Doing Business in Costa Rica 2022

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Central America, Panama and the Dominican Republic is an attractive region for investment, where its countries have for years excelled in various sectors such as financial services, information and communications technology, manufacturing and logistics, tourism, among others.

In recent years, the promotion of foreign investment has been one of the main objectives for the governments of Central America, Panama and the Dominican Republic. One of the policies that has seemed to be effective is tax benefits, which many countries in the region have extended in order to attract investment, making us a promising destination for foreign investment to be considered post-COVID-19.

While the U.S. has been the main source of foreign direct investment inflows to the region, other countries are increasing their attention to our region, investing in infrastructure projects that generate new jobs and create optimal conditions to accelerate an economic recovery after the global health crisis.

Our countries are becoming aware and unlocking their potential for sustainable growth and present opportunities for investment in the environment by taking responsibility for better and more efficient use and management of the region’s resources.

This guide is designed to provide the necessary information and direction on regulatory compliance issues and considerations for opening a new business, establishing a branch of a multinational company, or any other type of investment in the region.

We hope this Doing Business gives you the stimulus to build a successful business in this region filled with opportunities. This publication is for general guidance only and should not be construed as professional advice. Should you require further information, our advisors will be happy to assist you on an individual basis.
Thank you very much for thinking of PwC Interaméricas and allowing us to guide your journey through Central America and the Dominican Republic.

It should be noted that this document was prepared as a general guide and that its content is subject to constant changes given the legal and economic environment of the different countries, so due to the complexity of some specific issues, we recommend you rely on the assistance and accompaniment of professionals from our team specialized in tax, legal and regulatory matters, who will gladly support you taking into consideration the specific circumstances and situations of the matter under study.
In many ways, the culture of Costa Rica reflects its ethnic diversity with a predominantly European and American influence features along with some Creoles and indigenous affinity.

Costa Rica was discovered by the Spaniards around the year 1502 so it became part of the Spanish Empire.

In 1821, Costa Rica gained its independence from Spain and after some attempts to join the rest of Central American Countries, a union called “Federation Central” declared itself as a sovereign and independent Republic under the leadership of the first president José María Castro Madriz in 1848.

Costa Rica is located in Central America. Limited to the north by Nicaragua, Panama to the South, to the East by the Caribbean Sea and to the West by the Pacific Ocean.
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Government's attitude towards foreign investment:
According to the National Development Plan of the Ministry of National Planning and Economic Policy during the period 2019-2022, Costa Rica intends to attract US $10.5 billion dollars in direct investment, foreign investment in Costa Rica is increasingly growing due to different factors among which we can mention: it is the country with the oldest democracy and one of the most robust in Latin America, thus giving a strong political stability in the country. Another important factor that makes the country attractive is the high educational level, most of the multinational companies investing in the country are looking for a young, bilingual and talented workforce.

The country has signed free trade agreements with different countries such as Mexico, Canada, Chile, the Dominican Republic, Trinidad and Tobago, Panama, countries of the Caribbean, China, among others. In addition, Costa Rica has signed treaties against Double Taxation. Currently, there are four signed treaties with: Spain, Germany, Mexico and the United Arab Emirates.

Costa Rica became a member of the Organization for Economic Co-operation and Development (OECD) in 2021, being the fourth country in the Latin American and Caribbean region joining the OECD. Costa Rica had to comply with different processes to be invited to join this organization, and once becoming a member it must meet the highest demanding global standards, which generates to the country greater trust from investors, both domestic and international.

Free Trade Zone:
The free zone regime offers a range of incentives and benefits granted by the Government of Costa Rica to companies that make new investments in the country. The regime allows these companies to enjoy attractive tax exemptions on the income tax, value added tax (VAT), taxes on remittances abroad, export and import tariffs, taxes payable to local governments, among others. In order to qualify under the Free Zone Regime (FZR), the applicant must comply with several requirements established in the Free Zone Regime Law and its Regulations.

Digital Nomads:
For natural persons who provide their services outside of Costa Rica, it is also attractive to come to work in Costa Rica. During the year 2021, Costa Rica enacted the law number 10008, “Law to Attract Workers and Remote Service Providers of International Character” or Law of Digital Nomads, as its name suggests, seeks that Costa Rica is seen as a country of foreign investment. Among the benefits offered by this law, are:
• Income tax exemption
• One-year Visa, extendable and with multiple exits.
• Duty-free importation of any equipment necessary for work
• One-year driver’s license recognition

To be considered a digital nomad in Costa Rica, the requirements are minor:
• Be a foreigner, going to Costa Rica to work.
• Demonstrate a monthly income over $3 thousand and a $5 thousand minimum if traveling with family.
• Getting health insurance that covers the applicant for the entire duration of his/her stay in the country. All members of the family group must also be covered.
• Make a one-time payment for the granting of a non-resident visa, as a Worker or Remote Service Provider.
Overview of the country

Weather

Costa Rica because of its geographical location has a tropical, pleasant and relatively stable climate, where its biggest changes are a rainy season and a dry season. Has an average temperature of 22 °C that increases considerably in coastal areas. San Jose (the capital city) ranges from 14° C to 24° C in December and 17° to 27° C in May. The Caribbean coast has an average of 21° C at night and about 30° C during the day. The Pacific coast is hotter than the Caribbean however less humid.

