OECD Reviews of Labour Market and Social Policies

COSTA RICA

OECD

OECD Reviews of Labour Market and Social Policies: Costa Rica

OECD
BETTER POLICIES FOR BETTER LIVES

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document, as well as any data and any map included herein, are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

Please cite this publication as:
OECD (2017), *OECD Reviews of Labour Market and Social Policies: Costa Rica*, OECD Publishing, Paris.
http://dx.doi.org/10.1787/9789264282773-en

ISBN 978-92-64-27989-6 (print)
ISBN 978-92-64-28277-3 (PDF)

Series: OECD Reviews of Labour Market and Social Policies
ISSN 2074-3416 (print)
ISSN 2074-3408 (online)

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Corrigenda to OECD publications may be found on line at: *www.oecd.org/about/publishing/corrigenda.htm*.

Foreword

This volume consists of a background report prepared by the OECD Secretariat to support the Labour Market and Social Policy Review of Costa Rica undertaken by the OECD Employment, Labour and Social Affairs Committee as part of the process for Costa Rica's accession to the OECD [see the Roadmap for the Accession of Costa Rica to the OECD Convention: C(2015)93/FINAL].

In accordance with paragraph 14 of Costa Rica's Accession Roadmap, the Employment, Labour and Social Affairs Committee agreed to declassify the report in its current version and publish it under the authority of the Secretary General, in order to allow a wider audience to become acquainted with the issues raised in the report. Publication of this document, and the analysis and recommendations contained therein, do not prejudge in any way the results of the review of Costa Rica by the Employment, Labour and Social Affairs Committee as part of its process of accession to the OECD.

The review was prepared by Horacio Levy, Shruti Singh (project leader) and Theodora Xenogiani, with statistical support provided by Sylvie Cimper, Agnès Puymoyen, Thomas Manfredi and Jhon Quinchua Ceballos. Editorial assistance was provided by Lucy Hulett and Marléne Mohier and logistical support by Nathalie Lagorce. Valuable comments were provided by Jonathan Chaloff, Jean-Christophe Dumont, Paolo Falco, Andrea Garnero, Mark Keese, Mark Pearson, Monika Queisser, Stefano Scarpetta and several other colleagues at the OECD. The authors would also like to give a special thanks to Juan Diego Trejos (University of San José), Tim Gindling (University of Maryland), Pablo Sauma (University of Costa Rica) and Gloriana Sojo (Inter-American Development Bank) for their expert advice and contributions. The report also accounts for comments received from the Ministry of Labour and Social Security in Costa Rica as well as from the delegates of the OECD Employment, Labour and Social Affairs Committee.

Table of contents

Boxes

Figures

Tables

Acronyms and abbreviations

BFV	Family Housing Bonus – *Bono Familiar de Vivienda*
BMC	Minimum contribution base – *Base mínima contributiva*
BP	Bank for Communal Development – *Banco Popular*
CAI	Integral Care Centre – *Centro de Atención Integral*
CCSS	Costa Rican Department of Social Security – *Caja Costarricense de Seguro Social*
CECUDI	Care Centre for Child Development – *Centro de Cuido y Desarrollo Infantil*
CEN	Education and Food Centre – *Centros de Educación y Nutrición*
CEN-CINAI	National Directorate of Education and Nutrition Centres and Children's Centres for Comprehensive Care – *Dirección Nacional de Centros de Educación y Nutrición y de Centros Infantiles de Atención Integral*
CIDAI	Integral Child Day Care Centre – *Centros Infantiles de Atención Integral Diurnos*
CNM	National Migration Council – *Consejo Nacional de Migración*
CNS	National Salary Council
COMEX	Ministry of Foreign Trade – *Ministerio de Comercio Exterior*
CONAPAN	National Council for the Elderly – *Consejo Nacional de la Persona Adulta Mayor*
CONARE	National Council of University Chancellors – *Consejo Nacional de Rectores*
CTC	Child Tax Credit
DESAF	Directorate General for Social Development and Family Allowances – *Desarrollo Social y Asignaciones Familiares*
DGME	Migration Agency – *Dirección General de Migración y Extranjería*
DGME-NIC	DGME in Nicaragua

DHR	Ombudsperson's Office – *Defensoría de los Habitantes de la República*
DIMEX	Resident identification card
ECEC	Early childhood education and care
EHPM	Multipurpose Household Survey – *Encuesta de Hogares de Propósitos Múltiples*
EITC	Earned Income Tax Credit
ENAHO	National Household S*Encuesta Nacional de Hogares*
ENHED	National Employment and Unemployment Surveys – *Encuestas Nacionales de Empleo y Desempleo*
EPL	Employment protection legislation
FCL	Labour Capitalisation Fund – *Fondo de Capitalización Laboral*
FODESAF	Fund for Social Development and Family Allowances – *Fondo de Desarrollo Social y Asignaciones Familiares*
FSM	Social Migration Fund – *Fondo Social Migratorio*
GDP	Gross domestic product
IDD	OECD Income Distribution Database
ILO	International Labour Organization
IMAS	Joint Institute for Social Assistance – *Instituto Mixto de Ayuda Social*
INA	National Vocational Institute – *Instituto Nacional de Aprendizaje*
INEC	National Institute for Statistics and Census – *Instituto Nacional de Estadística y Censos*
INS	National Insurance Institute – *Instituto Nacional de Seguros*
JPJMN	Council of Pensions and Retirements of the National Magisterium – *Junta de Pensiones y Jubilaciones Del Magisterio Nacional*
LAC	Latin America and the Caribbean
MEP	Ministry of Public Education – *Ministerio de Educación Pública*
MITRAB	Ministry of Labour, Nicaragua
MTSS	Ministry of Labour and Social Security – *Ministerio de Trabajo y Seguridad Social*
NEET	Not in employment nor in education or training
PANI	National Children's Trust – *Patronato Nacional de la Infancia*
PAYG	Pay-as-you-go system

PES	Public employment service
PMI	Comprehensive Migration Policy – *Política Migratoria Integral*
PROCOMER	Export Promotion Agency – *Promotora del Comercio Exterior*
Redcudi	National Care Network – *Red Nacional de Cuido*
RIVM	Disability, Old-Age and Survivors insurance system – *Régimen de Invalidez, Vejez y Muerte*
RNC	Old-age safety net – *Régimen No Contributivo*
ROP	Obligatory Complementary Pension Regime – *Régimen Obligatorio de Pensiones*
SEDLAC	Socio-Economic Database for Latin America and the Caribbean
SICREMI	Continuous Reporting System on International Migration in the Americas – *Sistema Continuo de Reportes sobre Migración Internacional en las Américas*
SIIEM	Integrated System of Standardised Information on Migration – *Sistema Integrado de Información Estandarizada de Migración*
SINIRUBE	National Information System and Unique Registry of Beneficiaries – *Sistema Nacional de Información y Registro Único de Beneficiarios*
SIOIE	National Employment Intermediation, Orientation and Information System – *Sistema Nacional de Intermediación, Orientación e Información de Empleo*
SIPO	Information system on target population – *Sistema de Información de la Población Objetivo*
SLC	Superior Labour Council
TEIP	Educational Territories of Priority Intervention, Portugal – *Territórios Educativos de Intervenção Prioritária*
UNHCR	United Nations Refugee Agency

Executive summary

Costa Rica has recorded many social and economic achievements and currently enjoys levels of well-being similar to the OECD average. Among others, Costa Rica's achievements include one of the highest health indicators in Latin America; near universal access to health care, pensions and primary education and low rates of extreme poverty. This social progress is the result of Costa Rica's social contract, dating back to the 1940s, and includes a history of social and labour protection.

Notwithstanding this favourable policy set up, numerous challenges remain. Notably, employment opportunities remain limited among under-represented groups including low-skilled, women, youth and migrants. Despite recent improvements, inequality and poverty remain high and redistribution mechanisms have been too weak to reduce them adequately. A large share of the workforce with a lack of right skills and a relatively high share of informal sector have hindered the transition to more productive; better paid and better quality jobs. Furthermore, social dialogue between employers and employees is fragmented which can be a barrier to better working conditions and delay many of the urgently needed reforms.

A strong set of policy reforms are needed in the area of labour, social and migration policy to better respond to technological and globalisation challenges whilst minimising the transition costs Costa Rica is enduring as it moves to a higher and a more sustainable path to inclusive growth.

The OECD therefore recommends that policy makers in Costa Rica:

- Strengthen social dialogue and ensure protection of workers' rights by increasing the capacity of the labour inspectorate to increase compliance with labour laws and providing a stronger role to the Ministry of Labour and Social Security (MTSS).
- Re-activate the proposals to introduce a Social and Economic Council to promote government's dialogue and consultations with employers and unions as well as continue efforts to protect migrant worker rights and promote migrants' regularisation.

- Further improve the employment outcomes for women with a particular emphasis on: i) increasing the supply of publicly-funded childcare services to facilitate female participation in the labour market; ii) reducing the number of women who are neither in employment, education or training; iii) helping women in the informal sector find jobs in the regular economy; and iv) addressing the needs of migrant women.

- Introduce programmes to improve demand-driven training programs, including efforts to promote dual education as a way of expanding in-work training opportunities

- Develop and improve the ability of the public employment service to speed up the job matching process and to meet the needs of vulnerable groups with employment challenges.

- Increase the ability of the tax system to reduce income inequality. In particular, gradually shift part of the financing of healthcare and selective/anti-poverty programmes from Social Security contributions to general taxes. Reduce income tax exemptions to improve tax collection and income redistribution.

- Tackle child poverty by introducing family tax credits, cash transfers or similar instruments to differentiate the net tax burden of families with and without children.

Assessment and recommendations

Making a successful transition towards a more inclusive society

Costa Rica is an upper middle-income country in Central America with a population of approximately 4.8 million and a GDP per capita of USD PPP 15 337 (2015). Compared with neighbouring Central American and other Latin American countries, Costa Rica is well known for its political stability and social progress. The country has no armed forces and the longest uninterrupted period of democratic rule in Latin America since 1948.

Costa Rica's socio-economic performance has been impressive

Costa Rica's social progress has been impressive not only relative to other countries in the region, but also compared with a number of higher-income OECD countries. Health indicators are comparable or even above the OECD average. Life expectancy is at OECD levels and, based on the OECD Better Life Index 2014, Costa Rica has one of the highest life satisfaction levels in the world: only Denmark and Switzerland are higher. The strong performance in social outcomes is supported by policy foundations that stand out relative to other countries in the region. Costa Rica's social contract dates back to the 1940s and includes near-universal access to health care and pensions through a comprehensive Social Security system managed by the Costa Rican Department of Social Security (CCSS – *Caja Costarriense de Seguridad Social*). Migrants, regardless of their status, have access to emergency health care and, in the case of children, to primary and secondary education. The labour code was enshrined in the Constitution in 1949 and includes anti-discrimination provisions, a severance pay system and national minimum wages.

Over the 15 years to 2015, Costa Rica enjoyed strong economic growth, averaging 4% per annum, above the averages in Latin America (3.8%) and the OECD area. Since the mid-1980s, Costa Rica's economy has changed from one dominated by traditional tropical agricultural products to a more diversified structure including skill-intensive services and exports. This structural transformation and diversification helped the country to withstand the effects of the global economic crisis: after the sharp slowdown in 2009, the economy quickly recovered and proved to be resilient even when growth was losing momentum in Latin America and the Caribbean as a result of the declining oil and commodity prices and slower growth in China.

But progress has stalled in most recent years and challenges have emerged along several social and labour market dimensions

Despite its strong performance, Costa Rica still has a long way to go in catching up with average OECD living standards. With GDP per capita at 42% of the OECD average in 2015, Costa Rica ranks below Mexico (47%) and well below Chile (63%). Sustained and strong rates are needed in the coming years to converge towards the living standards of OECD countries.

Poverty remains elevated and has not fallen in line with economic growth

Costa Rica also faces persistent problem of relative poverty and inequality. While the incidence of absolute poverty (typically measured using a threshold of 1.9, 2.5 or 4 USD a day) is low in Costa Rica and lower than in most Latin American countries, other indicators of income distribution suggest risk of material hardship. Relative poverty, as commonly measured by the OECD – defined as households earning less than half the country's median (typical) income – is higher than in any OECD country and almost twice the OECD average. Relative poverty has not declined despite strong economic growth in recent years. The official poverty rate, based on an absolute threshold, is currently about the same as a decade ago, despite household disposable income rising by almost 60% in the period. Poverty is concentrated among larger households, especially those with children. Elderly and female-headed households also face elevated poverty risks.

Income inequality is very high and increasing

Income inequality increased sharply in Costa Rica in the last decade, bringing the country from being one of the least unequal in Latin America – position that it held for most of the second half of the 20th century – to the average of the region in most recent years. According to the *OECD Income Distribution Database* (IDD), the Gini coefficient in Costa Rica (0.49) is about one-and-a-half times the OECD average (0.32). At 14.6, the ratio between the top and bottom 20% is more than two-and-a-half times the OECD average (5.4).While in most Latin American countries inequality fell sharply in the 2000s, in Costa Rica inequality increased considerably between 2005 and 2013, after falling in the early 2000s. Since 2014, income inequality has fallen slightly.

Inequality increased as wages of skilled workers and contributory pensions grew faster than other income sources. Wage disparities increased due to a rise in the education wage premium, which is driven by a mismatch between demand and supply of skills in the labour market (see section below).

Contributory pensions have also added to the rise in income inequality as entitlement depends on earnings-related contributions and long and stable careers in formal-sector jobs are largely concentrated among highly skilled and well-paid workers. The inequity of contributory pensions is further exacerbated by special pension regimes, outside of the Social Security system, which are excessively generous and only accessible to a privileged minority. In recent years, contributory pensions have become even more concentrated at the top and are currently the largest driver of inequality after wages of skilled workers.

Unemployment is historically high and key demographic groups lag behind in the labour market

Labour utilisation is still relatively low in Costa Rica with limited job opportunities for key population groups. Although female labour force participation has risen steadily over the past two decades, at 47%, the female employment rate is 27 percentage points below that of men and markedly below the OECD average of 62%. At the same time, access to jobs remains difficult for many youth in Costa Rica. Almost 20% of youth are for various reasons neither in employment nor in education or training (NEET). The NEET rate in Costa Rica is 3.5 percentage points higher than the OECD average and poses particularly severe problems for disadvantaged social groups in Costa Rica. For example, one in three youth from low-income families do not work nor study. In view of Costa Rica's young population, barriers to employment of youth are particularly detrimental to future growth and social cohesion.

A significant fraction of workers are trapped in low productivity, low-pay jobs with poor working conditions. At 30% of total employment, the informal sector is smaller than in other Central and Latin American countries, such as Mexico (55%) and Argentina (47%) but still high by OECD standards. Women, youth, the low-skilled and immigrants are over-represented in both the informal sector and in low-paid occupations. Informality steadily declined over the past decade and a half, but reductions have come to a standstill since the global financial crisis. Unemployment doubled over the same period and at 10%, it stands well above historical values and higher than the OECD average. Rising unemployment partly reflects the poor skills of the workforce to take on the new job opportunities that are being created in the high-value sectors such as electronics, medical devices, IT and financial services.

More than half of the adult population is not sufficiently skilled to access good quality jobs. This is, in part, a long-term effect of the 1982 debt crisis which led to a deep recession in Costa Rica and cuts in spending on public education. In addition, a large number of families sent their teenage children to work to escape economic hardship leaving an entire generation with severe difficulties accessing secondary education. At 39%, the share of the workforce aged 25-64 holding at least an upper-secondary degree is lower than in all OECD countries except Mexico and Turkey. Educational attainment among younger cohorts is higher but resources devoted to secondary education are still lower in Costa Rica than in many other OECD countries, indicating scope for further improvements. High drop-out rates are a further factor that keeps educational attainment low in Costa Rica reducing social returns to investment in education.

Policy and institutional reforms can facilitate a smooth transition to a more inclusive labour market

Labour market policy reforms would help to promote a more dynamic and inclusive economy that better responds to technological and globalisation challenges and opportunities so to create more and better jobs in Costa Rica. *First*, labour market adaptability needs to be combined with greater employment security. Costa Rica needs to promote a stronger social dialogue to foster better working conditions but also to design and implement labour market policies in a timely fashion. To this end, the labour market reforms approved in 2016 that strengthen labour relations are welcome. *Second*, Costa Rica must take additional measures to remove existing barriers to labour force participations and access to formal jobs of under-represented groups.

Improving the balance between labour market flexibility and employment security

Employment protection legislation for workers with regular contracts in Costa Rica is one of the least stringent in the OECD and Latin American countries despite the recent reforms (*Reforma Procesal Laboral*) that aim to give workers greater protection. This is largely attributed to relatively lax regulations on advance notice periods, and absence of special regulations against collective dismissals. While this may affect the risk of unemployment even among formal-sector workers, it also encourages formal job creation. Costa Rica therefore needs to make the most of policy levers that help workers navigate a flexible labour market in a way that unlocks the potential for sustained wage and productivity growth and encourages the creation of good-quality employment. This can be achieved by improving existing labour market polices, many of which date back in time and are no longer effective in today's dynamic export-oriented economy with little job stability and biased towards high skilled and technically-skilled workers.

Income support to protect against new risks in the labour market

High unemployment is a new phenomenon in Costa Rica and existing institutions are not well equipped to address the individual and social costs of joblessness. The main unemployment scheme is the Labour Capitalisation Fund (FCL – *Fondo de Capitalización Laboral*) which is funded through employer contributions only. Although the FCL is intended to function as an unemployment insurance scheme, in practice, it is not an effective means of providing income support upon job loss. FCL savings can be withdrawn every five years and the vast majority of workers (90%) do so, thus limiting the amount available to workers in the event of unemployment. In addition, the amount of payment is too small: if an employee has worked without interruption for the same employer for five years, entitlements would equal little more than one month's salary. This is clearly insufficient for providing income support to workers and their families during a prolonged period of unemployment.

Among OECD countries, the individual-accounts system in Chile provides a particularly relevant example of problems arising in the context of strengthening income support for the unemployed while maximising job-search incentives and minimising moral hazard, and the options to address them. One major problem with savings accounts however is that they do not allow for risk pooling and have no impact on redistribution. Overtime, Costa Rica should consider adding a redistribution feature to the FCLs, such as the Solidarity Fund in Chile, to support workers whose account balances are too low to provide adequate income support during unemployment. A more ambitious option is to develop an unemployment insurance scheme drawing on the strengths of unemployment insurance schemes in a number of OECD countries including; i) restrictions on withdrawal until the event of unemployment, ii) payment schedules to distribute benefits over several months, and iii) an increase in the amount deposited into FCL accounts (for instance through contributions by employees and the state) to widen coverage and the level of income support.

Adapting the minimum wage to benefit more workers

Costa Rica relies strongly on statutory minimum wages as an instrument for protecting workers against the risk of in-work poverty and safeguarding minimum labour standards. This consists of a multi-tiered system of legal wage floors, with 24 minima that differ by occupation and skill level. In theory, these minima apply only to employees in private sector firms, who account for around 85% of total employment. The lowest minimum wage in this multi-tiered system as a proportion of the median wage is higher in Costa Rica than in almost all OECD countries.

At the same time, non-compliance is high especially in the informal sector and many workers do not benefit from these relatively high minimum wages. Almost a quarter of workers in the private sector (25% in the formal sector and 60% in the informal) earn less than the lowest minimum wage, among which those who would stand to benefit most, including youth, women, and those in rural areas are overrepresented. Immigrants, people with disabilities, and workers in agriculture, construction and domestic work are also groups frequently affected by non-compliance with minimum-wage regulations.

Improving coverage of and compliance with minimum wage legislation should be a key priority for Costa Rica, especially given the very low coverage of collective agreements in the private sector. Progress on strengthening compliance needs to be part of a comprehensive strategy against informality (as discussed below), but also more intense and more effective labour inspections in formal and informal activities. Building on the successful Campaign for minimum wages in 2010 and 2013 which led to a small but noticeable increase in compliance, Costa Rica should further invest in promoting awareness of the minimum standards.

The complexity of the current minimum-wage system, however, is one of the factors that hold back progress towards transparency and awareness. Until 1987, multiple minimum wages were set for over 520 different industry and occupation categories. Gradual simplifications of minimum wage categories by the National Salary Council over time have resulted in the 24 different minimum wages that exist today. But this number is still high in international comparison and too high in view of the size of Costa Rica's labour market. To make enforcement easier and focus the policy on the lowest wage workers while promoting social dialogue and collective bargaining to differentiate wages above the legal minima as necessary, Costa Rica should continue its efforts to further simplify the minimum wage system.

As in other countries, relatively high minimum wages in Costa Rica can hamper hiring in the formal sector of vulnerable groups including low-skilled workers and youth. Moreover, a generous legal wage floor may also be contributing to Costa Rica's high share of undeclared work. There are therefore important trade-offs between supporting those in relatively stable formal sector jobs, and alleviating poverty among struggling working families. Such trade-offs may be particularly pronounced in the context of Costa Rica's very heterogeneous labour market and high share of informality. Further adjustment in the minimum wage should be accompanied by a simplification of the system and to a significant reduction in the level of non-compliance. Minimum wage increases should be set with care to discourage informal employment and avoid risk of pricing young and low-skilled workers out of jobs.

More generally, Costa Rica should strengthen the role of the National Salary Council to ensure regular adjustments of minimum wages, based on accurate, up-to-date and impartial information, accounting for the views of employers and worker representatives. A comprehensive and transparent process of minimum-wage adjustment is crucial to ensure that wages evolve in line with labour market, economic conditions and productivity. The National Salary Council should also produce regular estimates of non-compliance to inform policy makers, social partners and the public debate.

Strengthening social dialogue and ensuring protection of workers' rights

While Costa Rica is characterised by political and social stability, social dialogue between employers and employees remains fragmented and weak. As a result, development of new policies and their implementation are often delayed, as illustrated by the new labour reforms that took more than a decade to come into law. Moreover, against the high and rising income inequality and high rates of non-compliance with labour laws, effective representation of workers by unions and a well-functioning collective bargaining can help increase workers' incomes and improve working conditions for all workers while taking into account sector, geographical and company-specific economic conditions.

Social dialogue however is very limited in the private sector: unionisation is below 1% (2015), compared with 30% in the public sector even though Costa Rica has ratified ILO Core Conventions guaranteeing the right of workers to organise and form a union. Collective bargaining agreements are also limited reflecting the weakness of the trade unions.

Low trade union density is partly due to a unique feature of the Costa Rican law that permits the formation of so-called *Solidaristas* (solidarity associations) in addition to trade unions. Workers are free to be members of both organisations. *Solidaristas* are made up of workers of a business or an enterprise; are administered by a board of directors made exclusively by members and elected directly by workers. They are financed by monthly contributions by the company and from workers; part of the latter's contributions is used to partly pay out severance payments to workers upon leaving the company regardless the reason for job separation, hence providing a strong financial incentive to workers to join associations.

Solidaristas are forbidden to engage in negotiations concerning wages and working conditions. Nevertheless, there are some indications that they have challenged the role of trade unions in representing worker's rights. The development of trade unions has been further limited by a combination of: i) legal provisions on the right to strike, ii) resistance from employers, and iii) a slow and an inefficient legal system to protect labour rights.

As part of its effort to develop more effective industrial relations, the government has introduced significant reforms to further increase representation of trade unions and promote collective bargaining. Notably, the number of workers required to initiate a strike has been reduced from 60% of employees to 35% which is more in line with ILO principles. Under the new Labour Reform, employers will face tighter restrictions on their ability to sanction employees who join illegal strikes while employees will see an expedited process to initiate a legal strike in case of employer's non-compliance with the Labour Code (e.g. with regard to the payment of minimum wage or overtime).

Finally, the reform will simplify labour procedures to shorten the time it takes to resolve disputes relating to acts of anti-union discrimination or interference. Until now, delays in judicial proceedings relating to unfair labour practices and violations of labour and social rights could take up to eight years before they were concluded. Faster judicial proceedings therefore could encourage higher unionisation in the private sector.

All of the above initiatives go in the right direction of promoting collective bargaining and creating a clearer and less confrontational environment for social dialogue. A stronger leadership role of the Ministry of Labour and Social Security (MTSS – *Ministerio de Trabajo y Seguridad Social*) as well as a well-resourced labour inspectorate will be needed however to fully implement and reap the benefits of the above reforms. The government should also consider further measures to promote dialogue and consultation with employers and unions as well as to strengthen trust between the social partners. For instance, the government should re-consider establishing an Economic and Social Council as proposed back in 2003 to discuss economic and labour relations at the higher level given the imbalance between solidarity associations and trade unions in Costa Rica.

Reducing barriers to formal employment

Costa Rica's system of labour taxation creates a significant barrier to participation in the formal labour market, especially for low-skilled and younger workers. The total social insurance payroll tax rate is 36.5%, well above the OECD average (27.2%). The large portion at the charge of employers (26.33%) drives Costa Rica's non-wage labour costs towards the top of OECD rankings, and almost 9 percentage points above the OECD average. Such a high rate pushes up the cost of formal employment and the incentives to hire or work informally. One reason for Costa Rica's above-average contribution burden is that, unlike in most OECD countries, they are used as payroll taxes (i.e. taxes paid by employers which do not confer entitlement to social benefits), which also finance public expenditure outside Social Security. More than a third of employer contributions are earmarked for financing non-contributory anti-poverty programmes, training and even the capitalisation of a public bank, *Banco Popular y de Desarrollo Comunal* (BPDC).

While revenues for social policies rely excessively on social contributions, other sources of taxation (e.g. VAT and broader income taxes) are underutilised with a narrow tax base and low tax rates. Financing of healthcare and non-contributory social programmes should be gradually shifted from Social Security contributions to other sources that are more progressive and/or produce fewer distortions in the labour market (e.g. income tax, VAT and other indirect taxes) (see below).

Social contributions are a particular problem in the context of part-time work. There is no social contribution regime for part-time workers and the minimum contribution base (BMC – *Base mínima contributiva*) is the same regardless of working hours or earnings levels. Part-time workers can therefore be subject to extremely high contribution burdens relative to their earnings. In addition to high social contribution rates, the fixed BMC discourages the formalisation of small enterprises, as well as for women and youth, who disproportionately work part time. In fact, the BMC has been increased in recent years to support the financial sustainability of the pension system. Since 2014, the BMC has been set as a percentage of the minimum wage, increasing over time, and to reach 100% of the minimum wage by October 2019. Raising the BMC without strengthening compliance with minimum wage legislation and without letting the BMC vary with working hours further reduces incentives for formal employment, with adverse consequences for workers and for public finances alike.

Costa Rica's government could consider tackling the distortionary effect of BMC by either removing it or introducing an hourly minimum contribution base for part-time workers.

Enforcing labour regulations: Strengthening the role of labour inspectorate

Tackling high informality, compliance with minimum wage enforcement and successful implementation of the new labour reforms hinges upon the ability to monitor, investigate and sanction breaches of labour regulations at the workplace. Labour inspection services are under MTSS which is under–resourced in order to perform its function's effectively. Inspectors lack basic resources: a lack of maps to show the locations of firms, automobiles and IT limits inspections to large firms only, missing the bulk of medium-sized firms that have increased in number with structural change in the economy.

Recognising these challenges, the budget of the labour inspection office was increased in recent years. One major problem, however, is that unlike their counterparts in the social insurance agency, fines and sanctions against violations of labour regulations can be imposed by labour courts and not by labour inspectors. The draft bill (No. 19130) (initiated in 2014) proposing to grant inspectors greater powers is welcome and should become a high priority. Going forward the authorities should ensure that penalties imposed for breaches of labour regulations are high enough to act as a deterrent. Finally, improving co-ordination between the Costa Rican Department of Social Security, *Caja Costarricense de Seguro Social* (CCSS) and the Ministry of Labour and Social Security (MTSS) could improve enforcement of labour standards. Currently, if social insurance inspectors find violations of any other part of the labour law are not required to inform MTSS.

Activating workers to more productive and better quality jobs

For many Costa Ricans, learning new skills will be necessary to take advantage of new employment opportunities. In view of low employment rates and high informality rates, active labour market policies are required to address the needs of diverse groups covering not only the unemployed, but also informal workers and the inactive.

Job-placement and intermediation services are in their infancy

The National System for Labour Intermediation, Guidance and Information (SIOIE – *Sistema Nacional de Intermediación, Orientación e Información de Empleo*) came into operation in 2009 with the aim of providing public employment services (PES) and improving co-ordination with the vocational education and training system. Employment services are provided through an automated job-search system via the online tool known as *Busco-Empleo*. This tool has helped to reach more people and create common registration protocols. But it provides little support to groups with low levels of employability who may face multiple and severe barriers and need more personalised support. Improving delivery and accessibility of employment services and vocational counselling for workers in low-productivity jobs or disadvantaged groups will require upscaling the capacity for effective one-to-one support.

Further efforts are also needed to strengthen inter-institutional co-ordination to avoid dispersion of limited resources and capture a larger share of groups in need of employment support. Currently, MTSS has a regulatory function in managing the SIOIE, but the job-portal tool and job-placement activities are under the responsibility of the National Vocational Institute (INA – *Instituto Nacional de Aprendizaje*) and Ministry of Education (MEP – *Ministerio de Educación Pública*) which continue to operate according to their own individual priorities and institutional expenditure plans. Importantly, the fragmented employment services make it difficult for different vulnerable groups to navigate the system and seek-employment oriented services Costa Rica could usefully draw on the experiences of OECD countries that have reformed, and partially or fully integrated, their delivery of employment services across institutions and population groups, including those receiving social assistance. An integrated employment support system can be particularly relevant for the large groups of social assistance recipients that are under the responsibility of the welfare office *Instituto Mixto de Ayuda Social* (IMAS) where strategies for lifting these groups out of poverty appear to have only a very limited employment focus. The establishment of a one-stop-shop as seen in many OECD countries can therefore help individuals with a need for support to better navigate the system and seek-employment oriented services that are suitable for them.

Expand and improve targeting of active labour market programmes

In recent years, funding for some labour market programmes was increased and new initiatives were launched, including *Mi Primer Empleo* (my first job) in 2015. Despite the increased attention to strengthening employability of Costa Rica's working-age population, and Costa Rica's low employment rate, expenditure devoted to public employment services amounts to only about 0.2% of GDP, around half the OECD average. Funds for public employment services and active labour market policies should be increased over the medium term. This is particularly important in view of linking social support system to employment that will help inactive people find their way back into the labour market. Of particular relevance is the case of Turkey which in recent years significantly expanded the scope of its activation policies, which were far more modest than those of many other OECD countries, in order to target all those out of a regular formal sector job.

Increasing spending alone will not be sufficient for integrating disadvantaged groups into the labour market, however. Many of the programmes have overlapping target groups and interventions are not well co-ordinated, reducing their effectiveness, and making the system more expensive overall. Initial employability assessment and profiling systems should be used to determine who is able to work and the degree of job-readiness and special needs of people that are able to work. Furthermore, to support implementation of these and future initiatives, a culture of systematic evaluation of active labour market programmes should be established. Careful assessments of different programmes are needed especially in the view of limited resources, and should accompany their implementation from the very start. Monitoring programmes' success will also provide better value for money as overall resources are expanded in the medium term.

Developing skills of the workforce to reap benefits of new opportunities

Increasing retention and graduation from secondary schools

Drop-outs from secondary education is one the biggest policy challenges in Costa Rica. The government is already making substantial efforts at inclusion, notably through Avancemos – a conditional cash transfer programme that has increased retention rates and reintegration into the formal education system of adolescents and youth (up to 21-year-old) from disadvantaged households. Funding should be increased to expand coverage of the target population. More information about returns to education needs to be disseminated as young adults from poor household have limited exposure in their families and communities to more highly educated and successful role models. Finally, Avancemos could be combined with additional support to address a range of problems such as health and housing which could be obstacles to school attendance.

More generally, a broader set of improvements will be required given the range of challenges the education system faces in Costa Rica. This includes addressing poor teaching quality and lack of basic educational resources, including equipment and instructional materials, especially in disadvantaged schools. Costa Rica should establish a permanent, sustainable strategy directing different types of educational resources to the schools with the greatest needs.

Work-based learning and apprenticeships remain under-developed

Another way to curb early school leaving and tackle high youth unemployment is to reinforce the vocational technical track. This has proven to be an effective tool across OECD countries to improve educational outcomes and employability, especially when vocational programmes are designed and run in response to labour market needs. Costa Rica is discussing the introduction of a dual system in vocational education. However, the proposals have been rejected by many stakeholders, including teacher's labour unions and the Ministry of Education (MEP). Among the reasons are potential job losses of teachers and fears to lose 15-17 year-old students from the school system in order to receive an income through the dual training system. Further information on the benefits of vocational education should be made available by authorities to speed up the reform process.

Linking training with the needs of the labour market and focus on the most vulnerable

Several reforms are needed for the main training provider, the National Vocational Institute (INA), to ensure that good quality training is available to different clients. *First*, closer co-operation should be sought with social partners, for example, by providing employers with incentives to be more closely involved in the development of demand-driven training. *Second*, foster stronger relationships with the Ministry of Labour and Social Security (MTSS) and the Ministry of Education (MEP) to better determine and align supply and labour demand. *Finally*, the portfolio of training options should be diversified to cater for the needs of disadvantaged groups. Many of the adults who did not complete secondary education need basic skills including, literacy, mathematics and English as stepping stones to technical training and take-up of jobs in the formal sector.

Reinforcing social policies for inclusive growth

Income redistribution is too weak to reduce inequality

Taxes and cash transfers have virtually no impact on reducing income inequality in Costa Rica – at least before considering the imputed value of public services. Measured by the Gini coefficient, taxes and cash transfers lower income inequality by only 4.7%, in line with other Latin American countries (e.g. 6% in Chile and 3% in Mexico) but in sharp contrast to the

OECD average (about one-third). On the other hand, it is estimated that public services reduce income inequality by 18%, almost as much as estimated for the OECD average (20%).

The Costa Rican tax system relies heavily on taxes with low ability to redistribute income such as taxes on goods and services (40% of total revenue) and Social Security contributions (39% of total revenue). Personal income taxes account merely for 6% of total tax revenue – the OECD average is 25%. The ability of the personal income tax to raise revenue and redistribute income is eroded by a very high exemption. In Costa Rica, earnings lower than 1.70 times the average wage are tax exempt. On average across the OECD, the tax exemption stops at 0.29 times the average wage. Furthermore, employment and personal business income are taxed separately, hence creating a strong incentive for workers to benefit twice from the tax exemption by splitting their income between employment and self-employment income.

Costa Rica should pursue measures to increase the ability of the tax system to reduce income inequality. In particular, it should consider gradually shifting revenues from Social Security contributions to general taxes (e.g. VAT and personal income tax). While Social Security contributions in Costa Rica are progressive due to high levels of informality, this leaves informal workers unprotected and undermines government revenues. Bearing in mind that major fiscal reforms may involve substantial efforts (e.g. negotiations with social partners, legislative process and building technical and administrative capacity), lowering the exemption threshold and eliminating separate taxation by income sources could considerably strengthen the impact of the personal income tax on tax collection and inequality reduction.

Social spending in Costa Rica has limited direct or immediate impact reducing income inequality. In part, this is due to the fact that most social spending in Costa Rica targets public services rather than cash transfers, which is a sound policy priority. The impact of public services is more apparent in the medium and long term. If the imputed value of public services is added to household income, the redistributive impact of social expenditure increases considerably.

Social cash benefits have a limited redistributive impact in Costa Rica. Contributory pensions, the largest of such programmes, benefit people who were formerly in stable and comparatively well-paid (formal) jobs. Moreover, some pensions from special schemes which still pay pensions to specific public sector categories – are extremely generous (see further details about pensions below).

Non-contributory cash transfers, including conditional programmes such as Avancemos, account for a small proportion of social spending and household income and therefore have limited impact on the income distribution. Yet, they are generally well targeted and have a significant impact reducing poverty and, to some extent, inequality. Entitlement should be extended to all potentially eligible beneficiaries through information campaigns, proactive searches based on new data instruments and expedient administrative procedures.

Extending coverage and ensuring the long-term sustainability of the pension system

Unlike most Latin American countries, pension coverage is high in Costa Rica. There are considerable coverage gaps, however, due to labour market informality. Contributory pensions are concentrated among people who have had long and stable careers in formal jobs. Individuals who have had volatile careers and long periods in informality do not usually qualify for a contributory pension.

In contrast to OECD countries, in Costa Rica the government pays, along employers and workers, a share of Social Security contributions of employees and self-employed, both in the private and public sector. While government contributions for employees are fixed and relatively small (less than 1 percentage point), for self-employed workers they vary with earnings and can be quite high – ranging from 3.5 percentage points for earnings between 4 and 6 times the minimum wages to 11.3 percentage points for earnings equivalent to 0.72 times the minimum wage. Such high government contributions explain, in part, the relatively low levels of informality among self-employed workers in Costa Rica – the lowest in Latin America. A similar approach could be explored to boost formality among salaried workers. Employer social contributions could be partly replaced by higher government social contribution rates for employees in vulnerable groups with high levels of informality. In order to avoid negative incentives and limit impact on public finances, higher government social contributions could be not only income-tested but also time-limited and linked to a tax reform.

Minimum years of contribution discourage the formalisation of workers with fragmented working histories. Workers reaching the pension age (65 years) are entitled to a full pension if contributed at least for 25 years (300 contributions), or to a reduced pension if contributed at least for 15 years (180 contributions). Thus, workers who are unlikely to reach the 15 years of contribution have an incentive to remain in informality. In order to avoid such *informality trap*, the minimum years of contribution should be reduced, or eliminated. While pension amounts could end up being quite low, particularly for those with limited number of contributions, an integrated framework could align first-tier contributory pensions and non-contribution pensions. This could be achieved, for example, by progressively withdrawing the non-contributory benefit as the contributory pension income increases.

Non-contributory pensions – means-tested benefits for people aged 65 or more – cover around 100 000 people (one-quarter of all old-age benefits paid in Costa Rica). Spending on non-contributory pensions has increased in recent years, mainly by raising the benefit level (currently at CRC 78 000, around USD 140 per month). Non-contributory pensions play a considerable role preventing old-age poverty. However, coverage is still incomplete and needs to expand (another16 000 non-contributory pensions would be required to cover all poor elderly without a pension) while maintaining its current efficiency in targeting those actually in need. Recently, the entitlements to non-contributory pensions have increased. However, administrative measures to speed up claiming procedures need to be implemented. There are more than 12 000 pending requests and in some regions of the country the average waiting period is 24 months.

Special pension regimes – not part of Social Security – for specific public sector categories (e.g. education, communications and transport) are financed by the general budget. In 1992, most special regimes were closed and newly recruited public sector workers participate in the Social Security regime. However, special capitalisation regimes were created for public sector workers in education and judiciary. The old special regimes are extremely generous and still benefit more than 50 000 pensioners, costing about 2.2% of GDP. Recently, several measures have been taken to reduce their impact on inequality and public finances – restricting entitlement to survival pensions, limiting the rise of benefit levels to inflation, implementing an additional contribution for very high pensions and allowing future increases in social contribution rates. Such measures are welcome and must be maintained despite pressures from interest groups.

Recent trends suggest that the demographic transition will bring challenges to the long-term sustainability of the Social Security pension system - the Disability, Old-Age and Survivors insurance system (RIVM – *Régimen de Invalidez, Vejez y Muerte*). Between 2008 and 2014, the ratio between contributors and pensioner fell from 7.8 to 6.8, pension spending increased from 2% to 2.5% of GDP while revenues stalled and the reserve coefficient (the number of years that could be financed by the pension reserve fund) dropped from 3.3 to 2.7. A recent actuarial study estimates that the contributor/pensioner ratio could fall to 4.5 by 2025, 1.8 by 2050 and 1.3 by 2067. Ongoing reforms such as gradual increases of contribution rates until 2035, and recent measures (restricting access to early retirement, increasing the asset diversity of the pension reserve fund, charging minimum pension top-up to general budget and increasing the minimum contribution base) contribute to making the system more sustainable. However, additional reforms will be necessary.

Future reforms should revise future statutory retirement age (currently at 65 years of age) and index it to changes in life expectancy, as implemented in several OECD countries. The number of monthly salaries used in the formula to determine pension entitlements could be extended. Pension levels could be revised by changes in the replacement rate or in reference wage. Other measures currently debated in Costa Rica, such as rising contributions rates and the minimum contribution base would require careful design and complementary compensatory measures to prevent disincentive effects to formalisation. In fact, labour market and social policies that increase incentives of formalisation and female labour force participation should be included as part of the long-term strategy to maintain the financial sustainability, adequacy and effectiveness of the pension system.

Family policies to benefit from gender dividend

Female labour force participation (currently at 55%) could be encouraged by effective family policies. Family caring responsibilities are the main cause of working-age female inactivity as well as a barrier for young women to continue in education. While the problem is more acute among poor households, it also affects women in higher income groups. More than half of women in the bottom income deciles report family responsibilities as the main reason for not looking for or taking up a job. Among women with higher income levels the ratio falls to about one-third. Childcare coverage for young children is much lower than the OECD average. In Costa Rica, only 46% of children aged 3 to 5 attend childcare or pre-primary education; across OECD countries the average is 84%. Attendance in childcare is higher in more developed regions, among parents with a high education background and higher income due to access to private childcare services. Access to early childhood education should be expanded particularly for children under the age of 4, living in the least developed regions of the country and from more disadvantaged households.

Costa Rican women tend to devote twice as much time to non-remunerated household activities than men, which is similar to the OECD average. Parental leave policies could contribute to changing such social norms by generating a culture of parental co-responsibility towards childcare. In Costa Rica, working mothers are entitled to four months of maternity leave. But, there is no legislation regarding paternity leave in the private sector. Since 2013, public sector workers are entitled to one week of paternity leave. Paternity leave schemes could contribute to increasing female labour participation, reducing discrimination against women in the workplace (particularly in hiring) and changing gender perceptions and attitudes towards family care. The Costa Rican government is currently analysing the submission of ILO Convention No. 156 on workers with family responsibilities to the Legislative Assembly, which would create momentum to strengthen parental leave and co-responsibility in care.

Tackling child poverty and fostering horizontal equity

Child poverty in Costa Rica is very high, has been rising and is acute even among working families. More than one-in-four children live in households earning less than the relative poverty line. One-third of people living in one-earner families with children are in poverty. Even two-earner families with children face a non-negligible 7% poverty rate. As in many OECD countries, poverty rates are particularly high among single parent households, even when the parent is at work. In Costa Rica, 37% of single parents with children are in poverty – the OECD average is 22%.

In contrast to most OECD countries, the tax-benefit system in Costa Rica has a small impact on relative child poverty and, more generally, redistributing between households with and without children. Relative child poverty falls by 1 percentage point after accounting for taxes and benefits, in Costa Rica – the OECD average is 8 percentage points. Redistribution from families without children to those with children could contribute to reduce child poverty. Family transfers in Costa Rica focus on families in extreme poverty, thus excluding in practice most low-income working families. Provisions for working families with children could be implemented as cash transfers or as refundable tax credits, such as the Earned Income Tax Credit (EITC) in the United States and Child Tax Credit (CTC) in the United Kingdom.

Improving efficiency of targeted social programmes

Institutional fragmentation and lack of co-ordination lead to inefficiencies and duplications of targeted social programmes. Since 2014, the Social Presidential Council, presided over by the Vice President of Costa Rica, co-ordinates social policies across several government institutions. One of its key initiatives has been the implementation of *Puente al Desarrollo* – an integrated programme which combines a conditional cash transfer with preferential access to social services (such as education, health and care) managed by trained social workers. While the programme is well designed, its introduction is too recent to draw conclusions and an independent evaluation is pending.

Quality control, monitoring and evaluation need to be further developed both within the Fund for Social Development and Family Allowances (FODESAF – *Fondo de Desarrollo Social y Asignaciones Familiares*) and the executing agencies. In order to improve resource use efficiency, the General Directorate for Social Development and Family Allowances (DESF – *Desarrollo Social y Asignaciones Familiare*) must continue developing its technical capacity to monitor, evaluate and rationalise resources transferred to targeted programmes. On the other hand, FODESAF's budget is excessively rigid with a large part earmarked to specific programmes. Such rigidity hinders the ability of DESAF to improve efficiency by setting and revising policy priorities and enforcing the accountability of institutions responsible for executing the programmes.

Making migration an opportunity for Costa Rica

A net immigration country with decades of migration history

Costa Rica has a unique history as a country of immigration in Central America, a region otherwise known for its high levels of emigration. The country has a net migration rate of 6 per 1 000 inhabitants, which is second highest after Canada in the Americas and higher than in many OECD countries. In 2011, immigrants made up 11% of the population aged 15 and over, the highest share among Central and South American countries. This share is just below that of OECD countries with large immigrant populations such as France, Spain, Norway and the Netherlands. The immigrant population more than tripled between 1984 and 2000, and continued to increase after that, although at a slower pace. In 2015, there were 411 408 foreign-born people in Costa Rica, 40% more than in 2000.

Although the available data do not allow a clear distinction between the different reasons for migration, immigration seems to be mainly work-related. Immigrants from Nicaragua represent three-quarters of all foreign-born people, while those from Colombia and the United States constitute the second and third largest immigrant populations, respectively. In the last five years, there has been a rise in the inflows of migrants in transit to the United States, originating mainly from Haiti and Cuba, and to a lesser extent South Asia and Africa. These recent flows have received a lot of attention in the public opinion and the authorities have been called to take action, in co-operation with other countries in the region.

Labour migration to Costa Rica have mainly been driven by the stable political climate, the good socio-economic conditions relative to neighbouring countries, which share a common language, and the labour market opportunities notably for low-skilled persons. The persistent demand for unskilled labour in agriculture, construction, tourism and domestic services, together with Nicaraguan migrant networks developed over time in those sectors, have sustained high inflows from this country for the past three decades.

Immigrants make a valuable contribution to the labour market but the challenge of informality should be addressed

Immigrant men are overall well integrated in the Costa Rican labour market, recording an employment rate of 82% in 2011, 9 percentage points higher than that of native-born people and well above that of the foreign-born in all OECD countries except Switzerland. Immigrants represent 12% of the country's labour force and work mainly in low-skilled and medium-skilled occupations, often in domestic services, tourism, agriculture and construction. However, migrant women have more difficulties accessing the labour market, with an employment rate of 43% in 2011, 39 percentage points lower than that of migrant men, and slightly above that of native-born women (38%).

Informality is more common among immigrants than among the native-born. In 2015, 43% of employed immigrants were not covered by Social Security (were informally employed), versus 28% for the native-born. Most of the gap is related to the distribution of the two groups across sectors and the greater representation of immigrants in sectors with higher informality, such as agriculture and domestic work.

Recently created framework for labour migration is welcome but implementation challenges remain

Recent regularisations have been necessary but the mechanism used is not adequate in the context of a large informal sector

Until 2010, when the new Migration Law was approved, a significant share of immigrants in Costa Rica did not have a legal migrant status. OECD countries with a large stock of irregular migrants have generally chosen to implement some form of regularisation along with major changes to the labour migration management system. Costa Rica has taken some steps in this direction.

The 2010 Migration Law established provisions for acquiring legal residence for immigrants residing irregularly in Costa Rica. With the exception of specific categories, immigrants wishing to acquire a legal status must leave the country, pay a fine at the border and remain outside Costa Rica for a time period equivalent to the amount of time they spent irregularly in the country. However, these requirements were lifted until the end of 2017 for a certain period for workers in agriculture, construction and domestic services, who were able to acquire a work permit and residence status upon proof of their work contract.

This regularisation process is reflected in the sharp increase in temporary residence permits in 2014 and 2015, notably certain work-related categories. However, overall take-up appears lower than expected. Companies have been reluctant to register with the Migration Agency (DGME – *Dirección General de Migración y Extranjería*), which requires paying formal wages. Migrants have been put off by the fees and most importantly the requirement to leave the country in case their employers did not support their regularisation.

Wide-spread informality makes a work-based regularisation mechanism unlikely to fully succeed. Most of the tools typically used by OECD countries to manage labour migration are ill-suited to Costa Rica because of widespread informality. If the priority is to identify those present in the country and ensure that they are protected from exploitation, a one-off regularisation of the migrant status of persons present in the country could be considered without requiring a formal employment contract. Regularisations implemented in the past in a number of OECD countries have shown that it is important to ensure that immigrants with a valid reason to be in the country, do not fall back to irregularity because of administrative and legal barriers to permit renewal.

An important dimension of such regularisation programmes is that they provide authorities with information on the number of irregular migrants, their profiles and sectors of work and the pathways that they have taken to enter the country or the reasons which led them to irregularity. This information is needed to adapt immigration policy to the realities of the country and the labour market. Regularisations should be then accompanied by a close monitoring of migrant flows in the short-term which would enable the development of a system in the medium term that would set clear and realistic requirements for entry and regular stay in the country, as well as a concrete pathway to permanent residence for those who have a reason to be in Costa Rica and have the intention to stay. However, such migration system could only work if informality in the labour market has been tackled.

Migration policy can become more proactive by making a stronger link between labour migration and labour market needs

The 2010 Migration Law and the subsequent Migration Policy created a new framework which views migration as a driver for development rather than as a solely security-related challenge. The new framework is quite comprehensive and covers all areas, including family migration, students and humanitarian migrants in addition to labour migration. Nevertheless, the migration policy lacks a strategic vision for the future which would link migration with a general employment policy and the current and future needs of the labour market.

The only limit on work permits imposed by the Law at present, are the recommendations from studies by the Department for Labour Migration of MTSS about the type and number of work-based residencies to grant by sector and occupation. To better link economic migration with labour market needs, it is important that such studies are conducted regularly and are based on detailed and up-to-date information about demand and supply in the labour market, which is not the case currently. The seasonal dimension of demand in a country with a high share of agricultural activities should also be reflected. Analysis based on good quality data is needed to determine to what extent current migration flows are in line with structural trends in demand and supply in Costa Rica. Beyond short-term regulation of entries, skill shortages loom on the horizon. Efforts could be made to brand the country at the regional level as a destination for skilled labour migration, especially in sectors where skills cannot be easily supplied domestically.

Limited institutional capacity and resources hamper the implementation of the new Migration Law

Due to limited resources, the DGME is having difficulties in implementing the 2010 law and processing migrant requests for entry and work in Costa Rica. For most residence permits, actual processing times are twice as long as those stipulated by the law and there is a long-standing backlog. Such delays are serious obstacles for migrant integration but also for companies which are faced with the dilemma between vacancies and the hiring of irregular migrants during the processing of their applications.

Decentralisation and modernisation of services, introduced to speed up the process and serve areas with a high share of immigrants in agriculture, could work in that direction, but is currently hampered by the limited capacity of local offices to handle applications and the small number of administrative officers. Furthermore, the current information system used to monitor migration and treat requests is outdated and does not respond to the growing demand. The new system which will enter its initial phase in 2017 is a positive step and its effectiveness will depend on IT infrastructure and the appropriate linkages between the different services offered to immigrants.

The Social Migration Fund (FSM – *Fondo Social Migratorio*), established with the 2010 Migration Law, is a promising step to support integration initiatives across government institutions. The seven projects which have only recently been implemented should be monitored and evaluated to guide future projects implemented by the FSM.

Emigration is not yet a major issue but has been rising in recent years

Contrary to other countries in the region, emigration from Costa Rica has not been a major phenomenon. However, it has increased substantially in recent years. In 2010/11, there were 100 000 Costa Rican emigrants aged 15 and over living in OECD countries, 32% more than in 2000/01. The emigration of Costa Ricans is one of the issues covered by the comprehensive migration policy, but very little action has been taken in that direction. Informing the Diaspora of possible investment opportunities and facilitating return are two of the main areas where concrete action should be taken. Especially in key sectors, such as health, sciences and engineering, the issue of brain drain could become a preoccupation and measures to attract these highly educated emigrants back even on a temporary basis could be beneficial for the future development of Costa Rica.

