Costa Rica

RISK & COMPLIANCE REPORT

DATE: March 2018

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Executive Summary - Costa Rica	
Sanctions:	None
FAFT list of AML Deficient Countries	No
Higher Risk Areas:	US Dept of State Money Laundering Assessment Not on EU White list equivalent jurisdictions International Narcotics Control Majors List
Medium Risk Areas:	Non - Compliance with FATF 40 + 9 Recommendations Weakness in Government Legislation to combat Money Laundering Corruption Index (Transparency International & W.G.I.) World Governance Indicators (Average Score) Failed States Index (Political Issues)(Average Score)

Major Investment Areas:

Agriculture - products:

bananas, pineapples, coffee, melons, ornamental plants, sugar, corn, rice, beans, potatoes; beef, poultry, dairy; timber

Industries:

microprocessors, food processing, medical equipment, textiles and clothing, construction materials, fertilizer, plastic products

Exports - commodities:

bananas, pineapples, coffee, melons, ornamental plants, sugar; beef; seafood; electronic components, medical equipment

Exports - partners:

US 30.7%, China 13.2%, Netherlands 10.4%, UK 9%, Mexico 9% (2012)

Imports - commodities:

raw materials, consumer goods, capital equipment, petroleum, construction materials

Imports - partners: US 46.2%, Mexico 6.4%, Japan 6.1%, China 5.8% (2012)
Investment Restrictions: Costa Rica's investment climate is generally favorable and has been for many years. Consequently, foreign direct investment is high and has been a significant contributor to Costa Rica's economic growth. Nevertheless, the country's legal and cultural environment continues to present stumbling blocks to investors.

Contents

Section 1 - Background

Although explored by the Spanish early in the 16th century, initial attempts at colonizing Costa Rica proved unsuccessful due to a combination of factors, including disease from mosquito-infested swamps, brutal heat, resistance by natives, and pirate raids. It was not until 1563 that a permanent settlement of Cartago was established in the cooler, fertile central highlands. The area remained a colony for some two and a half centuries. In 1821, Costa Rica became one of several Central American provinces that jointly declared their independence from Spain. Two years later it joined the United Provinces of Central America, but this federation disintegrated in 1838, at which time Costa Rica proclaimed its sovereignty and independence. Since the late 19th century, only two brief periods of violence have marred the country's democratic development. In 1949, Costa Rica dissolved its armed forces. Although it still maintains a large agricultural sector, Costa Rica has expanded its economy to include strong technology and tourism industries. The standard of living is relatively high. Land ownership is widespread.

Section 2 - Anti – Money Laundering / Terrorist Financing

FATF status

Costa Rica is not on the FATF List of Countries that have been identified as having strategic AML deficiencies

Compliance with FATF Recommendations

The last Mutual Evaluation Report relating to the implementation of anti-money laundering and counter-terrorist financing standards in Costa Rica was undertaken by the Financial Action Task Force (FATF) in 2015. According to that Evaluation, Costa Rica was deemed Compliant for 8 and Largely Compliant for 14 of the FATF 40 Recommendations.

Key Findings

In general terms, Costa Rica has a number of legal and regulatory tools and structures that enable Costa Rica to fight against ML/TF. Notwithstanding that, some technical deficiencies were identified that should be addressed in order to ensure a strong AML/CTF system.

Costa Rica has conducted the National Risk Diagnosis of Money Laundering and the Terrorist Financing (RD-ML/TF) and, in general terms, Costa Rica presents an appropriate level of understanding of its Money Laundering (ML) risks, highlighting that in its development, an appropriate level of coordination and cooperation was observed between the relevant authorities and the private sector.

The country is in the process of developing a National Strategy aimed at implementing policies and activities based on the risks identified, including measures and resource allocation to address and mitigate the ML/TF risks. These are part of the action plan being developed as part of said Strategy. As to the level of understanding of the risks associated to terrorist financing (TF), Costa Rica has a low risk level of TF, mainly because terrorism is not considered a direct threat to the country.

The financial intelligence generated by the Financial Intelligence Unit (FIU) of the Costa Rican Institute on Drugs (ICD in Spanish) is used by the competent authorities in ML investigations, although the usefulness of said financial intelligence could be increased with a greater feedback by the authorities using it. The creation of the financial intelligence by the FIU uses different databases that provide added value to the STRs received by reporting entities, however, it is limited by the lack of information provided by Designated Non-Financial Professions and Activities (DNFBPs). In the case of TF, there was not enough evidence to evaluate the use of the financial intelligence associated to this offense, since there are no cases related with this behavior.

The different bodies involved in ML prevention seek to work in constant contact from the beginning of the investigations, so as to achieve an efficient exchange of information and experience, in addition to the bi-monthly meetings held by the Money Laundering Prosecutor's Office and the FIU in terms of coordination. Likewise, the efforts made by the law enforcement institutions are recongnized, which could benefit from the allocation of more economic, human and technological resources sufficient to carry out their duties in a more effective manner.

Costa Rica shows fight against the ML predicate offenses, specially against the trafficking of narcotic drugs and psychotropic substances, in prosecutions and convictions. With regards to the ML offense, it is understood that priority is given to the prosecutions and convictions associated to drug trafficking, given the few initiatives identified to fight ML resulting from other types of predicate offenses, even in offenses identified in the RD-ML/TF as ML threats (e.g. human smuggling and trafficking, frauds, forgery and piracy of products, tax evasion, etc.).

Most of the goods seized and confiscated in the country are originated from cases related to drug trafficking and, in the case of ML, from activities whose predicate offense is drug trafficking. Additionally, the country has a system of administration of assets empowered to manage and dispose of these assets.

The country has managed different mechanisms to perform the repatriation, distribution and restitution of goods and/or assets. However, the initiatives for the of use said mechanisms should be increased, so that the country may efficiently and efectevely act upon cases requiring joint efforts among the national authorities and other cooperating countries. Nevertheless, the impossibility of applying the seizure of goods of equal value was identified.

The deficiencies in the adequate criminalization of the TF offense may affect the effectiveness of the fight against TF. At the time of the on-site visit, in Costa Rica there were no cases of TF under investigation, or cases submitted to the Criminal Courts of the country. Additionally, there have been few training initiatives in terms of TF in the country for the personnel of the OIJ, the Public Prosecutor and Criminal Courts and most of the members of the country's repressive system do not have enough specific training to deal with potential threats and particular trends of TF. The FIU is in charge of ordering the retention and freezing of funds and financial products, as well as of requesting the judge the relevant restrictive measures and those fundamental measures necessary to carry out TF investigations; however, the FIU has not used this faculty for TF cases yet.

Costa Rica has carried out a first development to implement Resolutions 1267/1989 and 1988 of the United Nations Security Council (UNSC) for compliance with FATF Recommendation 6. Nevertheless, this framework is not enough to apply the targeted financial sanctions set in Recommendation 6. In turn, Costa Rica lacks a regulatory framework for the appropriate implementation of FATF Recommendation 7.

The Financial Institutions (FI) of the financial system are aware of the nature and level of ML/TF risks of the sector and, in general terms, have appropriate policies and procedures to mitigate and control these risks. However, that same level of understanding of the risks is not seen in the DNFBPs. Particularly, the real estate and construction markets are of concern. Likewise, the lack of understanding and commitment by the lawyers, who require a greater awareness of the country's AML/CTF regulations, should be noticed.

The ML/TF risk-based approach (RBA) of the superintendencies is in different development phases, where some superintendencies are generally implementing it in their supervision processes and others are in process of implementing it in the short or medium term. The superintendencies have imposed few monetary sanctions.

As regards DNFBPs, in spite of the recent rapprochement with DNFBPs, there is currently no competent authority regulating and supervising the AML/CTF system in physical and online casinos, or the other DNFBPs, except for those supervised by the General Superintendence of Financial Entities (SUGEF in Spanish).

There is available information on legal persons in the Registry of Legal Persons, which registration provides legal security in the trade activity. Additionally, Costa Rica implemented the definite removal of bearer shares in public corporations, as a measure to prevent legal persons from being improperly used. Nevertheless, there are difficulties to access the basic information on beneficial owners of legal persons, on an accurate and updated manner. The existing mechanisms basically lie on the registry information that, in this sense, has certain limitations. Some initiatives intended to overcome these limitations have been submitted, such as the establishment of a shareholders public registry, but the project was not yet approved at the time of the on-site visit. As to trusts, the absence of a registry and the limited supervision of trust service providers, are deficiencies that limit the accuracy and transparency of the individuals that exercise an effective beneficial control on this type of legal structures.

Costa Rica has a broad range of legal and administrative instruments that promote cooperation at an international level by all the relevant agencies involved in the prevention and fight against ML/TF, which is of particular importance in Central America, where said cooperation framework is strengthened. Along this line, Costa Rica has regulations that enable for the provision of broad levels of cooperation with foreign authorities. However, the development of mechanisms to provide, in an informal manner, feedback on the information or assistance delivered, which may be useful to improve the quality and timeliness of the cooperation provided, is required.

Risks and General Situation

Costa Rica conducted the RD–ML/TF where the main risks in terms of ML were adequately identified. These are mainly related to threats of drug trafficking, smuggling, trafficking of human beings, fraud and tax evasion activities. The geographic location of the country should be highlighted, within the drug trafficking route from the southern countries to North America, being located in the Central American corridor used as bridge.

As regards vulnerability, the criminal organizations use FIs, specially the money transfer services and bureaux de change, to transfer funds of illicit origin, these being sectors of greater ML vulnerability. The managers of third parties' funds and the creation of legal persons in order to legitimate proceeds of illicit origin are a concern for the authorities. With regards to DNFBPs, the use of real estate, high value properties for business initiatives mainly related to tourism sectors, are of concern, along with the activities of the casinos (including online casinos), also taking into account the apparent lack of a specific regulation and supervision in terms of AML/CTF.

As regards TF, Costa Rica considers the threat of terrorism and financing thereof as low.

US Department of State Money Laundering assessment (INCSR)

Costa Rica is categorised by the US State Department as a Country/Jurisdiction of Primary Concern in respect of Money Laundering and Financial Crimes.

OVERVIEW

Transnational criminal organizations continue to employ Costa Rica as a base for financial crimes due to limited enforcement capacity and its location on a key transit and operations route for narcotics trafficking. Costa Rica has significantly strengthened its legal framework for supervision and enforcement and is working steadily to implement new legislation. Additional resources for key units and enhanced penalties for narcotics-related financial crimes could mitigate current challenges.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Narcotics trafficking proceeds represent the largest source of laundered assets. Human trafficking, financial fraud, corruption, and contraband smuggling also generate illicit revenue. The construction and real estate industries, money or value transfer services (MVTS), and casinos remain vulnerable to exploitation, as well as state and private financial institutions. Online gaming is legal in Costa Rica, and “sportsbook” enterprises are suspected of laundering millions of dollars, directly and through extortionate money lending operations. Bulk cash smuggling and smurfing remain prevalent.