Education

The country has a 97.80% literacy rate. In Costa Rica, pre-school, general basic, and diversified education are mandatory for the public, free of charge and defrayed by the nation.

In state education, including upper education, by a constitutional mandate, the public expense may not be lower than eight percent (8%) of the gross domestic product each year.

The State has an obligation to provide technological access to all levels of education and the pursuit of higher studies by persons who lack financial resources. Awarding scholarships and aid are in charge of the Ministry of Education.

Many of the early fathers of the country as the first president José María Castro were former teachers who cared about education in Costa Rica. In 1869, the country became one of the pioneers of the world to make free and compulsory primary education which was funded in part by the great coffee oligarchy. In those days, only 10.00% of Costa Ricans could read and write. Later by 1920, 50.00% of the population was studied and by 1970 89.00% could read and write.

In the last 20 years we have seen significant growth in educational standards. Virtually all schools and public schools in the country are taught English.

Population, form of government, language, currency:

<table>
<thead>
<tr>
<th>Area</th>
<th>51,100 km²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>5,057,999 ha (to the 06/30/19)</td>
</tr>
<tr>
<td>Population growth</td>
<td>1.2% (2018)</td>
</tr>
<tr>
<td>Political system</td>
<td>Democratic Republic</td>
</tr>
<tr>
<td>Form of government</td>
<td>republican system with 3 independent powers (legislative, executive and judicial)</td>
</tr>
<tr>
<td>Language</td>
<td>Spanish</td>
</tr>
<tr>
<td>Currency</td>
<td>Colón (c)</td>
</tr>
<tr>
<td>Administrative division</td>
<td>7 provinces</td>
</tr>
<tr>
<td>Religion</td>
<td>Roman catholic</td>
</tr>
<tr>
<td>Capital city</td>
<td>San José</td>
</tr>
</tbody>
</table>


classes and one of the great efforts that have been developed in the Ministry of Education in recent years, is to give students the opportunity to have more and better tools in the field of technology (computers), so that from the classroom, children and young people can develop their skills in managing these tools. Educational program that seeks to implement an integrated platform that includes the necessary structure for the interconnection of equipment and continuous training of teachers.

In Costa Rica you can find primary and secondary schools in each community. Students should not pay for school attendance; however, there is a voluntary fee of about $20 a year for tuition. Elementary school has 6 degrees or levels; meanwhile, secondary education has 5 degrees or levels. Each is divided into two cycles and whenever students pass a course, they must pass tests in all subjects studied during such cycles. There are also so-called “technical colleges” or “vocational”, in which schoolboys are prepared in technical areas that allow them to better inserted into the labor market.

The most notorious tests correspond to those performed in high school, which were known as “baccalaureate tests”. From 2019, the Ministry of Public Education (MEP) implements a comprehensive evaluation system called Strengthening Learning Opportunities for Renewal (FARO) in primary and secondary.

Costa Rican education aligns the evaluation system with the study programs approved by the Education Board of Governors. It also makes it possible to gain access to information about the classroom learning process, ways each student in the education center is able to improve, and sets the actions needed to make corrections.

The University of Costa Rica (UCR) is the oldest and most prestigious institution in the country and in the year 2022, it received 42,328. However, even when the full tuition is paid the amount rarely exceeds $400 semi-annually. The main campus is located in the northeast of San Jose in the community of San Pedro, but the University of Costa Rica (main national university) also has regional centers in Alajuela, Turrialba, Cartago and Puntarenas.

Another major state university is the National University (UNA) in Heredia, which offers a variety liberal arts, sciences and professional studies. At Cartago, another Province, the Costa Rica Institute of Technology (RERI) specializes in science and technology and aims to train people in areas such as agriculture, industry and mining. State Open University was founded in 1977 using as a model the Open University in Britain, has 38 regional centers offering 15 university programs in health, education, business, engineering, and information technology; and as its name suggests, it specializes in courses at distance.
In 2008 the National Technical University was founded, which arises from the need to solve the emergence of a technical quality education, to give the range of a university level through effective link to the world of work.

On the other hand, in Costa Rica we find also the INCAE Business School Costa Rica, which has been considered the best business school in Latin America, which occupies the position number 27 globally, ranking among the top business schools of the world.

In addition, there are many other private institutions such as the Autonomous University of Central America, EARTH University and the University for Peace, being the last sponsored by the United Nations that offer master’s degrees in communications for Peace.
Political and Legal System

Legal framework

Political and legal structure of Costa Rica has three main branches: legislative, executive and judicial; which are composed and exercised as follows:

<table>
<thead>
<tr>
<th>LEGAL AND POLITICAL FRAMEWORK</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EXECUTIVE</strong></td>
</tr>
<tr>
<td>Exerted by:</td>
</tr>
<tr>
<td>Made of:</td>
</tr>
<tr>
<td>Elected or appointed by:</td>
</tr>
</tbody>
</table>

Costa Rican legal system is based on civil law and is mainly derived from the Napoleonic Code.