Key policy recommendations

Labour market policy and institutional setting

- Further simplify and reduce the number of minimum wage rates while considering their level and possible disincentive effects in hiring formally. At the same time, strengthen the role of the National Salary Council and the enforcement of the minimum wage throughout the economy.
- Promote social dialogue and collective bargaining to enhance wage setting mechanisms and adaptation in line with productivity developments. Re-activate proposals to introduce a Social and Economic Council to promote government's dialogue and consultations with employers and unions as well as to strengthen trust between the social partners.
- Strengthen the role of the Ministry of Labour and Social Security (MTSS) and the Labour Inspectorate to ensure i) the enforcement of labour policies and respect of labour rights, and ii) speedy implementation of new labour reforms that aim to improve industrial relations more generally
- Restrict options to withdraw funds from the Labour Capitalisation Fund (FCL) for reasons other than unemployment to provide income support to unemployed people. Building on the existing individual account, introduce a redistributive element like the solidarity fund in Chile supporting workers whose accounts are too low. Alternatively, consider establishing an unemployment insurance scheme drawing on strengths of a number of OECD countries.
- Strengthen job placement and intermediation services also by transferring responsibility to their management to the Ministry of Labour and Social Security (MTSS). Boost the budget of the ministry to make sure it can take a leading role in designing and implementing labour market programmes and policy.
- Expand and increase the efficiency of active labour market programmes by adopting better profiling and targeting tools to support effectively disadvantaged groups.
- Establish a *one-stop-shop* agency or a more co-ordinated and effective use of social programmes to avoid dispersion of limited resources and to better help vulnerable groups to navigate the system and seek employment services. Complement online employment support tools with one-to-one support for those with multiple barriers to work.
- Introduce systematic evaluation mechanisms to assess the effectiveness of labour market programmes. Where feasible, potentially large scale programmes should be piloted before being rolled out nationally.
- Give greater powers to the Labour Inspectorate and obligations on inspectors of the Costa Rican Department of Social Security (CCSS) to notify labour inspectors of any breaches of labour regulations. Ensure that fees and sanctions are high enough and are collected quickly to act as a strong deterrent against violations of labour regulations.

Key policy recommendations *(cont.)*

- Strengthen incentives to formalisation of employment inter alia by lowering Social Security contributions for employers and transferring the tax burden on general taxation. If not feasible to a sizeable scale in the short run, consider lowering Social Security contributions for the low skilled and temporarily for those (re)entering the formal labour market while maintaining their Social Security rights.
- Tackle the distortionary effect of minimum contribution base (BMC – *Base minima contributiva*) on low-earning employees, particularly those working part-time. Consider either removing the BMC or introducing hourly minimum contribution bases for part-time workers (as in Spain).
- Increase funding for Avancemos to reach a greater number of the target youth population who has dropped-out of secondary education. In addition, provide better guidance to students in schools on the returns to education as well as additional support to address problems that go beyond the school system.
- Encourage teachers to work in the schools with highest needs, and to provide teachers with the tools to direct help to those pupils who face the greatest challenges. Link training with the needs of the labour market by making sure employers are fully involved in the development of training programmes. Ensure the portfolio of training options is diversified and closely linked with market needs, also including remedial courses to cater the needs of the very low-skilled workers.

Inequality, poverty and social policy

- Consider measures to increase the ability of the tax system to reduce income inequality. In particular, consideration should be given to gradually shift part of the financing of healthcare and selective/anti-poverty programmes from Social Security contributions to general taxes (e.g. VAT and personal income tax). At the same time, increasing income tax collection – by lowering the exemption threshold and eliminating separate taxation by income sources – would contribute to the reduction of income inequality.
- Continue the current expansion of the number of non-contributory pensions in order to cover all elderly at risk of poverty and/or extreme poverty. Additional efforts are particularly necessary for the age group of 65-70 year-olds, as almost one-third of the people in this group who do not have a pension are in poverty.
- Improve the long-term sustainability of the contributory pension system by indexing the statutory retirement age to changes in life expectancy, revising pension entitlement parameters such as replacement rates or number of past monthly salaries to compute the pension base, consider closing special regimes and integrating all workers in the same system.
- Increase the supply of publicly-funded childcare services to facilitate women participation in the labour market.

Key policy recommendations *(cont.)*

- Fight gender discrimination in the workplace (particularly in hiring) and contribute to change gender stereotypes towards family care, by considering, together with social partners, a gradual introduction of paternity and parental leave schemes also in the private sector.
- Tackle child poverty, which is particularly high among working families with children, by introducing family tax credits, cash transfers or similar instruments to differentiate the net tax burden of families with and without children.
- Reduce fragmentation of social programmes and, based on a common registry of beneficiaries (SINIRUBE), adjust eligibility criteria to ensure that recipients are those most in need.
- Set-up systematic and sound evaluations of social assistance schemes, reallocate more resources to those empirically proven to lift people out of poverty and scale down ineffective ones.

Making the most out of migration

- Consider, in the short term, a one-off regularisation of immigrants currently present in the country, while developing an effective system to manage future labour migration flows. Work-based regularisation, as currently implemented, is likely to fail in the context of high informality.
- Lift the requirement to leave the country during a pre-determined short period to give the time to irregular immigrants present in the country to regularise their status.
- Use the regularisation process to collect detailed information on the migrant irregular population, its characteristics and sectors of work with the aim to develop a migration system based on the real needs of the labour market.
- Redefine the cost immigrants have to bear in order to acquire a regular status to be more in line with the real earnings of labour migrants in Costa Rica and ensure this is not an obstacle to regularisation.
- Strengthen the financial means and institutional capacity of the Migration Agency (DGME) both in San José and peripheral offices to cut processing times and improve the efficiency of the migration system.
- Develop well targeted campaigns to provide immigrants and employers the necessary information about their rights and obligations as well as the consequences of violation of labour market and Social Security regulations.
- Conduct joint or co-ordinated inspections by the CCSS, MTSS and DGME and include the verification of migrant status in the regular inspections conducted by the first two institutions and the verification of employment conditions in inspections conducted by DGME.
- Improve engagement with the Costa Rican Diaspora as part of a strategic vision of migration. Efforts should be made to ensure Costa Rican emigrants abroad are informed about job and investment opportunities in their country and obstacles to return are lifted.

Chapter 1

Strong socio-economic performance but progress has stalled recently in Costa Rica

Costa Rica has recorded many social and economic achievements and currently enjoys levels of well-being similar to the OECD average. But recent years have seen serious strains arise in the social contract. Unemployment has increased steadily since the global crisis to well above its historical average and it is now higher than the Latin American average. Increasing inequality, little progress in tackling poverty and a high risk of economic exclusion of the low-skilled all call for policy reforms that promote a more dynamic and inclusive economy that better responds to the challenges of technological change and globalisation. Existing policies are outdated and no longer effective in today's dynamic, export-oriented economy which requires greater flexibility and more high skilled and technically-skilled workers. Immigration, mainly of low-skilled labour from Nicaragua, has been high in the past three decades but migration policy has only recently shifted to link migration with integration and economic development.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

1. Life satisfaction is high but economic performance gaps remain

Costa Rica is a small upper middle-income Central American country with a population of approximately 4.8 million and a GDP per capita of USD PPP 15 377 (2015). Exports account for 35% of GDP. International tourism, especially eco-tourism that harnesses Costa Rica's active protection of forests and the environment, accounts for 6% of GDP.

Compared with neighbouring Central American and other Latin American countries, Costa Rica is noteworthy for its political stability and social progress. Near-universal health care and guaranteed education for all have contributed to high life expectancy, low infant mortality and high primary school enrolment (Table 1.1). The country has no armed forces and the longest uninterrupted period of democratic rule in Latin America, which has been in place since 1948.[1] According the OECD Better Life Index for 2014, Costa Rica has higher life satisfaction levels than all OECD countries, except Denmark and Switzerland.

Costa Rica has experienced steady economic growth since the turn of the century, averaging 4% between 2000 and 2015, above the averages in Latin America (3.8%) and the OECD area (around 2%, Figure 1.1). The economy proved to be resilient even when growth began losing momentum in Latin American and the Caribbean as a result of declining oil and commodity prices and slower growth in China. This resilience in the face of the commodity price bust indicates that Costa Rica's the economy is no longer over-reliant on commodities, although coffee and non-traditional fruit and vegetable exports are still important.

Despite achieving reasonable growth over the past fifteen years, Costa Rica has lagged behind top regional performers like Chile and Mexico and a sizeable income gap with more advanced OECD economies remains. In 2015, per capita income was 42% of the OECD average, 47% of Mexico's, and 63% of Chile's (Figure 1.1, Panel B). High production costs, weak infrastructure and burdensome regulations have prevented Costa Rica from joining top growth performers (World Bank, 2016).

Table 1.1. **Costa Rica enjoys high levels of well-being**

Key indicators, 2015 or latest year available

	Costa Rica	Chile	Mexico	Colombia	LAC	OECD
GDP per capita[a]	15 377	22 316	17 277	13 801	15 653	39 741
Life expectancy at birth[b]						
Total	79.4	81.5	76.7	74.0	74.9	80.1
Men	77.0	78.6	74.4	70.5	71.8	77.5
Women	81.9	84.5	79.2	77.7	78.3	82.8
Infant mortality[c]	8.5	7.0	12.5	13.6	..	..
Life satisfaction	7.4	6.7	6.7	..	..	6.6
Primary education enrolment rate[d]	90.0	92.0	96.1	..	92.3	..
Share of the population in the middle class	47.0	44.0	27.0	27.0	34.0[e]	..
Exports,[f] percentage of GDP	35.1	33.4	32.3	16.0	20.1	32.3

Note: GDP: Gross domestic product. ICP: World Bank International Comparison Programme. LAC: Latin America and the Caribbean. PPP: Purchasing power parity. USD: US dollars.

a) GDP per capita based on PPP. PPP GDP is gross domestic product converted to international dollars using purchasing power parity rates. Data are in current international dollars based on the 2011 ICP round.

b) Data refer to 2014.

c) The *infant mortality rate* (IMR) is the number of deaths of children under 1 year of age per 1 000 live births. For Chile, data refers to 2013, and for Mexico to 2014.

d) Data refer to 2013 for *primary education enrolment rate*.

e) Estimates are population-weighted averages of country-specific estimates for Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, and Uruguay.

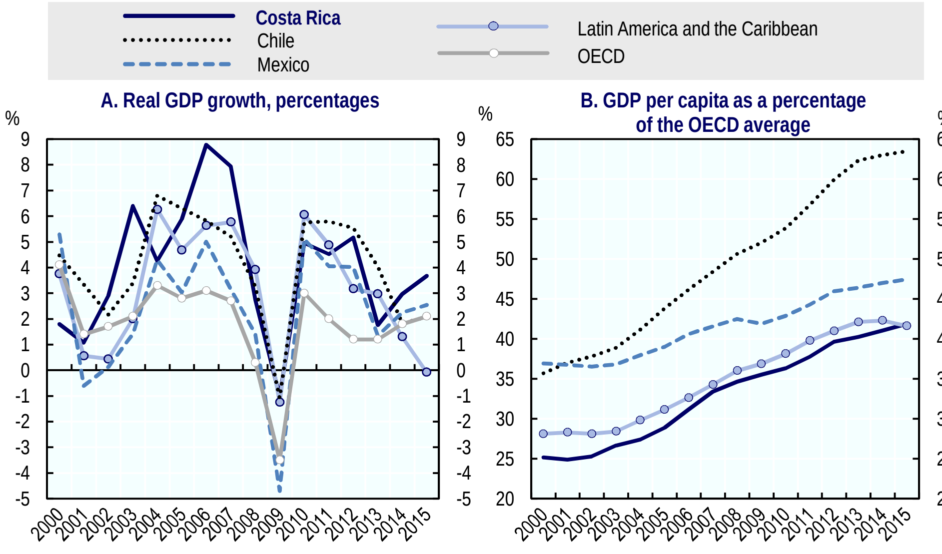
f) Data refer to 2014 exports of goods and services as a percentage of GDP.

Source: World Bank, *World Development Indicators* (WDI) *Database*, http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators for GDP per capita, life expectancy at birth and external trade in percentage of GDP. *OECD Health Status Dataset*, a subset of the *OECD Health Database*, http://stats.oecd.org/index.aspx?queryid=28240 for low infant mortality rate. *OECD Better Life Index – Edition 2015 Database* for life satisfaction; OECD (2016), *OECD Economic Surveys: Costa Rica 2016 – Economic Assessment*, OECD Publishing, Paris, http://dx.doi.org/10.1787/eco_surveys-cri-2016-en; ECLAC (middle class, 2012); and Oviedo, A.M., S.M. Sanchez, K.A. Lindert and J.H. Lopez (2015), "Costa Rica's development: From good to better", *Systematic Country Diagnostic*, World Bank, Washington, DC, http://documents.worldbank.org/curated/en/847271468190746362/pdf/97489-CSD-P149582-Box391476B-PUBLIC-From-Good-to-Better.pdf using SEDLAC for data relating to middle class.

StatLink http://dx.doi.org/10.1787/888933591499

Figure 1.1. **GDP per capita lags behind despite strong economic growth**

2000-15



Note: GDP: Gross domestic product.

Source: International Monetary Fund (IMF), *World Economic Outlook* (WEO) *Database*, www.imf.org/external/pubs/ft/weo/2016/01/weodata/index.aspx for all countries excluding the OECD average, whose source is *OECD National Accounts at a Glance Dataset*, a subset of the *OECD National Accounts Database*, http://stats.oecd.org/index.aspx?queryid=28226.

StatLink http://dx.doi.org/10.1787/888933590720

2. Labour force participation is growing but progress is uneven

Labour force participation rate rose from 63% in the 2000s to 65% in 2010 and continued to increase even after the global financial crisis to reach 67% in 2015. Nevertheless, despite the upward trend, Costa Rica's labour force participation remains low compared with most other OECD countries because of low activity rates among women and youth.

Female labour force participation has been historically low

Despite rising strongly over the past 15 years, the activity rate of Costa Rican women remains among the lowest in the LAC area. In 2015, just over half (54%) of women of working age were active in the labour market – nearly 30 percentage points lower than for men and 11 percentage points below the OECD average (Table 1.2).

Table 1.2. **Women and youth face difficulties in entering the labour market**

Labour force status in Costa Rica and OECD, 2000-15, percentages

	All			Men			Women		
	2000	2010	2015	2000	2010	2015	2000	2010	2015
	Labour force participation rate								
Costa Rica									
Youth	50.4	44.2	45.9	64.7	53.7	53.3	35.2	33.6	37.5
Prime age	71.4	77.8	78.9	95.2	94.9	93.4	47.7	61.0	64.2
Older workers	47.7	56.4	57.2	76.3	78.8	78.0	21.0	32.9	38.9
Total working age (15-64)	62.8	65.6	67.3	83.8	80.5	80.4	41.6	50.2	53.9
OECD									
Youth	51.8	47.6	47.1	57.1	51.9	50.9	46.6	43.3	43.2
Prime age	80.2	81.4	81.6	92.6	91.6	91.2	68.0	71.2	72.1
Older workers	50.0	57.5	61.1	62.5	67.6	70.5	38.3	47.9	52.2
Total working age (15-64)	69.9	70.7	71.3	80.9	79.7	79.7	59.2	61.8	63.0
	Employment/population ratio								
Costa Rica									
Youth	44.9	34.7	35.3	58.6	43.9	42.6	30.2	24.4	27.0
Prime age	69.1	72.9	73.1	92.5	90.0	88.2	45.7	56.1	57.8
Older workers	46.4	54.1	54.4	74.3	74.8	73.9	20.3	32.3	37.2
Total working age (15-64)	59.6	59.6	60.7	80.1	74.3	73.9	38.8	44.6	47.2
OECD									
Youth	45.5	39.7	40.5	50.3	42.8	43.5	40.8	36.5	37.3
Prime age	75.9	75.2	76.5	88.2	84.7	85.8	63.8	65.9	67.4
Older workers	47.5	54.0	58.1	59.2	63.0	66.7	36.6	45.4	49.9
Total working age (15-64)	65.4	64.6	66.3	76.1	72.7	74.2	55.0	56.7	58.6
	Unemployment rate								
Costa Rica									
Youth	11.0	21.5	23.0	9.3	18.3	20.0	14.2	27.5	28.0
Prime age	3.2	6.3	7.3	2.8	5.1	5.6	4.2	8.1	9.9
Older workers	2.8	4.2	4.9	2.6	5.1	5.2	3.3	1.8	4.3
Total working age (15-64)	5.2	9.1	9.8	4.4	7.8	8.1	6.7	11.2	12.4
OECD									
Youth	12.2	16.7	14.0	12.0	17.6	14.4	12.4	15.6	13.5
Prime age	5.4	7.5	6.2	4.8	7.6	6.0	6.2	7.4	6.5
Older workers	4.9	6.1	4.9	5.3	6.7	5.3	4.4	5.2	4.4
Total working age (15-64)	6.4	8.5	7.0	5.9	8.8	6.9	7.0	8.2	7.1

Source: OECD Employment Database, www.oecd.org/employment/database.

StatLink http://dx.doi.org/10.1787/888933591518

For employed women, part-time work is nearly three times as common as for men (29.8% versus 11.1% in 2015). When asked about the reasons for not seeking jobs, the most common reason women cite is family obligations, and 80% of the inactive women living in poverty cite care responsibilities (OECD, 2016a). Lack of affordable and accessible child care and elderly care are key barriers in this respect, especially for teenage parents whose share is very high in Costa Rica (see Chapter 3). According to the Costa Rican National Statistics and Census (INEC – *Instituto Nacional de Estadística y Censos*), around 20% of Costa Rican women have children before the age of 20 in 2015.

Unemployment has doubled over the past fifteen years overall which may have slowed the rise in the labour force participation rate for women and contributed to the small decline for men. Key drivers of unfavourable unemployment trends, discussed in Section 3 below, include a structural mismatch between skills and jobs, and falling demand for low-skilled labour. At 10%, the unemployment rate is now above the OECD average and the level in many other Latin American countries.[2]

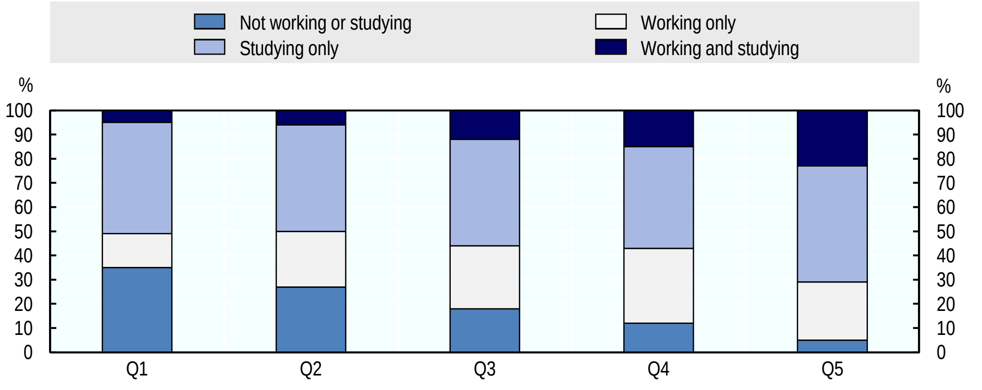
A young population, but youth face significant labour market problems

Like in most OECD countries, youth are especially affected by high unemployment, and were hit hard during the global financial crisis. Since 2007, the youth unemployment rate increased by 13 percentage points to 25% in 2015. Unemployment among young women increased more strongly than among young men.

Costa Rica's youth represent a much larger part of the overall population than in most OECD countries. The 15-24 age group accounts for some 23% of Costa Ricans (15% in the OECD on average), making employment difficulties among youth particularly detrimental to future growth and social cohesion. Almost 20% of youth are neither in employment nor in education or training (NEET). The NEET rate is 3.5 percentage points higher in Costa Rica than the OECD average and in Chile, but lower than in Mexico. NEET rates are a particularly severe problem for disadvantaged social groups in Costa Rica. For example, one in three youth from low-income families do not work or study (Figure 1.2). Among other factors, a high NEET rate in Costa Rica points to problems with its education and training system, and the inability of the system to adapt in the face of ongoing structural change in the economy.

Figure 1.2. **Youth in low-income families are at high risk of exclusion**

Proportion of NEETs by income quintile, 2012



Note: NEET: Neither in employment, nor in education or training.

Source: Estado de la Región (2016), "Parte 2 : Dilema estratégico – Capítulo 8", www.estadonacion.or.cr/erca2016/assets/cap-8-erca-2016-dilema.pdf.

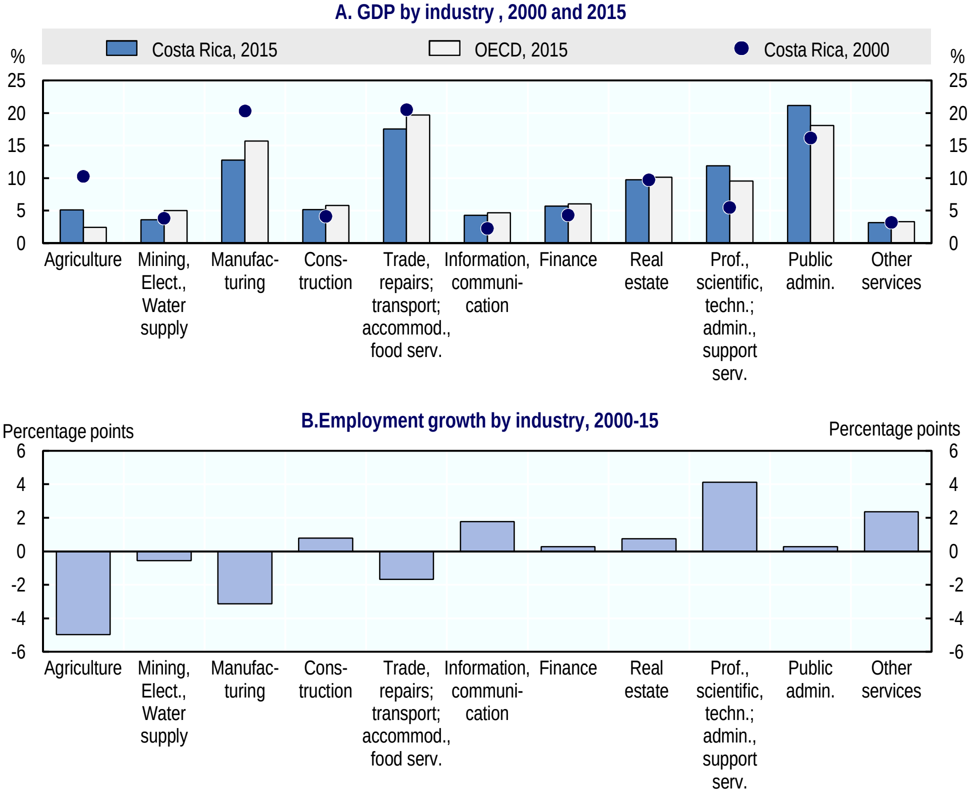
StatLink http://dx.doi.org/10.1787/888933590739

Rapid restructuring has created demand for new skills

Since the 1980s, Costa Rica has been opening its economy to international trade and private sector competition. Economic growth during the past 15 years has been concentrated in high value-added sectors such as information technology, medical devices and services to businesses including finance and real estate (Figure 1.3, Panel A). By 2015, the structure of Costa Rica's economy had become similar to that of service-oriented OECD countries. For example, the proportion of GDP attributed to skill-intensive business services (IT, communication, finance, insurance and real estate) is similar to the OECD average. Agriculture, however, still accounts for 5% of GDP in Costa Rica compared with 2.5% in the OECD, on average.

Employment growth by industry sector shows a similar pattern to growth in output by industry sector. Employment grew most over the 2000-15 period in services to business (5.1 percentage points) and information technology (1.8 percentage points), while the proportion of workers in agriculture fell by 5 percentage points (Figure 1.3, Panel B). Since the global financial crisis, job creation has been minimal or even negative in sectors that typically employ low-skilled workers, like construction, domestic services and agriculture. As a result of both structural and technological change, demand has shifted towards skilled workers. Yet, skill supply remains skewed towards lower levels of educational qualifications (see Section 3 below). This structural mismatch along with other labour market policies including Costa Rica's relatively high minimum wages and high Social Security contributions has made it more difficult for disadvantaged groups, especially the low-skilled and youth, to enter the labour market.

Figure 1.3. **Job creation has been highest in high-value added sector**



Note: GDP: Gross domestic product.

Source: OECD (2016), "Aggregate National Accounts, SNA 2008 (or SNA 1993): Gross domestic product", *OECD National Accounts Statistics (database)*, http://dx.doi.org/10.1787/data-00001-en for Panel A. *Encuesta de Hogares de Propósitos Múltiples* (EHPM) in 2000, and *Encuesta Continua de Empleo* (ECE) in 2015 (quarterly averages) for Panel B.

StatLink http://dx.doi.org/10.1787/888933590758

3. Large numbers of workers are poorly equipped for new job opportunities

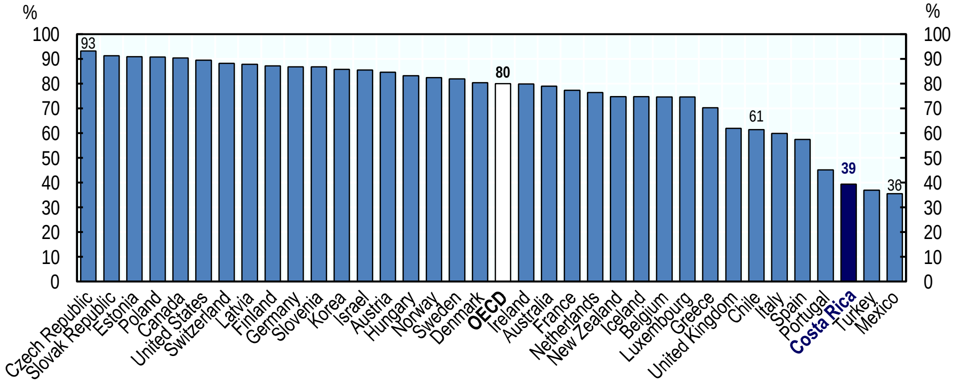
Costa Rica has been strongly commitment to promoting universal access to education. Attendance at primary and basic secondary education is free, and spending on education represented 8.3% of GDP in 2013. In the OECD, only Nordic countries and New Zealand invest a higher share of GDP on education. Nevertheless, Costa Rica lags behind in educational attainment both compared with the OECD area on average and other Latin American and Caribbean countries. Only 39% of the adult population aged 25-64 holds at least an upper secondary degree placing Costa Rica behind all OECD countries except Mexico and Turkey (Figure 1.4). Almost two-thirds of the 35-49 year-old cohort – the age group with the highest labour force participation rates – left school before completing upper secondary education.

The poor educational attainment of prime-age worker stems largely from austerity policies following the debt crisis of the early 1980s (Hidalgo, 2014; Oviedo et al., 2015; and Trejos and Murillo, 2012). Public education spending was cut substantially leaving an entire generation with severe difficulties accessing secondary education. Spending on secondary education has been increasing steadily since 2000sn which has helped to improve educational attainment among the large younger cohorts. The share of 20-34 year-olds with an upper-secondary degree reached 51.3% in 2015. However, the resources devoted to secondary education is still low in Costa Rica given its level of development (Oviedo et al., 2015), indicating scope for further improvements.

High drop-out rates from school are a further factor that keeps educational attainment low. Early drop outs also reduce the social returns on investments in education. In 2014, almost 50% of students dropped out of school, almost 9 percentage points higher than a decade earlier. This rate is among the highest across Latin America and the Caribbean (LAC) countries, and almost double the rate in Panama and Guatemala, which spend significantly less on education. Lower-secondary graduation rates have increased significantly, but are still lower than in other countries of the same region. On the one hand, low standards in teacher training and practice, due to a drop in the quality of teaching in the newer generation of educational professionals, have been put forward as a major factor behind high drop-outs and low completion rates (Segreda, 2008). On the other, drop-out rates can also be attributed to some general factors including a lack of motivation, distance from school (in rural areas), and gender bias. However, the specific factors that push children out of school are still unknown, as are the critical ages at which early signs of dropout can be detected (World Bank, 2015).

Figure 1.4. **Fewer than half of the adult population has attained at least upper-secondary education**

Proportion of the adult population (aged 25-64) that has attained upper-secondary education, 2015 or latest available year



Source: OECD (2016), Table A1.1. Educational attainment of 25-64 year-olds (2015), http://dx.doi.org/10.1787/eag-2016-table6-en, in OECD (2016), *Education at a Glance 2016: OECD Indicators*, OECD Publishing, Paris, http://dx.doi.org/10.1787/eag-2016-en.

StatLink http://dx.doi.org/10.1787/888933590777

Costa Rica's performance in reading, mathematics and science is also poor compared with OECD countries, reflecting many challenges faced by the education system. For instance, high-need schools in Costa Rica are unusually lacking in educational resources in comparison with other schools (OECD, 2017, forthcoming). Evidence suggests that while PISA scores are improving faster in LAC countries than in OECD countries, Costa Rica's performance has deteriorated (OECD/ECLAC/CAF, 2016). Improving the quality of education is essential but also needs to be combined with labour market policies to tackle disadvantage arising from low education levels among those who have already left school. More attention also needs to be paid to activation, including training, to avoid people's already low skills (including *soft* and basic skills) becoming entirely obsolete as a result of long periods of unemployment or inactivity.

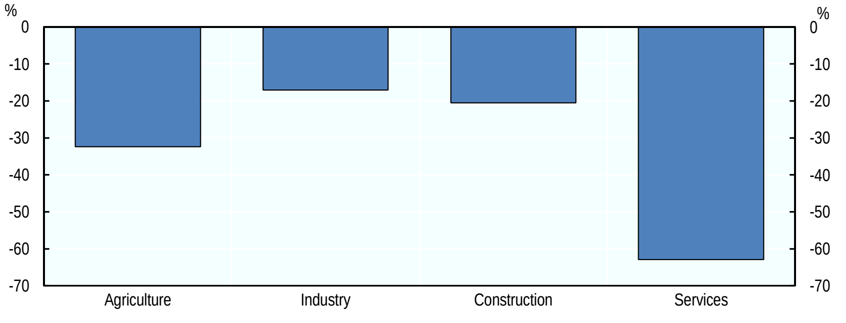
Skill shortages are leaving many employers struggling to fill vacancies despite rising unemployment. In a survey among employers in 2015, almost half of firms reported difficulties filling jobs in certain posts (Manpower group 2015). As a result, Costa Rica has of the largest skills premiums in Latin America, with high-skilled workers earning on average more than three times as much as low-skilled workers (OECD, 2016a). A large and rising wage premium for more-educated and skilled workers has been the primary factor driving the increase in inequality (Gindling and Trejos, 2014).

4. Informality hinders progress towards better-quality jobs

A large informal economy not only weakens public finances but is also an obstacle to creating more productive, better paid and better quality jobs. Informal workers are paid substantially less than formal workers in the same economic sector. For instance, wage gaps for informal workers in the service sector can be as high as 60% (Figure 1.5). In addition, informal workers typically do not have ready access to upskilling programmes and they do not receive the non-wage benefits that formal-sector workers are entitled to, including coverage in social insurance programmes. Instead, they rely on basic forms of non-contributory benefits and services that are not conditional on own contributions. The resulting imbalance between contributions and benefits erodes the financial and social sustainability of social protection provision in Costa Rica.

Figure 1.5. **Informal workers earn substantially less than their counterparts in the formal sector**

Percentage of hourly wage of full-time formal employees, 2015



Note: ILO: International Labour Organization. ISIC: International Standard Industrial Classification.

Estimates are based on the ILO definition of informality. *Informal workers* are those who are either salaried employed not paying social contributions, or not entitled to formal right attached to the job (vacations, sick leave, etc.) or self-employed whose business is not registered or with no formal accounting procedures.

Hourly wage is defined as the monthly wage divided by the usual number of hours worked in the month, assuming that the hours' schedule does not change within the month, compared with the weekly number of hours worked reported in the reference week. Industries are defined according to ISIC Rev. 4 classification.

Wage gap is defined as the difference in hourly wage between formal and informal full-time employees (working more than 30 hours a week), divided by the wage of formal full-time employees.

Source: OECD estimates based on *Instituto Nacional de Estadística y Censos* (INEC), *Encuesta Continua de Empleo* (ECE).

StatLink http://dx.doi.org/10.1787/888933590796

Approximately one in three workers in Costa Rica is informal based on a common definition of informality: the lack of Social Security contributions paid by the worker or by the employer on behalf of the worker. The informal sector is smaller than in neighbouring Central American countries and other Latin American countries such as Argentina, Colombia and Mexico, but very large by OECD standards (Figure 1.6, Panel A). Following a downward trend between 2004 and 2010 – largely due to policies that subsidised social insurance payments for self-employed workers – informality increased following the global financial crisis (Figure 1.6, Panel B). While the magnitude of the increase varies depending on the type of definition and survey used, all measures of informality show that the decline in informality stalled after 2010 (see Box 1.1).

Figure 1.6. **Informality remains high by international standards**

Percentages

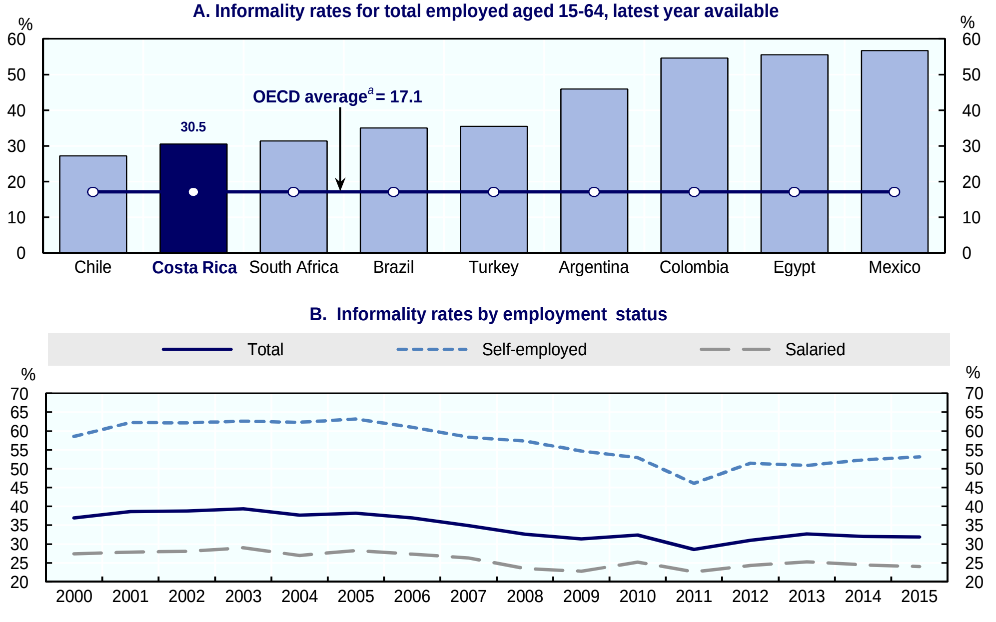
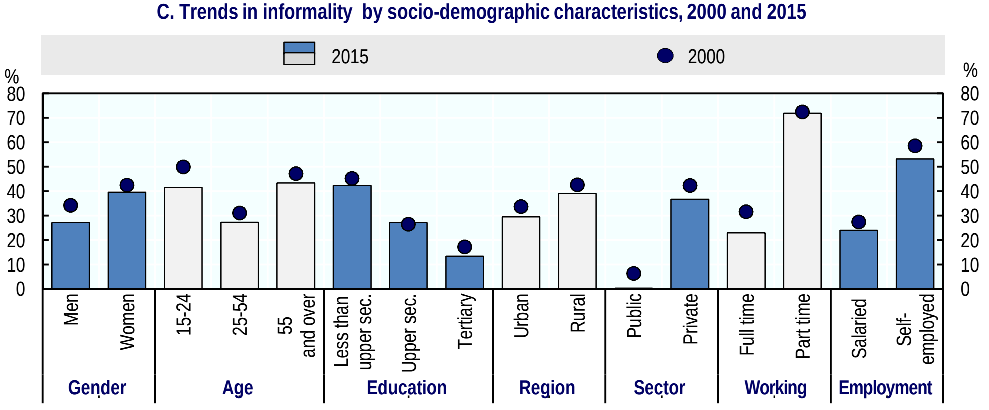


Figure 1.6. **Informality remains high by international standards** *(cont.)*

Percentages



Note: Informality is defined to include: i) employees who do not pay Social Security contributions, and ii) self-employed who do not pay Social Security contributions (Chile, Costa Rica and Turkey), or whose business is not registered (Argentina, Brazil, Colombia, Egypt, Mexico, Peru and South Africa).

a) Unweighted average of informality rates for 24 OECD countries (Austria, Belgium, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Israel, Italy, Latvia, the Netherlands, Norway, Poland, Portugal, the Slovak Republic, Slovenia, Spain, Sweden, Switzerland, the United Kingdom), published in Figure 1.26, p. 84 in OECD (2016), *OECD Reviews of Labour Market and Social Policies: Latvia 2016*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264250505-en.

Source: OECD (2016), "Closing gender gaps in the labour markets of emerging economies: The unfinished job", Chapter 4, *OECD Employment Outlook 2016*, http://dx.doi.org/10.1787/empl_outlook-2016-en; and OECD (2016), *OECD Reviews of Labour Market and Social Policies: Latvia 2016*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264250505-en for Panel A. OECD estimates using data provided by the *Instituto Nacional de Estadística y Censos* (INEC), *Encuesta de Hogares de Propósitos Múltiples* (EHPM) (2000-09) (annual data), and *Encuesta Continua de Empleo* (ECE) (2010-15) (quarterly averages) for Panels B and C.

StatLink http://dx.doi.org/10.1787/888933590815

Box 1.1. **Definition and measurement of the informal sector in Costa Rica**

Changes in definition of informality and discontinuity of different surveys make it difficult to calculate long-term trends in Costa Rica. Informality can be measured by three different surveys: i) *Encuesta de Hogares de Propósitos Múltiples* (EHPM) which was conducted only until 2010, ii) *Encuesta de Hogares de Propósitos Múltiples* (ENAHO), and iii) *Encuesta Continua de Empleo* (ECE) available only since 2010.

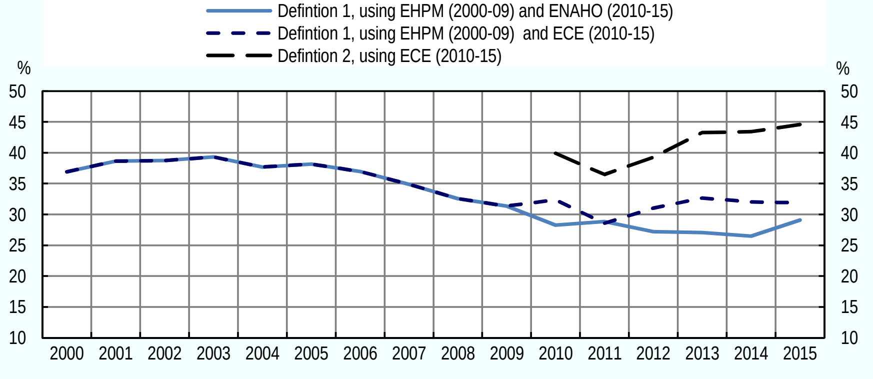
Box 1.1. **Definition and measurement of the informal sector in Costa Rica** *(cont.)*

In order to make consistent comparisons across countries and over time, in this report we use a measure of the informal sector that is common in international comparisons and is able to be calculated in Costa Rica for the entire 2000-15 period. Informal workers include anyone who is insured through a family member (not directly from their employer), is insured by a government programme for the poor or does not have insurance. In this report, prior to 2010 we apply this definition to the ENAHO and ECE thereafter. Using this definition, 32% of workers are informal in 2015 (24% of employees and 53% of self-employed), while using the ENAHO, 29% of workers are informal (see the figure below in the box).

Whether informality increases or decreases from 2011 to 2015 depends on the survey used; using the ECE informality increases from 2011 to 2013 and then falls from 2014 to 2015, but using the ENAHO informality decreases from 2011 to 2014 and then increases from 2014 to 2015. By whatever definition or survey used, informality declines in Costa Rica from 2000 to 2011, and then from 2011 to 2015 the decline in informality stalls.

Note: The definition of *informality* in this report differs from the official Costa Rican National Statistics and Census [*Instituto Nacional de Estadística y Censos*] (INEC) definition, which was developed in 2014 using information from the ECE. In this definition *informal workers* include: employees whose employers do not directly pay Social Security taxes; employees who only get paid in kind; self-employed workers and employers who are not registered and do not keep formal accounts; own-account workers with temporary jobs (working less than one month); and unpaid family workers. According to this definition, informality increased from 2010 to 2015 (see figure below), reaching 45% of all workers, 34% of employees and 85% of the self-employed.

Alternative measures of labour informality in Costa Rica



Source: *Instituto Nacional de Estadística y Censos* (INEC), *Encuesta de Hogares de Propósitos Múltiples* (EHPM) (2000-09), *Encuesta Continua de Empleo* (ECE), and *Encuesta Nacional de Hogares* (ENAHO) (2010-15).

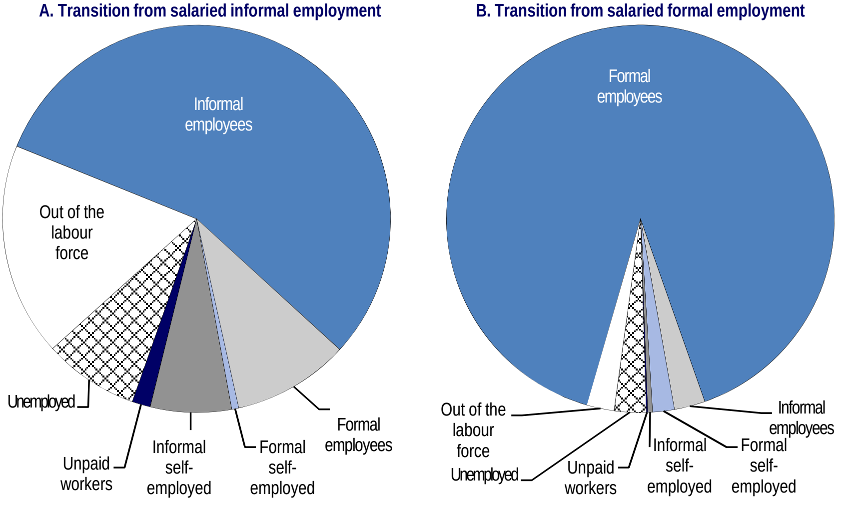
StatLink http://dx.doi.org/10.1787/888933590967

Informality in Costa Rica is more common among women, the less-educated and youth (Figure 1.6, Panel C). Informality is also related to the sectoral composition of the economy. In 2015, almost 50% of agricultural workers were informal, 45% in construction and 25% in manufacturing. Over 70% of part-time workers do not contribute to Social Security and, unlike for other workers, their informality rates did not fall between 2000 and 2015. One reason is that many part-time workers are effectively covered through social insurance contributions of family members who work in the formal sector, and thus have little incentives to become formal. More generally, social insurance contribution rules are not adapted to the needs of part-time workers. Social insurance contributions are subject to minimum payments set as a percentage of the legal minimum wage for full-time workers. If part-time workers earn less, their effective contribution rates are higher than for full-time workers, which creates further incentives to remain informal.

In view of the high incidence of informality in Costa Rica and the poor job quality outcomes associated with informal work, a key issue for employment policy is the extent to which informal work is a stepping stone towards formal work. Panel data for Costa Rica show that few informal workers (10%) shift to formal work each year. Instead, most remain in informal work (56%) or stop working altogether (26%) (Figure 1.7). Therefore action is needed to encourage formal-sector employment by addressing policy-related barriers such as social insurance provisions that distort choices between formal and informal work. Even gradual progress on the formalisation agenda is likely to bring substantial longer-term gains as, once in the formal sector, workers tend to stay there. For instance, only 3% of formal-sector workers transitioned into informal jobs between 2014 to 2015 and very few stopped working.

Figure 1.7. **Very few informal workers move into formal jobs each year**

Transition rates from informal or formal employment, 2015



Note: Formal workers are defined as workers who contribute to pension system and health insurance. *Informal* ones are workers who do not contribute to pension system and health insurance.

Source: Instituto Nacional de Estadística y Censos (INEC), *Encuesta Continua de Empleo* (ECE).

StatLink http://dx.doi.org/10.1787/888933590834

5. Inequality and poverty are high but improved recently

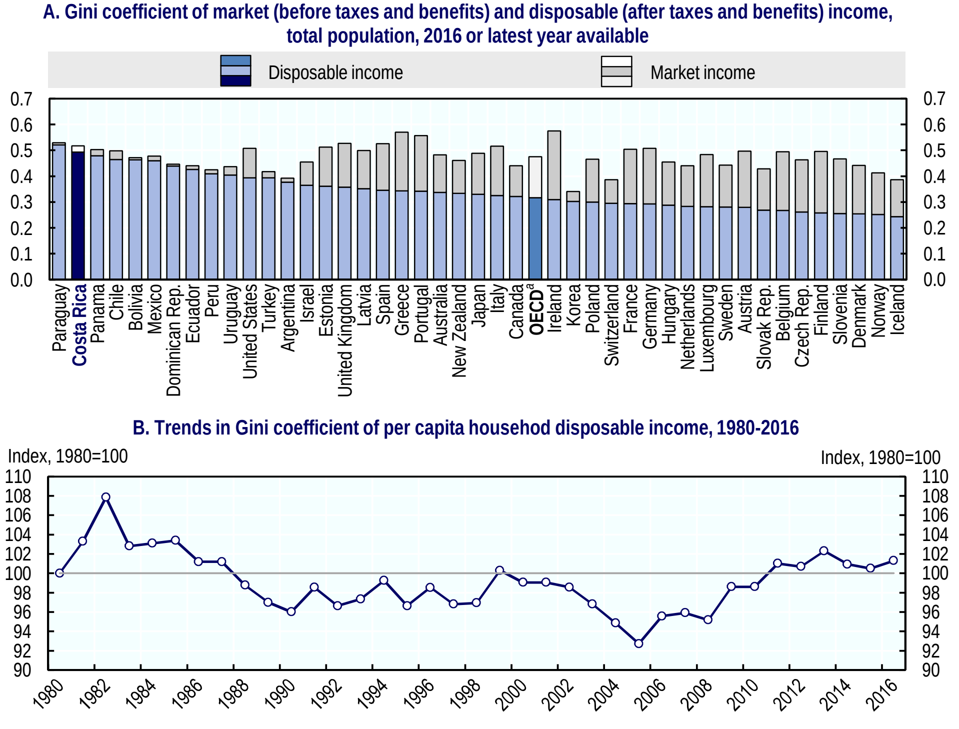
Costa Rica achieved, during the second half of the 20th century, rather high and widespread levels of human development and social mobility, and one of the lowest levels of income inequality and poverty in Latin America. These outcomes stemmed from public investment in physical and social infrastructure, with a growing public share in a context of democratic governance and respect for individual freedoms, where the peaceful settlement of conflicts was the norm rather than the exception.

In the last two decades, however, Costa Rica has made little progress in reducing poverty and inequality, despite substantial public resources invested to these purposes. Still, it should be noted that using international absolute poverty lines (typically using a threshold of 1.9, 2.5 or 4 USD a day) poverty in Costa Rica is lower than in most Latin American countries (see Box 1.2). Income inequality is similar to the region average and other social indicators (e.g. child mortality and life expectancy) have continued to improve and achieve favourable levels (Sauma, 2010).

Income inequality is high and redistribution does little to alleviate it

Income inequality in Costa Rica is high by international standards and much higher than the OECD average. In 2016, the average disposable income of households at the top 20% of the distribution was almost 15 times higher than at the bottom 20% – the OECD average is 5.4. Measured by the Gini coefficient, inequality of disposable income in Costa Rica was 0.49, more than one-and-a-half times the OECD average (0.32) (see Figure 1.8, Panel A).

Figure 1.8. **Inequality is high and persistent, redistribution is low**



Note: Countries are ranked in decreasing order of the disposable income in Panel A. For Panel B, missing data interpolated in 1984 and breaks in series spliced in 1987, 2001 and 2010. See Box 1.2 for details.

a) Unweighted averages of the 35 OECD countries.

Source: *OECD Income Distribution Database*, http://oe.cd/idd for Panel A. *Instituto Nacional de Estadística y Censos* (INEC), *Encuestas Nacionales de Empleo y Desempleo* (ENHED) (1980-86), *Encuesta de Hogares de Propósitos Múltiples* (EHPM) (1987-2009), and INEC, *Encuesta Nacional de Hogares* (ENAHO) (2010-16) for Panel B.

StatLink http://dx.doi.org/10.1787/888933590853

No longer one of the least unequal countries in Latin America

Income inequality in Costa Rica has risen in the last ten years. Unlike other countries in Latin America, the inequality fall experienced in the early 2000s reversed in the second half of the decade and continued to grow during the 2010s, albeit at a slower pace in recent years. By 2016, the Gini coefficient of household disposable income per capita is about the same as in 1980 (see Figure 1.8, Panel B). Since most Latin American countries have reduced inequality in recent years, Costa Rica moved from being one of the countries with the lowest levels of inequality in the region to an intermediate position (Gasparini et al., 2016; and Gindling and Trejos, 2014).

Table 1.3. **Education wage premium drives inequality in Costa Rica**

Evolution of inequality of household per capita income by source, 2001-14

	Income composition (%)		Elasticity of Gini coefficient		Contribution to Gini coefficient (%)		Contribution to changes in Gini coefficient (%)		
	2001	2014	2001	2014	2001	2014	2001-05	2005-09	2010-14
Income source	**100.0**	**100.0**			**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Skilled public-sector employee	18.5	20.9	1.483	1.436	27.4	30.1	21.7	24.5	14.5
Skilled private-sector employee	18.4	23.3	1.362	1.192	25.0	27.8	-32.5	12.0	101.9
Contributory pension	6.0	10.4	1.057	1.201	6.3	12.4	-18.1	23.3	51.5
Employer income	11.8	7.8	1.390	1.536	16.3	12.0	82.6	64.1	134.1
Capital income	2.2	4.0	1.433	1.449	3.2	5.9	-4.2	37.7	-9.0
Self-employment income – Professionals	2.9	2.5	1.469	1.426	4.3	3.6	3.3	10.0	-67.3
Self-employment income – Other	9.9	6.3	0.531	0.499	5.2	3.2	23.1	-3.9	-58.9
Unskilled private-sector employee	22.9	15.3	0.367	0.173	8.4	2.6	30.1	-40.5	-19.8
Income from private transfers	2.7	3.3	0.812	0.562	2.2	1.8	-10.7	-10.1	-41.3
Unskilled public-sector employee	3.0	2.5	0.597	0.595	1.8	1.5	3.9	-5.9	0.8
Salary domestic service	1.2	1.8	0.100	0.112	0.1	0.2	1.3	-1.0	1.6
Other social transfers	0.6	1.9	-0.478	-0.592	-0.3	-1.1	-0.5	-10.2	-8.0

Source: Estimates from Trejos, J.D. and L.A. Oviedo (2012), "Cambios en la distribución del ingreso familiar en Costa Rica durante la primera década del siglo XXI", *Ciencias Económicas*, Vol. 30, No. 2, pp. 9-29; and from Trejos, J.D. (2015), "Cambios en la distribución del ingreso familiar en Costa Rica durante el quinquenio 2010-2014", Ponencia preparada para el Vigésimo Primer Informe Estado de la Nación en Desarrollo Humano Sostenible 2014 [Paper prepared for the 21st National Report on Sustainable Human Development 2014], Programa Estado de la Nación en Desarrollo Humano Sostenible [National programme for Sustainable Human Development], www.estadonacion.or.cr/files/biblioteca_virtual/021/social/TrejosJD_2015a.pdf.

