing delays due to financial difficulties faced by contractors, which potentially result in negative environmental and social impacts. Investigations into potential prohibited practices within contracting firms have further exacerbated delays in public works progress, amplifying contextual risks. Moreover, stakeholder dissatisfaction may arise due to changes in scope and budgetary constraints, posing substantial risks to project success. While some projects face moderate risks associated with specific sector-related issues, others may encounter environmental and social liabilities, including erosion, abandoned sites, and community complaints, increasing the risks of social conflict. These risks and their mitigation measures were identified based on the new "IDB Risk Taxonomy" (GN-2547-15) and are explained, along with their corresponding mitigation measures, in Section V of this document. Overall, careful monitoring and mitigation strategies are essential to address the various contextual risks and ensure successful project outcomes.



II. BUILDING MAIN PILLARS OF ACTION AND EXPECTED IMPACT

2.1. The goal of the CS 2024-2027 is to contribute to sustainable and inclusive growth by strengthening infrastructure, stimulating private sector participation, and supporting the Costa Rican social contract. Based on the selectivity framework described and ongoing operations, the CS 2024-2027 is organized into three priority areas: 1. Resilient infrastructure and climate action; 2. Enabling environment for the private sector; 3. Social contract protection. Associated strategic objectives include: (i) increasing the resilience of physical infrastructure, the efficiency of the energy sector, and promoting investment in climate finance; (ii) fostering the integration of the national economy into global value chains, strengthening the regulatory and institutional framework for PPP development and increasing financing for MSMEs; and (iii) comprehensively strengthening the foundational skills of young people to increase their labor market participation, reinforcing the capacity of the citizen security ecosystem and strengthening the social protection system for vulnerable populations. Additionally, the CS 2024-2027 will incorporate gender and diversity, climate change, and institutional strengthening and the rule of law as cross-cutting areas in each of its priority areas.

PILLAR 1. RESILIENT INFRASTRUCTURE AND CLIMATE ACTION

WHY IT MATTERS

2.2. Persistent challenges in physical infrastructure and hydrometeorological phenomena affect the country's internal connectivity and the integration of production centers into global value chains, reducing economic productivity. Costa Rica has an infrastructure gap equivalent to 38% of its GDP, which implies that annual public investment would need to increase by 3.8 percentage points of GDP over 10 years to close it.³² However, public investment shows a decreasing trend because of limited fiscal space available (**graph 1A**).³³ As a consequence, physical infrastructure faces challenges in terms of quality and capacity. Low levels and discontinuity of public investment in construction and maintenance, low private sector participation in road asset management, and the impact of natural phenomena are the main determinants of the low quality of road infrastructure, causing 37% of roads to be in poor or very poor condition.³⁴ Other key infrastructure, such as ports, airports, and access roads to border crossings, are also operating at capacity limits or require urgent upgrades to continue operating normally. This translates into Costa Rica having the largest logistics efficiency lag among

³² Estimated as the investment in water and sanitation, energy, telecommunications, and infrastructure that would be necessary to meet the Sustainable Development Goals by 2030. 54% corresponds to new investment and 46% to maintenance and replacement of assets that are reaching the end of their useful life and are indispensable for infrastructure services to be provided with adequate quality standards. [“The Infrastructure Gap in Latin America and the Caribbean: Investment Needed Through 2030 to Meet the Sustainable Development Goals”](#) (IDB, 2021).

³³ Investment in 2023 reached 16.2% of GDP (2.2% from the public sector and 13.9% from the private sector), below the average of 17.6% between 2015-2022 (3.7% from the public sector and 13.8% from the private sector).

³⁴ Costa Rica is the second most exposed to multiple risks in the world, with 78% of its population and 80% of its GDP located in areas vulnerable to floods, cyclones, landslides, earthquakes and volcanic eruptions. ([World Bank, 2019](#)). It is estimated that hydrometeorological events cause damages of 0.3% of GDP per year. ([Informe Estado de la Nación, 2021](#)). In addition, the National Emergency Commission identifies 502 road structures, bridges, railroad lines and educational centers that have been severely damaged by climatic phenomena and are at imminent risk or in a state of emergency.

OECD countries (**graph 1B**).³⁵ These infrastructure gaps reduce the performance of key economic sectors, such as exports and tourism, which are currently the engines of economic growth.

2.3. The energy sector faces challenges in meeting growing demand for renewable electricity at competitive prices, reducing vulnerability to adverse climatic events, and decreasing reliance on fossil fuels, which is critical to achieving the NDP goals.^{36,37} Electricity production remains concentrated in hydroelectric generation (70% of the total), leaving it exposed to prolonged droughts.³⁸ This vulnerability is shared by Central American countries, which limits opportunities for trading electricity within the Central American Electrical Interconnection System (SIEPAC). Additionally, there is room to improve sector efficiency by modernizing the electrical infrastructure, such as expanding grid digitalization, which would allow for better integration of renewable energy sources.³⁹ These efficiency improvements, along with modernizing electricity tariffs, would lead to greater use of electricity in place of fossil fuels, especially in transportation and industry, two of the largest sources of greenhouse gases (GHGs) emissions. Through these interventions, and in alignment with the country's NDC goals, the IDB Group seeks to support a just and equitable transition towards a decarbonized, climate-resilient economy, minimizing negative impacts while maximizing benefits.

2.4. The climate financing gap and the scarce use of concessional resources limit compliance with the long-term goals established in the NDP. The NDP aims for a decarbonized economy with net-zero emissions by 2050. Key areas of action to meet the country's climate goals include transportation and mobility, energy, waste management, agriculture, forests and conservation, and water resources.⁴⁰ The investments required to meet these climate objectives exceed the country's capacity to both finance and implement them. For example, by 2023, there were only 48 fast-charging stations for electric vehicles (compared to a 2022 goal of 69), the share of light vehicles using electromobility stood at 0.8% (with a target of 30% by 2035), and there were just 4 electric buses in a fleet of 2,500. While the country has made progress in issuing blue, green, and social bonds, both in the public and private sectors, and has developed a taxonomy to identify sustainable investments, more efforts are needed to enhance the ability to mobilize climate finance and strengthen the enabling conditions to facilitate the energy transition.⁴¹ Furthermore, though Costa Rica has access to several climate financing sources—such as the Green Climate Fund (GCF), the Global Environment Facility (GEF), the Climate Investment Funds (CIF), and the Adaptation Fund—there are institutional capacity constraints. Strengthening coordination among relevant actors and raising awareness of available opportunities will be key to effectively utilizing these funds.

³⁵ According to the World Bank's 2023 Logistics Performance Index, Costa Rica ranks 66th (out of 139 countries) and 68th (out of 131 countries) in the indicators of international trade management efficiency and infrastructure quality, which corresponds to the penultimate and last place among OECD countries, respectively.

³⁶ Electricity demand increased 4.6% in 2021, 3% in 2022 and 3% in 2023. 4% growth is estimated for 2024.

³⁷ 66% of the total energy consumed in the country is obtained from petroleum derivatives. The transportation (50%) and industry (23%) sectors are the main consumers and account for 92% of the country's greenhouse gas emissions (GHGs). Source: www.iea.org/countries/costa-rica

³⁸ The remainder is mainly divided between geothermal (12%) and wind (12%).

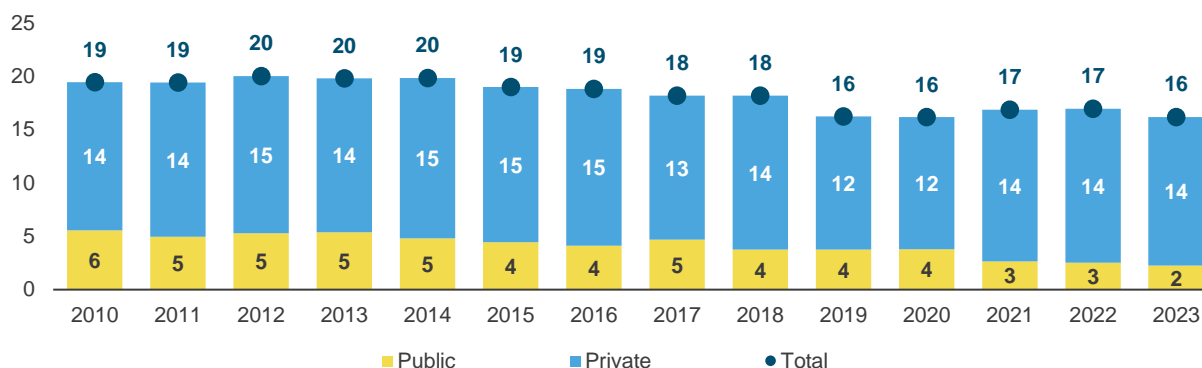
³⁹ Generalizing the use of smart meters will make it possible to advance in the digitalization, modernization and automation of grids, in demand monitoring and management, and in facilitating the active management of the electric grid and the integration of new renewable energy sources. It will also make it possible to identify and manage network events more quickly, minimizing energy losses and optimizing network capacity, providing distribution companies and consumers with detailed information on their consumption. By 2022, 30% of customers had smart meters installed.

⁴⁰ Costa Rica government (2020) [Second Voluntary National Review, Sustainable Development Goals, Costa Rica 2020](#).

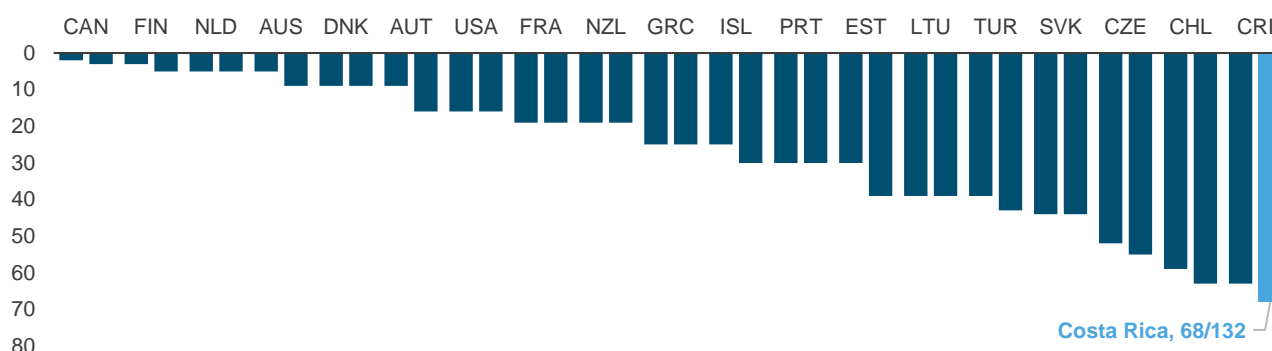
⁴¹ Although Costa Rica's electrical system presents favorable conditions for the electrification of public bus transportation routes in the San José metropolitan area, challenges still need to be addressed, among which the following stand out: (i) update the user fee; (ii) consider reforms to the law regulating concession terms (law 3503); and (iii) review the legal provisions related to the depreciation of new buses. (Source: Estudio sobre incorporación de buses eléctricos en el área metropolitana de San José, IDB, 2024).

GRAPH 1. INFRASTRUCTURE SECTOR CHALLENGES

GRAPH 1A. PUBLIC AND PRIVATE INVESTMENT (PERCENT OF GDP)



GRAPH 1B. INFRASTRUCTURE QUALITY, 2023



Note: Graph 1A presents Costa Rica's public and private investment (in percent of GDP) from 2010 to 2023. While private investment remains at similar levels to 2010, public investment fell to one third of the level in 2010, which explains why total investment has decreased (source: Central Bank of Costa Rica). Graph 1B shows the ranking corresponding to the infrastructure quality sub-index for 2023, which is part of the logistics performance index, calculated by the World Bank. For a sample of 132 countries, Costa Rica ranks 68th in infrastructure quality, the last country among OECD countries.

WHAT WE WILL DO

- 2.5. Under this pillar the IDB Group's actions will focus on advancing three strategic objectives:** (i) improving the quality and resilience of the transmission infrastructure; (ii) improving the reliability of the electricity system; and (iii) mobilizing climate finance. The interventions associated with these strategic objectives are aligned with the first and second pillars of the regional program "América en el Centro"—Productivity and economic integration; and Climate adaptation and resilience—, by streamlining international trade, enhancing the efficiency of the electrical grid, and fostering climate financing.
- 2.6. Support will continue to improve the quality and resilience of the road network, modernize the physical infrastructure of border crossings, and strengthen institutional capacity.** The IDB Group will leverage its accumulated experience in road infrastructure and continue implementing the main and cantonal road network programs, incorporating climate resilience standards and nature-based solutions to strengthen internal and external connectivity. The participation of the private sector in road maintenance operations and the inclusion of rural women in these processes will be promoted,

supporting the structuring of projects that are financially viable, do not compromise the ongoing fiscal consolidation process, and contribute to reducing gaps. The physical and digital infrastructure of the main border crossings will also continue to be modernized to streamline the transit of commercial flows and people.⁴² With the aim of improving the execution capacity of infrastructure projects, institutional strengthening will be supported through the implementation of good practices in terms of integrity and contract management.

