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**REPUBLIC OF COSTA RICA**

**Multi-annual Indicative Programme 2021-2027**

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## **Introduction**

Costa Rica has a limited Multi-Annual Indicative Programme (MIP) that intends to serve the differentiated partnership between the EU and the country. Costa Rica is a key and like-minded partner for the EU in Central America. The EU and Costa Rica maintain excellent relations, illustrated by the Memorandum of Understanding signed in 2009 that allows for annual bilateral consultations.

Support under this limited MIP is limited to a Cooperation Facility with specific characteristics as detailed below. Additional programme funding of EU priorities, including the Team Europe Initiatives, will be financed under the regional MIP for Latin America, and investment opportunities are expected to be triggered under the European Fund for Sustainable Development - EFSD+.

### **1. The overall lines of the EU international cooperation in Costa Rica**

#### **1.1. Basis for programming**

Costa Rica is a close political partner for the EU in Latin America and a stable country in the region with a strong democratic tradition. It is historically a friend of Europe and politically remarkably aligned to the EU's policy objectives. Costa Rica is the main trading partner of the EU in Central America, accounting for one third of the total trade flows within the region. Together with Uruguay, it is also one of the very few Latin American countries modelled on the European welfare state.

The country's robust National Decarbonisation Plan 2018-2050, its ambitious and updated Nationally Determined Contributions (NDC's) in the framework of the Paris Agreement, unique biodiversity and consistent international political engagement on climate change make Costa Rica a key target for EU climate policies and the external dimension of the European Green Deal in Latin America. In addition, Costa Rica remains the closest country in the region in terms of EU values and interests and a strong ally at international fora.

The EU therefore has a strong interest in deepening its engagement with Costa Rica and leveraging NDICI resources to further strengthen dialogue and cooperation on priority areas of mutual interest. Building a strong partnership and closer cooperation is also key to responding to the increasing influence of other international players in the region.

Costa Rica has put forward a clear development vision: being a 3D economy by 2050 - decarbonized, digitalised and decentralised. Three main policy documents contribute to this vision and form the basis for EU engagement.

The country's main development strategy is the *Plan Nacional de Desarrollo y de Inversion Publica del Bicentenario (PNDIP) 2019-2022*, implemented under lead of the Ministry of National Planning and Economic Policies. The PNDIP is complemented by two other strategies:

- a) the *National Decarbonisation Plan 2018-2050*, Costa Rica's long-term strategy in line with the Paris Agreement and with the EU's climate neutrality goals by 2050;
- b) el *Plan Estratégico Nacional 2050 (PEN)*, Costa Rica's long-term development vision. The PEN aims to foster decarbonisation and inclusion with a territorial focus on 11 "development clusters" where the Government will promote a multi-sectoral approach to local development in alliance with other stakeholders.

The Government of Costa Rica remains strongly committed to implementing the Agenda 2030 and the Sustainable Development Goals (SDG's). The EU and Costa Rica's joint commitment to a common cooperation framework was formalised in 2018 with the signature of a Memorandum of Understanding on Cooperation and Development and the launch of a Structured Dialogue on Cooperation under the Agenda 2030. Since then, an annual high-level cooperation dialogue takes place in the framework of the bilateral consultations between the EU and Costa Rica. Despite absence of a NIP 2014-2020, over 15 million euros in resources were committed in 2020 alone to support new cooperation interventions in the areas of decarbonisation, migration and innovation<sup>1</sup>.

Costa Rica has so far been a close political partner for the EU in the region, but this partnership cannot be taken for granted. Costa Rica stands under traditional USA - and increasingly Chinese – influence, and lately both are increasing. Relations with the Biden government are exemplary, which comes with increasing resources for Costa Rica's policies in areas of key USA interests. The Chinese Government is financing bigger scale infrastructure projects and holds a close dialogue with several ministries. If the EU wants to continue to count on Costa Rica as a political partner, new avenues for engagement and cooperation are needed.

In the context of this close partnership, opportunities for cooperation are plentiful. Three areas stand out for the upcoming cycle 2021-2027: decarbonisation, digitalisation and innovation, and migration.

