

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK
MULTILATERAL INVESTMENT FUND
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COSTA RICA

**ONE-STOP SHOP FOR MICROENTERPRISE AND
SMALL BUSINESS FORMALIZATION**

(TC-99-02-01-4-CR)

DONORS MEMORANDUM

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CONTENTS

EXECUTIVE SUMMARY

I.	COUNTRY AND PROJECT ELIGIBILITY.....	1
II.	BACKGROUND	1
	A. Frame of reference	1
	B. One-stop shop for microenterprise and small business formalization.....	2
III.	PROJECT OBJECTIVES, STAGES AND ACTIVITIES.....	3
	A. Objectives.....	3
	B. Stages and activities	3
IV.	EXECUTING AGENCY, IMPLEMENTATION MECHANISM, BENEFICIARIES AND PREPAREDNESS.....	7
	A. Executing agency	7
	B. Execution and disbursement mechanism.....	8
	C. Beneficiaries.....	9
	D. Preparedness.....	9
V.	COSTS AND FUNDING	10
	A. Budget and funding.....	10
	B. Sustainability strategy	11
VI.	JUSTIFICATION AND RISKS.....	11
	A. Justification	11
	B. Risks	11
VII.	MONITORING AND CONTROL.....	12
	A. Monitoring.....	12
	B. Accounting and audit	12
	C. External evaluations	13
	D. Performance indicators.....	13
VIII.	SPECIAL CONTRACTUAL CONDITIONS.....	13

ANNEXES

Annex I Logical framework

APPENDICES

Proposed resolution

INFORMATION AVAILABLE IN THE SDS/MIC TECHNICAL FILES

Documents prepared during project design and analysis:

- ✓ Detailed project budget
- ✓ Timetable of project components and activities
- ✓ Benchmarks for project activities and objectives
- ✓ Analysis of the financial sustainability of the one-stop shop
- ✓ Terms of reference for project activities
- ✓ Economic cost-benefit analysis of the project

- ✓ Networked one-stop shop/EDI for the Formalization of Enterprises, 07/1999 (consultants' report)
- ✓ Aide-mémoire of the analysis mission, 12/1999
- ✓ Aide-mémoire of the analysis mission, 6/2000

Documents and reports prepared under the project Action Framework for Microenterprises (ATN/SF-5103-RG):

- ✓ "International best practices and experience in procedures for starting businesses," 07/1999
- ✓ "Formalization of microenterprises and small businesses: analysis and recommendations for Costa Rica," 05/1999
- ✓ "Guidelines for formalization of microenterprises and small businesses in Costa Rica," 11/1998
- ✓ "Notes on the administrative simplification process in Costa Rica," 10/1998
- ✓ "Costs stemming from the formalization of Costa Rican enterprises," 1998

Other relevant documents:

- ✓ "National strategy to support Costa Rican microenterprise and small business during the 1998-2002 period," 11/1998
- ✓ Letters of intent of participating agencies

ABBREVIATIONS

CESI	Committee on Environment and Social Impact
FUCE	Fundación de Cooperación Estatal [State Cooperation Foundation]
MIF	Multilateral Investment Fund

ONE-STOP SHOP FOR MICROENTERPRISE AND SMALL BUSINESS FORMALIZATION

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EXECUTIVE SUMMARY

Beneficiaries:	Microenterprises and small businesses in Costa Rica	
Executing agency:	Ministry of the Economy, Industry and Commerce	
Financing:	Modality: Nonreimbursable technical cooperation	
	MIF Facility I:	US\$660,000
	Local counterpart:	<u>US\$300,000</u>
	Total:	US\$960,000
Execution timetable:	Execution period:	36 months
	Disbursement period:	42 months
Objectives:	The general objective of the project is to contribute to expanding the participation of microenterprises and small businesses in the formal economy of Costa Rica. The specific objective is to increase the rate of formalization of the microenterprise and small business sector by means of a simple, flexible and efficient mechanism for enterprise registration.	
Description:	<p>The project aims to simplify procedures for formalizing enterprises in Costa Rica, through the establishment of a one-stop system. The one-stop shop will require a one-time entry of data for most of the formalities needed to register an enterprise, thus reducing the cost and duration of the process.</p> <p>The project will tap the advantages provided by recent breakthroughs in information technology to establish an electronic network connecting government agencies involved in the enterprise registration process. These agencies will not have to delegate administrative authority to other institutions, nor will they have to introduce substantial changes in their data processing or storage systems. These considerations are expected to reduce any political and technical resistance on the part of the agencies. Moreover, establishment of the network will make it possible for a private</p>	

institution to administer and maintain the system, which will foster the development of a dynamic and competitive market for the provision of registration services through the one-stop system.

To achieve this objective, the project calls for activities to be carried out in three stages: stage I: legal/technical review and institutional commitment; stage II: installation of the one-stop shop and its basic regulatory framework; stage III: simplification of procedures and dissemination of information.