In 2017 the index of Law & Order issued by the consulting firm Gallup positioned to Costa Rica in the top 10th of the safest countries in Latin America, the ranking takes into account issues such as personal security and experiences related to crime forces of security.

Overall, the positioning index in its ranking to Latin America and THE CARIBBEAN as areas of the world that have the lowest scores in terms of safety, giving on average a score of 64, however, Costa Rica reached a score at the end of the year 69 2017, which gave the seventh place among countries in the region and 98th in relation to the world (135 countries participated in total).

National political parties registered with the Supreme Electoral Tribunal (TSE) to the end of 2019

- National Scale
- Accessibility without Exclusion
- Citizen Action
- Democratic Christian Alliance
- Patriotic Alliance (Inactive)
- National Progress (Inactive)
- Democratic and Social Center (Inactive) Of the Workers

Presidential elections are held in Costa Rica every four years. The last national elections were in the month of April, 2022. In that election, the current president of the Republic, Mr. Rodrigo Chaves Robles, was elected from the Social Democratic Progress Party.

The current president, from the outset of his political campaign, made manifest the need to fight against corruption, luxury pensions, the fiscal deficit, and the efficiency of the state apparatus.

The previous administration of President Carlos Alvarado Quesada considered a fiscal reform urgent to alleviate the problem of the fiscal deficit. Therefore, in December 2018, Law Number 9635, the “Public Financial Buttress Law” was published. It established a value-added tax, which extended the previous general tax base on sales.

This law also introduced an encumbrance on income and capital earnings as well as reforms to the public employment program and a fiscal rule designed so, as the debt-GDP ratio increases, the growth in the current expense will rise.

4 The political party is reactivated under the declaration of unconstitutionality of Article 68 of the Electoral Code and according to resolution DGRE-0008-DRPP-2012 issued by the General Directorate of the Electoral Registration and Funding of Political Parties at fifteen hours of the twenty-fourth of July two thousand and twelve.
The economy

The Central Bank of Costa Rica (BCCR) reported that in 2021 the country registered an economic growth of 7.6%, much higher than expected, and that it calculates that by 2022 it will be 3.9%.

International and national economic juncture

Starting in 2020, the world economy faced serious effects of the crisis due to the COVID-19 pandemic. And, while it was still subject to the consequences of this shock (e.g., inflationary pressures and disruptions in the global supply chain), starting on February 24, 2022, the world faced a new shock generated by the armed conflict between Russia and Ukraine.

Despite this unfavorable external setting, the economic recovery in Costa Rica continued in 2022. During the first quarter, the GDP showed a change rate of 6.9% in inter-annual terms according to its trend cycle series. Therefore, the production level is already above 5.3% when compared to what was recorded prior to the pandemic (IV2019).

According to components of the expense, home consumption dynamism, credit in the private sector, the reduction in unemployment, and the improvement in available income stand out. This is all despite the fact that the negative repercussions related to growth derived from the severe deterioration in terms of exchange due to an increase in the prices of imported goods. Government consumption, for its part, showed a low growth rate. This combined the growth in public health expenses due to the COVID-19 pandemic with the drop in expenses related to public administration and teaching.

External Demand.

In relation to external demand, the growth in exports of goods and services, driven by the sales of manufactured goods in the special and definitive program, along with the greater influx of tourists into the country are especially notable. The import volume has also continued to grow due to the good performance by business activity and the hike in purchases of products (especially hydrocarbons), capital goods, vehicles, and food products, along with outbound tourism.

The hike in the estimated growth in the GDP was reviewed in 2021, from 7.6% to 7.8%.

Unemployment

Within this context of economic coverage, the labor market also shows improvement although it is slower. As of February 2022, the unemployment rate was pegged at 13.3%. This is 5.2% lower than the level recorded in the previous year but a little more than 1% above the level prior to the pandemic (February 2020).
Balance of Payments
In relation to the balance of payments, the first quarter of 2022 showed a deficit in the current account that was the equivalent of 1.6% of the GDP greater by 1.2% than the GDP observed one year previously. This hike is explained, to a great degree, by a greater commercial gap and compensated partially by the surplus in the balance of services.

Inflation
Similar to most of the countries in the world, general inflation in Costa Rica and the underlying inflation indicators have continued to grow when faced with the sources of external pressure. In March, the inter-annual variance in the CPI reached 5.8% and the average of the underlying inflation indicators was 4.1%.

Exchange Rate
Under the administered flotation exchange rate regimen and under the auspices of its Fundamental Law, the Central Bank acts in the exchange rate market with three purposes: a) to process the None-Banking Public Sector (NBPS) currency requirements; b) to delimit abrupt shifts in the exchange rate but not to change the trend of this macro-price (these interventions are called stabilization operations), and c) to attend to its currency requirements during reserve expansion programs.

Exchange-rate market mostly to attend to the first reason and, to a lesser degree, to the second. In relation to managing currency for the NBPS, the BCCR must respond to those requirements with international reserves and restore them through purchases on the Monex, based on the conditions that are withheld on the private exchange-rate market.