The country is a regional champion on **decarbonisation** and climate change. The National Decarbonisation Plan is fully aligned to the EU Green Deal. Costa Rica has a National Policy on Adaptation and set unconditional absolute targets in its updated NDC's, making it one of the few countries rated as compatible with the objective of limiting temperature rise to two degrees Celsius. Together, these policies provide several avenues for engagement in priority areas such as transport and mobility, new models of green energy, carbon-neutral construction, agricultural innovation, biodiversity, oceans, reforestation, waste management and circular economy in line with the EU circular economy action plan. Bearing in mind the importance of CR as a major biodiversity and forest hub in the region, the EU will pay particular attention to this area. The EU will equally help accelerate financial flows towards green, inclusive and resilient transitions, possibly including through innovative financial instruments – in particular green and blue bonds – to support a sound enabling framework for scaling up sustainable finance and integrating climate and environmental risks in the country's financial systems. Supported interventions will promote just transition mechanisms to ensure that climate change interventions are socially equitable and contribute to reducing inequalities. The exchange of expertise on decarbonisation between Costa Rica and other countries in the region can also be of interest and further explored.

**Digitalisation and innovation** are key to breaking the middle-income trap. The public sector needs technological upgrading, and improving the enabling environment for the digital economy has become urgent. The COVID-19 crisis has highlighted shortcomings and needs and revealed the importance of more universal access to digital platforms and tools. Costa Rica's recent full OECD membership and agreement with the IMF are expected to reinforce the push for digital reforms. In this area, the EU can support initiatives to help bridge the digital gap, including in areas such as digital government, connectivity, the move towards a digital economy and the transfer of technology. Digital inclusion strategies will be mainstreamed throughout interventions as an opportunity to reduce social inequalities. The national digital transformation strategy and the recent creation of the National Agency for Digital Government can be instrumental in this regard. Costa Rica is equally placing increasingly high emphasis on **innovation**, with priorities very well aligned with those of the EU. Among the LAC countries,

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<sup>1</sup> During the 2014-2020 cycle a minimum estimated 35 M EUR was channelled to the country, taking into account the different budget lines and regional and global programmes.

Costa Rica has a comparably high participation in the R&I framework programmes of the EU and is clearly dominant in Central America in this respect. Innovation is also directly linked to the green transition, with CR aiming to become a world leading green innovation hub and laboratory. Costa Rica can also act as an important facilitator of the bi-regional ocean dialogue, in particular through its link to the Caribbean sub-region. Costa Rican leading role should be leveraged in Central America and in neighbouring territories, with particular emphasis on marine, biodiversity and food production / sustainable agriculture research and innovation.

With the highest migrant to population ratio in Latin America, Costa Rica has become an important host country for those fleeing regional crises, in particular Nicaraguans and Venezuelans. With few perspectives for a more optimistic regional outlook in the short term, **mixed migration flows** are expected to persist. EU assistance has focussed on technical assistance on migration management, including migrants' and asylum seekers' access to social services and economic integration. In the near future, this support will remain key as Costa Rica's progressive migration policy has increasingly come under national pressure. Continued attention for migration-related issues is equally vital to tackle unemployment and social inequalities and to address the country's poverty indicators.

Civil Society Organisations (CSO's) were consulted as a part of the preparation of this limited MIP, stakeholders have also stressed issues such as gender equality, the rights of indigenous peoples and limited funds for civil society as a consequence of the pandemic as pertinent to address.

Complementarity with Thematic (CSO, Human Rights and Global Challenges) and Regional Programmes, financed and the Neighbourhood, Development and International Cooperation Instrument – Global Europe (NDICI-GE), can help to achieve the expected results in priority areas at Country level. In addition synergies with other EU programmes operating in the regional area will be sought, where relevant, such as for the INTERREG programme financed under the European Regional Development Fund (ERDF).”

The main objective for the EU-Costa Rica partnership for 2021-2027 is to support overcoming structural challenges in the country and consolidate developmental gains, especially in the context of recovery from the devastating effects of the COVID-19 pandemic such as decreased productivity, increased unemployment, inequality and insecurity, weakened competitiveness, infrastructure gaps, and unsustainable fiscal pressures. In 2020, the fiscal deficit closed at a record high 8.7% of GDP – adding to the previous eight consecutive years of sustained significant fiscal deficits, leading the Government to negotiate an agreement with the IMF for a 1.75 billion USD Standby Arrangement. With over 30% of inhabitants below poverty line, **the pandemic equally undid three decades of progress on poverty indicators**, setting the country back to 1992 levels. It is therefore important that all EU interventions integrate a social dimension, contributing to tackling inequalities and ensuring equal opportunities for all. Within this framework, EU policies of mainstreaming the rights and needs of women, persons with disabilities and youth will be adhered to. To this end, it is therefore in the EU's interest to support efforts by Costa Rica to effectively implement international labour conventions, as well as efforts to tackle informality.