Specialists will be hired during stage I to: (i) review the legal framework for the one-stop shop; (ii) conduct a technical review of the operating specifications for the one-stop shop; and (iii) draft an interagency agreement establishing the commitment of government agencies involved in the enterprise registration process.

Specialists will be hired during stage II to: (i) draft the regulations required for operating the one-stop shop; (ii) design and install the technical system of the one-stop shop; and (iii) legally establish the entity that will manage the one-stop shop, as agreed by the Government of Costa Rica and the Bank. The activities will be carried out in accordance with the legal and technical reviews conducted in stage I.

Specialists will be hired during stage III to: (i) adapt the administrative procedures of participating government agencies; (ii) draft legislative bills that will optimize the use of the one-stop shop but that are not indispensable for its operation; and (iii) promote and disseminate information on the one-stop shop.

**Special
contractual
clauses:**

Prior to the first disbursement, the following is to be presented to the Bank's satisfaction: (i) evidence that an agreement has been signed by the Fundación de Cooperación Estatal [State Cooperation Foundation] (FUCE) and the executing agency (see paragraphs 4.5 and 4.6); and (ii) evidence that the project coordinator has been hired (paragraph 4.3).

The following conditions are to be met prior to the disbursement of funds for stage II activities: (i) a decision will have been made, together with the Bank, regarding the legal form, structure and process of assigning/creating the institution that will manage the one-stop shop, pursuant to the criteria set out in paragraphs 3.6 and 3.14 and the terms of reference; and (ii) an interagency agreement signed by the six government agencies participating in the project will have been presented to the Bank's satisfaction.

CESI: The IDB's Committee on Environment and Social Impact examined this operation during its 10 May 1999 meeting and recommended that environmental and labor-related issues be taken into consideration, as appropriate, in the preparation of project-related manuals, procedures, legislative bills and regulations. These recommendations have been incorporated into the project's terms of reference.

I. COUNTRY AND PROJECT ELIGIBILITY

- 1.1 On 3 December 1993, the Donor's Committee declared the Republic of Costa Rica eligible for all financing modalities under the Multilateral Investment Fund (MIF). The project is considered eligible for MIF funding within the framework of the Technical Cooperation Facility (I) in that it promotes reform of registration process for new enterprises.

II. BACKGROUND

A. Frame of reference

- 2.1 A high rate of voluntary formalization offers a number of benefits for both entrepreneurs (especially microenterprise and small business owners and their employees) and for the government. For entrepreneurs, obtaining formal status means they can engage in their business activities without being afraid of visibility or having to limit the growth of their enterprise. It will also enable them to more easily gain access to credit, sign contracts with large firms, and take advantage of government benefits and programs. For their employees, enterprise formalization means greater job security as well as better established rights and benefits. A spill-over effect of the higher rate of formalization is that the Treasury will receive increased tax revenues from the microenterprise and small business sector. A higher rate of formalization will also provide the government with more information for defining and managing policies and programs for the sector.
- 2.2 Despite the aforementioned benefits, formalization of enterprises in Costa Rica is low. Current studies show that some 250,000 people work in 65,000 microenterprises and small businesses in the informal sector, indicating that one third of the labor market does not enjoy the benefits of formalization. This is because significant disincentives exist for microenterprises and small businesses to gain formal status.
- 2.3 One of the main obstacles to the legal establishment of microenterprises and small businesses is the complexity of government regulatory requirements. At the minimum, the process requires registering the enterprise with six different government institutions: Mercantile Registry Office; National Insurance Institute; Costa Rican Social Security Administration; Direct Taxation Directorate; Ministry of Health; and the corresponding municipality. This applies to all individuals and companies, whether Costa Rican or foreign.
- 2.4 The current cost of full registration is estimated at US\$200, although the amount can easily rise to US\$750, depending on the type and size of the enterprise. This figure does not represent the real cost, however, as the registration process can take from two to twelve months to complete. As a result, direct monetary costs and the

value of time spent on the formalization process is very high in relation to the revenues of microenterprise and small business owners.

- 2.5 In the spirit of deregulation, on 14 October 1998 the Government of Costa Rica established the National Deregulation Commission to simplify and eliminate excessive regulations and formalities in the economy. It also established a Technical Secretariat for the Commission, coordinated by the Ministry of the Economy, Industry and Commerce, with the responsibility of preparing and presenting proposals for legal reform in the areas of deregulation and administrative simplification.

