

Public governance

IMPROVING INSTITUTIONAL ARRANGEMENTS FOR BETTER SERVICE DELIVERY

- ▶ The Costa Rican authorities are committed to strengthen their current policies and service delivery mechanisms to sustain past social and economic achievements.
- ▶ The country's fragmented public administration and limited steering and coordination mechanisms weaken the budgetary process, the public procurement function and human resources management.
- ▶ Costa Rica needs to further invest in high-level policy coordination, increase the central government's control over public-sector finance, ensure fiscal space for government priority spending, and develop an integrated national procurement vision and human resources policy.

What's the issue?

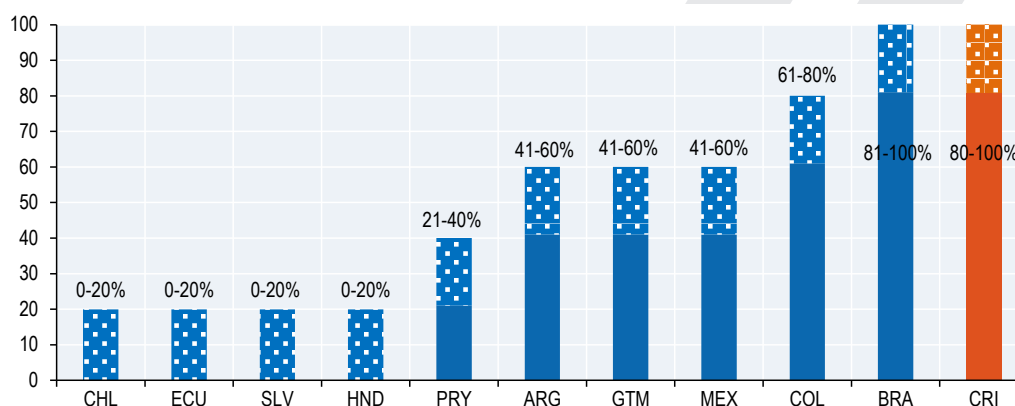
Costa Rica's public administration is characterised by a high level of fragmentation, with an important number of subsidiary bodies of central government ministries and a large institutionally decentralised public sector (e.g. semi-autonomous and autonomous bodies). Fragmentation is putting pressure on the effectiveness of the country's governance mechanisms and service delivery capacity, further aggravated by limited steering and coordination capacity. Amongst others, the impact of fragmentation is reflected in a large share of the budget falling outside the yearly budget and the existence of multiple public procurement and human resources management regimes.

In addition, Costa Rica - along with Brazil - is one of the countries with the highest percentage of total pre-assigned expenditure in the region (see Figure). About 95% of central government expenditures are pre-assigned and budgetary earmarks are embedded in both the constitution and a series of legal documents (sector- and institution-specific), leaving limited room for discretionary spending.

Institutional fragmentation has also created a strongly fragmented procurement system. This limits the possibility to foster a cohesive and strategic public

▶ The earmarking of a large share of the budget severely reduces flexibility

Percentage of total expenditure that is pre-assigned, 2013



Note: The two colours of the bars depict the lower and upper ends of the range of pre-assigned expenditure.

Source: OECD/IIDB, USA (2014), *Government at a Glance: Latin America and the Caribbean 2014: Towards Innovative Public Financial Management*, OECD Publishing, <http://dx.doi.org/10.1787/9789264209480-en>.

procurement vision. As an example, thresholds for different procurement procedures differ among institutions and are related to the allocated budget; the higher the budget, the higher the threshold that allows limited tendering. In contrast, most OECD Members have a single set of thresholds, without taking into consideration the size of the budget of each procuring entity.

Furthermore, institutional fragmentation is affecting other key areas such as human resources management (HRM) in the public sector. Whereas Costa Rica is recognised for its strong commitment to merit-based recruitment, various human resources regimes are creating inequalities among public officials and putting financial pressure on the system. Only one-third of public employees are covered by the Civil Service Regime (CSR) which established a common pay scale, job classification and terms and conditions for employment. Outside the CSR, most public institutions have their own legislation regulating public employment, salaries and HRM practices. Collective agreements in various institutions give employees privileges regarding pay, bonuses, incentives and working hours.

Why is this important for Costa Rica?

The general government budget deficit rose from a slight surplus in 2008 to a deficit of 4.6% of GDP in 2014, largely due to a fast rising public-sector wage bill. With a growing demand for more tailor-made services and the need to address regional disparities and socio-economic inequalities, good public service delivery will only be possible with a more efficient and effective public administration. Fragmented legal and budgetary frameworks limit the possibility to create and ensure fiscal space for government priority spending and ensure fiscal sustainability. This puts pressure on policy coherence and affects the possibility to align the overall budget with government priorities, objectives and goals. Additionally, the rigidity of the budget threatens the possibility to reorient resources to the priority sectors and policy objectives, and reduces the role of the budget as policy lever. With fiscal sustainability severely under pressure and raising debt and deficit levels, the aforementioned challenges are even more important. Improvements in institutional arrangements could help strengthen trust in the government's ability to get the budget situation under control.

What should policy makers do?

- ▶ Consider the creation of a high-level policy coordination body (including representatives of the decentralised institutions).
- ▶ Reflect upon the possibility to reduce the number of public institutions, or at least the development of a clear policy framework for the creation of any new institutions.
- ▶ Further align the institutionally decentralised sector with government priorities through strengthened accountability, monitoring and evaluation mechanisms.
- ▶ Create and ensure fiscal space for government priority spending, through for example, revised formulas for budgetary allocations, spending reviews, or pay as you go rules.
- ▶ Review the earmarking of public revenue and mandatory spending floors with a view towards making public spending more responsive and flexible to new needs and policy priorities.
- ▶ Consider the creation of an authority to set a national procurement vision and to work in a cohesive manner toward clear priorities and objectives and apply a unique set of thresholds for procurement procedures.
- ▶ Further strengthen a coherent and transparent merit-based and sustainable compensation system across the public sector.



Further reading

OECD (2015), *Costa Rica: Good Governance, from Process to Results*, OECD Public Governance Reviews, OECD Publishing. <http://dx.doi.org/10.1787/9789264246997-en>

OECD (2015), *Recommendation of the Council on Budgetary Governance*. <http://www.oecd.org/gov/budgeting/Recommendation-of-the-Council-on-Budgetary-Governance.pdf>

OECD (2015), *Recommendation of the Council on Public Procurement*. <http://www.oecd.org/fr/corruption/recommendation-on-public-procurement.htm>