



Social Enterprises in Costa Rica

(country report)

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Abstract

This chapter describes the emergence of social enterprises in Costa Rica, one of the most stable democracies in Centralamerica. The text presents Costa Rica's social institutions, like its health care and education system, which support the country's social stability. Nevertheless, these public institutions have strong weaknesses as inefficiency and corruption. Analyzing SE from the perspective of the civil society, the text argues that nonprofits can be tracked back to the 1950s where in particular church activities supported civil society organizations. As nonprofits face a rising pressure on accountability and less access to government grants, they are shifting towards SE structures. For-profit companies contributed to the social progress of the country based on foundations. During the time, the companies professionalized and requested more reporting from their social initiatives. This is why some of them move towards investing in SE, expecting them to be more accountable. The text ends by highlighting the need for a conceptual clarity of SE.

1. INTRODUCTION

In the last half-decade, the use of social enterprises as a vehicle for addressing social issues has been a rising part of political discourse. Through decrees, laws and programs, many governments are attempting to foster the creation of business in general, and social enterprises in particular (Galera & Borzaga, 2009). In emerging economies of Latin America, however, progress has been slow, what is particularly true for Costa Rica (Symmes, Jäger, & Rodríguez, 2014).

With respect to development and sustainability, Costa Rica represents one of the most stable democracies in the continent, marked by political stability and a historic trend of natural resource conservation (Ciravegna, 2012). Compared to its Central American neighbors, it has more economic and political stability and less pronounced social challenges. Despite this relative stability, the country still faces significant challenges related to unemployment (8.5% for 2014, 7.2% for men and 10.6% for women), income inequality (0.516 Gini coefficient) and prevalence of poverty (22.4% by 2014, up from 20.7% in 2013) (PEN, 2015, p. 75) (Ciravegna, 2011).

The goal of this report is to outline the current state of social organizations in Costa Rica, particularly the nascent social enterprise ecosystem. The report presents the results of an analysis of Costa Rica's social organizations and the economic, political and legal context within which they operate.

Due to scarce availability of literature on social enterprises in Costa Rica, we relied on several different data sources for the elaboration of this report. These include eight expert interviews with directors of social enterprises, government officials, entrepreneurs, investors and lawyers (see Appendix 1). We complemented these data with a document analysis that included annual reports from international organizations, press releases from government agencies, and national laws and decrees, as well as official websites of several credible organizations.

For the purposes of this report, we use "social organization" as an umbrella term to describe any organization that addresses social or environmental issues. This includes social enterprises, nonprofits, companies with CSR programs and public institutions. We define social enterprises as organizations that negotiate social/environmental impact for resources. Putting it differently, they resolve a social and/or environmental problem through market mechanisms (Jäger & Schröer, 2013). Nonprofits, which commit to a non-distribution constraint, fund their social/environmental missions through donations (Anheier, 2005). Companies with corporate social responsibility programs are focused on profit, but invest in social and environmental projects that are in some way related to their business (Lee, 2008). Finally, public institutions are organizations that are financed and controlled by the state (Moore, 1995).

2. HISTORY AND DEVELOPMENT OF SOCIAL ENTERPRISES IN COSTA RICA

In Costa Rica, formally registered nonprofits can be traced back - at least - to the Catholic associations that emerged during the 1950s for the purpose of aiding populations in need. The first secular organizations were founded in the 1960s. In the 1970s, the state founded social institutions such as the Institute for Social Assistance (Instituto Mixto de Ayuda Social, IMAS) in 1971, and the Fund for Social Development and Family Support (Fondo de Desarrollo Social y Asignaciones Familiares, FODESAF) in 1974 (Cemeño, 2004, p. 18).

For the past four decades, funding for social organizations has been shifting. Public social investment began to decline in the 1990s, and only in recent years has returned to its 1980s levels—roughly 23% of the country’s GDP (PEN, 2015, p. 77). As of 2000, when the World Bank and OECD categorized Costa Rica as an upper middle income country, international aid, which constituted a major source of resources, started to decline significantly (MIDEPLAN, 2014, pp. 23-24). In parallel to these developments, throughout the 1990s and in the decade following 2000, businesses created Corporate Social Responsibility (CSR) programs and foundations in order to invest in social and environmental issues.¹

2.1. Areas and fields of activity

Due to the lack of consolidated data on social organizations, it is difficult to assess the number of organizations, their structure and the activities on which they focus. A good proxy is the directory recently launched by the Federation of Social Organizations (Federación de Organizaciones Sociales, FOS).² This online directory is the most comprehensive compilation of nonprofits, foundations, associations and other social organizations in Costa Rica. As of May 2016, any user can access geographic location, contact information, and a brief description of some 370 organizations.³

FOS’s preliminary compilation of data regarding social organizations shows various areas of impact and the respective distribution between these fields: 20% environmental protection, 19% health and wellness, 9% economy and development, 16% education, 12% peace and human rights, and 24% poverty and vulnerability (see Figure 1)⁴.

¹ Villegas, M. (2016, 05, 18) personal interview. See Appendix 1.

² Directory can be found at <http://www.foscr.org/directorio/>.

³ FOS claims to have data on additional approximately 800 social organizations, which they will incorporate into the databank at the end of 2016, Sandoval, J. (2016, 04, 29) personal interview. See Appendix 1.

⁴ Data source: FOS Directory of social enterprises. Please note, many organizations who were included in this questionnaire work in more than one of these fields. They might work in other fields but were asked to self-select the category that best captures their main mission.