B. One-stop shop for microenterprise and small business formalization

- 2.6 This project deals specifically with the problems associated with the formalization of microenterprises and small businesses, a matter of great importance in Costa Rica. The proposed project is compatible with the government strategy approved in November 1998, which explicitly identifies the high cost of formalization as one of the most important regulatory problems facing the sector.
- 2.7 Specifically, the project proposes to simplify enterprise formalization procedures in Costa Rica through the establishment of a networked one-stop shop. This will consist of an electronic system that uses information technology to connect the institutions by means of a central server, making it possible to enter data just once to carry out six legal procedures electronically. The networked one-stop shop will reduce the amount of time and the certifications required today to carry out these processes consecutively. It will reduce the cost and duration of the registration process, thus spurring a voluntary increase in microenterprise and small business formalization.
- 2.8 The network design offers various advantages over traditional one-stop-shop proposals. First, it does not require participating government agencies to delegate administrative authority to other institutions; this will reduce *political* resistance to participate in the network. Secondly, the network can be structured in a way that will not require a substantial change in the government agencies' data processing or storage systems;¹ this will reduce the *technical* resistance of these agencies. Third, system design will allow for data to be entered by private entities, which will foster development of a competitive, decentralized and separate market for enterprise registration services.
- 2.9 In order to ensure full private-sector participation and transparent administrative management, the one-stop network will be administered by a private institution with broad coverage in the country's business sector. The institution will be

¹ In addition, the different agencies' budgets will not be affected since the one-stop shop will not affect their respective fee systems.

supervised by a committee of representatives of the government agencies involved in the enterprise registration process. In the first stage, the project will support the Costa Rican government in defining the identity structure and the process of appointment of the institution.

- 2.10 It should be underscored that the establishment and operation of the one-stop network will depend on the political determination of the six government agencies involved in the enterprise formalization process. The Ministry of the Economy, Industry and Commerce, through the Technical Secretariat of the Deregulation Committee, will exercise the leadership necessary to achieve consensus among the participating agencies with regard to technical and regulatory details, and institutional commitments related to establishing the network.

III. PROJECT OBJECTIVES, STAGES AND ACTIVITIES

A. Objectives

- 3.1 The general objective of the project is to contribute to expanding the participation of microenterprise and small business in the formal economy of Costa Rica. The specific objective is to increase the rate of formalization of the microenterprise and small business sector by means of a simple, flexible and efficient mechanism for enterprise registration.

B. Stages and activities

- 3.2 The project's stages and activities aim to establish a registration mechanism that will enable entrepreneurs to conduct the greater part of the process at one easily accessible location. This will involve establishing an electronic network. The private sector will participate in managing the network and in providing services to entrepreneurs. In addition, the project will work to streamline and simplify some of the registration procedures that, because of their nature, are not handled through the one-stop shop.
- 3.3 In order to achieve its objective, the project will implement activities in three stages. In the first stage, a legal and technical review will be conducted in order to more accurately define the regulatory and technical parameters of the one-stop network. On the basis of the review, the interagency agreement to be signed by the participating government agencies will be drafted, specifying in detail their commitment to the one-stop network. In the second stage, and based on the reviews conducted during the first stage, the technical work will be performed for establishing the one-stop network, work will be undertaken to implement the regulatory framework essential to its operations, and the institution that will manage the one-stop network will be set up. The third stage will focus on changing certain laws and regulations that, although not essential to the operation of the one-stop

shop, will have a significant impact on facilitating the entire enterprise registration process. The terms of reference for all project activities are ready.

Stage I: Legal/technical review and institutional commitment

- 3.4 Local and international specialists will be hired during this stage to: (i) conduct a legal review of the regulatory framework for the one-stop shop; (ii) conduct a technical review of the operating specifications for the one-stop shop; and (iii) draft an interagency agreement that incorporates the commitments of the government agencies involved in the enterprise registration process.
- 3.5 The legal review will examine all regular laws (ratified by the Legislative Assembly) and regulations (lower ranking than the laws) that could limit the operation of an electronic registration system or increase its cost. The review will pinpoint the most complex rules, both internally and in relation to other regulatory bodies, and will determine if the proposed changes apply only to a specific process to be handled at the one-stop shop, or if they apply to other legal administrative or judicial acts.²
- 3.6 Legal review will also establish the regulatory options that exist for creating or appointing an institution to manage the one-stop network. This review should consider: (i) the management firm's qualifications and suitability vis-à-vis the functions to be carried out; (ii) the incentives and managerial and financial capabilities of the management firm; (iii) the ability to offer competitive and geographically dispersed one-stop-shop services; and (iv) the political viability, level of complexity and cost of each option. Based on this review, the legal form of the management firm, as well as the process to create/appoint it, will be recommended and justified.³
- 3.7 The technical review of the one-stop shop will establish the technical parameters of its operating system. First, the consultants will analyze the options for connection, and the cost of linking the databases of the six agencies in order to create the one-stop system. At a minimum, the review should consider the following options: (i) network connection through a central server accessible through the Internet, including different options for leasing a server accessible through the Internet, and (ii) design of the software programs needed to allow an electronic exchange of data among participating government agencies (through a server), without this requiring any fundamental change in the agencies' computer systems. Minimum technical

² For example, the procedural rules that restrict the evidentiary effect of digital signatures, which will be necessary for optimal operation of the one-stop shop, can be applied to many other legal acts, such as the validity of contracts or securities.