During the first quarter of 2022, the net NBPS requirements came to US 1 billion 435.7 million (US 1 billion, 57 million and US .567 billion during the same period in 2021 and 2022, respectively). Of those figures, US $661 million were allocated to paying the oil bill and US $130 million to the IRS to attend to primarily servicing its debt in foreign currency.

This year, the oil bill increased considerably in comparison to the previous year. In addition, the hike in the demand by institutional savers and, in particular, the pension fund operators that, due to portfolio diversification reasons, have increased their holdings in assets in foreign exchange. In the first quarter of this year, the dollar portfolio balance in the Mandatory and Complementary Pension Regimen and the Labor Capitalization Fund rose by US 224.3 million dollars (US 423.1 million during the same period in the previous year).
Free Trade Agreement and other agreements: Costa Rica is a member of the World Trade Organization and has some deals preference. The country has agreed to the United States (US) one that is very representative is the Dominican Republic-Central American and USA Free Trade Agreement (CAFTA-DR) by our country and in the year 2007.

Costa Rica es participante activo en el sistema multilateral de comercio y un importante contribuyente en el fortalecimiento del proceso de integración económica centroamericana. De acuerdo con la página oficial del Ministerio de Comercio Exterior, el país cuenta con 16 TLC, que rigen su comercio con 50 socios comerciales, los cuales incluyen 27 países de la Unión Europea, Islandia, Liechtenstein, Noruega y Suiza (AELC) , Estados Unidos (E. UU.), Canadá, México, Chile, China, Perú y Singapur, among others.

At this point, Costa Rica has been recognized by international rankings as the most innovative country in Latin America. This is demonstrated by the dynamics of the industrial sector, which is very competitive in relation to quality and diverse sub-sectors such as jewelry, personal care products, paint for interiors and exteriors, and metal mechanics. The following are the main sectors in which the country develops: e-commerce, home, office and decoration, plastics, electronics, packaging, the aerospace cluster, compost and agrochemicals, fashion, wood, metals, industrial services, construction, etc.

Foreign investment: The inflow of Direct Foreign Investment (DFI) into Costa Rica have dropped in the last biennium in relation to the average investment flow that was received by the countries in the Latin American region in that same period. This is due to a hike in foreign investment received in areas such as tourism. Exports of goods from Costa Rica rose 15% during the first half of 2022. This is pointed out by the trade authorities in the country as a result of diversification of products and markets.

Currently, the country is negotiating with treaties such as the Pacific Alliance, the Environmental Goods Agreement (EGA), and Agreement on Climate Change, Trade, and Sustainability (ACCTS).

The political and social, economic stability is a characteristic that has distinguished the country throughout its modern history and is one of the most important strengths that has allowed it to successfully reach attracting foreign investors. And the state created more than two decades a regime of Free Trade Zones under Law No. 7210 (known as the “Free Zones Act”), which has been improved over time, enhanced over time. In addition, the fiscal incentives including major exemptions of up to a 100% exemption from the more representative taxes for variable terms and attractions and the government financing for training employees are available for companies that meet the requirements in the strategic investment and employment sector established in the Law.

In the first half, exports of goods came to a total of 2.388 billion dollars for an increase of 15% in comparison to the same period during 2021.

The official figures specify that the precision equipment and medical sector are still the main exporter from the country with a share of 34%.

The agricultural sector is still the second most important by representing 20% of the total exported and a hike of 2% thanks to good performance by products such as coffee, cassava, and cantaloupe.

The food industry recorded a 25% increase thanks to the surge in products such as syrups and concentrates for carbonated beverages, juices, fruit concentrates, and palm oil, etc.

With just the beginning of 2022, several companies have announced that they will open or expand operations in Costa Rica.

Triz Engineering, the Smart Fit chain, Infosys BPM, GoodMed, Taco Bell, among others, are some of the firms that have announced they will open new spaces and employ national talent.

The Monthly Economic Activity Index (MEAI) shows that special regimens maintain double-digit growth rates when they consolidate recovery in the production from companies in the definitive regimen.
Doing Business in Costa Rica

Despite the fact that not all the companies are located in special regimens (free trade zones), they all claim that the national talent conditions and in the country have made it possible for them to carry out their investment plans.

Foreign investment incentives:
The Costa Rican government has introduced several incentives to encourage foreign investment. Among the most important are:

- Act Export Development No. 5162 of 1972 encouraged the establishment in Costa Rica of assembly plants. Companies wishing to assemble products in Costa Rica and re-export finished products to other markets can import all its machinery capital and raw materials including parts to be re-assembled and free of all import taxes. The final product is re-exported, is not taxed for any income tax on profits.

- Free Trade Zones, known as Export Processing Zones and regulated by the Law on Free Trade Zone.

In addition to the features of six areas that Costa Rica offers:

Proven track record, skilled workforce, strategic location, excellent business environment, sound infrastructure, high quality of life.

Establishing a business in Costa Rica:
Corporation in Costa Rica are regulated by the Commercial Code (CC), Law No. 3284, promulgated on April 30, 1984.