Personnel shortages continue to plague the FIU and Special Prosecutor Office for Money Laundering. Cyber currencies remain unregulated, and the expected opening of Costa Rica’s first bitcoin automated teller machine in the near future will likely increase vulnerability to laundering through virtual currencies.

KEY AML LAWS AND REGULATIONS

The passage of Law 9449 in May 2017 establishes reporting and supervision requirements for non-bank financial institutions and DNFBPs, expanding Costa Rica’s KYC and STR requirements. Entities covered, in addition to those traditionally regulated, include banks, savings and loan cooperatives, and pension funds. The newly-regulated entities are insurance companies and intermediaries; money exchangers/remitters; securities brokers/dealers, credit issuers and sellers/redeemers of traveler’s checks and money orders; trust administrators, financial intermediaries, and asset managers; real estate developers/agents; manufacturers, sellers, and distributors of weapons; art, jewelry, and precious metals dealers; pawnshops; sellers of new and used vehicles; casinos, virtual casinos, and electronic or other gaming entities; NGOs that receive funds from high-risk jurisdictions; lawyers, notaries public, and accountants.

Costa Rica and the United States do not have a MLAT agreement. Costa Rica cooperates effectively with U.S. law enforcement through international cooperation offices at key institutions and is party to several inter-American agreements on criminal matters and UN conventions.

Costa Rica is a member of the GAFILAT, a FATF-style regional body.

AML DEFICIENCIES

Costa Rica significantly strengthened its AML legal framework in the last few years and is currently focused on implementation. Costa Rican law does not attribute criminal responsibility to legal entities, although it may ascribe civil liability.

Due to entrenched opposition from special interest groups, Costa Rica has not yet established a stand-alone framework for non-conviction based asset forfeiture, forcing reliance on two articles of the existing asset forfeiture law, which lack provisions for asset sharing or international cooperation.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

Costa Rica continues to improve its enforcement framework, focusing on recognized deficiencies. In 2017, Costa Rica’s central bank approved the hiring of two dozen staff and nearly U.S. $12 million to develop the required platforms for supervision of DNFBPs. Over 600 individuals subject to the new requirements have been trained, and reporting of suspicious transactions has commenced. The central bank is concurrently developing the beneficial ownership registry designed to allow AML and tax authorities to trace the true ownership of all financial assets in the system. In July 2017, Costa Rica published guidelines to manage currency reporting obligations under Law 8204 and standardize procedures at air and overland ports of entry.

For 2018, authorities plan to nearly double personnel assigned to the FIU and Special Prosecutor Office for Money Laundering. From January 1 to June 30, 2017, Costa Rica opened 43 money laundering cases; 10 were tried between January 1 and August 31, resulting in five convictions. The number of cases tried shows a decline compared to 2016, while the conviction rate remains stable at approximately 50 percent.

Money laundering convictions remain a complex endeavor, as prosecutors must prove a direct link between the predicate offense and illicit assets. Cases linked to non-narcotics predicate offenses are rare, and prosecutions typically arise from cash discoveries at ports of entry, checkpoint inspections, and narcotics raids. Due to the difficulty of linking assets to a specific crime, judges frequently acquit defendants while seizing the assets, in a tacit acknowledgement of their undetermined illicit origin.

Current Weaknesses in Government Legislation (2013 INCRS Comparative Tables):

According to the US State Department, Costa Rica does not conform with regard to the following government legislation: -

Arrangements for Asset Sharing - By law, regulation or bilateral agreement, the jurisdiction permits sharing of seized assets with third party jurisdictions that assisted in the conduct of the underlying investigation.

EU White list of Equivalent Jurisdictions

Costa Rica is not currently on the EU White list of Equivalent Jurisdictions

World Governance indicators

To view historic Governance Indicators Ctrl + Click here and then select country

Failed States Index

To view Failed States Index Ctrl + Click here

Offshore Financial Centre

Costa Rica is not considered to be an Offshore Financial Centre

Reports

US State Dept Narcotics Report 2017 (introduction):

Introduction

Costa Rica's strategic location, porous borders, limited security forces, and thinly-patrolled waters make it a major transit and storage country for illicit drugs. The United States estimates that approximately 90 percent of the cocaine trafficked to the United States in 2016 first transited through the Mexico/Central America corridor. In 2016, Costa Rican authorities seized a total of 24.5 metric tons (MT) of cocaine, a 44 percent increase over the same period in 2015. Bulk cash seizures from drug proceeds totaled over $9.8 million in 2016.

Costa Rica has a relatively low homicide rate compared to other countries in the region. However, the murder rate in Costa Rica reached a record 579 homicides in 2016, equivalent to 11.8 murders per 100,000 people, in a three-year upward trend. Crime is concentrated disproportionately in certain areas, such as the province of Limon, where the murder rate is 22 per 100,000. Overall violent crime increased in 2016. Emboldened tactics by criminals, including turf-war related shootings in broad daylight, have focused the Costa Rican security forces and justice sector on the increased presence of illegal drugs and associated corrosive effects on society.

The government steadily increased its spending on law enforcement agencies from 2002 to 2015. However, serious fiscal problems led to a 22 percent cut in the Ministry of Public Security (MPS) 2016 operating budget. The National Police hired below attrition in 2015 due to a personnel freeze. The MPS is planning to hire 1,500 new police (over 10 percent of the current force) in 2017 due to a budget increase. Costa Rica continues to invest in the Coast Guard (SNG), which interdicts the majority of cocaine seized in the country. The SNG purchased a new 45-foot interceptor for its Caribbean operations in 2016, which was involved in a successful interdiction on its first day in operation.

Conclusion

Despite Costa Rica's ongoing efforts to strengthen its ability to combat drug trafficking, the country's fiscal challenges threaten to undermine progress achieved in the security and justice sectors. An increase in the flow of cocaine from South America and increased use of landing strips to transport drugs and cash between Mexico and Costa Rica add to the challenges. A complex bureaucracy and leadership changes in key posts slow the pace of capacity building, and corruption remains a nagging issue. The challenges are urgent; Costa Rica was one of the top three first-stop countries for cocaine transiting to the United States in 2016. Organized criminal elements wield growing influence, and the palpable effect on society has made counter- narcotics efforts a top political issue.

Costa Rica should protect its previous investments in security, despite fiscal constraints, and invest further in human capital. Top priorities for increasing effectiveness and efficiency should include 1) professionalizing police and judicial institutions, along with some restructuring and anti-corruption measures; 2) using advanced investigative techniques aimed at organized crime; and 3) passing laws that specifically target organized crime and its proceeds. The government should invest in border security as it continues to build up the Coast Guard and Air Surveillance Service. Both maritime and terrestrial capabilities must be strengthened in order to effectively combat drug trafficking. Finally, Costa Rica should continue to strengthen its cooperation with regional partners. Its successful engagement with Panama and Colombia is yielding results and holds great potential.

US State Dept Trafficking in Persons Report 2016 (introduction):

Costa Rica is classified a Tier 2 watch list country - a country whose government does not fully comply with the Trafficking Victims Protection Act's minimum standards, but is making significant efforts to bring themselves into compliance with those standards.

Costa Rica is a source, transit, and destination country for men, women, and children subjected to sex trafficking and forced labor. Costa Rican women and children are subjected to sex trafficking within the country, with those living in the north and central Pacific coastal zones being particularly vulnerable. Authorities have identified adults using children to transport or sell drugs; some of these children may be trafficking victims. There are a significant number of transgender Costa Ricans in the commercial sex industry who are vulnerable to sex trafficking. Costa Rican victims of sex and labor trafficking were identified in The Bahamas and Guatemala during the reporting period. Women and girls from Nicaragua, the Dominican Republic, and other Latin American countries have been identified in Costa Rica as victims of sex trafficking and domestic servitude. Traffickers use psychological coercion—often exploiting stigma associated with prostitution—to compel victims to remain in prostitution. Child sex tourism is a serious problem, with child sex tourists arriving mostly from the United States and Europe. Men and children from other Central American and Asian countries are subjected to forced labor in Costa Rica, particularly in the agriculture, construction, fishing, and commercial sectors. Nicaraguan men and women transit Costa Rica en route to Panama, where some are subjected to forced labor or sex trafficking. Indigenous Panamanians are also reportedly vulnerable to forced labor in agriculture in Costa Rica. One government official is currently under investigation for suspected involvement in sex trafficking. During the year, a government official was investigated for using an official vehicle for unauthorized personal use; this official was visiting an establishment where, according to media reports, sex trafficking occurred.

The Government of Costa Rica does not fully meet the minimum standards for the elimination of trafficking; however, it is making significant efforts to do so. Despite these measures, the government did not demonstrate overall increasing anti-trafficking efforts compared to the previous reporting period; therefore, Costa Rica is placed on Tier 2 Watch List for the second consecutive year. The government provided data on its anti-trafficking efforts, but it was difficult to reconcile statistics because Costa Rican law includes a definition of human trafficking that is inconsistent with international law. Authorities prosecuted three suspects and convicted one trafficker under the trafficking law and convicted eight offenders for child sex trafficking or related crimes using other laws. The government identified three sex trafficking victims during the reporting period. Separately, the government acted on evidence to raid commercial establishments where sex trafficking was suspected; 934 individuals were interviewed as a result of those raids but no trafficking victims were identified. The government did not disburse any of the $3.6 million in its National Anti-Trafficking in Persons and Smuggling of Migrants Fund (FONATT), though it institutionalized the FONATT and identified projects to receive funding in 2016. Despite an identified child sex tourism problem, the government did not prosecute or convict any child sex tourists or other individuals who purchased commercial sex acts from children, although the government did collaborate with international partners to restrict entry to registered sex offenders.

US State Dept Terrorism Report

No report available

International Sanctions

None applicable

Bribery & Corruption

Index	Rating (100-Good / 0-Bad)
Transparency International Corruption Index	59
World Governance Indicator – Control of Corruption	76

US State Department

UN Anticorruption Convention, OECD Convention on Combatting Bribery: Costa Rica ratified the Inter-American Convention Against Corruption in 1997. This initiative of the Organization for Economic Cooperation and Development (OECD) and the Organization of American States (OAS) obligates subscribing nations to implement criminal sanctions for corruption and implies a series of follow up actions: http://www.oas.org/juridico/english/cri.htm. Costa Rica also ratified the UN Anti-Corruption Convention in March 2007.