StatLink http://dx.doi.org/10.1787/888933591537

Rising inequality was driven by considerable changes in the composition of household incomes during the last 15 years. While labour is still the main income source, its contribution fell from almost 90% of household income in 2001 to 80% in 2014, due to decline of self-employed incomes (see Table 1.3). Wages, the principal source of labour income, remained stable as a share of household incomes. However, there was a strong shift from wages earned by non-skilled to those earned by skilled employees (i.e. employees with at least with completed secondary education).[3] Rises in non-labour income were driven by a significant increase in cash transfers, mainly contributory pensions, although other social transfers (non-contributory pensions, scholarships, conditional cash transfers and other cash assistance) also played a role, especially in the second half of the 2000s. Income from capital also increased in the period, almost doubling its participation in overall household income.

In Costa Rica, wages of skilled employees are the income source that contributes the most to income inequality, measured by the Gini coefficient. Reflecting a rise in the wage premium associated with education, their contribution to inequality has increased considerably in the last 15 years. In fact, wages of skilled employees explain almost 60% of the value of the Gini coefficient in 2014 (30 percentage points in the public sector and 28 percentage points in the private sector). Contributory pensions and capital income have also contributed to raise inequality and play an increasing role. Social transfers (excluding contributory pensions) are the only income source whose contribution to inequality is negative.

Income inequality has risen in recent years as wages from skilled workers, contributory pensions and capital income have increased faster than other income sources. In the early 2000s, income inequality fell due to a contraction of wages among skilled public sector workers, employers and professionals' incomes. Wages of skilled employees in private sector continued rising lessening the inequality fall and indicating that the education wage premium continued increasing even in this period of falling inequality. Similarly, contributory pensions, income from capital and private transfers also pushed towards greater inequality.

In the second half of the 2000s, income inequality rebounded along with strong economic growth. Inequality was driven up by the rise of employers and capital income and, to a lower extent, wages of skilled public-sector workers and contributory pensions. Since 2010, inequality has continued to rise, albeit at a slower pace. Unskilled workers have not benefited from the economic recovery after the 2009 crisis, as their wages continued to fall, probably due to high unemployment. Meanwhile, incomes have grown among employers, pensioners, and skilled workers from private and, to a lesser extent, public sector.

As in previous periods, rising education wage premium (in the private and public sectors), generous contributory pensions and better business opportunities for employers than for self-employed workers have been driving the rise in inequality. Minimum wages increased in real terms, due to lower inflation and a new setting agreement, however, lack of compliance with minimum wage legislation and high unemployment have kept wages of unskilled workers compressed (see Chapter 2).

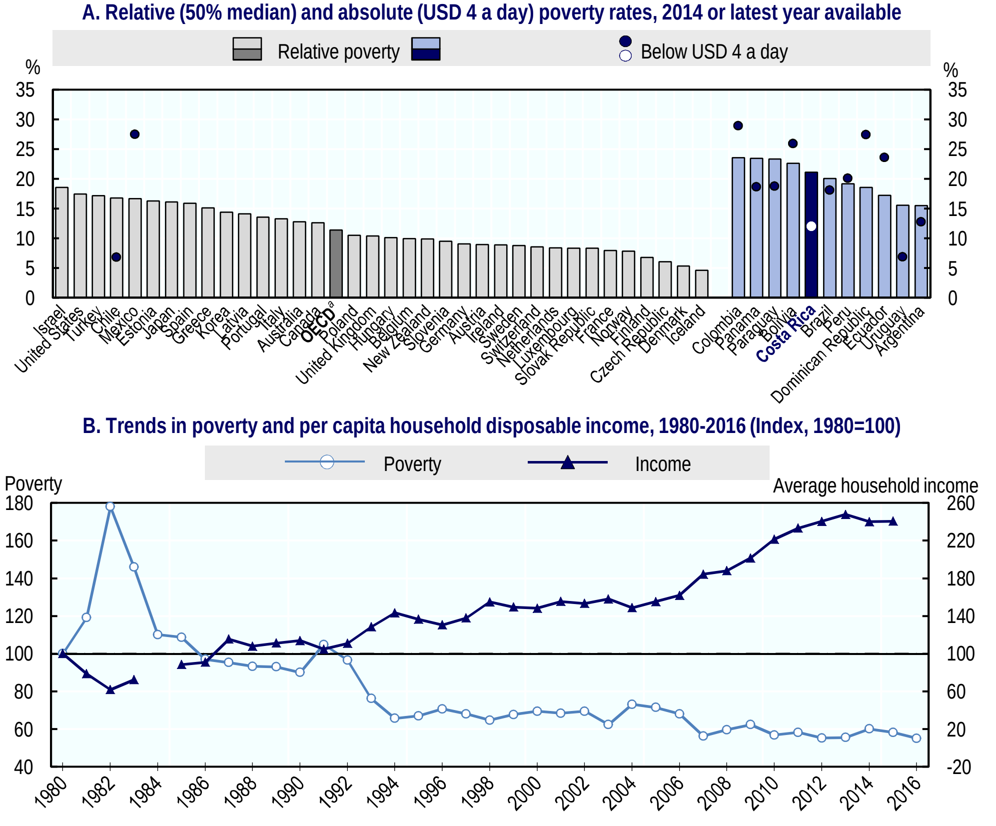
Income growth could have lifted more people out of poverty

Relative poverty, as commonly measured by the OECD, is higher in Costa Rica than in any OECD country. In 2016, 21.5% Costa Ricans lived in households with incomes below the relative poverty line, almost twice the OECD average (11.4%). Using international absolute poverty lines (typically using thresholds of 1.9, 2.5 or 4 USD a day) poverty in Costa Rica is relatively low and lower than in most Latin American countries (see Figure 1.9, Panel A). In Costa Rica, the official poverty rate is estimated on the basis of a basket of goods and services deemed to be basic for subsistence (see Box 1.2 below). Also, an extreme poverty line is based only on the value of food items of the subsistence basket. In 2016, more than one in five Costa Ricans were in poverty and one in thirteen in extreme poverty.

In the last 20 years, poverty in Costa Rica has barely changed despite economic growth. Between 1980 and 1995, trends in official poverty rates mirrored incomes. Poverty increased dramatically during the debt crisis and quickly receded during the economic recovery until the mid-1990s. This favourable trend, which departs from the experience in most Latin American countries, has been explained by the country’s social institutions and social policies (García-Huidobro, et al., 1990; and Barahona, et al., 1999).

Poverty barely budged during the low income growth period comprised between 1995 and 2005. Poverty fell considerably between 2005 and 2007, following strong economic growth, particular in the construction and agriculture sectors, and the strengthening of social cash transfers to poor families. Since 2008, however, poverty has remained relatively stable both in good and bad times. Poverty increased little during the rise in food prices and the international financial crisis of 2008 and 2009. Similarly, since 2010 the fall in poverty has been small despite considerable economic growth (see Figure 1.9, Panel B).[4]

Figure 1.9. **High and stagnant poverty despite strong income growth in the last decade**



Note: For Panel A, estimates based on *OECD Income Distribution Database*'s definitions (see www.oecd.org/els/soc/income-distribution-database.htm). Data refers to 2009 for Japan, 2011 for Canada, 2013 for Chile and 2015 for Costa Rica. There was no available data for the Gini coefficient of gross income for Hungary, Japan, Korea, Mexico and Turkey. For Panel B, missing data interpolated in 1984 and breaks in series spliced in 1987, 2001 and 2010. See Box 1.2 for details.

a) Unweighted average of the 35 OECD countries.

Source: OECD Income Distribution Database, http://oe.cd/idd and SEDLAC (CEDLAS and The World Bank), http://sedlac.econo.unlp.edu.ar/eng/index.php, data retrieved on 11 November 2016 for Panel A. Trejos, J.D. (2015), "Cambios en la distribución del ingreso familiar en Costa Rica durante el quinquenio 2010-2014" [Changes in the distribution of family income in Costa Rica during the five-year period 2010-2014], Ponencia preparada para el Vigésimo Primer Informe Estado de la Nación en Desarrollo Humano Sostenible 2014 [Paper prepared for the 21st National Report on Sustainable Human Development 2014], Programa Estado de la Nación en Desarrollo Humano Sostenible [National programme for Sustainable Human Development], Estado de la Nación, www.estadonacion.or.cr/files/biblioteca_virtual/021/social/TrejosJD_2015a.pdf, and *Encuesta Nacional de Hogares* (ENAHO) (2010-15) for Panel B.

StatLink http://dx.doi.org/10.1787/888933590872

The profile of households in poverty has changed little over time in Costa Rica (Trejos, 1995 and 2006; and Sauma and Trejos, 2014). Although families are now smaller, poor households tend to be larger and with children. Children face higher poverty risk, particularly in early stages of the life cycle (Barquero and Trejos, 2004). Poverty also disproportionately affects older adults, although adjustments in non-contributory pensions have reduced their vulnerability (see Chapter 3). The growing group of female-headed households also faces a greater poverty risk. About half of urban households in extreme poverty are headed by women (Gindling and Oviedo, 2008). Households headed by women with care responsibilities (children or elderly) are among the most vulnerable to material deprivation.

Poor households have seen improvements of physical and sanitary conditions of their homes and health due to extended access to public services. Access to health services and primary education is virtually universal and there has been progress in access to secondary education, although still incomplete. Targeted social policies (e.g. non-contributory pensions, conditional and unconditional cash transfers) are relatively effective in reaching the vulnerable population, there are few leakages (i.e. entitlement to non-eligible groups), however due to limited resources exclusion errors (i.e. no entitlement to eligible groups) are common (Trejos, 2008a; and IICE, 2015) (see Chapter 3).

Poor households have lower employment rates despite having a similar share of household members potentially able to join the labour market. Lower employment is mainly due to lower participation (especially among women), higher unemployment and underemployment and higher precariousness (low quality jobs and greater instability). Relying on limited human capital, poor households access jobs with lower quality and pay, particularly informal jobs in agriculture and small-scale production. About one fifth of poor households do not have any household member at work, which makes them very vulnerable as social protection is insufficient to address the risks of unemployment and inactivity (Saborio and Rodriguez, 2006; Trejos, 2010; and Sauma and Trejos, 2014).

Most people in poverty live in urban areas. About two-thirds of total poverty in Costa Rica is urban. The "urbanisation of poverty" (i.e. share of poor people living in urban areas) is increasing as more and more people live in cities. The risk of being in poverty, however, is still higher in rural areas and in the periphery. More than one in four rural households is in poverty. Among urban households poverty affects fewer than one in five.

In peripheral regions, the extent of poverty depends more on the production structure than on the level of urbanisation. Poverty is lower in *Huetares* (North Atlantic) despite being mostly rural, as it relies on the stable employment from commercial agriculture (banana and pineapple). Similarly, in the Central Pacific region poverty is lower due to employment opportunities in services (tourism and port) and in the fishing industry. In the central region, rural areas show poverty levels even below the urban average due to its proximity to the urban and metropolitan areas (Trejos, 2010).

Box 1.2. **Income, inequality and poverty measurement in Costa Rica**

Income, inequality and poverty are monitored annually by the Costa Rican National Statistics Institute (INEC – *Instituto Nacional de Estadística y Censos*). Since 2010, income data is collected from National Household Survey (ENAHO – *Encuesta de Hogares de Propósitos Múltiples*), which incorporates the latest international recommendations on the measurement of employment and income. Salary incomes are measured net of Social Security and income tax contributions, including payments in kind and the proportional share of deferred wages. The reference income period is the previous month (June) as the survey is conducted in July of each year. Non-response imputations are made for all income sources and total household income is adjusted for underreporting in comparison to national accounts. Between 2010 and 2013, the sample was designed based on 2000 census, since 2014 it takes the 2011 census as base. Weights are also adjusted to make population estimates consistent with 2011 census results and derived population projections, although the proportions of urban and rural populations were kept fixed.

Surveys previous to ENAHO had different coverage of income sources and treatment of non-response and under-reporting, thus limiting comparability over time. Between 1976 and 1986, National Employment and Unemployment Surveys (ENHED – *Encuestas Nacionales de Empleo y Desempleo*) measured only gross monetary wages of employees and had no treatment for non-response or underreporting. From 1980, ENHED also included self-employment income. Between 1987 and 2009, the Multiple Purpose Household Survey (EHPM – *Encuesta de Hogares de Propósitos Múltiples*) introduced some small changes in the measurement of economic activity and unemployment and includes other non-labour incomes. EHPM had no treatment of non-response or underreporting, except for poverty estimates. The proportion of the urban population was adjusted only when new census were available (typically every ten years).

The *OECD Income Distribution Database* (IDD) estimates for Costa Rica were computed by INEC based on these surveys. Estimations follow the IDD guidelines and methodology.[1] Differently from INEC, IDD incomes are equivalised using the square root of household size (INEC uses per capita income) and not adjusted for differences with national accounts.

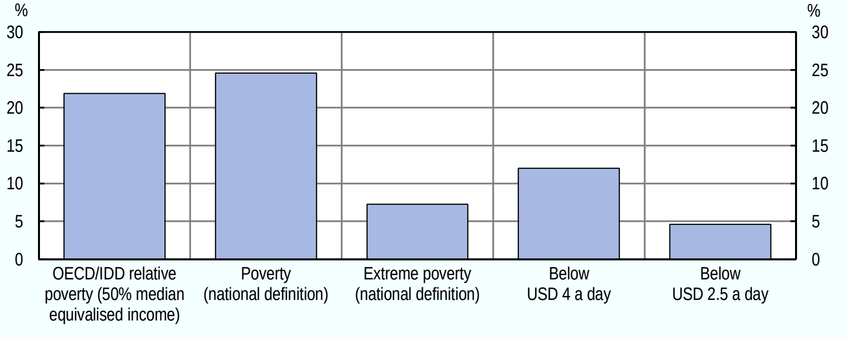
IDD measures poverty using a *relative poverty line* defined as half the median equivalised household disposable income (an alternative estimate based on 60% of the median is also computed). INEC measures poverty against an *absolute poverty line* estimated as the minimum income required for a person to satisfy food and non-food needs. These needs are based on a basket of goods and services deemed to be basic for subsistence. This basket is built based on information obtained from the Survey on Income and Expenditure (ENIGH – *Encuesta Nacional de Ingresos y Gastos de los Hogares*). Both composition and cost are determined separately for urban and rural areas. The value of the basket, i.e. the poverty line, is updated according to monthly changes in the prices of food and non-food items, weighted by area of residence, according to the calculations underpinning the consumer price index. A household is considered to be poor if its per capita income is equal or below to the poverty line of the respective area (urban or rural). Households are considered in extreme poverty if their per capita income is below the value of the basic basket excluding all non-food items. Before 2010, food and non-food components of the poverty line were adjusted using the food consumer price index (CPI). This was likely to have overestimated poverty when food prices were rising faster than overall prices, as happened in 2007-09. In 2009, the poverty rate would have been about 3 percentage points lower, if the non-food component of the poverty line had been updated using the general CPI. Since 2010, the official poverty line is adjusted using the food CPI for the food component of the poverty line and the non-food CPI for the non-food part.

Box 1.2. **Income, inequality and poverty measurement in Costa Rica** *(cont.)*

International absolute poverty lines are used to estimate the incidence of poverty in international dollars per day and per person. The *Socio-Economic Database for Latin America and the Caribbean* (SEDLAC) harmonises data from Latin America and the Caribbean countries for cross-country comparability of poverty and inequality measures. SEDLAC measures incomes per capita. Poverty is estimated using a poverty line set at USD 4 a day and extreme poverty at USD 2.50 a day. According to Lustig and Higgings (2013), these limits are close to the median of the official extreme poverty and total poverty lines used in Latin America (CEDLAS and World Bank, 2012). However, in the case of Costa Rica, national poverty lines are considerably higher than these thresholds. In 2014, poverty incidence according to the official poverty line was about twice that measured by a poverty line set at USD 4 a day and official extreme poverty is almost 3 percentage points higher than using USD 2.5 a day. In fact, the official poverty rate is closer, although still higher, to that measured using the IDD relative poverty line.

Poverty incidence in Costa Rica using different measures

Percentage of population in poverty using alternative poverty measures



Note: OECD/IDD relative poverty computed based on equivalised disposable income. Other indicators based on income per capita.

Source: OECD Income Distribution Database (IDD), http:/oe.cd/idd; *Instituto Nacional de Estadística y Censos* (INEC) (2016), "ENAHO. 2016. Nivel de pobreza por LP según características de los hogares y las personas, julio 2015 y julio 2016, www.inec.go.cr/pobreza-y-desigualdad/pobreza-por-linea-de-ingreso; and *Socio-Economic Database for Latin America and the Caribbean* (SEDLAC), (CEDLAS and The World Bank), version May 2016, http://sedlac.econo.unlp.edu.ar/eng/ accessed on 20/11/2016.

StatLink http://dx.doi.org/10.1787/888933590986

---

1. Details about IDD methods and definitions are available at www.oecd.org/els/soc/income-distribution-database.htm.

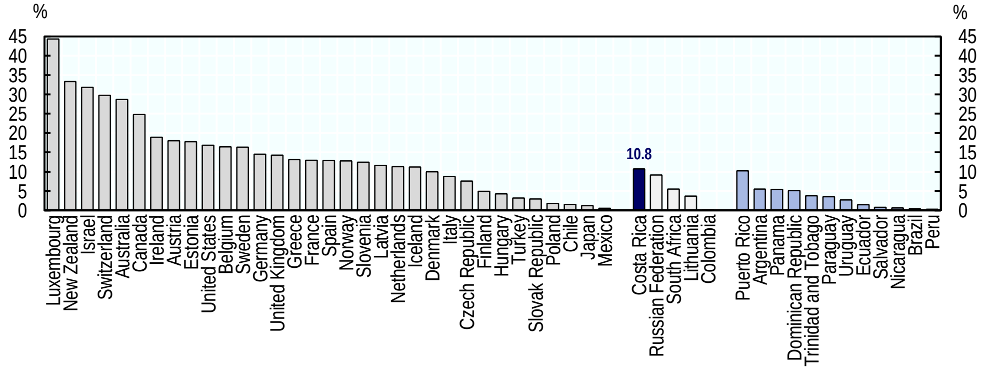
Source: World Bank (2015), "Costa Rica's development: From good to better", *Systematic Country Diagnostic*, World Bank, Washington, DC, http://documents.worldbank.org/curated/en/847271468190746362/Costa-Rica-s-development-from-good-to-better-systematic-country-diagnostic; and OECD (2016), *OECD Economic Surveys: Costa Rica 2016 – Economic Assessment,* OECD Publishing, Paris, http://dx.doi.org/10.1787/eco_surveys-cri-2016-en.

6. Immigration is higher in Costa Rica than other countries in the region

Costa Rica has a unique history as a country of immigration in Central America, a region known otherwise for its high levels of emigration. In 2011, it was home of close to 386 000 foreign-born persons, representing 8.5% of the total population. The share of immigrants in the population aged 15 and over (11%) is the highest among all Central and South American countries, and comparable to the average share in OECD countries (see Figure 1.10).

Figure 1.10. **A high share of foreign-born people living in Costa Rica**

Percentage of population aged 15 and over (2010/11)



Source: Database on Immigrants in OECD Countries and Non-OECD Countries (DIOC 2010/11 and DIOC-E 2010/11), www.oecd.org/fr/migrations/dioc.htm.

StatLink http://dx.doi.org/10.1787/888933590891

Decades of immigration history

The current stock of immigrants present in the country is the result of a long history of immigration which accelerated in the 1980s and 1990s. During those 20 years, the immigrant population more than doubled, mainly reflecting large and rising flows from Nicaragua. While the number of immigrants continued to grow after 2000, this has been at a slower pace in comparison with the earlier period. Immigrants from Nicaragua represent three quarters of all foreign-born in Costa Rica, while those from Colombia and the United States constitute the second and third largest immigrant populations respectively. During the last five years, there has been a rise in the inflows of migrants in transit to the United States, originating mainly from Haiti and Cuba, and to a lesser extent South Asia and Africa.

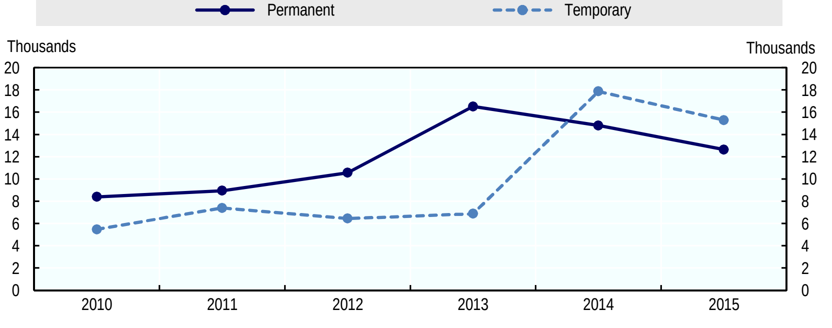
The main drivers of labour migration to Costa Rica have been the stable political climate, good socio-economic conditions relative to neighbouring countries and labour market opportunities notably for low-skilled persons (Mazza and Sohnen, 2011; and León Segura et al., 2012). The persistent demand for unskilled labour in certain sectors such as domestic services, agriculture, and construction, together with the existence of Nicaraguan migrant networks which have been developed over time in these sectors, have sustained high inflows from this country for the past three decades.

Annual migrant flows have risen sharply in recent years

Total annual migrant flows to Costa Rica doubled between 2010 and 2015, reaching 27 900 permits (see Figure 1.11).[5] This trend reflects mainly a sharp rise in migrant inflows in 2013 and 2014, when year-on-year growth reached 40%. Permanent migration flows reached their peak in 2013 with 16 505 permits, while temporary flows tripled between 2010 and 2014. This sharp increase especially in temporary migration reflects to a large extent the efforts of the Government of Costa Rica to regularise the situation of migrants present in the country. This process, which started in 2013 and still ongoing, enabled certain categories of migrants already present in the country to get a work-related permit and reside lawfully in the country.

Figure 1.11. **Rising permanent and temporary migrant flows**

Migrant flows to Costa Rica, 2010-15



Note: Permanent migration flows include refugees, family reunification and temporary migrants and their families with at least three years of residence in the country. All other permits are classified as temporary migration. Investors, retirees and *rentiers* are classified for the purpose of this report as permanent migrants.

Source: OECD International Migration Database, https://stats.oecd.org/Index.aspx?DataSetCode=MIG; OAS-OECD (2015), *International Migration in the Americas: First Report of the Continuous Reporting System on International Migration in the Americas (SICREMI) 2011*, Organization of American States, Washington, D.C. and Organisation for Economic Co-operation and Development, Paris, www.oecd.org/migration/48423814.pdf; and data provided by the *Dirección General de Migración y Extranjería* (DGME) [Migration Agency].

StatLink http://dx.doi.org/10.1787/888933590910

The majority of immigrants are of working age and low-educated

Immigrants in Costa Rica are on average more represented in the working-age cohorts than the native-born, although this varies by immigrant group. In 2015, they represented 11% of the working-age population. The vast majority (86%) of immigrants in Costa Rica are aged 15-64 and 70% are aged 25-64, versus 50% among native-born people. The share of women among immigrants stands at 53% in 2015.

The majority of immigrants are low-educated (see Figure 1.12). Close to two-thirds of them have completed at most lower secondary education, while in the OECD, this share is one-third. The share of the low educated immigrants is below that for native-born persons (60%) and somewhat below that in some countries in the region (the Dominican Republic, Argentina, Paraguay, Trinidad and Tobago and El Salvador), but above that in others, notably Chile, Peru, Panama and Brazil. Only 16% of immigrants in Costa Rica have a tertiary degree, a share that is well below that in OECD countries (30%) but also countries in the region such as Peru, Uruguay, Brazil, and Trinidad and Tobago. The socio-economic characteristics of immigrants differ sharply according to their country of origin. While immigrants born in Nicaragua have a lower education level, immigrants from other regions are usually on par with or are more highly educated than persons born in Costa Rica.

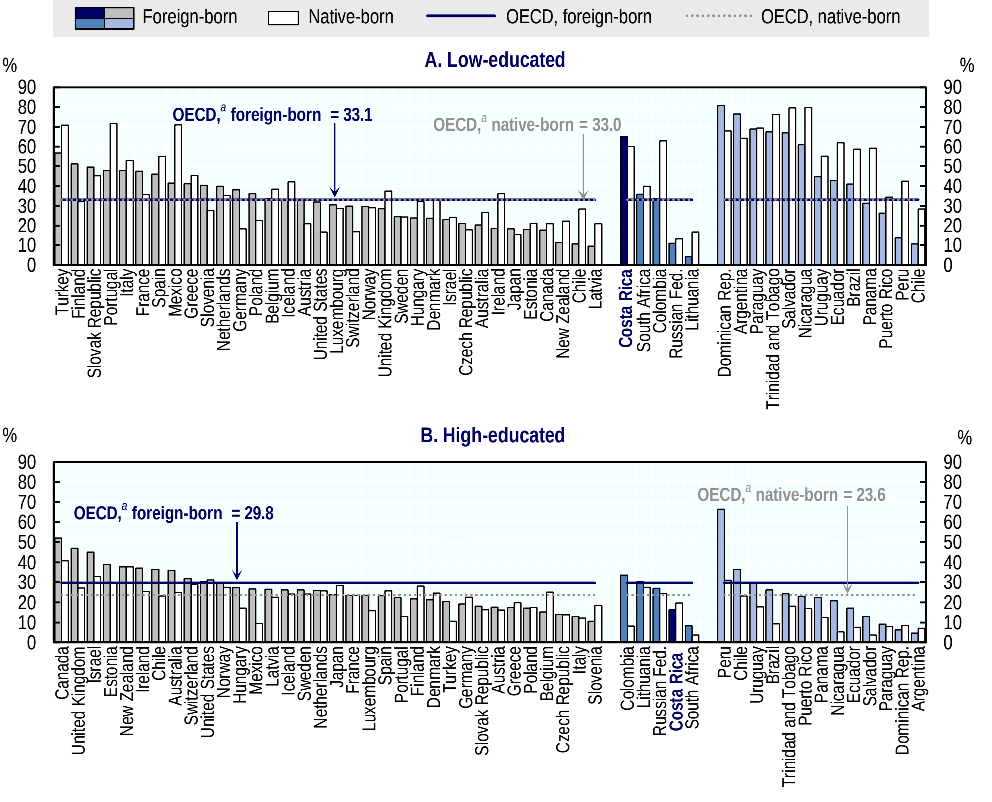
Immigrant men are well integrated in the labour market

Immigrants are faring well in the Costa Rican labour market, with the majority of them being in employment.[6] The employment rate of those of working age (15-64) was 62% in 2011, 7 percentage points higher than that of native-born persons (Figure 1.13). In addition, their employment rate was well above that of immigrants in a number of OECD countries and destinations of migrants, such as France, Belgium, Sweden, Finland, Denmark and New Zealand. These positive outcomes, are explained by the fact that the majority of immigrants in Costa Rica are labour migrants, entering the country to look for a job or with a job in hand, whereas the composition is different in many OECD countries, with close to half of persons entering as family migrants.

Immigrants in Costa Rica face very low unemployment, just 3.3.% much lower than in all other countries in the region (except Nicaragua) and all OECD and accession countries, but also slightly below that of persons born in Costa Rica. However, certain migrant groups have more difficulties accessing the labour market. The employment rate of migrant women was 52% in 2015, according to the Costa Rican household survey, 33 percentage points lower than that of immigrant men. Nonetheless, immigrant women are still more likely to work than native-born ones, who record an employment rate of 46%.

Figure 1.12. The majority of foreign-born persons in Costa Rica have a low educational attainment

Percentage of population aged 15 and over in the respective education level (2010/11)



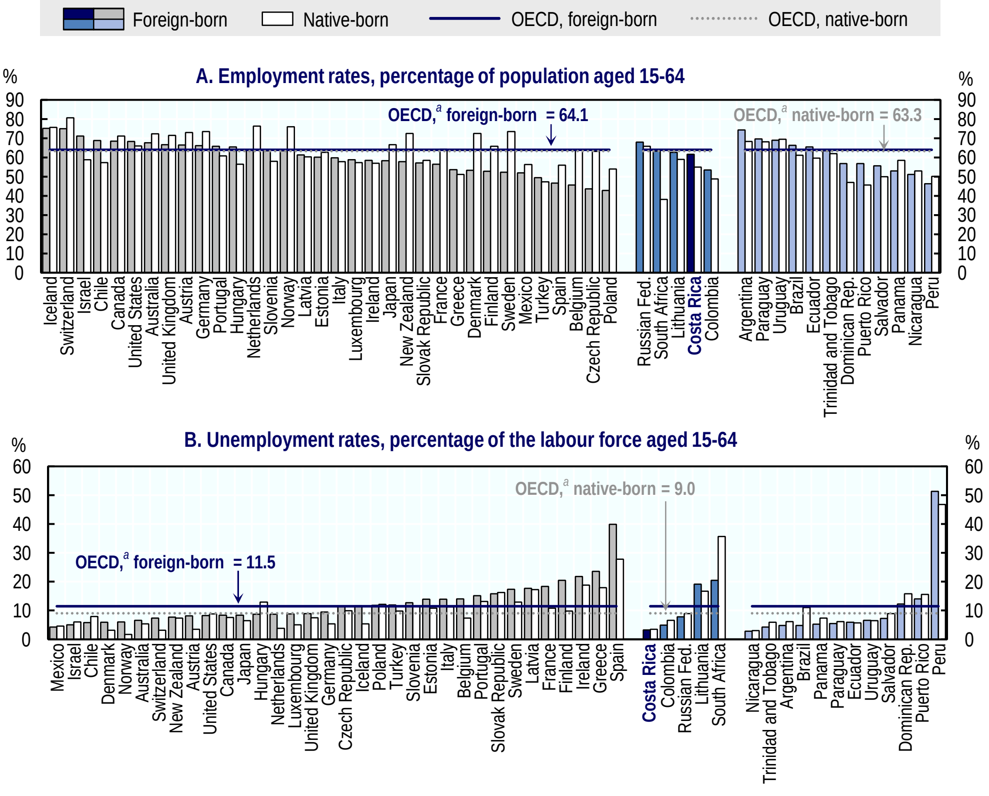
Note: Low refers to ISCED 0/1/2, *Medium* to ISCED 3/4 and *High* to ISCED 5/6. Countries are ranked in decreasing order of the share of foreign-born people in both panels.

a) Weighted average of 34 OECD countries (except Korea).

Source: Database on Immigrants in OECD Countries and Non-OECD Countries (DIOC 2010/11 and DIOC-E 2010/11), www.oecd.org/fr/migrations/dioc.htm.

StatLink http://dx.doi.org/10.1787/888933590929

Figure 1.13. **Immigrants are doing fairly well in the Costa Rican labour market**



Note: Countries are ranked in decreasing order of the employment rate of foreign-born people in Panel A, and in increasing order of the unemployment rate of foreign-born people in Panel B.

a) Weighted average of 34 OECD countries (except Korea).

Source: Database on Immigrants in OECD Countries and Non-OECD Countries (DIOC 2010/11 and DIOC-E 2010/11), www.oecd.org/fr/migrations/dioc.htm.

StatLink http://dx.doi.org/10.1787/888933590948

Immigrants contribute greatly to the Costa Rican labour market. In 2015, they represented 12% of the country's labour force. They are typically employed in low-skilled and medium-skilled occupations and in jobs which are less popular among the native-born. Two out of five migrants are in low-skilled occupations, versus just 23% for the native-born. Nicaraguans are more likely to work in low-skilled jobs than other groups of migrants. In contrast, only 5% of migrants from Nicaragua work in high-skilled jobs, while the respective share is 33% for other migrants from the region and 53%

for those from outside Latin America. Changes over time have been in favour of medium-skilled jobs for migrant women, while immigrant men are found today more at the two extremes of the skills distribution.

Informality is more common among immigrants than among the native-born

Although immigrants have a higher employment rate than natives on average, the quality of the jobs they occupy tends to be lower. In 2015, 46% of employed immigrants were in informal jobs, versus 33% for the native-born. Most of the gap is related to the different distributions of the two groups across sectors, that is the greater representation of immigrants in sectors with higher informality, such as agriculture and domestic work. Current delays in the administrative process for residence permits to be issued and the backlog which has not been entirely resolved with the *2010 Migration Law* do not help reduce the incidence of informality in the workplace for immigrant workers. When the sector of work and individual characteristics are accounted for, the incidence of informality is similar for the two groups.

Emigration is not yet a major issue but has been rising in recent years

Contrary to other countries in the region, emigration from Costa Rica has not been a major phenomenon. However, it has increased substantially in recent years. In 2010/11, there were 100 000 Costa Rican emigrants aged 15 and over living in OECD countries in 2010/11, 32% more than in 2000/01. Permanent migrant flows from Costa Rica towards the OECD countries have almost tripled between 2000 and 2014, reaching 3 650 persons in 2014, the latest year with available data. More than half of them went to the United States, while an additional 11% have migrated to Spain and 7% to Mexico. Although the emigration rate of the highly educated was 4.8% in 2010/11, well below that of most countries in the region, the emigration of highly-educated youth may become an issue in the future.

Notes

1. Costa Rica played a key role in the Esquipulas Agreement that created the pre-conditions for ending the civil wars in El Salvador, Guatemala, Honduras and Nicaragua. The President at the time, Oscar Arias, received the Nobel Peace Prize for his role in the Agreement.

2. Because of a change in the surveys Costa Rica uses to calculate the unemployment rate, it is hard to compare changes in the current level of unemployment with that before 2010. Prior to 2010 unemployment rates are from the yearly Multiple Purpose Household Survey (EHPM – *Encuesta de Hogares de Propósitos Múltiples*). After 2010 there are two sources of data; a yearly household survey, the National Household Survey (ENAHO – *Encuesta de Hogares de Propósitos Múltiples*), and the quarterly Continuous Employment Survey (ECE – *Encuesta Continua de Empleo*). Using both surveys the unemployment rate increased even with the recovery, but the increase is much larger using the ECE rather than the ENAHO. Depending on the survey used, the unemployment rate in 2015 was 8.5% or almost 10%.

3. Some of these results may be partly driven by methodological changes in household surveys. In particular, the weights of urban populations have been increased, labour incomes better classified and deferred wages and wages in kind included (see Box 1.2).

4. Similar trends are also found for extreme poverty as well as to indicators of poverty intensity and severity, not shown here.

5. Total migrant flows do not include flows of non-residents which amounted to 1 170 and 1 280 persons in 2010 and 2011, respectively.

6. It should be noted though that available data such as the population census and the ENAHO are likely to cover immigrants in a regular situation or those who have been well established in the country, while they may cover less well or not at all those who are in transit and most difficult and precarious situations.

References

Barahona, M., P. Sauma and J.D. Trejos (1999), "La Política Social Costarricense y las Reformas Económicas, 1983-1997" in C. Conejo, H. Mora and J.R. Vargas (eds.), *Costa Rica hacia el siglo XXI: Balance de las reformas económicas 1983-1998*, Editorial Fundación UNA, Heredia, Costa Rica.

Barquero, J. and J.D. Trejos 2004, "Tipos de hogar, ciclo de vida familiar y pobreza en Costa Rica: 1987-2002", *Revista Electrónica Población y Salud en Mesoamérica*, Vol. 2, No. 1, pp. 1-36, July-December (available in Spanish only), University of Costa Rica, San José, Costa Rica, www.redalyc.org/articulo.oa?id=44620104.

CEDLAS and The World Bank (2012), *Socio-Economic Database for Latin America and the Caribbean (SEDLAC)*.

Estado de la Región (2016), "Parte 2: Dilema estratégico – Capítulo 8", www.estadonacion.or.cr/erca2016/assets/cap-8-erca-2016-dilema.pdf.

García-Huidobro, G., A. Hintermeister, J. Galán and M. Pollack (1990), "La deuda social en Costa Rica", ILO, San José, Costa Rica, http://staging.ilo.org/public/libdoc/ilo/1990/90B09_269_span.pdf.

Gasparini, L., G. Cruces and L. Tornarolli (2016), "Chronicle of a deceleration foretold: Income inequality in Latin America in the 2010s", *Working Papers*, No. 198, Centro de Estudios Distributivos, Laborales y Sociales (CEDLAS), Universidad Nacional de La Plata, Argentina.

Gindling, T.H. and L.A. Oviedo (2008), "Hogares monoparentales encabezados por mujeres y pobreza en Costa Rica", *Revista de la CEPAL*, No. 94, pp. 121-132, April.

Gindling, T.H. and J.D. Trejos (2014), "The distribution of income in Central America", in D. Sanchez-Ancochea and S. Marti i Puig (eds.), *The Handbood of Central American Governance*, Routledge International, London, pp. 75-94.

Gindling, T.H., N. Mossaad and J.D. Trejos (2015), "The consequences of increased enforcement of legal minimum wages in a developing country: An evaluation of the impact of the *Campaña Nacional de Salarios Mínimos* in Costa Rica", *Industrial Relations & Labor Review*, No. 0019793915575703, pp. 1-42, first published on 12 March, http://ilr.sagepub.com/content/early/2015/03/12/0019793915575703.full.pdf+html.

Hidalgo, J.C. (2014), "Growth without poverty reduction: The case of Costa Rica", Economic Development Bulletin No. 18, 23 January, www.cato.org/publications/economic-development-bulletin/growth-without-poverty-reduction-case-costa-rica.

INEC (2016), *Pobreza disminuyó más de un punto porcentual*, Encuesta Nacional de Hogares 2016, Comunicado de prensa, Instituto Nacional de Estadística y Censos, San José, Costa Rica.

IICE (2015), *Cobertura, enfoque y características de los beneficiarios de los principales programas financiados por el FODESAF en el 2014*, Instituto de Investigaciones en Ciencias Económicas. Informe preparado para la Dirección General de Desarrollo Social y Asignaciones Familiares (DESAF) como parte del proyecto Consolidación del Sistema de seguimiento y evaluación de los programas financiados por el FODESAF.

León Segura, G., F. Estrada Recinos, N. Molina and A. Morales Gamboa (2012), "Migraciones y derechos laborales en Centroamérica: Características de las personas migrantes y de los mercados de trabajo*", Facultad Latinoamericana de Ciencias Sociales*, San José, Costa Rica, http://www19.iadb.org/intal/intalcdi/PE/2012/12217.pdf.

Lustig, N. and S. Higgins (2013), *Commitment to Equity Assessment (CEQ): Estimating the incidence of social spending, subsidies and taxes*, Handbook, Tulane University, Inter-American Dialogue and Center for Inter-American Policy and Research, New Orleans, United States.

Mazza, J. and E. Sohnen (2011), "Labor migration in Latin America and the Caribbean: A look at new trends and policies", The Inter-American Development Bank (IDB), December, www.iadb.org/wmsfiles/products/publications/documents/36764066.pdf.

OAS-OECD (2015), *International Migration in the Americas: First Report of the Continuous Reporting System on International Migration in the Americas (SICREMI) 2011*, Organization of American States, Washington, D.C. and Organisation for Economic Co-operation and Development, Paris, www.oecd.org/migration/48423814.pdf.

OECD (2016a), *OECD Economic Surveys: Costa Rica 2016 – Economic Assessment*, OECD Publishing, Paris, http://dx.doi.org/10.1787/eco_surveys-cri-2016-en.

OECD (2016b), *Education at a Glance 2016: OECD Indicators*, OECD Publishing, Paris, http://dx.doi.org/10.1787/eag-2016-en.

OECD (2016c), "Closing gender gaps in the labour markets of emerging economies: The unfinished job", Chapter 4 in OECD, *OECD Employment Outlook 2016*, http://dx.doi.org/10.1787/empl_outlook-2016-en.

OECD (2016d), *OECD Reviews of Labour Market and Social Policies: Latvia 2016*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264250505-en.

OECD/ECLAC/CAF (2016), *Latin American Economic Outlook 2017: Youth, Skills and Entrepreneurship*, OECD Publishing, Paris, http://dx.doi.org/10.1787/leo-2017-en.

Oviedo, A.M., S.M. Sanchez, K.A. Lindert and J.H. Lopez (2015), "Costa Rica's development: From good to better", *Systematic Country Diagnostic*, World Bank, Washington, DC, http://documents.worldbank.org/curated/en/847271468190746362/pdf/97489-CSD-P149582-Box391476B-PUBLIC-From-Good-to-Better.pdf.

Saborío, M. and A. Rodríguez 2006, "Análisis comparativo del bienestar de los hogares rurales y urbanos", in INEC (ed.), *Costa Rica a la luz de la Encuesta Nacional de Ingresos y Gastos del 2004*, Instituto Nacional de Estadística y Censos, Banco Mundial, Centro Centroamericano de Población, Programme *Estado de la Nación* and *Instituto de Investigaciones en Ciencias Económicas*, Ebook, San José, Costa Rica.

Sauma, P. (2010), "La desigualdad en Costa Rica", Background Paper, in PNUD – Programa de las Naciones Unidas para el Desarrollo – (2010), "Actuar sobre el futuro: Romper la transmisión intergeneracional de la desigualdad", Regional Report on Human Development for Latin America and the Caribbean, San José, Costa Rica, mimeo.

Sauma, P. and J.D. Trejos (2014), "Impacto de la política fiscal en la distribución del ingreso y la pobreza en Costa Rica", *Ciencias Económicas*, Vol. 32, No. 2, pp. 65-95.

SEDLAC (2016), "Socio Economic Database for Latin America and the Caribbean", CEDLAS and The World Bank, version May 2016, http://sedlac.econo.unlp.edu.ar/eng/ (accessed on 20/11/2016).

Segreda, A.M (2008), "Schooling in Costa Rica", in S. Gvirtz and J. Beech (eds.), *Going to School in Latin America*, Greenwood Press, Westport, CT.

Trejos, J.D. (2015), "Cambios en la distribución del ingreso familiar en Costa Rica durante el quinquenio 2010-2014" [Changes in the distribution of family income in Costa Rica during the five-year period 2010-2014], Paper prepared for the 21st National Report on Sustainable Human Development 2014, National programme for Sustainable Human Development, Estado de la Nación, www.estadonacion.or.cr/files/biblioteca_virtual/021/social/TrejosJD_2015a.pdf.

Trejos, J.D. (2010), "Caso de Costa Rica", in E. Klein (ed.), *Políticas de mercado de trabajo y pobreza rural en América Latina*, FAO, OIT, CEPAL, Santiago, Chile.

Trejos, J.D. (2008), "Impacto de los programas sociales selectivos sobre la desigualdad y la pobreza", Fourteenth Report, Final Report, Estado de la Nación en Desarrollo Humano Sostenible, San José, Costa Rica, http://estadonacion.or.cr/files/biblioteca_virtual/014/Impacto-programas-sociales-Trejos-2008.pdf.

Trejos, J.D. (2006), "La situación de la pobreza en Costa Rica y los principales retos a asumir", in F. Herrero and G. González (eds.), *Pobreza: Talón de Aquiles del Desarrollo Costarricense*, PROCESOS, San José, Costa Rica.

Trejos, J.D. (1995), "La pobreza en Costa Rica: Una síntesis cuantitativa", *Working Papers*, No 172, Instituto de Investigaciones en Ciencias Económicas, University of Costa Rica, San José, Costa Rica.

Trejos, J.D. and D. Murillo (2012), "El índice de oportunidades educativas: Un indicador resumen de la equidad en la educación", Fourth Report on the situation on education, Final Report, Estado de la Nación en Desarrollo Humano Sostenible y Estado de la Educación, http://estadonacion.or.cr/files/biblioteca_virtual/educacion/004/trejos-y-murillo-indice-oportunidades.pdf.

Trejos, J.D. and L.A. Oviedo (2012), "Cambios en la distribución del ingreso familiar en Costa Rica durante la primera década del siglo XXI", *Ciencias Económicas*, Vol. 30, No. 2, pp. 9-29.

Database references

Database on Immigrants in OECD Countries and Non-OECD Countries (DIOC 2010/11 and DIOC-E 2010/11), www.oecd.org/fr/migrations/dioc.htm.

Encuesta Continua de Empleo (ECE), www.inec.go.cr/encuestas/encuesta-continua-de-empleo.

Encuesta de Hogares de Propósitos Múltiples (EHPM), www.inec.go.cr/encuestas/encuesta-de-hogares-de-propositos-multiples.

Encuesta Nacional de Hogares (ENAHO), www.inec.go.cr/encuestas/encuesta-nacional-de-hogares.

Encuesta Nacional de Ingresos y Gastos de los Hogares (ENIGH), www.inec.go.cr/encuestas/encuesta-nacional-de-ingresos-y-gastos-de-los-hogares.

Encuestas Nacionales de Empleo y Desempleo (ENHED), http://estadonacion.or.cr/files/biblioteca_virtual/021/social/TrejosJD_2015a.pdf

INEC – *Instituto Nacional de Estadística y Censos* (2016), "ENAHO. 2016. Nivel de pobreza por LP según características de los hogares y las personas, julio 2015 y julio 2016, http://www.inec.go.cr/pobreza-y-desigualdad/pobreza-por-linea-de-ingreso.

International Monetary Fund (IMF), *World Economic Outlook* (WEO) *Database*, www.imf.org/external/pubs/ft/weo/2016/01/weodata/index.aspx.

OECD Better Life Index Database – Edition 2015, www.oecd.org/statistics/datalab/bli.htm.

OECD Employment Database, www.oecd.org/employment/database.

OECD Health Status Dataset, a subset of the *OECD Health Database*, http://stats.oecd.org/index.aspx?queryid=28240.

OECD Income Distribution Database, http://oe.cd/idd.

OECD International Migration Database, https://stats.oecd.org/Index.aspx?DataSetCode=MIG.

OECD National Accounts at a Glance Dataset, a subset of the *OECD National Accounts Database*, http://stats.oecd.org/index.aspx?queryid=28226.

OECD (2016), "Aggregate National Accounts, SNA 2008 (or SNA 1993): Gross domestic product", *OECD National Accounts Statistics (database)*, http://dx.doi.org/10.1787/data-00001-en.

OECD (2016), Table A1.1. Educational attainment of 25-64 year-olds (2015), http://dx.doi.org/10.1787/eag-2016-table6-en.

Socio-Economic Database for Latin America and the Caribbean (SEDLAC), (CEDLAS and The World Bank), version May 2016, http://sedlac.econo.unlp.edu.ar/eng/ accessed on 20/11/2016.

World Bank, *World Development Indicators* (WDI) *Database*, http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators.

Chapter 2

Making a successful transition to a more inclusive labour market in Costa Rica

Costa Rica needs to make the most of labour market policy levers that help workers navigate a flexible labour market in a way that unlocks the potential for sustained wage and productivity growth and encourages the creation of good-quality employment. This includes: i) a stronger, well-developed collective bargaining framework; ii) greater employment security via better enforcement of minimum wages as well as a well-designed unemployment insurance system; iii) removal of existing barriers to labour force participation and access to formal jobs of under-represented groups; and iv) investment in active labour market policies and upskilling programmes. The new Labour Procedure Reform passed in 2016 is a step in the right direction and in particular can help to foster better working conditions. Nevertheless, strong efforts will be critical for their successful implementation.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

1. Introduction

The strong economic growth over the past decade and a half has significantly improved employment outcomes in Costa Rica. However, employment opportunities remain depressed among under-represented groups, such as women and youth. Unemployment has been increasingly steadily over the past decade and affects particularly low-skilled workers who represent almost 60% of the labour force. Although, labour market performance in Costa Rica is better than in neighbouring countries with a smaller proportion of workers in the informal economy, cost differences between formal and informal employment are a key driver of labour market segmentation.

This chapter reviews Costa Rica's main labour market policies and institutions with a focus on the new Labour Procedure Reform *(Reforma Procesal Laboral)* which became law in January 2016 and overhauls nearly half of the country's labour and employment laws since the enactment of Labour Code in 1943. The most important changes under the reform include: i) individual labour law governing the employer-employee relationship; ii) collective bargaining; and iii) labour dispute procedures. Following an overview of the employment protection legislation in Costa Rica, the chapter discusses the main policies to protect workers, including the role of industrial relations and minimum wages (Sections 3 and 4), strategies to remove barriers to formal jobs and the enforcement of labour regulations (Sections 5 and 6), and the role of active labour market programmes and training to assist workers transition to better quality jobs (Sections 7, 8 and 9).

2. A flexible economy with limited employment protection for workers

Employment protection legislation (EPL) – a set of regulations governing hiring and firing – aims to protect workers against the risk of unfair dismissals, to increase job stability, and to shield workers from the economic and non-economic costs associated with job loss. While protecting workers especially in the context of poor job quality and rising unemployment is a high priority in Costa Rica, an excessively strict or poorly designed EPL can greatly hamper the economy by discouraging the flow of workers from less productive jobs to more productive and better-quality ones. Job creation and productivity growth can be reduced as a result. In addition, labour-market segmentation can be further accentuated. EPL should therefore be used judiciously and effectively in combination with other measures that protect workers themselves rather than specific jobs.

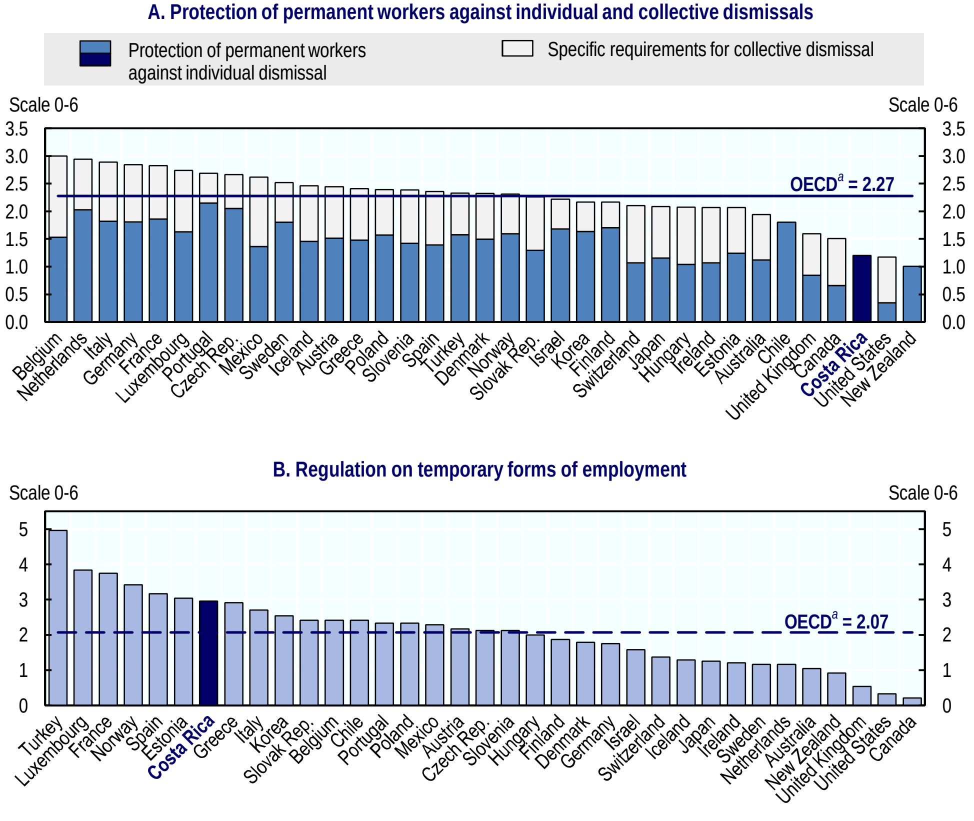
Legal provisions against individual and collective dismissals are comparatively light in Costa Rica compared with most OECD member countries. In 2016, the *overall* index of the strictness of employment protection was 2.29 on average in the OECD on a scale that runs from 0 (most lenient) to 6 (strictest), while the corresponding value in Costa Rica was 1.2 (Figure 2.1, Panel A). Dismissal protection of Costa Rican workers is also substantially lower than in other Latin American countries. For instance, the overall EPL score for workers with permanent contracts is the second lowest in the region, behind Guatemala (not shown in the figure).

