



# Responsible Labor in Costa Rican Public Policy

## Designing a Public Policy Framework that Promotes Responsible Labor

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### About BSR

A leader in corporate responsibility since 1992, BSR works with its global network of more than 250 member companies to develop sustainable business strategies and solutions through consulting, research, and cross-sector collaboration. With offices in Asia, Europe, and North America, BSR uses its expertise in the environment, human rights, economic development, and governance and accountability to guide global companies toward creating a just and sustainable world. Visit [www.bsr.org](http://www.bsr.org) for more information.

### Executive Summary

Renown for its stable and relatively egalitarian social democracy, Costa Rica has also built an international reputation for environmental responsibility, attracting nature adventurers and tourists seeking eco-friendly vacations. The country's social democratic tradition has meant that the government seeks to promote development through public and private investments in education, health, infrastructure, and other welfare programs. President Laura Chinchilla, elected in 2010, has paid close attention to labor issues in the country. She has vowed to defend the economic rights of women and promised to double the number of labor inspectors at the Ministry of Labor to ensure increased compliance with labor laws.<sup>1</sup>

Costa Rica's focus on social and responsible labor issues is largely driven by its increased openness to international markets and the importance of its export sector to corporate earnings and job creation. The country's ratification of new free trade agreements, notably with the European Union, also gives heightened urgency to upholding international labor conventions. While a few leading national companies have embraced corporate social responsibility (CSR) as part of their business strategy, much of the private sector still fails to fully recognize the many benefits of responsible labor practices (RLPs).

In light of the current opportunity to contribute to a more socially responsible Costa Rica, BSR designed a project to develop a national public policy framework that promotes RLPs to enhance the country's competitiveness. The strategy, which will be formally presented to the government in mid-2010, outlines ways in which Costa Rica can create a comprehensive public strategy to earn the reputation of "Green and Responsible." The BSR project's main recommendations to the Costa Rican government are:

- 1 Build a "whole-of-government mobilization" to incentivize RLPs
- 2 Extend CSR and RLPs to small and medium enterprises (SMEs)
- 3 Promote gender equity
- 4 Build a culture of compliance

In the short-term, the project has stimulated dialogue about RLPs across sectors and emphasized the link between RLPs and national competitiveness. Local CSR organizations have also taken ownership of BSR's recommendations and plan to push for their implementation, ensuring the sustainability of the project's activities. Potential long-term outcomes include increased public-private partnerships to address responsible labor issues, greater coverage of the working population by social audits, increased awareness of the business case

<sup>1</sup> "The gap between women's and men's salary widens." Nación.com. February 2010. [www.nacion.com/2010-02-21/EIPais/NotaPrincipal/EIPais2275771.aspx](http://www.nacion.com/2010-02-21/EIPais/NotaPrincipal/EIPais2275771.aspx).

for responsible labor, and enhanced international reputation and competitiveness for the country.

## Opportunity

Costa Rica showcases a success story among its Central American counterparts. The country's economic progress is accompanied by the longest period of unbroken democracy in the region, and, as a result, Costa Ricans enjoy the highest standard of living in Central America and among the highest in Latin America and the Caribbean, with a poverty level among the lowest.

Costa Rica's government, shaped largely by a social democratic agenda, views openness to international trade and investments in social programs as paramount to the creation of wealth for the country. Former President Oscar Arias focused on the ratification of the U.S.-Central America free trade agreement (DR-CAFTA), which was approved by the Costa Rican population in a popular referendum in 2007. The recent presidential election victory of Laura Chinchilla represents continuity for the promotion of responsible social practices and the pursuit of increased national competitiveness in international markets.

In her acceptance speech President Chinchilla spoke of her intended focus on health and education and on making Costa Rica the first carbon neutral country in the world.<sup>2</sup> The Chinchilla government will also continue to pay attention to responsible labor issues in the country. In ratifying the DR-CAFTA agreement and signing the "White Paper" in 2005 (a series of commitments made by the region's governments to address labor issues), Costa Rica has pledged to implement RLPs throughout its various industries.<sup>3</sup> Additionally, the European Union and Central American countries have just concluded negotiations on a free trade agreement, and European nations continue to highlight the importance of stricter compliance with international labor standards.<sup>4</sup>

In light of the opportunity to promote RLPs in the uniquely favorable settings found in Costa Rica, BSR implemented an innovative strategy to promote CSR in the country. As part of the DR-CAFTA Responsible Competitiveness project, BSR designed a public policy framework that advances RLPs and is aligned with strengthening the competitiveness of Costa Rica. These recommendations, which form a robust public policy framework, will be officially presented to the Costa Rican government in mid-2010 for evaluation and possible implementation in whole or in part.