## 1.2. Lessons learnt of past programing and status of joint programming

There are five EU Member States present in the country, including three Member States' cooperation agencies which maintain ongoing programmes in Costa Rica: Spanish AECID, German GIZ and French AFD (the latter operating from Mexico). In the absence of a NIP 2014-2020, there exists no Joint Programming document. However, de facto there is close coordination between the EU Delegation and Member State agencies. Major programmes are

jointly implemented through Delegation Agreements and regular coordination meetings take place.

The EU Delegation and EU Member States jointly identified and elaborated two Team Europe Initiatives (TEI's): "Green Recovery, Decarbonisation, and Sustainable Urban Mobility" (with participation of France, Germany, the Netherlands and Spain); and "Digitalisation and Innovation" (with participation of the Netherlands and Spain). Both TEI's represent key areas where Europe has valuable expertise, a clear interest and can have transformational impact by joining forces in supporting the country's national development vision. The initiatives equally provide a response to the social and economic impact of the COVID-19 pandemic, as they link to the country's Economic Recovery Route which aims to boost productivity and to consolidate Costa Rica as a green economy and an innovation, health and welfare hub. TEI implementation modalities will be further detailed as soon as financing sources are identified.

These initiatives are expected to become the common thread of EU and Member States' cooperation and hold high potential for further involvement of EU Development Financing Institutions. The EIB, AFD and FONPRODE have all confirmed their interest in pursuing future investment opportunities in Costa Rica.

The limited MIP is expected to be a catalyzer and facilitator of the two TEIs while financial resources will be allocated under the regional MIP for Latin America and the Caribbean. The Cooperation Facility will be instrumental in facilitating tapping into global and regional initiatives.

During the 2014-2020 programming period, Costa Rica was a highly active cooperation partner despite not benefiting from bilateral cooperation. This led to over 50 interventions financed under highly diverse budget lines and modalities<sup>2</sup> with different institutional set ups and often unaligned timelines, regularly working on the same priorities on a small scale from similar angles. Lessons learned include: 1) long-term programmes with sustained engagement over time, such as in the case of Eurosocial+, are those that have succeeded in gaining most traction with local partners; 2) the wide range of financing sources and implementation modalities leads to complex undertaking for the beneficiary country and increases transaction costs at several levels; 3) to be more influential, EU engagement needs to focus on scale and strategic policy-oriented communication. This includes using the financial muscle of EU, Member States and European Financing Institutions (IFI) in a more strategic manner; 4) the EU should transition from a project-based mode of communication towards a more strategic effort around a limited number of priorities; 5) effectiveness can also be enhanced through more decisive and strategic involvement of relevant EU services and agencies, given Costa Rica's UMIC status. The common TEI framework and alignment amongst the EU Delegation, Member States and European IFIs directly responds to these lessons learned and holds the potential to limit the danger of fragmentation.

With elections in 2022, the next political cycle for programming is due to start the second half 2022.

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<sup>2</sup> Bilateral, sub-regional, different regional envelopes, thematic, specific global funding (e.g. MIGR), ECHO, PI, IcSP, line DG financing from ENV, RTD, MOVE, Council of Europe financing, etc.

## **2. Support measures**

Costa Rica's MIP is limited to a Cooperation Facility to support technical cooperation and pilot activities in areas of common interest. Financing to implement the TEIs and to support Costa Rica's status as a migrant host country are expected to be provided under the regional MIP, investment opportunities will be triggered in parallel under the EFSD+.

The Cooperation Facility aims to accompany the preparation and implementation of actions under the regional MIP and of investment opportunities by:

- supporting technical cooperation, capacity development and institutional building, including through technical assistance (TA) and exchange of public expertise;
- supporting policy dialogues and sector dialogues leading to policy reforms and engagement with other governments and stakeholders;
- catalysing support for the design and implementation of Team Europe Initiatives at country level;
- supporting the participation of Costa Rica in EU Programmes and cooperation with EU Member State Agencies on the ground;
- triggering pilot actions and innovative approaches that can be scaled up under the regional MIP and under EFSD+;
- triggering investments that are critical to supporting the government's reform agenda;
- promoting long term public diplomacy actions and strategic communication activities that go beyond the press and information budget line.