A number of factors contribute to these low rankings of Costa Rica's EPL provisions. *First*, regulations concerning advance notification and severance pay are milder than in most other OECD countries. *Second*, employers can always dismiss an employee without cause (e.g. on personal ground) provided prior notice is respected. *Third*, in contrast to the large majority of OECD countries, Costa Rica operates no special regulations against collective dismissals over and above those applying to individual dismissals (the only two OECD countries without collective dismissal protection are Chile and New Zealand).

Contrary to many OECD member countries, where successive employment-protection reforms over the past two decades have liberalised regulations for temporary contracts, protection for temporary workers is relatively strict in Costa Rica (Figure 2.1, Panel B). The duration of fixed-term contracts may not exceed one year and only if circumstances justify organising work to be performed on a fixed-term contract. Employees who work beyond the maximum term of fixed-term contracts, are covered by the same legal provisions as workers on open-ended contracts. For employers, the economic advantages of offering temporary employment contracts rather than open-ended contracts are limited. As a result, the share of worker with temporary is low; 8% of total dependent employment, compared with 11.5% in the OECD area, where temporary contracts are frequently used to get around strict regulations of regular contracts. In Costa Rica, incentives for labour market segmentation are driven more by cost differences between formal and informal employment, and the ready availability of workers in the informal sector, than by major regulatory distinctions between different types of formal work.

Figure 2.1. **Strictness of employment protection in Costa Rica and OECD countries**

Employment protection legislation indicators



Note: Data refer to 2014 for Costa Rica. For OECD countries, they refer to 2013 except for the United Kingdom for which they refer to 2014.
Panel A presents the synthetic indicator for individual and collective dismissals for workers with a regular contract (EPRC). The height of the bar represents the value of the EPRC indicator.
Panel B presents the synthetic indicator for temporary contracts (EPT).
Countries are ranked in decreasing order of EPRC (respectively, EPT) indicator in Panel A (respectively, Panel B).

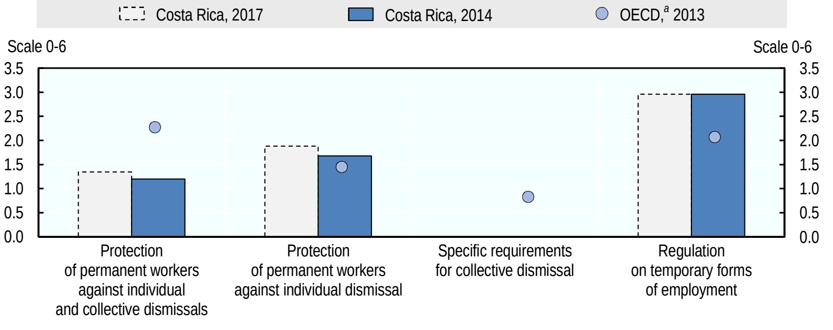
a) Unweighted average of EPRC (respectively, EPT) indicator for 34 OECD countries with the exception of Latvia in Panel A, (respectively, Panel B).

Source: OECD-IDB Database on summary indicators of Employment Protection Legislation (EPL) in Latin American and the Caribbean, www.oecd.org/employment/emp/oecd-idbdatabaseonsummaryindicatorsofemploymentprotectionlegislationeplinlatinamericanadthecaribbean.htm.

StatLink http://dx.doi.org/10.1787/888933591005

A set of labour reforms that will come into effect in January 2017 foresees strengthening some parts of dismissal protection. The foreseen changes provide workers with mild safeguards from some forms of arbitrary or unjustified dismissals. The reforms include more stringent notification requirements requiring the employer to present a termination letter to the worker which must indicate grounds for dismissal. However, reforms also foresee shortening the statute of limitations, i.e. the time period during which dismissed workers can claim unfair dismissal. When taking into account these changes, the overall indicator for individual dismissals increases slightly but remains well below the OECD average (Figure 2.2).

Figure 2.2. **New labour reforms strengthen parts of employment protection in Costa Rica**



Note: 2017 estimated impact on employment protection legislation refers to preliminary calculations based on responses to the policy questionnaire and information collected during the OECD fact-finding mission to Costa Rica in June 2016. Data refer to 2013 (instead of 2014) for the OECD area.

a) Unweighted average of each indicator for 34 OECD countries with the exception of Latvia. For all OECD countries, the four indicators refer to 2013, except for the United Kingdom for which they refer to 2014

Source: OECD-IDB Database on summary indicators of Employment Protection Legislation (EPL) in Latin American and the Caribbean, www.oecd.org/employment/emp/oecd-idbdatabaseonsummaryindicatorsofemploymentprotectionlegislationeplinlatinamericanadthecaribbean.htm.

StatLink http://dx.doi.org/10.1787/888933591024

With the relatively flexible labour market setting in Costa Rica, workers face high risks of job termination, relatively frequent unemployment and poor quality jobs in the informal sector. To strengthen inclusive growth, Costa Rica needs to make the most of policy levers that help workers navigate a flexible labour market in a way that unlocks the potential for sustained wage and productivity growth and encourages the creation of good-quality employment. The rest of this chapter discusses key labour market policy levers in this respect and argues for devoting greater policy attention to collective bargaining frameworks and unemployment insurance, as well as active labour market policies and upskilling programmes.

3. Weak industrial relations and collective bargaining

Complex employer-employee relations, an underdeveloped social dialogue and poor worker representation

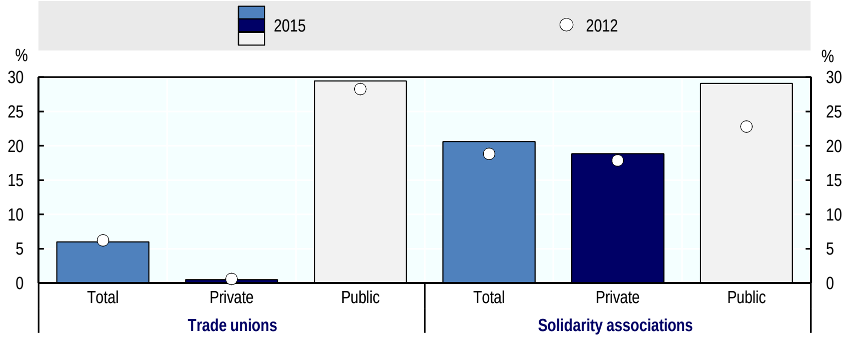
Costa Rica has a complex employer-employee relations system leading to fragmented and a weak social dialogue in the country. In addition to trade unions, the law permits the formation of solidarity associations (the so-called *solidaristas*) and allows worker unions and solidarity associations to co-exist within an enterprise. Workers are free to be members of both organisations.

Solidarity associations represent workers within a single company and promote harmonious relationships between employers and employees as well as conduct negotiations on workers' behalf over certain working conditions. But they are not allowed to undertake union functions or represent workers in collective bargaining and direct settlements. They are made up of workers of a business or an enterprise and are administered by a board of directors, elected by workers by themselves. Associations are partially funded by workers' salaries – the amount is set by the general assembly, and cannot be greater than 5% – however, the members can add voluntary savings. In addition, employers contribute a similar amount, which is credited to each worker's account towards their severance payments and paid out when their employment ends (discussed more in detail below). This represents a key incentive for workers to join associations. The funds are also used to offer subsidised credit, housing loans, health and savings plans for their members.

Solidarity associations have a strong foothold both in the public and private sector while trade union membership remains very low. According to the Ministry of Labour and Social Security (MTSS – *Ministerio de Trabajo y Seguridad Social,* 2016), more than 300 000 workers or roughly 20% of all employees were affiliated to around 1 400 solidarity associations in 2015. By contrast, the unionisation rate was less than 1% in the private sector in the period, and close to 30% in the public sector[1] (Figure 2.3). Trade union membership in the public sector increased slightly by 1 percentage points between 2012 and 2015 from 28% to 29%. The discussions in Legislative Assembly on limiting increases in public wages may have contributed to this increase. However, total trade union density declined further as growth in membership was slower than the growth in the number of salaried workers.

Figure 2.3. **Large imbalance between trade union and solidarity associations' membership**

Members of trade unions and solidarity associations' in the private and public sector as a percentage of all employees in each sector, 2012 and 2015



Note: Data refer to September of each year.

Source: Ministerio de Trabajo y Seguridad Social (MTSS) for solidarity associations [*solidaristas*] and the respective affiliate levels; *Instituto Nacional de Estadística y Censos* (INEC), *Encuesta Nacional de Hogares* (ENAHO) for trade unions affiliates and employee levels referring to unions; and INEC, *Encuesta Continua de Empleo* (ECE) for employees levels referring to solidarity associations.

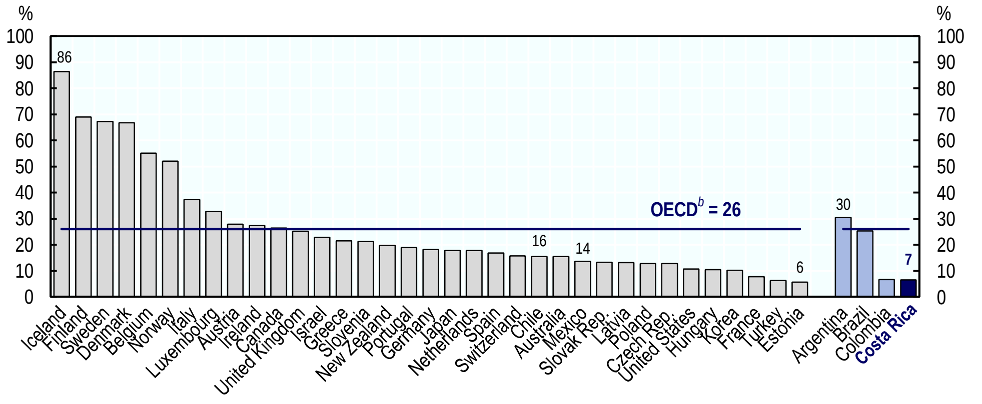
StatLink http://dx.doi.org/10.1787/888933591043

In an international comparison, trade union density in Costa Rica is at the lower end of the OECD countries, close to levels in Turkey and Korea, and lower than in Chile and Mexico (Figure 2.4). In the private sector, employers as well as workers themselves have tended to resist the creation and functioning of trade unions since conflicts originating in the early 1980s led to long-lasting strikes in a banana producing company (*Compañía Bananera*) and subsequently to large number of job cuts and a steep increase in poverty in an entire region. There are reports that workers intending to form a union can face discrimination, at the workplace, significant organisational challenges, as well as higher risk of being dismissed (ITUC, 2007).

This is despite the fact that Costa Rica has ratified both the ILO Core Conventions guaranteeing the right of workers to organise and form a union. The Labour Code further specifies the right of workers to join unions of their choosing without prior authorisation. There are some indications that the prevalence of solidarity associations has lessened or crowded out the role of trade unions in protecting workers' rights (US Department of State, 2012; and Banana Link, 2009). However, other factors have also held back the role of unions in maintaining a social dialogue and securing worker representation. This includes legal provisions and weaknesses in the judicial proceedings enforcing union rights.

Figure 2.4. **Trade union density in Costa Rica is at the bottom end of the OECD ranking**

Percentage of wage and salary workers, 2013 or latest year available[a]



a) Data refer to 2011 for Brazil; 2012 for Israel, Korea, Latvia, Luxembourg, Poland and Portugal; and 2014 for Australia, Canada, Chile, Iceland, Ireland, Japan, Mexico, New Zealand, Sweden, Switzerland, the United Kingdom and the United States.

b) Unweighted average of the 35 OECD countries.

Source: OECD Employment Database, www.oecd.org/employment/database; *Database on Institutional Characteristics of Trade Unions, Wage Setting, State Intervention and Social Pacts in 51 countries between 1960 and 2014* (ICTWSS) for Argentina, Brazil and Latvia, http://uva-aias.net/en/ictwss; and ILO, *Annual Indicators Dataset* from the *ILOSTAT Database*, www.ilo.org/ilostat/ for Colombia and Costa Rica.

StatLink http://dx.doi.org/10.1787/888933591062

While the law provides for the right to strike, provisions until recently had made it difficult for workers and unions to exercise these rights in practice. Strikes must be supported by at least 60% of workers in an enterprise, which is considered an excessive threshold by ILO standards. Burdensome administrative requirements for a strike to be legal make it relatively easy for employers to impose disciplinary or economic sanctions against striking employees. Furthermore, even though the law provides protection from dismissal for trade unionists including reinstatement for workers fired for union activities, any workers concerned had faced extremely complicated administrative procedure for reinstatement. Prior to the 2016 reforms (see below), delays in judicial proceedings had exceeded six years and cases relating to unfair labour practices and violations of labour and social rights took up to eight years to conclude (ILO, 2013). Reinstatement procedures following unfair dismissals had averaged three years (ITUC, 2014). One reason for delays and extremely lengthy judicial proceedings is that disputes are litigated exclusively through written filings and motions.

The reforms of the labour code foreseen for 2017 strengthen union rights in some respects. Litigation proceedings are now to be held in oral rather than written form, and are generally limited to two hearings. In addition, the burden is now on employers to prove valid grounds for the dismissal of workers, including trade unionists. Employees will be able to initiate a strike as long as 35% of the employees vote in its favour and the vote is ratified by 50% of the workforce *plus* one employee. Further, the reform restricted employers' ability to sanction employees who join illegal strikes and prohibits employers from imposing such sanctions if the employee returns to work within 24 hours of a strike being declared illegal.

Despite these welcome reforms, other barriers to active and effective worker representation and unionisation remain. The government's broad definition of *essential services* effectively excludes many public-sector workers from the right to strike. Unions have to name the workers supporting industrial action, which risks explicit or implicit victimisation of supporters and discourages workers from declaring support in the first place.

Limited collective bargaining over wages and working conditions

With low unionisation rates, and despite existing legal provisions for bargaining rights, collective bargaining over wages and working conditions is limited. In 2015, there were 102 collective agreements covering around 145 000 workers (Table 2.1). This corresponds to a coverage rate of 16% of all employees in 2015, which places, Costa Rica at the bottom end of the OECD ranking, below Chile albeit slightly above Mexico (Figure 2.5). The bulk of collective agreements are formed in the public sector, specifically in the autonomous institutions and municipalities.

The law requires employers to initiate the bargaining process with a trade union if more than one-third of the total workforce, including union and non-union members, requests collective bargaining. Employers, however, are also allowed to conclude direct agreements (*arreglos directos*) with non-unionised workers who are grouped together in *permanent workers' committees* in both unionised and non-unionised firms. The legislation allows for the creation of such committees provided there is a minimum of 3 workers, whereas for a union to be recognised as a bargaining unit, it must have a minimum of 12 workers. As a result, there is an enormous disproportion between the number of direct agreements with non-unionised workers and collective agreements in the private sector (ILO, 2013).

Although workers are able to elect their representatives, permanent workers Committees have no independence from management and no legal means to challenge the actions of employers or management. Moreover, evidence suggests that, in contrast to collective agreements where wage increases and annuities but also non-monetary benefits such as vacation days and union leave are freely negotiated, direct agreements are generally drafted by management and handed over for approval by permanent workers committees (ITUC, 2014). Therefore, there are concerns that such agreements weaken the bargaining power of lower-productivity workers in particular and disadvantage workers because they do not result from balanced negotiations of two independent, adequately informed parties.

Table 2.1. **Collective bargaining agreements affect a minority of workers**

Active collective bargaining and estimated coverage, by institutional sector, 2012-15, levels

Institutional sector	2012	2013	2014	2015
Collective agreements	**91**	**97**	**101**	**102**
Private sector	17	22	28	28
Public sector	74	75	73	74
Workers covered (estimates)	**65 136**	**143 273**	**144 830**	**145 444**
Private sector	7 118	9 255	11 026	10 831
Public sector	58 018	134 018	133 804	134 613

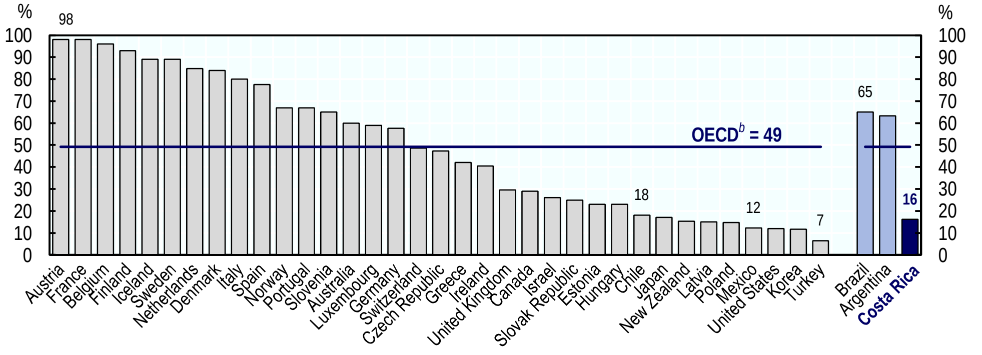
Note: Classification of the public sector from *Ministerio de Planificación Nacional y Política Económica* (MIDEPLAN). Collective agreements are defined according *Art. 54* from the Labour Code.

Source: Estimates provided by *Ministerio de Trabajo y Seguridad Social* (MTSS); and *OECD Job Tenure Dataset*, a subset of the *OECD Employment Database*, www.oecd.org/employment/database.

StatLink http://dx.doi.org/10.1787/888933591556

Figure 2.5. **Collective bargaining coverage in Costa Rica is at the lower end of the OECD ranking**

Percentage of wage and salary workers covered by collective agreements excluding employees under statutory regulation excluded from collective bargaining, 2013 or latest year available[a]



a) Data refer to 2008 for Costa Rica; 2009 for Ireland; 2010 for Italy; 2011 for New Zealand; 2012 for Australia, Estonia, France, Israel, Korea, Luxembourg, Mexico, Poland; and 2014 for Finland and Portugal.

b) Unweighted average of the 35 OECD countries.

Source: Database on Institutional Characteristics of Trade Unions, Wage Setting, State Intervention and Social Pacts in 51 countries between 1960 and 2014 (ICTWSS) for Argentina, Brazil and Latvia, http://uva-aias.net/en/ictwss; and ILO, *Annual Indicators Dataset* from the *ILOSTAT Database*, www.ilo.org/ilostat/ for Colombia and Costa Rica.

StatLink *http://dx.doi.org/10.1787/888933591081*

The new labour reforms prohibit employers from entering into so-called direct agreements with permanent committees in cases where a union or a workers' committee had already filed a collective dispute in court. These improvements are welcome but are far from arrangements seen in the majority of OECD countries in which non-union bargaining is much more restricted than in Costa Rica. The recognition of one or more unions as partners in collective bargaining raises the questions as to how to determine their representation. For instance, in Austria, France, Germany, Japan, Italy, Norway and Sweden, a collective agreement is by definition an agreement signed by a trade union. The exceptions may be Chile where collective bargains can be negotiated by non-union ad hoc groups of employees and Mexico where *protection contracts* are widespread instruments are an obstacle to right to free collective bargaining. (OECD, 2016). Employers should not have the option to avoid bargaining with a trade union by establishing their own direct arrangements with their non-unionised workers.

Strong reliance on legal wage provisions

In the absence of collective bargaining, legal minimum wage provisions in Costa Rica play a central role in the private sector wage negotiations (see sub-section below). The *Minimum Wages Act* came into effect in 1949 and provides for legal minimum wages which are set by the National Salary Council (CNS). The CNS is a tripartite commission composed of representatives from labour unions, the Chamber of Commerce and the Central Government. The process of negotiating, setting and revising minimum wages is largely public, with each side actively publicising their positions in the media before and during negotiations. Experts also participate in the minimum wage setting process. It is frequent for ILO consultants or professionals appointed by the CNS to contribute inputs and expertise. In other cases, opinions are sought from public or private institutions.

Although public sector wages are determined in a separate negotiation process, and legal minimum wages do not apply to public sector workers, the unions represented in the Council also overwhelmingly represent public sector workers.

Tripartite councils have a marginal role in policy making

Beyond the CNS, a number of further tripartite bodies have been established to influence labour relations in Costa Rica. Among them, the Superior Labour Council (SLC), which is attached to the Ministry of Labour and Social Security (MTSS), is tasked with contributing to the assessment and discussion of a broad range of social and economic problems and policy levers. Its main functions include: i) carrying out studies on social and economic developments and on living and working conditions of workers; and ii) advising on draft bills and regulations related to labour, social and economic issues when requested by MTSS. Although, the Council is legally required to hold two regular sessions per month, there have been long periods of inactivity and relative absence from labour market policy debates (CEPAL, 2011) which can, in part, be related to a lack of human resources to provide technical expertise on the wide-ranging subject areas that are in the Council's remit.

An initiative to establish an "Economic and Social Council" was proposed back in 2003 and aimed to help fill in gaps in Costa Rica's social dialogue. Although it was agreed among all social partners, it was vetoed by the president. There are good examples of related bodies in the OECD area that could serve as a basis for revisiting this earlier initiative. For instance, the social partners and the government in Slovenia set up an Economic and Social Council in 1994. International comparisons of such bodies generally suggest that they can facilitate implementation of reforms, especially if procedures are designed to avoid overly strong emphasis on consensus-seeking and the associated delays (OECD, 2009a).

4. Minimum wages are complex and do not provide effective protection for workers

An overly complex minimum wage system

Statutory minimum wages for employees (*asalariados*) in Costa Rican private sector firms and in private households vary by occupation and skill level. Until 1987, multiple minimum wages were set for over 520 different industry and occupation categories. Beginning in 1987, the National Salary Council embarked on a process of gradual simplification, and between 1988 and 1997 this resulted in 24 different minimum wages. These, are still in place today, and make Costa Rica's legal minima substantially more differentiated than in most OECD countries.[2]

Currently, minimum wages are revised twice each year, with revisions becoming effective in January and July. Since 2010, decisions have been based on an agreed upon formula that takes into account expected inflation and growth in GDP per capita during the past five years. But the formula is not always strictly applied and different stakeholders have different expectations about inflation. As a result, there is room for manoeuvre and negotiation by the main stakeholders (i.e. unions and the chamber of commerce). It is common for external experts such as ILO consultants or professionals appointed by the CNS to provide inputs in the decision-making process as well, and opinions are also sought from public or private institutions. The Council does not have any permanent technical staff, for example, a statistician or economist to advise them in their decisions.

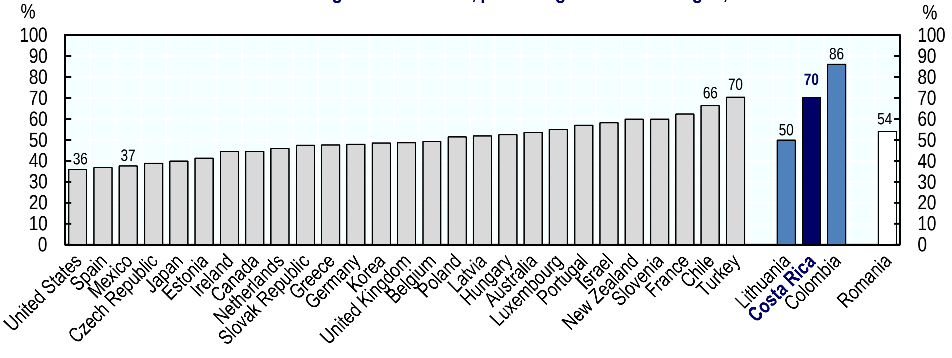
Minimum wages are high in relative terms, but compliance is low

The minimum wage for unskilled workers amounts to 70% of median wages, higher than all OECD countries but close to the values for two other countries with high informality rates: Colombia and Turkey (Figure 2.6, Panels A and B).

Figure 2.6. **Minimum wages in Costa Rica are substantially higher than in most OECD countries**

Percentages and Costa Rican colones (CRC)

A. Minimum wages before taxes, percentage of median wages, 2015



B. Minimum wages in Costa Rica,[a] first semester 2015

		Hourly minimum wage[b] (CRC)	Percentage of median wage for all employees
Unskilled worker		1 200	*72.1*
Semi-skilled worker		1 305	*78.4*
Skilled worker		1 329	*79.9*
Specialised worker		1 567	*94.2*
Generic unskilled worker		1 373	*82.5*
Generic semi-skilled worker		1 478	*88.8*
Generic skilled worker		1 553	*93.4*
Technical worker		1 628	*97.8*
Generic highly skilled		1 744	*104.8*
Technical worker	Superior education	2 006	*120.6*
	Diploma of higher education	2 167	*130.2*
	Bachelors university	2 457	*147.7*
	University graduates (*licenciados*)	2 949	*177.2*
Superior specialisation worker		2 432	*146.2*
Overall median wage for all workers		**1 664**	***100.0***

Note: In Panel A, data refer to the ratio of minimum wages to median earnings of full-time employees. For Costa Rica, data refers to the minimum wage level for unskilled workers.

a) Separate minimum wages are set for specific occupations not shown in table since they represent a small proportion of the total workforce in Costa Rica. This includes i) domestic servants, ii) coffee harvesters, iii) coyol harvesters, iv) stevedores, v) doormen, vi) taxi drivers, vii) beer salesmen, and viii) newspaper delivery personnel.

b) Data refer to the hourly wage which is based on usual hours worked.

Source: OECD LFS – Minimum relative to median wages of full-time workers Dataset, http://stats.oecd.org//Index.aspx?QueryId=19603, a subset of the *OECD Employment Database*, www.oecd.org/employment/database for Panel A; and OECD estimates based on minimum wage decree and *Instituto Nacional de Estadística y Censos* (INEC), *Encuesta Continua de Empleo* (ECE) for Panel B.

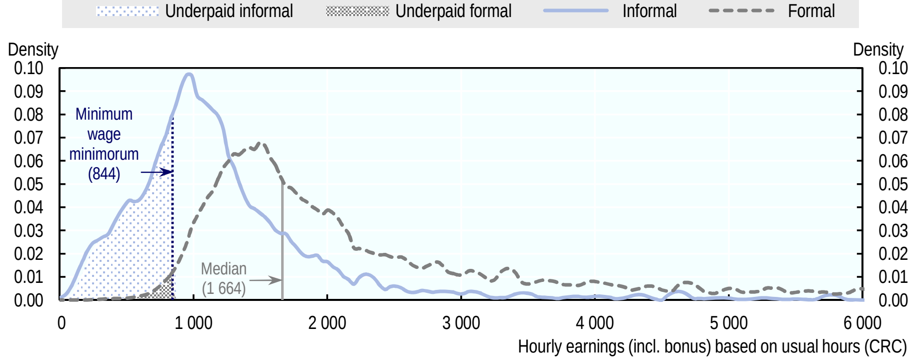
StatLink *http://dx.doi.org/10.1787/888933591100*

Legally, minimum wages apply only to employees in private sector firms and in private households (55% of total employment) and not to self-employed or unpaid family workers. However, even among those workers legally covered by minimum wages many earn less than the reference minimum wage. Figure 2.7 shows the hourly earnings distribution in Costa Rica and the minimum wage for unskilled workers: around 25% of private sector employees earn less than the lowest minimum wage. Not surprisingly, the proportion of workers earning less than the minimum wage is much higher in the informal sector than in the formal sector.

Those earning less than the minimum wage are disproportionately young, part-time workers, workers in rural areas, immigrants, and workers in agriculture, construction and domestic service. This suggests that, despite the recent campaigns to improve compliance to minimum wages, the current legal minimum wage structure in Costa Rica is still not very effective in protecting the most vulnerable workers and does not ensure a level-playing field across firms and sectors. Improving compliance and reducing informality is therefore a precondition to make the minimum wage work. At the same time, generous legal wage floor may also be contributing to Costa Rica's high share of undeclared work. There are therefore important trade-offs between supporting those in relatively stable formal sector jobs, and alleviating poverty among struggling working families.

Figure 2.7. **A large share of workers do not benefit from minimum wages**

Hourly earnings distribution (including bonuses) based on usual hours, Kernel density function



Note: CRC: Costa Rican colones. The vertical axis represents the scaled density (so that the area under each curve is equal to 1).
Underpaid informal refers to the share of informal workers paid less than the lowest minimum.
Underpaid formal refers to the share of formal workers paid less than the lowest minimum.

Source: OECD estimates based on *Instituto Nacional de Estadística y Censos* (INEC), *Encuesta Continua de Empleo* (ECE).

StatLink http://dx.doi.org/10.1787/888933591119

Minimum wages are a blunt instrument for lifting families out of poverty

In Costa Rica, as in many OECD countries, the minimum wage is often presented as a tool to fight poverty and reduce inequality. However minimum wages are a blunt instrument to attain these objectives, especially in a country with low compliance and high informality. Several factors can reduce the effectiveness of minimum wage in this respect. *First*, studies across the OECD generally show that substantial numbers of minimum wage earners live in households with income above the poverty line, while low-income families without work or with workers in the informal economy do not benefit from the legal minima (OECD, 2015). *Second*, minimum wages can reduce employment opportunities among vulnerable groups. For instance, an older study estimated that a 10% increase in the real value of the minimum wage in Costa Rica reduces formal private sector employment by approximately 1% (Gindling and Terrell, 2004 and 2007). Moreover, for those who remain in work, in-work poverty is often the result of low working hours, and underutilised earnings capacities in the household, rather than low wage levels. One estimate suggests that a 10% minimum wage hikes reduce working hours by 6% (Gindling and Terrell, 2007). The exact results depend on the sector and will vary over the economic cycle. The estimates do, however, point to important trade-offs between supporting those in relatively stable formal sector jobs, and alleviating poverty among struggling working families.

Complementing minimum wages with in-work benefits or tax credits, as done in several OECD countries, can be a more effective way of addressing poverty, since those additional measures do not push up labour costs and therefore avoid any possible dis-employment effects. They can be more tightly means-tested on the basis of family incomes. To be effective, these forms of in-work support require good quality information on people's incomes and other circumstances, however. They would therefore need to be carefully tailored to the Costa Rican context (and available resources). In particular, they would require progress on tackling income-misreporting, as targeted in-work support could generate further adverse reporting incentives.

Moreover, while a modest national minimum wage is a useful backstop for collective bargaining and would continue to provide an absolute floor across all sectors (as well as for those not covered by a collective agreement), differentiation of sectoral minima could be left largely to social partners. However, the effectiveness of such collectively-agreed minima rests on constructive dialogue among the social partners, on the existence of adequate structures of representation including effective representation of worker interests by unions, and on a sufficiently high share of employees covered by collective agreements.

5. Making formal work a more attractive option for people on the verge of informality

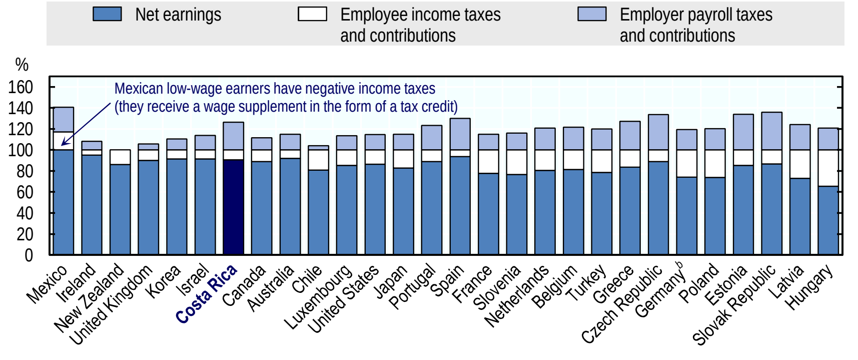
As shown in Chapter 1, informality in Costa Rica is high by OECD standards, with large costs for the workers concerned and which contributes to inequality in Costa Rica. Informal workers face high risks of being stuck in low productivity and poor quality jobs. Reducing informality requires a comprehensive horizontal strategy, with actions covering multiple dimensions and policy levers in a co-ordinated manner. The OECD (2008, 2011 and 2015a) framework for reducing informality highlights: i) reducing the cost of formalisation (e.g. avoiding excessively high rates of income tax and Social Security contributions for people on the verge of informality, typically the low-paid, and promoting progressive taxation; cutting red tape and reducing the administrative costs of formalisation; ii) increasing the benefits of formality (e.g. linking benefits to contributions and demonstrating/advertising the benefits of formalisation to workers); and iii) improving enforcement methods (e.g. strengthening labour inspectorates). This multiple-pillar strategy is highly relevant in the Costa Rican context. One driver of informality that stands out in Costa Rica, however, is the very high non-wage labour costs for some groups of workers.

High payroll taxes and social contributions are an impediment to formalisation

Empirical evidence based on a panel of Latin America countries shows that lowering the tax wedge can be an effective tool to combat informality (Lehmann and Muravyev, 2012). Costa Rica's labour taxation is high compared with most OECD countries, creating strong incentives for unregistered employment. The total social insurance payroll tax rate is 36.5% compared with the OECD average of 27.2%. The large portion payable by employers (26.33%) drives Costa Rica's non-wage labour costs towards the top of the OECD rankings (Figure 2.8). Approximately 10% is paid by employees, which is similar to the OECD average. Out of the total contribution rate, 19% covers Social Security (old-age pensions, health and maternity, survivors' benefits and disability), as well as work risk insurance (accidents and sickness). Untypically for OECD countries, the remaining one-fourth of total contributions is used to finance a range of public institutions, such as public banks or anti-poverty programmes (see Chapter 3).

Figure 2.8. **Employer contributions are the highest among the OECD countries**

Percentage of gross earnings[a]



Note: Countries are ranked in ascending order of the tax wedge.

a) Tax burdens are calculated for a full-time worker in a single-person household earning a minimum wage at the standard (adult) rate. Full time refers to usual full-time hours in each country. Employer and employee social contributions also include any mandatory payments to private insurance for health, retirement pensions, etc.

b) Minimum wage levels refer to 2015 for Germany.

Source: OECD (2015), "Minimum wages after the crisis: Making them pay", www.oecd.org/social/Focus-on-Minimum-Wages-after-the-crisis-2015.pdf.

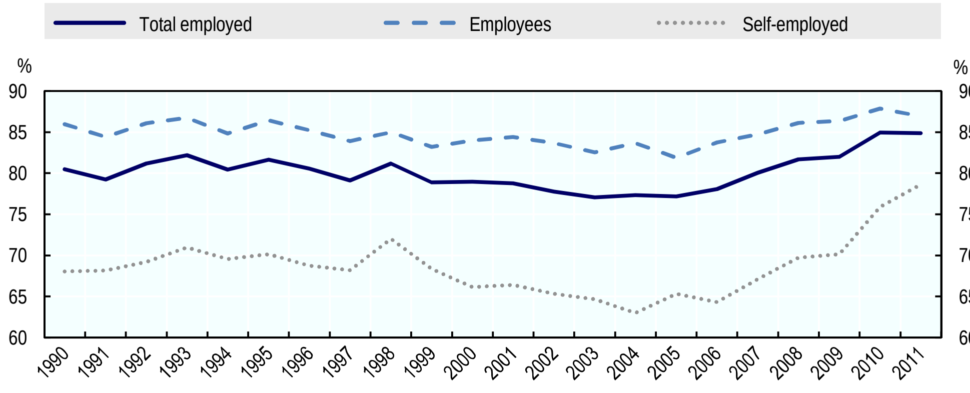
StatLink http://dx.doi.org/10.1787/888933591138

Past reforms are paying off but greater efforts are necessary to improve work-incentives for larger groups of workers

Since 2005, the state provides a subsidy to self-employed workers in form of a state contributions which diminishes with earnings (see Chapter 3). Self-employed workers cannot contribute to the second pillar of old-age pensions, the Labour Capitalisation Fund (FCL – *Fondo de Capitalización Laboral*), work risk insurance and exempt from financing anti-poverty programmes as described above. Generous government contributions explain, in part, the declining levels of informality among self-employed workers in Costa Rica as shown in Chapter 1. At the same time, there has been a dramatic improvement in the proportion of self-employed workers who pay social insurance taxes since the introduction of this policy (Figure 2.9). To offset potential undesirable effects arising from subsidisation of social contributions, the Costa Rican Department of Social Security (CCSS – *Caja Costarricense de Seguro Social*) increased resources of the inspection arm of the CCSS, which were then focused on increasing compliance among the self-employed.

Figure 2.9. **Generous government contributions for the coverage of Social Security among self-employed increased**

Coverage of Social Security, by type of employment, 1990-2011, percentages



Source: Caja Costarricense de Seguro Social (CCSS) [Costa Rican Department of Social Security].

StatLink http://dx.doi.org/10.1787/888933591157

Social contributions however remain a particular problem in the context of part-time work. There is no social contribution regime for part-time workers and the minimum contribution base (BMC – *Base mínima contributiva*) is the same regardless of working hours or earnings levels. Part-time workers can therefore be subject to extremely high contribution burdens relative to their earnings. In addition to high social contribution rates, the fixed BMC discourages the formalisation of small enterprises, as well as for women and youth, who disproportionately work part time. It can also heighten poverty risks in households where part-time employment is the main source of income, and would make it more costly for employers to respond to business fluctuations through legal means.

In fact, the BMC has been increased in recent years to support the financial sustainability of the pension system. Since 2014, the BMC has been set as a percentage of the minimum wage, increasing over time such as to reach 100% of the minimum wage by October 2019. Raising the BMC without strengthening compliance with minimum wage legislation and without letting the BMC vary with working hours further reduces incentives for formal employment, with adverse consequences for workers and for public finances alike. Costa Rica may consider creating a mechanism by which part-time workers can contribute and benefit from Social Security by making contributions proportional to part-time incomes. For instance, in Spain, whose Social Security contributions also apply a minimum contribution base, workers on part-time contracts have an hourly minimum contribution base, whose amount is equivalent to that paid by a full-time worker per month divided by 166 (i.e. about 40 hours per week).

Several studies have shown that the greatest fear among business owners with regard to formalisation is their inability able to meet with their social contribution obligations (ILO, 2014). To tackle the informality among small enterprises, the government is currently discussing a Bill which proposes that any micro-companies moving activities to the formal sector will be partially exempt from paying contributions and payroll tax for a period of four years. Essentially, the programme would reduce employer's contribution rate health insurance from 9.25% to .25%, and for anti-poverty programs from 5.5% to 0%, resulting in a total payroll tax rate reduction of 12.5 percentage points and almost halving the rate payable by employers (see Table 2.2).

The proposal is well-designed as the subsidy is limited to a four-year period thus minimising concerns related to long-term fiscal health of the Social Security system. After these four years, employers would pay the full payroll tax rate. The programme is likely to encourage firms to comply with other aspects of formality (i.e. permits, safety and labour regulations, minimum wages, etc.) as formalisation of these enterprises can increase their visibility to other government officials or inspectors. Going forward, technical assistance should be provided to small businesses to help firms understand and enforce new rules.

Table 2.2. **Reforms to cut social contributions for small firms are encouraged**

Percentages

Institution	Category	Current	Projection	
CCSS	Old age, disability and death	5.08	5.08	
	Sickness and maternity health care	9.25	2.25	CCSS programme
Other institutions	Family allowances	5.00	0.00	Draft Law 19.805 Legislative Assembly
	IMAS	0.50	0.00	
	INA	1.50		
Worker protection legislation	Labour Capitalisation Fund	3.00	3.00	
	Supplementary pension fund	2.00	1.50	
	Popular bank worker contributions	0.25	0.50	
Total contributions		**26.33**	**12.33**	

Note: CCSS: *Caja Costarricense de Seguro Social* [Costa Rican Department of Social Security]. IMAS: *Instituto Mixto de Ayuda Social* – Costa Rica [Joint Institute for Social Assistance – Costa Rica]; INA: *Instituto Nacional de Aprendizaje*, [National Vocational Institute].

Source: Policy questionnaire response provided by Costa Rican authorities.

StatLink http://dx.doi.org/10.1787/888933591575

6. Enforcement of labour regulations is critical

Minimum wages and other labour regulations are enforced by the Ministry of Labour and Social Security (MTSS), largely through inspections. Labour inspections, following a complaint or on the inspectorate's own initiative, investigate potential violations including those related to minimum wages, overtime pay, extra 13th month pay (*aguinaldo*), payroll records (*comprobante de pago*), Social Security payments, Work Risk insurance payments, mandated maternity leave, holidays, working-time violations, and health and safety regulations. If violations of the labour code are found, the employer is warned and given a certain length of time to correct the problem. A second inspection is carried out within 30 days of when the violation is recorded. Labour inspectors then refer any firms still found in violation of labour market regulations to the labour tribunals.

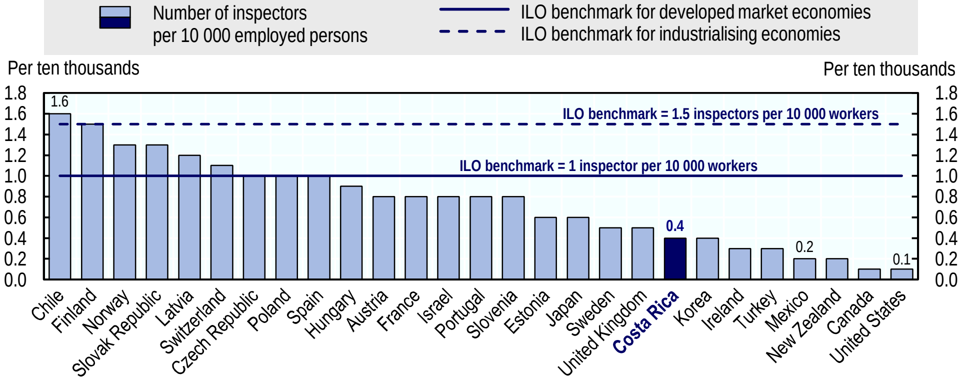
The work of the labour inspectorate is hampered by a lack of resources. In 2015, there were 92 labour inspectors in the country in total, which represents less than 1 labour inspector per 10 000 employed persons. While this is in line with the ILO recommendation of at least 1 inspector per 20 000 employed persons for industrialising countries (Figure 2.10), inspectors and supervisors report significant resource constraints affecting their daily work. For example, this includes no maps to show the locations of firms, no automobiles forcing inspectors to travel by public bus, and limited IT provision leading to an over-reliance on paper-based records (Gindling et al., 2015). In turn, these resource constraints may lead inspections to focus on large firms and commercial centres, while missing medium-size firms which have increased in number and have accounted for an increasing share of employment. In recognition of these challenges, the budget of the inspection offices have seen significant increases in recent years, rising from USD 7.7 million (CRC 4.2 billion) in 2010 to USD 11.7 million in 2016 (CRC 6.3 billion).

Once the case is with labour tribunals, the process can be costly and time consuming, especially if a complaint is lodged by an employee. Complaints brought before the labour tribunals commonly take four years to come to a resolution (Gindling and Trejos, 2010). Employees can also have cases against their employer heard directly by labour courts without the intermediation of MTSS. But few such cases are brought as employees must then pay their own legal costs and proceedings generally take two to three years.

A reform of the Labour Code (*Ley No. 9343*) passed in January 2016 and effective on 25 July 2017, aims to expedite the judicial process. Decisions of the labour tribunals and courts will need to be provided within six months. The structure of labour tribunals is to be simplified and streamlined and special summary tribunals will be responsible for issues concerning unfair dismissals and discrimination cases. The reform also lowers the costs for employees, especially for minors, low-income workers and those bringing cases involving maternity issues, who will be assigned free special counsel (*Defensa técnica gratuita*). The reform also includes provisions for improving the training of lawyers in labour law.

Figure 2.10. **The number of labour inspectors per worker is below conventional standards**

Number of inspectors per 10 000 employed persons, 2015



Source: ILO, *Safety and Health at Work Dataset*, www.ilo.org/ilostat/faces/oracle/webcenter/portalapp/pagehierarchy/Page27.jspx?subject=OSH&indicator=LAI_INDE_NOC_RT&datasetCode=A&collectionCode=YI&_afrLoop=674443013060788&_afrWindowMode=0&_afrWindowId=10uzzy6p6e_16#!%40%40%3Findicator%3DLAI_INDE_NOC_RT%26_afrWindowId%3D10uzzy6p6e_16%26subject%3DOSH%26_afrLoop%3D674443013060788%26datasetCode%3DA%26collectionCode%3DYI%26_afrWindowMode%3D0%26_adf.ctrl-state%3D10uzzy6p6e_48, a subset of the *ILOSTAT Database*, www.ilo.org/ilostat/; and ILO (2006), "Strategies and practice for labour inspection", Governing Body, 297th Session, Committee on Employment and Social Policy, Third item on the agenda, November, Geneva, www.ilo.org/public/english/standards/relm/gb/docs/gb297/pdf/esp-3.pdf, endnote 13, p. 4.

StatLink http://dx.doi.org/10.1787/888933591176

In the case of violations against minimum wages, sanctions can range between 1 to 24 months of workers salary. However, available data suggests that the average fine is less than five months (Piszk, 2011). The low sanctions imply that being discovered to have violated minimum wage legislation through a labour inspection imposes very few monetary costs on firms. A potentially useful measure to make the threat of sanctions more credible, and to further reduce judicial delays, would be to give labour inspectors the competence to issue certain fines or sanctions themselves. Currently, only the labour tribunals can do this, but a bill has been proposed which would grant labour inspectors more decision powers in this regard.

Inspections of underpayment or non-payment of Social Security contributions are carried out by a separate group of inspectors employed by the Social Security Fund. Social Security inspectors have more resources and can impose sanctions (including fines and the closure of a firm). They are required to alert the labour inspectorate at the Ministry of Labour and Social Security (MTSS) if, as part of their assessments of an employer's compliance with Social Security payment obligations, they establish evidence of violations of the Labour Code. An equivalent requirement applies to inspections carried out by MTSS inspectors. In some cases, full joint inspections in co-ordination between agencies are carried out, but this is relatively rare.

7. Unemployment Insurance scheme is not fully developed

Unemployment Insurance is the missing piece from Costa Rica's Social Security pillar

Because high unemployment is a new phenomenon in Costa Rica, existing institutions are not adequate for addressing the costs of unemployment whilst the availability of active labour market programmes such as job-search assistance and training to improve employability of job losers is limited.

The main existing policies that address the personal cost of unemployment are: i) *mandatory severance pay*; and ii) Labour Capitalisation Fund (FCL – *Fondo de Capitalización Laboral*). Employers are required to keep in reserve (*reserve presupuestaria*) 8.33% of pay to finance severance pay for unjustified dismissals. Severance paid to dismissed workers is equal to approximately one month for each year of service, with a maximum of eight months of pay.[3]

FCLs, created with the *Worker Protection Act 2000*, are individual accounts funded through employer contributions that were designed as supplementary retirement accounts and as a source of funds for employees who become unemployed or leave the labour force for any reason.[4] All workers whose employers pay Social Security are required to contribute to these funds. Employers pay 3% of gross salary: half of which (1.5%) is deposited into an individual account which is available to the employee under certain conditions and the other half that is transferred to the Obligatory Complementary Pension Regime (ROP – *Régimen Obligatorio de Pensiones*). Both the FCL and the ROP are administered by approved Complementary Pension Operators (except for a small percentage of FCLs that are administered by Solidarity associations under a special agreement with the government).[5] Accumulated savings in the FCLs can be withdrawn by the employee under three conditions: i) if the employee has been employed for five years with the same employer; ii) if a worker ends employment for whatever reason – retirement, dismissal, etc.; or iii) if the worker dies.[6]

Although FCLs can act as income protection against the risk of job loss, in practice they are not an effective means of providing unemployment insurance. One major flaw in the current design is that funds deposited in individual account FCL can be withdrawn every five years by workers who remain with the same employer.[7] Since the large majority of workers (approximately 90%) withdraw funds after five years of contributions, this limits the amount available to workers in the event of unemployment and retirement. If a worker has worked uninterrupted for the same employer for five years, the accumulated savings would equal a little more than one month of salary.[8] This is insufficient to maintain a worker and family for a prolonged period of unemployment lasting several months, even with severance pay (Trejos et al., 2013).

The importance of the FCL to support unemployed workers was evident during the peak of the economic crisis in 2009, as 88% of the workers who withdrew the FCL was due to reasons of unemployment, when typically most workers withdraw the resources upon completion of the five years (Trejos et al., 2013). Therefore, it is considered that FCL should be strengthened, so that it becomes in an unemployment insurance that provides the worker and their family protection while looking for a new job.

Several steps are recommended to improve the adequacy and responsiveness of the FCL system, drawing on strengths of unemployment insurance schemes in OECD countries: i) restrictions on withdrawal until the event of unemployment; ii) payment schedules to distribute benefits over several months; and iii) an increase in the amount deposited into FCL accounts (for instance through contributions by employees and the state). These new contributions could come largely from existing funding sources: 0.5% of gross salary diverted from the Obligatory Complementary Pension (ROP) fund contribution into the individual FCL accounts; 0.25% that now goes into the ROP fund for a worker's account in the *Banco Popular* (BP);[9] and another 0.25% of gross salary paid by the worker.

Among OECD countries, the case of Chile which uses individual accounts as the FCL, is of particular relevance to help guide possible reforms in Costa Rica (see Box 2.1 for more details). The Chilean scheme has several advantages. For instance, it provides better incentives in comparison to the traditional UI programme, particularly in countries with ineffective monitoring programmes. Second, it improves income protection in comparison to pure forced savings mechanism such as in prefunded severance pay programmes because it allows widespread risk-pooling.

Box 2.1. Reforms of unemployment insurance in Chile

In October 2002, Chile introduced a new, innovative UI programme which combines social insurance with self-insurance. Unemployment contributions are split between individual accounts and a common, solidarity account, which is partly financed also by the government. Both workers and employers pay contributions. By doing so, employers reduce their severance payments obligations, so severance pay is being partly replaced by the new UI programme. The new programme is effectively a funded programme, with individual accounts being managed by a freestanding administrator selected through a competitive tender.

When the individual becomes unemployed, the insurance programme pays out from their account – on the condition they have made at least 12 consecutive monthly payments into the account. All causes of unemployment are accepted when the individual requests payment from their own account, including voluntary termination or discharge. The amount of each insurance payment decreases over the period of unemployment, and is also dependent on the length of previous employment and total payments into the insurance account. But the payment period is limited to only five months.

Those with insufficient funds in their individual account (for any reason) can receive payments from the general fund only after emptying their personal account. Payments from the general fund are further conditioned on the individual actively seeking work, and they cannot decline any job offer paying at least 50% of their previous wages. Payment from the general fund is also available only to those who lost their jobs involuntarily (and not terminated for cause). In this situation, the individual is entitled to receive two withdrawals from the general fund over a five-year period.

Since all causes of unemployment are accepted in relation to receiving unemployment insurance payments, workers have an added security when seeking another job. This has the practical effect of promoting labour market mobility to a greater extent. Moreover, the short payment period provides strong incentive to avoid long-term unemployment, and more so since payments first come out of the individual's own personal account. A further incentive to find work quickly is that funds remaining in their personal account revert to the individual on retirement. This final incentive allows those who never become unemployed to gain from the system also.

Source: OECD (2009), *OECD Reviews of Labour Market and Social Policies: Chile*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264060616-en; and www.reforminstitutet.se/en/individual-unemployment-accounts-in-chile/.