2.7. Support will be maintained to continue with the energy transition and improve the efficiency of the electricity system.

The IDB Group's interventions have contributed to increasing renewable electricity generation, allowing for the diversification of the energy matrix and reducing dependence on fossil fuels (e.g., construction of hydroelectric and geothermal plants) and modernizing and expanding electricity transmission and distribution networks, improving capacity and efficiency (e.g., smart grids). The IDB has also provided technical assistance to modernize the tariff structure and restructure the Costa Rican Electricity Institute (ICE).⁴³ During the CS 2024-2027 period, actions will continue to focus on (i) diversifying the energy matrix by increasing electricity generation with renewable sources; (ii) improving the efficiency of the electricity system; and (iii) promoting the use of electricity in industry and transportation. To diversify energy production with renewable sources, the IDB Group will support the 2022-2040 generation expansion plan (PEG) to meet the expected increase in electricity consumption.⁴⁴ To improve the efficiency of the electricity system and reduce operating and maintenance costs, we will continue (i) digitizing the sector, through the installation of smart meters and data management platforms, and incorporating storage solutions to balance supply and demand and thus guarantee a constant supply; and (ii) strengthening the regional electricity market (MER), so that it allows for increased exchanges between countries. To promote the use of electricity in transportation and industry, the development of new business models that promote private sector participation in the electrification processes of these sectors will be supported, which are key to reducing dependence on fossil fuels.

2.8. The IDB Group will continue to promote climate finance, focused on supporting the decarbonization agenda and reducing GHGs emissions as outlined in the NDP.

The IDB Group will also leverage the experience gained from IDB Invest operations to deepen private sector climate finance and will continue providing technical assistance to seek innovative financial solutions for both the public and private sectors.⁴⁵ In collaboration with IDB and IDB Invest, continued support will be provided to create the enabling conditions to promote electromobility and explore the development of innovative financing models that can leverage resources from the private sector and other donors.⁴⁶ Technical assistance will also continue to be provided to strengthen the capacity to structure thematic issuances in both the private and public sectors, in domestic and international markets.

2.9. Dialogue areas.

The IDB Group will maintain dialogue and technical assistance in contract management, the development of an asset management system, the improvement of logistics services associated with infrastructure, the search for urban solutions focused on improving infrastructure efficiency, digital connectivity, and the participation of women and diverse populations (Afro-

⁴² In 2024, the Paso Canoas border crossing (border with Panama) was completed, and work is underway on the modernization of the Peñas Blancas border crossing (border with Nicaragua). These two crossings concentrate 95% of the country's land trade flow, 8% of exports, and 18.5% of intra-regional exports.

⁴³ During 2019-2020, the Bank supported the ICE's roadmap for financial and operational sustainability with the objective of reducing electricity prices through actions such as reducing operating costs, restructuring debt, and reclassifying operating leases as finance leases, which has allowed for a reduction in tariffs. In 2022, the Public Services Regulatory Agency (ARESEP) was supported in a study to determine efficient tariffs in the electricity sector and make a proposal for the modernization of the tariff structure to include the new challenges of the sector (e.g., electromobility, storage, and distributed generation). In 2021, the Bank supported the ICE in structuring a sustainability-linked bond, becoming the first public electricity company in the region to issue a sustainability-linked bond. As a result of these efforts, cumulative price reductions between 2020 and 2023 in the ICE's generation, transmission, and distribution systems were 10%, 14%, and 5%, respectively. The IDB is also supporting the modernization of the tariff structures of the country's electricity companies, to promote the efficient use of electricity (e.g., incorporating time-of-use tariffs).

⁴⁴ Costa Rica's PEG 2022-2040 shows an increase in solar and wind energy sources. Despite being low-cost technologies, their high variability requires the simultaneous incorporation of generation technologies capable of regulating this variability to maintain system reliability. For this, it will be fundamental, as contemplated in the PEG, the incorporation of the Borinquen I and Borinquen II geothermal plants of 55 MW each by 2027 and 2032, respectively, and the construction of the Fourth Cliff hydroelectric plant of 55 MW, to take advantage of the storage capacity of the Reventazón hydroelectric plant and the water turbinated from the hydroelectric plant.

⁴⁵ Includes guarantees provision, such as those provided by the IDB Group in different countries in the region.

⁴⁶ In the electromobility area, the IDB Group has supported studies on business models for electric public buses, and studies for the installation and commercial management of charging stations. The Bank approved a US\$70 million CIF financing, which includes the decarbonization of the transport and industry sectors, among others.

descendants, indigenous peoples, and people with disabilities) in infrastructure sector activities where they have traditionally had little presence.⁴⁷

EXPECTED OUTCOMES

Improve the quality and resilience of road infrastructure to adverse weather events. To reduce travel times on the intervened sections and minimize the percentage of roads temporarily or permanently closed due to weather events, we will continue operations in the existing portfolio, focusing on rehabilitation and maintenance interventions. These interventions will incorporate climate change adaptations and resilience standards into the construction of the primary and cantonal road network.¹

Increase the reliability of the electricity distribution system. Strategic investments in automation and modernization of electricity networks - smart grids and SCADA systems - and reinforcements and expansions of electricity distribution lines will continue. This is expected to increase system reliability, reducing the time and frequency with which the network is unavailable.

Mobilize climate finance. New IDB Group interventions will seek to increase climate finance to the industrial and transportation sectors, the main emitters of GHGs, leveraging resources available from different climate funds and working with financial institutions to expand their capacity to finance private sector climate projects.²

¹ The measurement of the indicators will be performed within the scope of ongoing operations CR-L1065 and CR-L1139.

² The mobilization of concessional climate resources will be carried out in coordination with the RFO.

PILLAR 2. ENABLING ENVIRONMENT FOR THE PRIVATE SECTOR

WHY IT MATTERS

2.10. The regulatory framework facing the private sector shows a lag in relation to international best practices, limiting the development of competitive markets. Given the investment needs of the economy and the ongoing fiscal consolidation process, greater participation of the private sector is necessary to both reduce the infrastructure gap and increase economic productivity. The OECD's Product Market Regulation (PMR) index reflects that Costa Rica ranks second to last among member countries because of (i) administrative requirements to start businesses, (ii) barriers to entry into certain sectors —e.g., energy, transportation and connectivity—, competition and trade facilitation; (iii) price regulation; and (iv) the way in which the public sector participates in the economy (**graph 2A**).⁴⁸ Additionally, the limited access to financing faced by MSMEs constitutes another constraint on stimulating private investment that would allow for productivity gains.

2.11. Institutional factors persist that reduce the performance of FDI and limit the integration of domestic firms into global value chains. In recent years, Costa Rica has made progress in

⁴⁷ According to the Continuous Employment Survey of July 2024, women represent 12% of people employed in the transport sector and 2% in the construction sector.

⁴⁸ [OECD Product Market Regulation \(PMR\) indicators - Costa Rica country note.](#)

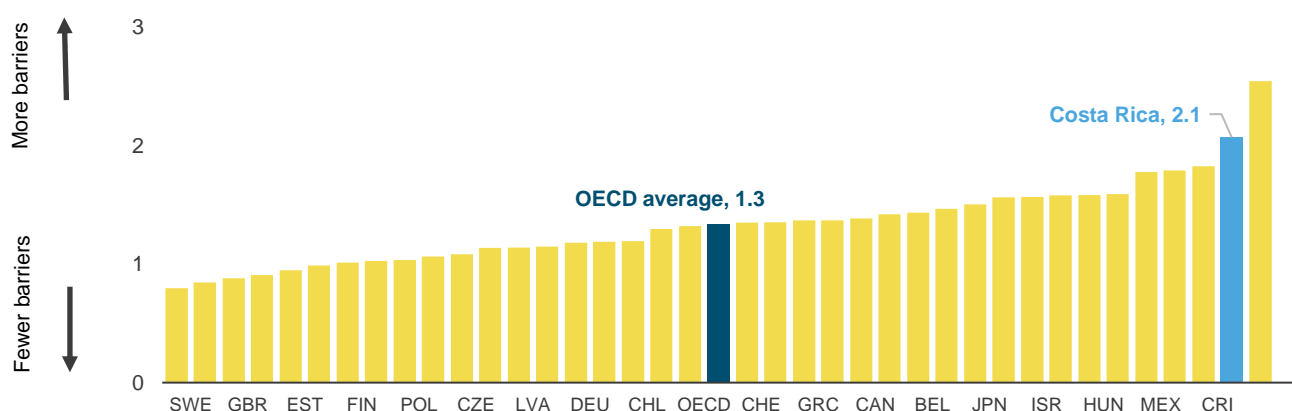
modernizing border crossings, including the implementation of the single window for foreign trade (VUCE) to digitize and simplify customs procedures, and the establishment of the single window for investment (VUI) as instances that bring together the information and processes necessary to invest in Costa Rica, which has led it to consolidate as one of the main recipients of FDI.^{49,50} However, there is still room to further streamline processes and simplify procedures, in a way that allows attracting new investment and the qualified human capital needed. While one of the attractions that companies find to settle in Costa Rica is the relative abundance of skilled labor, there are challenges in hiring professionals with specific profiles that the country cannot currently provide and that are necessary for the development of activities and companies with high added value. The regulatory framework and the low innovation capacity of the economy hinder the local companies' development and their ability to integrate into global value chains.⁵¹

2.12. The capacity to structure PPPs is limited, despite Costa Rica having one of the most conducive environments in LAC for their development.⁵² Strengths include procurement regulations that promote competition and transparency, a relatively stable political environment, and low risk in terms of price revisions, early termination, and administrative procedures. However, the multiplicity of laws and institutions involved in project preparation and capacity limitations hinder the efficient structuring of projects, as reflected by the fact that the last structuring occurred in 2017 (**graph 2B**).⁵³

2.13. Access to financing for MSMEs is still limited, especially for those led by women. Less than 9% of the commercial bank's loan portfolio is destined for the productive sector. Additionally, 54% of microenterprises report having some type of credit access restriction, which is higher among businesses led by women (56%) compared to those led by men (21%). The estimated financing gap for MSMEs is equivalent to 9% of GDP (15% if the informal sector is considered).⁵⁴

GRAPHS 2. PRIVATE SECTOR CHALLENGES

GRAPHS 2A. PRODUCT MARKET REGULATIONS, 2023 (OECD COUNTRIES)



⁴⁹ Although it is an ongoing process that has been developing since 1996, according to the Costa Rican Foreign Trade Promoter (PROCOMER) in 2021, 55% of the procedures managed through the VUCE were approved automatically without human intervention. It is estimated that the VUCE generated savings for the business sector equivalent to 2,093 million colones (0.005% of GDP).

⁵⁰ Costa Rica received on average 5.2% of GDP in foreign direct investment between 2010 and 2022, making it the fourth country in Latin America (3.7% on average) and the sixth in the OECD (3.5% on average).

⁵¹ Costa Rica ranks 74th (out of 132 countries) in the [World Intellectual Property Organization's \(WIPO\) 2023 Global Innovation Index 2023](#).

⁵² Seventh place among Latin American countries in the aggregated indicator of the Infrascope (Infrascope, 2022).

⁵³ The National Concessions Council (CNC) promotes, advises, evaluates, contracts, and manages concessions. The PPP Unit of the Ministry of Finance is responsible for strategic planning and risk assessment and provides technical and analytical support to PPP agreements. The last concession awarded in Costa Rica was the Daniel Oduber International Airport in 2017.

⁵⁴ Estimated gap for 2017, according to [MSME FINANCE GAP: Assessment of the Shortfalls and Opportunities in Financing Micro, Small and Medium Enterprises in Emerging Markets](#) (IFC, 2017).

GRAPHS 2B. APP ENVIRONMENT



Note: Graph 2A presents the 2023 OECD Product Market Regulation Index, which evaluates the alignment of each country's regulatory framework with international best practices, measuring both economy-wide and sector-specific barriers to entry and competition. Higher levels of the indicator reflect a greater degree of regulatory barriers. Costa Rica ranks as the second OECD country with the highest level of regulatory barriers, including bureaucratic requirements, entry barriers, market regulations, and public sector participation in the economy, among others (source: Product Market Regulation Indicator 2023, OECD). Graph 2B compares the PPP environment in Costa Rica with the most developed countries in the field within Latin America and the Caribbean (i.e., Brazil, Chile, and Colombia). The main sub-indicators where Costa Rica lags are related to the capacity for impact evaluation and results, project preparation and sustainability, and financing (source: Infrascopes 2021/2022).

WHAT WE WILL DO

2.14. In this pillar, the IDB Group's actions will aim to (i) facilitate regional integration; (ii) strengthen the PPPs regulatory and institutional capacity; and (iii) increase financial inclusion. The interventions linked to these strategic objectives are aligned with the first pillar of the regional program "América en el Centro"—Productivity and economic integration—, by reducing logistical costs and expanding international trade flows and foreign direct investment.