The Facility could be implemented through delegated cooperation with EU Member States agencies or direct management. While the Facility will not have a specific sector focus, it is anticipated that activities will prioritise the following areas related to following SDGs:

- Green recovery, decarbonisation, and sustainable urban mobility (SDGs 6, 11, 13, 14,15);
- Digitalisation and innovation (SDGs 9, 10);
- Root causes of irregular migration and the development of cross-border areas (SDG 10).

The Facility is expected to be complementary to an investment pipeline under the EFSD+. Several IFIs show interest in interventions on decarbonisation and green innovation. With its comparatively stable investment climate Costa Rica holds a solid EFSD+ potential, in particular regarding private sector investments on both digital and green solutions that increase productivity and put Costa Rica at the forefront of low carbon innovation. The 2022 change of government will also provide the opportunity to align the EFSD+ to the 2022-2026 priority pipeline of both governmental and Public Private Partnership (PPP) investments.

The latter have become increasingly important as the economic fall-out of the COVID crisis is leaving the country in dire straits. The record public deficit and the three-year 1.7 billion IMF standby agreement under approval are bound to significantly affect the state's investment capacity in all areas and limit sovereign debt issuance. Traditional state-led investments are increasingly shifting towards PPP structures and innovative private sector instruments that could trigger sustainable investments (e.g. direct private sector green bond issuance via the national stock market).

In line with the priority areas defined above, a % of the financial allocations defined under section 3 could be mobilised from the present limited MIP for the participation of the country in the EFSD+.

### 3. Financial overview

<i>Cooperation Facility</i>	<i>14 M EUR</i>	<i>100%</i>
<i>TOTAL for 2021-2027</i>	<i>14 M EUR</i>	<i>100%</i>

**Attachment 1 – Donor Matrix**

Agency/IFI	PROGRAMMING CYCLE (start year-end year)	Total budget (€) for Costa Rica	Allocations/ programmes on decarbonisation, green recovery, and sustainable urban development	Allocations/ programmes on innovation and digitalisation	Allocations/ programmes on migration	Allocations/ programmes in other areas (sector/amount)
<b>GIZ</b>	No programming cycle as such.	EUR 60M (aprox)	Herewith, reflected total budget volume (for several years) for implementation in programmes on decarbonization, green recovery and sustainable development.	Innovation & Digitalization forms transversally part of contracts being implemented by GIZ.		EUR 3M (Human Rights & Access to justice)
<b>AECID</b>	2018-2021	2,120,125	1,207,725		288,000	624,400
<b>AECID</b>	2021-2025	2,500,000			2,500,000	
<b>AECID</b>	2021-2027	600,000	600,000			
<b>AFD</b>	2021-2025	USD 65M (loan) EUR 3M (grant - LAIF)	Long-term programme to assist the Banco Nacional de Costa Rica (BNCR) in its efforts to catalyse low-carbon and climate-resilient transition financing in Costa Rica.			
<b>AFD</b>	2020-2022	USD 150M (loan) EUR 2,5M (grant)	Support for the implementation of the national decarbonisation plan, on (i) strengthening climate action management and monitoring, (ii) Nature-Based Solutions and Green Agricultural Systems, and (iii) Incentives for the use of electricity, in particular in the transport sector.			



<b>AFD</b>	2021-2023 (not yet started)	EUR 150M (loan)  EUR 1,4M (grant)	Support for Costa Rica's sustainable and low-carbon trajectory, on (i) sustainable construction, (ii) solid waste management, and (iii) just transition.			The structural reduction of inequalities between women and men is also one of the main objectives of the project, and significant measures are integrated in each of the project's components.
<b>AFD</b>	2020-2023	EUR 1,4M (grant – Euroclima+)	Strengthening ASADAS in the greater San Jose metropolitan area to improve their management and resilience to climate change.			
<b>AFD</b>	2021-2022	EUR 200,000 (grant)	Updating of agricultural, rural and environmental training with the Directorate of Technical Education and Entrepreneurship of the Ministry of Public Education.			Particular emphasis is placed on access and retention of girls in these fields, and on meeting the climate challenges.
<b>AFD</b>	2021-2022 (not yet started)	EUR 200,000 (grant)	Sustainable management of hospitals with the Costa Rican Social Security Fund (CCSS – Caja)			
<b>AFD</b>	2019-2022	EUR 155,000 (grant)				Support for the implementation of the "Gender Parity Initiative" in Costa Rica, with the IDB

