

Contributions of foreign direct investment toward a sustainable Costa Rica

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Introduction

Slow global economic growth, social inequalities, and environmental degradation present unprecedented challenges for the international community. Continuing with the same production and consumption patterns is no longer viable. It is necessary to transform the current paradigm into one that leads toward sustainable development.

Latin America and the Caribbean is the most unequal region in the world. Inequality constrains the region's potential. This region faces structural gaps such as: low productivity and deficient infrastructure, segregation, and lags in the quality of education and health services, persistent gender gaps and territorial and minority inequalities, and a disproportionate impact of climate change in the poorer sections of society (United Nations, 2018).

Foreign direct investment (FDI) is an important instrument for the development of countries since it can contribute to the transfer of technology, job creation and the formation of human capital. FDI can help integrate the economy into the international market, improving the climate of competition in the domestic market, and generating productive chains (Cordero, 2015). FDI could contribute, together with other national and regional policies, to the transfer of knowledge and the advancement of the sectors in the national economies. These factors can influence greater development, the reduction of inequalities and the protection of the environment in the countries of Latin America and the Caribbean.

For some years now, there has been a greater recognition of the role of FDI in achieving Sustainable Development Goals (SDGs) (CEPAL, 2023a; UNCTAD, 2015; OECD, 2022). For the agencies dedicated to attracting FDI (e.g., investment promotions agencies), this is reflected in a greater importance of the design of the policy instruments and of the adequate linkage and coherence between them. The evaluation and continuous monitoring of the measures implemented to achieve the SDGs and the effects of the investment on sustainable development, in the economic, social, and environmental dimensions, are also essential. With these tools, agencies can analyze their efforts and adapt them to improve their impact in relation to pre-established objectives and priorities (CEPAL, 2023b).

FDI is not an end but a means to achieve sustainable development. The attraction of FDI alone is not enough to generate economic growth in a sustainable way. For example, for FDI to help alleviate poverty and stimulate economic growth in developing countries, two conditions must be met. First, developing countries need to be attractive to foreign investors for example: lower costs, market size, natural resources, among others. Second, the host-country must be conducive to favorable FDI effects about overall investment, economic spillovers, and income growth; weak markets and institutions typically may seriously constrain the growth-enhancing effects of FDI. Attracting FDI, is no guarantee for obtaining the beneficial effects of FDI in the local economy (Nunnenkamp, 2004).

Costa Rica has seen a structural transformation in the last three decades, having gone from an import substitution model to a development model oriented towards the promotion of exports and

the attraction of FDI. The efforts to achieve a greater international insertion of its economy have allowed the country to diversify its exportable supply, position itself as an attractive destination for investment in search of efficiency, and integrate its exports into global value chains. Free Trade Zones have played a strategic role. By 2021, companies established in the Free Trade Zone regimen produced 53% of the country's exports, represented 57% of FDI and more than 187,000 high-productivity jobs, with a female employment share of 43%. On the other hand, they have helped the recovery of the economy after the COVID-19 pandemic.

The Costa Rican Coalition of Development Initiatives (CINDE by its acronym in Spanish) has been the investment promotion agency of Costa Rica, responsible for promoting, managing, and supporting the establishment of multinational companies in the country. CINDE aims to generate quality jobs for the population, and another series of benefits such as productive linkages with the local industry, spillover of knowledge and technologies, and training. These are key elements for Costa Rica's development. For over 40 years, CINDE has advised and guided over 400 high-tech companies to establish themselves in Costa Rica

CINDE aligned its 2019-2022 strategic plan with the Sustainable Development Goals (SDGs) and has been reporting its contributions toward the SDGs for the last four years. In 2019, CINDE redesigned its value proposition to project how Costa Rica is a center of focused solutions where people, the planet and prosperity combine to achieve sustainable productivity. The organization boasts of Costa Rica's environmental commitment, which offers 99% of the electrical network from renewable energies, but also a platform for people where education is free and compulsory since 1870; in 2022, 6.4 percent of the GDP went to education and 5.6 percent to universal health care. Costa Rica became the first country to sign a National Pact for the SDGs, in September 2016. This was signed by the Costa Rican State, as well as representatives of Civil Society and the Business Sector and with the signature they commit to demonstrate their contributions to the achievement of the SDGs. Studies show that incorporating sustainability into business or environmental management yields some positive benefits (Ozili, 2022); since Costa Rica and CINDE have committed to reporting their impact on the SDGs, the next step is to try to identify what multinational companies in Costa Rica were doing with respect to the SDGs

Methods

In 2019, CINDE partnered with the Business Alliance for Development (AED by its acronym in Spanish), a non-profit organization that seeks the sustainability and competitiveness of Costa Rican businesses. AED is a non-profit organization that seeks the sustainability and competitiveness of the country, through the promotion of responsible and sustainable business models in companies. AED guides the productive sector to consider sustainability principles as part of its management, reducing negative impacts and maximizing positive impacts on society, the environment and the economy.