2.15. The IDB Group will continue to support the modernization of the management of the main land border crossings, developing innovative models for the region, simplifying procedures for the establishment of foreign companies, and the internationalization of companies, facilitating their financing and access to liquidity. The IDB will continue to promote the coordinated border management model, incorporating technology and strengthening inter-institutional coordination to achieve more efficient processes that allow streamlining commercial flows (e.g., reducing the time for goods clearance and transit, greater efficiency and effectiveness in controls, and increased security). At the same time, work will be done to extend the coordinated border management model to ports and airports. It will also continue to support the integration of the different institutions related to international trade and expanding the coverage of digital platforms, both at the level of procedures (e.g., health permits, licenses, registration), and of institutions that work coordinated and centrally to avoid duplication in the application of procedures. In this way, it will contribute to stimulating the development of regions outside the GAM and regional integration, reducing data processing times, improving the traceability of procedures and ensuring greater control and security regarding the integrity and unalterability of processed documents. For its part, IDB Invest will continue to expand financing and ensure access to liquidity to exporting companies, importers, and productive chains, especially in

periods of volatility and uncertainty. To this end, it will provide trade and productive chain financing solutions, including the TFFP.

2.16. The IDB Group will maintain technical support to strengthen the regulatory and institutional framework for PPPs and develop pre-investment studies and others necessary for the structuring of potential public-private projects. Within the framework of PPPs, the IDB Group will leverage the experience acquired in other countries in the region to continue working with the government on the implementation of international best practices in four areas. First, it will continue to support the institutional strengthening of the PPP framework, which will result in the creation of a new PPP unit responsible for the preparation of projects at the national level in all sectors, for which it is necessary to review and modify the current regulatory framework. Complementary to this, the Bank will structure a project preparation facility that will be responsible for prioritizing, formulating and structuring investment projects that result in efficient and sustainable infrastructure and help the country to counteract the effects of climate change, minimizing its fiscal impact.⁵⁵ Thirdly, it will continue to support the strengthening of institutional capacities in fiscal matters, through training and the application of methodologies to measure risks and calculate the fiscal impact of firm and contingent commitments derived from PPP projects, concessions and public works. Fourthly, it will continue working on the structuring of a road infrastructure PPP project, so that it serves as a pilot to incorporate the institutional reforms that are being implemented at the same time.

2.17. The IDB Group will continue to focus on expanding the supply of competitive financing to MSMEs and will work to improve public and private conditions to strengthen financial inclusion, the growth of the entrepreneurial ecosystem, with an emphasis on women-led businesses. IDB Invest has supported financing for MSMEs in the country, both with its own resources and by leveraging additional resources from private sources.⁵⁶ In this regard, it will continue to prioritize non-sovereign guaranteed financing to MSMEs, through financial intermediaries and solutions for the value chains of anchor companies, deepen women's financial inclusion initiatives - with educational campaigns, the creation of innovative products and the adoption of measures to prevent gender discrimination in access to credit -, and complement these actions with the collection of disaggregated data.⁵⁷ Likewise, it will continue to promote the mobilization of domestic savings towards productive financing through the capital market.⁵⁸

2.18. Dialogue areas. The IDB Group will continue to support the identification of potential PPPs in sectors such as energy and urban, social, and associated services infrastructure. It will also continue dialogue and technical assistance with different actors to stimulate a high-potential entrepreneurial ecosystem, which leads to promoting entrepreneurial vocations, strengthening the support system for high-potential entrepreneurship and early-stage financing for new innovative companies. Through various sources of data on MSMEs, international best practices will be identified and disseminated to stimulate productive linkages and productivity improvements in local companies, so that they can be inserted into global value chains, including key sectors such as tourism and agriculture. Dialogue and the development of new knowledge about the actions of the national innovation system will be fostered, coordinating academia, the private sector, and business chambers to improve knowledge about the main productive sectors and their innovation opportunities, and support the dissemination of knowledge and the continuous evaluation of the implementation of national plans and policies.⁵⁹ In the case of agricultural MSMEs, financial inclusion can be accompanied by innovative practices that

⁵⁵ The project preparation facility reinforces the reforms promoted by the IMF's resilience and sustainability program and has been the result of joint work between the government, the IMF and the IDB.

⁵⁶ IDB Invest has financed 11,678 MSMEs between 2016 and 2023 through long-term operations with financial institutions. During the CS 2019-2022, IDB Invest has approved long-term financing of US\$70 million for investments that benefit MSMEs, which represents 31% of the total long-term approved for Costa Rica.

⁵⁷ Anchor companies are the vehicle through which IDB Invest reaches MSMEs associated with a specific supply chain. Due to their size, capacity, or strategic position, they act as the main engine or catalyst within a supply chain or a specific sector.

⁵⁸ For example, IDB Invest's most recent operation in 2024 supported the issuance of the first subordinated blue bond by Banco Nacional de Costa Rica for US\$50 million, of which IDB Invest subscribed US\$25 million, with the remaining \$25 million mobilized from institutional investors. From an institutional strengthening perspective, in 2021, the IDB completed a technical assistance plan to develop a market makers program aimed at improving the efficiency of the domestic sovereign debt market, which is scheduled to become operational by the end of 2024.

⁵⁹ Currently, Costa Rica has the [National Science, Technology and Innovation Policy 2022-2027](#).

reduce the use of pesticides, resulting in productions that are less dangerous to health and ecosystems.⁶⁰ Complementarily, the country can be supported in adapting the Monitoring, Reporting and Verification (MRV) systems that the country must implement to comply with international trade requirements - for example, the socio-environmental requirements established in the EU Deforestation Regulation (EUDR) on pesticides and maximum residue limits - that threaten the competitiveness of the country's agricultural export sector. With the aim of strengthening public ethics and integrity in the public-private relationship, dialogue will be maintained for the implementation of an agile control system with digital standards and AML capacities will be reinforced.⁶¹

EXPECTED OUTCOMES

Facilitating trade integration by modernizing the management of the main land border crossings. Through the implementation of coordinated border management models, the incorporation of technology and the strengthening of inter-institutional management to achieve more efficient processes, it is expected to reduce transit times for both goods (exports and imports) and people, contributing to the efforts made by Central American countries to consolidate the process of competitive regional integration.¹ Additionally, IDB Invest will continue to promote trade finance and supply chain financing.

Strengthening the regulatory and institutional capacity of the PPP environment. The country will be supported with the reform of the regulatory framework governing the PPP environment, incorporating international best practices and leveraging the IDB Group's experience in other countries in the region. This intervention will be reinforced by the creation of a PPP project preparation facility, whose objective will be to structure bankable, sustainable, and efficient projects. This facility will be revolving - it will recover structuring costs to continue developing new projects in the future - and will incorporate governance mechanisms that will allow for planning and prioritizing those projects that generate the greatest social benefit and the highest value for money. As a result of this intervention, an improvement should be observed in the score obtained in the Regulation and Institutional category of the Infrascopes 2027/2028.²

Increase financial inclusion and access to credit for MSMEs, especially those led or owned by women. The number of loans disbursed through IDB Invest operations is expected to increase.

¹ The measurement of the indicators will be performed within the scope of the ongoing operation CR-L1066.

² The information is cut off at the end of the first year of the corresponding edition. Therefore, the 2027/2028 edition would include information at the end of 2027, date by which the law with the new regulatory and institutional framework for PPPs is expected to be approved.

PILLAR 3. SOCIAL CONTRACT PROTECTION

WHY IT MATTERS

2.19. Costa Rica's development has been underpinned by a social contract that includes, as its main pillars, broad coverage of education services and a relatively high level of security. However, despite the resources allocated to education and economic growth, young people face difficulties in finding quality jobs, which reduces their chances of progress. Lower opportunities, which translate into

⁶⁰ Costa Rica is the country that uses the most pesticides per hectare cultivated. 93% of the pesticides used are highly hazardous, using 20 of the 22 most dangerous pesticides. As a result, 4 of the most consumed products contain high concentrations of pesticides.

⁶¹ The Financial Action Task Force of Latin America (GAFILAT) will carry out an evaluation of Costa Rica between 2026 and 2027.

high youth unemployment (25% vs. 10% OECD average), low incomes, and greater inequality, increase the likelihood that young people will end up involved in criminal activities, as victims or perpetrators. In addition to young people, women, migrants, older adults, Afro-descendant and indigenous populations, and LGBTQ+ and people with disabilities face greater difficulties in finding quality jobs and are more vulnerable to being victims of violence.⁶² In the case of women, their participation in the labor market is limited, among other factors, by the greater dedication to unpaid care work they perform within the household.

2.20. Educational and vocational training outcomes are not commensurate with the resources allocated. The high spending on education (6.3% of GDP vs. 5.1% on average in the OECD) does not translate into higher secondary graduation rates or higher levels of learning (**graph 3A**).⁶³ Costa Rica's educational gap compared to the OECD average is estimated at 4 years of schooling, according to PISA 2022, which hinders young people's social and labor market integration.^{64,65,66} Learning is also inequitable (Costa Rica has the largest gender gap in mathematics) and socioeconomic gaps add up to 2 years to the educational lag, which are not addressed by tertiary education, vocational training or active labor market policies.⁶⁷ This translates into youth unemployment that more than doubles the OECD average (25% vs. 10% OECD).

2.21. Crime and insecurity have increased rapidly in the last two years, reaching historic highs in 2023 and approaching the LAC average. The homicide rate reached its highest historical level in 2023 (17.2 homicides per 100,000 inhabitants), which is close to the LAC average (19.9 homicides per 100,000 inhabitants) (**graph 3B**). Homicides are mostly linked to the expansion of activities related to organized crime, concentrating mainly in provinces outside the GAM, where development indicators are lower, affecting young people under 30 the most (45%). On the other hand, sexual and gender-based violence also prevails in the country, reporting at least two femicides per month and 32,000 annual reports of aggression against women, ranging from physical and psychological violence to sexual assault. Additionally, in recent years, the country has become a point of origin, transit, and destination for human trafficking, with both national and foreign victims. 81% of the victims in the country are women and girls, and almost 60% are minors.

2.22. The rapid aging of the population projected over the coming decades will increase the number of people dependent on care, limiting women's participation in the labor market. It is estimated that, by the end of the 2030s, the population over 65 years of age will exceed that of those under 15, and that by 2050, the number of adults (aged 15 to 74) who will require care will increase from 2.9 per 100 to 11.3 (**graph 3C**). On the other hand, the care system faces challenges that will be exacerbated by this demographic dynamic. Currently, 1 in 5 people who need support to perform daily living activities do not receive it. Additionally, caregiving falls primarily on women, who represent 90% of caregivers, which means they devote more than twice as much time to domestic chores as men.⁶⁸ These caregiving activities are mainly carried out within the household and are unpaid, which affects women's

⁶² A survey of 845 LGBT people in Costa Rica concluded that 34% have experienced discrimination in the workplace because of their identity (Cabañas, A. C., Chaves Groh, M. J., Larraitz, L. A., & Sánchez Mora, A. (2016). *ORGULLO (PRIDE) in the workplace: a study on discrimination at work on grounds of orientation*. Geneva: International Labour Office). Indigenous, Afro-descendant populations, and people with disabilities also report low participation rates, higher levels of unemployment, and lower wages. According to the 2011 census, the net labor force participation rate of the indigenous population is 41% and the majority (60%) work in agricultural activities, while 57% of the Afro-descendant population is engaged in low or unskilled activities. According to the 2018 National Disability Survey (ENADIS), 25% of people with disabilities are out of the labor force and have an employment rate of 40% (64% among people without disabilities).

⁶³ The secondary school graduation rate in 2021 was 69%, below the OECD average of 89%.

⁶⁴ PISA refers to the OECD's Programme for International Student Assessment.

⁶⁵ The diagnostic application of the 2023 Standardized National Test of the Ministry of Public Education (MEP) showed that 21% and 23% of primary and secondary students in public education have a satisfactory mastery of school knowledge, skills, and abilities. In mathematics, 17% of primary students and 18% in secondary showed a satisfactory mastery, while in Spanish, 24% in primary and 19% in secondary reached the satisfactory level.

⁶⁶ According to the [Global Talent Shortage de 2024](#), 70% of employers in Costa Rica reported difficulties in finding the qualified personnel they need. The sectors with the greatest difficulty reported were manufacturing (87%), finance and real estate (81%) and communication services (81%).

⁶⁷ Costa Rica obtained the second largest gender gap in Latin America in the PISA 2022 mathematics test. It also reports gender gaps in reading and mathematics in primary and secondary education (ERCE, 2019).

⁶⁸ According to the Continuous Employment Survey (2024), 90% of caregivers are women. 1.3 million women of working age are out of the labor force (National Household Survey, 2023) and 488,000 perform care tasks that prevent an active job search. According to the 2022 National Time Use Survey (ENUT), in Costa Rica women dedicate 19% of their time to unpaid domestic work, while men dedicate 8%. This difference is one of the largest in LAC ("[Los cuidados en América Latina y el Caribe](#)", Bidegain y Calderón (2018). *Textos seleccionados 2007-2018*". Comisión Económica para América Latina y el Caribe).