³ The two most likely options for its creation/appointment are a presidential decree or a government concession process.

parameters should also be established for other agencies (primarily municipalities) that may wish to join the one-stop system in the future.

- 3.8 The technical review will also include development of a single form for electronic enterprise registration that incorporates the information required by the different government agencies. In designing the form, the exercise of the agencies' authority to charge fees or to exert control by means of a verification of handwritten signatures will be respected.
- 3.9 Taking into account the legal and technical reviews, an interagency agreement will be drafted for signature by the participating government agencies. At the minimum, the interagency agreement should specify: (i) the rights and obligations of participating agencies; (ii) a commitment to use the single registration form and of the one-stop system; (iii) electronic acceptance of the data on the form; (iv) approval of registration based on the receipt of electronic data; and (v) the rules and regulations that need to be changed.
- 3.10 Before continuing on to stage II, the Bank must approve the recommendation submitted by the executing agency regarding the legal form, structure and process of appointing/starting up of the institution that will manage the one-stop shop, in accordance with the criteria set out in paragraphs 3.6 and 3.14 and the terms of reference. In addition, the interagency agreement must be signed by all the pertinent agencies before future disbursements can be made. If it is determined that this agreement will not be signed, the remaining project funds may be cancelled.

Stage II: Establishment of the one-stop shop and its basic regulatory framework

- 3.11 Specialists will be hired during stage II to: (i) prepare draft regulations required for the one-stop shop; (ii) design and install the technical system of the one-stop shop; and (iii) legally establish the institution that will manage the one-stop shop, as agreed by the Government of Costa Rica and the Bank. The activities will be based on the legal and technical reviews conducted in stage I.
- 3.12 The work to prepare draft regulations will focus on writing decrees or regulations (they are not expected to be laws) applicable to the enterprise formalization process, that will be essential for operation of the one-stop shop. Specifically, the aim will be to enable participating government agencies to recognize electronic information through the one-stop shop. At present, regulations governing those institutions do not cover electronic requests or processing. Moreover, a presidential decree or other equivalent action will be sought for defining the general framework under which the one-stop shop will be administered.
- 3.13 The design and installation of the technical elements of the one-stop shop will include purchasing and programming software to create a configuration that permits

connection of the participating agencies to a central database located in a server that is easily accessible to all participants. The consultants will program the database and rent space on the one or more servers where it will be installed. They will also develop a web page to disseminate public information on the administration and maintenance of the one-stop shop, and on all the rules that govern its operations.

- 3.14 Once the draft regulations and the technical design of the one-stop shop are complete, the Costa Rican government will undertake official proceedings to create/appoint the institution that will manage the one-stop shop, as agreed by the Government and the Bank (see paragraph 3.6). This process should ensure that the management firm embodies the following characteristics: (i) a transparent management structure that is independent and flexible in financial, administrative and contractual terms; (ii) a structure that enables it to respond naturally and promptly to the demands and opinions of suppliers and users of one-stop services; and (iii) within a context of financial self-sustainability, natural and structural incentives to keep down the fees charged to suppliers and users of one-stop services.
- 3.15 At the end of stage II, a midterm evaluation will be conducted (see paragraph 7.4) to evaluate the activities carried out during the first and second stages of the project. Specifically, the evaluation will analyze the degree of compliance with the following: (i) technical elements of the one-stop shop; (ii) a suitable regulatory framework for operating the one-stop shop; and (iii) the existence of a management firm with the characteristics necessary for managing the one-stop shop, in accordance with the criteria set out in paragraphs 3.6 and 3.14.

Stage III: Simplification of procedures and dissemination of information

- 3.16 Specialists will be hired during this stage to: (i) adapt the administrative procedures of participating government agencies; (ii) draft legislative bills that will optimize use of the one-stop shop and simplify certain formalities related to the enterprise registration process; and (iii) promote and disseminate information on the one-stop shop.
- 3.17 To adapt the administrative processes of participating government agencies, consultants will work to adjust internal procedures with a view to enabling the agencies to respond more rapidly to requests transmitted through the one-stop network. In addition, the consulting firm that designs and installs the technical system will offer orientation workshops on how to connect to the server and to the one-stop database.
- 3.18 The drafting of legislative bills will involve proposing regulations of a substantive legal or regulatory nature (decrees, ministerial rulings) associated with the enterprise registration process. The activity will only finance draft regulations that: (i) strengthen the legal tenets that supports registration by means of the one-stop

shop (i.e., electronic written form); and (ii) simplify enterprise registration procedures that are not handled through the one-stop shop (deposit of initial capital, articles of association, publication of the articles of association in the official gazette, and legalization of the books for tax purposes).⁴ Each bill will include a background section explaining *in extenso* the economic and legal tenets applicable to the reforms, to ensure that the relevant agents understand the underlying economic motivation and legal merits thereof.