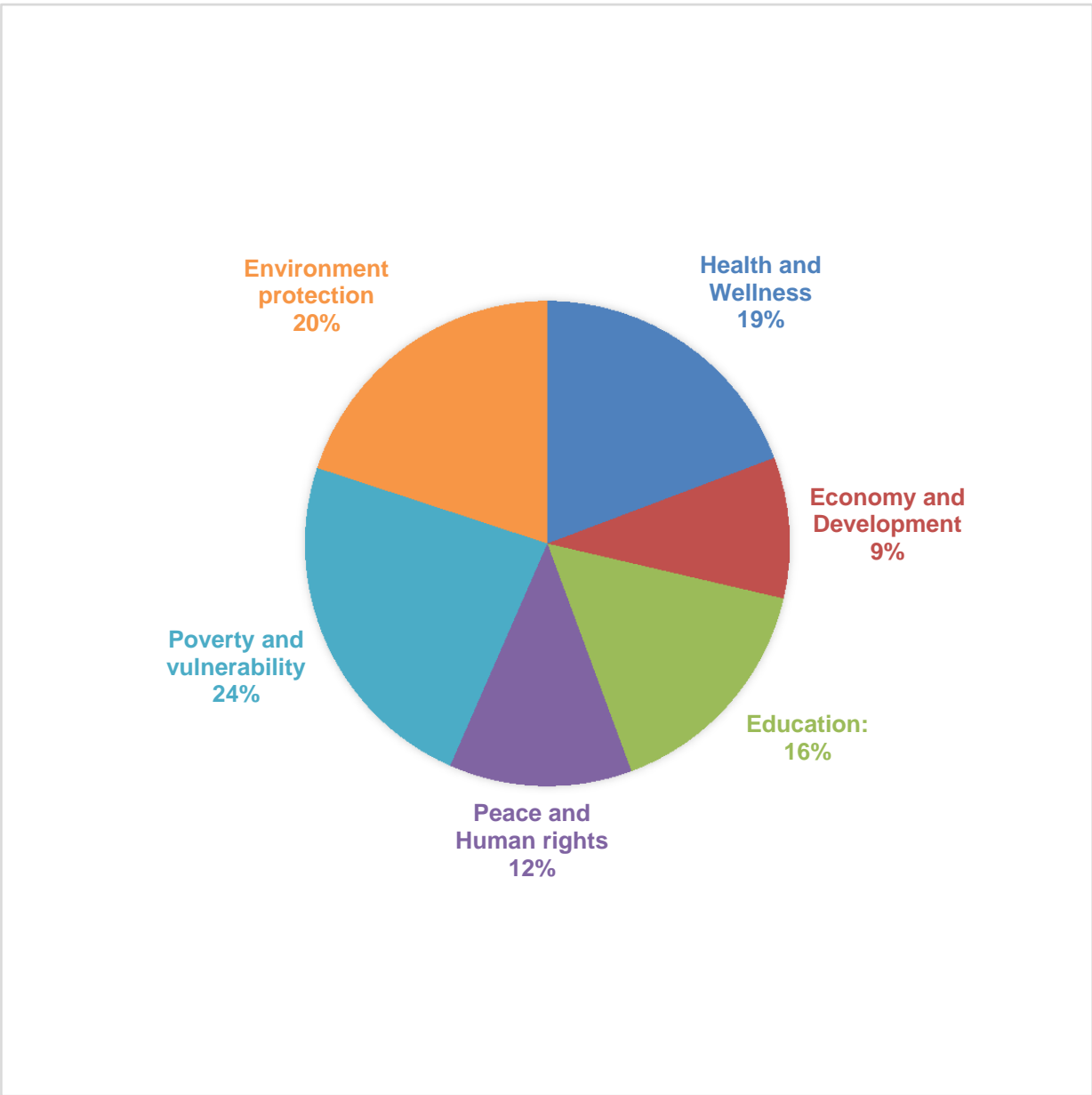
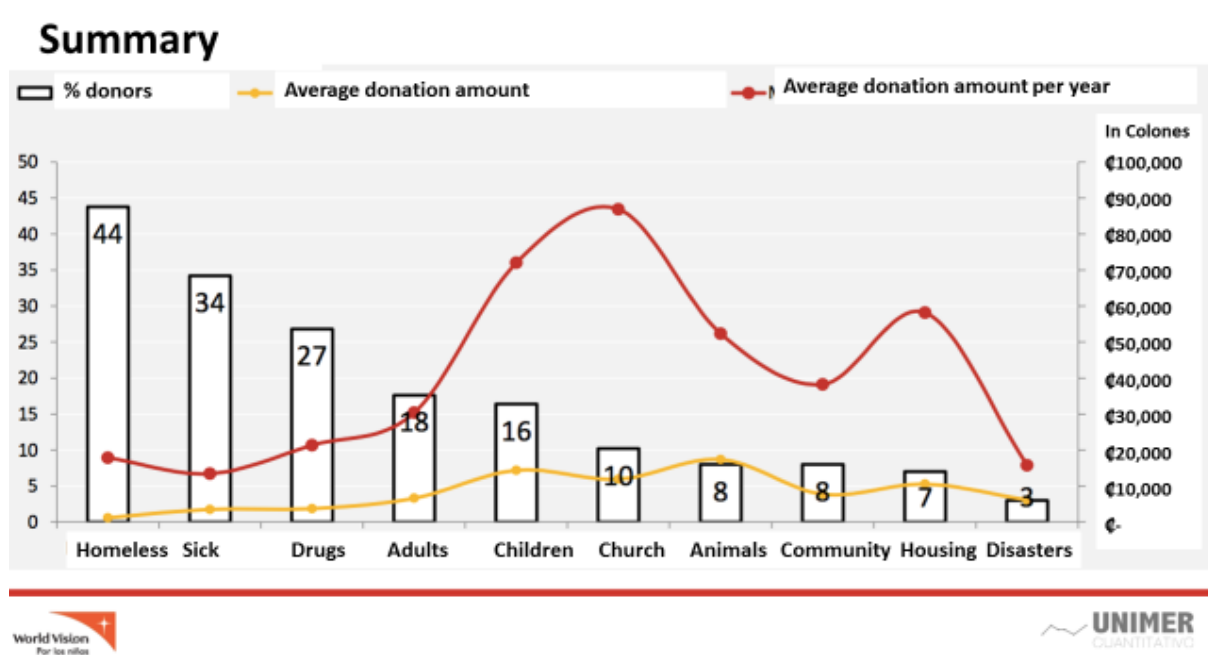


Figure 1: Nonprofits and social enterprises in Costa Rica per area of impact (FOS website)

As in most countries, Costa Rican social organizations face heavy donor influence (Young, Wilsker & Grinsfelder, 2010). A recent study by World Vision that analyzed the donor market in Costa Rica revealed that donors in the country mainly fund social organizations and projects that are related to religion, childhood, housing and animal protection (UNIMER, 2015) (see Figure 2).

Figure 2: Donations in Costa Rica



Comment: As of February 2017 the exchange rates are 1USD = 567 CRC and 1EUR = 605 CRC

2.2. Relation to other sectors

Particularly in the 1970s and the 1980s, the state took a protagonist role with respect to social investment. Being such a significant player, its approach to social challenges has shaped the entire social sector. Following the example of government institutions, the notion of social investment has become tied to the act of merely handing out resources to those in need. This model has been replicated by nonprofits that complemented the state’s efforts in addressing the most pressing issues, particularly poverty alleviation and children assistance.⁵

At the end of the 1980s, the private sector began to invest in social and environmental issues, and further increased its impact throughout the 1990s when the “corporate social responsibility” (CSR) management concept became more widely known. The involvement of private, for profit companies, however, was limited to providing resources to nonprofits without much regard for measuring impact or demanding accountability (AVINA, 2011). In an attempt to get more out of these donations, companies began to create their own foundations to bring their philanthropic efforts “in house.”

⁵ Villegas, M. (2016, May 18) personal interview. See Appendix 1.