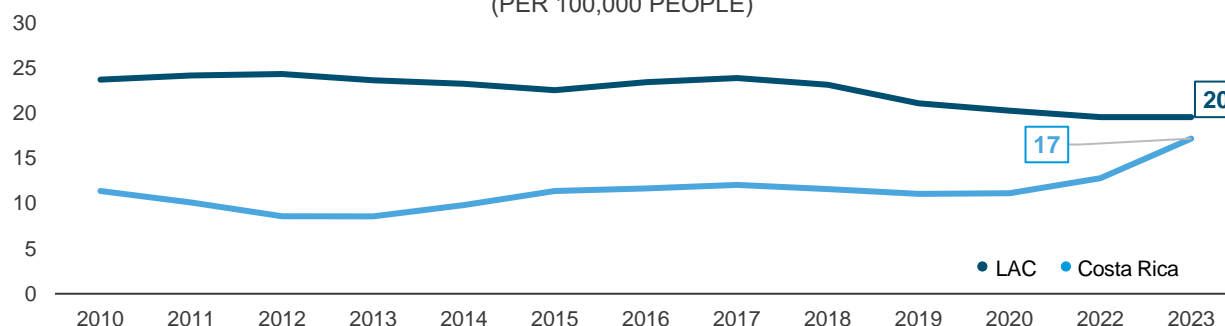
quality of life and reduces their opportunities to participate in the labor market, despite achieving higher levels of education.⁶⁹

GRAPHS 3. CHALLENGES TO MAINTAIN THE SOCIAL CONTRACT

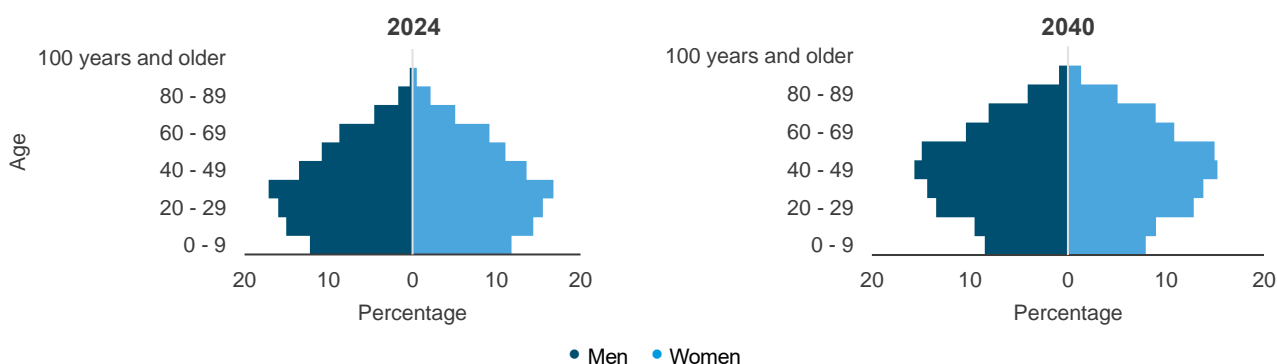
GRAPH 3A. EDUCATIONAL INVESTMENT AND RETURN



GRAPH 3B. HOMICIDE RATE
(PER 100,000 PEOPLE)



GRAPH 3C. ESTIMATED POPULATION GROWTH, COSTA RICA



Note: Graph 3A compares (i) the investment in education (in percent of GDP) in Costa Rica (6.3%) with the OECD average (5.1%) in 2021 (source: World Bank); and (ii) the average scores in mathematics and literacy from the PISA test in Costa Rica and the OECD countries' average from the 2022 tests. This difference in scores is estimated to equate to a four-year education gap (source: OECD). Graph 3B shows the homicide rate per 100,000 inhabitants for Costa Rica and the average for Latin American and Caribbean countries between 2010 and 2023 (source: UNODC). Graph 3C presents the projected population pyramid for Costa Rica in 2024 and 2040. In 2024, the population under 15 years old nearly doubles that of people over 65. By 2040, this proportion is expected to reverse, with the population over 65 surpassing the population under 15 by 50% (source: INEC).

⁶⁹ 55% of secondary and university graduates are women. However, their participation in the labor market is below the OECD average (57% vs. 66% in the OECD).

WHAT WE WILL DO

2.23. The IDB Group's actions in this pillar will focus on three objectives: (i) strengthen the educational services to recover the learning of national and migrant students; (ii) prevent crime among young users of the civic centers for peace (CCP);⁷⁰ and (iii) strengthen the social protection system for individuals with disabilities or functional limitations. The interventions to achieve these strategic objectives align with the third pillar of the regional program "América en el Centro"—Social development of the youth. On the one hand, by fostering safe environments where young people can acquire skills that facilitate their employability, and on the other hand, by contributing to closing the gender gap by increasing women's labor force participation.

2.24. Strengthening skills to facilitate youth inclusion in the labor market will focus on improving the quality and efficiency of education. To achieve this, the Bank's actions will focus on (i) addressing the educational lag in foundational areas (mathematics and literacy); (ii) transforming the teaching model to improve the quality and relevance of education, developing 21st-century skills; and (iii) improving the management capacity of the Ministry of Public Education (MEP) and the efficiency of spending. To address the educational lag, programs will be implemented to accelerate the fundamental learning of students who need it most, including those in centers with a higher concentration of migrant populations. To improve the teaching model, curricula will be updated and provide pedagogical and technological materials, and teachers will be accompanied for their full implementation in the classroom, ensuring a gender and diversity focus to reduce gaps. Work will also be done to improve the educational environment with violence prevention programs. At the same time, the institutional capacity of the MEP will be strengthened, so that it can manage the necessary reforms in the teaching career and improve the efficiency of its budget. Additionally, the IDB Group will also contribute to strengthening the technical and digital skills of students, to adapt the talent supply to the changing demands of the labor market.

2.25. The IDB Group's security proposal aims to address the rise in crime in a comprehensive manner, focusing on social crime prevention and the institutional strengthening of the police, judicial system, and penitentiary system.⁷¹ Special emphasis will be placed on (i) strengthening prison security and intelligence; (ii) preventing crime among young people; (iii) improving police response capacity; and (iv) facilitating access to justice systems. Prevention will focus on improving civic coexistence through the construction of CCP, and on preventing school dropout, prioritizing interventions with adolescents and young people in districts with concentrated disadvantages. The increase in police response capacity will be achieved through the improvement and construction of police stations and the training of the police force specialized in criminal analysis, crime prevention models, and improving police legitimacy. To improve access to justice systems, the digitalization of the system will be strengthened, including the digitalization of judicial records, the implementation of interoperability and integration into the criminal justice system, and the development of an innovation and emerging technologies laboratory.

2.26. The IDB Group will support the strengthening of the social protection system for the vulnerable adult population with disabilities or functional dependencies. The IDB Group will continue to support reforms aimed at (i) modernizing the benefit allocation system and (ii) expanding service coverage with a sustainable financing model, which includes new options for long-term care services and care supports.⁷² To modernize the system, the capacities of the *Sistema Nacional de Información*

⁷⁰ The civic centers for peace are physical spaces for community coexistence and state presence, created by and for the community, where a violence prevention model is implemented and where the aim is to strengthen the capacities for citizen coexistence, the creation of opportunities for personal development and the constructive use of free time, through structured activities related to technology, culture, and sports, whose main focus is the population between 0 and 18 years of age, although not exclusively.

⁷¹ The current program is aimed at improving police effectiveness and preventing violence and criminal behavior among young people through social prevention, focusing on areas with the highest concentration of vulnerable populations.

⁷² The IDB Group has been developing the care agenda in Costa Rica since 2017 through 4 non-reimbursable technical cooperation projects, which have carried out activities of (i) diagnosis, to quantify the functionally dependent population, (ii) estimate the impact and health savings of a System of Care and Supports for Long-Term Care, and (iii) estimate the cost of the System of Care and Supports for Long-Term Care. As a result, the IDB Group participated in the preparation of the first National Care Policy 2021-2031 and in the law that creates the National Care System.

y Registro Único de Beneficiarios del Estado (SINIRUBE) will be strengthened, incorporating dependency and disability variables in the estimation of poverty and in the prioritization of benefits and services.⁷³ SINIRUBE will also incorporate the “dependency scale”.⁷⁴ To expand service coverage, the first version of remote care (teleassistance) for older adults with dependencies will be implemented and a platform will be created to connect caregivers and people who require care. Additionally, the first version of a single window for access to social services will be created. Furthermore, measures will be supported to strengthen the economic and physical autonomy of women, which will contribute to the implementation of the National Gender Route, including the action plan of the Gender Parity Initiative (IPG in Spanish), the strengthening of the National Institute for Women (INAMU in Spanish) and inter-institutional coordination for the attention of sexual and gender-based violence.

2.27. Dialogue areas. The IDB Group actively participated in the design and implementation of the IPG in Costa Rica and is a key partner to the government. The contributions in gender and diversity will be delivered through non-reimbursable technical cooperation. Specific support will be provided to INAMU to implement the Gender Route, a national initiative focused on preventing gender-based violence, promoting women’s economic autonomy, and fostering shared responsibility for caregiving, as well as advancing the IPG. The IDB Group will also continue to enhance professional training services and the National Employment System, promoting active employment policies to support the labor integration of youth, women, migrants, the elderly, Afro-descendant and Indigenous populations, LGBTQ+ individuals, and people with disabilities, who face greater barriers to accessing quality employment. In education, the possibility of introducing new career paths in green and blue jobs linked to the 3D economy (i.e., digitalized, decentralized, and decarbonized) will be explored through partnerships with the National Learning Institute (INA in Spanish), technical schools, and public and private universities. In the area of security, the dialogue on the digital and cybersecurity agenda will continue to advance the adoption of digital technologies in public administration and the implementation of the country’s cybersecurity policy. The IDB will delve deeper into the root causes of the growing insecurity nationwide, leveraging its Fragility, Conflict, and Violence Framework. New initiatives will be developed under the Alliance for Security, Justice, and Development to address this challenge. In caregiving, the Bank will continue to provide technical assistance to support the national consolidation of SINCA, leveraging potential public-private collaborations. Additionally, opportunities arising from the development of the silver economy will be explored, considering Costa Rica’s demographic transition. The IDB will also continue to provide technical support to tackle the medium and long-term challenges faced by the public healthcare and pension systems—managed by the CCSS—, and social protection programs, which will be exacerbated by the country’s rapidly aging population.

⁷³ The most recent technical assistance has also focused on improving inter-institutional coordination of the institutions participating in the Sistema Nacional de Cuidados y Apoyos para Personas Adultas y Personas Adultas Mayores en Situación de Dependencia (SINCA) and the services they offer to achieve a more efficient allocation of care programs.

⁷⁴ The dependency scale is a standardized instrument used to assess and classify the level of dependency of a person considering factors such as age, disability or illness, difficulties in performing activities of daily living and the need for help from other people to perform them.

EXPECTED OUTCOMES

Strengthening educational services to recover foundational learning for primary and secondary students. As this is a new operation still in preparation, most of the expected outcomes from interventions in education will not materialize during this strategy period. However, the initial interventions will focus on addressing foundational learning gaps in literacy and mathematics for both primary and secondary students. To achieve this, tutoring programs will be developed, targeting students with the most significant learning gaps. The operation will be complemented by resources from the IDB's Non-Reimbursable Facility to support regional efforts in addressing the ongoing and emerging challenges of migration. It will reinforce interventions in schools with a higher percentage of migrant students. It is expected to measure intermediate results by the percentage of students who complete the tutoring programs, including migrant participants, with evaluations conducted annually starting from the first year after the initial intervention.

Preventing crime among youth. In terms of security, results are expected from the ongoing operation focused on the social prevention of violence. One of the key interventions being developed is the construction of CCP, which aim to reduce delinquent behaviors among youth vulnerable to violence through the programs offered at these centers.¹ The program follows a vertical logic, expecting that delinquent behavior among young people will decrease as a result of their participation in CCP programs, considering that adolescence and youth are periods when the risk of involvement in violent activities increases. Criminological research indicates a peak in delinquent activity between the 16 and 18 ages.² Additionally, empirical evidence suggests that the expected results of such interventions can be observed within the CS timeframe.³ The program includes evidence-based interventions such as recreational activities, skill development (focused on socio-emotional abilities), preventive measures (peaceful conflict resolution), and community engagement on topics like gender-based violence.

Providing social protection for vulnerable individuals with disabilities or functional dependency. Con la continuidad de los programas de cooperación técnica que se han venido realizando, se espera contribuir al aumento de la cobertura de los servicios del Sistema Nacional de Cuidados. By continuing technical cooperation programs, the aim is to contribute to increasing the coverage of services within the National Care System. The incorporation of a dependency assessment scale into the SINIRUBE system will enhance the evaluation of functional dependency, improving the targeting of social assistance programs. Specifically, the use of the dependency scale will prioritize access to existing programs at the Joint Institute for Social Welfare's (IMAS) for individuals in poverty with functional dependency.