- 3.19 The activity to promote and disseminate information will support other project activities and include: (i) organizing a legal seminar to explain and discuss the legislative bills and proposed regulations for simplifying the enterprise registration process; (ii) holding workshops and conducting publicity campaigns to inform suppliers and potential users of the one-stop services; and (iii) organizing a nationwide seminar to publicize the project. These activities aim to promote the use of the one-stop shop by the microenterprise and small business sector, and to create greater interest and commitment on the part of the public and private sectors in reforming the laws and regulations that affect the enterprise registration process.

IV. EXECUTING AGENCY, IMPLEMENTATION MECHANISM, BENEFICIARIES AND PREPAREDNESS

A. Executing agency

- 4.1 The executing agency of the project will be the Ministry of the Economy, Industry and Commerce, given its legal and administrative capacity to conduct the proposed activities. The ministry coordinates the Technical Secretariat of the Deregulation Commission, which has a group of attorneys and economists to promote changes in

⁴ **Legislative bills:**

- (i) Legislative bill on electronic written form: conditions for evidentiary effects in trials.
- (ii) Legislative bill to modify (or repeal) the articles of the Commercial Code and related laws that apply to the establishment of a business, relative to the following requirements:
 - a) Deposit of initial capital (Art. 107 of the 1964 Commercial Code, amended by Law 7,201 on the stock market).
 - b) Public registration of the articles of association of the enterprise (primarily Article 231 of the Commercial Code, and related articles 10, 18, 19, 23, 24, 25, 34, 80, 81, 82, 93, 104, 105, 106 of the Commercial Code and Art. 1, 6 (bis), 32, 34 and 35 of the Law on the Registration of Documents of the Public Registry Office);
- (iii) Requirement on publication of edicts for the establishment of corporations (Commercial Code 13, 19, 83, 207)
- (iv) Legislative bill to amend (or repeal) articles of tax laws applicable to the requirement of legalizing books on paper (Law 7,201 of 10 October 1990) and related regulations for requesting the legalization or replacement of books from the Direct Taxation Directorate of the Ministry of Finance.

the legal and regulatory frameworks, with a view to fostering a more open economy, strengthening the private sector, and modernizing the State. In addition, the ministry has the counterpart resources.

B. Execution and disbursement mechanism

- 4.2 Project execution is expected to last three years (execution, 36 months and disbursement, 42 months). The project will establish an executing unit within the Ministry of the Economy, Industry and Trade, the principal responsibilities of which will be to coordinate actions among participating institutions, manage project activities, process requests for disbursements from the Bank's contribution in line with the respective disbursement procedures, take the necessary steps to secure local counterpart funds, and prepare the corresponding statements of account for the funds used in project implementation.
- 4.3 The executing unit will be composed of two persons (a coordinator with experience in project management and an administrative assistant). It will carry out its activities in coordination with the Technical Secretariat of the Deregulation Commission, under the coordination of the Ministry of the Economy, Industry and Commerce. With a view to discussing and analyzing issues relevant to the one-stop shop, the Technical Secretariat will be authorized to invite agencies of the public and private sectors associated with and involved in the operation of the one-stop shop to ad hoc meetings.
- 4.4 The executing unit, whose staff will be financed primarily with MIF funds, has the responsibility of presenting accounts and administrative and technical reports to the Bank's Country Office in Costa Rica. Within two weeks of being hired, the coordinator will present a work plan that will contain the timetable of activities and the principal indicators that will make it possible to measure project performance. A condition precedent to the first disbursement of the project is evidence that the coordinator has been hired.

Special aspects of execution and disbursement

- 4.5 The Costa Rican government has requested Bank consent to directly hire the services of a private, not-for-profit agency, the State Cooperation Foundation (FUCE) to administer the procurement of goods and services required for the project. FUCE has considerable experience providing support to projects funded with resources from the IDB and similar agencies. Hiring this entity would make it possible to avoid the complex procurement processes of Costa Rican public administration, given that funds disbursed through FUCE are not considered "public funds." This institutional arrangement was used for administering other

MIF operations in Costa Rica, with satisfactory results.⁵ This structure will streamline the execution process. FUCE expenditures will be covered by government funds.

- 4.6 FUCE's sole function will be to provide administrative support for the procurement of goods and services, and will not include responsibilities of technical supervision. The agreement signed with the executing agency requires Bank approval; this will ensure that the necessary provisions are included for the procurement of goods and services to be performed in accordance with Bank and MIF procedures. Evidence of a signed agreement between FUCE and the executing agency will be a condition precedent to the first disbursement.
- 4.7 As far as the management of the one-stop network is concerned, the management firm created in stage II will gradually take over this responsibility, including: (i) renting the server; (ii) contracting for maintenance of same; (iii) charging fees; and (iv) making other decisions related to system management. After 24 months, this institution will assume full responsibility for network management.

