

## COSTA RICA

UNITARY COUNTRY

## BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: UPPER MIDDLE INCOME

LOCAL CURRENCY: COSTA RICA COLON (CRC)

## POPULATION AND GEOGRAPHY

**Area:** 51 100 km<sup>2</sup>  
**Population:** 4.906 million inhabitants (2017), an increase of 1.1% per year (2010-2015)  
**Density:** 96.0 inhabitants / km<sup>2</sup>  
**Urban population:** 78.5% of national population  
**Urban population growth:** 2.1% (2017 vs 2016)  
**Capital city:** San José (27.7% of national population)

## ECONOMIC DATA

**GDP:** 84 billion (current PPP international dollars), i.e. 17 073 dollars per inhabitant (2017)  
**Real GDP growth:** 3.3% (2017 vs 2016)  
**Unemployment rate:** 8.1% (2017)  
**Foreign direct investment, net inflows (FDI):** 2 856 (BoP, current USD millions, 2017)  
**Gross Fixed Capital Formation (GFCF):** 17.1% of GDP (2017)  
**HDI:** 0.794 (high), rank 63 (2017)  
**Poverty rate:** 1.3% (2016)

## MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The Republic of Costa Rica is a unitary and democratic country with a presidential and representative regime. According to the 1949 Constitution, executive power is held by the President of the Republic elected by universal suffrage for a period of four years, with no direct re-election. The legislative branch consists of 57 national deputies elected in the provinces for a period of four years with no continuous re-election. Judicial power is exercised by the Supreme Court of Justice and its courts.

At subnational level, the territory is administratively divided into provinces, cantons and administrative districts. The seven provinces are deconcentrated units headed by a Governor appointed by central authorities. Municipalities are the only level of local self-government in the country (art 170 of the Constitution). Municipal governments (or cantons) are responsible for the administration of local interests and services in each canton. They are led by a mayor and a municipal council elected by universal suffrage every four years (Municipal Code, Law no 7794, 30 April 1998). Municipalities are divided into districts, which are administrative units with their own functional autonomy, attached to the respective municipality. The District Municipal Councils Law (Law no 8173, 7 December 2001) stipulates that each district council is made up of five councillors (*síndicos*) who are elected by popular vote for a four-year term.

As a result of reforms of the electoral chapter of the Municipal Code (in November 2007 and September 2009), from 2016 onwards, municipal elections at district and canton levels are unified and held two years after those of the Presidency and Vice-Presidencies of the Republic and members of the Legislative Assembly (art. 14 of the Municipal Code).

## TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	81 Municipalities ( <i>Municipios - cantones</i> ) + 1 municipality in creation for 2020			
	Average municipal size: 60 565 inhabitants			
	81			81

**OVERALL DESCRIPTION.** In accordance with the Political Constitution of 1949, the country is divided into seven provinces, which are subdivided into 81 municipalities and these, in turn, into 484 administrative districts (art.168).

**DISTRICTS.** Districts are administered by district councils responsible for managing local affairs as closely as possible to the people and contributing to the work of municipal councils at the cantonal level. There are as many district councils as there are districts in the corresponding canton. Each district is represented in the municipal council of the canton by a district councillor (*síndico titular*) with an advisory voice but without voting rights.

**MUNICIPALITIES.** Municipalities are headed by a mayor and a municipal council composed of councillors (*regidores*). The number of municipal councillors varies according to the population of the canton: the least populated municipalities have 5 councillors, and the cantons that comprise more than 8% of the total population have 13 councillors. Cantonal Institutional Coordination Councils (CCCI) were created by Act No. 8801 on the transfer of powers from the executive to the municipalities. CCCIs are responsible for policy coordination between the various cantonal public entities, and coordinate the development, implementation and supervision of local public policies. They are chaired by the mayor of each municipality. Municipalities are responsible for CCCIs' operating expenses.

At city level, the main cities are San José (339 581), Alajuela (302 074), Cartago (300 000), Desamparados (235 863), San Carlos (163,745) and Pérez Celedón (134 534). The 11 largest municipalities are home to 40% of the population.

In 1970, the national territory was divided into six planning regions for administrative purposes, namely the Central, Chorotega, Huetar Caribe, Huetar Norte and Central Pacific regions. Each is administered by a regional development council formed by representatives of the central government. According to Executive Decree 1068 of the Ministry of National Planning and Economic Policy, their role is to manage regional development and reduce inequality gaps.

