

TC ABSTRACT

I. Basic project data

▪ Country/Region:	Costa Rica
▪ TC Name:	Support to the Budget and Public Investment Process
▪ TC Number:	CR-T1127
▪ Team Leader/Members:	Beatriz Abizanda (ICS/CCR), Team Leader; Mario Sangines (ICS/CME); Jong-Wook Lee (IFD/ICS), Miguel Loria (FMM/CCR); Mauricio Martinez (ICS/CCR); y Nathalie Hoffman (IFD/ICS)
▪ Indicate if: Operational Support, Client Support, or Research & Dissemination.	Client Support
▪ Reference to Request ¹ : (IDB docs #)	39648711
▪ Date of TC Abstract:	March 2015
▪ Beneficiary:	Ministry of Finance and Ministry of Planning
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ IDB Funding Requested:	US\$500,000
▪ Local counterpart funding, if any:	US\$20,000
▪ Disbursement period (which includes execution period):	24 months
▪ Required start date:	August 2015
▪ Types of consultants	Individual
▪ Prepared by Unit:	IFD/ICS
▪ Unit of Disbursement Responsibility:	ICS/CCR
▪ Included in Country Strategy (y/n); ▪ TC included in CPD (y/n):	No (2014-2018 Strategy in preparation) Yes (2015)
▪ GCI-9 Sector Priority:	Institutional capacity enhancement for fiscal efficiency and sustainability.

II. Objective and Justification

- 2.1 The main objective for the Technical Cooperation (CT) is to contribute to enhance public expenditure quality in Costa Rica. Its specific objectives are: (i) support the implementation of a Results-based budget; and (ii) strengthen the ex-ante evaluation process for public investment projects.

¹ A copy of the Letter of Request, Programming/Portfolio Review Mission Aide Memoire or Report requesting the TC should be submitted with the Abstract.

- 2.2 The Ministry of Finance of Costa Rica (MF) has been gradually introducing improvements in the country's budgetary processes, seeking to increase the efficiency and effectiveness of public expenditures. Presently, the country is starting to implement a new matrix that aligns institutional products with Plan indicators and budgetary requests, streamlining the process and merging multiple forms issued by MF and Ministry of Planning (MP) in one document. In spite of these improvements, the results-based budget indicator of the PRODEV System of Evaluation (SEP, per its Spanish acronym) reached by Costa Rica in 2013, amounted to only 1.7 out of 5 possible score points. This score reflects multiple challenges, among them problems in the budget's programmatic structure, an insufficient assessment of expenditure effectiveness, and a lack of incentives to implement government-wide public results-based management (RbM) methodologies.
- 2.3 In fact, one of the main obstacles to enhance the budget process is the lack of a modern RbM methodological framework and its corresponding implementation plan, which should also include a review of the applicable legal framework. This framework should propose improvements to the current budget programmatic structure, because it is partial and incomplete. In addition, in spite of improvements among results indicators, there is still room for enhancing both the alignment between the planning and budget processes as well as the use of results information in budgetary decision making. In fact, the lack of precision in these methodological aspects limits the performance of the institutions whose budget is approved by the Technical Secretariat of the Budgetary Authority (STAP, per its Spanish acronym.) The STAP is a collegiate institution governed by the MF, MP and the Ministry of the Presidency, which prepares the guidelines of budgetary formulation for the institutions of the central level of government, decentralized institutions and public enterprises. It is critical to strengthen the capacities of the institutions under the umbrella of the STAP as they represent almost 20% of total public expenditures. Not only will that impact the public expenditure effectiveness, it will also convey a valuable demonstration effect for the rest of the public sector. To reach this goal, the MF will have to conduct an assessment of current capacities and an intensive coordination process with the institutions involved.
- 2.4 It is also important to note the recent establishment of a Memorandum of Understanding between Korea and Costa Rica to foster cooperation in the areas of performance-based budgeting and financial management, with which the activities proposed in this TC are aligned. In addition, activities in this TC will contribute to enhancing cooperation ties between Korea's Knowledge Sharing Program (KSP) and Costa Rica, given this think tank's expertise in the public management methodologies.
- 2.5 The MP is the coordinating institution for the National System for Public Investment (SNIP per its Spanish acronym) According to the SEP's evaluation, the preparation and ex-ante assessments of projects still needs to be strengthened: currently there is not a solid capacity to make sure that all projects included in the public investment pipeline have been rigorously analyzed *ex-ante*. In addition, public institutions which prepare and submit to the MP the projects, sometimes lack sufficient technological and technical capacity to rigorously apply cost-benefit analyses to the projects they submit. Therefore, the strengthening of MP and intensive trainings of public

institutions responsible for investment projects submission are critical to ensure that projects are correctly designed, assessed and prioritized.