Commercial companies:
- Company in Collective Name.
- Limited Partnership.
- Limited Liability Company (-SRL-).
- Corporations (Sociedad Anonima SA).

Formation Procedure:
Generally speaking, the formation of any commercial entity follows the steps described below. It is noted that it should be considered that each has specific requirements that must be met in order to adequately incorporate the desired entity and a subsequent consult should be performed with particular legal specialist in each case.

- The founders acquire the services of a Notary Public and prepare a draft deed of incorporation, which will contain the new statutes of the company and the appointment of administrators.
- The shares are issued in accordance with contributions from shareholders.
- Registration taxes are paid (based on the capital of the company) and the Articles of Incorporation is filed with the Public Registry.
- Upon registration of the Articles of Incorporation, the company obtains a corporate identification number (corporate identification).

Closing procedure:
According to the Commercial Code, a company is canceled according to the following reasons:

- Shareholders agreement.
- Completion of the term of company.
- Failure to achieve the goal of the company.
- Final loss of more than 50% of its capital (if not restored by shareholders or had a proportional decrease).

On the other hand, it must be considered to exist in Costa Rica a specific tax for legal entities, which must be paid no later than 30 days after the constitution.
If shareholders agree to close and liquidate the company, they must register such agreement in the National Register, publish a notice in the official gazette and appoint a liquidator to pay the debts of the company and distribute the balance to shareholders in accordance with their contributions.

Branch and / or mercantile establishment: Any foreign entity may register a branch in Costa Rica.

Registration procedure: The foreign entity must register a shareholders agreement in the National Registry of Costa Rica, which should include:

- The appointment of a legal representative in the country for all company business.
- Objective, capital, information and competent senior managers of the company.
- An express declaration of submission to the Costa Rican law.

All documents are validated by the Consulate of Costa Rica in the country of origin and registered in Costa Rica in order to acquire the local legal certificate.

Corporations De Facto: The company actually corresponds to a contract between two or more persons who are classified as traders with an interest in one or more specific operations and transitional businesses, which should be handled by one of them under its unique name and personal credit, with responsibility for accounting and split with shareholders gains or losses in the agreed proportion.

Societies in fact are not expressly included in the Costa Rican law, but are accepted as valid for business partnership.

Of the register of shareholders: During the year 2019, began the established mandatory by law N. 9416, “The Act to Improve the Fight against Fiscal Fraud” in connection with the provision of information connected with the creation of a register of shareholders and beneficial owners of companies active or inactive. Compliance with this requirement began on 01 September 2019 and is providing information of the shareholders representing at least 15% of the share capital of the company. The aim of the law is to reach the final beneficiary, owner of the capital of the company, individual, domiciled in country or abroad. The information must be provided by the legal representative of the company or by proxy who must have digital signature. Shareholders Registry is administered by the Central Bank of Costa Rica.
Central bank:
The BCCR is an autonomous institution under public law, with legal personality and assets, part of the National Banking System, which has among its main objectives, maintaining internal and external stability of the national currency and ensure its conversion into other currencies. In addition is the entity responsible for promoting the development of the Costa Rican economy, in order to achieve full employment of productive resources of the nation, trying to avoid or moderate inflationary or deflationary trends that may arise in the money market and credit. Ensure the proper use of international monetary reserves of the nation to achieve overall economic stability and promote the efficiency of the system of internal payments and external and maintain its normal operation and promote intermediation system financially stable, efficient and competitive. The bank was established on 23 April 1953 and is currently governed by Law No. 7558 of the November 3, 1995.

Commercial banks:
The Organic Law of the Central Bank of Costa Rica (No. 7558), in force since November 27, 1995, declared of public interest oversight of financial institutions and created the Superintendent of Financial Institutions (SUGEF), under a legal entity fully decentralized, with administrative autonomy, by instituting its own Board of Directors.

The Superintendent of Financial Institutions (SUGEF), is the entity in charge of ensuring the stability, robustness and operational efficiency of the national financial system through strict compliance with regulatory and legal requirements and compliance regulations, guidelines and rules issued by the same institution, safeguarding the public interest. SUGEF supervises the activities under their control and operations of entities approved by the BCCR to participate in the exchange market. Within its authority is to issue general rules for the establishment of banking practices, issue guidelines as deemed necessary to promote stability, solvency, transparency of operations of supervised entities and establish the designated categories of financial intermediaries in terms of type, size and degree of risk. The legal framework applicable to the field is wide. Some of the laws regulating such activity are: the Constitutional Law of the Central Bank of Costa Rica; Law of Development and Modernization of the Banking System; Act of the Financial System of the Republic; Law Regulating the Non-Banking Companies and the Law on Narcotics, Psychotic Substances, Money Laundering and Financing Terrorism.

List bank financial institutions supervised by the SUGEF:

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State commercial banks
- National Bank of Costa Rica; and
- Banco de Costa Rica.

Banks created by special laws
- Housing Mortgage Bank.
- Banco Popular and Community Development.