Costa Rica has laws, regulations and penalties to combat corruption, though the resources available to enforce those laws have been limited. A series of high-profile corruption cases in recent years involving directors of state-owned enterprises as well as two ex-presidents have helped emphasize that even senior officials may be prosecuted on corruption charges. Allegations of lower-level corruption are common, and some prosecutions have resulted.

The attorney general (Fiscal General de la Republica), state litigator (Procuraduria General de la Republica), comptroller general (Contraloria General de la Republica) and ombudsman (Defensoria de los Habitantes) work in conjunction with each other in an effort to combat corruption. The comptroller general, the Organization of Judicial Investigation (OIJ), and the public prosecutors' office investigate allegations of corruption. The comptroller general is responsible for approving or rejecting public contracts, auditing results, and detecting instances of corruption.

In addition to these existing structures and safeguards, the Government of Costa Rica is implementing several initiatives centered on greater transparency in government. The Merlink paperless procurement program is modeled on South Korea's government procurement, has been operating for over three years, represents about 80 percent of Costa Rican government procurement and continues to incorporate new government entities. Merlink provides both users and interested third parties with a comprehensive data base of the entire purchase process, encompassing bidding, contracting, deliveries, payment and quality control. As a member of the Open Government Partnership (OGP), Costa Rica has been developing websites for many of its government offices with data sets of interest to civil society; Costa Rica's 2014 OGP action plan is to ensure enhanced civil society interaction both through those sites and through Merlink.

While U.S. firms have not identified corruption as a major obstacle to doing business in Costa Rica, some have made allegations of corruption in the administration of public tenders and in approvals or timely processing of permits. Developers of tourism facilities periodically cite municipal-level corruption as a problem when attempting to gain a concession to build and operate in the restricted maritime zone.

Acts of bribery, including those directed against government officials, are criminal acts punishable by imprisonment. Public officials convicted of receiving bribes are subject to prison sentences up to ten years, according to the Costa Rican Criminal Code (Articles 340-347). Entrepreneurs may not deduct the costs of bribes or any other criminal activity as business expenses. In recent years, Costa Rica has seen several publicized cases of firms prosecuted under the terms of the US Foreign Corrupt Practices Act for corrupt acts committed to the detriment of Costa Rican institutions.

Corruption and Government Transparency - Report by Global Security

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Costa Rica ratified the Inter-American Convention Against Corruption in 1997. This initiative of the Organization for Economic Cooperation and Development (OECD) and the Organization of American States (OAS) obligates subscribing nations to implement criminal sanctions for corruption. Costa Rica also ratified the UN Convention Against Corruption in March 2007. The attorney general (Fiscal General de la Republica), state litigator (Procuraduria General de la Republica), comptroller general (Contraloria General de la Republica) and ombudsman (Defensoria de los Habitantes) work in conjunction with each other in an effort to combat corruption. The comptroller general, the Organization of Judicial Investigation (OIJ), and the public prosecutors' office investigate allegations of corruption. The comptroller general is responsible for approving or rejecting public contracts, auditing results, and detecting instances of corruption.

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Section 3 - Economy

Prior to the global economic crisis, Costa Rica enjoyed stable economic growth. The economy contracted in 2009 but resumed growth at about 4% per year in 2010-15. While traditional agricultural exports of bananas, coffee, sugar, and beef are still the backbone of commodity export trade, a variety of industrial and specialized agricultural products have broadened export trade in recent years. High value-added goods and services, including medical devices, have further bolstered exports. Tourism continues to bring in foreign exchange, as Costa Rica's impressive biodiversity makes it a key destination for ecotourism.

Foreign investors remain attracted by the country's political stability and relatively high education levels, as well as the incentives offered in the free-trade zones; Costa Rica has attracted one of the highest levels of foreign direct investment per capita in Latin America. The US-Central American-Dominican Republic Free Trade Agreement (CAFTA-DR) entered into force on 1 January 2009 after significant delays within the Costa Rican legislature. CAFTA-DR has increased foreign direct investment in key sectors of the economy, including the insurance and telecommunications sectors. However, poor infrastructure, high energy costs, bureaucracy, weak investor protection, and legal uncertainty due to the difficulty of enforcing contracts and overlapping and at times conflicting responsibilities between agencies, remain impediments to greater competitiveness.

Costa Rica’s economy also faces challenges due to a rising fiscal deficit, rising public debt, and relatively low levels of domestic revenue. Poverty has remained around 20-25% for nearly 20 years, and the strong social safety net that had been put into place by the government has eroded due to increased financial constraints on government expenditures. Unlike the rest of Central America, Costa Rica is not highly dependent on remittances, which in 2014 represented 1% of GDP. Immigration from Nicaragua has increasingly become a concern for the government. The estimated 300,000-500,000 Nicaraguans in Costa Rica, legally and illegally, are an important source of mostly unskilled labor, but also place heavy demands on the social welfare system.

Agriculture - products:

bananas, pineapples, coffee, melons, ornamental plants, sugar, corn, rice, beans, potatoes; beef, poultry, dairy; timber

Industries:

medical equipment, food processing, textiles and clothing, construction materials, fertilizer, plastic products

Exports - commodities:

bananas, pineapples, coffee, melons, ornamental plants, sugar; beef; seafood; electronic components, medical equipment

Exports - partners:

US 33.6%, China 6.2%, Mexico 4.6%, Nicaragua 4.3%, Netherlands 4.2%, Guatemala 4% (2015)

Imports - commodities:

raw materials, consumer goods, capital equipment, petroleum, construction materials

Imports - partners:

US 45.3%, China 9.8%, Mexico 7.1% (2015)

Banking

The Costa Rican financial system is composed of the Central Bank, three state-owned commercial banks, 11 private commercial banks, one workers' bank, one state-owned mortgage bank, two mutual house-building companies, five private finance companies, 32 savings and loans cooperatives and a large number of entities and individuals engaged in money exchange and transfer, all under supervision of the Central Bank and the national council for the supervision of the financial system (CONASSIF). In addition, both state and private commercial banks and the state insurance company run a number of investment and retirement funds or trusts. In recent years, smaller private banks have been absorbed by large multinationals, so that Costa Rica currently hosts subsidiaries of HSBC, Citibank and Scotiabank. Nevertheless, the three state-owned commercial banks are still dominant, accounting for 44.2 percent of the country's financial system's assets as of November 2010.

Stock Exchange

The securities exchange (Bolsa Nacional de Valores) is small and is dominated by trading in government bonds. However, the exchange is actively promoting programs in several promising areas including currency contracts for difference and small stocks. Stock trading is of limited significance and involves less than ten of the country's larger companies, resulting in an extremely illiquid secondary market. Stock volume traded in all of 2009 was $30.7 million, with a single company accounting for almost 2/3 of the volume.

Section 4 - Investment Climate

Executive Summary

Costa Rica, located in Central America, has had a generally favorable investment climate for many years. Foreign direct investment (FDI) is high and has been a significant contributor to Costa Rica's economic growth. Nevertheless, challenges to the country's competitiveness, including rising operating costs, a complicated legal environment, excessive bureaucratic red tape, and infrastructure deficiencies, are fueling caution on the part of investors.

Costa Rica's continued popularity as an investment destination is well illustrated by historic FDI which climbed steadily from the year 2000 (USD 409 million) to 2008 (over USD 2 billion), reaching a high of over USD 3 billion (6.2 percent of GDP) in 2013 before dropping slightly to USD 2.75 billion in 2014 and 2.85 billion in 2015.

In recent decades the Costa Rican government through its investment promotion agency CINDE has focused on attracting relatively high-tech manufacturers and service companies that demand skilled labor, introduce new technologies and often run robust corporate social responsibility (CSR) programs. CINDE has focused on attracting and retaining investment in specific areas, currently services, advanced manufacturing, life sciences, light manufacturing and the food industry. In addition, the Tourism Institute (ICT) attends to potential investors in the tourism sector.

Despite decades of FDI and trade liberalization, the Costa Rican economy is not as advanced as this investment and export-led development might suggest.

- A high and persistent government fiscal deficit threatens to squeeze domestic credit, force intemperate government budget cuts, and impact investor confidence.
- The legal system, while solid and generally uncorrupt, can be very slow and frustrating for investors.
- Invasion and occupation of private property by squatters, who are often organized and sometimes violent, does occur in Costa Rica. The Costa Rican police and judicial system have at times failed to deter or to peacefully resolve such invasions.
- Much of Costa Rica's basic infrastructure – ports, roads, water systems - needs major upgrading and generally lacks a clear path for financing needed improvements.

Public infrastructure concessions in Costa Rica have been contentious in recent years while the government's fiscal constraints limit public financing as a realistic option. In a significant step forward for port infrastructure, Dutch-based APM Terminals broke ground in early 2015 on its long-delayed USD 1 billion mega port concession on the Caribbean coast. Meanwhile, in the Central Valley a new form of public-private-partnership based on a trust ("fidiecomiso") structure administered by a bank is currently being tested for the expansion and operation of one major highway.

Table 1

Measure	Year	Index or Rank	Website Address
TI Corruption Perceptions index	2015	43 of 168	transparency.org/cpi2015/results
World Bank's Doing Business Report "Ease of Doing Business"	2015	58 of 189	doingbusiness.org/rankings
Global Innovation Index	2015	51 of 141	globalinnovationindex.org/content/page/data-analysis
U.S. FDI in partner country ($M USD, stock positions)	2015	1,503	Central Bank of Costa Rica. See Section #17 or this report for address.
World Bank GNI per capita	2014	10,120	data.worldbank.org/indicator/NY.GNP.PCAP.CD

1. Openness To, and Restrictions Upon, Foreign Investment

Attitude toward Foreign Direct Investment

Costa Rica actively courts foreign direct investment (FDI), placing a high priority on attracting and retaining high-quality foreign investment. The Foreign Trade Promotion Corporation (PROCOMER) as well as the Costa Rican Investment and Development Board (CINDE) lead Costa Rica's investment promotion efforts. Costa Rica has continued an ambitious program of negotiating, signing, and ratifying free trade agreements, all of which encourage greater openness to foreign trade and investment. Costa Rica together with El Salvador, Guatemala, Honduras, Nicaragua, and the Dominican Republic, is a signatory to the U.S. – Central America – Dominican Republic Free Trade Agreement (CAFTA-DR). CAFTA-DR, which entered into force in Costa Rica January 1, 2009, has improved the investment climate by strengthening the protection of intellectual property rights, providing a mechanism for arbitration, opening the insurance and telecommunications sectors to competition, and assuring access to markets in other CAFTA-DR economies. Agreements with Chile, Canada, CARICOM (Caribbean nations), Panama, China, Peru, Singapore, Mexico, the European Union, and the European Free Trade Association are in force, while an agreement with Colombia is awaiting final approval by the Colombian legislature to enter into force.