8. Employment services are a new phenomenon

Job placement and labour market intermediation services are under-developed and fragmented

In recognition of the changing labour market and increasing unemployment, the Government launched the National Employment Intermediation, Orientation and Information System (SIOIE – *Sistema*

Nacional de Intermediación, Orientación e Información de Empleo) in 2009 with the aim of providing a platform for jobseekers and unemployed connect to the labour market. The Ministry of Labour and Social Security (MTSS), through the National Employment Directorate (DNE – *Dirección Nacional de Empleo*), and local government have leading roles in the administration of SIOIE. The Ministry of Education (MEP – *Ministerio de Educación Pública*) and the National Vocational Institute (INA – *Instituto Nacional de Aprendizaje*) are key partners responsible for expanding job information services and for planning and delivering job training.

The SIOIE consists of a decentralised network of employment offices and points of contact with widely varying levels of operational capacity. There are currently 317 points throughout the country, most of them located at the technical professional schools of MEP, often with only one personnel. Where they exist, employment services only provide a basic level of service provision including job-matching, information and referral to labour market programmes. The system depends to a large extent on providing these services through automated job search tools and the online portal *Busco-Empleo* of the SIOIE. Even then, the portal has attracted very few jobseekers and employers. According to the data submitted by the Costa Rican authorities, the annual flows of registered job seekers and new vacancies are very small taking into account the size of the labour force or the number of unemployed. At 26 000, the number of jobseekers registered with the portal reached its peak in 2012 covering only 12% of the ILO unemployed (Table 2.3). Poor outreach is largely attributed to poor dissemination of the online portal. Almost seven years after it was launched, no economic resources have been available for advertising campaigns or the implementation of alternative strategies.

Table 2.3. **Penetration of employment service is very low**

Levels and percentages

	Jobseekers registered in PES	ILO unemployed	Ratio of registered jobseekers to total number of unemployed
2009	8 636	157 606	5.5
2010	21 538	184 423	11.7
2011	24 315	210 381	11.6
2012	25 951	225 220	11.5
2013	23 416	209 747	11.2
2014	19 317	219 740	8.8
2015	16 486	218 807	7.5

Source: OECD estimates based on responses provided by the Costa Rican authorities to OECD policy questionnaire.

StatLink http://dx.doi.org/10.1787/888933591594

At a more strategic level, the SIOIE is supposed to operate in a co-ordinated manner, but in practice its actions continue to be fragmented. MTSS has a regulatory function in managing the SIOIE, but the job-portal tool (*Busco-Empleo*) and job-placement activities are under the responsibility of INA and MEP which continue to operate according to their own individual priorities and institutional expenditure plans. Strengthening inter-institutional co-ordination would help to avoid dispersion of limited resources in the system and help both more job-ready groups and disadvantaged groups, in particular social assistance recipients, to better navigate the system and seek employment-oriented support.

The experiences of OECD countries that have reformed their delivery of employment services to the unemployed and those receiving social assistance would be beneficial for Costa Rica to examine (see Box 2.2 for more details). Of particular relevance is the case of Turkey which in recent years significantly expanded the scope of its activation policies, which were far more modest than those of many other OECD countries. The authorities have identified a very large group that could potentially be targeted by activation policies: namely, all those out of a regular formal sector job, roughly two-thirds of the working age population (Finn et al. 2013).

Box 2.2. **Integration of employment services: The experience of OECD countries**

OECD governments have introduced various reforms that seek to improve the co-ordination of service delivery. In some countries, such as Japan and Slovenia, reforms have involved greater co-operation between the social welfare system and the PES. In others, such as Finland and Norway, reforms have resulted in the co-location and co-ordination of PES and SA services; and in others, such as Britain and Ireland, benefit delivery and employment services have been fully integrated. In Ireland, current reforms are being implemented despite high unemployment and deep public expenditure cuts because the government and international agencies see such reforms as vital to future recovery.

Evidence points to the importance of integrating the broad range of employment services into one stop shops as part of a transition for the PES to "intermediation services" between employment, education and training actors, enabling better labour market functioning and quality job placements (Mazza, 2011).

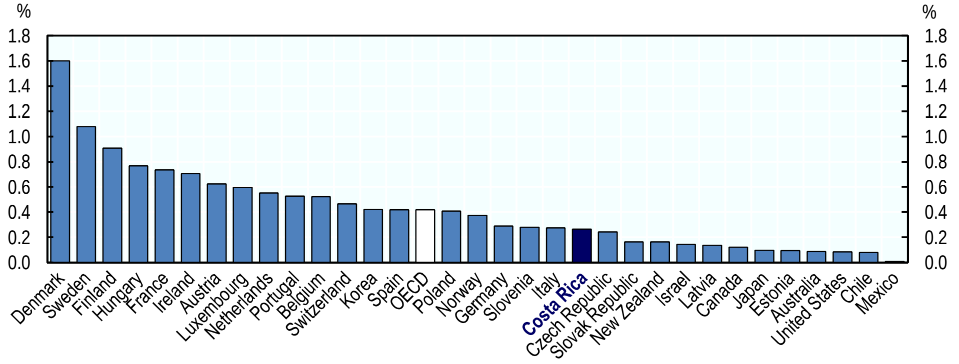
Source: Mazza, J. (2011), "Fast tracking jobs: Advances and next steps for labor intermediation services in Latin America and the Caribbean", Inter-American Development Bank Labor Markets and Social Security Unite Technical Notes, No. IDB-TN-344, http://publications.iadb.org/handle/11319/5821?locale-attribute=en.

Active labour market programmes are few and small in size

The focus on the employability of workers has increased over the past decade primarily by linking them with job training, temporary employment in community works and entrepreneurship and more recently employment incentives schemes such as wage-subsidies. MTSS runs three main programmes: the National Employment Programme (PRONAE – *Programa Nacional de Empleo*), which targets workers on low incomes and in poor rural areas; the *Empleate Plus* programme, with a focus on young people in poverty who have dropped out of school before completing secondary education and are not in training or employment and at risk of becoming detached from the labour market;[10] and *Mi Primer Empleo* (starting in 2015) which provides financial incentives to employers who hire young people between 18 and 35 years of age and women and people with disabilities, regardless of age.

Despite the expansion of active labour market portfolio and recent increases in the budget of both PRONAE and Empleate Plus, these programmes remain small in size by OECD standards. In 2015, total expenditure on labour market programmes as a share of GDP was 0.22% compared with 0.88% spent in the OECD area (Figure 2.11). Training accounts for the largest area of spending in Costa Rica (85%).

Figure 2.11. **Spending on active labour market programmes is much lower than the OECD average**



Source: OECD/Eurostat Labour Market Programme Database, http://dx.doi.org/10.1787/data-00312-en; and *Costa Rican Ministerio de Trabajo y Seguridad Social* (MTSS).

StatLink http://dx.doi.org/10.1787/888933591195

While increasing expenditure would be important to expand the provision of employment programmes, there are a number of challenges that need to be addressed to improve the labour market effectiveness of the above programmes. It is not possible to draw clear-cut conclusions in the absence of systematic evaluations. However based on the examination of specific design feature the following observations can be made:

- Many of the programmes have overlapping target groups and in some instances interventions overlap reducing efficiency of programmes. Simple eligibility rules, determined by factors such as age, education, skills, or caring responsibilities, have obvious advantages in terms of their ease of operation and equality of treatment. However, they are *rather blunt instruments* and may be *inefficient* in terms of achieving a good match between individual client needs and provision of support. Initial employability assessments and profiling systems should be used to determine who is able to work and the degree of market readiness and special needs of people that are able to work.

- The focus of labour market programmes is still largely on poverty reduction which can compromise the quality of the training programmes that are subsidised. One way to improve the quality of the programmes would be to have a government agency to provide accreditation to the training modules that are offered under the above programmes.

- Relatively successful programmes remain small in size and have a limited targeted group. Empleate Plus has not been evaluated, but a satisfaction survey among participants revealed a positive motivational effect for young people to continue studying or start to gain relevant labour experience.[11] More generally, evidence shows that youth programmes seem to be more likely to be effective in LAC countries (Ibarrarán and Rosas, 2009). In this context, the programmes should be opened up to all youth and not only to the poor. It would be necessary to improve the mechanisms to ensure that these programmes and the information reach young women to promote their participation in the labour market. Currently, the majority of the participants (60%) are men.

- Even though labour market programmes often target the poor, there are no sanctions in the case of non-attendance. For many Costa Ricans learning new skills will be the only way to take advantage of new employment opportunities. Thus, conditionality requirements should be generally tightened up for social assistance with more formal obligations to participate in training measures.

- Around 70% of the participants in PRONAE (the biggest labour market programme in terms of both size and budget) are involved in community works. Evidence from OECD and Latin American countries suggests that public works employment programmes have negligible or even negative programme impacts on employment. Unless they are well-targeted, they are also susceptible to large dead-weight losses (Kluve, 2016). Programmes with a focus on public works should be therefore scaled back.
- Mi Primer Empleo,[12] a recently launched scheme providing financial incentives to employers that hire young and female workers is welcome but should be carefully evaluated carefully and quickly to ascertain its effectiveness.

9. Improving skills of the workforce is a major challenge ahead

As noted in Chapter 1, the shift away from labour-intensive activities into higher value-added activities has increased demand for high-skilled jobs. However, Costa Rica's labour supply does not appear to be well adapted to generate the skills needed for the labour market. The workforce is composed mainly by low-educated people who account for around 60% of the population aged 25-64, while people holding an upper-secondary degree account for only about 22%. Youth in particular face acute problems: almost half of young adults have dropped out from secondary education and one in three young adults aged 15-29 from low income households are not in employment nor in education or training (NEET). This skills transition is critical for Costa Rica, as low educational attainment can constrain the movement of workers from inactivity and informal jobs to more productive and better quality jobs.

Increasing retention and graduation from secondary schools

A successful existing policy in Costa Rica is the conditional cash transfer programme *Avencemos* with the aim to increase retention and reintegration into the formal education system of children from families who are struggling to keep their children in secondary school. From 2006 to 2015, the government established an increasing amount of transfer in accordance with the grade completed, so that the incentive to stay in school is greater at higher grades.[13] The coverage expanded rapidly since the inception of the programme in 2006 from 8 137 students to 165 million in 2014 which represented 40% of total students in secondary schools (Hernandez, 2016). It is also well-targeted: According to Trejos (2012), 80% of the transfers were granted to children in poor and vulnerable households. Evaluations of Avancemos confirm a significant impact on secondary school drop outs and reinsertion in Costa Rica. One evaluation using panel data, propensity score matching and difference-in-difference analysis found that Avancemos decreased drop-out rates by 10-16% per year and had a statistically significant positive impact on the reinsertion rates of those who had dropped out (Mata and Hernández, 2015).

However, discussions with several labour market and education policy experts in Costa Rica underlined that Avancemos alone is not sufficient to expand upper-secondary graduation rates. One key issue is that youth may have inaccurate or incomplete information about the returns to education especially secondary education, due to limited exposure in their families and communities to highly educated individuals who have been very successful in the labour market. Along with general career advice, this suggests that a publicity and information programme informing students of the earnings gains from acquiring an upper-secondary degree could be an important contribution, especially in the transition period from lower to upper secondary. Evaluations however in this area have found that the poorest students may not benefit due to other binding constraints, and that sharing this information with parents as well as students may be needed to have impacts, at least at the primary and lower secondary level (Adelman and Sezekly, 2016).

Youth living in the poorest households in particular may need additional support such as help to address family problems, resolve a difficult housing situation, put a young person in touch with health services, or act as a mediator between the young person and the police or courts. Thus, Avancemos could be combined with other services provides via either the school or outside the school system – e.g. social and health services, public employment services and, possibly, NGOs – to help these individuals address more severe or long-lasting problems that may prevent youth staying in schools. In Portugal, the Educational Territories of Priority Intervention (TEIP) programme, creates partnerships between "priority" schools in certain underprivileged areas and public and private entities like health centres, voluntary associations, and different support agencies. The aim is to provide pupils at risk of dropping out with vocational courses and alternatives to traditional schooling. The Ministry of Education (MEP) regularly monitors principal outcomes such as improvements in academic achievement, attendance, behaviour and the risk of drop-out. School non-completion rates in priority areas steadily declined after TEIP was introduced, and by 2010, four years after the second version was rolled out, they had converged with national rates (Dias and Tomas, 2012).

Finally, the OECD's accession review of education and skills in Costa Rica argues for a number of measures to reduce dropout and increase participation. To address resource disparities across schools, it recommends measures to encourage more capable teachers to work in the schools with highest needs, and to provide teachers with the tools to direct help to those pupils who face the greatest challenges. To strengthen and expand vocational education and training at upper secondary level, it recommends establishing technical schools as specialised centres of vocational and professional training, and developing and encouraging short-cycle post-secondary programmes (OECD, 2017, forthcoming).

Responding to the needs of the labour market

The National Vocational Institute (INA – *Instituto Nacional de Aprendizaje*) is the main training provider in the country and offers technical training to people who have not finished general basic education and those who are already in work and require acquisition of new skills. One major strength of INA is that it is a well-resourced institution as all companies that have the capital of no less than CRC 50 000 and employ at least 10 workers pay 1% of their total payroll to the budget of the INA. However, it faces a number of challenges in responding to the shifts in the labour market.

One major criticism is that INA has been sluggish in responding to the needs of employers. In principle, research is carried out by INA in the various industrial sectors, but this only takes place every two or three years and the processes of converting the research findings into curriculum changes are slow. Estimates show that the whole process from identification of training needs and their implementation can take up to three years while it should not exceed one year (UCCAEP, 2016).

A closer link with industry and social partners is the most effective way to develop curricula that also include broader, transferable skills and to ensure that good-quality training is available to all. In this regard, the reforms to modify the Board of INA that will see an increase in union representation and an expansion from three to five business representatives are welcome. However it is important to ensure that strong incentives are provided to the private sector to get them further involved in the development of training to make it more demand-driven. The example of Ireland (World Bank, 2012) shows that the functions of the industry and business stakeholders were much more than just consultations. Industry leaders were key players in the training review process and had executive authority in setting and implementing aspects of workforce development. Further efforts should also be made to work together with the Ministry of Education and Ministry of Labour and Social Security to better determine and align supply and labour demand. Currently, there is no strong and permanent co-ordination between these three institutions, which go beyond some specific issues or participation in the Board of INA.

Workforce training for those already out of school that provides skills relevant to the new economy

Despite growing inequality and stagnant poverty rates, a large majority of the training is not directed towards the poor and those out of work. Only 12% of INA clients come from first income quintile (Trejos, 2009). Technical training up until recently was also directed towards students completing upper-secondary education limiting access to young people from poor households. Anecdotal evidence suggests that little attention is paid to remedial courses such as basic Spanish, English and mathematics targeted at the adult population that have low levels of basic skills and have attained low levels of secondary education.

In the context of structural changes, labour shortage and projected population ageing, the issue of adults with low literacy and numeracy skills has gained policy attention in OECD. As a result, a number of programmes have been developed to help adults, who missed out on earlier education opportunities, to access education and training and/or progress in the labour market (see Windisch, 2015 for a review of programmes). These programmes combine catch-up courses in foundation skills with vocational classes, counselling and career guidance, and often enable participants to obtain their upper-secondary qualification. Second-chance educational programmes can be a suitable alternative for early school leavers who are unable or unwilling to return to a standard school, possibly because they have been out of school for too long or face additional hurdles, such as family issues or mental health problems. These programmes combine catch-up courses in foundation skills with vocational classes, counselling and career guidance, and often enable participants to obtain their upper-secondary qualification Second-chance programmes may be suitable also for young people who have an upper-secondary qualification, but lack the basic skills required to participate in training or find employment (OECD, 2016).

Investing in workplace training

Vocational or technical programmes have proved to be an effective tool across OECD countries to improve educational outcomes and employability, especially when they are designed and implemented to be responsive to labour market needs. Young people who go through combined classroom and workplace training are 30% more likely to get a job than those who have only a classroom education, rising to 53% when combined with other services (Fares and Puerto, 2009).

As in many other Latin American countries, vocational programmes are however not in high demand among secondary students in Costa Rica.

In 2014, only 9% of 15-19 year-olds participated in upper-secondary vocation programmes (OECD average, 25%) compared with 19% for general programmes (OECD average, 35%) (OECD, 2016b; and EDU Country note for Costa Rica). Most INA programmes also lack work-based learning as part of their curricula (Álvarez-Galván, 2015). There are plans to develop a dual vocational track. The proposal under discussion is prepared by the business sector, with the support of ILO experts. The programme is aimed at 15-18 year-olds mainly, the technical part is taught at school and practice is done in companies. The proposal however has been criticised by many stakeholders. On the one hand, it has been strongly rejected by teachers' labour unions due to potential job losses of teachers. On the other hand, the Ministry of Education (MEP) 15-17 year-old students leaving the general school system in order to receive an income through dual training system. Given the strong evidence that work-based learning clearly contributes to better labour market outcomes, reforms to develop a dual track should be expedited.

Notes

1. The country's largest syndicated is the National Association of Teachers (ANDE), which brings together about 60 members. There are other important unions, such as the National Association of Public Employees (ANEP), which form employees of large institutions, such as the Union of Employees of the Costa Rican Social Security Fund (UNDECA) and others, although it should be noted that in the same institution there may be several unions (usually unions, engineers, secondary teachers).

2. Minimum wage decrees organise workers into three broad categories. The first group is of occupations associated with the production process (blue collar workers). This group is further divided into four skill categories: *unskilled*, *semi-skilled*, *skilled* and *specialised*. Most minimum wages are set as monthly earnings for full-time workers. For all but workers in commerce, the minimum wage assumes that workers work six days per week. In commerce, the minimum wage assumes a seven day work week. The second group, called *generic* applies to white-collar or administrative occupations. For this group, minimum wages are set for nine different types of workers: the same four as listed previously (*unskilled*, *semi-skilled*, *skilled* and *specialised*), as well as five categories for workers with technical or university education – those with technical degrees from secondary education, technical university degrees, *diplomados* (2-3-year university degree), 4-year university degrees and *licenciados universitarios* (5-year university degree). The third group covers a variety of specific occupations. For example, separate minimum wages are set for domestic servants and reporters. In addition, separate minimum wages are set for coffee and coyol harvesters, stevedores, doormen, taxi drivers, beer salesmen, and newspaper delivery personnel. Minimum wages in this group are set for a variety of time periods. For example, minimum wages are set monthly for reporters and domestic servants, daily for production occupations, and per piece or as a percentage of revenue for other occupations. With the exception of domestic servants, the workers covered by this third group represent a small proportion of the total work force in Costa Rica.

3. For workers with 3-6 months of employment, severance pay is equal to a 10-day pay. For workers with 6-12 months of employment, severance pay is equal to a 20-day pay. More than 1 year: 20-day wage for every year worked up to a maximum of 8 worked years.

4. Prior to 2001, employers were required to hold in reserve (*reserve presupuestaria*) 8.33% of pay in case of unjustified firing. Some firms with Solidarity organisations (a small percentage of firms) also offered a supplementary savings account for workers.

5. Individuals choose which the pension operator manages their FCL and OPC. The six approved operators are listed at: www.supen.fi.cr/administradoras-regimen-obligatorio-pensiones.

6. In practice, FCLs are also used as collateral for loans. The funds transferred to the OPC can only be withdrawn on retirement.

7. The funds transferred to the OPC can only be withdrawn upon retirement.

8. The actual amount depends on the rate of return in the specific pension operator chosen by the worker.

9. Funds deposited into the Banco Popular can be withdrawn by the worker for approved reasons such as buying a house.

10. The main objective of the programme is to help participants continue formal education, access training and gain relevant experience in high-demand occupations or in sectors experiencing skills shortages.

11. In particular, professional advice and information, and the professional training, were most valuable elements of the programme participation.

12. *Mi Primer Empleo* promotes the hiring of young people between 18 and 35 years of age, women and people with disabilities, regardless of age is welcome. A subsidy is paid to employers in two steps: the first is received six months after the start of the programme and the second at the end of the year, upon verification of compliance with the agreement to keep these workers during this period. The companies may hire a maximum of 20 people within the framework of this programme.

13. Since 2015, there have been only two categories of benefit amount: CRC 22 500 for 7th to 9th grades (lower secondary) and CRC 35 000 for 10th to 12th grades (upper secondary). The transfer is paid monthly and maintained for the rest of the year, provided the student remains in the educational system.

References

Adelman, M. and M. Sezekly, (2016), "School dropout in Central America: An overview of trends, causes, consequences, and promising interventions", World Bank Group, Education Global Practice Group, February 2016.

Álvarez-Galván, J. (2015), *A Skills beyond School Review of Costa Rica*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264233256-en.

BananaLink (2009), "A guide to Costa Rica labour relations issues", www.bananalink.org.uk/social-problems.

CEPAL (2011), "Mercado Laboral and dialogo social en Costa Rica", United Nations, February, http://docplayer.es/2022398-Mercado-laboral-y-dialogo-social-en-costa-rica.html.

Dias, M. and C. Tomas (2012), "Education and equity in semi-peripheral countries: Current trends in the Field of Priority Education in Portugal", *Procedia – Social and Behavioral Sciences*, Vol. 47, pp. 1092-1096.

Fares, J. and O.S. Puerto (2009), "Towards comprehensive training", *SP Discussion Papers*, No. 0924, Social Protection & Labor, The World Bank, Washington, DC., November, http://siteresources.worldbank.org/SOCIALPROTECTION/Resources/SP-Discussion-papers/Labor-Market-DP/0924.pdf.

Gindling, T.H. and K. Terrell (2007), "The effects of multiple minimum wages throughout the labor market: The Case of Costa Rica", *Labour Economics*, Vol. 14, pp. 485-511.

Gindling, T. H. and J.D. Trejos (2010), "Improving compliance with legal minimum wages in Costa Rica", mimeo, Instituto de Investigaciones en Ciencias Economicas, University of Costa Rica.

Gindling, T.H., J.D. Trejos and N. Mossaad (2015), "The consequences of increased enforcement of legal minimum wages in a developing country: An evaluation of the impact of the Campaña Nacional de Salarios Mínimos in Costa Rica", *Industrial and Labor Relations Review*, Vol. 68, No. 3, pp. 666-707.

Hernandez, K.R. (2016), "¿Cómo funciona Avancemos? Mejores prácticas en la implementación de Programas de Transferencias Monetarias Condicionadas en América Latina y el Caribe", Banco Interamericano de Desarrollo, Febrero.

Ibarrarán, P. and D. Rosas (2009), "Evaluating the impact of job training programmes in Latin America: Evidence from IDB funded operations", *Journal Of Development Effectiveness*, Vol. 1, No. 2, pp. 195-21, June.

ICFTU – International Confederation of Free Trade Unions (2014), "Survey of violations of trade union rights", http://survey.ituc-csi.org/Costa-Rica.html?lang=en#tabs-3.

ICFTU (2007), "Internationally-recognised core labour standards in Costa Rica", Report for the WTO General Council Review of the Trade Policies of Costa Rica, 16-18 April, Geneva, http://www.ituc-csi.org/IMG/pdf/Costa_Rica_2007_final.pdf.

ILO – International Labour Organization (2014), "Policies for the formalization of micro and small enterprises in Costa Rica", notes on policies for the formalisation of micro and small enterprises, Regional Office for Latin America and the Caribbean, FORLAC and ILOGindling, T.H. and K. Terrell (2004) "The effects of multiple minimum wages throughout the labor market", *IZA Discussion Papers*, No. 1159, Institute for the Study of Labor, Bonn, May, http://ftp.iza.org/dp1159.pdf.

ILO – International Labour Organization (2013), Report of the Committee of Experts on the Application of Conventions and Recommendations, International Labour Conference, 102nd Session.

ILO (2006), "Strategies and practice for labour inspection", Governing Body, 297th Session, Committee on Employment and Social Policy, Third item on the agenda, November, Geneva, www.ilo.org/public/english/standards/relm/gb/docs/gb297/pdf/esp-3.pdf.

Kluve, J. (2016), "A review of the effectiveness of Active Labour Market Programmes with a focus on Latin America and the Caribbean", *Research Department Working Papers*, No. 9, ILO, March.

Lehmann, H. and A. Muravyev (2013), "Labor market institutions and informality in transition and Latin American countries", in C. Pages, J. Rigolini and D. Robalino (eds.), *Social Insurance and Labor Markets: How to Protect Workers while Creating Good Jobs*, Oxford University Press.

Mata, C. (2015), "Efecto real y potencial del FODESAF en el combate a la pobreza", Estado de la Nación, http://estadonacion.or.cr/files/biblioteca_virtual/021/social/Mata_K_2015.pdf.

Mata, C. and K.R. Hernández (2015), "Evaluación de Impacto de la Implementación de Transferencias Monetarias Condicionadas para Educación Secundaria en Costa Rica (Avancemos)" (Conditional Cash Transfer Impact Evaluation: An Evaluation of the Costa Rican Secondary Education Program Avancemos), *Revista de Ciencias Economicas* (Costa Rica), Vol. 33, No. 1, pp. 9-35.

Mazza, J. (2011), "Fast Tracking Jobs: Advances and Next Steps for Labor Intermediation Services in Latin America and the Caribbean", Inter-American Development Bank Labor Markets and Social Security Unite Technical Notes, No. IDB-TN-344, http://publications.iadb.org/handle/11319/5821?locale-attribute=en.

MTSS (2016), *Anuario Estadistico*, MTSS, Observatario del Mercado Laboral, San José, Costa Rica, May.

OECD (2017), *Accession Review* (Education Directorate), OECD Publishing, Paris, forthcoming.

OECD (2016a), *Society at a Glance 2016: OECD Social Indicators*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264261488-en.

OECD (2016b), *Education at a Glance 2016: OECD Indicators*, OECD Publishing, Paris, http://dx.doi.org/10.1787/eag-2016-en.

OECD (2015a), *OECD Employment Outlook 2015*, OECD Publishing, Paris, http://dx.doi.org/10.1787/empl_outlook-2015-en.

OECD (2015b), "Minimum wages after the crisis: Making them pay", OECD Publishing, Paris, www.oecd.org/social/Focus-on-Minimum-Wages-after-the-crisis-2015.pdf.

OECD (2011), *OECD Employment Outlook 2011*, OECD Publishing, Paris, http://dx.doi.org/10.1787/empl_outlook-2011-en.

OECD (2009a), *OECD Reviews of Labour Market and Social Policies: Slovenia 2009*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264068995-en.

OECD (2009b), *OECD Reviews of Labour Market and Social Policies: Chile*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264060616-en.

OECD (2008), *OECD Employment Outlook 2008*, OECD Publishing, Paris, http://dx.doi.org/10.1787/empl_outlook-2008-en.

Piszk, S. (2011), "Resultados del primer año de la Campaña Nacional de Salarios Mínimos", Seminario internacional reflexiones en torno al salario mínimo, Crowne Plaza, San José, Costa Rica, 11 October.

Trejos, J.D. (2012), "La inversión social en el 2011: Evolución en un contexto de lenta recuperación económica y crisis fiscal", XVIII Informe Estado de la Nación en Desarrollo Sostenible.

Trejos, J.D. (2009), "Políticas activas del mercado de trabajo y esquemas de protección a trabajadores y desempleados en Costa Rica: Evolución, situación actual, propuestas y desafíos", in J. Weller (ed.), *Políticas para el perfeccionamiento de la institucionalidad laboral en Costa Rica*, CEPAL – Colección Documentos de Proyecto, Santiago, Chile, United Nations.

Trejos, J.D. and C. Mata (2016), Cálculo del gasto publico en programas no contributivos en Costa Rica, University of Costa Rica, mimeo, May.

Trejos, J.D. and P. Sauma (2013), "Crisis económica y seguro de desempleo," Chapter 10 in A. Ulate and M. Soto (eds.), *Costa Rica: Impactos y Lecciones de la Crisis Internacional 2008-2009*, University of Costa Rica and UNDP.

UCCAEP – Unión Costarricense de Cámaras y Asociaciones del Sector Empresarial Privado (2016), "Diez temas indispensables para potenciar la competitividad del país 2016-2018".

US Department of State (2012), "Country Reports on Human Rights Practices for 2012, Costa Rica", www.state.gov/documents/organization/204651.pdf.

Windisch, H.C. (2015), "Adults with low literacy and numeracy skills a literature review on policy interventions", (Version: 11 June).

World Bank (2012), "SABER-Workforce Development, Ireland 2012", The World Bank, Washington, DC.

Zulum, A. (2015), "Public Employment Services in Latin America and the Caribbean", Notes, ILO.

Database references

Database on Institutional Characteristics of Trade Unions, Wage Setting, State Intervention and Social Pacts in 51 countries between 1960 and 2014 (ICTWSS), http://uva-aias.net/en/ictwss.

Encuesta Continua de Empleo (ECE), www.inec.go.cr/encuestas/encuesta-continua-de-empleo.

Encuesta Nacional de Hogares (ENAHO), www.inec.go.cr/encuestas/encuesta-nacional-de-hogares.

ILO, *Annual Indicators Dataset* from the *ILOSTAT Database*, www.ilo.org/ilostat/.

ILO, *Safety and Health at Work Dataset*, www.ilo.org/ilostat/faces/oracle/webcenter/portalapp/pagehierarchy/Page27.jspx?subject=OSH&indicator=LAI_INDE_NOC_RT&datasetCode=A&collectionCode=YI&_afrLoop=67444301306078&_afrWindowMode=0&_afrWindowId=10uzzy6p6e_16#!%40%40%3Findicator%3DLAI_INDE_NOC_RT%26_afrWindowId%3D10uzzy6p6e_16%26subject%3DOSH%26_afrLoop%3D67444301306078%26datasetCode%3DA%26collectionCode%3DYI%26_afrWindowMode%3D0%26_adf.ctrl-state%3D10uzzy6p6e_48, a subset of the *ILOSTAT Database*, www.ilo.org/ilostat/.

OECD Employment Database, www.oecd.org/employment/database.

OECD/Eurostat Labour Market Programme Database, http://dx.doi.org/10.1787/data-00312-en.

OECD Job Tenure Dataset, a subset of the *OECD Employment Database*, www.oecd.org/employment/database.

OECD LFS – Minimum relative to median wages of full-time workers Dataset, http://stats.oecd.org//Index.aspx?QueryId=19603, a subset of the *OECD Employment Database*, www.oecd.org/employment/database.

OECD-IDB Database on summary indicators of Employment Protection Legislation (EPL) in Latin American and the Caribbean, www.oecd.org/employment/emp/oecd-idbdatabaseonsummaryindicatorsofemploymentprotectionlegislationeplinlatinamericanadthecaribbean.htm.

Chapter 3

Reinforcing social policies for inclusive growth in Costa Rica

Costa Rica is one of the countries that spends the most on social policies in Latin America, although considerably less than the OECD average. Social spending in Costa Rica focuses on public services. Cash social benefits fail to significantly reduce income inequality due to small size and low progressivity. Public services, in turn, have considerable redistributive impact due to large spending and favouring lower income households. Taxes do not reduce inequality and may hinder employment and formality due to over-reliance on social contributions. The pension system's coverage is high but not universal. Further improvements in family policies; childcare and parental leave policies are needed to tackle key barriers for female labour market participation and taxes and benefits could contribute to reducing high child poverty among working families Finally, urgent action is needed in the area of anti-poverty policies which largely remain fragmented and un-coordinated.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

1. Introduction

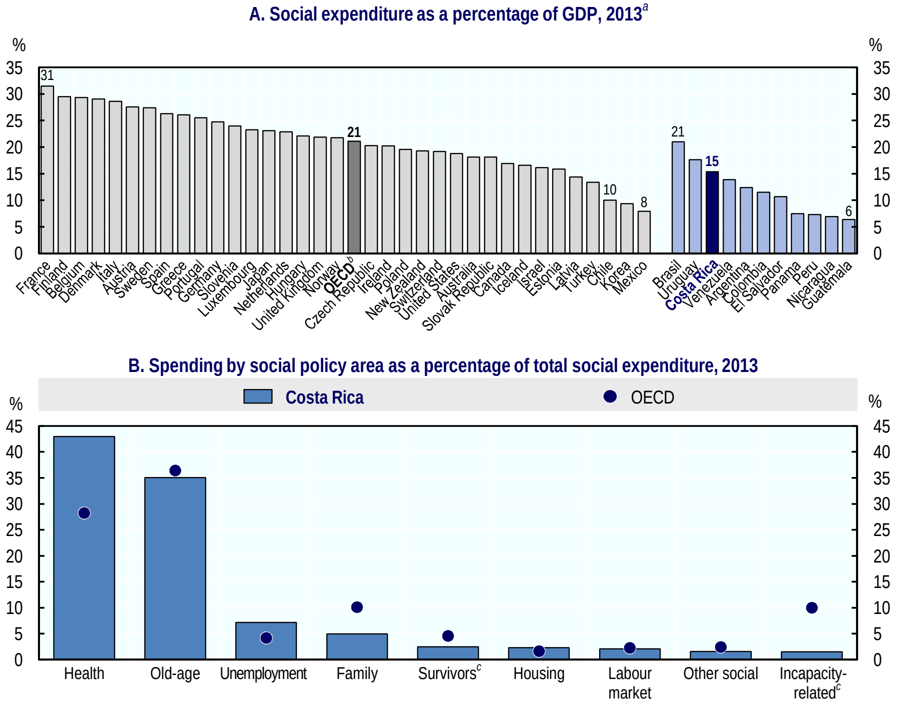
Costa Rica's social policies have been an example for other Latin American countries for many decades. As a result of accumulated years of social investment, the country performs well on a range of social indicators compared with other Latin American countries and also in relation to the OECD average. In recent years, however, Costa Rica has failed to reform its social policies in line with new socio-economic and demographic challenges. Growing income inequality, resulting from profound changes in the labour market; increasing labour informality and unemployment; rising expectations for female labour force participation; falling fertility rates; population ageing and expanding urbanisation create new and increasing demands on social policies. This chapter reviews social policies in Costa Rica by describing its main programmes and institutions, their strengths and weaknesses; presenting current and potential challenges ahead; and discussing options for policy reforms.

2. Social spending is high for Latin America but below OECD average

Costa Rica is one the countries that spend the most on social policies in Latin America, although still considerably less than OECD countries on average. In 2015, social expenditure accounted for 15% of the gross domestic product (GDP), only Brazil and Uruguay spent more in Latin America. Costa Rica, however, still spent considerably less than the OECD average (21%). Only five OECD countries (including Chile and Mexico) spent less (Figure 3.1, Panel A).

Social spending in Costa Rica focuses on benefits in kind. Almost two-thirds of social spending in Costa Rica goes to in-kind benefits – the OECD average is 40%. Health is the largest in-kind programme, accounting for 43% of total social spending, which is more than the OECD average (34%) and as much as the United States, which is the OECD country that channels the most of its social spending to health (Figure 3.1, Panel B). Cash transfers account for 36% of total social spending, mainly related to old-age pensions. In comparison with the OECD average, a higher proportion of social spending in Costa Rica is directed to unemployment protection,[1] while a lower share is aimed at family and incapacity related areas. Education spending, which is not part of the OECD's social expenditure statistics, accounts for almost 8% of GDP in Costa Rica, which is higher than any OECD country – the OECD average is 5.2% of GDP.[2]

Figure 3.1. **Social spending is considerable but lower than the OECD average**



Note: In Panel B, data are ranked in decreasing order of the percentages of spending by social policy area in Costa Rica.

a) Data refer to 2011 for Uruguay, 2012 for Mexico and Peru, and 2015 for Costa Rica.

b) Unweighted average of the 35 OECD countries and for the latest year available.

c) *Incapacity-related* and *Survivors*' benefits from special pension regimes and non-contributory pensions are included as part of the old-age social policy area. Special pension regimes and non-contributory pensions are discussed in Section 3.5.

Source: OECD Social Expenditure Database (2016), www.oecd.org/social/expenditure.htm, CEPAL (2016), *Base de Datos de Inversión Social*, http://dds.cepal.org/gasto/indicadores/ficha/2016.

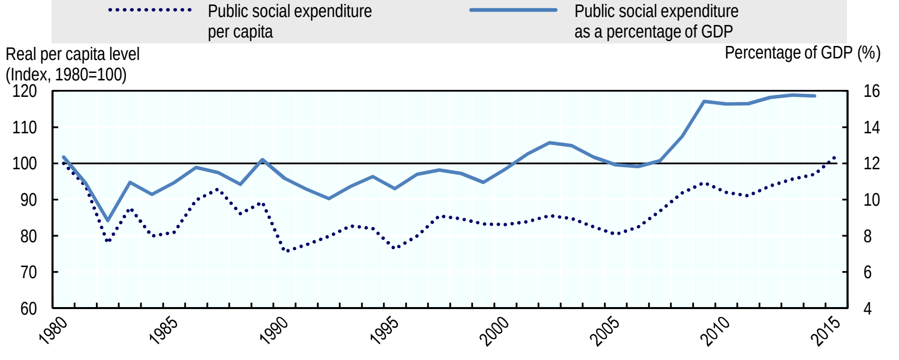
StatLink http://dx.doi.org/10.1787/888933591214

Social spending has increased considerably in the last two decades. Between 1993 and 2013, social spending increased from 11% to 16% of GDP, mainly due to higher health and social protection expenditures (Figure 3.2). In part, this increase is a recovery to historical spending levels. Social spending per capita fell 30% in real terms during the fiscal adjustments following the economic crisis in the early 1980s. Social spending started to rise in the late 1990s, but it took until 2015 for social spending to exceed the real per capita level of 1980.

Rising social spending has not always translated into higher coverage or better quality. In the case of the health sector, long waiting times and other performance indicators suggest that increasing healthcare spending has not improved front-line services. Spending growth has been driven mainly by rising hospital activity, poor price control and increases in medical salaries (OECD, forthcoming a). Similarly, rising pension spending has not been associated with a significant expansion of pension coverage. A considerable part of additional spending has been concentrated on beneficiaries of relative generous pension schemes in the public sector (see Section 5).

Figure 3.2. **Social spending has been rising**

Public social expenditure per capita and as a percentage of GDP, 1980-2015



Note: GDP: Gross domestic product.

Source: Trejos, J.D. (2014), "La inversión social pública en el 2013: Fuerte recuperación pese al desequilibrio fiscal", 20th Report through the programme *Estado de la Nación* on Sustainable Human Development (2013) [*Vigesimo Informe Estado de la Nación En Desarrollo Humano Sostenible* (2013)], Final Report, http://estadonacion.or.cr/files/biblioteca_virtual/020/social/Trejos2014.pdf; and Estado de la Nación (2016), "Compendio de indicadores sociales", www.estadonacion.or.cr/files/estadisticas/costa-rica/Compendio_social2016.xlsx.

StatLink http://dx.doi.org/10.1787/888933591233

3. Social policies are scattered across several institutions

Most contributory benefits in Costa Rica are managed by the Costa Rican Department of Social Security (CCSS – *Caja Costarricense de Seguro Social*). CCSS operates the health care system, the public pension regime (including old-age, disability and survival pensions), maternity and non-occupational sickness benefits. CCSS also collects contributions for the compulsory private pension regime (see Section 5) and the Labour Capitalisation Fund (FCL)[3] and transfer revenues to the pension operator chosen by the worker to administer the funds (Table 3.1). CCSS is an autonomous public institution and is administered by a board of directors with equal representation by government, employers and employees. Its budget is equivalent to 10% of GDP, the largest among all public institutions in the country. It manages the first-tier public contributory pensions, sickness and maternity benefits and health insurance. About 60% of CCSS spending is directed to health and 40% to pensions.

Table 3.1. **The institutional framework of social policies in Costa Rica**

Function	Access	Description	Operator	Finance	Resources
Old-age, incapacity and survival	Contributory	Public pension	CCSS	CCSS	Social contributions
	Contributory	Compulsory private pension	Pension operator	Individual account	Social contributions
	Non-contributory	Public pension	CCSS	FODESAF	Social contributions and general budget
Health	Universal	Health care	CCSS	FODESAF	Social contributions and general budget
	Contributory	Illness and accidents	INS	INS	Social contributions
Family	Contributory	Maternity leave	CCSS	CCSS	Social contributions
	Non-contributory	Child care	IMAS, PANI, MH	FODESAF	Social contributions and general budget
	Non-contributory	Elderly care	IMAS, CONAPAM	FODESAF	Social contributions and general budget
	Universal	Health care	CCSS	CCSS	Social contributions
Unemployment	Contributory	Individual account	Pension operator	Individual account	Social contributions
Housing	Non-contributory	Grant	BANHVI	FODESAF	Social contributions and general budget
Social assistance	Non-contributory	Cash transfers	IMAS *plus* other	FODESAF *plus* IMAS	Social contributions and general budget
Other (employment)	Non-contributory	Grants and cash transfers	MTSS	FODESAF	Social contributions and general budget
Other (water, food, electricity)	Non-contributory	Services and infrastructure	Several	FODESAF	Social contributions and general budget

Note: BANHVI: *Banco Hipotecario de la Vivienda* [Mortgage Bank of Housing]; CCSS: *Caja Costarricense de Seguro Social* [Costa Rican Department of Social Security]; CONAPAM: *Consejo Nacional of la Persona Adulta Mayor* [National Council for the Elderly]; FODESAF: *Fondo de Desarrollo Social y Asignaciones Familiares* [Fund for Social Development and Family Allowances]; IMAS: *Instituto Mixto de Ayuda Social* [Joint Institute for Social Assistance];INS: *Instituto Nacional de Seguros* [National Insurance Institute]; MTSS: *Ministerio de Trabajo y Seguridad Social* [Ministry of Labour and Social Security].

Source: CCSS (2016), "Histórico Ingresos y Egresos", periodo 1992-2016, *Caja Costarricense de Seguro Social*, www.ccss.sa.cr/presupuesto; FODESAF (2015), Archivos liquidaciones presupuestarias, Word document, "Liquidación 2015.doc", Cuadro N°XX, *Fondo de Desarrollo Social y Asignaciones Familiares*.

Other institutions manage additional contributory benefits. The National Insurance Institute (INS – *Instituto Nacional de Seguros*) manages benefits related to occupational risks such as illness and accidents, and work-related disability pensions. Pension operators manage the second-tier mandatory individual saving scheme and the FCL. Special pension regimes for some professional categories in the public sector are managed either by the central government or special councils.[4]

Non-contributory social programmes are operated by several institutions and mainly financed by the Fund for Social Development and Family Allowances (FODESAF – *Fondo de Desarrollo Social y Asignaciones Familiares*). By mandate, FODESAF must exclusively finance programmes targeted to poor or vulnerable population groups. Programmes include childcare, school canteens, scholarships, conditional cash transfers, school transport, non-contributory pensions, health insurance, social housing and care of vulnerable groups. FODESAF's budget is equivalent to 2% of GDP and finances more than three-quarters of spending on non-contributory social programmes in Costa Rica. The fund distributes resources across about 20 institutions, 30 programmes and 65 products. Most of these programmes (and some institutions) rely mainly, or exclusively, on resources from FODESAF. Joint Institute for Social Assistance (IMAS – *Instituto Mixto de Ayuda Social*) manages social programmes to tackle extreme poverty, including family cash transfers, childcare and grants for training and housing improvement. While IMAS obtains revenues from social contributions, transfers from general government budget and donations, most resources to finance its programmes come from FODESAF.

Most of FODESAF's resources are earmarked. About two-thirds of its budget is allocated by law to specific institutions and programmes. Most of the remaining resources are also received by the same institutions earmarked in the law. Only 5% of resources are distributed to institutions not covered by law. The largest earmarked programmes are non-contributory pensions (24% of overall budget), social assistance (22%), housing policies (19%), support to education (12%) and health (11%). Institutions receiving resources from FODESAF must report back to the Directorate General for Social Development and Family Allowances (DESAF – *Desarrollo Social y Asignaciones Familiares*), which is a branch of the Ministry of Labour and Social Security that administers FODESAF. The information gathered by DESAF is used to build indicators and databases, but information is still incomplete and only covers some programmes. Information systems on the population targeted and effectively attended are not yet available, thus hindering the capacity to evaluate the programmes. Such data shortcomings also limit the ability of this report to provide detailed and precise statistical information about some programmes.

4. Social policies rely heavily on finance from social contributions

Social Security contributions are the main source of revenues of contributory and non-contributory social policies. Almost three-quarters of the CCSS' revenues come from contributions, 17% from financial returns of its reserve fund (see Section 5) and 9% from government transfers. FODESAF is financed roughly in equal parts by payroll taxes[5] and transfers from central government linked to the sales tax.

Social Security contributions are very high, particularly for employers. At 36.5% of gross salaries, Social Security contributions in Costa Rica are much higher than the OECD average (27.2%). Employer contributions are particularly high (26.33%) – the OECD average is 17.7% (OECD, 2016a). Employer contributions finance, health and maternity insurance, pensions (public and mandatory private), the Labour Capitalisation Fund (FCL) and occupational risks (Table 3.2). Employer social contributions are further increased by payroll taxes to finance FODESAF, IMAS, the National Vocational Institute (INA – *Instituto Nacional de Aprendizaje*) and Bank for Communal Development (BP – *Banco Popular*) – a public bank. Each payroll tax has an earmarked rate, which combined account to 7.25% – more than one-fourth of overall employer contributions. Since most of the population targeted by FODESAF and IMAS are in extreme poverty and/or informality, the contributions are paid on behalf of workers who are unlikely to be entitled to related benefits. Therefore, these payroll taxes are in effect tools for income redistribution rather than for social insurance.

Table 3.2. **Social Security contributions of salaried workers in Costa Rica**

Percentages

	Employee	Employer	State
Sickness and maternity (SEM)[a]	5.50	9.25	0.25
Old-age, invalidity and survivors			
First-tier pension (RIVM)	2.84	5.08	0.57
Second-tier pension (ROP)[b]	1.00	2.00	0.00
Unemployment (FCL)		3.00	
Occupational accidents and diseases (SRT)[c]		0.33 to 34	
Payroll taxes			
National Vocational Institute (INA)		1.50	
Joint Institute for Social Assistance (IMAS)		0.50	
Social development fund (FODESAF)		5.00	
Bank for communal development (BP)		0.25	

Note: BP: *Banco Popular* [Bank for Communal Development]; FCL: *Fondo de Capitalización Laboral* [Labour Capitalisation Fund]; FODESAF: *Fondo de Desarrollo Social y Asignaciones Familiares* [Fund for Social Development and Family Allowances]; IMAS: *Instituto Mixto de Ayuda Social* [Joint Institute for Social Assistance]; INA: *Instituto Nacional de Aprendizaje* [National Vocational Institute]; RIVM: *Régimen de Invalidez, Vejez y Muerte* [Disability, Old-Age and Survivors insurance system]; ROP: *Régimen Obligatorio de Pensiones* [Obligatory Complementary Pension Regime]; SEM: *Seguro Enfermedades y Maternidad* [Health Insurance and Maternity]; SRT: *Seguro de Riesgos del Trabajo* [Work Injury Insurance].

a) The contribution for pensioners is 8.75% and is paid by the pension reservation fund.

b) Every year, half of resources saved in the FCL are transferred to the second-tier pension.

c) The rate depends on the occupation risk. On average the rate is 1.83% in the private sector and 0.54% in the public sector.

Source: CCSS (2016), “Calculadora Patronal”, Caja Costarricense de Seguro Social [Costa Rican Department of Social Security], http://www.ccss.sa.cr/calculadora (accessed on 08/12/2016).

StatLink http://dx.doi.org/10.1787/888933591613

Independent workers are also obliged to pay Social Security contributions. Their contributions cover health, maternity and first-tier public pensions and entitle them to the same benefits as employees and their families in these three schemes (Table 3.3). Contributions for independent workers have been statutorily compulsory since 2000, before they were voluntary. Elderly self-employed workers who have not contributed enough years in order to be eligible for a pension at retirement age (65-year-old) are exempt from paying pension contributions. Furthermore, independent workers are not insured against occupational risks (accidents and occupational diseases), do not contribute to the second-tier pension, Labour Capitalisation Fund, nor are levied payroll taxes to IMAS, FODESAF, INA and BP.[6]

Table 3.3. **Social Security contributions of independent workers in Costa Rica**

	Earnings brackets[a]	Contribution on net earnings (%)	
		Worker	State
Sickness and maternity (SEM)[b]	0.718 MW	4.00	8.00
	0.719 MW – 2 MW	6.00	6.00
	2 MW – 4 MW	7.00	5.00
	4 MW – 6 MW	9.00	3.00
	6 MW or more	12.00	0.00
Old-age, invalidity and survivors, first-pillar pension (RIVM)[c]	0.718 MW	4.25	3.34
	0.719 MW – 2 MW	6.00	1.59
	2 MW – 4 MW	6.59	1.00
	4 MW – 6 MW	7.09	0.50
	6 MW or more	7.59	0.00

Note: CCSS, *Caja Costarricense de Seguro Social* [Costa Rican Department of Social Security]; MW: Minimum wage; RIVM: *Régimen de Invalidez, Vejez y Muerte* [Disability, Old-Age and Survivors insurance system]; SEM: *Seguro Enfermedades y Maternidad* [Health Insurance and Maternity].

a) Brackets are determined by CCSS as a percentage of the minimum wage for an unqualified worker.

b) Additionally, the state contributes 0.25%.

c) Additionally, the state contributes 0.41%.

Source: CCSS (2016), "Calculadora Patronal", *Caja Costarricense de Seguro Social*, http://www.ccss.sa.cr/calculadora (accessed on 08/12/2016).

StatLink http://dx.doi.org/10.1787/888933591632

Unlike any OECD country, the Costa Rican central government pays part of the workers' social security contributions. Governmental contributions cover health and maternity insurance as well as first-tier pension.[7] In the case of employees, government contributions are small. But for the self-employed, government contributions are considerable, particularly among those with low earnings (Table 3.3). Such generous government contributions help to explain, in part, the relatively low levels of informality among self-employed workers in Costa Rica – the lowest in Latin America (Kaplan and Oliveri, 2016).

Social contributions are especially high for low-earning salaried workers and can produce strong incentives to informality. Independently of earnings or hours of work, there is a fixed minimum contribution base with the same amount for all workers (currently set at 72% of the lowest minimum wage). Self-employed workers earning below this threshold are exempt, but employees are not. If an employee earns below the threshold (for example due to part-time work), both employer and employee are obliged to contribute on the basis of this minimum. As a result, social contributions for low-earnings employees are disproportionately high and disincentive formal jobs (see Chapter 2). Originally, the amount of the minimum contribution base was set around half the lowest minimum wage, in order to adjust to part-time work. In recent years, CCSS has been raising the minimum contribution base faster than inflation in order to increase revenues to the pension system (see Section 5). CCSS aims that the minimum contribution base matches the lowest minimum wage by 2019.