Private banks
- Banco BAC San José, SA
- Banco BCT SA
- Cathay Bank of Costa Rica SA
- Banco CMB (Costa Rica) SA
- Banco Davivienda (Costa Rica) SA
- Banco General (Costa Rica) SA
- Banco Impromsa
- Lafise Bank SA
- Promérica Banco de Costa Rica SA
- Prival Bank (Costa Rica) SA
- Scotiabank de Costa Rica SA

Occupational Safety and Social Security

Job:

Costa Rican workforce is distributed as follows:

<table>
<thead>
<tr>
<th>Gender</th>
<th>Total to the Second Quarter 2019</th>
<th>Employees</th>
<th>Unemployed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Man</td>
<td>1,483,019</td>
<td>1,336,934</td>
<td>146,085</td>
</tr>
<tr>
<td>Woman</td>
<td>995,756</td>
<td>846,261</td>
<td>149,495</td>
</tr>
</tbody>
</table>

Source: Instituto Nacional Costarricense de Estadísticas.

Labor requirements of legislation and Social Security:

Social security charges / taxes on wages.

A. Cost of the obligations of the Employer as a Temporary Withholding Agent:

1. Law of Income Tax: According to Costa Rican Law on Income Tax, the employer is required to withhold tax on the employee’s salary based on a progressive table (the top marginal rate is 25%). The amount withheld must be declared and paid by the employer to the tax authorities within 15 calendar days of the month following the date on which the payment of wages took place.

2. Social costs: The Labor Law of Costa Rica introduces the concept of social costs, commonly known in local parlance as “social charges”, which are a series of items that cover all the social needs of employees, (medical needs of employees and create a pension fund for them) these costs are paid by both the employee as the employer. The amount paid by the employee is withheld from his salary by the employer (in the same way that the income tax described above) and then transferred to the Costa Rican Social Security Fund (CCSS) Then it is transferred to the Costa Rican Social Security Fund (CCSS for its acronym in Spanish) and other intervening public institutions.

The percentage of this cost must be paid by the employee and withheld by the employer is Ten point five percent (10.5%) of the salary of the employee and includes the following items:

<table>
<thead>
<tr>
<th>Social costs</th>
<th>Percentage paid by the employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health and maternity benefits</td>
<td>5.50%</td>
</tr>
<tr>
<td>Disability benefits, old age and death</td>
<td>4.00%</td>
</tr>
<tr>
<td>Banco Popular and Community Development</td>
<td>1.00%</td>
</tr>
<tr>
<td>Total amount paid</td>
<td>10.5%</td>
</tr>
</tbody>
</table>
B. Obligations of the direct cost of the Employer:

1. Social costs: As mentioned previously, the social costs are paid by both the employee and by the employer. Unlike the part of the employee, (where the employer operates strictly as withholding agent), the corresponding proportion to the employer must be paid directly by him at any state bank (there are four of them) which corresponds to 26.33% of the salary of the employee; It also includes the following:

<table>
<thead>
<tr>
<th>Institution</th>
<th>Employer Concept</th>
<th>Employer Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>SEM</td>
<td>9,25%</td>
</tr>
<tr>
<td></td>
<td>IVM</td>
<td>5,25%</td>
</tr>
<tr>
<td></td>
<td>TOTAL CCSS</td>
<td>14,5%</td>
</tr>
<tr>
<td>Collection for Other Institutions</td>
<td>Banco Popular share Patronal</td>
<td>0,25%</td>
</tr>
<tr>
<td></td>
<td>Family’s asignations</td>
<td>5,25%</td>
</tr>
<tr>
<td></td>
<td>IMAS</td>
<td>0,50%</td>
</tr>
<tr>
<td></td>
<td>INA</td>
<td>1,50%</td>
</tr>
<tr>
<td></td>
<td>TOTAL OTHER INSTITUTIONS</td>
<td>7,25%</td>
</tr>
<tr>
<td>Protection Act Worker (LPT)</td>
<td>Employer contribution Banco Popular</td>
<td>0,25%</td>
</tr>
<tr>
<td></td>
<td>Labor Capitalization Fund</td>
<td>3,00%</td>
</tr>
<tr>
<td></td>
<td>Supplementary Pension Fund</td>
<td>0,50%</td>
</tr>
<tr>
<td></td>
<td>Banco Popular contribution Worker</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>INS</td>
<td>1,00%</td>
</tr>
<tr>
<td></td>
<td>TOTAL LPT</td>
<td>4,75%</td>
</tr>
<tr>
<td>Total</td>
<td>Total</td>
<td>26,5%</td>
</tr>
</tbody>
</table>
2. Cost of the mandatory Labor Insurance:
Insurance called “occupational risk insurance” is established as required by the Labor Code of Costa Rica. The employer is obliged to pay this policy to the National Insurance Institute (Insurance Institution of the State) according to the different rates established by the location or position of the worker. They increase rates based on the risk level of the line of work.

C. Other costs:
1. Holidays: The Labor Code of Costa Rica describes a benefit established as two weeks of vacation for each fifty weeks worked for the same employer. When the employment relationship ends before the fifty weeks, the employee has the right to a paid vacation day for each month worked, before leaving the company.

In addition, when employment ends for any reason (including justified dismissal) the worker has the right to receive cash compensation for the days of vacation still pending of enjoyment. This is calculated based on the average salary of the last fifty weeks of work.