Other Investment Policy Reviews

Costa Rica's investment policy reviews by international financial institutions over the last several decades tend to be positive but qualified by a list of problems that need immediate attention, for example underfinanced infrastructure, lax intellectual property rights (IPR) enforcement, slow environmental permitting and (until recently) very little appropriate sewage treatment. Currently, Costa Rica's persistent and growing government budget deficit is of particular concern.

The Organization for Economic Cooperation and Development (OECD) completed a comprehensive investment policy review in September 2013: http://www.researchandmarkets.com/reports/2686091/oecd_investment_policy_reviews_costa_rica_2013. In 2014, Costa Rica became the 45th country to adhere to the OECD Declaration on International Investment and Multinational Enterprises. OECD accession talks for Costa Rica have begun; within that context the OECD in February 2016 published the "Economic Assessment of Costa Rica 2016": http://www.oecd.org/economy/surveys/economic-survey-costa-rica.htm.

The World Trade Organization (WTO) completed its most recent trade policy review in September 2013: http://www.wto.org/english/tratop_e/tpr_e/s286_e.pdf.

Laws/Regulations on Foreign Direct Investment

The Costa Rican Judicial System is made up of the Civil, Administrative, and Criminal Court structure. The judicial system generally upholds contracts, but caution should be exercised when making investments in sectors reserved or protected by the Constitution or by laws for public operation. Investments in state-protected sectors under concession mechanisms can be especially complex due to frequent challenges in the constitutional court of contracts permitting private participation in state enterprise activities. Furthermore, independent government agencies, including municipal governments which grant construction permits, can issue permits or requirements that may contradict the decisions of other independent agencies, causing significant project delays.

Costa Rica's commercial code details all business requirements necessary to operate in Costa Rica. The laws of public administration and public finance contain most requirements for contracting with the state.

Investors must exercise caveat emptor (buyer beware) since many firms operate in the informal sector of the economy. Appropriate due diligence should include confirming a company's registry and formal participation in the Costa Rican economy, such as paying taxes and registering all workers with the Social Security system.

Costa Rican websites useful to help navigate laws, rules and procedures include that of the investment promotion agency CINDE, http://www.cinde.org/en (labor regulations), the export promotion authority PROCOMER, http://www.procomer.com/ (incentive packages), and the Health Ministry, https://www.ministeriodesalud.go.cr/ (product registration and import/export). In addition, the solicitor general's office (www.pgr.go.cr/SCIJ) compiles relevant laws.

Business Registration

Costa Rica's single-window business registration website "crearempresa.go.cr" brings together the various entities – municipality and central government agencies – that must be consulted in the process of registering a business in Costa Rica. The website "Global Enterprise Registration" www.GER.co ranks the crearempresa.go.cr website as 10th of the 26 single-window business registration portals evaluated globally. A new company in Costa Rica must typically register with the National Registry (company and capital registry), Internal Revenue Directorate of the Finance Ministry (taxpayer registration), National Insurance Institute (INS) (basic workers' comp), Ministry of Health (sanitary permit), Social Security Administration (CCSS) (registry as employer), and the local Municipality (business permit).

The World Bank's "Doing Business" evaluation for 2016, http://www.doingbusiness.org, states that business registration takes a total of 9 steps in 24 days, where most of those steps are simultaneous or take one day, while the municipal business license might take 15. In contrast the World Bank in its website "investing across borders" http://www.iab.worldbank.org for 2014 states that 14 procedures and 63 days are needed to establish a foreign-owned limited liability company in Costa Rica. Notaries are a necessary part of the process and are required to use the "crearempresa" portal when they create a company.

The investment promotion agency CINDE attends to potential and current investors in a set of specific economic activities (see next section), while the Tourism Institute (ICT) attends to potential investors in the tourism sector. Neither agency limits its service to investments above a certain size or potential payroll.

Micro, small, and medium enterprises are differentiated by activity and defined according to a formula that gives 60% weight to the number of employees, 30% weight to income, and 1% weight to assets. For example, a service firm with 4.5 employees, USD 80,000 annual net revenues and nominal assets would barely qualify as "micro" enterprise. Promotional programs tend to be focused on particular kinds of small enterprise, for example those owned by women, youth, or artisans. Several programs focus on supply chains. Foreign-owned companies have the same opportunities available to them as their locally-owned counterparts.

The World Bank "Investment Across Borders"

http://iab.worldbank.org – This "Investment Across Borders" site provides a useful overview of Costa Rican practices as they impact the investment climate.

Industrial Promotion

Costa Rica's dynamic and well-respected investment promotion agency CINDE has had great success over the last several decades in attracting and retaining investment in specific areas, currently services, advanced manufacturing, life sciences, light manufacturing, and the food industry. In addition, the Tourism Institute (ICT) attends to potential investors in the tourism sector. These targeted industries can be found with the following key words as defined in https://new.export.gov/industries: Services, Aerospace and Defense, Industrial Equipment and Supplies, Health Technologies, Food Processing and Packaging, and Travel.

Costa Rica's chief industrial strategy in recent years has consisted of focusing investment promotion and aftercare efforts in these particular business sectors in order to encourage the formation of overlapping business clusters which in turn have led to synergies that encourage other similar companies to invest in Costa Rica.

Limits on Foreign Control and Right to Private Ownership and Establishment

Costa Rica recognizes and encourages the right of foreign and domestic private entities to establish and own business enterprises and engage in most forms of remunerative activity. The exceptions are in sectors that are reserved for the state (legal monopolies) or that require participation of at least a certain percentage of Costa Rican citizens or residents (electrical power generation, transport services, professional services and aspects of broadcasting). In the areas of medical services, telecommunications and insurance, state firms operate but that does not preclude private sector competition.

All businesses must be registered in the national registry, thereby becoming national companies that may have national or foreign owners. The investment requirements for foreign and national persons and companies are identical. Businesses may be established starting from nothing, acquired, merged with, or taken over in much the same way as is done in the United States. Foreign partnerships with local businesses are quite common. Costa Rica's one discriminatory limitation to foreigners' control of land applies to the 200 meter strip of land along the coast defined as the Maritime Terrestrial Zone; concessions in this zone cannot be given to foreigners or foreign-owned companies. Water, ground transport, and freight services likewise are limited to majority national ownership. Mass media and advertising agencies are subject to some limitations to foreign participation. The state also exercises some monopoly control in some economic sectors as referenced below in the Competition from State-Owned Enterprises in the section: Information and Communication; Energy; Health Technologies.

Privatization Program

Costa Rica does not have an active privatization agenda.

Screening of FDI

Costa Rica does not have a formal mechanism for screening foreign investment. Such investment is expected to comply with local law and practice.

Competition Law

Several public institutions are responsible for consumer protection as it relates to monopolistic and anti-competitive practices. The "Commission for the Promotion of Competition" (COPROCOM), a semi-autonomous agency housed in the Ministry of Economy, Industry and Commerce, is charged with investigating and correcting anti-competitive behavior across the economy. SUTEL, the Telecommunications Superintendence, shares that responsibility with COPROCOM in the Telecommunications sector. Both agencies are charged with defense of competition, deregulation of economic activity, and consumer protection. COPROCOM is considered to be underfunded and weak; the February 2016 OECD "Economic Assessment of Costa Rica" emphasizes the need to reform COPROCOM in order to assure regulatory independence and sufficient operating budget - http://www.oecd.org/economy/costarica-stronger-and-more-inclusive-growth-will-require-new-reforms.htm .

2. Conversion and Transfer Policies

Foreign Exchange

There are no restrictions on receiving, holding or transferring foreign exchange. There are no delays for foreign exchange, which is readily available at market clearing rates and readily transferable through the banking system. Dollar bonds and other dollar instruments may be traded legally. Costa Rica's current floating exchange rate regime represents an 8-year transition from a crawling peg (1983-2006), through a crawling band regime to the current regime announced January 31, 2015. The Central Bank has pledged to intervene, if necessary, to smooth any exchange rate volatility; the Bank has sufficient international reserves for such actions. The exchange rate has stabilized around 530-550 colones/USD with smooth daily fluctuations.

No restrictions are imposed on capital gains, royalties, or capital except when these rights are otherwise stipulated in contractual agreements with the government of Costa Rica. However, Costa Rican sourced rents and benefits remitted overseas, including royalties, are subject to a withholding tax in accordance with Title IV of the Income Tax Law No. 7092 at rates varying from 10 to 25 percent.

The Costa Rican government in late 2013 adopted a new set of transfer pricing regulations consistent with international norms which has addressed many of the concerns of companies in Costa Rica engaged in international trade. As of early 2016, the Costa Rican authorities are still working through implementation of the regulation.

The Costa Rican government and Central Bank have struggled to find ways to limit the entry of short-term investment funds without negatively affecting capital flows associated with longer-term investments. A law passed in 2013 gives the Central Bank a wide range of tools in order to better control short-term investments (reference Efficient Capital Markets and Portfolio Investment). Nevertheless, current global financial conditions have reduced the pressure of short term investment funds.

Remittance Policies

Costa Rica does not have restrictions on remittances of funds to any foreign country; however, all funds remitted are subject to applicable withholding taxes that are paid to the country's tax administration. The default level of withholding tax is 30 percent, with royalties capped at 25 percent, dividends at 15 percent, professional services at 15 percent, transportation and communication services at 8.5 percent and reinsurance at 5.5 percent. By Costa Rican law, in order to pay dividends, procedures need to be followed that include being in business for the entire fiscal year and paying all applicable local taxes. Those procedures for declaring dividends in effect put a timing restriction on them. Exceptions to the withholding tax include payment of interest to multilateral and bilateral banks that promote economic and social growth, which pay no withholding tax, and companies located in free trade zones, which pay no dividend withholding tax plus other tax benefits. Spain has a double-taxation tax treaty that lowers the withholding tax on dividends paid by a Spanish company while a similar treaty with Germany is pending.

The Law for Development Banking passed in November 2014 went into effect on May 31, 2015 and eliminated the provision allowing foreign banks registered with the Central Bank of Costa Rica to be exempt from withholding taxes. The change is designed to motivate banks to either register as financial entities within Costa Rica or stop lending to Costa Rican businesses. Industry observers indicate that some foreign banks have already reduced their level of business activities due to the new tax treatment.

Regarding remittances sent primarily by individuals back to their families of origin, a June 2015 report by the Costa Rican Central Bank (BCCR) finds total remittances at USD 602 million in 2014, with 78% of that amount originating in the United States. Costa Rica is also a significant source of remittances, totaling USD 296 million sent from Costa Rica in 2014. Of that sum, 79% was destined for Nicaragua and 11% for Colombia. From 2007 to 2013, remittances to Costa Rica as a percent of GDP have been relatively low, varying from just over two percent in 2007/08 down to 1.2 percent for 2014.