More recently, few private companies started to shift from donating to nonprofits to investing in social enterprises as they assume social enterprises to be more effective in impact assessment and accountability. An example is Nutrivida, a spinoff of Florida Ice and Farm (FIFCO), the largest beer and beverage company in Costa Rica. Founded in 2013, Nutrivida is a joint venture between FIFCO and Yunus Social Business. As of 2016, it is the most visible organization designed as a social enterprise (Jäger & Sathe, 2014, p. 226).⁶

3. POLITICAL AND ECONOMIC ENVIRONMENT

3.1. Political Environment

Costa Rica is located in Central America, bordering Nicaragua to the north and Panama to the south. It has a territory of 51,100 square kilometers, and a population of 4.5 million inhabitants (2016). The Economist Magazine's Democracy Index consistently ranks Costa Rica as first or second in Latin America, and among the top 25 in the world (The Economist, 2015). The country's presidential system and a centralized government operates as follows:

- **Executive Power:** Every four years, Costa Rican citizens select a president through direct election.
- **Legislative Power:** The Legislative Assembly of Costa Rica includes 57 representatives (*diputados*) responsible for creating, reforming or revoking laws. These representatives are elected by Costa Rican citizens during the presidential elections, and serve a four-year term. They, in turn, assign representatives for each of the seven provinces, proportional to population.
- **Judicial Power:** The Legislative Assembly elects 22 magistrates for eight-year terms as representatives of the Supreme Court of Justice.
- Each of the seven provinces is divided into *cantones*, each with its own form of Municipal government that is in charge of granting business permits, or *patentes*.

Current political climate

The 2014 elections marked a change in the political landscape, when Partido Acción Ciudadana (PAC) won the elections, ending a more than 60 year bi-partisan tradition of alternating between the Partido Liberación Nacional (PLN) and Partido Unidad Social Cristiana (PUSC) parties. For the past decades, Costa Rican political parties have become increasingly plural with the rise of the left-leaning Frente Amplio (FA) and the right-leaning Movimiento Libertario (ML).

The current administration (2014-2018) faces fierce opposition from parties such as the PLN and ML, particularly regarding its plans for fiscal policy reform as an effort to tackle

⁶ Sánchez, G. (2016, June 09) telephone interview. See Appendix 1.

the fiscal deficit. Critics also point to rising crime rates, consistent poverty rates and the decision by Moody's Investor Service to downgrade Costa Rica's rating from stable to negative.⁷

Recent policy to foster Entrepreneurship and Social Enterprises

In 2014, the Ministry of Economy, Industry and Commerce issued a Policy for the Promotion of Entrepreneurship, in particular outlining the importance of social entrepreneurship as a vehicle for resolving pressing social and environmental issues that would otherwise be the responsibility of the state (MEIC, 2014, p. 3).

Since 2008, the national government has also been promoting the Banking for Development System (Sistema de Banca para el Desarrollo, SBD) as a means of financially supporting small companies and startups.⁸ Though mostly comprised of flexible loans allocated by the national banking system, the initiative also included a program called Seed Capital (Capital Semilla) consisting of non-refundable funds as seed capital for startups. While active, the program offered startups up to \$120,000 via a combination of flexible loans with a roughly 7.5% annual interest rate, a 10-year repayment period, and a non-refundable portion of up to \$20,000. Between 2013 and 2014, 20 startups received support from the program, and of the estimated \$2.4 million available, nearly \$800,000 had been disbursed by mid-2015. The same year, the program entered a revision period. The program was stopped after allegations were made that there had been inconsistencies in the use of the funds on the part of one of the beneficiaries. Critics also questioned whether there were enough mechanisms to assess the impact the funds were having in the development of the startups. The criteria to determine what constituted a successful use of the funds or how to measure the startup's progress was not clear.

None of the mentioned programs make a distinction in the way startups, traditional small businesses and social enterprises receive assistance.

⁷ Moody's changes outlook on Costa Rica's Ba1 rating to negative from stable. (2016, February 8). Retrieved from <https://goo.gl/jSS3e5>

⁸ Sistema Banca para el Desarrollo (2016). Retrieved from <http://goo.gl/IZG6gP>.

3.2. Economic environment

Costa Rica | Economic Indicators

	Last	Reference
GDP per capita	5962 USD	Dec/14
GDP Growth Rate	1.04 %	Sep/15
Unemployment Rate	9.5 %	Mar/16
Inflation Rate	-0.92 %	Apr/16
Interest Rate	1.75 %	Apr/16
Balance of Trade	-464 USD Million	Apr/16

Source: [Trading Economics](#)

Incorporation to the OECD

Though not yet an OECD member, in April 2015, Costa Rica was formally invited to open formal accession talks.⁹ During 2016, the process is underway with 27 national institutions, and is expected to culminate in 2018.¹⁰

OECD's 2016 economic assessment for Costa Rica highlights the country's almost universal access to health care, education and pensions, as well as the careful management of natural resources that has led to a strong reliance on renewable energy and has provided a strong foundation for its eco-tourism industry. With respect to challenges, it points out the rising public deficit and mounting debt over the past eight years, the downgrade of Costa Rica's debt to below investment grade by rating agencies, and the pressing need for fiscal reform that would increase tax revenue and cut public spending. The OECD also recommends that Costa Rica make its growth more inclusive and address high labour market gender gaps, a large and increasing share of informal employment, and an estimated one out of three workers being paid below minimum wage (OECD, 2016).

Commercial Trade

Costa Rica has a negative commercial balance, which amounted to -6,851 million colones (\$12.8 million USD) in 2015. Its main trade partner is the United States, which accounts for 39% of its exports and 43% of its imports. Its top export products are pineapples

⁹ OECD establishes roadmap for membership with Costa Rica. (2015, July 15). Retrieved from <http://goo.gl/ETzHz8>.

¹⁰ OCDE pule a Costa Rica. (2016 March 27). Retrieved from <http://goo.gl/Iv2tSH>

(8.43%), bananas (8.18%), medical instruments (7.16%), transfusion equipment and serums (4.3%), and prosthetics (4.03%) (INEC, 2016, p. 6).

Employment

As of the first trimester of 2016, Costa Rica's unemployment rate remained at 9.5%, with 8.4% for men and 11.4% for women. Informal employment remains high, at 41.4%, though has recently been declining (3.9% less than last period), particularly among women.¹¹

Ease of Doing Business

Costa Rica has been gaining ground in terms of regulation to start businesses. According to the Ease of Doing Business Index, recent improvements, particularly with respect to ease of obtaining credit and paying taxes, put Costa Rica at number 58 in the 2016 ranking, up 21 places from the previous edition. Overall, the country ranks well in factors such as access to electricity (23), registering property (53) and access to credit (7). Its main challenges are protecting minority investors (166) and enforcing contracts (124), which might in part explain the lack of a robust venture capital industry. Starting a business is also one of the country's poorest performing factors, requiring entrepreneurs an average of 24 days to complete the process (World Bank, 2016), that includes 9 steps (see Annex 1). This complexity ranks Costa Rica number 121 out of 189 economies, in the bottom 36% (World Bank, 2016, p. 18).