<b>AFD</b>	2021-2024 (not yet started)	EUR 1M (grant)	Strengthen institutional capacity and the exchange of experience and best practices in eco-tourism, biodiversity conservation, protected area management and water resource management in Costa Rica (decentralized cooperation between Costa Rica and the Provence-Alpes-Côte d'Azur region).			
<b>IOM 2021</b>	Jan 2021 - Jan 2022	EUR 4,977,322			EUR 4,977,322	
<b>OIT</b>	2020-2021	USD 1,535,000 EUR 1,289,400		USD 12,481 EUR 10,484	USD 328,549 EUR 275,981	USD 1,193,970 EUR 1,002,935
<b>PAHO/ WHO</b>	2020-2021 biennium to August 2021	2,825,001		4,080	161,465.14 (MPTF)	320,852.03
<b>PAHO/ WHO</b>					COVID-19 migrants 300,000	2,038,604 (COVID- 19)
<b>UNDP</b>	2018-2022	USD 14,645,5483 (2021 budget)		USD 12,882,534	USD 731,795	USD 721,691

<b>UNESCO</b>	2020-2021	60,000				Culture: EU/UNESCO Expert Facility on the Governance of Culture in Developing Countries: Support for new regulatory frameworks to strengthen the cultural and creative industries and promote South-South cooperation (2005 Convention); Proyecto Música Fast Forward-Costa Rica 2021
<b>UNHCR</b>	17 July 2020 – 17 January 2021 (18 months)	EUR 1,000,000			IcSP Contract: CISP/2019/417-442 Enhance protection of Nicaraguan asylum seekers and refugees in Costa Rica.	
<b>UNHCR</b>	01 January 2021 – 31 December 2021 (12 months)	EUR 600,000 (El Salvador, Guatemala, Honduras, México and Costa Rica)			ECHO Reinforcing UNHCR's coordination and leadership role related to forced displacement with protection needs in the North of Central	

					America, Mexico and Costa Rica.	
<b>UNHCR</b>	5 December 2019 – 5 December 2022 (36 months)	EUR 4,000,000 (Costa Rica, Mexico, Honduras)			DEVCO Promoting Employment and Social Protection under the Comprehensive Refugee Response Framework in Central America and Mexico.	
<b>UNICEF</b>	2018-2021	13,635,807		1,275,000	1,100,000	11,260,807 (Education and Early Childhood Development / Child Protection / Social inclusion, public advocacy and communication / Adolescent Development and Participation)
<b>UNIDO</b>	30-01-2020 to 31-01-2021	317,578.11		Global Quality and Standards Programme Costa Rica: Enhancing compliance with quality and		

				international standards		
<b>UNIDO</b>	15-12-2015 to 29-11-2021	115,953.80	Regional project - First operational phase of the Central American Integration System Centre for Renewable Energy and Energy Efficiency			
<b>UNIDO</b>	15-03-2020 to 14-03-2023	30,106.58		Regional project - Accelerating SDG 9 implementation in Latin America and the Caribbean through South-South and triangular cooperation, networking and partnerships		
<b>UNIDO</b>	11-04-2017 to 30-12-2022	623,857.50	Regional project - Strengthening of National Initiatives and Enhancement of Regional Cooperation for the Environmentally Sound Management of POPs in Waste of Electronic or Electrical Equipment (WEEE) in Latin-American Countries			
<b>University for Peace</b>	2020-2021	USD 6,990 EUR 5,946		Certificate Programme: "Journalism in times of Crisis" The Delegation of the European Union in Costa Rica		

<b>UNOPS</b>	2014-2021	USD 205,378,023	USD 173,983,588	USD 189,200		USD 4,596,114 (Medical/COVID-19) USD 26,609,121 (Access to Water)
<b>UNOPS</b>	2022 and onwards	USD 17,304,117	USD 31,614,380			USD 7,500,000 (Access to Water)
<b>ILANUD</b>	Jan 2021- Dec 2021	EUR 35,000			EUR 5,000	EUR 30,000

Note: The table refers to current allocations. If already known, future allocations may be included, differentiating them from the current allocations.