In 2013, the costs associated with sending remittances between the U.S. and Costa Rica continued to drop compared to previous years. An Inter-American Development Bank (IDB)

2013 study cites that in the CAFTA-DR region, the transfer costs of smaller wire transfers (below USD 200) on average ran about USD 10.14, representing a 3.9 percent drop in cost from 2012. Transfer costs of medium value remittance (USD 500) showed an even greater drop of 17.8 percent from 2012.

The Costa Rican government is actively involved in detecting and preventing money laundering, while significant problems remain. Costa Rica is a member of the Financial Action Task Force on Money Laundering in South America (GAFISUD), a Financial Action Task Force-style regional body. An assessment of Costa Rica's anti-money laundering regime is included in the State Department's annual International Narcotics Control Strategy Report Vol. II, which addresses Money-Laundering and Financial Crimes- http://www.state.gov/j/inl/rls/nrcrpt/2015/vol2/239067.htm.

3. Expropriation and Compensation

The three principal expropriating ministries in recent years have been the Ministry of Public Works - MOPT (rights-of-way), the Costa Rican Electrical Institute – ICE and the Ministry of Environment and Energy - MINAE (National Parks and protected areas). Expropriations have generally conformed to Costa Rica's laws and treaty obligations, but there have been allegations of expropriations of private land without prompt or adequate compensation.

Article 45 of Costa Rica's Constitution stipulates that private property can be expropriated without proof that it is done for public interest. The 1995 Law 7495 on expropriations further stipulates that expropriations require full and prior payment. The law makes no distinction between foreigners and nationals. Provisions include: (a) return of the property to the original owner if it is not used for the intended purpose within ten years or, if the owner was compensated, right of first refusal to repurchase the property back at its current value; (b) a requirement that the expropriating institution complete registration of the property within six months; (c) a two-month period during which the tax office must appraise the affected property; (d) a requirement that the tax office itemize crops, buildings, rental income, commercial rights, mineral exploitation rights, and other goods and rights, separately and in addition to the value of the land itself; and (e) provisions providing for both local and international arbitration in the event of a dispute. The expropriations law was amended in 1998 and then again in 2006 to clarify and expedite some procedures, including those necessary to expropriate land for the construction of new roads.

There is no discernible bias against U.S. investments, companies or representatives during the expropriations process. Costa Rican public institutions follow the law as outlined above and generally have acted in a way acceptable to the affected landowners. However, there are currently several sets of cases in which landowners and government differ significantly in their appraisal of the expropriated lands' value; in those cases, judicial processes have taken years to resolve. In addition, landowners have on occasion been prevented from developing land which has not yet been formally expropriated for parks or protected areas; the courts will eventually order the government to proceed with the expropriations but the process can be long.

Invasion and occupation of private property by squatters, who are often organized and sometimes violent, occurs in Costa Rica. The Costa Rican police and judicial system have at times failed to deter or to peacefully resolve such invasions. It is not uncommon for squatters to return to the parcels of land from which they have been evicted, requiring expensive and potentially dangerous vigilance over the land.

4. Dispute Settlement

Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts

Costa Rica uses the civil law system. The fundamental law is the country's Political Constitution of 1949, which grants the unicameral legislature a particularly strong role. Jurisprudence or case law is only persuasive. The civil and commercial codes govern commercial transactions. The courts are independent, and their authority is respected. The roles of public prosecutor and government attorney are distinct: the Chief Prosecuting Attorney or Attorney General (Fiscal General) operates a semi-autonomous department within the judicial branch while the government attorney or State Litigator (Procurador General) works within the Ministry of Justice and Peace in the Executive branch. Judgments and awards of foreign courts and arbitration panels may be accepted and enforced in Costa Rica through the exequatur process. The Constitution specifically prohibits discriminatory treatment of foreign nationals.

Monetary judgments can be made in USD but paid in the local Costa Rican currency.

The legal process to resolve cases involving squatting on land can be especially cumbersome. Land registries are at times incomplete or even contradictory. The Public Registry of Costa Rica is very effective with nationwide information on-line and in real time. However, rural records or the Cadastral Plans (Planos Catastrados) can be outdated and create land and boundary conflicts. Potential buyers should confirm the validity of their land title. Expropriation and related legal proceedings concerning lands within the Leatherback Turtle National Park boundary have been ongoing since 2004 (reference; International Arbitration). Buyers should retain experienced legal counsel, to help them determine the necessary due diligence regarding the purchase of property.

Bankruptcy

The Costa Rican bankruptcy law, addressed in both the commercial code and the civil procedures code, is similar to corresponding U.S. law, according to local experts. Title V of the civil procedures code outlines creditors' rights and the processes available to register outstanding credits, administer the liquidation of the bankrupt company's assets, and pay creditors according to their preferential status. As in the United States, penal law will also apply to criminal malfeasance in some bankruptcy cases.

Investment Disputes

Disputes between investors and the government grounded in the government's alleged actions or failure to act – termed investment disputes - may be resolved administratively or through the legal system. While statistics of investment disputes involving U.S. persons aren't available, the number of investment disputes in Costa Rica appears to be roughly commensurate with Costa Rica's high level of foreign direct investment (reference: Openness to Foreign Investment section). Two investment disputes in Costa Rica have been elevated to international arbitration, Aven et al versus Costa Rica and Spence, Berkowitz et al versus Costa Rica. Extensive documentation for both cases is filed on the Foreign Trade Ministry (COMEX) website: http://www.comex.go.cr/tratados/vigentes/cafta/Casos.aspx.

International Arbitration

Costa Rica is a member state to the convention on International Centre for Settlement of Investment Disputes (ICSID convention), which provides a forum for international arbitration in investment disputes. Costa Rica is also a member of the World Bank Multilateral Investment Guarantee Agency (MIGA). Private energy producers have included international arbitration clauses in their contracts.

Chapter 10 of CAFTA-DR allows investors to submit any dispute to international arbitration under either the ICSID convention or UNCITRAL Model law (United Nations Commission on International Trade Law). The arbitration process under CAFTA-DR is designed to be open and transparent; hearings and documents are public, and amicus curiae submissions are authorized. The CAFTA investment chapter includes a provision that allows tribunals to dismiss frivolous claims and award attorney's fees and filing costs. Arbitration awards specify monetary amounts to be paid to the prevailing party.

The right to solve disputes through arbitration is guaranteed in the Costa Rican Constitution. For years, the practical application was regulated by the Civil Procedural Code, which made it ineffective with no arbitrations until 1998, the year the local Arbitration Act #7727 was enacted. A 2011 law on International Commercial Arbitration (Law 8937), drafted from the United Nations Commission on International Trade Law (UNCITRAL model law version 2006), brought Costa Rica to a dual arbitration system, with two valid laws, one law for local arbitration and one for international arbitration. Under the local act, arbitration has to be conducted in Spanish and only attorneys admitted to the local Bar Association may be named as arbitrators. All cases brought before an arbitration panel, under the local law, must be resolved within 155 days after the complaint is served to the defendant. Parties can withdraw their case or reach an out-of-court settlement before the arbitral tribunal delivers an award. If the award meets the review criteria, the losing party has the option to request that the Costa Rican Supreme Court to examine the award, but only on procedural matters and never on the merits. Under UNCITRAL Law for International Arbitration, proceedings may be held in English and foreign attorneys are authorized to serve as arbitrators. Several arbitration centers are in operation and authorized to administer both local and international arbitrations, including one at the Costa Rican - American Chamber of Commerce.

ICSID Convention and New York Convention

In 1993, Costa Rica became a member state to the convention on International Centre for Settlement of Investment Disputes (ICSID Convention). Under chapter 10 of CAFTA-DR entered into force (EIF) January 2009, Costa Rica has legally obligated itself to answer investor arbitration claims submitted under ICSID and accept the arbitration verdict.

Costa Rica is a signatory of the convention on the Recognition and Enforcement of Arbitral Awards (1958 New York Convention).

Duration of Dispute Resolution – Local Courts

Litigation can be long and costly in the Costa Rican court system. U.S. companies have cited the unpredictability of outcomes as a source of rising judicial insecurity in Costa Rica. The legal system is significantly backlogged, and civil suits may take several years from start to finish. Some U.S. firms and citizens have satisfactorily resolved their cases through the courts, while others have seen proceedings drawn out over a decade without a final resolution.

5. Performance Requirements and Investment Incentives

WTO/TRIMS

Costa Rica has been a World Trade Organization (WTO) member since 1995 and does not maintain any Trade-Related Investment Measures (TRIMS) inconsistent with the guidelines.

Investment Incentives

Four investment incentive programs operate in Costa Rica: the free trade zone system, an inward-processing regime, a duty drawback procedure, and the tourism development incentives regime. These incentives are available equally to foreign and domestic investors. These incentives include tax holidays, training of specialized labor force and facilitation of bureaucratic procedures. Costa Rica's Foreign Trade Promotion Authority (PROCOMER) is in charge of the first three programs and companies must choose one or the other; as of early 2016 over 370 companies are in the free trade zone regime, about 80 in the inward processing regime, 10 in duty drawback. The Costa Rican Tourism Board (ICT) administers the tourism incentives; over 1,000 tourism firms have been declared as such with access to incentives of various types depending on the firm's operations. The free trade zone regime is based on the 1990 law #7210, updated in 2010 by law #8794 and attendant regulations, while inward processing and duty drawback derive from the General Customs Law #7557. Tourism incentives are based on the 1985 law #6990, most recently amended in 2001.

Individual companies are able to create industrial parks that qualify for free trade zone (FTZ) status by meeting specific criteria and applying for such status with PROCOMER. Companies in FTZs receive exemption from virtually all taxes for eight years and at a reduced rate for some years to follow. Established companies may be able to renew this exemption through additional investment. In addition to the tax benefits, companies operating in FTZs enjoy simplified investment, trade, and customs procedures, which provide a convenient way to avoid Costa Rica's burdensome business licensing process. Call centers, logistics providers, and software developers are among the companies that may benefit from FTZ status but do not physically export goods. Such service providers have become increasingly important participants in the free trade zone regime.

The Inward Processing Regime suspends duties on imported raw materials of qualifying companies and then exempts the inputs from those taxes when the finished goods are exported. The goods must be re-exported within a non-renewable period of one year. Companies within this regime may sell to the domestic market if they have registered to do so and pay applicable local taxes. The drawback procedure provides for rebates of duties or other taxes that have been paid by an importer for goods subsequently incorporated into an exported good. Finally, the tourism development incentives regime provides a set of advantages, including duty exemption for some purchases, to tourism operators who sign a tourism agreement with ICT.