¹ Empirical evidence links school absenteeism and weak socioemotional skills with delinquent behaviors (Lösel and Farrington, 2010).

² Lösel Friedrich, Bottoms Anthony y Farrington David P. (2012). *Young adult offenders: Lost in transition?* Oxon: Routledge, 2012; Piquero Alex R, Farrington David P y Blumstein (2003). *The criminal career paradigm. Crime and Justice: A review of research.* Chicago: University of Chicago Press, 2003. Barry M. (2010). *Promoting desistance among young people. Youth Justice Handbook: Theory, Policy and Practice.* Devon, UK: The Open University.

³ Studies conducted in the United States provide evidence that extracurricular programs significantly increase school engagement, positive social behaviors, and academic performance, while notably reducing problematic behaviors. Some studies specifically measured the incapacitation effects resulting from structured leisure activities, finding reductions in juvenile delinquency and violent behavior over a four-year follow-up period. (Mahatmya D and Lohman, B. (2011) 'Predictors of late adolescent delinquency: The protective role of after-school activities in low-income families' *Children and Youth Services Review* 33-7: 1309-1317).

CROSSCUTTING ISSUES

WHY THEY MATTER

- ➔ **2.28. Gender and diversity.** In Costa Rica, women, indigenous, Afro-descendant, and disabled populations face barriers to access and permanence in the labor market. Women show a labor participation rate that is 22 percentage points lower than that of men, a difference that is aggravated in indigenous populations - where only 41% of people are in the workforce, with a predominance in the primary sector - and in the Afro-descendant population - which experiences high levels of unemployment and low representation in professional jobs. In the case of people with disabilities, their employment rate is considerably lower (40%) compared to that of the non-disabled population, and unemployment is 2.4 percentage points higher, which evidences the existence of structural barriers to access to the labor market. Added to this is the disproportionate burden of care work assumed by women, which reduces their employment opportunities and deepens inequalities.
- ➔ **2.29. Climate change and decarbonization.** Climate change represents a critical challenge in Costa Rica's development, with impacts extending beyond the environment and affecting fundamental pillars of the economy. In recent years, the country has experienced an increase in the frequency and intensity of extreme weather events, such as hurricanes, tropical storms, and prolonged droughts, which jeopardize food security, water resources, essential infrastructure, and electricity generation capacity. Changes in temperatures, sea level rise, and alterations in rainfall patterns directly affect agricultural and forestry productivity, potentially reducing water availability for irrigation and human consumption. Sectors like tourism, heavily reliant on stable climatic conditions and natural resources, also face risks due to water scarcity and the impact of rising temperatures on local ecosystems. Moreover, the country's adaptation infrastructure remains limited, increasing its vulnerability to these challenges. Therefore, advancing climate adaptation and resilience strategies is crucial to protect strategic resources, mitigate risks, and ensure sustainable development in Costa Rica.
- ➔ **2.30. Institutional strengthening.** Continuing to strengthen institutions in Costa Rica is essential to improve the capacity to execute public investment, ensure efficient spending, and consolidate a competitive environment that provides greater legal certainty to the private sector. Limitations in administrative processes and a lack of inter-institutional coordination affect the pace of execution of priority projects, exacerbating gaps in infrastructure, education, and social sectors. An improvement in legal certainty, especially regarding regulation, is key to attracting private investment and fostering business confidence. It is also necessary to strengthen the national monitoring and evaluation system and achieve better articulation between planning and budgeting systems, adopting results-based budgeting policies and promoting the direct link between budget allocations and planned actions, as foreseen in the Hacienda Digital project. Likewise, it is necessary to expand the coverage of policy evaluations, improve data capture and management, and the quality of information so that it supports decision-making. These efforts will allow for the optimization of public administration and the consolidation of a regulatory environment that promotes private investment and guarantees sustainable growth, responding more effectively to the country's development demands.



III. HOW WE WILL DO IT

A. PROGRAMMATIC APPROACH

- 3.1 The CS 2024-2027 is designed to maximize its impact on the country's development by focusing on priority sectors that reflect Costa Rica's long-term priorities and goals.** The selection of sectors was made by assessing the programmatic approach and track record, considering the financial instruments best suited to each sector and type of planned intervention. In the case of Costa Rica, these instruments include investment loans, conditional credit lines, technical cooperation, and policy-based loans. The aim is to develop programs focused on medium- and long-term objectives, providing greater coherence and facilitating results tracking. Under this approach, the public investment will be complemented by private sector participation to optimize resources and address the country's structural challenges. To ensure effectiveness, special emphasis will be placed on periodically measuring project progress and adjusting intervention strategies by integrating lessons learned. The programmatic approach also involves interaction with local and subnational actors, such as municipalities and local governments, aiming to extend development beyond the Greater Metropolitan Area.
- 3.2 CS 2024-2027 implementation.** Under the CS 2024-2027, IDB Group institutions will continue to execute existing portfolio operations, develop new interventions, both with and without sovereign guarantees, and continue providing non-reimbursable technical assistance relevant to the country. The CS 2024-2027 will be aligned with the IDB Group's new Institutional Strategy, StrategyIDB+, the New Vision and Business Model for IDB Invest (CII/CCA-221) (IDBInvest+), the IDB Invest Business Plan 2024, the IDB Lab Business Plan, and the IDB Group's regional program "América en el Centro".⁷⁵ It will consider lessons learned from the CS 2019-2022 and the recommendations reflected in the Extended Country Program Evaluation: Costa Rica 2015-2022, conducted by the Office of Evaluation and Oversight (OVE). It will also strengthen internal synergies among the three IDB Group windows and external synergies between the public and private sectors and seek to leverage resources and establish strategic alliances with other donors.⁷⁶
- 3.3 Validation of the programmatic approach.** The prioritized areas are not only the result of the strategic selectivity process described but also respond to a programmatic vision that the Bank has been developing in the country during the last strategies. The prioritized areas, resulting from the strategic selectivity process, also respond to the programmatic vision that the Bank has developed in the country during the last strategies. This has allowed the acquisition of specific sectoral knowledge and the adaptation of financial instruments according to the country's economic performance, its needs, and particular territorial conditions (**Table 1**).

⁷⁵ The IDB Invest Business Plan 2024 will cover the transition between the two IDB Invest business models.

⁷⁶ Resource mobilization (including green funds) and strategic alliances will be coordinated with the Office of Outreach and Partnerships (ORP).

TABLE 1. NUMBER OF OPERATIONS APPROVED BY SECTOR

Sector	CS 2011-2014				CS 2015-2018				CS 2019-2022					Forecast		Total operations
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	
CTI		1														1
EDU		1												1		2
ENE		1			1										1	3
FMM									1	1	2					4
ICS	1								1				1	1		4
LMK										2						2
RND							1			1		1				3
SPH		1			1										1	3
TIN					1			1								2
TSP			1					1	1				1			4
WSA																0
Total operations	1	4	1	-	3	-	1	2	3	4	2	1	2	2	2	28

Note: Table 1 shows the number of operations approved in each of the Bank's sectors during the last three country strategies (CS 2011-2014, CS 2015-2018 and CS 2019-2022). Sectors prioritized under the strategic selectivity framework in the CS 2024-2027 are highlighted in yellow. The sectors are Competitiveness, Technology and Innovation (CTI), Education (EDU), Energy (ENE), Fiscal Management (FMM), Innovation in Citizen Services (ICS), Labor Markets (LMK), Environment, Rural Development and Risk Management (RND), Social Protection and Health (SPH), Trade and Investment (TIN), Transport (TSP), Water and Sanitation (WSA).

B. SYNERGIES

3.4 During the implementation of the CS 2024-2027, the three IDB Group windows will seek to work collaboratively, sharing knowledge, seeking integrated financial solutions to increase the impact of specific interventions, scaling innovative solutions, and fostering upstream work that supports regulatory, institutional, and market reforms to facilitate development through the private sector. An operational management committee, composed of IDB, IDB Invest, and IDB Lab, will be created to explore opportunities for synergy and to coordinate operational work, dialogue, and integrated knowledge. Likewise, spaces for exchange will be promoted to identify good practices in agendas related to measuring impact indicators, project supervision mechanisms, strengthening integrity agendas, among others. At least five potential areas for developing synergies are identified: (i) climate finance; (ii) PPP development; (iii) financial inclusion of MSMEs, with a special emphasis on those led by women; (iv) innovation and digital transformation; and (v) social protection, care for the elderly, and the silver economy.

3.5 In pillar 1, synergy opportunities will focus on promoting climate finance and public-private investment in public infrastructure. The aim will be to accelerate the private sector's contribution to the NDS, with a focus on the energy and transport sectors, seeking to expand access to climate finance. For example, in energy, upstream work will continue to support the development of policies that promote transparency, competitiveness, and modernization of the sector, including strengthening integrated energy planning, decentralized operation of the electricity system, and opening the market to greater private participation. Similarly, the IDB Group will explore providing financing alternatives and advisory services to advance the modernization of the electricity sector, including the development of private renewable energy generation projects (e.g., solar and wind) and supporting emerging initiatives such as green hydrogen, electromobility, and integrated urban solutions, which could open

up opportunities for the private sector in terms of technology and associated services, such as load management systems and optimization software. Additionally, mechanisms for private sector participation in the design, construction, operation, and maintenance of public infrastructure stock will be strengthened. This will include structuring asset recycling models and redefining of standards and service levels for concessioned infrastructure. Coordinated work with IDB Invest can guide public institutions in attracting international firms, which will strengthen competition and value-for-money principles.

- 3.6 In pillar 2, synergies will aim to increase financial inclusion and economic integration of MSMEs, as well as strengthen the innovation ecosystem.** The aim will be to strengthen complementary work within the IDB Group to promote access to finance for MSMEs. In upstream initiatives, through the public window, efforts will focus on (i) leveraging the relevance of public banks to implement credit guarantee schemes and appropriate technologies to foster the expansion of credit to MSMEs;⁷⁷ (ii) promoting the implementation of a national financial inclusion strategy, in coordination with civil society and the private sector; and (iii) encouraging the elimination of distortions in the financial market to allow financial intermediaries to implement downscaling strategies towards microenterprises and households with a higher risk profile. IDB Lab's work will be promoted as a first step in identifying emerging markets and experimenting with models that could potentially be scaled up or replicated by IDB Invest, given the right market conditions. The inclusion agenda will be strengthened, building on consolidated programs to accelerate women's labor force participation in the private sector through the IPG in Costa Rica. These initiatives leverage the knowledge and resources of the IDB Group to create development opportunities through the private sector. Complementarily, mechanisms will be explored to strengthen an entrepreneurship ecosystem that identifies and supports high-potential companies, as an essential vehicle to modernize the traditional economic sector and to build better linkages between economic sectors. Similarly, it will be sought to design and implement a model for strengthening and certifying incubators and accelerators, promoting sectoral or technological specialization. Certified entrepreneurship support organizations could manage public seed capital and co-investment programs. Finally, it will be sought to design a program of hybrid public-private co-investment funds to dynamize the early-stage financing offer.
- 3.7 In pillar 3, synergies will strengthen interventions aimed at reinforcing the social protection and elderly care system.** Interventions to bolster the social protection system could also be complemented by IDB Lab operations related to the silver economy and the project to design a pay-for-performance intervention to generate solutions aimed at the well-being of the elderly population, currently under development. In this direction, IDB Invest could also leverage these IDB Lab initiatives to get involved in operations related to the silver economy in the medium term.

C. IDENTIFICATION OF REFORMS

- 3.8** The IDB Group will continue to provide specialized support and foster technical dialogue linked to policy reform agendas in four areas: (i) national public investment system and public financial management; (ii) public care system and promotion of gender equality; (iii) transport, cargo logistics, and trade facilitation; and (iv) regulatory frameworks for public administration. This selection is the result of a process of thematic maturation, driven by the Bank's continuous support, and considers the following criteria: (i) the relevance and impact for the country and the Bank; (ii) the timeliness for implementing the policy measures; (iii) the scope and robustness of the proposed policy measures;

⁷⁷ The three public banks represent 46% of the financial sector's assets.