## SUBNATIONAL GOVERNMENT RESPONSIBILITIES

Article 170 of the Constitution, Law no 8801 on transfer of competences and resources adopted in 2010 and the article 74 of the Municipal Code, provide that the following areas are the responsibility of sub-national governments: urban planning, treatment and adequate final disposal of ordinary waste, maintenance of parks and green areas, public lighting, street cleaning, land valuation, municipal police, libraries, sports and recreational facilities, and new municipal services to be established by law. The 2010 Law further states that the transfer of resources corresponding to transferred competences "shall be carried out gradually, at a rate of 1.5% of the ordinary revenue of the State budget according to special laws and cumulatively until completing at least 10%". In 2015, Special Law No. 9329 transferred "full and exclusive responsibility for the cantonal road network" to the municipalities, the first of the corresponding new competences and resources to be transferred up to 10% of the State's budget.

Shared competencies include participation to national health programmes, environmental protection, management of social subventions, public order and local economic development.

### MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

MUNICIPAL LEVEL	
1. General public services	Buildings and public facilities
2. Public order and safety	Security, surveillance and monitoring, through the municipal police
3. Economic affairs/transport	Maintenance of cantonal roads; Construction and maintenance of public parks; Regulatory plan to organize the development of the canton; Local tourism
4. Environmental protection	Maintenance of municipal forest areas, parks and green spaces; Management and disposal of waste; Cleaning of public roads
5. Housing and community amenities	Municipal aqueducts (drinking water); Public lighting; Urban and land use planning
6. Health	
7. Recreation, culture & religion	Cantonal Committees for sports and recreation; Cultural centre; Municipal libraries
8. Education	
9. Social protection	Social protection for children and young people; Family support services

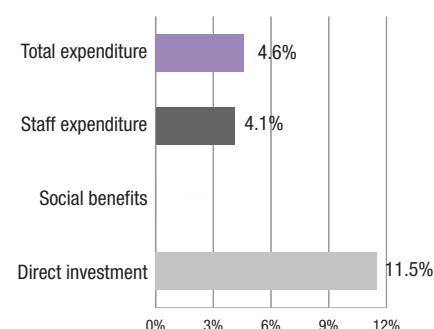
## SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: municipalities.	Ministry of Finance	Availability of fiscal data: <b>Medium</b>	Quality/reliability of fiscal data: <b>Medium</b>
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**GENERAL INTRODUCTION.** The majority of subnational governments' revenues come from taxation and other sources of own income (property income and user tariffs and fees), while the share of central government transfers is particularly low. The municipal system is governed by the following laws and financial provisions: General Law no 6627 on Public Administration; Law no 8131 on Public and Financial Administration of the Republic and Public Budget; Law no 7494 on Administrative Contracting; Law no 7755 on Control of Specific Items Charged to the National Budget; General Law no 8292 on Internal Control; Organic Law no 6815 on the Office of the Attorney General of the Republic; and Organic Law no 7428 on the Office of the Comptroller General of the Republic.

### SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE	% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)
<b>Total expenditure</b>	<b>220</b>	<b>1.3%</b>	<b>100%</b>	
<b>Inc. current expenditure</b>	<b>174</b>	<b>1.1%</b>	<b>79.2%</b>	
Staff expenditure	77	0.5%	34.8%	4.6%
Intermediate consumption	57	0.4%	26.1%	
Social expenditure	10	0.1%	4.6%	4.1%
Subsidies and current transfers	28	0.2%	12.6%	
Financial charges	2	0.0%	1.1%	
Others	0	0.0%	0.0%	
<b>Incl. capital expenditure</b>	<b>46</b>	<b>0.3%</b>	<b>20.8%</b>	
Capital transfers	4	0.0%	2.0%	
Direct investment (or GFCF)	41	0.3%	18.8%	11.5%



**EXPENDITURE.** Over the four-year period from 2014 to 2017, total municipal spending increased by 35%, with wages and salaries rising by 28%, followed by goods and services, which increased by 42%. Wages and salaries represent the highest current municipal expenditure with nearly 35% of total expenditures in 2016. From 2014 to 2017, spending on goods and services also accounted for a significant share of total spending (between 26% and 30%) followed by capital spending (between 20% and 25%). SNG's current social expenditure is particularly significant, with high municipal contributions to the Costa Rican Social Security Fund and the Popular and Municipal Development Bank (BPDC) and, to a lesser extent, to the Joint Institute for Social Assistance (IMAS), the Fund for Social Development and Family Allowances (FODESAF) and the National Training Institute (INA).