2. “Aguinaldo “or the” thirteenth month”: This is a particular benefit of Costa Rica consisting of the payment of an extra salary, a fringe benefit, which is paid in December month. This amount is calculated on the sum the salaries received in the last twelve months (from December last year to November this year) and divided by twelve. This amount is not levied with the tax on wages nor social security charges, but sums exceeding its calculation will be taxable as regular wages.

This benefit must be paid before the first 20 days of December. If the employment relationship ends before December, the employee is entitled to receive a proportionate amount of “bonus”, calculated through the sum of wages received in the current year and dividing the result by twelve.

Note: Both points, “vacation” as the “Aguinaldo” labor rights are constitutional. In Costa Rican law, every worker has the right to receive them even if the employment relationship ends for reasons attributable to the employee.
3. **Prenotice:** By the time the employee or the employer decide to end the employment relationship, the responsible party of the termination must notify the other party with respect to the following terms:

<table>
<thead>
<tr>
<th>Duration of Employment</th>
<th>Notice Requirement</th>
<th>Payment Calculations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 3 months</td>
<td>It does not require prior notice.</td>
<td>It does not require payment.</td>
</tr>
<tr>
<td>More than 3 months but less than 6 months</td>
<td>It requires a week’s notice.</td>
<td>Payment seven days’ wages.</td>
</tr>
<tr>
<td>More than 6 months but less than 1 year</td>
<td>It requires 15 days notice.</td>
<td>Payment of fourteen days.</td>
</tr>
<tr>
<td>More than 1 year</td>
<td>It requires one month’s notice.</td>
<td>Payment of 19.5 to 22 days per year worked depending on years worked and with a cap of 8 years (The calculation is based on a set table in Article 29 of the Labor Code)</td>
</tr>
</tbody>
</table>

This benefit can become a cash compensation if the responsible party pays the other the amount of one day’s pay for each day included in the terms mentioned in the table above.

The employer has an obligation to grant one day off per week during the periods specified above so that the employee can find another job.

4. **Unemployment assistance or unemployment:** This is known in Costa Rican law as “severance pay” and is a cash benefit that is paid only when the employment relationship ends for reasons not attributable to the employee.

Payment of the severance pay is payable according to the following terms:

<table>
<thead>
<tr>
<th>Duration of Employment</th>
<th>Notice Requirement</th>
<th>Payment Calculations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 3 months</td>
<td>It does not require payment.</td>
<td>It does not require payment.</td>
</tr>
<tr>
<td>More than 3 months but less than 6 months</td>
<td>Payment seven days’ wages.</td>
<td>Payment seven days’ wages.</td>
</tr>
<tr>
<td>More than 6 months but less than 1 year</td>
<td>Payment of fourteen days.</td>
<td>Payment of fourteen days.</td>
</tr>
</tbody>
</table>

If the relationship lasted more than 1 year.

Payment of 19.5 to 22 days per year worked depending on years worked and with a cap of 8 years (The calculation is based on a set table in Article 29 of the Labor Code)
Accounting, auditing requirements and practices

Accounting

The Board of Directors of the Association of Certified Public Accountants of Costa Rica has adopted the International Standards for Financial Statements, for the registration of financial reporting standards, for certification work and standards for related services.

Any changes to existing standards and new standards in the future be issued by the International Federation of Accountants, be deemed to be incorporated automatically to the mandatory application in Costa Rica without prejudice that the Commission of Audit and Accounting Standards of the Costa Rican Association of Certified Public Accountants to conduct an evaluation and recommendation, total and partial for its specific application in the country without impairment of possible changes.

Books and records:
- The accounting records must be kept in Spanish as it is specifically required by the Commercial Code.
- The accounting records must include: a general ledger, daily journal, inventory and daily results; In addition, business corporations must keep a book of minutes of the Shareholders Meetings and a register of shareholders book. Limited liability companies must also carry the books mentioned.
- Books should be written in Spanish, clearly, in a progressive order by date, gapless and streak or line spacing.

Accounting Profession:
In Costa Rica, the certified public accountant must have a Bachelor’s degree in Accounting or its equivalent from a university whose curriculum is duly certified by the CONESUP or CONARE, as appropriate. Because of the academic education of professionals in public accounting and professional continuous updating that public accountants are required to receive, these professionals are able to perform one or more of such areas as financial audits, compliance audits, internal controls assessments, internal control systems, and act as internal auditors, among others.

Rules for submission of Financial Statements:
Since 2001, IFRS were adopted as a mandatory accounting framework for the preparation of financial statements for public and private companies (excluding banks, financial institutions and government institutions). This framework also applies to companies considered Territorial Large Taxpayers, Free Trade Zones companies that have been classified as large taxpayers or large territorial taxpayers.
The Constitution of Costa Rica states that the Congress has the power to impose taxes. Such taxes will be collected and administered by the Costa Rican government through the Directorate General of Taxation which is a body belonging to the Ministry of Finance.