While Costa Rica does not impose requirements that foreign investors transfer technology or proprietary business information or purchase a certain percentage of inputs from local sources, the Costa Rican agencies involved in investment and export promotion do explicitly focus on categories of foreign investor who are likely to take such actions while encouraging local supply chain development and cooperation with local universities.

Research and Development

Due to overriding budget constraints, the Government of Costa Rica does not have significant investment funds to finance or subsidize research and development programs. The few available research funds are managed by public universities and the council of rectors CONARE, who have shown themselves to be eager to work with U.S. and foreign firms and universities as opportunities arise.

Performance Requirements

While Costa Rican export authorities place a high priority on maximizing the amount of local content that large multinational enterprises (MNE) incorporate into their export product, efforts to that end have been cooperative rather than coercive. The export promotion agency PROCOMER operates an export linkages department focused on increasing the percentage of local content inputs used by large MNEs; one recent program is dedicated to helping small and medium enterprises (SME) obtain international certifications such as ISO9000.

While the procedures necessary to obtain residency in Costa Rica are traditionally long and very bureaucratic, immigration officials believe that an immigration law that took effect in March 2010 and Costa Rica's accession to the Apostille Convention, in effect as of December 2011, make the process less burdensome. In any case, existing immigration measures do not appear to have inhibited foreign investors' mobility to the extent that they affect foreign direct investment in the country.

Data Storage

Costa Rica does not require Costa Rican data to be stored on Costa Rican soil. With entry into force of Law Number 8968 - Personal Data Protection Law and its corresponding regulation - in 2014, companies must notify the Data Protection Agency (PRODHAB) of all existing databases containing the personal information of individuals outside the company. The notification requirement likewise applies to employee databases maintained, used or accessed by third parties. Data bases pay an annual registration fee of USD 200 per database. A number of U.S.-based companies hold aspects of the law to be unworkable, among them the provision that PRODHAB will act as a "super user" who can access those databases whenever it chooses, the need for explicit written consent by the data subject, and the registry of data bases. PRODHAB has maintained an active dialogue with its regulated entities and does not appear to have yet acted on all aspects of the law.

6. Protection of Property Rights

Real Property

Investment in Costa Rican real estate requires care and due diligence; some U.S. real estate investors have found it difficult to obtain clean title, have suffered adverse possession by squatters or have found themselves working with unscrupulous lawyers. Landowners must demonstrate a continued presence on and control over their land. Secured interests in both chattel and real property are recognized and enforced. Mortgage and title recording are mandatory. The laws governing investments in land, buildings, and mortgages are generally transparent. However, there are continuing problems of overlapping title to real property and fraudulent filings with the National Registry, the government entity that records property titles. While title guaranty is not a service traditionally offered in the country, several reputable companies offer title guaranty and related services.

Beachfront property in Costa Rica faces a unique set of circumstances. Almost all beachfront is public property for a distance of 200 meters from the mean high tide line, with an exception for long-established port cities and a few beaches such as Jaco and Playa Grande. The first 50 meters from the mean high tide line cannot be used for any reason by private parties. The next 150 meters, also owned by the state, can only be leased from the local municipalities or the Costa Rican Tourism Institute (ICT) for specified periods and particular uses, such as tourism installation or vacation homes. Concessions in this zone cannot be given to foreigners or foreign-owned companies. Investors should exercise caution and obtain qualified legal counsel before purchasing property, particularly near beachfront areas. Potential investors in Costa Rican real estate should also be aware that the right to use traditional paths is enshrined in law and can be used to obtain court-ordered easements on land bearing private title. Disputes over easements are particularly common when access to a beach is an issue.

Intellectual Property Rights

Costa Rica is a signatory of many major international agreements and conventions regarding intellectual property. Building on the existent regulatory and legal framework, CAFTA-DR required Costa Rica to further strengthen and clarify its IPR regime, with several new IPR laws added to the books in 2008. Prior to that, the GATT agreement on Trade Related Aspects of Intellectual Property (TRIPS) took effect in Costa Rica on January 1, 2000. Costa Rica in 2002 ratified the World Intellectual Property Organization (WIPO) internet treaties pertaining to Performances and Phonograms (WPPT) and Copyright (WCT). In August 2009, Costa Rica modified its WPPT commitments in a way consistent with its international obligations by notifying the WIPO of its reservations to Article 12 of the Rome Convention and Article 15.1 of the WIPO Performance and Phonograms Treaty (WPPT). These reservations together with a subsequent modification of Costa Rican law - currently under legal challenge by rights' holders - exempt Costa Rican over-the-air broadcasters from payment of "neighboring rights" to music performers and producers.

Costa Rica's Customs agency, housed under the Finance Ministry, confirms that no statistics on the seizure of counterfeit goods are made public. They keep all such statistics internal and private. In December 2014, the Costa Rican-American Chamber of Commerce (AmCham) launched a website, www.mercadoilegal.com, which allows for the reporting of tips on counterfeit merchandise. The anonymous tips are then shared with the Finance Ministry for action and enforcement.

In 2016 Costa Rica remained on the Watch List in the United States Trade Representative's (USTR) annual Special 301 Report. The USTR has noted that IPR enforcement with respect to copyright piracy and trademark counterfeiting required greater priority and resources.

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at http://www.wipo.int/directory/en/.

Resources for Rights Holders

Contact at Mission:

John Reed Payne
Economic Officer
Embassy San Jose

506-2519-2000
SanJoseTradeLeads@state.gov

Local lawyers list can be found at: http://costarica.usembassy.gov/attorney.html.

Country/Economy resources:

- Costa Rican American Chamber of Commerce (AmCham): http://www.amcham.co.cr/
- The U.S. Embassy in Costa Rica (Consular Section) maintains an extensive list of legal service providers, including some firms engaged in intellectual property law. This list does not represent an endorsement on the part of the U.S. government: http://costarica.usembassy.gov/attorney.html).
- The Department of Commerce also maintains a list of Business Service Providers that includes law firms specializing in IPR, under the Business Service Provider tab at: http://redirect.state.sbu/?url=www.export.gov/costarica.

7. Transparency of the Regulatory System

Costa Rican laws, regulations, and practices are generally transparent and foster competition in a manner consistent with international norms, except in the sectors controlled by a state monopoly, where competition is explicitly excluded. Publicly-traded companies adhere to International Accounting Standards Board standards under the supervision of SUGEVAL, the stock and bond market regulator.

Tax, labor, health, and safety laws are not seen as interfering with investment decisions. When applying environmental regulations, the Costa Rican organization that reviews environmental impact statements has been slow in issuing its findings, causing delays for investors in completing projects.

There are several independent avenues for appealing regulatory decisions, and these are frequently pursued by persons or organizations opposed to a public sector contract or regulatory decision. The avenues include the comptroller general (Contraloria General de la República), the Ombudsman (Defensor de los Habitantes), the public services regulatory agency (ARESEP), and the constitutional review chamber of the Supreme Court. The State Litigator's office (Procurador General de la República) is frequently a participant in its role as the government's attorney.

The process has kept the regulatory system relatively transparent and free of abuse, but it has also rendered the system for public sector contract approval exceptionally slow and litigious. There have been several cases in which these review bodies have overturned already-executed contracts, thereby interjecting uncertainty into the process. Bureaucratic procedures are frequently long, involved and can be discouraging to new investors.

A similarly transparent process applies to proposed laws and regulations. The Legislative Assembly generally provides ample opportunity for supporters and opponents of a law to understand and comment upon proposals. To become law, a proposal must be approved by the Assembly by two plenary votes. The signature of ten legislators (out of 57) is sufficient after the first vote to send the bill to the Supreme Court for constitutional review within one month, although in reality the court may take longer. Regulations must go through a public hearing process when being drafted.

Costa Rica is a member of UNCTAD's international network of transparent investment procedures [http://www.businessfacilitation.org]. Foreign and national investors can find detailed information on administrative procedures applicable to investment and income generating operations including the number of steps, name, and contact details of the entities and persons in charge of procedures, required documents and conditions, costs, processing time and legal bases justifying the procedures.

8. Efficient Capital Markets and Portfolio Investment

There are no controls on capital flows in or out of Costa Rica or on portfolio investment in publicly-traded companies. However, a law adopted in 2013 allows the Central Bank, in coordination with the executive branch, to discourage short-term investments through the imposition of taxes on interest earned by foreign non-residents on Costa Rican bonds and also provides for a special reserve requirement of up to 25 percent of the value of those bonds. Government officials have said this instrument will be used very carefully and selectively. Larger investors often arrange their financing abroad where rates tend to be lower and lending limits are higher. Foreign investors are able to borrow in the local market, but they are also free to borrow from abroad. Some capital flows are subject to a withholding tax (reference Conversion and Transfer Policies).

Within Costa Rica, long-term capital is scarce. Favorable lending terms for USD-denominated loans compared to colón-denominated loans have made USD-denominated mortgage financing popular and common, even for locals. As an alternative to encourage long-term credit, since 2005 the government has published the value of Development Units (Unidades de Desarrollo), an inflation-adjusted index value that may be used to denominate debt transactions. In addition, many local-currency loans have variable rates tied to the basic passive interest rate calculated from banks' cost of funds and published regularly by the Central Bank. There is a small secondary market in commercial paper and repurchase agreements. The securities exchange (Bolsa Nacional de Valores) is small and is dominated by trading in government bonds. Stock trading is of limited significance and involves less than 20 of the country's larger companies, resulting in an illiquid secondary market. However, the securities exchange is actively promoting programs in several promising areas including currency contracts, small stocks, and venture capital.

Money and Banking System, Hostile Takeovers

The three state-owned commercial banks - Banco Nacional, Banco de Costa Rica and BanCredito- plus the bank-like entity Banco Popular, all have significant advantages over their private competitors. As state-owned entities these banks enjoy de-facto deposit insurance which is not provided to private banks and cannot be forced into bankruptcy. Government entities prefer to work with government-owned banks. Nevertheless, credit is generally allocated on market terms, although the state-owned commercial banks are expected to participate actively in activities deemed to be of public interest. A development bank structure began functioning in 2009 and mandates that 17 percent of resources from private banks' checking and savings accounts be destined to SMEs. A bank may develop its own program of development lending or cede the funds to an administering bank, but mandated conditions (including a very narrow lending margin and a regulatory requirement that standard risk metrics apply to these loans) have limited the program's impact. Costa Rica hosts a large number of smaller private banks, credit unions, and factoring houses. Nevertheless, the four public banks are still dominant, accounting for well over 50 percent of the country's financial system's assets.