C. Beneficiaries

- 4.8 Primary project beneficiaries will be microenterprise and small business owners who currently have to deal with a very costly legal and administrative process, relative to the output and profits of their businesses (both in terms of monetary and time considerations), in order to meet the legal requisites for engaging in commercial activity in Costa Rica.

D. Preparedness

- 4.9 Through the Technical Secretariat of the Commission on Deregulation, steps have already been taken to build consensus among the six public agencies that will make up the one-stop shop. A letter of intent has been received from the pertinent government agencies indicating their general commitment to the project and to the one-stop shop. As mentioned earlier, the project will include preparation of an interagency agreement among these agencies that will set out the specific aspects of their commitment vis-à-vis the one-stop shop. In addition, in preparing the operation, the project team and the executing agency drafted the terms of reference for the project coordinator and for the consulting services that will be hired during the course of the project.

⁵ ATN/MT-5643-CR, Support for opening up the financial system to the private sector.

ATN/MT-5644-CR, Program to strengthen the capital market.

ATN/MT-5645-CR, Program to strengthen the public works concession system.

V. COSTS AND FUNDING

A. Budget and funding

- 5.1 The cost of the project is estimated to be US\$960,000. The MIF will provide US\$660,000 on a nonreimbursable basis; the Costa Rican government will provide US\$300,000 (US\$160,000 in cash and US\$140,000 in kind). The counterpart from the Costa Rican government amounts to 31.3% of the project cost.

**Table 1: Project budget
(in U.S. dollars)**

Stages and Activities	MIF	Government of Costa Rica	Total
I. Legal/technical review and institutional commitment	61,500	37,500	99,000
A. Legal review	24,000	12,000	36,000
B. Technical review	25,000	9,000	34,000
C. Preparation of interagency agreement	12,500	16,500	29,000
II. Establishment of the one-stop shop and its basic regulatory framework	182,000	84,500	266,500
A. Preparation of draft regulations	32,000	32,000	64,000
B. Design and installation of the operating system	122,000	38,000	160,000
C. Creation/appointment of the management firm	28,000	14,500	42,500
III. Simplification of procedures and dissemination of information	155,000	110,000	265,000
A. Adaptation of processes in government agencies	60,000	12,000	72,000
B. Preparation of legislative bills	42,000	48,000	90,000
C. Promotion and dissemination	53,000	50,000	103,000
SUBTOTAL	398,500	232,000	630,500
IV. Administration	153,000	68,000	221,000
V. External evaluations	50,000	0	50,000
VI. Audit	15,000	0	15,000
VII. Contingencies	43,500	0	43,500
TOTAL	660,000	300,000	960,000

- 5.2 Once the conditions precedent to the first disbursement have been met, the Bank may advance funds from its contribution to establish a revolving fund in an amount not to exceed 10% of the amount of the contribution. These funds are to be handled through a special bank account in the name of the project. Within the 60 days following the end of each calendar semester, the executing unit is to present status reports on the resources in the revolving fund. It is important to underscore that

establishment of the one-stop shop will not affect the government agencies' fees and stamp charges during the enterprise registration process.

B. Sustainability strategy

- 5.3 As mentioned earlier, the project envisages the creation of a private institution that, as of month 24, will assume management of the one-stop system and administer it over the long term. This institution should have incentives and the capacity to manage the system in an open, dynamic, efficient and financially self-sustaining way. The cost of managing the one-stop shop should be covered by a users fee to be charged by the management firm for each transaction processed through the one-stop system. Given the relatively low cost of maintaining the system, it is estimated that the fee will not exceed US\$12 per transaction the first year, falling to US\$7 per transaction after ten years of operation.⁶

VI. JUSTIFICATION AND RISKS

A. Justification

- 6.1 Project justification is based on the following considerations. First, if it is successful, the project will have a significant impact because of the number of microenterprise and small business owners (estimated at 93,500 in 10 years). Second, it is an innovative project that incorporates and promotes private sector participation in processes normally administered by the State. Third, it can be replicated in other Latin American countries, since enterprise formalization is an important issue in all countries of the region.

B. Risks

- 6.2 The greatest risks faced by this project are difficulties or delays in reforming laws and regulations that affect the enterprise formalization process. Although the most important reforms for the operation of the one-stop shop are regulatory in nature, there is always some degree of risk regarding their approval and adoption. The project also intends to introduce *the amendment of laws* with a view to streamlining and simplifying certain processes associated with enterprise registration; these changes will require more time and greater effort. These amendments, which are

⁶ Administration costs will consist basically of: server rentals (estimated at US\$300/month), periodic updating of the system (estimated at US\$2,000/month), and reprogramming of the system every six years (estimated at a cost of US\$40,000). If we assume that 48 months after the project is launched, 300 registrations per month are processed through the one-stop shop (at present about 1,500 are processed monthly at the Public Registry Office), this would require a fee of approximately US\$12 per transaction to sustain the system. This fee would fall to US\$7 per transaction after 10 years. The initial fee will be established in the business plan of the management agency. The cost will be higher if the management agency has to pay for the right to manage through a concession process.

important for reducing the cost of the entire process but are not critical to the operation of the one-stop network, could in some cases be complex and politically controversial.