Entrepreneurship

According to the 2016 report from the Global Entrepreneurship and Development Institute (GEDI), Costa Rica ranks number 58 in the world, behind Chile (16), Puerto Rico (35), Colombia (43), Uruguay (47) and Barbados (53), making it number 6 in Latin America and the Caribbean. The country has improved, however, from its 2014 rank of 61 (Ács, Szerb, & Autio, 2016).

The country's startup ecosystem is still fragmented and emerging. The main variables shaping Costa Rican entrepreneurship landscape include cultural tendencies regarding association outside of the family circle, a stark social preference towards the security of employment, a tendency to avoid risk, a scarce base of resources adapted to work with startups, and limited access to early stage (seed and startup) capital (Trejos, 2016).

Access to Capital and Private Investment

Access to startup capital is one of the main hurdles when creating a company faced by entrepreneurs in Costa Rica (Lebendiker, Herrera, & Velásquez, 2015, p. 49). Whereas in other economies, seed capital traditionally comes from sources such as personal savings

¹¹ *Comercio registra mayor cantidad de personas contratadas.* (2016 May 31). Retrieved from: <http://goo.gl/njZsl0>.

and friends and family, in Costa Rica these sources are rare. Despite being inefficient sources of capital due to the low amounts of prizes and time consuming selection processes, competitions such as the VIVA Stephan Schmidheiny Awards, The Venture from Chivas and Seedstars World have provided some selected entrepreneurs an initial boost (Trejos, 2016).

Costa Rica has an underdeveloped private equity industry, with a few private equity firms¹² and a very small number of family offices, all operating with little visibility. Venture capital is even more scarce, and is comprised of two known angel investor clubs¹³ and a handful of high net worth individuals.

In spite of this, in its 2015 Scorecard report, the Latin American Private Equity and Venture Capital Association (LAVCA) ranked Costa Rica as 56 in the world and number 5 in Latin America. This shows the country's strength in a tax environment for private equity investing and in terms of quality accounting standards.

3.3 Legal Framework

In Costa Rica, the most common legal forms of social organizations include:

1. **Foundations:** These organizations are managed by a board of directors comprised of at least three members: the founder, a representative designated by the executive power, and a representative of the Municipality of the location where the foundation is located.¹⁴ The incorporation procedure can take as long as two months.
2. **Associations:** Established by at least ten founding members. A board of directors, which reports to a general assembly constituted by all associates, manages the organization. The board must be comprised of at least five individuals, with a gender balance.¹⁵ The public deed must be submitted to the public registry and the inscription process can take up to three weeks.¹⁶
3. **Corporations:** Locally known as "Sociedades Anónimas," this form is easier to be setup than the previous two. It can be constituted by at least two individuals, and the partners are responsible in proportion to their capital contribution. In order to make their social or environmental purpose explicit, specific clauses are added to the bylaws, including restrictions on dividend distributions.

¹² CoreCo, Invermaster, E3 Capital and Mesoamerica are 4 of the most visible private equity firms in the country

¹³ Carao Ventures and Inversiones de Capitales Rotativos (ICARO) are the only known angel investor clubs.

¹⁴ Law de Foundations, art. 11

¹⁵ Law of Associations, art. 18

¹⁶ Zamora, Jose. (2016 May 26). Personal interview. See Appendix 1

Regulation to incorporate

Traditionally perceived as bureaucratic and cumbersome, the legal framework for launching a business has improved in the last decade, particularly by incorporating electronic means to register corporations, file taxes and request permits (World Bank, 2016, p. 10).

Regarding costs, there are technically no capital requirements to start a business, other than the fees associated with registering the corporation, which amount to roughly \$700 USD (World Bank, 2016, p. 21). In 2012, however, Law 9012 was passed to create a tax for corporations. This law established an annual flat fee tax for all registered corporations in the amount of CRC 202,000, or approximately \$400 USD, the equivalent of 50% of base salary.¹⁷ After two years, the law was declared unconstitutional and a new bill was approved in April 2016, in which smaller companies (measured by yearly revenue) pay a percentage of this initial amount.¹⁸

Digitalization of legal processes

In the last decade, improvements have also been made with respect to the incorporation of online channels to complete permit requests. An example of these efforts is the 2005 launch of the digital signature as legally equivalent to a written one.¹⁹ In order to obtain it, citizens would have to pay a \$50 fee to purchase a card reader, a certificate and a card that, in conjunction with a pin number, served to validate the identity of the person via computer.

In practice, however, the adoption and use of a digital signature has been slow due to outdated technology, scarce communication with the public about the benefits, a lack of integration with institutions outside the government, and an cumbersome procedure for obtaining and setting it up.²⁰ Although the law has been in effect for more than 10 years, it is not until 2015 that banks and other non-government institutions have started to use digital signatures as part of their identity verification process.

Other examples include the CreaEmpresa website, a platform that, as of January of 2014, allows notaries to register a corporation online. This 24/7 channel improves upon the previous procedure, in which a paper form had to be submitted to the National Registry between the hours of 7am and 3:30pm, for registration to be completed in 1-2 weeks. The process now takes two business days.

¹⁷ Base salary is defined as the amount equivalent to the salary of an office clerk, which for the year 2015 was 403,400 colones. Source: [Ministerio de Hacienda](#)

¹⁸ Impuesto a las Personas Jurídicas. [Expediente N° 19,818. Asamblea Legislativa](#). For companies with a yearly revenue of less than 48.4 million colones, the amount due will be 100,850 colones. Between 48.4 million and 112.9 million: 121,000 colones. More than 112.9 million: the original fee of 202,000.

¹⁹ Law 8454, Law of certificates, digital signatures and electronic documents

²⁰ Because of the technologies involved, and particularly due to the way it is designed, setting up the digital signature is a time-consuming task, requiring the user to read manuals, download multiple programs and manually modify settings in their operating systems. To see more details and examples, visit: <https://www.soportefirmadigital.com/web/es/>.

Legal conditions for accessing credit or private investment

Flexible credit for new businesses and small and medium enterprises (SMEs) has recently been made available through a government-sponsored program called Development Banking (Banca para el Desarrollo). In practice, like any other banking product, the loans require either hard assets to be presented as collaterals or income statements that prove healthy cash flows. This has made it possible for some established small and medium sized enterprises to access the loans, but most startups, including social enterprises, have not benefited.²¹ As an effort to work around this limitation, the Law on Secured Transactions came into effect in May 2015,²² allowing SMEs to offer movable assets (tangible or intangible) as collateral, as long as they can be subject to economic valuation.²³ This change in legislation allows SMEs to use inventories, raw materials, intellectual property and other assets to back loans. In theory, this should facilitate their access to credit; however, financial institutions still have the last word regarding which assets they will accept as collateral.