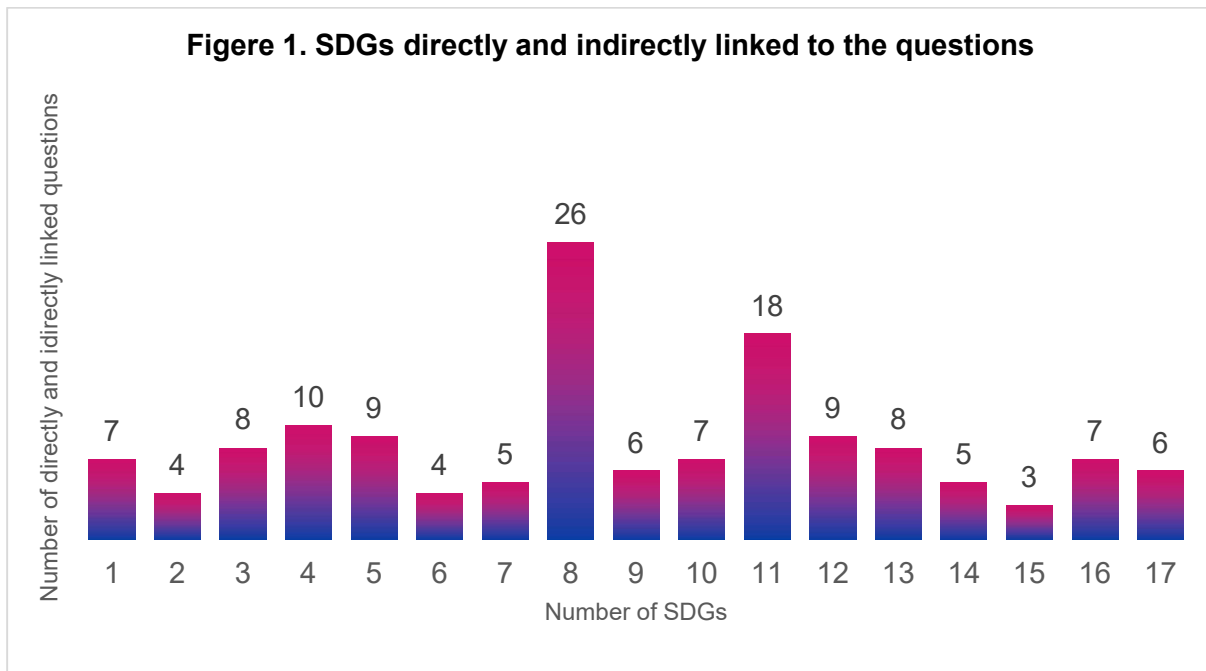
The objective of the project was to measure and demonstrate the performance of multinational companies with operations in Costa Rica, using environmental, social and governance indicators to identify their possible contributions to the SDGs. For this, CINDE worked together with AED from 2019 to the beginning of 2023, when the results were presented.

The project was developed through five components: initial report, definition of indicators, validation of indicators, presentation of results and adjustments, and prioritization of work areas. The first component included several steps, initially it was to identify the potential companies to participate in a working group and the possible indicators to use. There was a webinar to which all the 400 companies that CINDE works with were invited, the main aim was to introduce the

project and to invite at least one representative from each company to participate. Regarding the indicators, there was a benchmark carried out by AED that started with over 200 indicators and was later reduced to 50.

The second component focused on the definition of the indicators. Around 14 companies participated in the working group, through two surveys and around 4 workshops, the AED team identified the key indicators which allowed them to obtain the first version of the questionnaire. These surveys provided information on the companies' initiatives focused on sustainability efforts; they provided data on more than 50 actions that they carry out considering their contribution to the SDGs. In addition, an awareness workshop was held so that the AED team could explain to the representatives of the different areas of the companies about the indicators that would be included in the final questionnaire and form them to be able to provide feedback on which ones they did or did not have available information.

The final questionnaire can be used for different sectors and companies that are not multinationals (Available here: <https://form.jotform.com/222084546104853>). The questionnaire and instructions were presented through a webinar for company representatives. A confidentiality agreement was signed by participants. The questionnaire included 31 questions distributed in the following sections: company overview, workforce, policies, commitments and/or declarations, training and coaching, additional benefits natural resource management and internal sustainability management. A mapping of the relevant goals was carried out for each question, the SDG with which it is directly or indirectly related (Figure 1); for example, SDG 8 ("decent work and economic growth"), was directly and indirectly related to 26 of the 31 questions included in the final questionnaire. The JotForm platform was used, which allows matrices to be made and thus the number of questions could be reduced, it was available for 3 months. Once this period was over, the CINDE team oversaw analyses and worked with AED presenting results.