- 6.3 The project has earmarked resources for hiring local and international experts to formulate legislative bills and draft regulations adapted to Costa Rican circumstances. A component for publicizing and disseminating information to the public and private sectors regarding the benefits that may derive from these amendments is also included. The Ministry of the Economy, Industry and Commerce is committed to exercising its political, legal and administrative authority to work with all participating government agencies to accelerate the reform of the pertinent legal and regulatory frameworks.

VII. MONITORING AND CONTROL

A. Monitoring

- 7.1 The Ministry of the Economy, Industry and Commerce, through the executing unit, will be responsible for monitoring the project and preparing the corresponding reports. Each semester it will prepare a progress report that documents the activities and results accomplished during the period, comparing them with the established schedule and indicators. The coordinator's semiannual report should also reconfirm the timetable of activities and the disbursements for the next period. The progress report is to be delivered to the Bank's Country Office for approval within 30 days of the end of the corresponding semester. The Bank's Country Office will use these reports to supervise project implementation and to prepare the final report within three months of the last disbursement.
- 7.2 The Bank's Country Office in Costa Rica, with support from the project team and the executing unit, will conduct annual performance reviews to determine the degree of fulfillment of the project's objectives and activities. These reviews will determine the annual needs of the counterpart and whether the project should continue, be suspended or canceled. The frequency of these joint reviews will take into account the progress reports, as well as the results of the independent evaluation.

B. Accounting and audit

- 7.3 FUCE will be responsible for: (i) establishing and maintaining appropriate accounting, financial and internal controls, as well as the filing systems necessary

for determining in detail the sources and use of project funds;⁷ (ii) opening separate and specific bank accounts for administering the MIF contribution and the local counterpart funds; (iii) processing disbursement requests for the executing unit; and (iv) preparing and presenting to the Bank the audit report of the project's annual financial statements. FUCE will present the accounts to the Ministry of the Economy, Industry and Commerce, which, in turn, will deliver them to the Bank.

C. External evaluations

- 7.4 The project will cover the cost of hiring an independent consultant to conduct a baseline study, a midterm evaluation and a final evaluation, for which the terms of reference have been prepared. The baseline study, which will provide basic information for the evaluation of project impact, will be conducted during stage II. The midterm evaluation, which will be conducted within 30 days of the end of stage II but no later than 24 months after project outset, will examine project progress in terms of the logical framework, the performance indicators and the work plan presented by the coordinator. This evaluation will pay special attention to the degree of compliance with: (a) the technical elements of the one-stop shop; (b) the regulatory framework of the one-stop shop; and (c) the appointment of the management firm and its capacity and incentives for managing the one-stop shop, in accordance with the criteria set out in paragraphs 3.6 and 3.14. The final evaluation, which will analyze both fulfillment of project activities and project impact, will be done within three months of project completion.

D. Performance indicators

- 7.5 Performance indicators have been prepared for the project, both for the activities to be undertaken and for the objectives to be achieved. The project coordinator will be responsible for reviewing and confirming these indicators in his/her work plan and in each progress report.

VIII. SPECIAL CONTRACTUAL CONDITIONS

- 8.1 Prior to the first disbursement, the following must be presented to the Bank's satisfaction: (i) evidence of an agreement having been signed by the State Cooperation Foundation (FUCE) and the executing agency (see paragraphs 4.5 and 4.6); and (ii) evidence of having hired the project coordinator (see paragraph 4.3).

⁷ Project records will contain: (i) determination of the amounts received from different sources; (ii) information on project expenditures, distinguishing between MIF contributions and funds from other sources; and (iii) the necessary details for determining what goods were acquired and what services contracted.

- 8.2 Conditions precedent to the disbursement of funds for stage II activities are as follows: (i) a decision will have been made, together with the Bank, regarding the legal form, structure and process for appointing/creating the agency that will manage the one-stop shop, in accordance with the criteria set out in paragraphs 3.6 and 3.14 and the terms of reference; and (ii) an interagency agreement signed by the six participating government agencies will have been presented to the Bank's satisfaction.