(iv) the complementarity with previous efforts; (v) the risk mitigation actions to reduce the likelihood of incomplete or reversed reforms; and (vi) the track record of previous reform programs.⁷⁸

3.9 Within pillar 1, the Bank will continue to support reforms of the national public investment and financial management systems. The country has made progress in managing public investment spending, primarily through the recent approval of the new National Public Investment System Law. However, there are still opportunities for improvement. The efficiency gap of public investment in Costa Rica is 44% compared to countries with similar levels of capital expenditure and income.⁷⁹ Regarding public investment management, the complexity of the methodological guidelines for project formulation and evaluation and the lack of clarity in project typologies for the application of different levels of studies, hinders its practical application by formulators and evaluators.⁸⁰ Regarding project execution, although there are different information systems for projects, there are still no reports on the total costs of projects or reliable estimates of their multi-year execution, nor methodologies for estimating operation and maintenance costs. On the other hand, there is a wide fragmentation in public investment management. The national public investment system (*sistema nacional de inversión pública* (SNIP)) rules apply to 40% of non-financial public entities and do not link to local governments or most decentralized entities. In this area, comprehensive support will be provided for the regulation and implementation of the new law, focusing on improving the phases of the project cycle (evaluation, budgeting, and execution), and on the capacity and coordination between public institutions and the Ministry of National Planning and Economic Policy (MIDEPLAN). This includes: (i) strengthening project ex-ante formulation and evaluation instruments, integrating climate considerations; (ii) improving the availability of budgetary information on investment projects and streamlining the project portfolio through centralized, regular, and transparent monitoring; and (iii) reducing fragmentation in public investment management and expanding the spectrum of public entities that apply it. These measures will optimize the public investment process, improving the quality of spending and protecting public resources allocated to investment, in line with best practices to improve spending efficiency.⁸¹ Given the limit on spending growth imposed by the fiscal rule, these reforms focused on improving spending efficiency become even more relevant.

3.10 Under pillar 2, the Bank will continue to strengthen transportation, logistics, and trade facilitation systems, as well as public management regulatory frameworks. The country has managed to transform its productive sectors and maintain an average growth rate in the last decade, exceeding that of LAC. However, investment and logistics developments have been concentrated in the Greater Metropolitan Area, leaving rural and peripheral areas with productivity and innovation gaps. The Logistics Performance Index 2023 reveals the need for greater equity in growth and better coordination between the public and private sectors. Despite the National Cargo Logistics Plan 2014-2024, challenges persist, such as the low quality of infrastructure, limitations in weights and dimensions, the informality of transporters, and regulatory fragmentation. To improve the country's insertion in international trade and reduce costs, it is necessary to optimize trade facilitation, promote exports, and attract investment by simplifying and automating customs processes, reducing operational times and costs, and supporting the internationalization of small and medium-sized enterprises. The Bank will support reforms to (i) update the regulatory framework of the transport and cargo logistics sector and facilitate trade and regional integration; (ii) stimulate access of national companies to international markets and promoting FDI; and (iii) strengthen the institutional framework of the transport and cargo logistics sector through the creation of bodies that establish long-term policies and coordinate the different public and private actors, aiming to dynamize the sector and

⁷⁸ The Bank's support has been realized through non-reimbursable technical cooperations, continuous knowledge transfer on high-impact projects and practices in the region, and constant monitoring of modernization and reform processes promoted by various Costa Rican state entities. As evidence of this commitment, between 2019 and 2023, the Bank allocated nearly US\$23 million in non-reimbursable technical cooperation, with the following areas of support: 27% for the development of the social protection agenda; 22% to strengthen the fiscal agenda and state capacity, as well as regulation and competition issues; and 20% in infrastructure sectors and associated services. During the same period, Costa Rica also participated in regional policy dialogues on topics such as digital transformation, green finance, quality public spending, and support mechanisms for dependency, among others.

⁷⁹ Public Investment Management Assessment (PIMA) (FMI, 2021).

⁸⁰ Revisión de las Guías Metodológicas de Inversión Pública y sus Anexos y de las Normas Técnicas (IDB, 2024).

⁸¹ See [Better Spending for Better Lives: How Latin America and the Caribbean Can Do More with Less](#) (IDB, 2018).

improve competitiveness. Costa Rica also faces challenges in regulating the product market, with barriers to entry and state participation limiting competition. The OECD indicator suggests that improving regulations could boost competition. Currently, administrative burdens and the licensing system hinder the establishment of businesses, increasing costs compared to other OECD and Latin American countries. Although the country is moving towards the digitalization of procedures through online one-stop shops, it still needs to address the full integration of all administrative requirements to facilitate the creation of formal businesses. The IDB Group will promote the development of programs, policies, and reforms aimed at increasing productivity, focused on (i) establishing the appropriate conditions for the development of national companies, while simultaneously maintaining a commitment to foreign direct investment and trade; (ii) developing regulatory impact assessments to guide the design of new laws and regulations, ensuring that costs and benefits are systematically evaluated in terms of competition, as well as the continuous identification of opportunities to eliminate duplications, streamline processes, and harmonize regulations among different public entities; (iii) consolidating electronic public management to facilitate compliance with administrative procedures, supporting the establishment of virtual one-stop shops that facilitate the creation of formal businesses, and simplifying administrative procedures; and (iv) implementing improvements in public employment management, continuing the support that the IDB Group has provided in diagnosis and design.

3.11 Related to pillar 3, the Bank will continue to support efforts to strengthen the public childcare system and promote gender equality.

In terms of childcare, the demand for services far exceeds the coverage achieved. The care network (a public policy created with the objective of providing integrated care, early stimulation, and early childhood education services to children under 12 years of age, especially those from families in poverty and social vulnerability), has evident coverage gaps. The unequal burden of care, explained in part by the lack of services, limits women's economic autonomy and presents a barrier to their labor market insertion. This situation is aggravated in the regions with the highest poverty in the country (Brunca, Huetar Norte, and Huetar Atlántica) and in rural areas. In this context, the objectives will focus on improving the living conditions of both recipients and providers of care, providing greater economic protection for older people through non-contributory pensions, and improving the offer of job placement programs for people with greater barriers to access to formal employment, particularly women. To this end, it will seek to support the adoption of reforms aimed at (i) strengthening the regulations related to governance, financing, and services; (ii) promoting the universalization of the single system for assessing dependency for the differentiated allocation of services and benefits; (iii) adapting the prioritization system for the allocation of social benefits by incorporating variables of dependency and disability into its prioritization methodology; (iv) developing new training curricula and new certifications of competencies to work in care roles; (v) implementing and evaluating co-payment mechanisms for quality child care services, incentivizing public-private collaboration; and (vi) generating mechanisms to expand the benefits of subsidies for child care services and scholarships to encourage women's labor training.

3.12 Operational opportunities within the framework of the CS 2024-2027.

Based on the criteria of the four areas of reform and the country's current situation, comprehensive support for the SNIP and public financial management stands out as a key priority for the 2024-2027 period, with the potential to formalize in a policy-based loan (PBL). This area aligns with the institutional strategy focused on promoting sustainable growth and strengthening institutional capacity and the rule of law. It also connects with the priority areas of resilient infrastructure, climate action, and an enabling environment for the private sector. In terms of related reforms, a new SNIP law has been approved, and progress has been made with its regulations and the updating of technical standards and methodological guides, which together organize and unify the public investment process at all levels of government (national, sectoral, and local). New governance mechanisms have also been established for projects under the PPP modality, driven by a new regulatory framework and its connection to the SNIP. Operationally, efficiency, innovation, and sustainability in public procurement have improved to support the Public Procurement 2021 Law implementation. Budget monitoring and evaluation capacity has been strengthened, and a functional expenditure classifier with climate impact has been implemented,

improving the traceability and efficient use of public resources.⁸² On a second level of priority, an opportunity linked to the third strategic area arises, related to the demand for a national care system reform program for 2025. This includes the development of a childcare system that promotes female labor market participation, supported by the IPG. Although the other areas of reform are relevant in the medium and long term and are part of the Bank's agenda of work and dialogue with the government, their potential for policy loans requires deeper reforms and better-defined governance frameworks.

D. REGIONAL IDB GROUP FLAGSHIP PROGRAMMES

3.13 América en el Centro is a regional development program designed as a general framework to address the common, cross-border challenges facing Central America, Panama and the Dominican Republic.

3.14 The strategy is centered around three strategic pillars: 1. Productivity and economic integration; 2. Climate adaptation and resilience; 3. Youth social development. As a cross-cutting area, it includes institutional strengthening and capacity building. Within the first pillar, the strategic objectives focus on strengthening sustainable regional infrastructure and supporting integration into global value chains. The second pillar includes objectives such as promoting the sustainability of natural resources and biodiversity, and developing disaster risk management strategies and preparation for social challenges caused by climate change. The third pillar seeks on the one hand, to equip young people with essential skills for success, including digital and basic literacy, as well as sector-specific skills to improve employability; on the other hand, it also aims to reduce gender gaps by increasing female labor force participation.

3.15 The Costa Rica CS 2024-2027 aligns with the three pillars of América en el Centro. The programs aimed at improving the quality and resilience of transportation infrastructure, enhancing the reliability of the electrical system, and mobilizing climate finance under pillar 1 of the Costa Rica CS integrate with pillars 1 and 2 of América en el Centro. The interventions designed to facilitate trade integration, strengthen regulatory and institutional capacity for PPPs, and increase financial inclusion for MSMEs, included in pillar 2 of the Costa Rica CS, align with pillar 1 of América en el Centro. Additionally, the interventions to strengthen educational services to recover student learning, both for nationals and migrants, and to prevent youth crime align with pillar 3 of América en el Centro.

E. STRATEGIC ALLIANCES

3.16 The IDB Group is the multilateral organization with the largest presence in Costa Rica and will focus on promoting partnerships in accordance with the three priority areas identified in this strategy. The main objective of these partnerships is to strengthen and maximize the coordination and mobilization of donors and resources.⁸³ To promote the priority area of resilient infrastructure and climate action, the Bank will seek to work with actors such as the World Bank, the French Development Agency (AFD), the Central American Bank for Economic Integration (CABEI), the European Investment Bank (EIB), and regional coordination bodies such as SIEPAC and the Secretary of Economic Integration of Central America (SIECA). Additionally, efforts will be coordinated to reduce barriers to infrastructure and logistics development in the country. In terms of technical assistance and knowledge within this priority area, the Bank will seek to monitor the scope of the OECD, considering that in 2023 it carried out the Environmental Performance Review of the country, with the implementation of 52 recommendations. Likewise, with the European Union (EU), through the Latin America Investment

⁸² This support is being provided through ATN/OC-19756-CR and ATN/FC-20294-CR. Costa Rica is one of the first countries in the region to incorporate this type of classifier in its budget cycle.

⁸³ The mobilization of resources and the generation of strategic partnerships will be carried out in coordination with the ORP.

Facility (LACIF), it will be possible to develop feasibility studies and capacity building in infrastructure; and with Instituto Centroamericano de Administración de Empresas (INCAE) and Observatorios del Desarrollo of the University of Costa Rica, research and training efforts will be maintained in areas of competitiveness, environmental balance and climate change, and innovation and technology. Finally, to maintain transparency in public works and for the Bank to have partners that provide oversight, traceability, innovation, and continue to be a relevant communication channel in infrastructure, the Bank has identified the need to work with the Colegio Federado de Ingenieros y Arquitectos de Costa Rica (CFIA), Asociación Costarricense de Productores de Energía (ACOPE), Cámara Costarricense de la Construcción, Asociación Costa Rica por Siempre, Fundación Centro para la Sostenibilidad Urbana, Centro Nacional de Alta Tecnología, and Earth University.

3.17 To promote the second priority area, related to the enabling environment for the private sector, the Bank will seek to work with the World Bank, the OECD, the International Finance Corporation, DEG, the CAF, FMO, Findev, the OPEC Fund, Proparco, and DFC in terms of mobilizing resources to strengthen opportunities for the private sector.⁸⁴

Likewise, IDB Invest will continue working with commercial banks, institutional investors, blended finance providers, and others. In terms of technical assistance and knowledge within this pillar, the Bank will seek to coordinate with the Global Infrastructure Facility, Economist Impact, and the International Finance Corporation to elevate the dialogue on the regulatory framework and business intelligence in the territory, as well as specific support in project structuring from design, preparation, valuation, and closing of projects with the private sector. To enhance the IDB's reach in covering MSMEs, covering a larger territory and reaching the most vulnerable population, potential partners are identified as the Academia de Centroamérica, Horizonte Positivo, Fundación CARICACO, Fundación CRUSA, Programa Estado de la Nación, Fundación ALIARSE, Alianza Empresarial para el Desarrollo, Coalición Costarricense de Iniciativas de Desarrollo, Fundación Monge, Agencia Universitaria de Gestión del Emprendimiento UCR, Cámara de Industrias de Costa Rica and Cámara de Comercio de Costa Rica.

3.18 To promote the third priority area of social contract protection, the Bank will seek to maintain a leading role in coordinating efforts with the World Bank, OECD, EU, CABEL, and AFD in these sectors.

In terms of technical assistance and knowledge sharing within this area, the Bank will aim to coordinate and maintain dialogue with the Observatorio de Seguridad y Violencia to monitor inputs that will inform measures related to violence in the country; with the University of Costa Rica and its Instituto Costarricense de Estudios en Drogas, to stay updated on plans, policies, and strategies against the illicit drug trade; and with the Centro de Investigación de Estudios Políticos (CIEP), the United Nations High Commissioner for Refugees (UNHCR), and the United Nations Development Programme (UNDP), to update information and indicators on this ecosystem and to address all emerging phenomena in this priority area, such as security and migration. To implement the various actions in this priority area, potential partners include UN Women, Fundación Omar Dengo, Programa Estado de la Nación, SIFAIS Foundation, Teensmart, Fundación para el Desarrollo Integral de los Jóvenes, Voces Vitales, Ideas en Acción and Observatorio del Desarrollo de la Universidad de Costa Rica.