Private investment is not a common source of funding for startups, social ventures or SMEs, particularly during their early stages (Trejos, 2016, p. 58). As discussed above, there are very few initiatives in venture capital, and their practices can vary significantly due to scarce competition and little regulation. LAVCA's 2015-2016 report gives Costa Rica its lowest rating in protection of minority shareholder rights, pointing to a lack of jurisprudence and judicial training. In this regard, it states that, "Protections must be incorporated by investors through shareholders' agreements and arbitration clauses." (LAVCA, 2015, p. 15).

Local institutional investors, particularly pension funds, operate under guidelines that restrict their investments to small holdings in public companies at home or abroad, low-risk government bonds, or commercial paper (LAVCA, 2015, p. 15). Private equity has always been outside their investment scope.

Finally, it is worth distinguishing between private equity firms from venture capital initiatives, as the former have been around for longer and tend to be more consolidated. As they typically deal with established companies, valuation practices tend to converge more and access to investors is considerably easier. Private equity firms have been operating in the country for years, successfully launching committed-capital funds.²⁴ Although Costa Rica has a stock exchange (Bolsa Nacional de Valores, BNV), as of early 2016, only nine private companies are trading openly in it.²⁵

²¹ Pinto, Claudio (2015, September 24). Personal Interview. See Appendix 1.

²² Law N° 9246, Law of Secured Transactions over movable assets.

²³ Ley de Garantías Mobiliarias es una Realidad para PYMES. (2015, May 20). Retrieved from <http://goo.gl/P9KIBt>.

²⁴ Zamora, Federico. (2016, May 12). Personal Interview. See Appendix 1

²⁵ They are: Banco Cathay, Banco Lafise, Banco Promérica, Corporación Davivienda, Corporación ILG Internacional, Florida Ice and Farm, Grupo Improsa, Holcim de Costa Rica, La Nación S.A. Source: [Bolsa Nacional de Valores Website](#)

Because of the lack of alternatives for smaller companies to receive equity financing, and the lack of vehicles to facilitate relationships with potential investors, in 2007 BNV created an alternative market for private shares (Mercado Alternativo para Acciones, MAPA). The project, financed by FOMIN through a nonrefundable grant of a little less than half a million USD, had the intention to promote capital investment and the development and professionalization of SMEs with potential for growth.²⁶ As of November 2015, out of 96 SMEs identified as potential recipients for investment, only four had actually received funding. The main identified challenges include cultural aspects such as the fear of SME's owners to lose control of their companies while being subjected to accountability, extremely high valuations on their part and a perceived lack of investment supply, which the program could not determine as being a constraint of the ecosystem or MAPA's own lack of promotion capability. In terms of regulation they did identify the lack of fiscal incentives like those found in other Latin American countries like Colombia, as a context constraint in the development of venture capital. (Murillo, 2015).

3.4. National welfare system

According to the latest State of the Nation Report, Costa Rica currently destines 23% of its GDP and 75% of its public spending to public social investment (PSI) (PEN, 2015, p. 77). By 2014, the PSI per capita was 254,500 colones (approximately US\$459).²⁷

Healthcare, Pension and Labour Risks

Costa Rica's healthcare and pensions system is among the best in Latin America, ranking 3rd in the region (behind Colombia and Chile) and number 36 globally, according to the World Health Organization's assessment of world healthcare systems (WHO, 2000). The system was established in the Constitution of the Republic (article 73), defining contributions on the part of the employer and worker as mandatory and covering workers from sickness, maternity, disability, old age and death. Caja Costarricense del Seguro Social (CCSS) is the entity in charge of managing both the healthcare and the pension system.

There is also a labour risk protection system run by the Instituto Nacional de Seguros (INS), also obligatory in nature and which intends to cover employees in the event of any work-related accidents or injuries.

Unemployment assistance

Costa Rica has no form of state-provided unemployment assistance. The alternative is a one-time payment called a *cesantía*, which the employer must pay when firing an

²⁶ Objetivos de Mapa (2016). Retrieved from <http://goo.gl/7sNR6r>

²⁷ The main social services programs available in Costa Rica can be found in Appendix 4.

employee without justifiable cause. The amount is roughly equivalent to one month of pay for every year with the company, with an eight-year cap.²⁸

Another alternative designed to mitigate the lack of unemployment assistance is the reform introduced in the year 2000 to include a mandatory savings fund (Fondo de Capitalización Laboral, FCL). This fund is comprised of monthly contributions made by the employer amounting to of 3% of the worker's salary. The regulation, however, allows employees to not only withdraw from the fund when they become unemployed, but also once every five years, which in practice has led to people using it for purposes other than originally intended.

As yet another alternative to unemployment assistance, in 2010 private insurance companies began offering unemployment policies, which have now become a requirement for all credit applications. Currently, no local bank will issue a mortgage, vehicle loan or, in some cases, even a credit card without private insurance that guarantees loan payments if the creditor becomes unemployed.²⁹

Complementary Pension Funds

The same reform in 2000 that created the FCL mentioned above, also allowed local banks to create private pension funds to complement the CCSS national pension system. Workers are now required by law to contribute to the private pension fund of their choice. The managing entities are called pension fund operators (Operadoras de Pensiones), and work under the regulation and supervision of the national pension superintendence (SUPEN). The tight directives from SUPEN restrict operators to invest only in certain assets, which have made the funds yield fairly similar returns since its inception.³⁰

Compliance and the informal sector

Although all employers are required by law to register and contribute to the CCSS healthcare and pension system, the 2015 State of the Nation estimated that roughly 59% of businesses were operating outside its coverage. It is assumed that most of these are startups or SMEs (PEN, 2015, p. 144), for which the monetary cost of 26.33% of payroll could be too high to afford.³¹ This has resulted in a substantial amount of businesses operating semi-informally, which means that they acquire a business license from the local municipality but do not register with CCSS, leaving its workers without any of the benefits provided by the national welfare system, including healthcare and pension.

²⁸ [Labor Code, Article 29](#)

²⁹ Mercado amplia oferta de pólizas de desempleo. (2015, August 9). Retrieved from <http://goo.gl/r3EhWX>.

³⁰ Annualized returns by December of 2015 by the 6 top pension fund operators ranged from 10.3% to 14.55% with a standard deviation of 1.58. Source: [Statistics Section, SUPEN Website](#).

³¹ Caja Costarricense del Seguro Social (2016). Retrieved from <http://goo.gl/m6F9wR>.