LOGICAL FRAMEWORK

Strategic Summary	Indicators	Means of verification	Assumptions
Goal			
Contribute to expanding the number of microenterprises and small businesses in the formal sector of Costa Rica.			
Purpose			
Increase the rate of formalization of microenterprise and small business sector.	<ul style="list-style-type: none"> ✓ By the end of the project implementation period, there will be an increase of 30 enterprises per month registered in Costa Rica (compared with a scenario without the one-stop shop). ✓ By project end, 300 enterprises registered monthly through one-stop shop. 	<ul style="list-style-type: none"> ✓ Information requested on the single enterprise registration form. ✓ Final evaluation. ✓ Minutes of business chambers and municipalities. 	<ul style="list-style-type: none"> ✓ Enterprise formalization in Costa Rica facilitates expansion of the active microenterprises and small businesses.
Areas			
Work of the one-stop shop and regulatory framework implemented that allows and facilitates operation of the one-stop shop.	<ul style="list-style-type: none"> ✓ As of month 18, a regulatory framework will have been installed: <ul style="list-style-type: none"> (a) by which government agencies recognize the validity of the electronic information transmitted through the one-stop shop. (b) that recognizes the authority of the one-stop shop's management firm. ✓ As of month 21, 1 of the 4 planned legislative bills submitted. ✓ As of month 24, 2 of the 4 planned legislative bills submitted. ✓ As of month 27, 3 of the 4 planned legislative bills submitted. ✓ As of month 30, all 4 of the planned legislative bills submitted. 	<ul style="list-style-type: none"> ✓ Midterm evaluation. ✓ Progress reports of the executing unit. 	<ul style="list-style-type: none"> ✓ Cost and time saving by the one-stop shop sufficient for inducing increase in the registered businesses. ✓ 1 of every 3 municipalities or other potential suppliers contacted decides to register in the one-stop shop. ✓ 1 of every 25 microenterprises and small businesses contacted decides to register through the one-stop shop.

Strategic Summary	Indicators	Means of verification	Assumption
Administrative/Technical System of one-stop shop Administrative/technical system provides for sustainable and management of the one-stop shop.	✓ Management agency registered before month 21. ✓ The electronic network of the one-stop shop installed and on line with all participating agencies, before month 27. ✓ At least 10 one-stop shop offices operating in at least 3 cities, before month 36.	✓ Progress reports of the executing unit.	
Targeted Dissemination Groups reached by means of publicity and promotion campaign.	✓ 15 potential suppliers (of services for the one-stop shop) hired before month 33. ✓ 50,000 microentrepreneurs and small business owners reached before project end.	✓ Progress reports of the executing unit. ✓ Estimates from magazines and radio stations publicizing the one-stop shop.	
Activities			
Work of the one-stop shop a legal review and prepare action; inter-agency agreement for participating government agencies; and substantive legal rules or decrees (ministerial orders) associated with the formalization process.	✓ Budget used.	✓ Progress reports of the executing unit. ✓ Midterm evaluation. ✓ Final evaluation.	✓ The government agency responsible for business registration committed to the project. ✓ The regulatory and legal reforms envisaged in the project are approved.

Executive Summary	Indicators	Means of verification	Assumptions
<p>System of the one-stop shop</p> <p>conduct a technical review, complete the preparation of a single document and a plan of action; install the one-stop management system; and disseminate the articles of association and the one-stop management</p>	<p>✓ Budget used.</p>	<p>✓ Progress reports.</p> <p>✓ Midterm evaluations.</p> <p>✓ Final evaluation.</p>	
<p>Dissemination</p> <p>conduct a legal seminar to inform and discuss the laws and regulations proposed for the one-stop shop; conduct workshops to inform legal suppliers about the one-stop shop; conduct promotional activities through the mass communications media, and conduct a national seminar to promote the project. These activities will promote the use of the one-stop shop by the enterprise and small business and create greater interest and commitment in the public and private sectors for amending laws and regulations that affect the business registration process.</p> <p><i>Components of this project will be implemented in accordance with the progress of the components.</i></p>	<p>✓ Budget used.</p>	<p>✓ Progress reports of the executing unit.</p> <p>✓ Midterm evaluation.</p> <p>✓ Final evaluation.</p>	

PROPOSED RESOLUTION

**COSTA RICA. NONREIMBURSABLE TECHNICAL COOPERATION FOR THE
ESTABLISHMENT OF A ONE STOP SHOP FOR THE FORMALIZATION OF
MICRO AND SMALL ENTERPRISES**

The Donors Committee of the Multilateral Investment Fund

RESOLVES:

1. That the President of the Inter-American Development Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Multilateral Investment Fund, to enter into such agreements as may be necessary with the República de Costa Rica and to take such additional measures as may be pertinent for the execution of the project memorandum referred to in Document MIF/AT- with respect to a technical cooperation project for the establishment of a one stop shop for the formalization of micro and small enterprises.
2. That up to the amount of US\$660,000, or its equivalent in other convertible currencies, is authorized for the purpose of this resolution, chargeable to the resources of the Technical Cooperation Facility of the Multilateral Investment Fund.
3. That the above-mentioned sum is to be provided on a nonreimbursable basis.