Results and discussion

Multinational Enterprises are the main drive of FDI and through their operations they change the economic environment of host countries (Voica, Panait, and Haralambie, 2015). There are significant positive environmental spillovers from foreign to local firms and that on average FDI may have the effects of increasing energy efficiency (hence lower pollution levels), although this is offset by increased production as demand for consumer goods continues to grow (Cole, Robert and Liyun, 2017).

Using the technique of sample definition under random sampling in which each sample has an equal probability of being chosen with 95% reliability, the objective was to obtain responses from at least 77 companies (the total number of companies considered were 390), a great effort was made to get representation from each sector. This was not accomplished, only 22 different companies answered: 47% from corporate services' sector, 20% from manufacturing, 20% from industrial parks and 13% from life sciences, which are all the sectors that CINDE provides services to. The final components, which were the presentation of results and adjustments, and the prioritization of work areas were presented in a final webinar and only the participating companies that answered the questionnaire were invited. The findings show how companies invest with purpose, they look beyond investment rates and risks, they are also looking at positive environmental and social outcomes. Among the most outstanding results, its contributions to the well-being of its collaborators, the environment, and the communities. Here are some of the most relevant results per SDG:

- SDG 1 No Poverty: 50% of companies report metrics related to volunteering and 40% report having a policy, statement, or commitment to formalize volunteering.
- SDG 3 Good Health and Well-being: 93% report having private health services and 80% have wellness programs.
- SDG 4 Quality Education: these 25 companies invested in more than 70,000 hours of technical training and 15,000 hours of socio-emotional training for their employees; 47% of companies report that they have invested in programs for communities that focus on training processes and/or STEAM (science, technology, engineering, arts and mathematics).
- SDG 5 Gender Equality: all the companies indicated managing gender equality and non-discrimination at work; 48% of the people employed are women, achieving an employment rate higher than the national average (43.8%).
- SDG 6 Clean Water and Sanitation for all: 90% of the companies indicate that they implement actions to reduce water consumption in Costa Rica.
- SDG 8 Decent Work and Economic Growth: companies reported more than 29,000 direct jobs.
- SDG 11 Sustainable Cities and Communities: 80% of the participating companies are making efforts in relation to environmentally friendly mobility, providing collective or clean transportation alternatives. In addition, they indicate having charging stations for hybrid or electric vehicles, spaces for bicycles, exclusive services for the transfer of their employees to and from work, and preferential spaces for carpooling vehicles.
- SDG 12: Responsible Consumption and Production: 67% of companies promote good environmental and labor practices and ethical behavior throughout their value chain; 90% indicate taking formal actions to reduce water and energy consumption, as well as manage solid and liquid waste.
- SDG 13 Climate Action: companies report having formal processes and established action plans such as the monitoring of equipment that uses refrigerant gases (77%), the

compensation of greenhouse gas emissions (50%) and the generation of electrical energy with their own alternative sources (47 %).

- SDG 17 Partnership for the goals: 77% of the companies indicate partnering with more than 60 foundations, cooperatives, non-governmental organizations, ministries, cooperation agencies, municipalities, universities, or companies inside and outside the country, to promote sustainable development.

Some important clarifications, the results were analyzed without segregating by sector and the percentages presented were calculated based on the total number of participating companies, regardless of the number that answered each question. This was done to improve comparability.

The bank of indicators that resulted from the project can be used as a guide to monitor and strengthen measurement and accountability processes. The questionnaire will be made available to national efforts led by Ministry of National Planning and Economic Policy (MIDEPLAN by its acronym in Spanish) to collect information from other sectors of economic activity. The participating companies have received this report with the analysis of the results so that they can use it as a benchmark. Some of the next steps of the project are to strengthen the questionnaire and the results with the learning from this pilot.

The challenge of attracting and retaining FDI that contributes to the sustainable and inclusive development of a country is still more current than ever, and countries have to make relevant policy efforts if they want to have FDI that supports their development process and materializes the potential that this investment has for the construction of capacities, the creation of quality employment, the transfer of technology and the diversification and sophistication of the productive matrix. This project is an example of how foreign direct investment companies that operate in Costa Rica seek to act under responsible business conduct. CINDE, AED and the multinational companies' sector have demonstrated that they are a sector committed to sustainability, which benefits the country not only with more than 29,000 formal jobs but also with educational programs, environmental and social. The findings show how the companies associated with the FDI sector invest with purpose, with 90% of them carrying out formal actions to reduce water and energy consumption, as well as the management of their waste, 80% of the companies have well-being programs, they also invest in quality education for their employees with more than 70,000 hours of technical training and 15,000 hours of socio-emotional training. In addition to this, companies are making significant efforts in terms of gender equality, sustainable mobility, and volunteering.

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