Consolidated total assets of the country's public commercial banks were approximately USD 25 billion in December 2014, while consolidated total assets of the eight private commercial banks were approximately USD 12.8 billion and consolidated total assets of the credit unions and lending houses were USD 4 billion, for combined assets of all bank groups (public banks, private banks and others) of approximately USD 42 billion as of December 2014. The banking sector is healthy, with non-performing loans in the 2014 period reported as 1.2% of total loans; the state-owned banks had a higher but still healthy 1.7% average.

Costa Rica's national council for the supervision of the financial system (CONASSIF) oversees Costa Rica's financial sector and consists of four principal components. The country's general superintendent of financial institutions (SUGEF) regulates banks and other financial institutions. The general superintendent of securities markets (SUGEVAL) oversees the securities exchange. The general superintendent of pensions (SUPEN) oversees pension funds. The superintendent of insurance (SUGESE) oversees all insurance operators. Legal and accounting systems are transparent and consistent with international norms. Many well-known accounting firms in Costa Rica are affiliated with large U.S. firms.

Costa Rican banks have not shown themselves to possess takeover defenses designed to prevent foreign capital from entering the market, as evidenced by the relatively high number of bank ownership transactions by foreign bank groups in the past 15 years in Costa Rica. The largest (state owned) banks are not subject to takeover in any case while private banks have changed hands or merged as determined by their owners. The Costa Rican financial regulatory system does not appear to have presented a significant obstacle to this merger and acquisition activity.

9. Competition from State-Owned Enterprises

Beyond the electricity and petroleum (Energy & Mining) sectors, the country has a generally open international trade and investment regime. Electricity generation and distribution remains firmly in the control of the state-owned National Electricity Institute (ICE), while retail energy distribution is also dominated by ICE with significant participation by municipal utilities and rural electrical cooperatives. Electricity generated privately must be distributed through the public entities and is limited to 30% of total electrical generation in the country: 15% to small privately-owned renewable energy plants and 15% to larger "build-operate-transfer" (BOT) operations. Petroleum imports are monopolized by the state petroleum company RECOPE.

Sectors in which state-owned enterprise holds a significant market share are the banking sector, which was opened to private competitors in 1995, the insurance and telecommunications sectors. State-owned banks as of April 2016 control well over 50 percent of the country's banking assets (reference Efficient Capital Markets and Portfolio Investment). Following market opening in 2009, ICE is still a major player in the telecoms (Information and Communications) sector but is now down to a 61% market share in mobile telephony from its previous monopoly position. See statistics compiled by the telecoms regulator SUTEL: (https://estadisticastelecom.sutel.go.cr). The state-owned insurance provider National Insurance Institute (INS) has likewise been adjusting to private sector competition since 2009 and in 2015 registered just 81% of total insurance premiums paid; 13 insurers are now

registered with insurance regulator SUGESE:
(http://www.sugese.fi.cr/mercado_seguros/aseguradoras/index.html). Both the insurance regulator SUGESE and telecom regulator SUTEL have won praise for successfully managing market transitions although in both markets new market entrants continue to point to unfair advantages enjoyed by the incumbent operator.

Costa Rica is not a party to the Government Procurement Agreement (GPA) within the framework of the World Trade Organization (WTO). Private sector advocates have called attention to the fact that government agencies overwhelmingly choose ICE as their telecom services provider despite a full assortment of private sector telecom companies.

OECD Guidelines on Corporate Governance of SOEs

The OECD indicated that Costa Rica's State Owned Enterprises (SOE) appear to be managed in a manner consistent with OECD guidelines:
http://www.oecd.org/daf/ca/oecdguidelinesoncorporategovernanceofstate-ownedenterprises.htm. However, the February 2016 OECD Economic Assessment of Costa Rica recommended improving corporate governance of SOEs in line with those guidelines, noting the pervasive influence of SOE's in key sectors of the economy with particular note of the dominance of state-owned commercial banks.

SOE's in Costa Rica follow a sector model, with little centralized control of SOE operations. Each state-owned enterprise has its own independent board of directors and internal operating regulations and procedures. Board members are generally appointed by the Council of Ministers, presided over by the President of the country who must approve the final decision. Some SOE boards have members appointed by private organizations. In the case of SOE boards with representatives from such private organizations - professional associations, unions, chambers of commerce, associations - the bylaws of each SOE outline the process whereby representatives are elected.

The comptroller general's office (which reports directly to the Legislative Assembly) exercises fiduciary oversight and supervision of all public entities, including the state-owned enterprises. Large SOE's such as the oil importer RECOPE and the electrical and telecoms operator ICE are subject to annual independent audit. Costa Rica's state-owned enterprises do not appear to take direct orders from the Executive Branch; nevertheless, the state-owned enterprises clearly strive to fulfill their role as publicly-owned entities. Costa Rican SOE's do not appear to have an unfair advantage in judicial disputes in which they are party.

Sovereign Wealth Funds

Costa Rica does not have a Sovereign Wealth Fund.

10. Responsible Business Conduct

Corporations in Costa Rica, particularly those in the export and tourism sectors, generally enjoy a positive reputation within the country as engines of growth and practitioners of Responsible Business Conduct (RBC). The Costa Rica government actively highlights its role in attracting high-tech companies to Costa Rica; the strong Responsible Business Conduct (RBC) culture that many of those companies cultivate has become part of that winning package. Large multinational companies commonly pursue RBC goals in line with their corporate goals and have found it beneficial to publicize RBC orientation and activities in

Costa Rica. Many smaller companies, particularly in the tourism sector, have integrated community outreach activities into their way of doing business. There is a general awareness of RBC among both producers and consumers in Costa Rica.

The Government of Costa Rica maintains and enforces laws with respect to labor and employment rights, consumer protection and environmental protection. Costa Rica has no mineral extraction industry with its accompanying issues. Costa Rica encourages foreign and local enterprises to follow generally accepted RBC principles such as the OECD Guidelines for Multinational Enterprises (MNE) and maintains a national contact point for OECD MNE guidelines within the Ministry of Foreign Trade (see http://www.oecd.org/investment/mne/ncps.htm).

Beyond that, some Costa Rican government agencies have taken the principals of public-private partnership to heart by working with private companies in addressing specific social issues. For example, the NGO "Aliarse" (http://www.aliarse.org) specializes in helping its member companies to effectively coordinate with government, community groups and other companies. The Ministry of Labor has recently coordinated closely with the private sector in developing an employment program "My First Job – Mi Primer Empleo." Many Central America Regional Security Initiative (CARSI) grantees, Centro Cultural Costarricense Norteamericano (www.centrocultural.cr), Refugee Education Trust (RET)(www.theret.org), Boy with a Ball (www.boywithaball.com), Hogar Siembra (www.hogarsiembra.org), Costa Rica –U.S.A. Foundation (www.crusa.cr), and Fundación Omar Dengo (www.fod.ac.cr) are coordinating with companies such as SC Johnson, Phillip Morris, DHL, Cargill, Cisco Systems, IBM, Western Union, and Microsoft to leverage community programs in a way that advances their activities. CARSI is a U.S. government funded initiative.

11. Political Violence

Since 1948, Costa Rica has not experienced significant domestic political violence. There are no indigenous or external movements likely to produce political or social instability. However, Costa Ricans occasionally follow a long tradition of blocking public roads or ceasing port operations for a few hours as a way of pressuring the government to address grievances; the traditional government response is to react slowly, thus giving the grievances time to air. This practice on the part of peaceful protesters can cause logistical problems.

12. Corruption

Costa Rica has laws, regulations, and penalties to combat corruption, though the resources available to enforce those laws have been limited. These laws extend to family members of officials and contemplate conflict-of-interest in both procurement and contract award. A series of high-profile corruption cases in previous years involving directors of state-owned enterprises as well as two ex-presidents have helped emphasize that even senior official may be prosecuted on corruption charges. Allegations of lower-level corruption are common, and some prosecutions have resulted.

The attorney general (Fiscal General de la República), state litigator (Procuraduria General de la República), comptroller general (Contraloría General de la Republica), and ombudsman (Defensoría de los Habitantes) work together in an effort to combat corruption. The comptroller general, the Organization of Judicial Investigation (OIJ), and the public prosecutors' office investigate allegations of corruption. The comptroller general is responsible for approving or rejecting public contracts, auditing results, and detecting instances of corruption.

UN Anticorruption Convention, OECD Convention on Combatting Bribery

Costa Rica ratified the Inter-American Convention Against Corruption in 1997. This initiative of the Organization for Economic Cooperation and Development (OECD) and the Organization of American States (OAS) obligates subscribing nations to implement criminal sanctions for corruption and implies a series of follow up actions: http://www.oas.org/juridico/english/cri.htm. Costa Rica also ratified the UN Anti-Corruption Convention in March 2007. As part of its OECD Action Plan, Costa Rica should sign onto the OECD Anti-Bribery Convention.

In addition to these existing structures and safeguards, the Government of Costa Rica is implementing several initiatives centered on greater transparency in government. As a member of the Open Government Partnership (OGP), Costa Rica has been developing websites for many of its government offices with data sets of interest to civil society.

While U.S. firms have not identified corruption as a major obstacle to doing business in Costa Rica, some have made allegations of corruption in the administration of public tenders and in approvals or timely processing of permits. Developers of tourism facilities periodically cite municipal-level corruption as a problem when attempting to gain a concession to build and operate in the restricted maritime zone.

Acts of bribery, including those directed against government officials, are criminal acts punishable by imprisonment. Public officials convicted of receiving bribes are subject to prison sentences up to ten years, according to the Costa Rican Criminal Code (Articles 340-347). Entrepreneurs may not deduct the costs of bribes or any other criminal activity as business expenses. In recent years, Costa Rica has seen several publicized cases of firms prosecuted under the terms of the U.S. Foreign Corrupt Practices Act for corrupt acts committed to the detriment of Costa Rican institutions.

Resources to Report Corruption

Contact within government Anti-Corruption Agency:

Name: Lic. Ronald Víquez Solis
Title: Procurador Director de la Área de la Ética Pública, PGR
Organization: Procuraduria General de la Republica (PGR)
Address: Avenida 2 y 6, Calle 13. San Jose, Costa Rica.
Telephone Number: 2243-8330, 2243-8335
Email Address: RocioCHT@PGR.go.cr

Contact within Civil Society:

Name: Evelyn Villarreal
Organization: Costa Rica Integra
Tel: 2519-5344; 2519-5861
Email Address: crintegra.vice@gmail.com

13. Bilateral Investment Agreements

Costa Rica has bilateral investment treaties (BITs) in force with Argentina, Canada, Chile, the Czech Republic, France, Germany, Korea, the Netherlands, Paraguay, Qatar, Spain, Switzerland, Taiwan, and Venezuela. The National Assembly ratified Costa Rica's BIT with China in March 2016. The investment chapter of CAFTA-DR includes all aspects of a BIT thereby making a separate BIT with the United States unnecessary.