### Peru's Mining Industry

The Peruvian government's voluntary Mining Program of Solidarity with the People aims to help alleviate poverty in Peru. Corporations sign agreements with the government in which they agree to contribute to the fund in years when the prices for metals are above the threshold determined by the contract. The funds are used for local and regional projects. Contribution to the fund is voluntary.

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<sup>2</sup> Laura Chinchilla. "Discurso de aceptación del triunfo. Elecciones Presidenciales 2010." February 2010. [www.laurachinchilla.com/blog/discurso\\_esp.php](http://www.laurachinchilla.com/blog/discurso_esp.php).

<sup>3</sup> "La dimensión laboral en América Central y República Dominicana: Fortaleciendo el cumplimiento y mejorando la capacidad." Informe del Grupo de Trabajo de los Viceministros de Comercio y de Trabajo de los países de Centroamérica y de la República Dominicana. April 2005.

<sup>4</sup> "Country Report Costa Rica." Economist Intelligence Unit. April 2010.

## Strategy

The BSR project followed three main strategies in the development of a public policy framework to promote RLPs in Costa Rica:

- 1 Align business incentives with the implementation of RLPs:** There is mounting evidence that RLPs positively affect businesses through cost reductions, increased productivity, lower turnover, and, with increasing numbers of responsible buyers and consumers, greater access to international markets. The project thus focused on identifying policies that the government could enact to incentivize businesses to implement RLPs. These incentives are especially important when investments in RLPs are high and the returns too distant, which may discourage businesses from making such investments (i.e. advanced training or purchasing expensive personal protective equipment). The project suggests a public policy framework that aligns the incentives for businesses with the implementation of RLPs and that can enhance national competitiveness.
- 2 Develop a holistic, strategic approach to CSR:** Costa Rica has been active in the promotion of environmental practices through public policy and government programs—successfully promoting itself as a “green” country. This project aimed at placing RLPs in a broader CSR strategy for the nation, with the goal of re-branding Costa Rica as “Green and Responsible.” To achieve this, the project’s strategy called for various ministries and government agencies to promote CSR and implement a holistic government approach to the issue, shifting away from the model where responsible labor issues fall strictly under the auspices of the Ministry of Labor.
- 3 Build on existing institutions and instruments:** In line with the idea of creating a holistic government approach to CSR, the project focused on incorporating the promotion of RLPs into existing policy instruments and institutions. Multiple government agencies and existing policies deal with issues closely related to responsible labor and have established networks and infrastructures that could be used to promote RLPs. The project’s strategy then was to focus on efficient government instruments and include responsible labor as a component of their implementation.

### CSR and Public Policy in Uruguay

In May 2010 the executive branch of the government of Uruguay created the National Council of Corporate Social Responsibility composed of members from the public, private, and civil sectors, including multiple national ministries and labor groups. Very similar to the roles of the Inter-Agency Committee proposed by the BSR project, the mandate of the council is to coordinate national policies and instruments that promote CSR.

## Implementation

To propose a public policy framework that promotes RLPs, the project took several steps:

- 1 Benchmarking of international good practices of public policies that promote CSR:** As a first step to the project, BSR completed a benchmarking study to understand how governments throughout the world are engaging with the private sector to advance responsible labor. The research focused on seven countries in various stages of economic development. The benchmarking found that the types of policies being implemented are diverse and reflect each country’s unique social, political, and economic make-up; however, several trends in national policy were observed across countries, including:
  - » Voluntary guidelines or binding standards that guide or demand companies to implement socially responsible practices
  - » National campaigns that raise awareness about CSR issues
  - » Government funds made available to the private sector for the implementation of CSR programs

This research helped BSR consultants assess challenges and successes in past implementations of public policies that promote CSR and use that knowledge while designing the framework for Costa Rica.



Managers from the Coca-Cola Concentrate Plant in Costa Rica receiving INAMU's Certificate for gender equity

- 2 Researched Costa Rica's existing laws and incentives:** The BSR team reviewed the country's laws and consulted national experts to better understand existing regulations in Costa Rica that address CSR and labor issues. BSR consultants also examined existing incentives available to companies that could encourage compliance with labor laws.
- 3 Conducted stakeholder interviews:** BSR experts interviewed 40 stakeholders, including government representatives, members of the private sector, labor union representatives, and leaders of other civil society organizations. During these interviews, BSR consultants discussed current government policies related to CSR and assessed their effectiveness. The interviews also allowed the team to gather information about existing policies and government programs that could be modified to incorporate the promotion of RLPs in their implementation.
- 4 Prepared recommendations for public policy framework, accounting for stakeholder feedback:** Based on the information gathered, the BSR team prepared a series of public policy recommendations for the Costa Rican government, all of which build on existing government institutions and instruments. These proposals were circulated and presented to more than 50 stakeholders during a series of meetings. The team then formulated a final report that reflects the project's research and stakeholder feedback.