5. Pension system needs to address current and future challenges

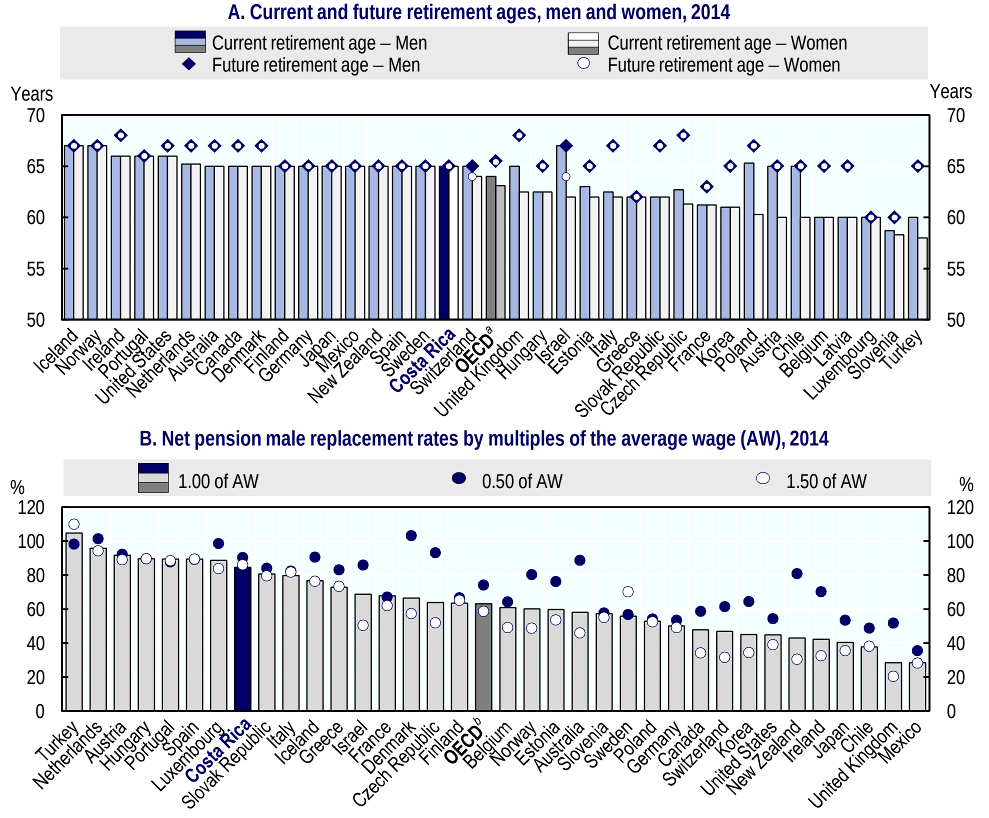
Pensions in Costa Rica are structured in a three-tier system

The pension system in Costa Rica has three tiers. The first tier consists of a social insurance pay-as-you-go (PAYG) system; the second tier is a mandatory savings scheme with individual accounts; and the third tier consists of voluntary individual retirement savings; finally, there is also a means-tested old-age safety net which is targeted at poor elderly.

The first-tier public contributory pension scheme – Disability, Old-Age and Survivors insurance system (RIVM – *Régimen de Invalidez, Vejez y Muerte*) covers employees and self-employed in public and private sectors. Workers are entitled to retire at age 65 if they had 25 years of contributions – this is slightly above the current OECD average (Figure 3.3, Panel A). The pension base is calculated as the average salary of the last 12 years. The replacement rate depends on the average salary of the last 60 contributions. Rates range from 43% (for average salaries of least 8 times the lowest minimum wage) to 52.5% (for average salaries lower than 2 times the lowest minimum wage). The replacement rate increases by 1 percentage point for each year contributed in addition to the first 12 years. In 2016, the minimum pension amount was CRC 129 620 (about USD 235 or 0.45 times the lowest minimum wage) and the maximum CRC 1 527 477 (USD 2 770, 5.3 times the lowest minimum wage), increased to CRC 2 161 380 (USD 3 920, 7.5 times the lowest minimum wage) in case of late retirement (SUPEN, 2016). As a result, a man who started working at age 20, earned the average wage and contributed throughout his working life would have a replacement rate of almost 85% – considerably higher than the OECD average (63%) (Figure 3.3, Panel B). In line with most OECD countries, replacement rates are higher for pensioners who had earned less than the average wage, due to the minimum pension and variable replacement rates (OECD/IDB/The World Bank, 2014).

RIVM is the only pension regime in Costa Rica with a reserve fund, together with the special programme of the judiciary. Resources to the fund originate from contribution revenues that exceed pension payments and administration costs. Currently, RIVM operates without using resources of the reserve fund (equivalent to 7% of GDP in 2013) but there is uncertainty for how long this will remain the case (see discussion on financial sustainability of pension system below).

Figure 3.3. **Public pension parameters in Costa Rica are in line with OECD countries**



Note: The net pension male replacement rate is defined as the individual net pension entitlement divided by net pre-retirement earnings, taking account of personal income taxes and Social Security contributions paid by male workers and pensioners.

a) Unweighted average of the 35 OECD countries.

b) Unweighted average of 34 OECD countries (except Latvia) and for the latest year available.

Source: OECD/IDB/The World Bank (2014), *Pensions at a Glance: Latin America and the Caribbean*, OECD Publishing, Paris, http://dx.doi.org/10.1787/pension_glance-2014-en; and OECD (2015), *Pensions at a Glance 2015: OECD and G20 indicators*, OECD Publishing, Paris, http://dx.doi.org/10.1787/pension_glance-2015-en.

StatLink http://dx.doi.org/10.1787/888933591252

The first-tier pension system also includes special schemes for some categories of public sector workers. These special regimes are financed by the national budget and were closed to new entrants in 1992. Most newly recruited public sector workers enrol in the public pension scheme (RIVM). Workers in education and the judiciary, however, have new special pension savings schemes. The old special regimes were extremely generous and still pay out benefits to more than 50 000 pensioners, with 25 000 active workers still enrolled in these schemes (Sauma, 2013). Recently, several measures were taken to scale down these schemes, such as restricting entitlement to survivors' pensions, limiting the rise of benefit levels to inflation, levying an additional contribution for very high pensions and allowing for future increases in contribution rates.

The second-tier mandatory pension scheme (ROP) consists of individual retirement saving accounts. Enacted in 2000, ROPs are managed by private pension funds and supervised by the pension regulator (SUPEN). Benefit entitlement is conditional on retirement from the public pension scheme (RIVM). If the amount of the benefit is less than 10% of the public pension, the pensioner is allowed to withdraw all funds. Otherwise, the pensioner must choose an annuity or periodic withdrawals. Only employees can contribute to ROP, independent workers are excluded. If the worker desires, she can make supplemental contributions to the ROP with resources from the FCL. Contributions to individual accounts are charged a commission, which is approximately 8% of returns or 4% of contributions. Since the scheme is relatively recent, there are few beneficiaries. In 2016, 13 350 people received ROP pensions, the vast majority (90%) withdrew all funds. However, the number of periodic withdraws are increasing – from less than 100 people in 2012 to almost 1 500 in 2016.

The third tier of the pension systems consists of voluntary retirement savings and is available for any person aged 15 or more, regardless of occupation. Contributions are exempt from income tax and, in part, from Social Security contributions (SUPEN, 2014). Benefits can be received from 57 years of age, although early partial or total withdrawals are possible. In 2015, net assets managed by the private pensions system (second and third tiers) represented 17.33% of GDP.

The old-age safety net (RNC – *Régimen No Contributivo*) provides poor elderly people (aged 65 or more)[8] with a basic pension and access to health services provided by CCSS. Entitlement conditions include Costa Rican citizenship, no family member in receipt of the benefit, per capita family income lower than the poverty line, proof that no relative could help with their subsistence and an asset test.[9] RNC is administered by CCSS and financed by FODESAF. In recent years, additional resources from national budget have been added to the programme aiming mainly to raise the benefit level, which more than doubled between 2006 and 2009. Since 2010, the benefit level has reached a ceiling established to prevent disincentives to pay Social Security contributions and has been rising in line with the minimum contributory pension. In 2016, the amount was CRC 78 000 per month (about USD 140 or 60% of the minimum pension).

Coverage is relatively high and increasing but not universal

Pension receipt is relatively high but far from universal due to labour market informality and gaps in non-contributory pensions. Almost three-quarters of inactive people aged 65 or more receive a pension in Costa Rica. Contributory pensions are concentrated among people who have had long and stable careers in formal jobs. Individuals who have had volatile careers and long periods in informality usually do not qualify to a contributory pension. In 2015, 50% of inactive elderly people received a pension from a contributory regime and 22% from the non-contributory regime (Table 3.4).

Informality hinders pension coverage. In 2014, about 36% of active workers were not insured, i.e. did not contribute to the pension system (Mideplan, 2016). Most people without insurance live in poor households and work in informal jobs. Lack of insurance poses a major challenge for the future as the population ages and significant share is not adequately protected.

Pension insurance has increased considerably in recent years. According to CCSS, the proportion of the labour force covered by the first-tier pension scheme (RIVM) has increased from 45% to 64% between 2003 and 2014. The rise was particularly high among independent workers – from 21% to 75% (Mideplan, 2016). These results reflect the effect of the reform in 2000 that combined mandatory independent worker insurance payments with significant state contributions (see Section 4).

There are large differences in pension receipt across population groups. There is a strong gender gap both in terms of receipt and type of pension entitlement. More than a third of inactive elderly women do not receive a pension of their own – more than twice as much as inactive elderly men. Contributory pensions are received by 66% of men and 39% of women. Meanwhile, non-contributory pensions are received by 18% of men and 25% of women. Lower pension receipt among women reflects their lower participation in the labour market, higher informality rates, inability to access a non-contributory pension either due to ineligibility (e.g. failure to meet the family income conditions) or to non-take up (see below).

Table 3.4. **Pension receipt varies across groups and types in Costa Rica**

Distribution of inactive people aged 65 or more by gender, age and income, 2010 and 2015, percentages

	2010			
	Inactive elderly	Without pension	With pension	
			Contributory	Non-contributory
Total		**32**	**51**	**18**
Gender				
Women	61	42	40	18
Men	39	16	67	17
Age				
65-69- year-olds	29	40	49	11
70-74 year-olds	27	33	53	14
75-year-olds or more	44	25	51	23
Income decile[a]				
1	14	43	22	35
2	15	27	45	28
3	9	32	45	23
4	10	31	50	19
5	9	34	51	15
6	8	35	55	11
7	7	23	66	11
8	7	28	65	7
9	10	32	62	6
10	10	26	71	3
	2015			
	Inactive elderly	Without pension	With pension	
			Contributory	Non-contributory
Total	**0**	**28**	**50**	**22**
Gender				
Women	59	37	39	25
Men	41	16	66	18
Age				
65-69- year-olds	30	37	50	13
70-74 year-olds	23	26	51	23
75-year-olds or more	47	24	49	26
Income decile[a]				
1	12	33	15	52
2	17	23	42	35
3	10	31	43	26
4	10	29	53	19
5	10	31	51	19
6	7	29	54	17
7	8	32	57	11
8	9	27	65	8
9	10	23	73	4
10	7	27	69	3

a) Income deciles computed across all household population.

Source: OECD calculations based on *Encuesta Nacional de Hogares* (ENAHO), 2015.

StatLink http://dx.doi.org/10.1787/888933591651

There is a considerable age gap in pension receipt. Almost 40% of inactive elderly aged 65-70 do not receive any kind of pension, this percentage falls steadily with age, reaching 22% among people aged 75 years or more. Low pension receipt among 65-70 year-old people seems to be driven by non-contributory pensions. While receipt of contributory pensions is relatively stable across all age groups, in the case of non-contributory pensions it increases sharply by age – ranging from 13% among those 65-70 year-old to 26% among those aged 75 years or more. This may be a direct result of the family income testing because the oldest elderly are more likely to be women living alone. Since the oldest elderly are more likely to be more vulnerable, it is reassuring that they are given priority access, however younger elderly also should be protected, as discussed below.

Non take-up of non-contributory pensions is a main driver of low pension receipt (Sauma, 2013). About one-third of inactive elderly people in the first decile of household disposable income and one-quarter in the second decile are not covered.[10] Similarly, almost one-third of 65-70 year-old people without any pension are in poverty and therefore are likely to be eligible to non-contributory pensions. In recent years, the Costa Rican government has been increasing the entitlement of non-contributory pensions, aiming to raise it from about 90 000 in 2010 to 115 000 by 2018.[11] In fact, between 2010 and 2015, pension receipt increased from 68% to 72% of inactive elderly population, mainly due to a substantial rise in non-contributory pensions.

Despite such improvements, a considerable share of the elderly population in poverty or vulnerability remains unprotected. Recently, Costa Rica's Ombudsperson's Office (*Defensoría de los Habitantes de la República*) has requested CCSS to implement measures to speed up claiming procedures. According to CCSS, the number of staff responsible for those tasks has not increased in line with the rise in the number of claims. According to the Ombudsperson's Office there are more than 12 000 pending requests, many concentrated in the Brunca Region (Southwest of the country) where the average waiting period is 24 months and one-quarter of all elderly poverty in the country is concentrated (El Mundo, 2016).

Financial sustainability is uncertain in coming decades

Population ageing and declining fertility rates are likely to challenge financial sustainability of the public pension system in the future. Between 2008 and 2014, the ratio between contributor and pensioner fell from 7.8 to 6.8. Pension spending increased from 2% to 2.5% of GDP. Revenues stalled and the reserve coefficient (the number of years that could be financed by the pension reserve fund) dropped from 3.3 to 2.7. Recent financial transactions by CCSS in order to address the financial difficulties of the health insurance system and early retirement claims have added further pressure on the system (Mideplan, 2016).

Demographic projections estimate that by 2045, almost 20% of the population will be 65 years of age or more (Mideplan, 2016). A recent actuarial study, carried out by the University of Costa Rica and commissioned by CCSS and SUPEN, estimates that the contributor/pensioner ratio could fall from 6.7 in 2015 to 4.5 by 2025, 1.8 by 2050 and 1.3 by 2067. Net revenues could become negative between 2022 and 2028 and the reserve fund be exhausted between 2027 and 2034 (Arias, Barbosa and Ramírez, 2016).

Past reforms have addressed fiscal sustainability…

In 2005, the number of past contributions used to calculate the pension base increased, replacement rates were reduced, and a timetable was set to raise pension contribution rates from 7.5% to 10.5% by 2035, increasing the burden equally between employees, employers and the government. In 2015, a pension reform introduced gradual restrictions aiming to phase out access to early retirement. Additionally, several measures have been implemented in recent years, including charging the State for pension top-ups (i.e. the complement needed to bring low pensions up to the minimum pension level), strengthening collections from the State's public companies, reducing evasion and increasing the minimum contribution base.

Recent measures aim to increase the asset diversity of the pension reserve fund. Currently, most of the fund is composed of long-term government bonds (94%). Such lack of diversity implies a higher risk and could produce losses in case of changes in the international economic environment, public finances or deterioration in the international rating of government financial assets (CCSS, 2014). In line with an OECD recommendation (OECD, 2016a), the objective of the government is to divert resources from the fund to securities and trusts and in local investment funds, complemented with gradual investments in international markets.

… but further reforms will be necessary

Most proposals for future pension reforms in Costa Rica regard changes in parameters, as the overall pension system is well structured. In line with several OECD countries, one possibility could be indexing the statutory retirement age (currently 65 years of age) to changes in life expectancy. Pension levels could also be revised by changes in replacement rates or reference wage. The link between contributions and pensions could be increased by extending the number of monthly salaries used in the formula to determine pension entitlements. Rising employee contribution rates and the minimum contribution base have also been suggested but would require compensatory measures to prevent disincentive effects to formalisation. Overall, decreasing informality and increasing female labour force participation should play an important role in improving the financial sustainability and the effectiveness of the pension system.

Minimum years of contribution may discourage the formalisation of workers with fragmented working histories. Workers reaching the pension age (65 years) are entitled to a full pension, if contributed at least for 25 years (300 contributions), or to a reduced pension if contributed at least for 15 years (180 contributions). Thus, workers who are unlikely to reach the 15 years of contribution have an incentive to remain in informality. In order to avoid such "informality trap", the minimum years of contribution could be reduced, or eliminated. To prevent very low pension amounts, particularly for those with limited number of contributions, first-tier contributory pensions and non-contribution pensions must be articulated under an integrated framework. This could be achieved, for example, by progressively withdrawing the non-contributory benefit as the contributory pension income increases.

6. Family policies to improve employment and reduce child poverty

Family care is a key barrier to female labour participation

Early childhood education and care (ECEC) are essential means of realising a wide range of educational, social, and economic goals. There is strong evidence that favourable circumstances very early on in childhood support the development of the critical cognitive, emotional and social skills that provide the foundations for success in school and life. Disadvantaged children, who are more likely to face poor learning environments at home, therefore stand to gain the most from access to quality ECEC services, enabling them to start school on an equal footing to their wealthier peers. The availability of early childhood services can also help more women enter the workplace, bringing gains for them and their families, and for the broader social and economic development of the country. Expanding the provision of high-quality ECEC is one of the most important steps that Costa Rica could take to improve overall education performance and enhance social equity (OECD, forthcoming c).

Costa Rica has experienced an extraordinary expansion of participation in preschool in the last decade. Between 2000 and 2015, the gross enrolment rate for children aged 4 jumped from 7% to 63% and from 83% to 90%

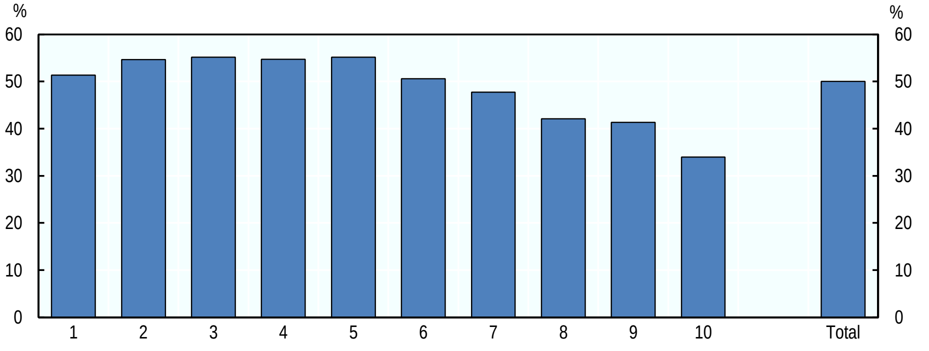
among those aged 5. This rise reflects concerted efforts by the MEP to expand access as well as a 7% decline in the population aged 0-6 in the period (OECD, forthcoming c). Preschool participation grew at a faster rate among higher educated families. Between 2006 and 2013, the attendance gap between households with higher and lower education for children of 4 years of age increased from 25% to 49% (Estado de la Educación, 2015). The growing gap is partly due to the fact that less developed areas with high poverty and lower rates of pre-school attendance also have fewer centres due to lower population density (rural and peripheral areas).

Childcare coverage is low and higher among better-off households. Only 15% of children below 3 years of age attend childcare, compared to the OECD average of 35% (OECD, 2016a). Among children aged 3-year-old, attendance to childcare in households at the top income quintile is almost 5 times as much as at the bottom two quintiles (OECD, 2016a). These differences arise mainly because higher income households resort to private services. According to data from the 2013 Household Budget Survey, the average monthly household expenditure on childcare is 17 times higher among those attending private rather than public centres. The fourth and fifth quintiles concentrate more than 90% of the overall expenditure on private childcare in Costa Rica (Trejos, 2014b).

Lack of childcare and prevailing social norms contribute to low female labour market participation. As discussed in Chapter 1, female labour force participation in Costa Rica is much lower than OECD and LAC countries. Women taking on family care responsibilities face difficulties to complete education or continue in the labour force. In 2015, half of working-age women in inactivity reported family caring responsibilities as the main cause for not looking for or taking up a job. While the problem is more acute among poorer women, even among women in better-off households family care is a barrier for labour participation (Figure 3.4).

Figure 3.4. **Family responsibilities are an obstacle to female labour market participation in Costa Rica**

Percentage of working-age women out of the labour force because of family responsibilities, by income decile



Note: Proportion of working-age women (15-64 year-olds) out of the labour force, reporting of family responsibilities as cause for not looking for or taking up a job.

Source: OECD estimates based on *Encuesta Nacional de Hogares* (ENAHO), 2010-15.

StatLink http://dx.doi.org/10.1787/888933591271

Publicly provided child and elderly care is limited

Public childcare services are offered by the National Care Network (Redcudi – *Red Nacional de Cuido*). Redcudi offers childcare and child development services that complement pre-school education (early child education starts at four years of age). Services are provided by public institutions, mainly Ministry of Health, municipalities, IMAS and the National Children's Trust (PANI – *Patronato Nacional de la Infancia*). Public care centres are provided by the Ministry of Health – under the programme managed by the National Directorate of Education and Nutrition Centres and Children's Centres for Comprehensive Care (CEN-CINAI – *Dirección Nacional de Centros de Educación y Nutrición y de Centros Infantiles de Atención Integral*) – and by municipalities through the Care Centre(s) for Child Development (CECUDI – *Centro(s) de Cuido y Desarrollo Infantil*). IMAS and PANI subsidise public and non-public centres such as community homes and day care centres administered by social welfare organisations, development associations, solidarity associations, co-operatives or private companies.

Financed by FODESAF (see Section 3), Redcudi targets families in poverty or vulnerability. CEN-CINAI prioritises access for vulnerable families based on income per capita, education level of the mother, parental occupation, teenage motherhood and malnutrition. IMAS provides grants to poor children and covers care for up to 10 hours with qualified staff and free meals. The subsidy level varies according to the type of care and age. The monthly subsidy, paid to care centres on behalf of children, ranges from CRC 84 000 (USD 156, 30% of the lowest minimum wage) per child in Community Homes to CRC 120 000 (USD 222, 42% of the lowest minimum wage) for children up to 2 years of age in private schools or municipal CECUDI.

Public child care programmes reach only part of the target population. In 2015, about 46 000 benefits were provided (CEN-CINAI 21 000, IMAS 19 000 and PANI 6 000). Such provision is low compared with potential demand. There are more than 126 000 poor children aged 2-6 and 75 000 of them do not receive any public or private care (Table 3.5).

Community and family-based services are underused. In 2016, around 1 600 children attended community-based care (*hogares comunitarios*) provided by female members of the community, called *community mothers*, in their homes. These programmes have proven very cost-effective in other countries, particularly in rural areas with dispersed population (OECD, forthcoming c).

Elderly care is provided by the National Council for the Elderly (CONAPAN – *Consejo Nacional of la Persona Adulta Mayor*). CONAPAN's programmes include monthly payments for elderly people staying in private long-term and day care centres. CONAPAN's Progressive Care Network for Integrated Care of Elderly Persons (*Red de Atención Progresiva para el Cuido Integral de las Personas Adultas Mayores*) also provides a number of subsidies for specific expenses such as food, personal care, medication, home equipment and improvement. Fully financed by FODESAF, CONAPAN's benefits are targeted to poor elderly population (65-year-olds or more). In 2015, CONAPAN served almost 16 000 elderly people. More than 12 000 received subsidies from the Care Network, which also accounts for almost half of the eldercare budget. Slightly more than half of the budget was spent for 3 500 elderly people in long-term and day care centres. There are almost 24 000 elderly people with severe physical limitations, almost 8 000 of them are in poverty (FODESAF, 2016b).

Table 3.5. **Public childcare reaches a fraction of its target in Costa Rica**

Number of children by childcare programme, age group and poverty status

Childcare

Institution	Programme	Number of benefits	Targeted age group
Ministry of Health	CEN-CINAI	20 854	0-12 year-olds
PANI	CIDAI	3 098	0-6 year-olds (but could go up to 12-year-olds)
	CAI	3 072	0-12 year-olds
IMAS	Community-based Care	1 628	0-12 year-olds
	Subsidised private	13 678	0-12 year-olds
IMAS *plus* Municipalities	CECUDI	3 450	0-6 year-olds (but could go up to 12-year-olds)
Total		45 780	

Children

Age group	Poverty status	Number of children	Not receiving private or public care or education
0-1 years-old	All children	123 349	
	Children in poverty	46 190	
	Children in extreme poverty	17 308	
2-6 years-old	All children	342 844	189 337
	Children in poverty	126 597	75 154
	Children in extreme poverty	50 545	31 150
7-13 years-old	All children	509 537	3 546
	Children in poverty	192 052	1 768
	Children in extreme poverty	80 468	716

Note: CAI: *Centro de Atención Integral* [Integral Care Centre]; CECUDI : *Centro de Cuido y Desarrollo Infantil* [Care Centre for Child Development]; CEN: *Centros de Educación y Nutrición* [Education and Food Centre]; CEN-CINAI: *Dirección Nacional de Centros de Educación y Nutrición y de Centros Infantiles de Atención Integral* [National Directorate of Education and Nutrition Centres and Children's Centres for Comprehensive Care]; CIDAI : *Centros Infantiles de Atención Integral Diurnos* [Integral Child Day Care Centre].

Source: IMAS (2014), "Informe de Gestión: Mayo – Septiembre 2014", San José, Costa Rica; FODESAF (2016), "Costa Rica: estimaciones de las poblaciones meta de cada programa financiado por el FODESAF", San José, Costa Rica.

StatLink http://dx.doi.org/10.1787/888933591670

Parental leave could help female labour participation

In Costa Rica, maternity leave is granted to working mothers paying sickness and maternity Social Security contributions. Recipients are entitled to one month before birth and three months postpartum. In the case of adoption, the leave also lasts four months and begins the day after adoption. During maternity leave the full salary is paid. Half of the salary and related Social Security contributions are paid by CCSS and the other half by the employer. There is neither paternity nor parental leave for private sector workers in Costa Rica. Public sector workers are entitled to one week of paternity leave following a sentence by the Constitutional Court in 2013.

Recently, the Constitutional Court ruled the right to a leave equivalent to maternity leave for fathers in case "the baby loses his/her mother at birth and then the father is the one who has to assume the role of mother and father at the same time" (Cerdas, 2016).

Parental leave could contribute to raise female labour participation and reduce gender discrimination in the workplace, particularly in hiring. If men and women are roughly equally likely to take leave, employers would be less reluctant to hire women of childbearing-age. However, fathers are often hesitant to take leave as they fear career implications. In many OECD countries where parental paid leave is available, few fathers take advantage of it (see Box 3.1).

Box 3.1. **Parental leave in OECD countries**

OECD research shows that fathers who take paternity or parental leave are more likely to perform tasks such as feeding and bathing children, which have lasting bonding effects between fathers and children. Fathers who care for children early tend to stay more involved as children grow up. Where fathers participate more in childcare and family life, children enjoy higher cognitive and emotional outcomes and physical health. And fathers who engage more with their children tend to report greater life satisfaction and better physical and mental health than those who care for and interact less with their children.

Decisions around childcare and who does what at home are, naturally, taken by families themselves. But policies can play a role, by reserving specific periods of leave for fathers or other partners; supporting awareness campaigns; limiting the financial cost for parents taking leave by providing financial incentives; and ensuring leave arrangements have maximum flexibility.

Many OECD countries are turning towards reserving non-transferable periods of paid parental leave exclusively for use by fathers. Most common are *daddy quotas*, or specific portions of paid parental leave reserved as a non-transferable entitlement for the father. Some countries offer *bonus periods*, where a couple may qualify for some extra weeks of paid leave if the father uses up a certain period of a sharable leave. Others simply provide both parents with their own individual entitlement to paid parental leave with no sharable period at all.

Providing father-specific leave seems to increase paternity leave uptake. In Iceland and Sweden, the daddy quota has led to a doubling in the number of parental leave days taken by men. In Korea, the number of men taking leave rose more than three-fold following the introduction of a father-specific entitlement in 2007, although the numbers are still small.

Paternity leave uptake is highest when leave is well paid. For parents who may be unwilling or unable to stop work completely, flexible or part-time leave arrangements may provide a solution. Such arrangements can help minimise the financial impact of taking leave, while allowing employees to remain connected to their jobs and to care for children. They can also help partners to *shift-share* part-time leave and work commitments. Employers may benefit too as they may not have to go to the expense of finding and hiring a replacement worker if the employee is on leave only part-time.

Source: OECD (2016), "Parental leave: Where are the fathers?", *Policy Brief*, OECD Publishing, Paris, March, www.oecd.org/policy-briefs/parental-leave-where-are-the-fathers.pdf.

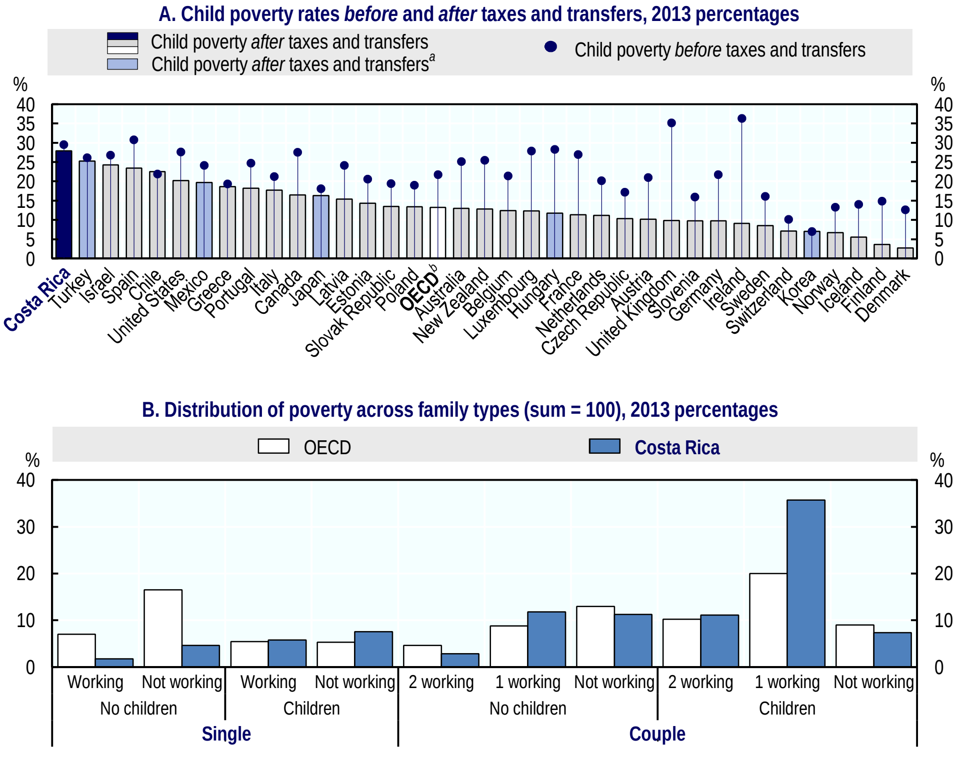
Policies to tackle poverty of working families with children

Child poverty is very high even among working families

Child poverty in Costa Rica is very high and has been rising. More than one in four children lives in households earning less than the relative poverty line (half the median household disposable income in the country – see Box 1.2 in Chapter 1). This is higher than in any OECD country and more than twice as much as the OECD average (Figure 3.5, Panel A). Relative child poverty has been on the rise in recent years, despite a fall in 2015.[12] Working families with children face high poverty risks. More than half of the poor in Costa Rica live in working families with children – the OECD average is about one-third (Figure 3.5, Panel B). Poverty incidence is particularly high among families relying on one earner. Even among two-earner families with children the poverty rate is 8% – almost twice the OECD average. Similarly to many OECD countries, poverty rates are particularly high among single parent households, even when the parent is in work; however, in Costa Rica the incidence is particularly high, 36% of people living in working single parent households are in poverty – the OECD average is 22%.

The tax-benefit system in Costa Rica has only a small impact on relative child poverty. Relative child poverty falls by 1 percentage point after accounting for taxes and benefits compared to the OECD average of 8 percentage points. Before accounting for taxes and benefits, several OECD countries have similar child poverty rates as Costa Rica and even higher in the case of Ireland, Spain and the United Kingdom (Figure 3.5, Panel A).

Figure 3.5. **Child poverty is high even among working families**



Note: Estimates based on *OECD Income Distribution Database*'s definitions (see www.oecd.org/els/soc/income-distribution-database.htm). Data refer to 2009 for Japan; 2011 for Canada; and 2016 for Costa Rica.

a) For Hungary, Japan, Korea, Mexico and Turkey, inequality reduction is computed using distribution of net market incomes and disposable income.

b) Unweighted average of the 35 OECD countries.

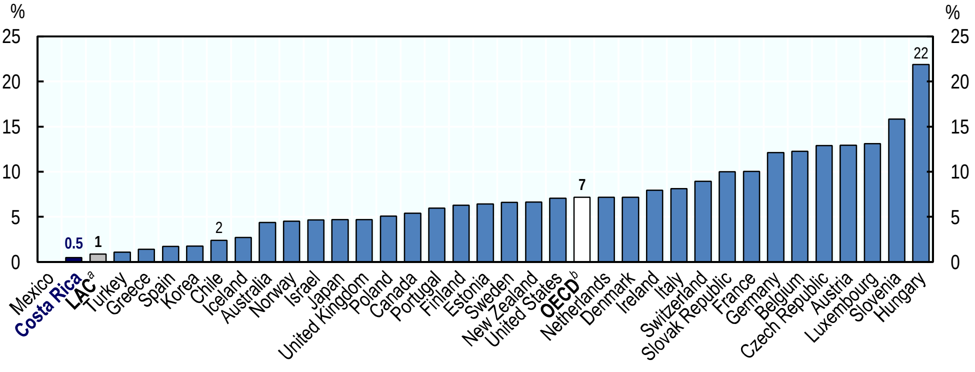
Source: OECD Income Distribution Database, http://oe.cd/idd.

StatLink http://dx.doi.org/10.1787/888933591290

Personal direct taxes and cash benefits in Costa Rica do little in redistributing income across households with different family sizes and composition. In most OECD countries, the combination of income tax deductions and family allowances significantly redistribute income between different household types at similar income levels – what is known as "horizontal redistribution". In Costa Rica, most income taxation takes place via social contributions. Family cash transfers are small and focused only on households in extreme poverty (see Section 9). Figure 3.6 compares the impact of taxes and transfers on the take-home income of two households that are identical but for the presence of children. In Costa Rica, the disposable incomes of both households are practically the same, implying that the tax-benefit system is rather insensitive to the presence of children in the household. Across OECD countries, taxes and benefits increase, on average, the take-home income of households with children by 7%.

Figure 3.6. **Taxes and benefits are insensitive to children in Costa Rica**

Disposable income ratio between a household *with* and *without* children, 2015 percentages



Note: Differences in disposable income (i.e. income after personal income tax, social contributions and cash benefits) between a household with two children and another without any children. Both households are composed of married couples with one spouse earning the average wage level in the country and the other spouse earning a third of that amount.

a) LAC: Latin America countries.

b) Unweighted average of 34 OECD countries (except Latvia).

Source: OECD (2016), *Taxing Wages 2016*, OECD Publishing, Paris, May, http://dx.doi.org/10.1787/tax_wages-2016-en; and OECD/CIAT/IDB (2016), *Taxing Wages in Latin America and the Caribbean*, OECD Publishing, Paris, October, http://dx.doi.org/10.1787/9789264262607-en.

StatLink http://dx.doi.org/10.1787/888933591309

7. Housing policies have been successful but need updating

The main housing policy programme in Costa Rica is the Family Housing Bonus (BFV – *Bono Familiar de Vivienda*). The BFV is a means-tested grant (lump-sum) for purchasing of an existing house, repairing, improving, upgrading or completing a current house, acquiring lots and building a new home. In 2016, the family income limit in order to be eligible was CRC 1.5 million per month (about USD 2 750, or 5.2 times the lowest minimum wage). The maximum grant amount was CRC 6.5 million (approximately USD 12 000). Families earning less than 1.5 times the lowest minimum wage could be entitled to 50% more.

Most grants are aimed at building new homes. In 2015, almost three-quarters of the bonuses granted were aimed at construction in own land and another 12% were for the purchase of land and construction. Grants are concentrated in rural and mixed areas. Since 2000, rising land costs have reduced demand in urban areas. In 2015, only 7% of all bonuses were granted in urban areas. The gender profile of BFV recipients also changed significantly in the last decade. While in 2005 almost 60% of recipients were men, in 2015 60% were women.

Housing policies have a positive impact on living conditions in Costa Rica. According to household survey data more than 90% of dwellings are in good or regular conditions (INEC, 2016). Costa Rica also has the lowest housing deficit in Latin America. Only, 18% of families in Costa Rica live in poor quality houses, compared to 23% in Chile, 33% in Brazil and 34% in Mexico (Bouillon, 2012).

Despite overall positive outcomes, housing policies face important challenges. Funded urban developments, controlled by a few companies, have promoted the segregation of the poor and a loss of social networks, increasing vulnerability (FUPROVI, 2009). Some projects have been developed in informal settlements, which face high environmental risks and may result in new slums. The system is biased towards home ownership and ignores renting. Rental housing programmes could be effective in reducing barriers for young people and for residential mobility, particularly in higher cost areas. Recently, some measures have been implemented, such as limiting rental price increments to inflation – before most contracts had a default 15% annual increase permitted by law.

There is disagreement about how well targeted the BFV is. Evidence from household survey data suggests that only 30% of the beneficiaries are in poverty, and 40% are in middle income households (Estado de la Nación, 2014). On the other hand, BANHVI claims that 95% of bonuses are granted to families earning less than CRC 502 500 per month (approximately USD 900, or 1.7 times the lowest minimum wage) (BANHVI, 2015).

In any case, low-income families would benefit from more programmes that support gradual house improvements. Despite very volatile saving capacity, poor families tend to channel their savings towards housing improvements. Currently, housing improving programmes account for only 9% of entitled benefits and 7% of the budget, although the number of grants has increased in recent years.

8. Health outcomes are admirable but the system needs improvements[13]

The public health system is one of the great achievements of Costa Rica. The national health service, created in 1941, has demonstrated considerable institutional stability in providing widespread and effective health protection to the population. As a result, child and maternal mortality are about half of the LAC average and life expectancy is similar to the OECD average.

Costa Ricans have near universal access to a full range of health care services. Most population is insured either directly (contributors) or indirectly (family). The population uninsured and in poverty is covered by the FODESAF. Health services are provided throughout the country, including primary health care to specialist consultation and hospitalisation. Insured contributors are also entitled a cash benefit in case of disability, while regaining their health.

The health system faces problems of financial sustainability, long waiting lists in some specialties and inefficient spending. Strong increases in medical salaries and poor cost-containment mechanisms have increased health spending with little evidence that is benefitting patients. Frustrated by waiting times of a year or more for procedures such as children's surgery, people are increasingly paying out-of-pocket for care in the private sector, creating the risk of a two-tier system.

CCSS has neither clear mandate nor effective mechanisms for being independently audited. The Ministry of Health should have a stronger role in determining the strategic priorities of CCSS, whilst maintaining its constitutional independence. Institutional rigidities are another challenge. The ability of the CCSS to reform is significantly constrained by professional groups.

Like other social policy areas, revenues of health system are heavily reliant on social contributions. This finance model has come under pressure as an increasing share of workers is in informal jobs and the population is ageing. Over the mid to longer term, a shift to revenues from the general government budget must be achieved. More immediately, robust expenditure ceilings and regular spending reviews will also help ensure sustainability.

Several operational measures should be implemented in order to improve the system's performance, equity and sustainability. These could include accreditation and performance management processes and diagnosis-related group systems in hospitals, systematising cost-effectiveness analysis of new (and, where appropriate, existing) services and loosen restrictions on training places and employment contracts in order to expand the supply of the health care workforce. The Costa Rican health system performance will also be enhanced by fuller participation in the international benchmarking initiatives, such as the OECD's System of Health Accounts and Health Care Quality Indicators. (OECD, forthcoming a).

9. Means-tested cash transfers are small and moderately targeted

Avancemos is a conditional cash transfer (CCT) paid to parents of children between 12 and 25 years of age, who live in conditions of poverty or social vulnerability and require an economic incentive to stay in secondary education. In order to reduce the increasing opportunity costs faced by adolescents as they grow older, the benefit amount increases with age. In 2015, the monthly benefit amount for students in 7^{th} to 9^{th} grade was CRC 22 500 (USD 42, 8% of the lowest minimum wage). For students in 10^{th} to 12^{th} grade it increases to CRC 35 000 (USD 65, 12% of the lowest minimum wage). Started in 2006, the programme benefited 169 030 students in 2015 – about one-third of students in public education. Coverage is especially high among women (i.e. mothers of students) and in rural areas (IICE, 2015). Almost half of recipients are poor and 30% live in vulnerable households (i.e. not poor but at the bottom 40%). In comparison to CCTs in other Latin American countries (e.g. *Oportunidades* in Mexico and *Bolsa Familia* in Brazil), Avancemos is not as well targeted. This may be explained by the fact that, in contrast to programmes in other countries, Avancemos focuses exclusively on children in secondary school. Youths from the poorest households tend to be excluded as they are more likely to fail to complete primary education. As a result, the programme ends up targeting the non-extreme poor and vulnerable (Trejos, 2014a). According to recent evaluations, Avancemos reduces secondary school drop-out by 10 to 16% (Mata and Hernández, 2015) and increases education duration by 0.62 years (Meza-Cordero, 2014). Qualitative analyses using focus groups have found problems with some administrative procedures. Tasks for obtaining or maintaining benefits are sometimes perceived as complicated. The information provided may be confusing, particularly for families with children moving from primary to secondary education (and therefore from FONABE scholarships to Avancemos), who in many cases face long delays (Meza-Cordero, 2015).

Atención a Familias is a programme that includes different unconditional cash transfers for poor families facing specific needs. It provides support to individuals aiming to complete education, attend vocational or technical training, afford food and basic needs, access specific services such as childcare, purchase land (for families living in slums, in communal areas, or in risk) and improve housing conditions. In 2015, it provided benefits to 81 500 families, the average monthly amount per benefit was CRC 32 700 (USD 65, 11% of the lowest minimum wage).

Other smaller cash transfers include benefits to female-headed households with children for purchasing food (*Seguridad Alimentaria*), fishermen during fishing closure periods (*Veda*), working-poor families with permanently disabled children (*Asignación Familiar*) and small entrepreneurship projects (*Fideicomiso* and *Ideas Productivas*). In 2015, together these programmes benefited 38 000 families, the average monthly benefit was CRC 57 500 (USD 115, 20% of the lowest minimum wage).

Several in-kind benefits are also targeted to families in poverty or vulnerability. The main in-kind programme, besides childcare (see Section 6), is Care for the homeless (*Atención a Indigentes*), which provides health care to vulnerable uninsured population.

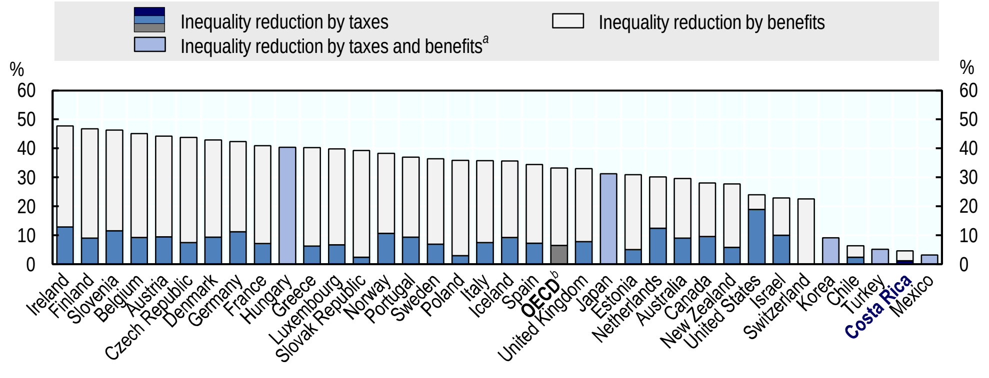
In 2015, the programme Bridge to Development (*Puente al Desarrollo*) was implemented aiming to tackle poverty and reduce extreme poverty making better use of existing capacities. This integrated programme combines a conditional cash transfer with preferential access to existing social services. The programme relies on trained social workers (*cogestores sociales*) who together with programme participants define a family plan. The family plan is a set of goals aiming to lift the family out of poverty and is related to education, health, employment and housing issues. The programme is co-ordinated by the Social Presidential Council (see Section 12), which involves several government institutions and requires them to set up budgetary targets for the implementation of the programme. Social workers can refer programme participants to such institutions, which must respond in a timely manner. Currently, the programme covers 27 500 families and aims to reach 54 600 in 2018.

10. In-kind benefits play a large redistributive role

Cash social benefits and direct taxes fail to significantly reduce income inequality in Costa Rica due to small size and low progressivity. Income inequality falls only by 5% after accounting for direct personal taxes and cash transfers – the OECD average is 33%. Like in most OECD countries, cash transfers play a larger redistributive role than taxes in Costa Rica, but the size of the effect is much smaller (Figure 3.7).

Figure 3.7. **Direct taxes and cash benefits redistribute very little**

Reduction in income inequality due to direct taxes and cash benefits, 2013 percentages



Note: Data refer to 2009 for Japan, 2011 for Canada, and 2016 for Costa Rica.

a) For Hungary, Japan, Korea, Mexico and Turkey, inequality reduction is computed using and distribution of net market incomes and disposable income.

b) Unweighted average of the 35 OECD countries.

Source: OECD Income Distribution Database, http://oe.cd/idd.

StatLink http://dx.doi.org/10.1787/888933591328

Social cash benefits are only moderately progressive in Costa Rica. Cash benefits make up for a relative small part of total social spending and focus mainly on contributory pensions, which have low redistributive effect. Contributory pensions skew towards higher income groups (i.e. are *pro-rich*) (Table 3.6). However, pensions are not as pro-rich as market income (e.g., the top 20% concentrates 23% of pensions and 55% of market income).

Most non-pension cash transfers are well targeted but account for a very small proportion of social spending. Cash transfers from IMAS and non-contributory pensions are the most progressive programmes. Grants for tertiary education are the least progressive. Quasi-monetary transfers, such as school canteens, are also less progressive given that access is universal. As with contributory pensions, sickness and maternity leave benefits, which are also contributory, disproportionally benefit higher income groups.

Cash transfers have some impact reducing poverty and, to some extent, inequality. Despite their relatively small size, estimates for 2014 indicate that IMAS cash transfers reduce poverty by about 1 percentage point, a reduction that doubles when non-contributory pensions are included (Mata, 2014). The impact is stronger on extreme poverty. The share of households with less than USD 2.5 per day falls by more than half due to these programmes. The rise in spending on these programmes since the mid-2000s played an important role in the reduction of poverty observed in the second half of the 2000s (Trejos, 2008; and Sauma, 2008).

Table 3.6. **In-kind benefits drive the distribution of social spending**

Distribution of social spending by programme and quintiles of household income, 2013 percentages

Social programme	Spending	Distribution by quintile				
		Bottom 20%	Quintile 2	Quintile 3	Quintile 4	Top 20%
Total social spending	**100**	**27**	**23**	**18**	**19**	**14**
Cash benefits	**25**	**26**	**23**	**13**	**20**	**19**
Contributory pensions	19	19	22	12	23	23
Non-contributory pensions	2	59	18	15	7	1
CTC *Avancemo* s	1	39	33	20	7	0
Scholarship – *Fonabe*	1	43	27	21	9	0
Scholarship – General education	0	39	30	28	0	2
Scholarship – Post-secondary studies	0	28	24	23	15	10
Other cash transfers	1	59	25	9	7	0
Sickness and maternity	0	8	15	18	21	39
Quasi cash benefits	**2**	**39**	**29**	**20**	**10**	**3**
School meals	1	36	28	20	13	4
School meals CEN-CINAI	0	46	28	20	6	0
School transport	0	40	31	19	8	3
In-kind benefits	**74**	**27**	**23**	**19**	**18**	**13**
Education	31	24	24	21	17	14
Pre-school	2	33	24	23	14	6
Primary	9	33	25	22	14	5
Secondary	8	26	29	23	14	8
Other	3	30	36	17	15	2
University	7	7	12	19	24	38
Vocational education	1	13	20	21	26	20
Health	**30**	**29**	**21**	**18**	**20**	**12**
Primary	9	25	24	22	18	12
External consultancies	6	25	20	20	21	14
Hospitalisation	15	34	21	14	21	11
Social protection	4	39	25	17	13	6
Other social services	9	23	22	19	19	16
Market income		**3**	**8**	**13**	**21**	**55**

Note: Quintiles of per capita household disposable income. CEN-CINAI: *Dirección Nacional de Centros de Educación y Nutrición y de Centros Infantiles de Atención Integral* [National Directorate of Education and Nutrition Centres and Children's Centres for Comprehensive Care].

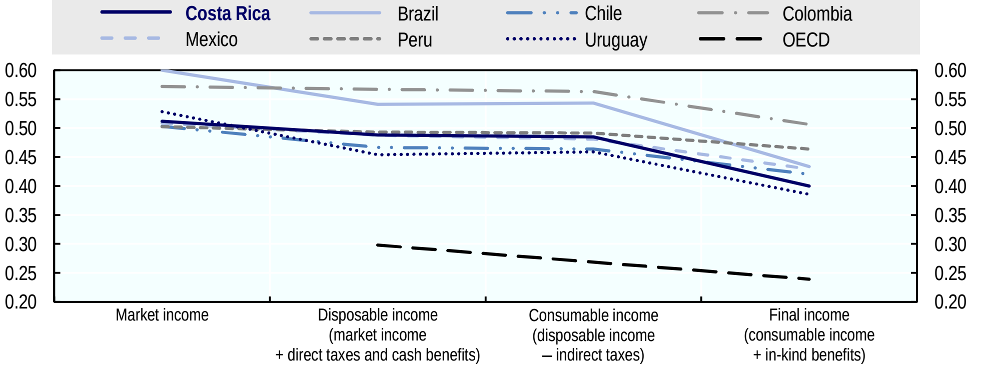
Source: Trejos, J.D., C. Mata and L.A. Oviedo (2015), "Incidencia distributiva de la política fiscal en Costa Rica", Paper presented at the Symposium *Encuesta Nacional de Ingresos y Gastos de los Hogares* (ENIGH) *2013*, *Instituto Nacional de Estadística y Censos* (INEC), San José, Costa Rica, March, www.inec.go.cr/sites/default/files/documentos/pobreza_y_presupuesto_de_hogares/gastos_de_los_hogares/metodologias/documentos_metodologicos/mepobrezasimposioenig2013-2014-01.pdf.

StatLink http://dx.doi.org/10.1787/888933591689

In-kind benefits have a strong redistributive effect due to their size, universal access to main programmes (i.e. health and education) and effective targeting of smaller programmes (e.g. childcare, scholarships and social services). Income inequality, measured by the Gini coefficient, falls by 18% after the imputed value of publicly provided social services are added to household income (Figure 3.8). Based on a different methodology, which limits comparability, the OECD has estimated that in-kind benefits reduce inequality by one-fifth on average across all countries and by almost one-fourth in Ireland and the United Kingdom (OECD, 2011). Social transfers in kind disproportionally benefit people at the bottom of the income distribution. The poorest 40% get 50% of the spending. Social protection, hospitalisation, pre-school and primary education are particularly progressive programmes. University education and vocational training tend to benefit disproportionally middle and upper income groups.

Figure 3.8. **In-kind benefits redistribute the most**

Gini coefficient of market, disposable, consumable and final income, 2010



Note: Data refers to 2009 for Brazil, Peru and Uruguay; 2013 for Chile and 2007 for the OECD.

a) Unweighted average of 27 OECD countries (except Chile, Israel, Japan, Korea, Latvia, New Zealand, Switzerland and Turkey).

Source: Lustig, N. (2016), "El impacto del sistema tributario y el gasto social en la distribución del ingreso y la pobreza en América Latina: Argentina, Bolivia, Brasil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, México, Perú y Uruguay" (available in Spanish only, with a summary in English), *CEQ Working Papers*, No. 37, CEQ Institute – Commitment to Equity, Tulane University, May, http://econ.tulane.edu/RePEc/ceq/ceq1337.pdf; and OECD (2011), *Divided We Stand: Why Inequality Keeps Rising*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264119536-en.

StatLink http://dx.doi.org/10.1787/888933591347

11. Taxes barely reduce income inequality

Taxes have very low redistributive capacity in Costa Rica. The tax system relies heavily on taxes with low ability to reduce income inequality such as taxes on goods and services (40% of total revenue) and Social Security contributions (39% of total revenue). Personal income taxes account merely for 6% of total tax revenue – the OECD average is 25% (IDB et al., 2016; and OECD, 2016c).

Personal income and property taxes in Costa Rica are considered *empty shells* – very progressive but too small to produce any sizeable effect on the income distribution (BID, 2013). In the case of the personal income tax, its ability to raise revenue and redistribute income is eroded by a very generous exemption (about 170% of the average wage, the OECD average is 29%). Also, employment and personal business incomes are taxed separately. Hence, workers have a strong incentive to split their income between employment and self-employment and benefit twice from the tax exemption (OECD, forthcoming b).