To counter the problem, in October 2015 a bill was presented in the National Assembly that would provide starting companies a four-year grace period, during which they would pay only 14.17% of payroll for the same benefits.³² As of May 2016, the project had not yet been assigned for discussion, which makes it uncertain whether or not it will become law.

Education

Traditionally Costa Rica has prioritized education over other areas of spending. In 2015, government spending in education reached 2,188 billion colones (approximately US\$4 billion), which represented 7.36% of the GDP. This investment landed Costa Rica in the top position in Latin America for per capita (per student) investment, with 1.7 million colones (approximately US\$3,175) per student per year (Costa Rican Government, 2015).

However, according to the OECD assessment of Costa Rica's challenges, although the spending is high, the outcomes are poor, particularly when it comes to the performance of disadvantaged schools and students (OECD, 2016, p. 4). Among the recommendations provided is the creation of an apprenticeship system that closely involves employers, similar to what is present in other developed countries.

The National Fund of Scholarships (Fondo Nacional de Becas, FONABE) is the main state instrument of social investment in education. The fund, created in 1997, covers primary, secondary and post-secondary education for children of social risk, indigenous populations, teenage mothers, disabled children and other students with special needs.³³

Housing

In 1986, the Costa Rican government created the National Financial System for Housing (Sistema Financiero Nacional para la Vivienda, SFNV) to promote fundraising for and the management of public investment in housing. At the same time, a subsidy was created to assist low-income families, disabled citizens, female heads of household and senior citizens in acquiring basic housing. The family housing subsidy is meant to complement the family's debt capacity if insufficient to qualify for regular mortgage loans.³⁴

In 2015, 10,867 subsidies were awarded for a total amount of ¢84,249 million colones (approx. US\$158 million), the largest amount since the system was created.³⁵

Social Security and Healthcare

³² Proyecto de Ley: Ley de fomento a la persona emprendedora. Expediente 19,729. Asamblea Legislativa

³³ Programa de Becas Fonabe. (2016). Retrieved from <http://goo.gl/VToLVO>.

³⁴ Ley del Sistema Financiero Nacional para la Vivienda y creación del BANHVI. Article 7. (1986, November 13).

³⁵ Costa Rica realizó en 2015 la mayor inversión en bonos de vivienda de toda su historia. (2016, March 7). Retrieved from <http://goo.gl/9U6vI4>.

Costa Rica has a universal healthcare system, which implies financial protection provided by the state and equal access by all citizens.

Its financing comes from contributions from three sources: the employer (26.33% of payroll), the worker (9.34% of salary) and the government. Social security and healthcare represent the state's second largest public social investment category, amounting to 26.7% and 28.5% of all PSI for 2014, respectively; percentages that have remained steady for the past five years (PEN, 2015, p. 113).

Poverty alleviation

By 2014, poverty levels in Costa Rica had reached 22.4%, increasing from 20.7% in 2013 (PEN, 2015, p. 75). Two institutions produce the majority of the efforts in poverty alleviation. Instituto Mixto de Ayuda Social (IMAS), created in 1971, is meant to coordinate government initiatives to systematically fight the extreme poverty through the design, management and execution of social programs. In 1974, the government created a public fund called Fondo de Desarrollo Social y Asignaciones Familiares (FODESAF) to finance such social programs.³⁶

4. DISCOURSE ON SOCIAL ENTERPRISES

4.1. Existing literature

Literature in the subject of social enterprises in Costa Rica is scarce. The general public and those involved in such organizations treat concepts of nonprofits, social businesses, and sometimes even corporate social responsibility programs, almost indistinctively.

The Social Enterprise Knowledge Network (SEKN) made one of the strongest contributions to the discussion on social organizations in Latin America in general, and in Costa Rica in particular. SEKN is a network of professors from different Latin American universities and business schools, including Harvard Business School and IESE that was funded by Stephan Schmidheiny and initiated by professor James Austin of Harvard Business School. This network published results on the situation of social organizations in Latin America. Within the SEKN project, professors from INCAE Business School analyzed cases on Costa Rica and Central America (Austin, Gutiérrez, Ogliastrri & Reficco, 2006; Austin et al., 2004; Tartre & Ogliastrri, 2004), and, in 2016, Ogliastrri, Jäger and Prado (2016) analyzed these cases with respect to common organizational patterns. They found that most followed four types of strategies, which the authors called: starting-up, professionalizing, decentralizing, and conglomerating.

INCAE Business School, along with VIVA Trust, a social business founded by Stephan Schmidheiny, focused on the analysis of extraordinary social organizations all over Latin America, but also within Costa Rica. For example, they published a case on a sustainable

³⁶ Historia de Fodesaf. (2016). Retrieved from <http://goo.gl/QedX24>.

hotel in Costa Rica. This hotel focuses on the inclusion of poor people living around the hotel by helping them to create their own enterprises and sell their products and services to the hotel (Garcia-Rada, Jäger, Young & Schroeder, 2015). Another case focuses on FIFCO, a food and beverage company that a World Economic Forum study considered to one of three Latin American “Sustainability Champions” (WEF, 2011). FIFCO invested in the triple bottom line, and has - as mentioned before - founded Nutrivida, a social business that focuses on nutrition (Ickis, Garcia & Prado, 2013).

Other studies are mainly published by authors from the Latin American Center for Competitiveness and Sustainable Development (CLACDS), an INCAE Business School research center. These studies focus on the support of political decision making, such as an analysis of tourism in Costa Rica and how hotels use sustainability certificates. This study showed that hotel managers perceive the main impact of sustainability certificates to be a reorganization of their internal process in order to make them more effective (Gómez, Jäger, Majano & Kilian, 2015).

Another initiative is the Social Progress Index (SPI), which offers a holistic approach to societal progress, both independent and complementary to economic measurements. Measuring social progress offers citizens and leaders a more complete picture on how a country develops (Porter, Stern & Artavia, 2013). INCAE trained, for instance, the Business Alliance for Sustainability in Central America (led by Walmart and other large retailers) to use the SPI as a platform for measuring, planning and communicating the Alliance’s sustainability actions in Costa Rica and Latin America.

The previously presented discussion does not involve the Costa Rican ecosystem of social entrepreneurs. This network of primarily young entrepreneurs demands a discussion on the definition of “social enterprise” as, for example, the initiative of Acuña (Villegas and Castillo, 2015). Villegas and Castillo wrote a working paper in which they presented a summary of parts of the current discussion on social enterprises and proposed to start a dialog in Costa Rica on this topic. They propose that any type of organization, regardless of its chosen legal entity, can be regarded as a social enterprise, as long as it meets the following criteria:

1. Has a distinctive social mission and utilizes money/revenue as a means to achieve it.
2. Has a social business; that is, has a commercial activity that sells products or services conceived to solve a social or environmental problem.
3. Pays market salaries to its employees.
4. Does not distribute earnings but instead it reinvests them in the operation of the enterprise.