Project consultants also received expert input from local NGO Asociación Empresarial para el Desarrollo (AED), regarding different sections of the report, in particular gender issues in Costa Rica. AED was also instrumental in facilitating meetings with government officials, actors of civil society, and private sector leaders.

This final report will be presented in a series of events attended by government officials and leaders of the private and civil sectors. Public presentations are scheduled for mid-2010.

## Promoting CSR in Tourism

To promote sustainability among hotels and tour operators, Costa Rica's Institute of Tourism (ICT) launched the voluntary Certificate of Sustainable Tourism. Auditors evaluate the firm's internal operations, environmental impact, and community involvement. Firms are also expected to comply with labor laws. Tour operators must implement employee safety measures.

The certificate is awarded by the National Accreditation Commission, a public-private body. Positive incentives for participation include listings on the ICT website and official tourism maps and promotion at trade fairs.

## REPORT RECOMMENDATIONS

The main recommendations outlined in the final report are described below:

- 1 Building a "whole-of-government mobilization" to incentivize RLPs:** The report outlines a series of existing and potentially potent policy instruments that could be harnessed to incentivize the implementation of RLPs. It also recommends, as an example, that the presidency establish an Inter-Agency Committee on Responsible Labor Practices, cochaired by the Ministry of Labor and Social Security (MTSS) and the Ministry of the Economy, Industry, and Commerce (MEIC). The committee's primary task could be to evaluate the government instruments highlighted in the project's report and consult appropriate agencies to implement changes. It could also engage the private sector and help build the business case for RLPs, promoting their connection to national competitiveness.
- 2 Extend CSR and RLP to SMEs:** The project recommends that the government educate SME (defined as firms employing fewer than 100 workers) on CSR issues and reward global brands that are currently leveraging their supply chains to reach SMEs and instruct them about RLPs. The report also advocates for the MTSS and global brands to form partnerships to increase the enforcement level of RLPs. By collaborating they could avoid duplicating efforts, increase coverage of workers, share resources, enhance efficiencies, and reduce costs.

To implement these recommendations alongside SMEs, the BSR project points out that greater government efforts are needed to alter the incentive structures that inadvertently encourage informality.

- 3 **Promote gender equity:** The BSR team found that the Costa Rican government currently has a useful, but underused mechanism to promote gender equity in the private sector. The Sistema de Gestión Laboral en Igualdad y Equidad de Género (SIGEG), created by the National Institute for Women (INAMU), offers participating firms a diagnostic on their business practices and gender equity and assists in the design and implementation of a remedial plan to comply with normative laws and regulations. Participation is voluntary and successful implementation of policies that lead to greater gender equity results in the certification of the firm. The project recommends that the government increase the rewards associated with participation in the program to further promote gender equity in the country.
- 4 **Build a culture of compliance:** The project recommends that the government take a stronger role in building a culture of compliance within the country. In order to do so, government institutions must provide information and measurable indicators of progress to the public, offer education and training on fundamental CSR concepts, and provide continual feedback to stakeholders and rewards for success.



A Chiquita farm certified by ISO-14001 and SA-8000

The BSR team suggests that to advance a culture of compliance, Costa Rica should first establish a national system to measure labor productivity and international competitiveness. Second, to meet the need for more monitoring and feedback, Costa Rica should establish a national market of social auditors. Finally, the government could take the lead in establishing a DR-CAFTA regional training center, to partner global brands with local suppliers and assist them in improving their labor and environmental management systems.

## Results

During follow-up interviews with Costa Rican stakeholders, BSR consultants were able to assess the immediate project results in the country.



Luis Garnier, DR-CAFTA Regional Manager and Dr. Richard Feinberg, DR-CAFTA Senior Project Advisor, presenting the public policy framework to Sandra Piszcz, Costa Rica's Labor Minister

### SHORT-TERM RESULTS

Within the private sector, the project has served to emphasize the link between RLPs and national competitiveness. According to Luis Mastroeni, CSR Manager for Purdy Motor Group, while a few private sector leaders and transnational corporations realize the benefits of incorporating CSR practices into the firm's core business strategy, the logic is not widespread in Costa Rica. Mr. Mastroeni stated that he "believes the BSR project serves to make the business case more evident."

