



## ECONOMIC AND LEGAL CONSIDERATIONS FOR START-UPS AND SCALE-UPS WISHING TO DO BUSINESS OR INVEST IN COSTA RICA

*Costa Rica is a Central America upper middle-income country with a population of 5 million people, out of which 50% constitute the labour force. The population is relatively young; 64% is under 40, and only 13% is over 60. Costa Rica is an example of successful development in the region, largely due to its open economy and enabling business environment, supported by a sound legal system, and a history of stable democracy, peace, and rule of law. It is the 3<sup>rd</sup> largest economy by GDP in Central America, following Guatemala and Panama, and in terms of GDP per capita (\$US 12,238.4) it is the 2<sup>nd</sup> most important country in the region, only behind Panama. Costa Rica strongly stands for health and education; its government expenditure on healthcare as a percentage of GDP accounts for 9.9%, and 7.6% on education. According to WEF Global Competitiveness Report 2019, Costa Rica ranks 25<sup>th</sup> in “Health”, 26<sup>th</sup> in “Skills of current workforce”, and 1<sup>st</sup> in Latin America for “Human Capital”. It is also a biodiversity and sustainability champion, accounting for 5% of the Earth’s biodiversity, and named in 2019 as the “UN Champion of the Earth” for pioneering fighting climate change. It has a strategic geographic location with coastlines to the Atlantic and Pacific oceans. Costa Rica has a diverse, innovative, and knowledge-based global trade platform. Its top product exports are medical instruments, bananas, tropical fruits, coffee, and other edible preparations. Its top services exports are personal travel, miscellaneous business (e.g. accounting, finance, HR, logistics, data processing, R&D), IT & telecom, transport, and manufacturing transformation.*

In a nutshell:

**International economic relations.** Costa Rica is a member of the United Nations (UN), the World Trade Organization (WTO), and the Organization for Economic Co-Operation and Development (OECD). Costa Rica’s economic growth is highly driven by foreign trade, it offers broad access to world markets through its network of 15 free trade agreements (FTAs) with 51 countries (including with China, EU, and the US) which in sum account for 93.1% of its goods exports and 83.6% of goods imports; 16 Reciprocal Investment Promotion and Protection Agreements (RIPPAs); 4 Avoidance of Double Taxation Agreements; and it is a signatory Party to the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (MLI). Costa Rica actively participates in regional integration initiatives and is a Member of the Central American Common Market (CACM) that establishes a Customs Union with other 5 countries.

**International business.** Its investment, import, export, and transit regimes are mainly regulated by WTO rules, and international, regional, and bilateral agreements to which Costa Rica is a Party. Its related domestic legislation includes the General Customs Law and the Central American Uniform Customs Code, along with the respective regulations; Free Zone Regime Law; Central American Customs System (containing the MFN tariff); Law on Copyright and Related Rights; Law on Patents, Industrial Designs and Utility Models; Law on the National Quality System (technical regulations); and General Law on the Promotion of Competition and Effective Consumer Protection. There is no general law governing the investment regime; instead, it falls under several laws, executive decrees, and Constitutional provisions.

**Main trade competitors.** Considering its main product and services exports, Costa Rica’s main trade competitors in worldwide markets are Brazil, Chile, Colombia, Dominican Republic, Ecuador, Guatemala, Mexico, Panama, Peru, and the United States.

**Foreign investment incentives.** The Foreign Trade Promotion Agency (PROCOMER) a government entity, and the Costa Rican Coalition for Development Initiatives (CINDE), a private non-profit organization, work together with the Ministry of Foreign Trade (COMEX) to implement programmes to promote foreign investment, particularly in high value-added sectors, and those with substantial development potential (life sciences, services, manufacturing and food industry). Foreign investors do not require prior authorization to invest. There are no foreign exchange restrictions, nor there are limitations on the repatriation of profits or capital from the liquidation of an investment. Companies operating under the Free Zone Regime (RZF) receive significant benefits, including exemption of customs duties and charges on imported goods needed to operate, exemption of sales taxes (IGV) and consumption taxes (ISC), as well as other taxes and charges. Remittances abroad by foreign investors in RZF, as opposed to those not operating in RZF, are not subject to taxes.

**National business.** It is mainly regulated by the Commercial Code (Law No. 3284); Law on Value Added Tax; Law on Income Tax; Labour Code; Law on the Promotion of Competition and Effective Consumer Protection; Law on Copyright and Related Rights; Law on Patents, Industrial Designs and Utility Models; and laws applicable to specific sectors, such as the Law Regulating Travel Agencies, and the Regulations governing Tourism Enterprises and Activities.

**Legal forms of companies.** In accordance with the Commercial Code, there are four types of commercial companies: general partnerships, limited partnerships, limited liability companies, and public limited companies, the latter being the most prevalent. In 2011, Costa Rica launched a National Strategy for the Simplification of Administrative Procedures and Regulatory Improvement, with a view to substantially reducing formalities, particularly for SMEs. Two initiatives have been developed to that end: “Trámites Costa Rica”, designed to streamline formalities, requirements and procedures required for the incorporation of enterprises and businesses; and the Investment Single Window, aimed at enhancing government agencies coordination with regards to the procedures for the formal establishment, operation and functioning of enterprises.



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**Labour legislation.** It mainly consists of the Labour Code, and relevant provisions in the Constitution. Labour laws regulate labour relationships, labour conditions, minimum wage, hours of work, holidays, and other benefits. Costa Rica has a sound Social Security System administered by the Costa Rican Social Security Fund (CCSS) and financed by contributions from the government, employers, and employees. It provides for healthcare, maternity assistance, pensions, amongst others.

**Access to labour market.** Foreign nationals wishing to work in Costa Rica need to apply for a residency and work permit, issued by the General Immigration Directorate.

**Taxation.** The main taxes for which companies doing business in Costa Rica are subject are the corporate income tax, capital gain tax, withholding tax, value added tax (VAT), tax on real estate property and social security contributions (on behalf of employees). The Ministry of Finance, through the General Directorate for Revenue is the government agency responsible for assessing and collecting taxes, the General Directorate for Customs is responsible for collecting customs duties and other import duties, and local taxes are assessed and collected by the municipality authorities. Customs duties must be paid in accordance with the Central American Customs System, and free trade agreements, as appropriate.

**Economic and legal weaknesses.** Costa Rica's fiscal situation is the most critical challenge. Its fiscal deficit closed 2019 in 7% and is estimated to reach 9.3% in 2020, becoming the biggest deficit in the past four decades, and increasingly putting the country at risk of economic crisis, amongst others, becoming more vulnerable to shocks and facing unsustainable growth in public debt, thus threatening Costa Rica's remarkable economic, social and environmental achievements. As indicated by the OECD, the full and timely implementation of the fiscal reform is critical to restore medium-term fiscal sustainability, ensure macroeconomic stability and set the basis for wider spread improvements in living standards.

**Economic and legal strengths.** Costa Rica's economy centred on trade openness, enhancement of foreign direct investment, well-being, and sustainable use of resources have allowed the country to produce remarkable economic and social results, ranking highly in many dimensions of well-being including life satisfaction, life expectancy, basic sanitation services, and education. These factors were critical to their OECD accession in 2020. Costa Rica offers a strategic geographic location preferential access to worldwide markets accounting for 2.5 billion people and 2/3 of world's GDP. According to the WEF, it ranks #1 among Latin America countries in human capital, innovation efficiency, and University-Industry Collaboration in research and development.

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