However, sub-national expenditures remain low in relation to GDP: Total SNG expenditure represents only 1.3% of GDP.

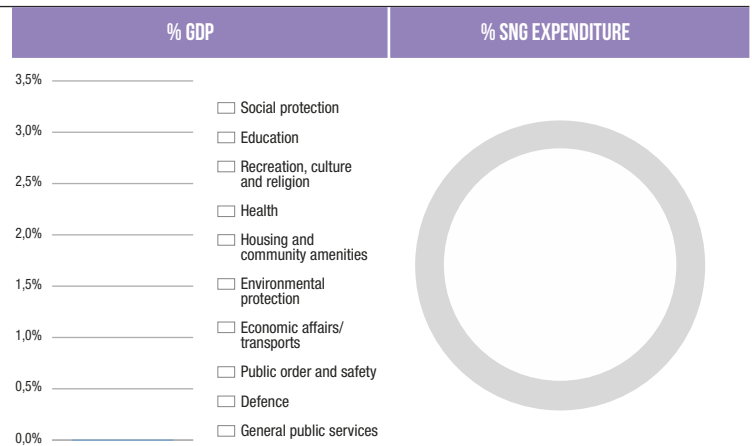
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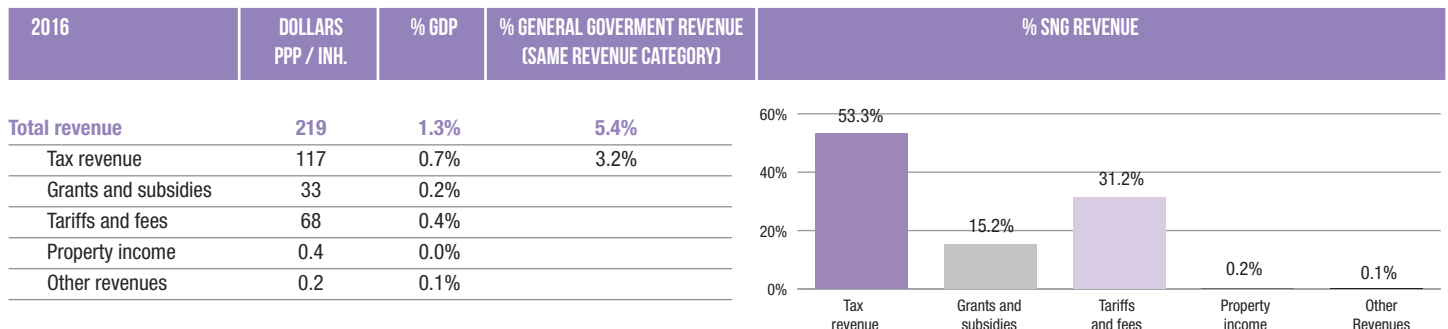
**DIRECT INVESTMENT.** About 21% of local governments' expenditure is devoted to capital expenditure, which represents 9% of general government's capital expenditure. Direct investment accounted for 18.8% of SNG total expenditures and 11.5% of total public expenditures in 2016.

#### SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

Municipal expenditure is directed to the following sectors which are assigned by law to municipalities: improvement of aqueducts and sewers, maintenance of cantonal roads, waste collection and transfers to other administrative entities, such as sports committees and education boards, among others. According to 2018 National Report, during the period 2015 to 2017, municipalities spent 38% of their total expenditure on general public services, 25.3% on economic affairs, 21% on housing and community amenities, 3.8% on sport, recreation and culture, 3.8% on social protection and 2.3% on education and health.



#### SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY



**OVERALL DESCRIPTION.** Costa Rica is the Central American country with the highest percentage of own revenue (tax and non-tax), which covers 85% of SNG budget but only accounts for a marginal share of GDP (about 1%). Municipal revenues derived from service fees are defined in the Municipal Code (art. 74): public lighting, street cleaning, separate collection, transportation, valorisation, treatment and final disposal of waste, maintenance of parks and green areas, municipal police services, and any other municipal urban or non-urban service established by law, such as patents or municipal licenses for the operation of profit-making activities or commerce.