⁸⁴ The mobilization of resources and the generation of strategic partnerships will be carried out in coordination with the ORP.



IV. CONSIDERATIONS FOR IMPLEMENTATION AND CAPACITY BUILDING

A. KNOWLEDGE

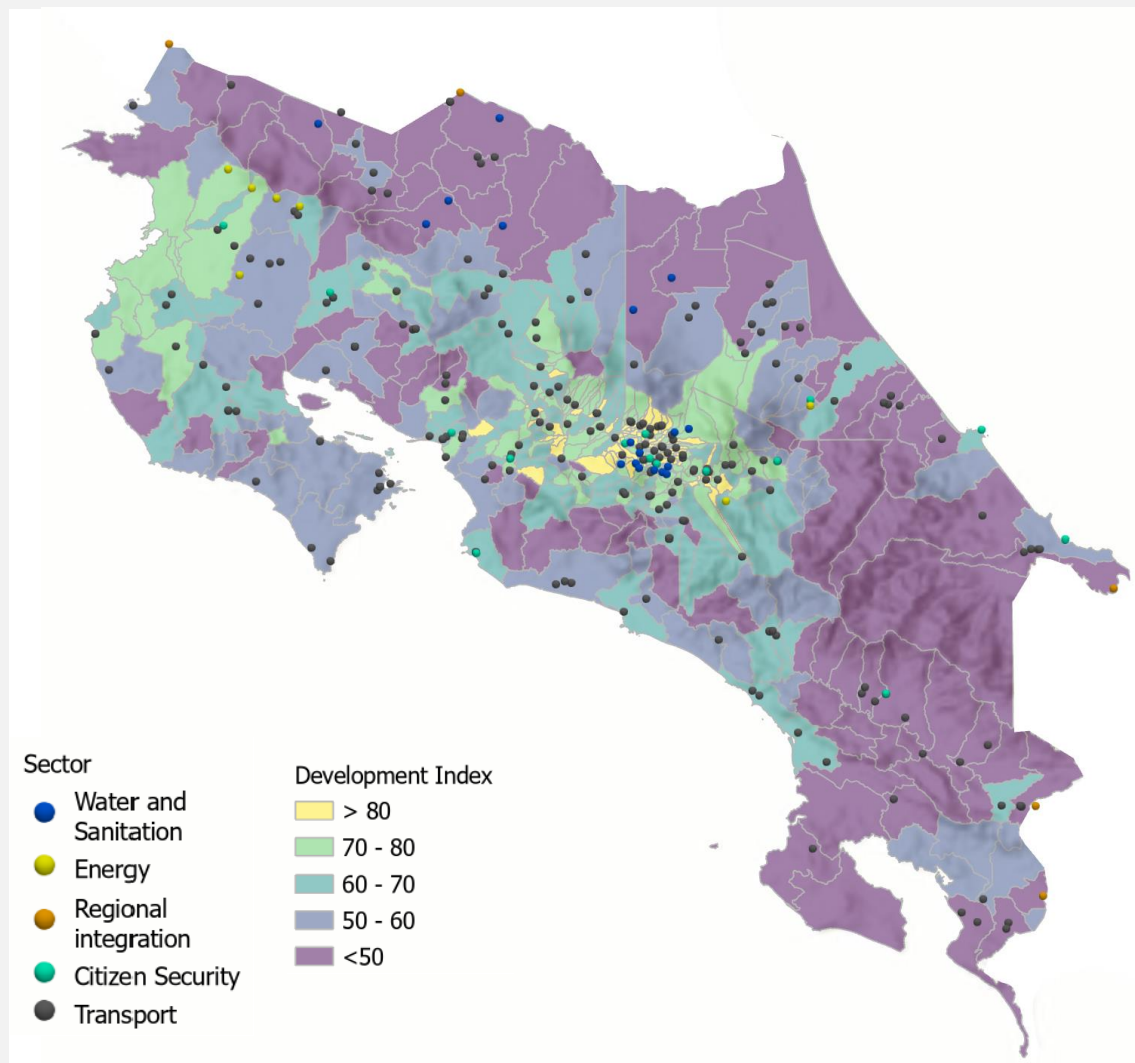
- 4.1 The IDB Group will continue to complement its strategic work in the prioritized areas and cross-cutting areas with a knowledge agenda of an academic and operational nature.** Based on the review of the CS 2019-2022, knowledge opportunities are evident in areas such as: (i) the evaluation of the distributive effects of tax reform, which would allow for a better understanding of the social and economic implications of these policies; (ii) measuring the impact of interventions in the four infrastructure sectors would help ensure that resources are being used effectively; (iii) developing studies related to value chains in strategic sectors, such as semiconductors, would support the country in its goal of positioning itself in a high-value-added global market; and (iv), the development of a national financial inclusion strategy would facilitate access to financial services for historically underserved segments, such as those in rural areas, and through non-traditional channels.
- 4.2 Building on this initial list of topics, impact measurement exercises will leverage existing knowledge products.** The knowledge agenda will also focus on continuing to support reform areas. For instance, research will be advanced on how to improve the environment for local firms to enhance their productivity.

IMPACT MEASUREMENT FROM GEO-REFERENCED INFORMATION

Based on the consolidation of a georeferenced project viewer for Bank-financed projects in Costa Rica and layers of information from various development variables, the HUELLA research initiative has been implemented. This initiative uses the synthetic control methodology to measure its development impact. To assess this impact, municipalities that have received IDB financing are compared with similar municipalities that have not, evaluating whether the Bank-financed interventions have a lasting effect on indicators such as economic growth, income, or access to services.

La Preliminary assessment of the impact achieved by the project portfolio during the 2010-2014 period reflects:

- **Positive impact on economic growth in the cantons that participated in IDB projects.** These cantons grew annually and on average 1% more than the non-beneficiary municipalities.
- **Improved security:** In some cantons, IDB-financed security projects helped reduce indicators such as violations of the domestic violence law, rape or attempted rape, and vehicle theft.



B. MONITORING AND EVALUATION (M&E) CAPACITY

4.3 Costa Rica has one of the most normatively consolidated M&E systems in the region. It has a long experience of implementing plans that are subject to M&E, and whose impact on the effectiveness of development can be deepened if the capacity gaps identified by the study are closed.

4.4 There are opportunities to strengthen the quality and use of M&E information in a way that feeds into the public policy cycle, improves the design and operation of programs and projects, and supports decision-making at different stages of planning and budgeting. The main opportunities are: (i) aligning the objectives, goals, and indicators included in plans with those of the budget and with those of programs, projects, and interventions; (ii) constructing the indicators included in planning (results and impacts) and in the budget (activities and products); (iii) the governance, management model, and IT support system for the planning and M&E functions of MIDEPLAN; (iv) the organization,

capacities, and methodologies of the public investment system; (v) the preparation of the conceptual model for the future interoperability of the investment system with Hacienda Digital; and (vi) the adaptation of the programmatic structures of the Ministry of Finance associated with investment projects.

C. NATIONAL FIDUCIARY SYSTEMS

- 4.5 General Comptroller of the Republic (CGR).** Continued support will be provided to the CGR in (i) the transformation of comprehensive auditing and institutional management, specifically in the design and implementation of digital auditing practices for financial audits; (ii) the updating of the MMD-EFS diagnosis; and (iii) participation in knowledge-sharing events of national or regional technical dialogue networks (Organization of Latin American and Caribbean Supreme Audit Institutions, International Organization of Supreme Audit Institutions, CRECER, among others).
- 4.6 Public Procurement System.** The following actions will be carried out: (i) a MAPS diagnosis of the Public Buyer Professionalization Module, conducted with the support of the OECD; (ii) support to the Public Procurement Directorate (DCOP) in the development of a roadmap for the implementation of the Strategic Plan for Professionalization and Accreditation of Purchasing Units, with the objective of professionalizing and accrediting institutional supply departments, purchasing units, and public officials in charge of planning, budgeting, developing, and executing public procurement processes; (iii) evaluate the quality of spending in public procurement and contracting, with policy recommendations to encourage efficiency and competition, and a proposal to strengthen the institutional capacity of the DCOP; (iv) promote sustainable public procurement, including a review of the national policy on sustainable public procurement and the application of a diagnostic tool for environmental sustainability to contracting entities; (v) train public officials of contracting entities in environmental matters; (vi) support the implementation of public procurement of innovation (CPI), as established by the new Public Procurement Law (in force since December 2022), with the design of the CPI regulation, the preparation of operational guidelines, the training of procurement officials and CGR auditors, and the implementation of pilot projects.

D. RISK OUTLOOK

POLITICAL

- 4.7 Risk.** The change in administration in May 2026, the complex relationship between the executive and legislative branches, as well as party fragmentation, make it difficult to build consensus on projects and reforms. In this context, IDB Group operations that require legislative ratification may be affected in terms of their timelines and basic execution assumptions.
- 4.8 Mitigation measures.** During the implementation of the CS, the following actions are proposed: (i) fostering and maintaining an active dialogue with relevant political actors, such as the Assembly, to facilitate political processes; and (ii) effectively disseminating partial achievements and the scope of development objectives, adapting the communication to different audiences, thus consolidating a positive narrative based on evidence of the added value of the IDB Group and the coordinated work with various authorities.

EXECUTION

- 4.9 Risk.** The IDB's project portfolio continues to face execution delays, changes in project scope, and operational challenges during initial planning. Key contributing factors include: (i) institutional capacity limitations and lack of coordination among agencies to streamline processes, such as obtaining licenses and permits and moving through construction phases; (ii) technical, experience, and financial constraints of companies in the construction sector, limiting their ability to effectively undertake and manage large projects; and (iii) challenges in contract management by both contractors and clients.
- 4.10 Mitigation measures.** During the CS 2024-2027 implementation, the following measures will be pursued: (i) establish working groups to assist ministries in identifying critical activities, legal provisions, and risks from the early stages of project prioritization; (ii) facilitate the continuous exchange of technical and operational lessons learned; (iii) focus on generating knowledge about the operational context and execution challenges; (iv) promote business roundtables to introduce projects to potential bidders; (v) continuously monitor potential cases of concentration that could pose capacity risks for contracting firms; and (vi) engage with the industry to disseminate best practices.

INTEGRITY

- 4.11 Risk.** In the infrastructure sector, contractors face challenges of integrity, concentration of contracts in a single bidder, which are detrimental to their financial capacity, contingency management and compliance with contractual scopes.
- 4.12 Mitigation measures.** During the CS 2024-2027 period, Bank-financed projects will continue incorporating preventive measures in their bidding processes, such as integrity declarations, disclosure of ultimate beneficiaries of companies, and the requirement of compliance plans. Additionally, efforts will be strengthened with executing units and ministries to ensure early risk identification, continuous procurement disclosure, and ongoing engagement with the Office of Institutional Integrity throughout all stages of the projects.

ENVIRONMENTAL AND SOCIAL

- 4.13 Risk.** Costa Rica is highly vulnerable to climate change, with room to improve its resilience.⁸⁵ All regions of the country are exposed to heavy rainfall and floods, while droughts are becoming increasingly frequent, particularly in the northern area, where they are expected to intensify. The country also faces risks from landslides and collapses caused by extreme weather events. These risks can impact land acquisition processes, lead to the physical and economic displacement of affected populations, and fragment natural habitats. Furthermore, challenges remain in the effective management of environmental and social impacts and risks by executing agencies and contractors, in alignment with the IDB Group's environmental and social policies. While these risks have been addressed in previous strategies, they require additional, renewed efforts and a strong focus on sustainability in each IDB Group intervention, especially in infrastructure development like roads and transmission lines. These projects must ensure corresponding compensation and restoration actions, as well as meaningful consultations that comply with the country's strict national regulations.
- 4.14 Mitigation measures.** During the CS 2024-2027 implementation, project designs will incorporate climate change adaptation and mitigation criteria, as well as promote contingent instruments in line with the country's demand. Best practices will be followed, including the development of Blue Spot Analysis to monitor climate risks and identify critical points within the geographic areas of the projects.

⁸⁵ Costa Rica ranks 67th (out of 187 countries) in the ranking of countries most vulnerable to climate change and 76th (out of 192 countries) among those most prepared to improve resilience according to the Notre Dame Global Adaptation Initiative (ND-GAIN) index.

On the social side, continuous stakeholder engagement will be encouraged throughout the execution process, rather than limiting it to initial outreach stages. For projects with broad territorial influence, local government authorities will be involved, ensuring effective knowledge transfer between administrations.