Bilateral Taxation Treaties

Costa Rican and U.S. tax authorities currently coordinate under the terms of two agreements, a Taxation Information Exchange Agreement (TIEA) signed in 1989 and a U.S.-Costa Rica intergovernmental agreement titled "Agreement between the Government of the United States of America and the Government of the Republic of Costa Rica to Improve International Tax Compliance and to Implement FATCA" signed in December 2013. Costa Rica has active bilateral or regional tax information exchange agreements with 15 other countries, in addition to a number of signed agreements that are not yet in force; see the Global Forum on Transparency and Exchange of Information for Tax Purposes for the full list: http://www.eoi-tax.org/jurisdictions/CR#agreements. Costa Rica is also a party to the OECD "Convention on Mutual Administrative Assistance in Tax Matters," with Entry-Into-Force in August 2013: http://www.oecd.org/tax/exchange-of-tax-information/Status_of_convention.pdf.

14. Foreign Trade Zones/Free Ports/Trade Facilitation

Free trade zones operate near the port cities of Limon/Moin (Caribbean) and Puntarenas (Pacific) as well as in various central valley locations. The benefits, primarily fiscal, are described in the section entitled Performance Requirements and Investment Incentives.

The Costa Rican Ministry of Foreign Trade has a staff position, Trade Facilitation Director, responsible for all aspects of Trade Facilitation including the Customs and Border Modernization initiative. A Customs Mutual Assistance Agreement (CMAA) between Costa Rican Customs and the United States Customs and Border Protection (CBP) was signed in May 2015. Currently, Costa Rica is in the process of ratifying the agreement. Costa Rica was part of Phase 1 of the Pathways for Prosperity Trade Facilitation pillar and a public-private sector group of stakeholders meets regularly at the U.S. Embassy to discuss trade facilitation issues.

15. Foreign Direct Investment and Foreign Portfolio Investment Statistics

Table 2: Key Macroeconomic Data, U.S. FDI in Host Country/Economy

Preliminary figures from the Central Bank of Costa Rica show 2015 foreign direct investment (FDI) in Costa Rica totaling USD 2.85 billion, up from USD 2.75 billion in 2014 but down from the 2013 high point of USD 3.09 billion. The portion of annual FDI in Costa Rica originating from the United States has historically oscillated around 50% and in 2015 came to USD 1.50 billion or 53% of the total. For details and historical data see the Costa Rican Central Bank website cited below.

Costa Rica's incoming FDI as a percentage of Gross Domestic Product (GDP) has been consistently high for years and was 5.4% in 2015. As detailed elsewhere in this report (#1 Openness to Foreign Investment, #5 Performance Requirements, #10 Investment Incentives, #15 Labor), this annual flow of investment dollars is more than just a balance-of-payments phenomena and represents many individual investment decisions by technologically relatively advanced companies to establish or increase a presence in Costa Rica.

	Host Country Statistical source*		USG or international statistical source		USG or International Source of Data: BEA; IMF; Eurostat; UNCTAD, Other
Economic Data	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP) ($M USD)	2015	$52,899	2014	$49,550	www.worldbank.org/en/country
Foreign Direct Investment	Host Country Statistical source*		USG or international statistical source		USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other
U.S. FDI in partner country ($M USD, stock positions)	2015	$1,503	2014	$955	http://bea.gov/international/direct_investment_multinational_companies_comprehensive_data.htm
Host country's FDI in the United States ($M USD, stock positions)	N/A	N/A	2014	$-92	http://bea.gov/international/direct_investment_multinational_companies_comprehensive_data.htm
Total inbound stock of FDI as % host GDP	2015	5.4%	N/A	N/A	N/A

* Costa Rican statistical source is Central Bank of Costa Rica, 2015:

GDP– http://indicadoreseconomicos.bccr.fi.cr/indicadoreseconomicos/Cuadros/frmVerCatCuadro.aspx?idioma=1&CodCuadro= 2999

FDI– http://indicadoreseconomicos.bccr.fi.cr/indicadoreseconomicos/Cuadros/frmVerCatCuadro.aspx?idioma=1&CodCuadro= 2185

Table 3: Sources and Destination of FDI

Direct Investment from/in Counterpart Economy Data					
From Top Five Sources/To Top Five Destinations *(U.S. Dollars, Millions)*					
Inward Direct Investment			Outward Direct Investment		
Total Inward	24,381	100%	Total Outward	2,035	100%
United States	14,060	58%	United States	474	23%
Spain	1,863	8%	Panama	370	18%
Mexico	1,368	6%	Guatemala	249	12%
UK	979	4%	Nicaragua	237	12%
Panama	723	3%	Netherlands	224	11%
"0" reflects amounts rounded to +/- USD 500,000.					

Source: IMF Coordinated Direct Investment Survey, 2014

Table 4: Sources of Portfolio Investment

Portfolio Investment Assets								
Top Five Partners (Millions, U.S. Dollars)								
Total			Equity Securities			Total Debt Securities		
All Countries	1,234	100%	All Countries	263	100%	All Countries	971	100%
United States	475	39%	Panama	152	58%	United States	402	41%
Panama	177	14%	United States	73	28%	UK	119	12%
UK	124	10%	China, PR	19	7%	Netherlands	54	6%
Netherlands	56	5%	UK	6	2%	France	39	4%
Luxembourg	41	3%	Brazil	5	2%	Luxembourg	39	4%

Source: IMF Coordinated Portfolio Investment Survey, 2014.

Section 5 - Government

Chiefs of State and Cabinet Members:

For the current list of Chiefs of State and Cabinet Members, please access the following - [Central Intelligence Agency online directory of Chiefs of State and Cabinet Members of Foreign Governments]

Legal system:

civil law system based on Spanish civil code; judicial review of legislative acts in the Supreme Court

International organization participation:

BCIE, CACM, CD, CELAC, FAO, G-77, IADB, IAEA, IBRD, ICAO, ICC (national committees), ICRM, IDA, IFAD, IFC, IFRCS, ILO, IMF, IMO, IMSO, Interpol, IOC, IOM, IPU, ISO, ITSO, ITU, ITUC (NGOs), LAES, LAIA (observer), MIGA, NAM (observer), OAS, OPANAL, OPCW, PCA, SICA, UN, UNCTAD, UNESCO, UNHCR, UNIDO, Union Latina, UNWTO, UPU, WCO, WFTU (NGOs), WHO, WIPO, WMO, WTO

Exchange control

There are no exchange controls in Costa Rica

Treaty and non-treaty withholding tax rates

Costa Rica has signed **21 agreements** (**1 DTC** and **20 TIEA** agreements) providing for the exchange of information.

Jurisdiction	Type of EOI Arrangement	Date Signed	Date entered into Force	Meets standard	Contains paras 4 and 5
Argentina	TIEA	23 Nov 2009	12 Jul 2012	Yes	Yes
Australia	TIEA	1 Jul 2011	13 Dec 2012	Yes	Yes
Canada	TIEA	11 Aug 2011	14 Aug 2012	Yes	Yes
Denmark	TIEA	29 Jun 2011	not yet in force	Yes	Yes
El Salvador	TIEA	25 Apr 2006	not yet in force	Unreviewed	Yes
Faroe Islands	TIEA	29 Jun 2011	not yet in force	Unreviewed	Yes
Finland	TIEA	29 Jun 2011	not yet in force	Yes	Yes
France	TIEA	16 Dec 2010	14 Dec 2011	Yes	Yes
Greenland	TIEA	29 Jun 2011	not yet in force	Unreviewed	Yes
Guatemala	TIEA	25 Apr 2006	11 Feb 2011	No	No
Honduras	TIEA	26 Apr 2006	11 Feb 2011	Unreviewed	Yes
Iceland	TIEA	29 Jun 2011	not yet in force	Yes	Yes
Mexico	TIEA	25 Apr 2011	26 Jun 2012	Yes	Yes
Netherlands	TIEA	29 Mar 2011	1 Jul 2012	Yes	Yes
Nicaragua	TIEA	25 Apr 2006	not yet in force	Unreviewed	Yes
Norway	TIEA	29 Jun 2011	not yet in force	Yes	Yes
Sint Maarten	TIEA	27 Oct 2012	not yet in force	Yes	Yes
South Africa	TIEA	27 Oct 2012	not yet in force	Yes	Yes
Spain	DTC	4 May 2004	15 Dec 2010	Yes	No
Sweden	TIEA	29 Jun 2011	not yet in force	Yes	Yes
United States	TIEA	15 Mar 1989	12 Feb 1991	Yes	No

Methodology and Sources

Section 1 - General Background Report and Map

(Source: CIA World Factbook)

Section 2 - Anti – Money Laundering / Terrorist Financing

	Lower Risk	**Medium Risk**	**Higher Risk**
FATF List of Countries identified with strategic AML deficiencies	Not Listed	AML Deficient but Committed	High Risk
Compliance with FATF 40 + 9 recommendations	>69% Compliant or Fully Compliant	35 – 69% Compliant or Fully Compliant	<35% Compliant or Fully Compliant
US Dept of State Money Laundering assessment (INCSR)	Monitored	Concern	Primary Concern
INCSR - Weakness in Government Legislation	<2	2-4	5-20
US Sec of State supporter of / Safe Haven for International Terrorism	No	Safe Haven for Terrorism	State Supporter of Terrorism
EU White list equivalent jurisdictions	Yes		No
International Sanctions UN Sanctions / US Sanctions / EU Sanctions	None	Arab League / Other	UN , EU or US
Corruption Index (Transparency International) Control of corruption (WGI) Global Advice Network	>69%	35 – 69%	<35%
World government Indicators (Average)	>69%	35 – 69%	<35%
Failed States Index (Average)	>69%	35 – 69%	<35%
Offshore Finance Centre	No		Yes

Section 3 - Economy

General Information on the current economic climate in the country and information on imports, exports, main industries and trading partners.

(Source: CIA World Factbook)

Section 4 - Foreign Investment

Information on the openness of foreign investment into the country and the foreign investment markets.

(Source: US State Department)

Section 5 - Government

Names of Government Ministers and general information on political matters.

(Source: CIA World Factbook / https://www.cia.gov/library/publications/world-leaders-1/index.html)

Section 6 - Tax

Information on Tax Information Exchange Agreements entered into, Double Tax Agreements and Exchange Controls.

(Sources: OECD Global Forum on Transparency and Exchange of Information for Tax Purposes PKF International)

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