III. Description of activities and outputs

- 3.1 **Component I: Budgetary Process Strengthening.** Main activities for this component include: (i) the preparation of a framework document with guidelines for the modernization of the budgetary system. The document will be based on international best practices. Its proposals should be adapted to the current Costa Rican legal and institutional background. The white paper will also include a thorough legal analysis to specify indispensable changes to ensure proper implementation of the new public management methodologies; (ii) an assessment of the management capabilities for transitioning to a Results-based budget for three ministries selected by the Finance and Planning Ministries Steering Committee as pilot institutions; (iii) a proposal for public management instruments to be applied in the pilot institutions to enable enhanced public expenditure effectiveness; (iv) an update of the program structure in the budget, including the implementation of the project budgetary category; (v) the design and the implementation of change management strategy to be implemented in the Finance Ministry and the pilot institutions to facilitate ownership and enhance motivation to adopt the new budgetary practices, and (vi) a knowledge exchange event between Korean and Costa Rican officials to showcase the Korean experience and share results, benefits and implementation tips to introduce the new public management methodologies.
- 3.2 Expected results include: (i) a document agreed upon by all stakeholders, which will define the methodologies to implement results-based budgeting in Costa Rica and its implementation plan, based in international best practices, including those of Korea; (ii) a thorough assessment of the management capabilities of three Central Government institutions and public management tools to enhance their performance; (iii) an improved budgetary structure to facilitate monitoring at the investment project level; and (iv) a change management strategy to facilitate the transition to the new public management methodologies.
- 3.3 **Component II. Strengthening of Ex Ante Evaluation Capabilities in Investment Projects.** The main tasks under this component include: (i) a proposal for the institutional arrangements in the Ministry of Planning to effectively perform the oversight of the project evaluation function; (ii) a review, and if necessary an update, of the current methodology to identify, assess and prioritize investment projects; (iii) an assessment of the Ministry of Planning current operational and IT capabilities to manage the Investment Project System (SIP, per its Spanish acronym.); and (iv) an intensive training for the three pilot institutions to strengthen capacities in project appraisal and preparation.
- 3.4 Expected results are: (i) enhanced capacity in the Ministry of Planning to oversee implementation of ex ante project evaluations; (ii) project appraisal methodologies reviewed and updated; and (iii) enhanced capacities among governmental institutions to propose and assess investment projects.

IV. Budget

Indicative Budget

	Description	IDB/ Funding	Counterpart Funding	Total Funding
Comp. 1		285,000	10,000	295,000
	Method. Document + Implementation Plan	65,000		65,000
	Pilot in three institutions + Program Structure	200,000	10,000	210,000
	Training +Change Management+ Knowl. Exchange	20,000		20,000
Comp. 2		215,000	10,000	225,000
	Methodology review and Update	30,000		30,000
	Investment Analysis Capacity Strengthening	185,000	10,000	195,000
	TOTAL	500,000	20,000	520,000

V. Executing agency and execution structure

- 5.1 The MF has requested the IDB be the executing agency for this operation. To ensure sustainability, the technical processes of identification, analysis and implementation of the activities will be carried out in close coordination with a designated official, agreed upon by the Ministries of Finance and Planning.

VI. Project Risks and issues

- 6.1 Main risks identified are: (i) weak coordination between the MF and the MP. This risk is mitigated by the recent establishment of a bi-institutional commission that meet regularly both at the technical and the political level; (ii) reluctance to change among officials in ministries involved in the implementation of the new budgetary practices. To promote ownership, change management mechanisms will be implemented, such as intensive training and international knowledge exchange among public officers; (iii) turnover rates among officials in planning units, which might create difficulties in sustaining investment analysis capacities. To mitigate this risk, one criterion for the selection of pilot institutions will be human resources retention rates.

VII. Environmental and Social Classification

- 7.1 There are no environmental or social risks associated with the activities outlined in this operation, therefore its environmental classification is C. (Please see IDBdocs# [39530835](#)).