Other organizations are making an effort to support the sector while also contributing to clarifying conceptual differences. VIVA, for example, publishes an annual report on Social Entrepreneurs in Latin America, which includes Costa Rica (Symmes et al., 2014). This report shows that most of the 2,800 applicants intend to scale their impact, but lack the knowledge and resources to do so.

4.2. Existing data

In an effort to better understand the social sector, FOS is creating a consolidated source of data on social enterprises, to more accurately characterize the ecosystem, measure its impact and use these inputs to contribute to the creation of policy or a broader level strategy. Mapping out organizations is seen as the first step, while defining key performance indicators and effectively measuring them, is the second in the FOS agenda.³⁷

Harnessing the potential of the volunteer market is also currently in the scope of both government agencies and social organizations. Currently, many programs within organizations channel local and, particularly, foreign volunteers to causes such as natural conservation, medical aid, child assistance, education and poverty. Examples of such organizations include the National System for Protected Natural Areas (SINAC), AFS, public and private universities (UCR and Veritas, respectively), ACI, and many others. Given the diversity of the goals of each, it is hard to consolidate data and measure impact, as both government and organizations such as FOS see the need for a national volunteer program. Through its directory, FOS is attempting to take the first step in creating a “one stop shop” to connect volunteers with the social enterprise or cause of their choosing. Effectively channeling volunteer labour could also help organizations in their current economic challenges.

4.3. Political debate

In 2014, the president Laura Chinchilla declared of public interest the promotion, creation and strengthening of social enterprises as a mechanism to pursue a more adequate distribution of wealth, fight poverty and provide opportunities for the most vulnerable sector of the population.³⁸

Later that year, the incorporation of social enterprises in the National Policy for the Promotion of Entrepreneurship is an indication that the topic is highly visible and is on the government’s focus. However, the lack of clarity in the definition of social enterprises, could prove challenging when drafting policy to promote them. As an example, the actual policy document uses two definitions when describing social enterprises that differ in their profit-seeking condition: “...*projects that aim to solve social or environmental problems for a large number of people, generally those of low income, while at the same time seeking a return for its shareholders and employees*” (MEIC, 2014, p. 3), and “*nonprofit actions that surge with the purpose of achieving social or environmental goals, while generating employment and income*” (MEIC, 2014, p. 16).

³⁷ Sandoval, J. (2016 April 29) personal interview. See Appendix 1.

³⁸ Decree N° 38034. (2014 January 29).

5. CURRENT TRENDS AND PERSPECTIVES

Contextual Trends that might affect SE

a) Rising need for conceptual clarity: As discussed, one of the main challenges in Costa Rica regarding social organizations is a discussion about concepts and definitions. In public discussions, whether organizations such as nonprofits, associations, foundations, social businesses and other civil society entities should all be equally considered social organizations is not clear. Aside from the fact that the organization's purpose and mission should be social or environmental in nature, there is still little consensus in terms of how to incorporate the pursuit of economic gain and revenue models.³⁹

b) Rising pressure on accountability and impact assessment: As introduced in section 2, increasing scrutiny and accountability from corporate and institutional donors has forced social organizations to focus more closely on measuring impact and communicating it more effectively. Many organizations have also professionalized their approach to casual or individual donors, incorporating automatic monthly charges and subscriptions, refining their marketing materials and more effectively training their sales force. Examples include, but are not limited to, Habitat for Humanity and Aldeas Infantiles SOS.

c) Trend to capacity building approach in development work: Another observed trend in the sector is the shift from a welfare mentality of simply handing out resources to those in need, to a capacity building approach in which communities are empowered and trained to become part of the solution rather than mere recipients of aid. Through this approach, organizations such as TECHO and World Vision have worked alongside communities to facilitate the emergence of community leaders and the co-creation of solutions that are viewed more sustainable in time given that the organization does not see itself as the center of the project, but merely a facilitator. In this sense, though resources are indeed still needed, the outcomes outlast the initial investment as long as the process of empowering and organizing communities is successful.

Trends of SE forms

In Costa Rica, social enterprises are a new phenomenon, fostered by at least three trends:

a) Generational interest in social enterprises: In line with an overall trend (Ogliastri et al., 1999), the Costa Rican generation of entrepreneurs between 20 and 30 care about social and environmental issues. For instance, many have created business models that aim to achieve social and environmental impact. In a three-day competition held in 2015, in which young entrepreneurs get feedback from experts on their business ideas,

³⁹ Villegas, M. (2016, May 18) personal interview. See Appendix 1.

nearly a third of the projects presented aimed for a social or environmental impact (Trejos, 2016).

b) Reduced government grants: Since 2010, social organizations have faced shifting priorities in terms of private corporate donations, diminishing foreign aid, and increasing competition in fundraising. This has led some to adopt a market-driven approach to covering their financial needs. Having traditionally defined themselves as nonprofits, many social organizations are attempting to reinvent themselves as social enterprises, in an attempt to alleviate their dependency on donations and grants.

c) Market opportunities: Another indication that nonprofits have become more market driven, is that they are transforming their social or environmental issue of focus into a business opportunity. ASEMBIS, founded in 1991 as a nonprofit to provide quality eye care products and services to low-income individuals, provides a good illustration. As of 2001, the organization changed its business model to that of a social enterprise, and expanded to 11 clinics and added a myriad of additional services such as surgery, X rays and a laboratory. The choice to serve the poor, coupled with a strong demand and willingness to pay for its services, resulted in a strong market orientation.

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7. APPENDIXES

Appendix 1: Interviews Performed

Interviewee	Organization	Role	Date of Interview
Javier Sandoval	Federación de Organizaciones Sociales (FOS)	President	April 29, 2016
Marco Villegas	Federación de Organizaciones Sociales (FOS)	Director	May 18, 2016
Pablo Acuña	COMEX	Innovation Advisor	June 7, 2016
Ricardo Lira	Ministry of Culture	Advisor to the Minister	May 11, 2016
Gisela Sánchez	Nutrivida		June 9, 2016
Federico Zamora	Invermaster	Partner	May 12, 2016
Claudio Pinto	Fairplay Labs	CEO	September 24, 2015
Jose Miguel Zamora	Arias & Muñoz	Paralegal	May 26, 2016