Social security contributions in Costa Rica are progressive but for bogus reasons. Due to higher unemployment and informality, poor households do not pay as much contribution as middle and high income households (Table 3.7). Poverty and extreme poverty rise slightly after accounting for direct taxes and contributions, mainly due to employee social security contributions (Trejos, Mata and Oviedo, 2015).

Indirect taxes have a limited regressive impact in Costa Rica. Sales tax has the largest impact on household income, followed by fuel tax. After indirect taxes, income inequality (measured by the Gini coefficient) increases by about 1%. Since this increase is smaller than the reduction produced by direct taxes and social contributions, the net effect of the overall tax system in Costa Rica is a small reduction in income inequality. Hence, the regressive effect of potential rises in indirect taxes (e.g. in order to tackle the existing fiscal imbalance in public finances) could be compensated with increases in direct taxes and/or cash transfers as accompanying measures (Trejos, Mata and Oviedo, 2015).

Table 3.7. **Tax burden is proportionally higher income in richer households**

Distribution of household tax burden by type of tax and quintiles of household income, 2013 percentages

Tax	Burden	Distribution by quintile				
		Bottom 20%	Quintile 2	Quintile 3	Quintile 4	Top 20%
Total tax burden	**100**	**2**	**6**	**12**	**20**	**59**
Direct Taxes	**11**	**2**	**3**	**5**	**10**	**80**
Personal income tax	8	0	1	2	7	89
Other direct taxes	3	5	8	11	20	57
Social security contributions	**62**	**1**	**5**	**12**	**22**	**61**
Employer contributions	42	1	5	11	21	61
Worker contributions	20	1	6	13	22	59
Indirect taxes	**27**	**6**	**10**	**14**	**21**	**49**
Sales tax	14	5	11	15	22	48
Selective consumption tax	4	4	7	10	17	62
Excise duties	1	9	13	17	24	36
Fuel tax	7	7	11	14	23	44
Household market income		**3**	**8**	**13**	**21**	**55**

Note: Quintiles of household disposable income.

Source: Trejos, J.D., C. Mata and L.A. Oviedo (2015), "Incidencia distributiva de la política fiscal en Costa Rica", Paper presented at the Symposium *Encuesta Nacional de Ingresos y Gastos de los Hogares* (ENIGH) *2013*, *Instituto Nacional de Estadística y Censos* (INEC), San José, Costa Rica, March, www.inec.go.cr/sites/default/files/documentos/pobreza_y_presupuesto_de_hogares/gastos_de_los_hogares/metodologias/documentos_metodologicos/mepobrezasimposioenig2013-2014-01.pdf.

StatLink http://dx.doi.org/10.1787/888933591708

12. Extending social protection

Closing the gaps in social policy

There are still important gaps in Costa Rica's social policies, despite the generally well-functioning and widespread network of institutions and programmes. Protection against unemployment is unreliable and some important policy areas are only attended by programmes targeted to people living in households in poverty or extreme poverty.

Unemployment protection must be enhanced. The Labour Capitalisation Fund does not effectively protect workers from unemployment risks. The system must be reformed into an operative unemployment insurance benefit, fully integrated with labour market activation policies (see Chapter 2, Section 7).

Selective social policies must aim beyond poverty reduction. While tackling poverty is an important policy goal, social policies must account for needs beyond those of people in poverty and extreme poverty as well as prevent benefit dependency and poverty traps. Public childcare coverage must be extended and accessible to middle income families, while using tapering or other instruments to adjust benefit levels for differences in ability to pay.

Improving access to Social Security

Actions must be taken to increase Social Security coverage. The aim should be to achieve universal coverage of key risks through a combination of extending access to social insurance and non-contributory benefits. Informality leaves a considerable share of the population out of the protection of contributory pensions. The alternative has been providing access to the non-contributory system with a basic pension amount. Although the benefit level has improved in recent years, coverage is still incomplete and could become very costly in the long term with an ageing population while benefit levels would remain low compared to those available through the contributory system.

Reducing non-wage labour cost could boost formality among salaried workers. FODESAF and IMAS should be financed by earmarked resources from the general government budget instead of current payroll taxes. Similarly, health care revenues should also partly shift away from social insurance contributions. Following the positive example with independent workers, employer social contributions could be partly replaced by higher government social contribution rates for employees in vulnerable groups with high levels of informality, such as small-scale businesses. In order to avoid negative incentives and limit the impact on public finances, such state contributions could be not only income-tested but also time-limited and linked to a tax reform. Such measures, however, would require a considerable increase of resources and would only be feasible in the context of a substantial tax reform.

The enforcement of social contributions of companies and households with domestic workers must be strengthened. Since 2007, CCSS has been carrying out a Strategic Programme for Inspection Coverage (PRECIN). This programme must be reinforced and complemented by a greater capacity for inspection by the Ministry of Labour – which should go beyond the enforcement of the minimum wage (see Chapter 2). Recent reforms to facilitate the insurance of part-time domestic workers are heading in the right direction.

Access to health insurance must be extended to temporary workers, particularly immigrants. Costa Rica has been very successful in protecting the population from health risks by combining direct insurance from work with collective forms, volunteer schemes, family, state and a widespread network of primary care. However, the system does not adequately cover temporary workers in crops, mostly migrants, which could be protected by a temporary collective insurance system, as exists for labour risks. This would also improve compliance with Social Security and minimum wage. In order to protect irregular migrants, immigration policy must allow compliance with labour and social rights of these workers (see Chapter 4).

Too many un-coordinated fragmented programmes hinder efficiency

There is considerable scope for improving the governance and delivery of social policies in Costa Rica. Public institutions must co-ordinate in setting priorities designing and assigning resources to the different social programmes. The co-ordination of social policies has been ad hoc and changing with each new administration, thus losing valuable institutional experience.

Targeted social protection programmes have expanded in an unorganised and un-coordinated manner. Several programmes of limited scale and impact have been added over the years. Some of these programmes have produced overlaps and duplications. For example, programmes for institutionalised elderly people receive aid from various state institutions without any co-ordination. Similarly, poor schools and students receive resources from FONABE and IMAS programmes for the same purpose.

FODESAF manages resources allocated by law to institutions whose targets go beyond poverty. This is the case of institutions such as the National Institute for Women (INAMU) and the National Children Trust (PANI), and Costa Rican Institute for Sport (ICODER). FODESAF also finances some private associations, such as the City of Children (a vocational boarding school), an association supporting the Children's Hospital. FODESAF must be able to revise programmes, excluding funding of institutions that have little to do with poverty. Currently, the budget is too rigid with excessive earmarking to specific programmes. Such rigidity hinders the ability of FODESAF to improve efficiency, setting and revising policy priorities and enforcing the accountability of institutions responsible for executing the programmes.

The creation of the Social Presidential Council [*Consejo Presidencial Social*], in 2014, sets a positive example towards improving the co-ordination of social policies. Comprised of several ministries and chaired by the vice-president of Costa Rica, the council is a deliberation body that aims to design and co-ordinate social policies. The council sets priorities, generates concrete actions and tracks goals at the ministerial level. The council also promoted the implementation of new technical tools for fighting against poverty (see below) and the programme Bridge to Development (see Section 9).

Effective policy evaluation requires more and better information

Social programmes in Costa Rica must be thoroughly evaluated. Due to lack of information, policy evaluation has been limited. Information systems with adequate account of the population targeted and effectively attended are not yet available. Household survey data have been used to monitor access to main programmes but they are just one step towards full impact assessment. Recently, some progress has been achieved in building databases using administrative records from some programmes but information is still incomplete. The information system on target population, known as SIPO, has problems of coverage and is out of date.

New information systems, databases and instruments are being implemented to inform social policy design, monitoring and evaluation. In recent years, DESAF has been improving the control, monitoring and evaluation of programmes financed by FODESAF. DESAF collects information, computes performance indicators and publishes them online on quarterly and annual reports. Information on FODESAF's target population has been collected and consolidated, including especial focuses on populations underrepresented according to Census data. These data will be combined with and included in the National Information System and Unique Registry of Beneficiaries [*Sistema Nacional de Información y Registro Único de Beneficiarios*] (SINIRUBE). SINIRUBE aims to provide up-to-date information about the target population and their needs (services, assistance, subsidy or economic support) and the beneficiaries of social programmes. Similarly, new instruments such as the multidimensional poverty index and social maps have been used in designing the programme Bridge to Development. Finalising these instruments and extensively using them in the monitoring and evaluation of existing social programmes must be a key priority.

Notes

1. Social spending on unemployment protection in Costa Rica is mainly related to the Labour Capitalisation Fund (FCL – *Fondo de Capitalización Laboral*). As discussed in Chapter 2, FCL is not strictly an unemployment benefit since access to resources from the fund are not exclusively conditional on being unemployed. In 2015, 80% of the resources withdrawn from FCL were done by employed workers.

2. If education were included as social spending, in-kind benefits would account for three-quarters of overall social expenditure.

3. The Labour Capitalisation Fund (FCL – *Fondo de Capitalización Laboral*) is an individual account system aimed to protect workers against unemployment. Employees can withdraw resources from the fund in case of dismissal or change of job. Employees can also withdraw the FCL every five years if working in the same job, thereby distorting the role of unemployment protection. Furthermore, every year half of the FCL contributions are transferred to the compulsory private pension regime. See Chapter 2 for a discussion of the FCL and unemployment insurance in Costa Rica.

4. The largest special pension regime council is the Council of Pensions and Retirements of the National Magisterium (JPJMN – *Junta de Pensiones y Jubilaciones Del Magisterio Naciona*l), which manages the special pension regime of teachers (see Section 4).

5. Payroll taxes are contributions paid by employers based on employee salaries, which do not confer entitlement to social benefits to the employees on whose behalf contributions have been paid for.

6. In 2014, independent workers accounted for 25% of the labour force and 75% of them were covered by the pension regime.

7. While not contributing directly, many OECD countries have large government subsidies and tripartite funding of social insurance. Governments may directly finance pensions benefits (as in Denmark) or indirectly through subsidies, specific transfers or when financing of transition costs when implanting structural pension reforms (Plamondon, 2002).

8. The programme has as main target people aged 65 and over, living in poverty and without coverage by benefits from contributory Social Security. The programme also aims to cover widows, orphans and people with severe cerebral palsy.

9. Claimants must not have properties to their names. If they had property, it can only be the house where they live and must not be larger than 400 square meters if located in urban area or 1 000 square meters if in rural area.

10. Deciles of household disposable income were computed across the whole population (i.e. elderly and non-elderly).

11. The increase in the coverage of the non-contributory pension regime is based on the objectives established in Costa Rica's National Development Plan, which indicates a net growth of 3 750 pensions per year. This measure involved new administrative procedures without legislative changes in the policy (e.g. entitlement conditions).

12. Recent data from the 2016 household survey (ENAHO) suggests a further fall in absolute poverty (INEC, 2016).

13. The Costa Rican health system is analysed in detail in a separate review by the OECD Health Committee (OECD, 2017a). This section summaries its main assessments and recommendations.

References

Arias, R., L.A. Barbosa and J.A. Ramírez (2016), "Estudio actuarial del Seguro de Invalidez, Vejez y Muerte administrado por la Caja Costarricense de Seguro Social (con corte al 31 de diciembre del 2015)", Universidad de Costa Rica Facultad de Ciencias, Escuela de Matemática.

BANHVI (2015), "Memoria 2015", Banco Hipotecario de la Vivienda.

BID (2013), "Recaudar no basta: los impuestos como instrumento de desarrollo", Banco Interamericano de Desarrollo, Washington, D.C.

Bouillon, C.P. (2012), *Room for Development: Housing Markets in Latin America and the Caribbean*, Springer.

CCSS – Caja Costarricense de Seguro Social (2016a), "Histórico Ingresos y Egresos", periodo 1992-2016, www.ccss.sa.cr/presupuesto.

CCSS (2016b), "*Calculadora Patronal*", http://www.ccss.sa.cr/calculadora (accessed on 08/12/2016).

CCSS (2014), "Costa Rica: Indicadores de Seguridad Social 2008-2013", Dirección Actuarial y Económica, San José, Costa Rica.

Cerdas, D. (2016), "Sala IV Concedió a Hombre Licencia de Maternidad, Por Muerte de Su Pareja", La Nación.

El Mundo (2016), "CCSS Debe Modernizar Régimen de Pensiones No Contributivo, Señala Defensoría", www.elmundo.cr/.

Estado de la Educación (2015), "Quinto Informe Estado de la Educación", San José, Costa Rica: Programa Estado de la Nación.

Estado de la Nación (2014), "Vigésimo Informe Estado de La Nación En Desarrollo Humano Sostenible", Programa Estado de la Nación, San José, Costa Rica.

FODESAF (2016), "Costa Rica: Estimaciones de las poblaciones meta de cada programa financiado por el FODESAF", San José, Costa Rica.

FODESAF (2015), "Liquidación 2015.doc", Word document, Archivos liquidaciones presupuestarias, Cuadro N°XX, Fondo de Desarrollo Social y Asignaciones Familiares, http://fodesaf.go.cr/acerca_del_fodesaf/transparencia/Prueba.html.

FUPROVI (2009), "Balance del sector vivienda: 15 años de ensayos y omisiones", Diciembre.

IDB, CIAT, ECLAC and OECD (2016), *Revenue Statistics in Latin America and the Caribbean 2016*, OECD Publishing, Paris, http://dx.doi.org/10.1787/rev_lat_car-2016-en-fr.

IICE (2015), "Cobertura, enfoque y características de los beneficiarios de los principales programas financiados por el FODESAF en el 2014", Instituto de Investigaciones en Ciencias Económicas. Informe preparado para la Dirección General de Desarrollo Social y Asignaciones Familiares (DESAF) como parte del proyecto Consolidación del Sistema de seguimiento y evaluación de los programas financiados por el FODESAF, http://fodesaf.go.cr/fodesaf/archivos%20de%20estudios%20iice/Cobertura%20y%20caracteristicas%20de%20los%20beneficiarios%202014.pdf.

IMAS (2014), "Informe de Gestión: Mayo – Septiembre 2014", San José, Costa Rica.

INEC (2016), *Encuesta Nacional de Hogares Julio 2016*, Resultados generales, Instituto Nacional de Estadística y Censos, San José, Costa Rica.

Kaplan, D. and M.L. Oliveri (2016), "La Importancia de La Formalización de Trabajadores No Asalariados. Factor Trabajo".

Lustig, N. (2016), "El impacto del sistema tributario y el gasto social en la distribución del ingreso y la pobreza en América Latina: Argentina, Bolivia, Brasil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, México, Perú y Uruguay" (available in Spanish only, with a summary in English), *CEQ Working Papers*, No. 37, CEQ Institute – Commitment to Equity, Tulane University, May, http://econ.tulane.edu/RePEc/ceq/ceq1337.pdf.

Mata, C. (2014), "Efecto real y potencial del FODESAF en el combate a la pobreza", Ponencia preparada para el Vigésimo Primer Informe sobre el Estado de la Nación en Desarrollo Humano Sostenible, http://estadonacion.or.cr/files/biblioteca_virtual/021/social/Mata_K_2015.pdf.

Mata, C. and K. Hernández (2015), "Evaluación de impacto de la implementación de transferencias monetarias condicionadas para educación secundaria en Costa Rica (Avancemos)", *Revista de Ciencias Económicas*, No. 33.

Meza-Cordero, J. (2015), "Apoyo Técnico para la Revisión y Evaluación del Programa de Transferencia Monetaria Avancemos del Instituto Mixto de Ayuda Social (IMAS) para Contribuir a la Reducción de la Deserción y el Abandono Escolar".

Meza-Cordero, J. (2014), "Essays on Education Programs in Costa Rica", *University of Southern California Dissertations and Theses*, http://digitallibrary.usc.edu/cdm/ref/collection/p15799coll3/id/414880.

Mideplan (2016), "Costa Rica: Estado de Las Pensions – Régimen de Invalidez, Vejez Y Muerte", Ministerio de Planificación Nacional y Política Económica, San José, Costa Rica.

OECD (forthcoming a), *OECD Reviews of Health Systems: Costa Rica*, OECD Publishing, Paris, forthcoming.

OECD (forthcoming b), *OECD Tax Policy Review: Costa Rica 2017*, OECD Publishing, Paris, forthcoming.

OECD (forthcoming c), *Education in Costa Rica*, Reviews of National Policies for Education, OECD Publishing, Paris, forthcoming.

OECD (2016a), *OECD Economic Surveys: Costa Rica 2016 – Economic Assessment*, OECD Publishing, Paris, http://dx.doi.org/10.1787/eco_surveys-cri-2016-en.

OECD (2016b), *Taxing Wages 2016*, OECD Publishing, Paris, May, http://dx.doi.org/10.1787/tax_wages-2016-en.

OECD (2016c), *Revenue Statistics 2016*, OECD Publishing, Paris, http://dx.doi.org/10.1787/rev_stats-2016-en-fr.

OECD (2016d), "Parental leave: Where are the fathers?", *Policy Brief*, OECD Publishing, Paris, March, www.oecd.org/policy-briefs/parental-leave-where-are-the-fathers.pdf.

OECD (2015), *Pensions at a Glance 2015: OECD and G20 indicators*, OECD Publishing, Paris, http://dx.doi.org/10.1787/pension_glance-2015-en.

OECD (2011), *Divided We Stand : Why Inequality Keeps Rising*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264119536-en.

OECD/CIAT/IDB (2016), *Taxing Wages in Latin America and the Caribbean*, OECD Publishing, Paris, October, http://dx.doi.org/10.1787/9789264262607-en.

OECD/IDB/The World Bank (2014), *Pensions at a Glance: Latin America and the Caribbean*, OECD Publishing, Paris, http://dx.doi.org/10.1787/pension_glance-2014-en.

Plamondon, P. (2002), "Actuarial practice in social security", ILO.

Sauma, P. (2013), "Situación y características del sistema de pensiones al 2012", Informe Estado de la Nación. Programa Estado de la Nación, San José, Costa Rica.

Sauma, P. (2008), "Pobreza, desigualdad del ingreso y empleo: lecciones aprendidas y principales desafíos en un contexto de menor crecimiento", Ponencia preparada para el Decimoquinto Informe Estado de la Nación. Programa Estado de la Nación, San José, Costa Rica.

SUPEN (2016), "Montos de Pensión IVM".

SUPEN (2014), "Revista Pensiones. Superintendencia de Pensiones de Costa Rica".

Trejos, J.D. (2014a), "La inversión social pública en el 2013: Fuerte recuperación pese al desequilibrio fiscal", 20th Report through the programme *Estado de la Nación* on Sustainable Human Development (2013) [Vigesimo Informe Estado de la Nación En Desarrollo Humano Sostenible (2013)], Final Report, http://estadonacion.or.cr/files/biblioteca_virtual/020/social/Trejos2014.pdf.

Trejos, J.D. (2014b), "La desigualdad en la distribución de la educación en Costa Rica: Una mirada comparativa de los últimos 25 años", Fifth Report, Estado de la Educación and Estado de la Nación, http://estadonacion.or.cr/files/biblioteca_virtual/educacion/005/Juan_Diego_Trejos_La_desigualdad_en_la_distribucion.pdf.

Trejos, J.D. (2008), "Impacto de los programas sociales selectivos sobre la desigualdad y la pobreza", Fourteenth Report, Final Report, Estado de la Nación en Desarrollo Humano Sostenible, San José, Costa Rica, http://estadonacion.or.cr/files/biblioteca_virtual/014/Impacto-programas-sociales-Trejos-2008.pdf.

Trejos, J.D., C. Mata and L.A. Oviedo (2015), "Incidencia distributiva de la política fiscal en Costa Rica", Paper presented at the Symposium *Encuesta Nacional de Ingresos y Gastos de los Hogares* (ENIGH) *2013*, *Instituto Nacional de Estadística y Censos* (INEC), San José, Costa Rica, March, www.inec.go.cr/sites/default/files/documentos/pobreza_y_presupuesto_de_hogares/gastos_de_los_hogares/metodologias/documentos_metodologicos/mepobrezasimposioenig2013-2014-01.pdf.

Database references

CEPAL (2016), *Base de Datos de Inversión Social*, http://dds.cepal.org/gasto/indicadores/ficha/2016.

Encuesta Nacional de Hogares (ENAHO), www.inec.go.cr/encuestas/encuesta-nacional-de-hogares.

Estado de la Nación (2016), "Compendio de indicadores sociales", www.estadonacion.or.cr/files/estadisticas/costa-rica/Compendio_social2016.xlsx.

INEC (2015), *Encuesta Nacional de Hogares Julio 2015*, Resultados generales, Instituto Nacional de Estadística y Censos, San José, Costa Rica.

INEC (2016), *Encuesta Nacional de Hogares Julio 2016*, Resultados generales, Instituto Nacional de Estadística y Censos, San José, Costa Rica.

OECD Income Distribution Database, http://oe.cd/idd.

OECD Social Expenditure Database (2016), www.oecd.org/social/expenditure.htm.

Chapter 4

Making migration an opportunity for Costa Rica

Costa Rica is a net immigration in a region with high emigration rates. Immigrants represent 11% of the population aged 15 and over and are mainly of working age and low educated. The vast majority of them are from Nicaragua, but more recent flows are also coming from other countries in the region and the United States. Migrant men have high employment rates, but migrant women have serious difficulties accessing the labour market. Informality is a serious concern for migrants and is linked to irregular migrant status for many of them. Recent policy changes aimed to regularise the situation of migrants, but such efforts are difficult to implement in the context of high informal employment. The 2010 Migration Law and the subsequent Comprehensive Migration Policy provide the right framework for migration, but implementation challenges remain.

1. Introduction

Costa Rica has a unique history as a country of immigration in Central America, a region known for its high levels of emigration. Not only does it have a high net migration rate (6 per 1 000 of its population) compared with its neighbours, but also in 2011[1] immigrants in the country made up 9% of the total population and 11% of the population aged 15 and over, the highest share among Central and South American countries, and comparable with the average of OECD countries, as already shown in Chapter 1 (Figure 1.10). The country's high human development, a more stable political climate, and better socio-economic indicators in comparison with those in other countries in the region have been the main pull factors for migrants from the region, notably Nicaragua (Mazza and Sohnen, 2011; and León, et al. 2012). Given the important and growing role of immigration in the labour market and the economy, recent legislation has shifted the policy focus from securitisation to migrant integration and development.

2. Immigration has been high and persistent since the 1990s

Immigration has been historically driven by flows from Nicaragua

For much of the twentieth century, Costa Rica experienced a steady growth of its immigrant[2] population which outpaced that of the native-born population (Figure 4.1). The growth of the number of immigrants accelerated in the 1990s, when in a matter of almost two decades, the immigrant population more than tripled from 88 960 in 1984 to 296 460 in 2000, particularly as a result of important and rising flows from Nicaragua. While the number of immigrants present in Costa Rica has continued to grow, its growth rate has decreased over the last two decades, partly because it started from very low levels in the 1970s. According to the latest household survey, in 2015, there was a total immigrant population of 411 410, 40% more than in 2000.

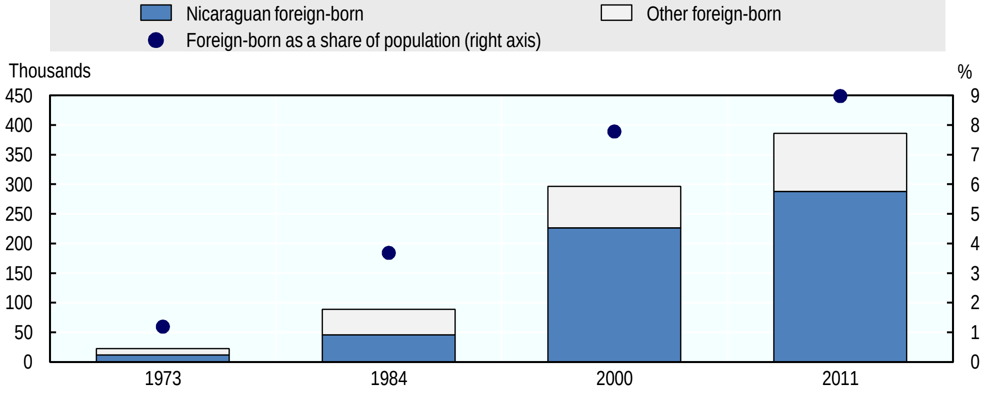
In comparison with OECD countries, Costa Rica is a relatively new immigration country. The share of migrants who have been in the country for ten years or less stood at 45% in 2011, well above the OECD average of 30% and higher than the majority of OECD countries (Figure 4.2). Only Spain, Norway, Finland and the United Kingdom have a higher share of migrants who have been in the country for at most ten years. These countries have either experienced recent immigration flows or new and large migrant waves related to the EU enlargement.

The country's socio-economic conditions coupled with push factors such as political instability and the lack of economic opportunities in

Nicaragua, have made the emigration from Nicaragua to Costa Rica the single largest intra-regional flow (Morales, 2010). Moreover, the proximity between the two countries, as well as their shared language also facilitated this migration. There have been two main waves of migration to Costa Rica from Nicaragua. The first wave, smaller in size than the second one, took place in the 1980s as a result of the political instability, violence, and repression in the neighbouring country. The second migrant wave started in the 1990s and comprised mainly economic migrants who looked for economic opportunities in Costa Rica. Migration from Nicaragua continues in large numbers until today.

Figure 4.1. **A fast rising foreign-born population in Costa Rica**

Thousands and percentages, selected years



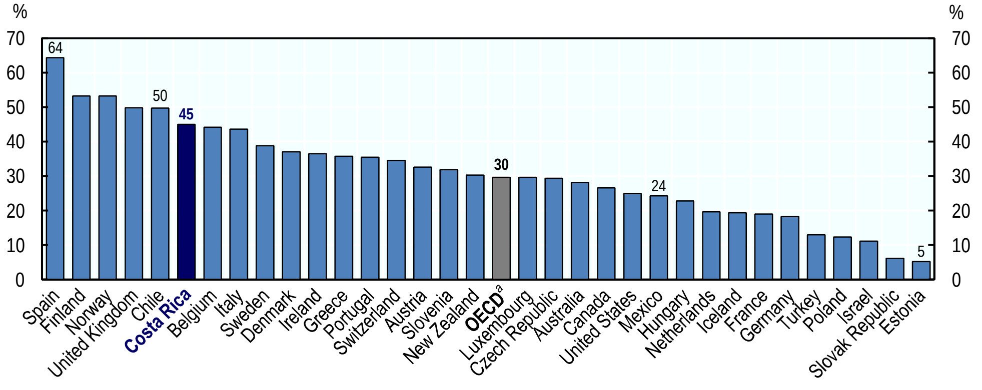
Source: Instituto Nacional de Estadística y Censos (INEC), 1973, 1984, 2000, and 2011.

StatLink http://dx.doi.org/10.1787/888933591366

As a result of these waves, Nicaraguans constitute today the vast majority of migrants, and in particular labour migrants, in Costa Rica. According to the 2011 Census, they represented about 7% of the total population (287 800 persons), three-quarters of the immigrant population, and 82% of the migrant labour force of working age (15-64). In the 2015 household survey, the number of foreign-born persons stood at 411 400 and the share of Nicaraguans among immigrants was even higher than in 2011, at 78%. The social and economic conditions in Costa Rica vis-a-vis Nicaragua continue to constitute pull factors for migrants from Nicaragua. In August 2016, the minimum wage in Costa Rica was almost four times higher than the minimum wage in Nicaragua.[3] Moreover, social services in Costa Rica, including a universal health care system and free public education, are also important pull factors. Continuing demand for unskilled labour in certain sectors such as domestic services, agriculture, and construction, is an important driver of immigration, followed by the existence of Nicaraguan migrant networks in particular in those sectors which have been built over the past decades.

Figure 4.2. **Costa Rica is a fairly new immigration country**

Recent migrants as a percentage of all migrants (2010/11)



Note: Recent migrants are defined as those who have been in the country for at most ten years. This definition differs from the standard definition (based on five years of residence) used in most OECD publications because of the question asked in the Population Census of Costa Rica.

a) Weighted average of the 32 OECD countries shown in the figure (excluding Japan, Korea and Latvia).

Source: Instituto Nacional de Estadística y Censos (INEC), 2011 for Costa Rica and *Database on Immigrants in OECD Countries (DIOC 2010/11)*, www.oecd.org/fr/migrations/dioc.htm for the OECD countries.

StatLink http://dx.doi.org/10.1787/888933591385

While Nicaraguans constitute by far the largest immigrant group in the country, the number of migrants born in other Latin American countries and the United States has been on the increase. As seen in Table 4.1, the second largest immigrant group in 2011 was Colombians (16 500) followed by those born in the United States (15 900). The latter most often migrate to Costa Rica for business or retirement. On the other hand, however, the number of migrants from Colombia and El Salvador in Costa Rica has increased as a result of conflict and violence in these two countries. Moreover, particularly during the last five years, there has been a rise in the inflows of migrants in transit to the United States. For the most part, these are migrants from Haiti and Cuba, and to a lesser extent South Asia and Africa.

Table 4.1. **Persons born in Nicaragua represent the vast majority of immigrants in Costa Rica**

Foreign-born population by main country of origin, selected years

	1973			1984		
	Number	Percentage of population	Percentage of foreign-born	Number	Percentage of population	Percentage of foreign-born
Total	**1 871 780**			**2 416 806**		
Born abroad	22 264	1.19		88 954	3.68	
Nicaragua	11 871	0.63	53.32	45 918	1.90	51.62
Colombia	517	0.03	2.32	1 678	0.07	1.89
United States	2 151	0.11	9.66	5 369	0.22	6.04
Panama	1 598	0.09	7.18	4 794	0.20	5.39
El Salvador	766	0.04	3.44	8 748	0.36	9.83
Others	5 361	0.29	24.08	22 447	0.93	25.23
	2000			**2011**		
	Number	Percentage of population	Percentage of foreign-born	Number	Percentage of population	Percentage of foreign-born
Total	**3 810 179**			**4 301 712**	**8.97**	
Born abroad	296 461	7.78		385 899	8.97	
Nicaragua	226 374	5.94	76.36	287 766	6.69	74.57
Colombia	5 898	0.15	1.99	16 514	0.38	4.28
United States	9 511	0.25	3.21	15 898	0.37	4.12
Panama	10 270	0.27	3.46	11 250	0.26	2.92
El Salvador	8 714	0.23	2.94	9 424	0.22	2.44
Others	35 694	0.94	12.04	45 047	1.05	11.67

Source: Instituto Nacional de Estadística y Censos (INEC – National Institute on Statistics and Census), National Population Census, 1973, 1984, 2000 and 2011.

StatLink http://dx.doi.org/10.1787/888933591727

Permanent migration is high, but temporary migration increased a lot in the past two years

Total annual migrant flows to Costa Rica doubled between 2010 and 2015, the latest year with available information (see Table 4.2).[4] This trend reflects mainly a sharp rise in migrant inflows in 2013 and 2014, when year-on-year growth reached 40%. In contrast, inflows declined by 14% in 2015 relative to the previous year. These trends in 2013 and 2014 reflect to a large extent the regularisation process which started in 2013. It concerned persons who were eligible for permanent residence through their ties with a Costa Rican citizen or resident, as well as persons who were eligible for a temporary residence permit, mainly for work purposes.

Table 4.2. **Annual migrant inflows to Costa Rica are on the rise**

Numbers, 2008-15

		2008	2009	2010	2011	2012	2013	2014	2015
Permanent migration									
Special category	Refugees	320	335	134	235	113	114	69	168
Permanent residence		8 004	9 317	7 379	7 800	9 656	16 049	14 090	11 960
Temporary residence	Investors	21	53	48	95	128	78	115	146
	Other categories	557	841	833	814	654	264	531	366
Total permanent migration		**8 902**	**10 546**	**8 394**	**8 944**	**10 551**	**16 505**	**14 805**	**12 640**
Temporary migration									
Special category	Others	2 662	3 235	3 348				3 141	
	Student family				99	15	2		
	Students				1 745	1 306	1 435	1 404	1 977
	Invited professional				194	7	1		
	Workers (other specific occupations)				2 282	1 491	2 211	4 596	5 036
	Domestic workers							2 351	2 737
	Drivers							1	35
	Specific project workers				4	2	1		
	Temporary workers						2	1 612	1 551
	Cross-border workers							6	6
Temporary residence	Other temporary residence	1 773	2 242	2 122	3 069	3 624	3 230	4 760	3 945
Total temporary migration		**4 435**	**5 477**	**5 470**	**7 393**	**6 445**	**6 882**	**17 871**	**15 287**
Total		**13 337**	**16 023**	**13 864**	**16 337**	**16 996**	**23 387**	**32 676**	**27 927**

Note: Permanent migration flows include persons with a permanent residence in Costa Rica, refugees, and investors, retirees and *rentiers*. All other permits are classified as temporary migration. The distinction between permanent and temporary migration has been decided to ensure comparability with migration statistics in OECD countries.

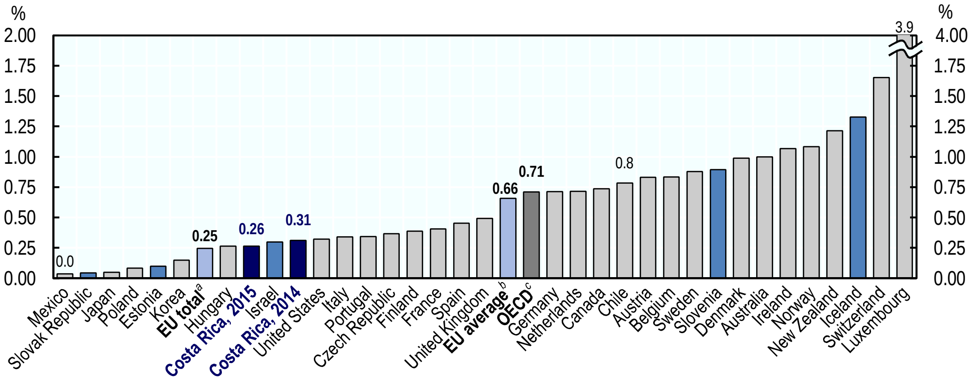
Source: Sistema Continuo de Reportes sobre Migración Internacional en las Américas (SICREMI – Continuous Reporting System on International Migration in the Americas, 2010-2014); and data provided by the *Dirección General de Migración y Extranjería* (DGME – Migration Agency).

StatLink http://dx.doi.org/10.1787/888933591746

Permanent inflows as a share of the total population have been quite high in Costa Rica in the latest years with available data. In 2015, they represented 0.31% of the population, a figure close to that observed in the United States and in a number of other OECD countries (see Figure 4.3). In 2015, their share in the total population was somewhat lower, at 0.26%. Permanent migration flows doubled between 2010 and 2013 reaching 16 505 persons. In the following two years, permanent flows declined by 10% and 15% respectively. However, although lower than in the record year 2013, permanent migration flows in 2015 were 50% higher than in 2010, reflecting mainly the regularisation process as it will be discussed in the following sections of this chapter.

Figure 4.3. **Permanent migration flows are quite high**

Percentage of total population, 2014-15



Note: Light- and dark-blue bars in the figure correspond to countries for which data are not standardised.

a) *EU total* represents the entries of third-country nationals into EU countries for which standardised data are available, as a percentage of their total population.

b) *EU average* is the average of EU countries presented in the figure.

c) Unweighted average of the 32 OECD countries shown in the figure (excluding Greece, Latvia and Turkey).

Source: OECD International Migration Database, https://stats.oecd.org/Index.aspx?DataSetCode=MIG; *Sistema Continuo de Reportes sobre Migración Internacional en las Américas* (SICREMI – Continuous Reporting System on International Migration in the Americas); and data provided by the *Dirección General de Migración y Extranjería* (DGME – Migration Agency).

StatLink http://dx.doi.org/10.1787/888933591404

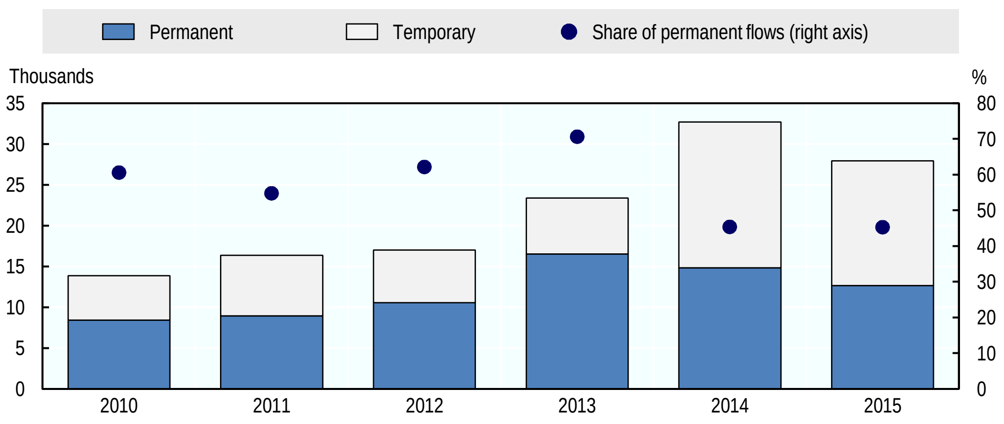
At the same time, temporary migration recorded an unprecedented growth in recent years (Table 4.2 and Figure 4.4). Temporary flows in 2014 were three times those in 2010. In 2015, temporary migration stood at 15 300 persons, slightly below that in 2014. This increase in temporary flows reflects the efforts of the Government to promote the regularisation of certain categories of migrants already present in the country, as it will be discussed in a later section of this chapter.

The distinction by category of entry is not possible with the available data

The standard distinction by category of entry which is usually done in the *OECD International Migration Database* is not possible with the data currently available. The information supplied by the authorities on permanent residence does not allow distinguishing between family migrants who have the right to permanent residence, labour migrants who have been in the country for at least three consecutive years and those who receive a special access to permanent residence. Some distinction is possible for temporary residence, especially in the last two years, when the unknown category was significantly reduced. Detailed data are needed to compare Costa Rica with OECD countries on the basis of the composition of migration flows by category of entry.

Figure 4.4. **Unprecedented growth in temporary migration flows in recent years**

Thousands and percentages, 2010-15



Note: Permanent migration flows include persons with a permanent residence in Costa Rica, refugees, and investors, retirees and *rentiers*. All other permits are classified as temporary migration. The distinction between permanent and temporary migration has been decided to ensure comparability with migration statistics in OECD countries.

Source: Sistema Continuo de Reportes sobre Migración Internacional en las Américas (SICREMI – Continuous Reporting System on International Migration in the Americas, 2010-2014); and data provided by the *Dirección General de Migración y Extranjería* (DGME – Migration Agency).

StatLink http://dx.doi.org/10.1787/888933591423

International students and refugees represent a small share of flows

Close to 2 000 permits were attributed to students in 2015, 40% more than in 2014, but close to the number of permits in 2011. International students are coming from a broader set of countries in comparison with other groups of migrants, notably temporary labour migrants. The largest group among students in 2014 are those coming from Nicaragua (12%), followed by those from the United States and Colombia (8% each), El Salvador (6%), Honduras (5.5%), Ecuador and Germany (5% each). More than half of all international students are women (53%). When focusing on the main countries of origin, women are more represented among international students notably from Germany (72%), the United States (63%) and to a lesser extend Colombia (54%), whereas students from El Salvador, Honduras and Ecuador are more likely to be men.

Box 4.1. **Refugees, indigenous populations and migrants in transit**

In addition to the labour and family-related migrant flows described and discussed in this chapter, Costa Rica, hosts a number of migrant groups with specific characteristics and needs. A number of programmes implemented in the past years target refugees, indigenous populations and migrants in transit. Although these groups are small, they are the subject of recent debates in the public opinion and they receive growing attention by the media.

The *Modelo de Graduación and Vivir la Integración* programmes, implemented by the UNHCR, have created solid partnerships not only with the government but also with 60 companies to ensure refugees' access to the labour market and to work towards sensitising employers, and the population in general, on refugee matters. While long processing times in the DGME have delayed and complicated the integration of refugees, they benefit from a special provision which stipulates that asylum seekers can start working if a decision has not been made on their application within three months.

The Panamanian *Ngäbe-Buglé* indigenous population offers seasonal migrant work mainly in the coffee sector. Often they move together with their families, a situation which has created new demand for specific services in health and education. Recent efforts have been made by the authorities of Costa Rica to address the vulnerability and isolation of this population through co-operation across sectors. The IMAS together with UNICEF implemented the *Casas de la Algería* programme, which provides care and education to the children of indigenous migrant workers. In the area of health, the local branches of the Costa Rican Department of Social Security (CCSS – *Caja Costarricense de Seguro Social*) have conducted *visitas a fincas* or visits to farms in which they provide basic health services on a seasonal basis.

Most recently, there has been growing attention on the rising flows of transit migrants from Haiti, Cuba, and to a lesser extent South Asia and Africa heading to the United States. This has forced Costa Rican authorities to rethink the role of the country not only as a destination but also as a transit country. In this context, the Costa Rican authorities have been particularly active in seeking co-operation with countries in the region (notably Guatemala and Panama) to address this new challenge and have made efforts to provide emergency and non-emergency health services to these groups of migrants. Local communities have played an important role by providing shelter and food.

Costa Rica hosts a relatively small but rising number of refugees. In 2015, 168 persons were granted the refugee status, 2.5 times more than in 2014, which was a year with an exceptionally low number of refugee grants. The number of new refugees has been around 110-130 per year, except in 2011 when 235 persons were granted the refugee status. The acceptance rate was 7.4% in 2015, while a quarter of asylum requests received that year were rejected. The remaining asylum requests have not been processed yet. The main countries of origin of refugees are El Salvador (39% of requests and 31% of recognised status), Colombia (29% and 33%), Venezuela (13% and 6%), Cuba (5% and 6%) and Honduras (3.6% and 8%). The total number of refugees in the country was close to 13 000 in 2013 (OAS/OECD, 2015). UNHCR has implemented two fairly successful programmes in Costa Rica (see Box 4.1).

The majority of immigrants are of working age and low-educated

According to the 2011 Census of Costa Rica, about 386 000 foreign-born persons were residing in Costa Rica, of whom three quarters were born in Nicaragua. The characteristics and socio-economic outcomes of immigrants from Nicaragua differ significantly from those of migrants from other countries as indicated in Table 4.3. On average, they have a lower education level, work in low-skilled occupations, and consistently fare worse in the labour market than other immigrant groups and natives. In contrast, immigrants from outside of Central America for instance, are usually on par with or they fare better than their native-born counterparts.

The majority of immigrants are of working age and have a low education level. One-fifth of immigrants aged 15 or older, are young, between the ages of 15 and 24, a share which is twice as high as that in OECD countries. The share of older persons (65-year-olds and above) among migrants is low in Costa Rica (7%), 7 percentage points lower than that in OECD countries. Women are over-represented among immigrants. They account for 53% of all immigrants aged 15 and above (versus 52% for the native-born) and are even more represented among those from Nicaragua (54%) and other countries in the region (56%).

The majority of immigrants are low-educated (see Figure 1.12 in Chapter 1), with 65% of them having at most lower secondary education in 2015, versus 60% for the native-born. Yet differences in educational attainment are observed between immigrant groups (Table 4.3). Four out of five migrants from Nicaragua had a low level of education in 2015, versus 52% for those coming from other countries in the region. Only 5% of Nicaraguan migrants had a university degree in 2015, the lowest of all other immigrants and native-born. Immigrants born in other countries in the region were on average more highly educated: 30% of them had a university degree, a higher share than the native-born (21%). Other foreign-born, mainly from the United States, although less numerous, had a high level of education; 63% of them had a university degree and only 16% had a low education level.

Table 4.3. **Personal and household characteristics and labour market outcomes vary by country of birth, 2015**

	Native-born	Born in Nicaragua	Born in another country in Central America	Born in another country
	Age (percentages)			
15-24	23.5	16.7	17.2	12.6
25-44	36.0	52.5	39.7	40.8
45-64	28.5	23.5	29.7	27.4
65+	12.0	7.3	13.4	19.2
	Education (percentages)			
Low	63.1	81.8	52.1	16.3
Medium	15.7	13.0	16.5	20.3
High	21.2	5.2	31.4	63.4
	Gender (percentage)			
Men	48.3	46.2	43.8	53.5
Women	51.7	53.8	56.2	46.5
	Geographic area (percentages)			
Urban	73.6	71.0	77.7	85.3
Rural	26.4	29.0	22.3	14.7
	Household characteristics			
Household size (persons)	3.9	4.4	3.8	3.0
Equivalised household income (CRC)	635 168	383 377	694 933	1 357 115
Per capita household income (CRC)	351 463	198 759	381 824	844 854
	Labour market outcomes (percentages)			
Employment rate	58.9	67.1	57.4	72.9
Unemployment rate	8.7	9.5	8.4	2.3
Participation rate	64.5	74.1	62.7	74.6
	Employment status (percentages)			
Employers and self-employed	22.0	13.8	26.2	46.2
Employees	78.0	86.2	73.8	53.8
Share of population 15+	89.7	8.1	0.6	1.5
Share of migrant population 15+	–	79.0	6.2	14.8
Share of the labour force (15-64)	88.2	9.6	0.6	1.6
Share of migrant labour force (15-64)	–	81.5	5.0	13.5

Note: Low refers to ISCED 0/1/2, *Medium* to ISCED 3/4 and *High* to ISCED 5/6. CRC: Costa Rican colones. The population of reference are persons aged 15 and above, except for the labour market outcomes and employment status which is defined for the working-age population (15-64). –: Not applicable.

Source: Instituto Nacional de Estadística y Censos (INEC), 2011 and *Encuesta Nacional de Hogares* (ENAHO), 2015.

StatLink http://dx.doi.org/10.1787/888933591765

Immigrants make an important contribution to the labour market and the economy

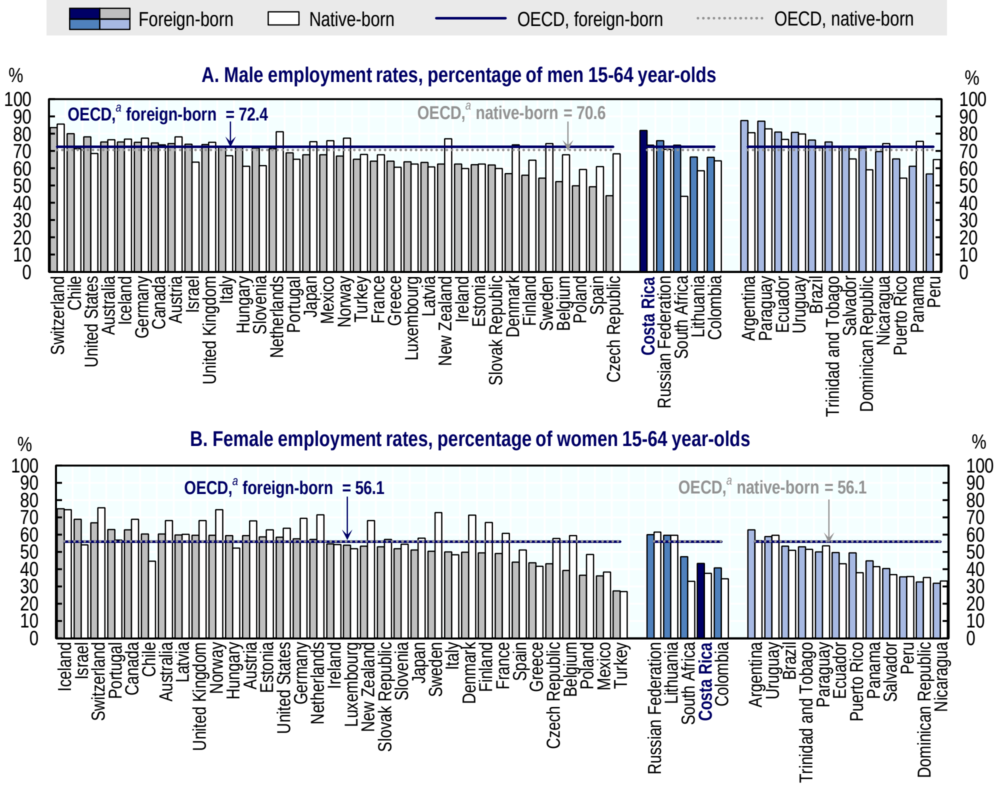
Immigrants represent 12% of Costa Rica's labour force and they contribute between 4.4% and 12% of the country's GDP (CAMMINA-INCAE, 2016). The majority of immigrants in Costa Rica are working. Their employment rate is higher than that of migrants in many OECD countries and also higher than that of natives in Costa Rica (Figure 1.13 in Chapter 1), but sharp differences exist between men and women (Figure 4.5). The employment rate of migrant men, 82% in 2011, was 2 percentage points higher than that of native-born men in Costa Rica and 10 percentage points higher than that of migrant men in the OECD. This places Costa Rica second among OECD and accession countries, only behind Switzerland. However, Costa Rica fairs less well than the majority of OECD countries when female migrants are concerned. Their employment rate, 43% in 2011, is the lowest of all OECD and accession countries except Belgium, Poland, Turkey, Mexico and Colombia. Nonetheless, immigrant women are still more likely to work than native-born ones, who record an employment rate of 38%.

They contribute notably in certain sectors and low-skilled occupations

Immigrants are concentrated in specific sectors and occupations, which are less attractive among the natives either because of their low pay and worse working conditions or because natives are increasingly overqualified for such jobs. According to the 2015 household survey, the majority of immigrants work in trade (16%), private households (14%), agriculture (13%), construction (12%) and manufacturing (10%). These five sectors account for three-quarters of all employed immigrants in Costa Rica. Relative to natives, they are over-represented in a small number of sectors, notably in construction where they represent 22% of all workers, in private households (23%), hospitality and the food industry (17%) and agriculture (14%).

In 2015, 42% of immigrants in the country were in low-skilled occupations compared with 23% for persons born in Costa Rica. The share is even higher when one focuses only on migrants from Nicaragua: half of them are found in low-skilled occupations, whereas this share is 27% for immigrants from the rest of Central America and 6% for those from other regions of the world. Likewise, only 5% of migrants from Nicaragua work in high-skilled jobs, while the respective share is 33% for other migrants from the region and 53% for those from outside Latin America. There is some change over time, notably when examined separately for men and women. A larger share of immigrant women work in medium-skilled occupations in 2015 than in 2011, and a smaller one in low-skilled jobs. For immigrant men, there are more of them at the two ends of the skill distribution and substantially less in medium-skilled jobs.

Figure 4.5. **Migrant women in Costa Rica have very low employment rates**



Note: Countries are ranked in decreasing order of male (respectively, female) employment rate of foreign-born 15-64 year-olds.

a) Weighted average of 34 OECD countries (except Korea).

Source: Database on Immigrants in OECD Countries and Non-OECD Countries (*DIOC 2010/11 and DIOC-E 2010/11*), www.oecd.org/fr/migrations/dioc.htm.

StatLink http://dx.doi.org/10.1787/888933591442

Immigrants also contribute to the country's demographics

In addition to their contribution in the labour market, immigrants also make a demographic contribution. As other OECD countries, Costa Rica is faced with an ageing population and a fertility rate below replacement levels. Immigrants are not only younger than the native-born population on average, but they also tend to have more children. According to the analysis in DGME (2012), in 2011 20% of births in Costa Rica were from a foreign mother (whereas immigrants only constitute 10% of the population). Moreover, while the fertility rate of married Nicaraguan women was slightly above that of Costa Rican women, the fertility rate for Nicaraguan women who were not married was 120% higher in the central metropolitan region and 67% higher for women elsewhere in the country. On average, migrant households are somewhat larger than native ones (4.2 persons versus 3.9 persons, see Table 4.3) and they also have more children. Notably migrant households in rural areas tend to have more children of all ages, but even more so young ones, below the age of 5.