According to Mr. Guido Alberto Monge, Director of the Consejo Consultivo Nacional de Responsabilidad Social (Social Responsibility National Advisory Council), a broad coalition of public and private entities: "The project has provoked debate and disseminated the idea of responsible labor practices and competitiveness." The project's broad stakeholder engagement, meeting with more than 90 people and organizations in the country during information-gathering interviews and consultations for feedback on the report, was able to elevate the importance of the topic within the civil and public sectors.

Another immediate result of the project was the commitment and enthusiasm of civil organizations in Costa Rica to push the project's recommendation toward implementation. Organizations such as the previously mentioned Social Responsibility Council and Aliarse, an NGO that promotes public-private partnerships, have agreed to discuss the project's suggested policies. Mr. Monge has invited the newly appointed minister of labor to participate in talks about the project's recommendations. The council hopes to present its members the full

report in mid-2010 to open the debate and seek implementation of the project's recommendations.

Local organizations have thus seized ownership of the BSR report and will take leadership in advocating for its recommendations. This commitment is much needed, as progress to achieve a holistic national CSR strategy is likely to be a long-term process. Additionally, local organizations can have more thrust in recommending public policy frameworks because they are seen as local partners and can deflect the sporadic aversions to foreign-sponsored projects.

### **ANTICIPATED LONG-TERM OUTCOMES**

The project's long-term outcomes depend on the political willingness of the newly elected president and appointed ministers to prioritize responsible labor issues and identify viable innovations for the country's policies in the project's proposed framework. During follow-up interviews, BSR consultants spoke to many stakeholders who stated that these are very opportune times for the project. Alicia Fournier, elected deputy of the Legislative Assembly, welcomed the project's recommendation, "BSR's work can provide valuable input to guide public policy on the topic."

If the project's proposed framework is implemented, several outcomes could follow, including:



Training of SMEs by the National Learning Institute and Café Britt

- 1 Heightened awareness of the business case for responsible labor.** During follow-up interviews, many stakeholders stated that the private sector often fails to implement CSR programs because of costs. As stated by an interviewee, "While the private sector sees the link between labor compliance and competitiveness, they often fail to implement necessary policies because of costs." Through existing networks, the Costa Rican government can raise awareness of the positive returns that RLPs have on business practices. This makes it more likely that firms will implement responsible labor programs.
- 2 Increased public-private partnerships to address responsible labor issues.** By increasing dialogue on responsible labor issues, the Costa Rican government can be a strong partner for corporations and the implementation of their responsible labor programs.
- 3 Greater coverage of the working population by social audits.** The creation of market of social auditors and increased dialogue between corporations and the government regarding auditing practices can lead to more coverage of employees and thus increased enforcement of labor laws.
- 4 An international reputation as "Green and Responsible."** Costa Rica is known for its environmental responsibility, which has led to many benefits for the nation. By becoming a regional leader and seriously tackling issues of responsible labor, Costa Rica can create a reputation of both green and socially responsible, leading to numerous benefits, such as higher levels of foreign direct investments, increased tourism revenues, and an enhanced international reputation.

### **LESSONS LEARNED AND USEFUL TIPS**

Tips for governments seeking to replicate this strategy include:

- 1 Government should implement a whole-of-government approach to promoting compliance with labor laws and labor standards.** The resources available to national labor ministries is often insufficient to guarantee compliance and promote RLPs. Governments have a variety of instruments available to promote responsible labor and should use them, including those outside the auspices of the Ministry of Labor, to comply with high-quality labor standards.

- 2 **Positive incentives are powerful tools to promote RLPs.** During the course of the project, corporations were often concerned that government involvement in issues of corporate responsibility would simply lead to new laws to abide by. Business executives welcomed positive incentives as they allow companies to choose whether to opt in to programs and give corporations that implement RLPs a comparative advantage vis-à-vis their competitors.
- 3 **Increasing dialogue on responsible labor across sectors can lead to successful synergies.** During stakeholder engagements in Costa Rica, many leaders of civil society organizations, private businesses, and public officials showed great interest in working to advance the responsible labor agenda. Increasing cross-sector dialogue and collaboration can help promote higher labor standards in the country.

### About DR-CAFTA Project

This case was made possible by a grant from the U.S. Department of State to BSR for its "DR-CAFTA Responsible Competitiveness Project." The project works with producers, labor, government, and international buyers to promote responsible labor practices in countries of the Dominican Republic-Central America-United States Free Trade Agreement (DR-CAFTA). For more information, visit [www.drcafta.bsr.org](http://www.drcafta.bsr.org).