MACROECONOMIC

- 4.15 Risk.** In economic matters, the predominant risks are related to the country's economic and financial stability, including constraints arising from the fiscal rule. The cap on spending growth imposed by the fiscal rule could reduce public investment, lowering demand for operations, affecting the disbursement pace of loan operations, and slowing program progress. Additionally, exchange rate volatility could impact operating costs, leading to adjustments and reductions in project scope.
- 4.16 Mitigation measures.** It is proposed to: (i) reinforce the analysis of economic risks during periodic supervision exercises of operations and the portfolio to properly assess the impacts of budgetary deviations that are not aligned with timelines and execution needs; (ii) strengthen the oversight of economic and monetary policies and promote coordination among economic institutions to ensure that policies are aligned and support the country's economic goals; (iii) develop preventive measures, such as strategic and technical dialogues with authorities on the impact of reduced public investment on growth, to mitigate significant deviations in Bank-financed operations; and (iv) engage the private sector and independent experts in the design and review of policies to leverage a broader range of perspectives and regional knowledge that can be replicated locally.

ANNEX I – RESULTS MATRIX⁸⁶

Government Priority	Priority Area	Strategic Objective	Expected Impact	Indicator	Baseline	Source
Public works and transportation; Environment and energy	Resilient infrastructure and climate action	Improve the quality and resilience of the transportation infrastructure	Reduce travel times on intervened roads	Travel time on intervened roads (minutes)	2020 San José - San Ramón: 75.6 Taras - La Lima: 10.8	Travel time forecasts based on queries in the Google Cloud platform ¹
			Reduce road vulnerability to climatic events	Roads temporarily or permanently closed due to weather events (percent)	2017 62	Impact report on intervened roads ²
		Improve the reliability of the electrical system	Enhance the electric distribution system reliability	Average duration of interruptions in the distribution network (hours per year)	2018 12	ICE Reports ³
				Average frequency of interruptions in the distribution network (events per year)	2018 10	ICE Reports ³
		Mobilize climate finance ⁸	Increase climate finance mobilized by the IDB Group	Climate finance mobilized by the IDB Group for Costa Rica (% of climate finance of total country approvals)	2023 22% of approvals	IDB Climate Finance Tracking Group, CCS/CSD; IDB Invest; IDB Lab (IDB Climate Finance Overview Report)
Production and regional development	Enabling environment for the private sector	Facilitate commercial integration	Reduce border crossing times for goods and persons	Average total border crossing cycle time (minutes per transport unit)	2015 Peñas Blancas (import): 635.7 Peñas Blancas (export): 135.3 2022 Paso Canoas (import): 456.2 Paso Canoas (export): 137.6	Ex post evaluation report ⁴

⁸⁶ The four-year cycle of the CS 2024-2027 limits the availability of data to assess national-level impacts. Evidence for the inherited portfolio will also be partial.

				Average passenger transit time (minutes per passenger)	2015 Peñas Blancas (entering): 20.2 Peñas Blancas (leaving): 19.9 2023 Paso Canoas (entering): 23.3 Paso Canoas (leaving): 32.4	Ex post evaluation report ⁴
				Increase international trade flows	2023 64	IDB Invest Impact Dashboard
		Strengthen the PPPs regulatory and institutional capacity	Enhance the PPPs regulatory and institutional capacity	Infrascope Regulation and Institutionalism category score	2021/2022 73.4	Infrascopio 2027/2028
		Increase financial inclusion of MSMEs, focusing on MSMEs led by women	Expand credit to MSMEs, with focus on women-owned businesses	Value of the current MSME loan portfolio (CRC)	2023 684,775,980,304	IDB Invest Project – BNCR Subordinated Social Bond (13280-01)
				Value of the loan portfolio to microenterprises owned or managed by women (CRC)	2023 88,620,564,478	IDB Invest Project – BNCR Subordinated Social Bond (13280-01)
				Value of loan portfolio to SMEs owned or managed by women (CRC)	2023 17,361,667,028	IDB Invest Project – BNCR Subordinated Social Bond (13280-01)
Education; Welfare, labor and social inclusion; Citizen security and justice	Social contract protection	Strengthen the educational services to recover the learning of national and migrant students	Narrow the educational gap in primary and secondary, both nationals and migrants	Percentage of elementary school students completing the tutoring program in literacy or mathematics (percentage) ⁶ Nationals Migrants	2023 0%	Recovery Plan Tracking Platform, MEP ⁵

				Percentage of high school students completing the tutoring program in literacy or mathematics. (percentage) ⁶ Nationals Migrants	2023 0%	Recovery Plan Tracking Platform, MEP ⁵
		Preventing crime among young users of CCPs	Reduce delinquent behaviors of adolescents and youth vulnerable to violence who participate in CCPs	Exclusion from school (i.e., out of the educational system) of young people between 12 and 17 years of age who participate in the CCPs (percentage)	2016 9.4	MEP Statistics ⁷
		Strengthen the social protection system for individuals with disabilities or functional limitations	Expand access to social protection programs for individuals living in poverty with functional dependency	Percentage of poor and most dependent people receiving the Family Care Benefit from IMAS (percentage)	2024 50	Sistema Nacional de Información y Registro Único de Beneficiarios del Estado (SINIRUBE)

1. According to the methodology for obtaining the baseline at program closing CR-L1139.
2. According to the methodology for obtaining the baseline at program closing CR-L1065.
3. According to the methodology for obtaining the baseline at program closing CR-L1070.
4. According to the methodology for obtaining the baseline at program closing CR-L1066.
5. According to the methodology reflected in the programs CR-L1152 y CR-J0003.
6. The disaggregation of the indicator by migrant and domestic students is for corporate purposes only, to support monitoring and evaluation.
7. According to the methodology for obtaining the baseline reflected in the programs CR-L1137. According to preliminary data from the MEP school exclusion between 2015 and 2017 in secondary education dropped from 14% to 10.3% in schools where the "Yo Me Apunto" Program operates, suggesting a reduction of 3.7 percentage points.
8. Resource mobilization will be coordinated with ORP.

ANNEX II – PORTFOLIO ALIGNMENT AND INDICATIVE PIPELINE 2024 - 2025⁸⁷

Priority Area	Strategic Objective	Portfolio Alignment	Indicative Program 2024-2025
Resilient infrastructure and climate action	Improve the quality and resilience of the transportation infrastructure	CR-L1032 CR-L1065 CR-L1139 CR-L1151	Program for improvement and adaptation to climate change of bridges and road network cantonal III
	Improve the reliability of the electrical system	CR-L1070	Second renewable energy, electricity transmission and distribution program under the CCLIP (CR-X1014)
	Mobilize climate finance		
Enabling environment for the private sector	Facilitate regional integration	CR-L1066	Repositioning Costa Rica in international global value chains
	Strengthen the PPPs regulatory and institutional capacity	CR-L1139	
	Increase financial inclusion of MSMEs, focusing on MSMEs led by women		
Social contract protection	Strengthen the educational services to recover the learning of national and migrant students		Improving the quality of the educational system in Costa Rica (CR-L1152)
	Prevent crime among young users of CCPs	CR-L1137	Program to strengthen the social inclusion system (CR-L1154)
	Strengthen the social protection system for individuals with disabilities or functional limitations		Program to support the strengthening and expansion of the national care system in Costa Rica (CR-L1156)

⁸⁷ Operations subject to formal validation with the Ministry of Finance as part of the programming dialogue with the Bank.

ANNEX III – NATIONAL SYSTEMS MATRIX

Strategic Objective	Expected Impact	Indicator	Unit of Measure	Baseline	Base Year	Main Goal	Time Distribution
Strengthening of National Systems	Digital audit practices for implemented financial audits	Strategy for the digital transformation of financial auditing	Digital Transformation Strategy Document for Financial Auditing	0	2024	1	At the end of the CS
Strengthening of National Systems	Updated MMD-EFS diagnosis	Updated MMD-EFS	# diagnoses completed	0	2024	1	At the end of the CS
Strengthening of National Systems	MAPS Diagnosis of the Public Buyer Professionalization Module concluded	Diagnosis to establish the gaps between the current profiles and those suitable for civil servants performing tasks related to public contracting.	# diagnoses completed	0	2024	1	At the end of the CS
Strengthening of National Systems	Roadmap for the implementation of the Strategic Plan for the Professionalization and Accreditation of Public Procurement Units concluded	Roadmap for the Strategic Plan for the Professionalization and Accreditation of Public Procurement Units	# completed task lists	0	2024	1	At the end of the CS

ANNEX IV – ESTIMATED LENDING FRAMEWORK

The sovereign-guaranteed financing framework of the CS 2024-2027 sets approval amounts between US\$800 and US\$1,000 million during its current period. This range has been defined through strategic dialogue with the authorities and operational dialogue with the sectors. Technical support will continue to be provided in strategic areas, and opportunities to convert loans to local currency will be explored to reduce exchange rate risks. To increase the impact of results, efforts will be made to leverage resources through strategic partnerships. Additionally, IDB Invest and IDB Lab approvals, which averaged US\$114 million and US\$1 million annually during the CS 2019-2022 period, will be included. In addition to the Bank's positioning as a strategic partner for technical support and knowledge generation in the country, the expected approvals and corresponding disbursements would allow the Bank to maintain a participation rate between 4% and 4.5% of total debt and between 10% and 11.9% of the country's total external debt.

Millions of US\$	Strategy 2019-2022							Strategy 2024-2027				
	2018	2019	2020	2021	2022	2023	Total	2024	2025	2026	2027	Total
Approvals	144	575	725	500	250	225	2,419	150	450	200	200	1,000
Disbursements	259	484	311	336	396	149	1,935	111	458	203	136	908
Repayment (principal)	64	64	78	88	90	97	480	118	216	237	257	828
Net capital flow	195	420	232	249	306	52	1,454	-7	242	-34	-121	80
Subscriptions and contributions	0	0	0	0	0	0	0	0	0	0	0	0
Interest and charges	41	52	53	41	72	148	406	172	171	166	152	662
Net cash flow	154	369	179	208	235	-96	1,049	-179	71	-200	-273	-581

IDB debt	687	1,024	1,262	1,555	1,840	1,892		1,885	2,127	2,093	1,972	
Multilateral debt	1,711	2,108	3,655	4,590	5,679	7,995		8,258	8,677	8,916	8,914	
External debt	6,142	8,083	9,578	10,548	11,638	14,556		16,364	17,841	19,650	19,647	
Total debt	30,462	36,994	39,659	42,436	43,783	43,597		45,602	47,089	48,375	49,212	
IDB debt/multilateral debt (%)	40.1%	48.6%	34.5%	33.9%	32.4%	23.7%		22.8%	24.5%	23.5%	22.1%	
IDB debt/external debt (%)	11.2%	12.7%	13.2%	14.7%	15.8%	13.0%		11.5%	11.9%	10.7%	10.0%	
IDB debt/total debt (%)	2.3%	2.8%	3.2%	3.7%	4.2%	4.3%		4.1%	4.5%	4.3%	4.0%	

Source: FINSOL and IDB staff calculations and projections.

ANNEX V – DEVELOPMENT EFFECTIVENESS MATRIX

COUNTRY STRATEGY: DEVELOPMENT EFFECTIVENESS MATRIX	
<p>In August 2008, the Board of Directors approved the Development Effectiveness Framework (GN-2489) to increase the evaluability of all Bank development products.</p> <p>The Development Effectiveness Matrix for Country Strategies (DEM-CS) is a checklist of the elements that are necessary to evaluate a country strategy. It is based on the evaluation criteria developed by the Evaluation Cooperation Group of the Multilateral Development Banks in the "Good Practice Standards for Country Strategy and Program Evaluation."</p>	
COUNTRY STRATEGY: Costa Rica	
<p>STRATEGIC ALIGNMENT Refers to the degree to which the design and objectives of the CS are consistent with the country development challenges and with the government's development plans and priorities.</p> <p>EFFECTIVENESS This measures whether the country strategy is likely to achieve its intended objectives, through an examination of three dimensions: (i) the quality of the diagnostics on which Bank action is based in each area of work; (ii) the quality of the results matrix for the strategy; (iii) the use and build up of country systems.</p>	
Effectiveness dimensions	
I. Country Diagnosis - Country Development Challenges (CDC)*	Yes/No
- The CDC is comprehensive / holistic / complete	Yes
- The CDC clearly identifies the main development challenges	Yes
- The CDC presents magnitudes of the main development challenges that are based on empirical evidence	Yes
II. Priority Areas Diagnostics	%
- That clearly identify and dimension, based on empirical evidence, the priority area's specific constraints and challenges	78%
- That clearly identify and dimension, based on empirical evidence, the main factors or causes contributing to the specific constraints and challenges	67%
- That provide corresponding policy recommendations	89%
III. Results matrix**	%
- The strategic objectives are clearly defined	89%
- The expected outcomes are clearly defined	89%
- The strategic objectives and expected results that are directly related to the main constraints identified in the Diagnosis	67%
- The indicators are outcome indicators and are SMART	89%
- The indicators have baselines	100%
IV. Vertical logic	Yes/No
- The CS has vertical logic	Yes

* This analysis includes any potential diagnostic document used elaborated to inform .

** The Results Matrix is composed by indicators that are meaningful to, and capture progress towards, the expected results. The expected results stem from the strategic objectives.