3. A new institutional framework was introduced in 2010

The 2010 Migration Law linked for the first time migration with integration and development

Migration law has evolved greatly since the mid twentieth century when, in 1940, the first statute called for the creation of a migration office. The first migration laws heavily emphasised securitisation measures and border control, especially when migration began to increase strongly in the 1980s. However, in 2010, the country adopted the most recent regulation on the matter, the General Migration Law (*Ley General de Migración y Extranjería*), with a focus on immigrant integration and human rights, and an emphasis on the migration-development nexus. For the first time, integration of immigrants is a key component of the agenda.

The 2013 Comprehensive Migration Policy (PMI – *Política Migratoria Integral*) gives priority to three key areas of action: i) service provision to immigrants, ii) integration and development, and iii) protection of human rights and vulnerable populations.

A number of actors are involved in the management of migration and the integration of immigrants

The institution in charge of implementing the new Migration Law and the PMI is the Migration Agency (DGME – *Dirección General de Migracion y Extranjeria*) which is under the Governance and Police Ministry. The responsibilities and vision of the Migration Agency have significantly changed over time, in parallel with the evolution of migration policy. In 1974, DGME was established under the Public Safety Ministry, with an emphasis on its role in security. While the DGME was then transferred to the Governance Ministry, subsequent laws in 1986 and 2005, continued to conceptualise migration as a security imperative. For most of its history, the DGME was a regulatory agency, charged with managing flows into the country, as well as the right to reside in it.

Today, the DGME has 650 officers, of which two thirds are police staff. At the same time, an immigrant integration office was created within the DGME. Nonetheless, to date, the DGME is still viewed by other institutions as a bureaucratic instrument and not a potential actor in migrant integration entrusted with the additional role to promote migration for development.

The Department of Labour Migration at the Ministry of Labour and Social Security (MTSS – *Ministerio de Trabajo y Seguridad Social*), is a second important actor in managing migration in Costa Rica. This Department is the key player in determining labour market needs which cannot be met domestically and for which foreign labour is required.

Several other actors play important roles in managing migration and integration. Migrants have to register with the Costa Rican Department of Social Security (CCSS – *Caja Costarricense de Seguro Social*) to have access to Social Security which is a requirement to work legally in the country. The National Council of University Chancellors (CONARE – *Consejo Nacional de Rectores*) is in charge of the process of credential recognition of both Costa Ricans and migrants who obtained credentials abroad. The ministries of Health and Education also play important roles as in the case of Costa Rica immigrants can receive emergency care and primary and secondary education regardless of their status.

Employers should have a voice in the National Migration Council

The National Migration Council (CNM – *Consejo Nacional de Migración*) is one of the important actors in the management of migration and integration in Costa Rica. It is composed of representatives from various government institutions and civil society, notably the Education Ministry, the CCSS, the Tourism Institute, the Ministry of Foreign Affairs, and several other institutions. Migrant associations participate in the Council, but this is not the case for representatives of the private sector. This is a major limitation of the Migration Council which should be addressed in order to facilitate dialogue with a key stakeholder in migrant regularisation and integration. The experience with the recent efforts to regularise migrants' status has indeed stressed the role that employers can play in this process. To strengthen the capacity of the Migration Council and its impact, representation of the various institutions and actors at the highest level should be required to facilitate decision making.

There is a simple framework for labour migration

The system managing labour migration in Costa Rica is fairly simple and open relative to that in many OECD countries. It does not entail a labour market test and only a set of *instructions* are followed with respect to the occupations where migrant workers are needed and the numbers that should be allowed in. Immigrants enter the country with provisional visas which cover a range of motifs. There are at least 15 different types of such tourist visas, student visas, religious missionary visas, visas for scientists, visas for workers of registered companies, etc. A 2014 directive establishes the lists of countries whose citizens require no visa for entry, those whose citizens require a tourist consulate visa, or a restricted visa. While individuals who require no visa for entry can remain legally in the country for 90 days, the restricted visa for instance, which applies to 66 countries, only allows for individuals to remain legally in the country for a month (unless they formally petition for an extension of up to 90 days). Although Nicaraguans require a restricted visa, under the 2014 directive they are automatically allowed to stay for 90 days as opposed to the stipulated month for the other countries in this category. This gives them more time to find a job, and be able to apply for temporary residence while they are still legally in the country.

Immigrants who wish to stay in Costa Rica have to apply for a residence permit. If the person remains in the category in which s/he entered (i.e. a person who entered with a student visa and needs a temporary residency as a student), s/he must pay a USD 50 administrative fee for the application. However, if the permit is in a different category, the cost rises to USD 200, in addition to the administrative fee of USD 50. This two-step process creates extra handling cost for the authorities.

Immigrants can enter the labour market through three different channels. *First*, bilateral agreement signed between the MTSS and the Nicaraguan authorities on low-skilled labour in specific sectors (this agreement is discussed in a later section of this chapter). *Second*, foreign workers can be hired by companies registered with the DGME. Migrants using this entry channel do not have to pay the USD 200 status change fee when they apply for a temporary worker visa or a visa for workers in selected occupations. The requirements for companies wishing to register with DGME include the compliance with rules and regulations in terms of labour conditions, the payment of Social Security contributions and a letter by the Ministry of Foreign Trade (COMEX – *Ministerio de Comercio Exterior*) or the Export Promotion Agency (PROCOMER – *Promotora del Comercio Exterior*) recommending the company for inclusion in the DGME registers. Depending on the sector, other public institutions may also be involved (Tourism Institute, Superintendency of Pensions, General Superintendency of Securities, Superintendency of Telecommunications and Superintendency of Insurance). A *third* channel is through individual requests according to the occupations in need of foreign labour as defined by the MTSS. This channel represents the majority of requests, followed by permits attributed to workers in registered companies.

Immigrants who get a residence permit are provided a resident identification card (DIMEX) which is issued by the Migration Agency. This contains a number of important details, including the work activity for which the permit is issued (if that is the case) and is the document required for access to social services and the labour market. Its validity depends on the migration category and varies from six months for *estancias* to two years for temporary and permanent residents. Renewals require a meeting with DGME offices, the Bank of Costa Rica or Electronic windows services (*Ventanillas Electrónicas de Servicios*) and the process following the meeting should take no more than ten days. However, delays of up to eight days can be expected when the demand is not handed directly to the DGME.

Permanent residence is confined to first-degree relatives of Costa Rican citizens and to temporary residents who have been in the country for at least three consecutive years. The data made available by the DGME do not allow the distinction between these categories which represent the bulk of permanent residence permits. A third group concerns immigrants who are granted permanent residence by decision of the Commission on Restricted Visas and Refugees. Detailed data allowing a distinction between these categories are necessary to draw a full picture of immigration in Costa Rica in comparison with other OECD countries.

Regularisations have been necessary but the mechanism used is not adequate in the context of a large informal sector

The irregular status of migrants is an issue of concern for the Costa Rican authorities. However, it is not possible to provide an estimate of the size of this population by conducting a comparison between the total number of residence permits in the country and the number of immigrants, as this can be derived from the population census or national surveys. This is because the total number of permits includes persons who have died and those who have left the country, while survey data tend to underestimate the actual number of migrants, as they have a limited coverage among those in transit and recent migrants.

Following the adoption of the 2010 law, a number of executive decrees were issued to facilitate the regularisation process for immigrants in an irregular situation. Initially, the regularisation process targeted parents of minors or of persons with disabilities who are Costa Rican residents or citizens, but was subsequently extended to migrant workers in agriculture, construction, and domestic services for specific periods of time. As a first step, the grace period immigrants and employers in agriculture, construction, and domestic services had to regularise their situation before paying the fee of USD 100 for every month they had been in an irregular situation in the country, was extended to September 2013. Sanctions were lifted for employers in the above sectors during the grace period. This period ended for the domestic services and construction sectors in July 2014, and on 31 January 2015 for the agricultural sector. However, employers in the agricultural sector who had registered with DGME before this deadline were allowed to regularise their workers in an expedited manner throughout 2015. The payment of the fee has also been postponed until the end of 2017, to facilitate the regularisation process.

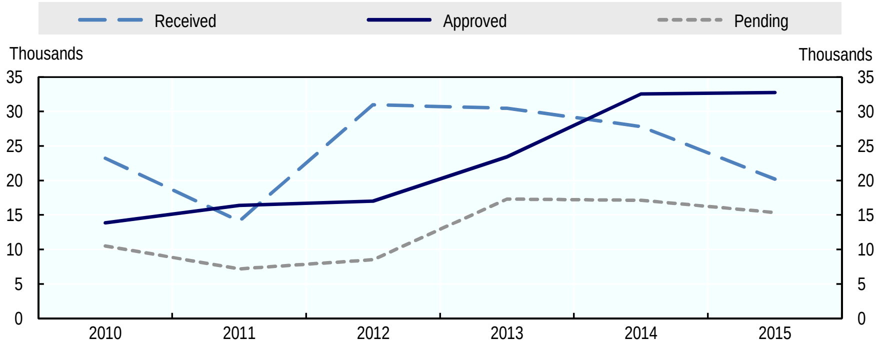
During the first three years, there was no clear increase in the number of applications or acceptance rates for temporary and permanent residence, including for employment, according to Estado Nación (2013), but sharp increases in temporary residence permits in 2014 and 2015 (Figure 4.4), notably certain work-related categories, reflect the above efforts for regularisation. Between 2010 and 2015, a total of 147 000 requests for regularisation have been received by the DGME and 136 000 permits were delivered (Figure 4.6).

However, overall take-up appears lower than expected. Migrants have been put off by the requirement to leave the country if their employers did not support their regularisation. To apply for a temporary residency for work purposes, an individual would have to pay at least USD 310 – more than the 2012 minimum monthly wage for a domestic worker. Although these requirements have not been enforced yet, they have deterred some migrants from asking their employers to regularise them.

An additional reason for the low take up is the low share of registered employers, a requirement for immigrants to have their status regularised. Companies have been reluctant to register with the DGME, which requires paying formal wages. Two months before the January 2015 registration deadline for agriculture, only 1.7% of employers in that sector had registered with DGME. Finally, a limited knowledge among immigrants of the exact process which had to be followed as well as the benefits related to a regular migrant status may also explain the relatively low take-up.

Figure 4.6. **The number of approved requests for regularisation has risen over time**

Thousands



Note: It should be noted that approved requests in a certain year do not necessarily correspond to the requests received in that specific year and hence it is not possible to estimate the acceptance rate.

Source: Direct submission provided by the *Dirección General de Migración y Extranjería* (DGME – Migration Agency.

StatLink http://dx.doi.org/10.1787/888933591461

The high incidence of informality makes a work-based regularisation mechanism unlikely to fully succeed. Most of the tools typically used by OECD countries to manage labour migration seem difficult to work in Costa Rica because of informality. If the main objective of the regularisations is to identify those present in the country and ensure that they are protected from exploitation, a one-off regularisation of the migrant status of persons present in the country could be considered without requiring a formal employment contract. Such amnesties have been used in a number of OECD countries in recent years, mainly in the United States, France, Italy, Spain, Portugal and Greece (OECD, 2000). In addition to providing a regular status to migrants, amnesties are a rich source of information to authorities on undocumented migrants, their sectors of work and main motifs for migration. This information is extremely important to develop a migration system which sets clear and realistic requirements for entry and regular stay in the country, as well as a concrete pathway to permanent residence for those who have a reason to be in Costa Rica and have the intention to stay.

A crucial question with regularisations is the future situation of immigrants after they have been regularised and whether they maintain their status in the long run. The legal and administrative framework regarding notably the conditions to renew residence permits and processing time determine to a large extent this outcome. The experience of OECD countries with such regularisation processes has shown that a number of immigrants, who were regularised in a specific point in time, were also part of subsequent regularisations. It is hence important to ensure that immigrants with a valid reason to be in the country do not fall back into irregularity because of administrative and legal barriers to permit renewal.

Strengthening inspections and enforcement is necessary

The migration law establishes a series of sanctions for employers who hire irregular migrants ranging from 2 to 12 times a basic salary. The DGME, the CCSS, and the MTSS are responsible for inspections, verification and enforcement of regulations on this matter. Limited resources and institutional capacity are the two main challenges the DGME faces in the enforcement of regulations and inspections. In addition, co-ordination between these three institutions could be strengthened. While the CCSS conducts rigorous inspections and charges fees to employers who do not register their workers with the institution, they do not inquire into the migratory status of workers. Likewise, while the MTSS inspections look into labour malpractices and occupational hazards, they do not inquire into the migratory status of workers. Conducting joint inspections of these institutions and integrating checks for immigration status into the regular inspections for violation of labour market and Social Security regulations would result in higher compliance at a lower cost. Information campaigns for inspectors to make them aware of the specific issues applying to labour migrants would also help in that direction.

Migration policy can become more proactive by making a stronger link between labour migration and labour market needs

The 2010 Migration Law calls for migration policy to be based on labour needs established by the Department for Labour Migration within the Ministry of Labour. The department is in charge of producing studies to assess labour needs across sectors and occupations to then make recommendations to the DGME about the type and number of work-based residencies to grant by sector and occupational category. These recommendations are not binding, but they are generally followed.

The use of sector and occupation quotas is not unusual in OECD countries, although quotas can be difficult to set and adjust. In contrast to common practices in OECD countries which use shortage occupation lists (for a discussion of these tools, see OECD, 2014), the MTSS studies are conducted in an ad hoc manner and not on an annual or regular basis and use a mix of quantitative data and non-conventional methods which varies across cases and time.

To better link economic migration with labour market needs, it is important that such studies are conducted regularly and are based on detailed and up-to-date information about demand and supply in the labour market. The seasonal dimension of demand in a country with a high share of agricultural activities should also be reflected. To produce these studies more efficiently, accurately, and systematically there could be more transversality within the ministry, and more collaboration with other institutions to this effect. In addition to the Ministry of labour, other ministries such as the Ministry of Education (MEP – *Ministerio de Educación Pública*), the Ministry of Health and National Vocational Institute (INA – *Instituto Nacional de Aprendizaje*) have an important role to play in the identification of labour shortages and future demand for labour, including for foreign workers. These actors should be brought in the process early on to ensure immigration policy is in line with the needs in these sectors as well as education policy and training. Moreover, the studies conducted by the MTSS should be linked with the economic studies of economic activity by sector conducted by the Central Bank of Costa Rica.

Identifying future demand for labour and labour shortages is an extremely challenging task, as the experience of OECD countries has shown. In the case of Costa Rica, a number of economic and social factors make this exercise even more difficult. Changes in demand associated with trade as well as those linked with the up rise of the middle class (from 19% in 1990 to 40% in 2010) and its evolution in the future are difficult to predict and anticipate in the long-term. Surveys among employers are used by many OECD countries to identify and measure, in an accurate manner, labour needs by sector, employer size, region and other relevant parameters. Such surveys could be used in Costa Rica in the medium term to identify current needs for labour which cannot be met domestically. In the short-run, the country should closely monitor migrant flows and conduct analysis to determine to what extent current migration flows are in line with structural trends in demand and supply in Costa Rica. Closer co-operation between the MTSS and the National Institute for Statistics and Census (INEC – *Instituto Nacional de Estadística y Censos*) would be beneficial to ensure that the data collected by the DGME are fed into the data collected by INEC. These elements would help develop a system that would fit the realities of immigration in the country.

Limited institutional capacity and resources hamper the implementation of the new Migration Law

There has not been a significant increase in available resources for DGME to effectively execute its more demanding mandate, as it results from the 2010 Migration Law. A recent needs' assessment undertaken internally found that to function adequately, the DGME requires 72% more personnel. Specifically, more than 20 units/offices within the DGME require more personnel, which adds up to a total of 320 positions required (245 for the migratory police and 75 for administrative positions). The needs range from migratory control policing work to administrative and technical work including processing, archiving, and digitising files, overseeing integration projects, and providing client support/services.

Processing times should be cut

The limited institutional capacity and resources of the DGME has created a dire backlog, which is delaying the completion of requests past the time limit stipulated by the law of three months. Requests for permanent residence take on average six months to be processed, while processing times are particularly long for investors (one year) and scientists, and technical and specialised professionals (six months). A year is also the average processing time for entrepreneurs and *workers in specific occupations*, which was the category with the largest number of applications in 2015. The non-resident (including the tourist visa) categories are usually on par with the legal limit.

In November 2016, 10 500 applications were in the pipeline for a decision to be made and 15 000 had yet to be informed. These delays represent important obstacles for migrant integration. While a migrant waits for a decision about a work-based residency, s/he is not legally allowed to work. Thus, migrants are either unable to earn any income, or more likely, they are forced to obtain jobs without legal authorisation and with no Social Security coverage, as will be shown in a later section of this chapter. This also represents an obstacle for companies which are faced with the dilemma between vacancies and the hiring of irregular migrants during the processing of their applications (Sojo, 2015).

The underdeveloped IT system cannot help speed up the process

The current information system in the area of migration, SINEX, was developed ten years ago and does not respond to the growing demand. Although a new and efficient information system would not entirely resolve the backlog, it would help speed up the process and would make the collection of information on immigrants more efficient and easy to use. The Integrated System of Standardised Information on Migration (SIIEM – *Sistema Integrado de Información Estandarizada de Migración*), a new system expected to operate in 2017 will enable the full digitalisation of the migration process. The new system will use financial resources from the

FSM, and its effectiveness will depend on IT infrastructure and the appropriate linkages between the different services offered to immigrants.

The rich information on migrants and the use of services offered to them which will be collected by the SIIEM will help improve the statistical infrastructure and will support analytical work on migrants and their contribution in the country. Monitoring and analysis is necessary to understand the recent flows and develop a system which will respond in a realistic manner to the needs of the country in the area of migration.

Decentralisation of services is a useful step but is not working yet in an optimal way

The government has made efforts to decentralise migratory service provision and better serve areas with a high share of immigrants in agriculture, but these efforts are hampered by the limited capacity of local offices to handle applications and the small number of administrative officers. Much of the personnel in offices outside of San José (Costa Rica) are police officers who are not trained or qualified to provide administrative migratory services. In 19 offices-units outside of San José there were 223 police officers, compared with 26 administrative-technical personnel in only 7 regional offices. Moreover, 3 of these 7 regional offices can only provide basic services such as information dissemination and receiving applications which then are sent to be processed by the central offices.

Co-operation in the region and with main countries of origin should be strengthened

A bilateral agreement for temporary workers has been operating between Costa Rica and Nicaragua since 2007. Nicaraguan workers can enter Costa Rica to work in agriculture (mainly sugar cane, citrus fruits and pineapple), the agro-industry and construction sectors. *First*, employers interested to hire Nicaraguan workers have to receive a group authorisation from the Department of Labour Migration of the MTSS. *Then*, they can contact workers in Nicaragua who have, most often, worked for them in the previous years or Nicaraguan workers who are already present in Costa Rica. The process is administered by the MTSS, the DGME in Costa Rica and their counterparts in Nicaragua (DGME-NIC and the Ministry of Labour, MITRAB). These four institutions establish the rules and process the applications. The Ministry of Labour in Nicaragua checks the documents provided and the legal requirements and informs the Migration Agency in Nicaragua as well as the consular authorities. Programme participants are not required to pay a visa fee and get a special temporary work visa. A valid passport and a safe-conduct are sufficient requirements to complete the process. The Nicaraguan consulate in Costa Rica is in charge of the verification of the enforcement of the rules and that the rights of workers are being respected. Costa Rican authorities are responsible for the respect of migrant rights, while joint inspections are organised by the two countries twice a year, a feature which is positively seen by beneficiaries and which is said to minimise abuse. However, evidence on this is not available.

This bilateral agreement covers only a small fraction of all Nicaraguan workers in Costa Rica (Martin, 2011). It is unfortunate that the data sharing mechanism initially included in the programme, as well as the development of indicators to monitor and evaluate the programme have never been implemented. This dimension is needed to make adjustment, if needed, to the programme, expand it to other sectors and promote such bilateral agreement with other countries in the region, including on medium- or high-skilled migration.

Migration could play a bigger role in the development of Costa Rica

A strategic vision about migration is necessary for migration to play its role in the development of the country. This requires linking migration with labour market needs, demographic changes, changes in education policy and employment policy and also the development of a general employment policy. Skill shortages loom on the horizon as indicated in Chapter 2 of this review, and efforts could be made to brand the country at the regional level as a destination for skilled labour migration, especially in sectors where skills cannot be easily supplied domestically. At present, persons with university degrees represent only 15% of all migrants in the country. Highly-skilled Spanish-speaking prospective migrants currently look to the United States, but Costa Rica could promote itself as an alternative and more accessible destination, emphasising its stable political climate, its beautiful nature and the existence of work opportunities.

4. Mixed evidence on the integration of immigrants

The challenge of informality in the labour market should be addressed

Despite their positive outcomes in terms of access to employment, immigrants face barriers in accessing formal employment. Informality is more common among immigrants than among the native-born. In 2015, evidence from the ENAHO shows that 43% of employed immigrants were not covered by Social Security (were informally employed), versus 28% for the native born. This gap of 15 percentage points in the likelihood of informality between migrants and natives is reduced to 10 percentage points when differences in the education level between migrants and natives are accounted for. When, in addition to personal characteristics (age, gender and education) the sector of work is accounted for, there is no statistically significant difference between migrants and natives. This suggests that most of the gap is related to the different distributions of the two groups across sectors and the greater representation of immigrants in sectors with higher informality, such as agriculture and domestic work. In line with this evidence, González (2005) shows that the main sectors of work for migrants are more often than other sectors characterised by an important degree of insecurity, lack of Social Security coverage, inadequate and often hazardous working conditions. Current delays in the administrative process for residence permits to be issued and the backlog do not help reduce the incidence of informality in the workplace for immigrant workers.

Business registration is fairly low among migrants, notably those from Nicaragua. Self-reported statement about business registration in ENAHO (2015) shows that 57% of migrants entrepreneurs have not had their business registered. This share is much higher among migrants from Nicaragua (72%) and lower among those from other countries (43% for those from other countries in the region and 36%) for those from other regions in the world). Non-registration of business concerns about 55% of native-born persons.

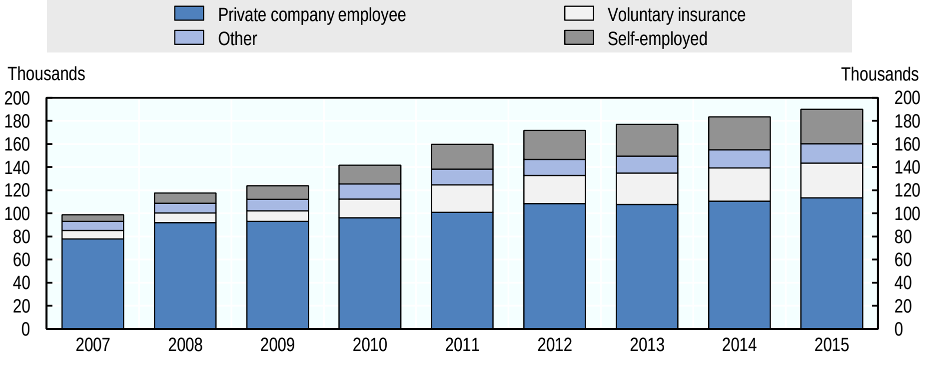
Administrative data from the CCSS show an increase in the number of migrants with Social Security coverage over the past eight years (Figure 4.7). Insurance coverage for private sector employees represents the bulk of insured migrants and increased by 45% between 2007 and 2015. However, the overall growth in the number of migrants with insurance coverage is driven by the sharp increase in the number of self-employed migrants, which is five times higher in 2015 in comparison with 2007. Voluntary coverage among migrants has also increased significantly. Coverage varies between migrant groups. Migrants with families and young children get social insurance because school enrolment requires proof of vaccination. Other groups, notably migrants in transit are the least likely to get insurance coverage because their stay is temporary.

Immigrants fare consistently worse than native-born workers in a number of work-related indicators such as paid sick leave, paid vacation and paid overtime. According to the household survey, just over half of employed migrants aged 15-64 (54%) have sick leave entitlement in 2015, whereas the respective share is 69% among natives. The same holds for paid vacation where 55% of immigrants have paid vacation compared to 71% for persons born in Costa Rica.

Immigrants have experienced some increase in their incomes over time, although they still lag behind natives. The share of immigrants in the population rose by 1 percentage point between 2010 and 2015, but their share increased more among those in the second and – less so – third income quintiles. Nicaraguans are over-represented in the lowest income bracket, while immigrants from countries outside of Central America are over represented in the highest income bracket. In addition, immigrants from Nicaragua are the most vulnerable to poverty. Poverty incidence among them is 18% according to the 2015 household survey, 2 percentage points higher than among the native-born. Extreme poverty is also more prevalent for this population: 10%, versus 8% among natives and 3% among all other migrant groups.

Figure 4.7. **Rising numbers of some groups of immigrants insured in CCSS**

By year and insurance type, 2007-15



Note: Caja Costarricense de Seguro Social (CCSS – Costa Rican Department of Social Security). The category *Other* includes domestic services and Government employees, insurance through autonomous institutions as well as other types of insurance, not specified in the data.

Source: CCSS, 2007-15.

StatLink http://dx.doi.org/10.1787/888933591480

Access to health services is adequate for children, mothers and those with insurance coverage but the issue of informality is a real concern

Costa Rica is doing fairly well in ensuring that all migrants regardless of status have access to emergency care. Universal access to emergency health services is stipulated in the law and is very much respected. For non-emergency health services, individuals need to be legally present in the country and should be registered with the CCSS independently or through their employers. Notable exceptions concern migrant children, pregnant women and those with babies aged up to four months, who have access to general medical care regardless of their status.

Despite this fairly generous approach of the country, health coverage of migrants is far from universal mainly because of the high incidence of informality in the workplace. A UNICEF (2011) study notes that children born in Costa Rica of Nicaraguan parents who are marginalised or have irregular status, face barriers in accessing government services in general and to obtain identification documents in particular. The share of immigrants among persons who use health services is low, and substantially lower than their share in the population (DGME, 2012). Only exception is the use of maternity services, where immigrant women represented 15% of all beneficiaries in 2011. Close to half of all immigrants using hospital services in 2011, had no insurance coverage.

Lack of information about the rights of migrants and the services available to them explains the limited access to health services. The cultural dimension of access and use of health services is also important, as migrants often find out that they do not meet the requirements for access to health services the moment they go to hospitals and health centres because they need these services. Hence, improving access to information is key and could work at a minimum cost. The CCSS should extend the information offered to migrants and try to reach out to those with less stable jobs and housing location. In the case of Costa Rica, language is not issue. A number of preventive campaigns have been launched on reproductive sexual health and prevention of epidemics and diseases. These campaigns should be extended to other areas of primary importance, such as children vaccinations.

To increase the reach and offer of health services the DGME has implemented the programme *Migra Móvil*, a mobile office aimed to reach remote migrant populations. The programme has reached 1 628 persons since its inception in 2015. Undocumented migrants represented 72% of programme beneficiaries, and Nicaraguan migrants represented a similar share of those who benefitted from the programme.

In the case of the Joint Institute for Social Assistance (IMAS – *Instituto Mixto de Ayuda Social*) and other social programmes, foreigners with a valid residence card, and living in poverty conditions according to the institutional criteria, are entitled to the same benefits that are available to native-born persons. Exceptionally, benefits are given to undocumented families or those with identity documents which have expired, provided that the benefits are directed to minors. Because of the fundamental principle of the best interest of the child, protected in the Code of Childhood and

Adolescence, these child-related benefits are initially approved for a period up to six months, while the family regularises its migrant status. If the status is not regularised within the six-month period and the socioeconomic condition of the family persists, a new technical social report has to be elaborated and the family must sign a pledge again.

The children of immigrants are well integrated in the school system

In Costa Rica, all persons have access to a primary and secondary education regardless of their migration status. Although school enrolment is fairly high for migrant children, they still lag behind native-born children. Evidence from the 2011 population census confirms that foreign-born children have lower school enrolment rates than native-born ones and this holds for different ages. The enrolment rate was 84% for migrant children aged 6-15 year-olds, versus 92% for native-born children. Among children of younger ages (below 6), the enrolment rate is higher among migrants than natives (44% and 38% respectively). Analphabetism does not seem to be an issue among migrants. Less than 6% of migrants aged 15 in the 2015 household survey or more report not to be able to read or write, while the share among their native-born peers is 1%.

Migrant students have the same rights to public funding as native-born ones. A 1999 Constitutional Court decision made it illegal to require Costa Rican citizenship to obtain government educational aid. Currently, migrants whose parent/s have a valid residency card are eligible for government scholarships (FONABE or Avancemos). However, access to scholarships seems to be more limited among migrants than natives. DGME (2012) shows that in 2011, migrants represented only 0.2% of beneficiaries of FONABE scholarships and 3% of beneficiaries of Avancemos scholarships. Inadequate or inexistent documentation may be one of the factors explaining the limited access to financial aid for education (UNICEF, 2011).

The Ministry of Education (MEP) has implemented *La Voz Estudiantil*, a programme funded by the Social Migration Fund (FSM – *Fondo Social Migratorio*), which organises summits with student leaders, including migrants, to get their insights on how to address school dropout. In another initiative, *Programa Convivir*, the MEP produced a guide on how to improve coexistence and tolerance at the school level, with an emphasis on reducing bullying and discrimination, including against migrant students. However, this programme does not necessarily come with designated funds for each school. While the MEP is increasingly considering student migrants in its programmes and data collection, this approach and the programmes themselves are still in early development phases to assess their effectiveness.

New integration measures have been adopted but it is too soon to evaluate them

Given the existent disparities, and at the same time migrants' increasingly recognised role in the Costa Rican economy, recent policies have placed a greater focus on immigrant integration and on their access to social protection as a fundamental human right.

The effectiveness of the Social Migration Fund is to be seen, as resources have only recently become available

The Social Migration Fund (FSM – *Fondo Social Migratorio*) is a promising step to support integration initiatives across government institutions and is expected to facilitate the execution of the PMI. It was established by the 2010 Migration Law and is managed by the DGME and uses the resources collected in the form of administrative fees to support migrant integration programmes in relation to health, education, security, and justice. Of these funds, 40% stay within the DGME, 20% are destined to the public education system, 25% to public health programmes, and the remaining 15% are designated to institutions in charge of security, justice, and local development.

Although the FSM has been in operation since 2010, the first resources only became available in 2015, due to insufficient knowledge in managing such trust funds. The selection of the Bank of Costa Rica as the intermediary institution permitted the first use of the funds in 2015. Currently, the FSM is supporting seven projects. A number of these programmes, such as Migra Movil, align well with the integration-related mandate and objectives of the 2010 Law and the 2013 PMI. Others, however, such as handing out educational materials to shelters or the repatriation of individuals are somewhat disjointed from broader development and integration goals, and their broader impact in this regard, is also questionable. During the second year of the FSM, a number of projects related to the special migration and social funds (notably education and health) are being implemented. In contrast, projects related to the trafficking fund have been delayed and are not operating yet. Most of the programmes are in their early inception phase and hence any evaluation of their effectiveness would be premature. The national plan of integration, scheduled to be implemented in 2017 with the support of the European Union is expected to improve the use of the FSM through advice provided to beneficiaries of the fund to better present their project. The seven projects which are currently implemented should be monitored and evaluated to guide future projects implemented by the FSM.

In addition to projects implemented under the FSM, the government has implemented other national level programmes, often with the support of the international community. Two notable examples are *Rutas de Integración* (Routes to Integration) and *Entre Vecinos* (Among Neighbours). The Routes to Integration programme involved the dissemination of education materials to inform the public and numerous government institutions about the migratory process and about the services available to migrants. Along similar lines, the Among Neighbours project trained government personnel on how to interact and work with the migrant population. The fact that participation of immigrants in the pilot *Entre Vecinos* is voluntary leaves little space for imposing strict rules.

Despite these efforts, immigrant integration remains today a relatively new imperative for government institutions, and the ties between immigrant integration, and their contributions, with development outcomes remain underemphasised and not always clearly understood, inside and outside the government.

Information campaigns are needed both for immigrants and employers

Immigrants' access to information is a pre-condition for successful integration. Limited information about their rights and obligations, as well as the rules and processes that are relevant to migrants is indeed one of the obstacles in labour and social integration of foreigners. The regularisation process, the acquisition of the necessary administrative documents and the renewal of temporary residence permits can be complex and lengthy processes which change over time, and migrants tend to have limited information on the concrete steps they have to make. In that respect, campaigns which provide all the information they need regarding their rights and obligations are necessary.

Information campaigns are also needed to inform employers of the conditions under which migrant workers can be recruited and their obligations. Moreover, clear information should be provided on the risks associated with violation of migration, labour market and Social Security regulations, the real likelihood of inspections and the precise penalties associated with violation of work and migrant rights.

The legal framework of integration is in line with OECD standards

There is a clear pathway to citizenship but take-up is low

Costa Rica, as all OECD countries, provides a clear pathway to citizenship to migrants present in the country. The duration of residence requirement for access to the Costa Rican nationality is similar to the average in OECD. It varies from five years for nationals of countries in Central and Latin America as well as Spain who acquired that nationality at birth, to seven years for everybody else. Knowledge of the Spanish language is a requirement, as well as knowledge of the history of the country and its values.

In addition, candidates have to prove they have the necessary financial means to support themselves and their families. Finally, a clear criminal record should be shown (*Article 15* of the Law of Options and Naturalizations).

There was a total of 3 800 naturalisations in 2015, almost twice as many as in 2014. Women represented 58% of those who were naturalised in 2015. The number of naturalisations increased by 95% for women in the past year, versus 80% for men. In 2015, more than half were Nicaraguans, followed by Colombians (18%), migrants from El Salvador, the United States and China (4% each). Although an increase in the number of naturalisations is observed over time, the number is fairly limited relative to the total number of immigrants with permanent residence status. According to DGME (2012), in 2011 there were 42 699 naturalised foreigners in Costa Rica, with half of them being immigrants from Nicaragua.

The antidiscrimination framework is in place

The Costa Rican constitution (*Article 33*) grants immigrants the same rights as Costa Rican nationals. In addition to that, the 2016 Labour Procedure Reform *(Reforma Procesal Laboral)* prohibits any form of discrimination in the work force along lines of national original, and other social categories (*Article 404*). However, Costa Rica has neither signed nor ratified the UN International Convention on the Protection of the Rights of All Migrant Workers and their Families. Costa Rica has ratified the 1951 Convention relating to the Status of Refugees, as all OECD countries (except a reservation for Turkey).

In 2010, the Institutional Policy for Access to Justice for the Migrant and Refugee Population was approved, guaranteeing access to justice for migrants independently of their status, including refugees and asylum seekers. The lack of Social Security coverage and of insurance provided by the National Insurance Institute for work related accident or injuries, is a recurring theme in the lawsuits presented by migrant workers. As on other matters, limited information about their rights and their irregular status represent the main obstacles migrants face in accessing justice.

Recognition of foreign qualifications is in the hands of many actors

The National Council of Rectors (CONARE – *Consejo Nacional de Rectores*) is responsible for the recognition of university degrees, while the Department of Academic Evaluation and Certification of the Ministry of Education (MEP) establishes the guidelines and procedures for the recognition of primary and secondary education degrees completed abroad. Agreements exist with the Ministry of Public Education (MEP – *Ministerio de Educación Pública*) and the INA for recognition of studies completed abroad and the application of placement tests for foreigners who want to participate in primary or secondary education. Professional and medical qualifications are under the responsibility of professional colleges. Over the past five years, between 2 000 and 2 700 foreign degrees are going through the recognition process annually, of which, about two thirds concern university degrees. The available data do not allow distinguishing between Costa Ricans who return to their country after the completion of their studies abroad, international students who wish to pursue their education in the country and high-skilled immigrants who require the formal recognition of their education to be able to work in Costa Rica. Although official data on this matter were not received, there are accounts of the foreign university degree recognition process lasting as much as a year.

5. Emigration is not yet a major issue but has been rising in recent years

Emigration from Costa Rica is still relatively low, but emigrants have rising educations levels

Permanent migrant flows from Costa Rica towards the OECD countries have almost tripled between 2000 and 2014, reaching 3 650 persons in 2014, the latest year with available data. More than half of them went to the United States, while an additional 11% have migrated to Spain and 7% to Mexico (OECD, 2015).

About 100 000 persons aged 15-year-old and more born in Costa Rica were living in OECD countries in 2010/11, an increase by 32% in comparison with 2000/01 (Table 4.4). More than eight out of ten of these emigrants were living in the United States, with Canada, Spain, Mexico and Switzerland hosting together 10 000 Costa Rican emigrants. Three-quarters of emigrants are aged 25-65 and 53% are women. Thirty per cent of Costa Rican emigrants are highly educated, while 26% have a low level of education. The emigration rate stood at 2.8% in 2010/11 and that of the highly educated at 4.8%, slightly above its level in 2000/01. The number of the highly educated increased by 140% in the past decade, reaching 56 700 in 2010/11. This increase is possibly driven by the rising education level of the Costa Rican population but also the increasingly selective policies the main destinations of Costa Rican emigrants are employing.

Costa Rican emigrant men are well integrated in the labour markets of their host countries. More than three out of four of them (79%) in OECD countries were employed in 2010/11, whereas the employment rate of Costa Rican emigrant women was much lower, at 58%, mainly reflecting a lower participation in the labour market (OECD, 2015). Highly educated emigrants enjoyed even better labour market outcomes, reaching an employment rate of 86% for men and 66% for women. However, 39% of all Costa Rican emigrants with a university degree were occupying jobs that required a lower level of education, a higher share than for other migrants on average.

Table 4.4. **Less than one-third of Costa Rican emigrants are highly educated but their numbers are rising over time (2000/01-2010/11)**

A. OECD and non-OECD destinations

	2010/11									2000/01
	OECD and selected non-OECD destinations			OECD destinations			Intra-regional (15/35 countries)			OECD destinations
Population 15+	Men	Women	Total	Men	Women	Total	Men	Women	Total	Total
Emigrant population (thousands)	53.0	59.2	112.2	47.3	53.1	100.5	5.6	6.0	11.6	76.4
Recent emigrants (thousands)	..	..	..	5.0	5.1	10.1	..	..	..	19.3
15-24 (%)	16.3	12.4	14.2	15.0	10.8	12.7	28.0	26.2	27.1	17.3
25-64 (%)	77.1	74.3	75.6	78.7	76.0	77.3	63.9	59.5	61.6	75.1
65+ (%)	6.5	13.3	10.1	6.4	13.2	10.0	8.1	14.3	11.3	7.6
Low-educated (%)	29.4	26.1	27.7	27.8	23.4	25.5	44.8	51.9	48.5	31.5
Highly educated (%)	27.8	31.7	29.8	28.1	32.4	30.4	24.1	24.2	24.2	24.8
Total emigration rates (%)	2.9	3.3	3.1	2.6	3.0	2.8	0.3	0.3	0.3	2.8
Emigration rates of the highly educated (%)	4.8	5.6	5.3	4.4	5.2	4.8	0.4	0.4	0.4	4.5

B. Main OECD destinations

	Total		Recent emigrants	Women	Highly educated	15-24	Total in 2000/01
Population 15+	Thousands	%	%	%	%	%	Thousands
United States	85.3	76.0	7.3	52.5	28.0	11.9	68.1
Panama	5.0	4.4	..	52.5	20.4	18.4	3.7
Canada	3.8	3.4	26.2	52.0	38.2	14.7	2.2
Nicaragua	3.3	3.0	..	52.0	11.5	47.4	3.0
Spain	2.9	2.6	43.6	49.0	45.2	16.5	1.2
Mexico	1.8	1.6	19.7	56.9	58.5	25.2	1.8
Switzerland	1.4	1.3	36.6	69.3	17.9	10.4	0.4
Italy	0.9	0.8	21.1	63.4	24.7	18.7	0.6
Netherlands	0.7	0.6	30.4	61.7	51.0	9.0	..

Note: ..: Not available. *Low* refers to ISCED 0/1/2, *Medium* to ISCED 3/4 and *High* to ISCED 5/6.

Source: Database on Immigrants in OECD Countries and Non-OECD Countries (DIOC 2010/11, DIOC 2000/01, DIOC-E 2010/11 and DIOC-E 2000/01).

StatLink http://dx.doi.org/10.1787/888933591784

Policies to engage with the Diaspora should be introduced in a foreword looking approach

The emigration of Costa Ricans, including that of highly-educated persons, seems to be a fairly limited phenomenon in comparison with the vast majority of countries in Latin America but also OECD countries. However, for a small country such as Costa Rica, this population abroad can represent a potential that has not been fully explored so far. Policies to engage with the Diaspora could be strengthened to ensure that positive links with development back home are created.

Although the comprehensive migration policy includes the emigration of Costa Ricans among the issues that the country has to consider, very little action has been taken in that direction. The migration policy identifies a range of areas where actions should be taken. One of them concerns the provision of quality services by the consulates and the information made available to them in case of return, such as recognition of foreign qualifications, Social Security, tax payments and repatriation. Another area of possible action relates to investment opportunities among diaspora members. Nonetheless, these broad lines of action are not accompanied by concrete measures to strengthen the links with the diaspora, facilitate permanent return or temporary stays in the country and ensure the children of Costa Rican emigrants maintain the links with their parents' country. Costa Rica does not identify yet as a country of emigration and does not have at this stage a return policy for Costa Rican emigrants. Voting from abroad used for the first time in 2014, has led to an increase in the contacts that Costa Rican emigrants have with the consulates of their country. These contacts may prove beneficial in strengthening the ties of this population with their country of origin. The only efforts that are currently made are towards reducing the bureaucratic barriers for the creation of SMEs and attracting investment and possibly return among Costa Rican emigrants.

Finally the issue of the brain drain, notably in the health, sciences and engineering sectors could become a preoccupation. To date, attracting back high-skilled Costa Ricans who have migrated abroad is not part of the vision of the country and no measures have been taken in that direction. Nonetheless, a 2014 Estado Nación study[5] found that 48.8% of Costa Rican scientists and engineers residing abroad planned to return to Costa Rica within the next five years. Of those, 68% were highly educated (pursing a post-graduate degree) and aged 26-35. While this represents an important opportunity for the country to regain young educated individuals in key fields, there must be a more conscious effort to attract them and to facilitate the process of credential recognition.

Notes

1. Unless otherwise noted, 2011 data refers to data from the 2011 Costa Rican National Population Census conducted by the National Institute for Statistics and Census (INEC).

2. Migrants are defined as persons born abroad for most of the sections of this chapter. When administrative data are used, the definition of migrants is based on nationality instead.

3. For Costa Rica, this was CRC 251 239.04, (USD 456) and for Nicaragua this was NIO 3 330.86 (USD 116) on 15 August 2016.

4. Total migrant flows do not include flows of non-residents which amounted to 1 173 and 1 282 persons in 2010 and 2011, respectively.

5. Programa Estado de la Nación, 2014. Estado de la Ciencia, la Tecnología y la Innovación. Estado de la Nación, San José.

References

Acuña, G. (2005), "La inmigración en Costa Rica: Dinámicas, desarrollo y desafíos", Proyecto Fondo OPEC-UNFPA "Facilitando Condiciones y Estilos de Vida Saludables: Jóvenes en situación de exclusión social en la prevención del VIH-SIDA", OPEC and UNFPA, www.ministeriodesalud.go.cr/gestores_en_salud/derechos%20humanos/migracion/inmigracr.pdf.

Acuña, G. et. al. (2011), "Flujos migratorios intrarregionales: Situación actual, retos y oportunidades en Centroamérica y República Dominicana – Informe Costa Rica", International Organization for Migration (IOM), ILO, MTSS, CECC/SICA, Red de Observatorio del Mercado Laboral, San José, Costa Rica, November, www.iom.int/jahia/webdav/shared/shared/mainsite/media/docs/reports/Informe-Costa-Rica-Flujos-Migratorios-Laborales-Intrarregionales.pdf.

AECID – Agencia Española de Cooperación Internacional para el Desarrollo (2012), "Sistematización de Buenas Prácticas desarrolladas para la promoción de estilos de vida saludables y la atención de la salud materno-infantil en la población indígena Ngobe: Área de Salud de Coto Brus", AECID, UNICEF, October, www.aecid.es/Centro-Documentacion/Documentos/Publicaciones%20coeditadas%20por%20AECID/Sistematizaci%C3%B3n%20buenas%20pr%C3%A1cticas%20Ngobe.pdf.

Barquero, M.S. (2014) MAG estima que país require 73,000 trabajadores migrantes. *La Nación.* http://www.nacion.com/economia/empresarial/MAG-estima-trabajadores-migrantes-pais_0_1454054632.html.

CAMMINA-INCAE (2016), *Impacto Económico de la Migración en Costa Rica*, forthcoming.

Centro Centroamericano de Población (2013), "Evaluación demográfica del X Censo Nacional de Población de Costa Rica de 2011 y de otras fuentes de información", University of Costa Rica, http://microdata.worldbank.org/index.php/catalog/2741/download/39196.

Costa Rica Coffee Institute (ICAFE), (2009), "Inexistencia de relación laboral entre el productor y el recolector de café", *ICAFE Circular 1645*, www.icafe.cr/icafe/publicaciones/circulares/circulares-del-sector-2009/.

Costa Rican Labour Ministry (2016), "National Wage Council approves a 0.5% increase in private sector wages", Press release, www.mtss.go.cr/prensa/comunicados/2016/junio/CNS_aprueba_aumento_de_salarios_mInimos_del_sector_privado.html.

Dirección General de Migración y Extranjería (2012), "Migración e Integración en Costa Rica Informe 2012", www.migracion.go.cr/integracion_desarrollo/Migracion%20e%20Integracion%20en%20Costa%20Rica%20Informe%202012.pdf.

Gatica López, G. (2013), "Perspectivas socioeconómicas de la población migrante en Costa Rica", Estado de la Nación, San José, Costa Rica, www.estadonacion.or.cr/files/biblioteca_virtual/019/gatica_g_2013.pdf.

INCAE Business School (2016), "Cómo y cuánto contribuye la población migrante a la economía costarricense?".

León Segura, G., F. Estrada Recinos, N. Molina and A. Morales Gamboa (2012), "Migraciones y derechos laborales en Centroamérica: Características de las personas migrantes y de los mercados de trabajo" Facultad Latinoamericana de Ciencias Sociales, San José, Costa Rica, http://www19.iadb.org/intal/intalcdi/PE/2012/12217.pdf.

Martin, I. (2011), "Labour market information systems and labour migration information in six developing countries: The challenge of integration – A comparative study of Colombia, Costa Rica, Ghana, Nicaragua, Senegal and Tunisia", IOM, Brussels.

Mazza, J. and E. Sohnen (2011), "Labor migration in Latin America and the Caribbean: A look at new trends and policies", The Inter-American Development Bank, www.iadb.org/wmsfiles/products/publications/documents/36764066.pdf.

Morales, A. (2012). "Migraciones y derechos laborales en Centroamérica: características de las personas migrantes y de los mercados de trabajo." *Facultad Latinoamericana de Ciencias Sociales,* http://www19.iadb.org/intal/intalcdi/PE/2012/12217.pdf.

National Household Survey (2015). Costa Rican Institute for Census and Statistics. http://www.inec.go.cr/bincri/RpWebEngine.exe/Portal?

Nicaraguan Labour Ministry (2016), "Acta No.1 CNSM-21, 2016", www.mitrab.gob.ni/documentos/salario-minimo/Acta%20No.%201%20CNSM%20del%2021.01.2016.pdf/view.

OAS/OECD (2015), *International Migration in the Americas: SICREMI 2015*, Washington, DC, OAS.

OECD (2015), *Connecting with Emigrants: A Global Profile of Diasporas 2015*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264239845-en.

OECD (2014), *International Migration Outlook 2014*, OECD Publishing, Paris, http://dx.doi.org/10.1787/migr_outlook-2014-en.

OECD (2000), *Combating the Illegal Employment of Foreign Workers*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264182394-en.

Serrano, L.A. (2015), "Experiencias de Codesarrollo en Costa Rica", Dirección General de Migración y Extranjería, 20 February, http://documents.mx/documents/experiencias-de-codesarrollo-en-costa-rica-luis-alonso-serrano-echeverria-jefe-de-planificacion-institucional-direccion-general-de-migracion-y-extranjeria.html.

Sojo, G. (2015), "Business as Usual? Regularizing Foreign Labor in Costa Rica", Migration Policy Institute, www.migrationpolicy.org/article/business-usual-regularizing-foreign-labor-costa-rica.

UNICEF – United Nations International Children's Fund (2011), "Estado de la Niñez y la Adolescencia Migrante: Derechos y desarrollo humano de niñas, niños, y adolecentes nicaragüenses en Costa Rica", UNICEF, www.unicef.org/costarica/docs/cr_pub_Estado_ninez_y_adolescencia_migrante.pdf.

United Nations Population Fund (2013), "Proyecto Binacional Costa Rica Nicaragua", www.unfpa.or.cr/index.php/programa-de-pais/poblaciones/personas-migrantes/proyecto-binacional-costa-rica-nicaragua.

Database references

Database on Immigrants in OECD Countries and Non-OECD Countries (DIOC 2010/11 and DIOC-E 2010/11), www.oecd.org/fr/migrations/dioc.htm.

OECD International Migration Database, https://stats.oecd.org/Index.aspx?DataSetCode=MIG.

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

The OECD is a unique forum where governments work together to address the economic, social and environmental challenges of globalisation. The OECD is also at the forefront of efforts to understand and to help governments respond to new developments and concerns, such as corporate governance, the information economy and the challenges of an ageing population. The Organisation provides a setting where governments can compare policy experiences, seek answers to common problems, identify good practice and work to co-ordinate domestic and international policies.

The OECD member countries are: Australia, Austria, Belgium, Canada, Chile, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Latvia, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, the Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. The European Union takes part in the work of the OECD.

OECD Publishing disseminates widely the results of the Organisation's statistics gathering and research on economic, social and environmental issues, as well as the conventions, guidelines and standards agreed by its members.

OECD PUBLISHING, 2, rue André-Pascal, 75775 PARIS CEDEX 16
(81 2017 19 1 P) ISBN 978-92-64-27989-6 – 2017

OECD Reviews of Labour Market and Social Policies

COSTA RICA

This series of country-specific reviews of labour makret and social policies examines policies and institutions and makes recommendations for improvements.

Costa Rica has recorded many social and economic achievements and currently enjoys one of the highest levels of well-being in the OECD. But progress has come to a standstill in most recent years and challenges have emerged along several social and labour market dimensions. Existing policies are outdated and no longer effective in today's dynamic, export oriented economy which requires greater flexibility and more high skilled workers. How can Costa Rica better respond to the challenges of technological change and globalisation whilst minimising the transition costs it endures as it moves to a higher and a more sustainable path to inclusive growth? This report provides comprehensive analysis of Costa Rica's policies and practices compared with best practice in the field of labour, social and migration from across the OECD and other countries in the Latin American region. It contains several recommendations to tackle key challenges facing Costa Rica, including low labour utilisation, increasing inequality, high poverty and high-risk of economic exclusion especially of the low skilled and migrants. This report will be of interest in Costa Rica as well as other countries looking to promote a more dynamic and an inclusive economy.

Consult this publication on line at ***http://dx.doi.org/10.1787/9789264282773-en***.

This work is published on the OECD iLibrary, which gathers all OECD books, periodicals and statistical databases.
Visit ***www.oecd-ilibrary.org*** for more information.

2017

OECD*publishing*
www.oecd.org/publishing

THE LONDON BOOK FAIR WINNER
INTERNATIONAL EXCELLENCE Awards 2017
IN PARTNERSHIP WITH THE PUBLISHERS ASSOCIATION

ISBN 978-92-64-27989-6
81 2017 19 1 P

9 789264 279896