Municipal revenues in the four-year period 2014-2017 increased by 26%: the main ones are municipal taxes and sales of community services that represent the main source of revenue for the functioning of municipalities.

**TAX REVENUE.** Municipal taxes include a property tax that accounts for 22.5% of municipal revenue and 0.3% of GDP as well as an excise tax that accounts for 25.2% of municipal revenue and 0.3% of GDP. Tax rates are set by central authorities. Since the 1995 reform, municipalities have been in charge of collecting property tax instead of the central government. However, they cannot set the tax rate or base. Municipalities can propose new types of tax to the Legislative Assembly.

**GRANTS AND SUBSIDIES.** According to the Constitution (art.170), the central government must transfer 10% of its ordinary revenues to local governments. These central government's transfers to municipalities are governed by the following laws:

- Law No. 7755 of 1998 on the Control of Specific Items regulates the allocation, distribution and use of funds allocated each year to cover local, communal or regional public needs. Specific items are granted on the basis of three criteria: the number of inhabitants (25%); the geographical area (25%); and the poverty index (50%).
- Law No. 8801 of 2010 on the Transfer of Competences from Central Government to Municipalities determines the powers and resources to be transferred to the municipalities. The criteria for the distribution of funds have been established as follows: 30% distributed equally, 20% distributed according to the number of inhabitants, 40% according to the municipal area and 10% based on the municipal poverty rate.
- In addition, the implementation of Law no 9329 on the Transfers of Competences for the maintenance of the cantonal road network, adopted in 2015, has resulted in an increase of municipal revenues. These transfers represented 7% of total municipal revenues in 2016. The resources that support this responsibility (maintenance of roads) come from 22.3% of the collection of the single tax on fuels (law no 8114).

Most central government transfers are capital grants: they represent nearly 88% of total grants and subsidies and 13% of SNG revenue.

**OTHER REVENUES.** Other revenues include property income (market stalls rents), municipal stamps and mainly sales of goods and services (licenses, water, waste management, parking fees, street cleaning). Their share in SNG revenue (31.5%) is twice that of central government transfers.

## ■ SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2017	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
<b>Total outstanding debt</b>	<b>38</b>	<b>0.2%</b>	<b>0.5%</b>	<b>100%</b>
Financial debt*	38	0.2%	0.5%	100%

\* Currency and deposits, loans and bonds

**FISCAL RULES.** Every municipality must nominate an accountant or auditor who is responsible for overseeing the implementation of local government services or works and budgets, as well as the works assigned to them by the municipal council. The Office of the Comptroller General of the Republic is vested with the duty and power to examine, approve or disapprove the municipal budgets.

**DEBT.** Municipalities can only borrow to finance investment projects (golden rule). They can contract debt through the national banking system and the Institute for Municipal Development and Assistance (IFAM). IFAM is a public organisation established in 1970 to support municipal development, providing, among other activities, loans to the municipalities at preferential rates. Moreover, according to the 1998 Municipal Code, debt service is limited to 19% of current municipal revenues when originated by projects that do not generate sufficient funds to finance them. Municipal borrowing needs approval from the national legislature.

Municipal borrowing has gained importance in recent years. During the period 2014-2017, according to the Comptroller General of the Republic, 83% of local governments (67 out of 81 municipalities) incorporated loan resources from financial entities loans for an amount of CRC 58,401.8 million (149,136.4 million dollars PPP). Of this amount, approximately 70% was granted by Public Financial Institutions and 30% by Decentralized Non-Business Institutions, including IFAM.



Lead responsible: UCLG  
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[www.sng-wofi.org](http://www.sng-wofi.org)

**Socio-economic indicators:** World Bank // UNDP // UN Desa // ILO.

**Fiscal data:** Comptroller General of the Republic, Ministry of Finance, National Statistics and Census Institute // Central Bank of Costa Rica, Institute for Municipal Development and Advisory Services (Costa Rica), World Bank data.

**Other sources of information:** Supreme Court of Elections of Costa Rica // Legislative Assembly of the Republic of Costa Rica // the Attorney General's Office // Ministry of National Planning and Economic Policy (Mideplan) // Informe Estado de la Nación (2018) // OECD (2015) Costa Rica: Good Governance, from Process to Results, OECD Public Governance Reviews // Gomez Sabaini, Juan & Jimenez, Juan (2011) El Financiamiento de los Gobiernos Subnacionales en América Latina (un análisis de casos).