Appendix 2: Main identified obstacles to startup activity

Source: Global Entrepreneurship Monitor (GEM) Costa Rica's 2014 National Report

2010			2012			2014		
Obstacles	% Table	Ranking	Obstacles	% Table	Ranking	Obstacles	% Table	Ranking
Financial Support	76.32	1	Financial Support	78.79	1	Financial Support	82.9	1
Political, social and institutional context	65.79	2	Entrepreneurial Capacity	33.33	2	Government Policy	68.6	
Government Policy	34.21	3	Education and Training	33.33	2	Education and Training	28.6	3
Entrepreneurial Capacity	31.58	4	Commercial and professional infrastructure	27.27	3	Government Programs	28.6	3
Education and Training	28.95	5	Government Programs	27.27	3	Entrepreneurial Capacity	25.7	4
Social and Cultural Norms	26.32	6	Market openness	21.21	4	Different performance by small, medium and big enterprises	8.6	5
Access to infrastructure	7.89	7	Political, social and institutional context	18.18	5	R&D Transference	8.6	5
Commercial and professional infrastructure	7.89	7	Social and Cultural Norms	9.09	6	Commercial and professional infrastructure	5.7	6
Government Programs	7.89	7	Characteristics of the labour force	9.09	6	Internalization	2.9	7
Economic Climate	5.26	8	Government Policy	6.06	7	Political, social and institutional context	2.9	7

Perceived composition by the population	2.63	9	Perceived composition by the population	6.06	7	Perceived composition by the population	2.9	7
Market openness	2.63	9	Economic Climate	3.03	8	Characteristics of the labour force	2.9	7
Characteristics of the labour force	0.00	10	Access to infrastructure	0	9	Economic Climate	2.9	7
R&D Transference	0.00	10	R&D Transference	0	9	Social and Cultural Norms	2.9	7
Multi-response table where each expert can mention up to three areas.								

Appendix 3: Summary of time, cost and procedures for starting a business in Costa Rica

Source: Doing Business 2016, Economy Profile - Costa Rica

No.	Procedure	Time to complete	Cost to complete
1	<p>Check the availability of the proposed company name.</p> <p>Companies can also be registered by number, in which case the name would not have to be verified. However, companies that plan to commercialize their name must first verify the availability of the company name. The company name can be verified online (https://www.rnpdigital.com) free of cost. In addition, the company can request a name certificate for a cost of CRC 250 at the registry.</p> <p>Agency: National Registry (Registro de Personas Jurídicas)</p>	Less than one day (online procedure)	No charge
2	<p>A notary public drafts and notarizes public deeds of the incorporation charter for registration before the Mercantile Section of the Public Registry online.</p> <p>According to the fee structure established by Executive Order No. 36562-JP (January 31, 2011, Section 95a) though the notary public can negotiate fees, the fee for notarizing the articles of association is CRC 150,000 for any corporation.</p> <p>As of January 2014, it is mandatory for the Notary Public, when incorporating the company (S.A. or LLC) if the stock capital is paid in cash or securities, to do it using the digital signature through the site www.crearempresa.go.cr.</p> <p>Agency: Public Notary</p>	Less than one day (online procedure)	CRC 150,000

3	<p>Deposit capital in bank account, pay registration fees and stamp duties.</p> <p>As a prerequisite for registering the company, 25% of the capital stock indicated in the incorporation charter (if paid in cash) must be deposited in a national bank. The amount deposited may be withdrawn once the company has been duly recorded. If founders chose to sign a promissory note, there is no enforceable obligation to deposit capital in a bank account later. In fact, the business is not even required to operate a bank account at any point during its existence.</p> <p>Assuming an incorporation date of June 1, 2015, the registration fees are CRC 353,559, broken down as follows: Stamp duties: Colegio de Abogados, CRC 10,000; Educación y Cultura, CRC. 750; Timbre Fiscal, CRC. 625.</p> <p>Registration fees: Registro Nacional, CRC 40,340</p> <ul style="list-style-type: none"> - Municipal 0.2% of capital - Agriculture stamp (timbre agrario): CRC 68,850.41 - Legalization of books: CRC 16,000. Since December 28, 2012, the company books can now be registered at the National Registry at the time of incorporation. Furthermore, the company's accounting books registration is no longer necessary. - National Archives Stamp Tax: CRC 20,00 <p>In addition, a tax must be paid upon incorporation, representing 50% of the amount of the basic wage of "Office Clerk 1" if paid in January. If it is registered later in the year, the amount will be proportional to what is left of the year. Effective as of January 2016, the Yearly Tax on Legal Persons was ruled unconstitutional. It will not be required to pay the tax upon incorporation and subsequently every year thereafter. The obligation to pay the tax remained in effect during 2015.</p> <p>Agency: National Banking System</p>	1 day	See comments
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4	<p>Register the incorporation charter in the mercantile section of the public registry and obtain authorization to legalize the company books; send the notice of constitution of the company (<i>edicto</i>).</p> <p>In February 2012, Costa Rica launched Crear Empresa, an online platform for business registration, which has significantly reduced the time to register a business. This online platform has been used by an increasing number of users over the past year. Now all incorporation documents can be submitted electronically.</p> <p>Agency: National Registry (Registro de Personas Jurídicas)</p>	2 days	CRC 5,000 (digital registration fees) + CRC 780 per line (10 lines for CRC 7,800) + CRC 20 (stamp for the Archivo Nacional)
5	<p>File Form D-140 with the before the Tax Department to register the firm as a taxpayer.</p> <p>Costa Rican citizens or corporations with a Costa Rican legal representative can register electronically as taxpayer (https://www.haciendadigital.go.cr/inscriptipopersona.jsp).</p> <p>Agency: Registro Único de Contribuyentes, Dirección General de Tributación Directa</p>	2 days	See comment
6	<p>Register for labour risk insurance with the National Insurance Institute (Instituto Nacional de Seguros).</p> <p>The National Insurance Institute is the only insurance at the moment that only offers labour insurance. The annual premium for this type of insurance is roughly 2.17% of reported payroll.</p> <p>Agency: Instituto Nacional de Seguros (INS)</p>	1 day	No charge
7	<p>Apply for sanitary permit.</p> <p>Fees depend of the company risk classification and vary from US\$30 to US\$100.</p> <p>Agency: Health Department (Ministerio de Salud)</p>	1 day	USD 30

8	<p>Register the company as an employer with Caja Costarricense de Seguro Social (CCSS, Social Security Institution)</p> <p>After submitting the documents required, the CCSS issues a registration form (<i>inscripción ante CCSS de persona jurídica</i>) that allows the company to begin operations. Within 15 days after registration with the CNSS, the company will receive an ex-post inspection from an officer, which consists of a simple verification of the information provided by the company about the business activity and its employees.</p> <p>Agency: Social Security (Caja Costarricense de Seguro Social)</p>	1 day	No charge
9	<p>Apply for the business license (<i>patente municipal</i>) from the municipality.</p> <p>All new businesses must apply for the business license (<i>patente municipal</i>) from the municipality.</p> <p>Agency: Local municipality</p>	15 days	Cost varies between CRC 10,000 and CRC 100,000 depending on the type of activity, number of employees, location.

* Takes place simultaneously with another procedure. Source: Doing Business database.
Note: Online procedures account for 0.5 days in the total time calculation.