**Corporate Income Tax:**

**Tax on Profits:**

The tax on profits levies individuals, corporations and collective entities without legal personality, domiciled in the country, developing lucrative activities of Costa Rican source.

The taxable event for the tax on profits is the perception or accrual of income in cash or in kind, continuous or occasional employment from Costa Rican source as well as any other income or benefit Costa Rican source excepted by law. It means revenues, income, or profit of Costa Rican source, generated in the country from services, capital goods located or used, obtained during the fiscal period. Also are considered lucrative activities subject to tax on profits, obtaining passive income and gains or capital losses realized when such income or profits come from goods or rights that belong to the taxpayer of the tax on profits and such property or rights are assigned to the taxable profit activity, in which case the withholding made on such income and gains will be considered as a single and final tax and the amount withheld will be treated as an advance payment of tax on profits.

This income tax levies the net income of taxpayers and admits as deductible expenses those which are directly linked to the generation of taxable income as long as those are properly documented with electronic invoices and on which the corresponding withholdings taxes established in the Income Tax Law have been properly carried out.
In particular, a limit is set to the deduction of non-banking interests of 20.00% of earnings before interest, tax depreciation and amortization for each tax period. Expenses exceeding that percentage may be deducted in subsequent tax years until exhausting the difference. There are transitional rules in which a maximum deduction of 30.00% is allowed for FY 2021 (in this sense, Official Letter DGT-1212-2021 of November 2, 2021, can be considered), it follows a reduction of 2 percentage points until reaching 20% in the FY 2027.

The amortization of losses of the companies in the three following fiscal periods is admitted. In the case of agricultural companies, this deduction may be made in the following five periods.

### Calculation for income tax for legal entities

<table>
<thead>
<tr>
<th>Gross income in CRC</th>
<th>Rate (applied to total net income)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Until ₡5,157,000.00</td>
<td>5.00%</td>
</tr>
<tr>
<td>Excess over five million one hundred and fifty seven thousand colones (₡5,157,000.00) and up to seven million seven hundred and thirty seven thousand colones (₡7,137,000.00) / 10% Ten percent.</td>
<td>10.00%</td>
</tr>
<tr>
<td>Excess over seven million seven hundred thirty-seven thousand colones (₡7,737,000.00) and up to ten million three hundred fifteen thousand colones (₡10,315,000.00) / 15% Fifteen percent</td>
<td>15%</td>
</tr>
<tr>
<td>Excess over ten million three hundred and fifteen thousand colones (₡10,315,000.00) / 20% Twenty percent</td>
<td>20.00%</td>
</tr>
<tr>
<td>Más de ₡109,337,000.00</td>
<td>30.00%</td>
</tr>
</tbody>
</table>

The above tax brackets are adjusted annually and are in effect throughout the fiscal period. One of the recent modifications of the Income Tax Law is that the fiscal period for income tax was equal to the calendar year (from January 1 to December 31), before it was from October 1 to December 30. September.

### Income tax and capital income:

Income and capital gains are taxed at a rate of 15.00%. The Capital Income and Capital Gains and Losses Tax (RCGPC) is applied to Costa Rican source income in money or kind, derived from capital and capital gains or losses, from assets or rights of the taxpayer, as well as as the exchange differences originated in assets or liabilities that result between the moment of carrying out the operation and the receipt of the income or payment of the liability when they come from goods or rights that are not affected by their owner to obtain income subject to the aforementioned income tax. In the event that said capital gain or income corresponds to or comes from goods or rights related to a lucrative activity of the taxpayer, the withholding of this tax will be integrated into the tax on profits as a payment on account, as explained in the previous section.

Capital income, on the other hand, is classified as follows and includes the following items:
Income from real estate capital: Are those from leases, subleases, constitution and assignment of rights or rights of use or enjoyment of real estate.
Movable Capital Income: Includes the payment of interest, leases and sub-leases of rights of use on personal property, royalties, rights of use,
Tax system

key rights or other rights of intellectual property or on other intangibles, contributions to benefit plans of the mandatory regime of pensions, labor capitalization fund and the payment of dividends. The distribution of dividends is exempt when the distribution is made in registered shares or in social quotas of the company that pays them. Likewise, dividends are exempt when the partner who receives them is another capital company domiciled in Costa Rica and develops an economic activity subject to income tax, or is a holding company of a financial group regulated by a superintendence, attached to CONASSIF.

Capital Gains and Losses: Capital gains and losses are those generated by variations in the value of the taxpayer’s assets. In agreement according to the Law, there is no equity variation in the cases of location of rights, distributions of marital property, contributions to guarantee or testamentary trusts and capital reductions (except when said reduction is intended to return the contribution, in which case it will be considered income from movable capital the part corresponding to undistributed accumulated profits). If the contribution was recorded in accounting, the returns will not be subject to this tax. In the case of capital gains, there is the possibility of opting for a differentiated rate of 2.25% applicable to the entire transaction in the event that two conditions are met: that the asset or right subject to the transaction of which the gain arises, has been acquired prior to July 1, 2019; and, in addition, that it is the first sale of the same after that date.

The above tax brackets are adjusted annually and apply throughout the fiscal period. One of the recent amendments to the Law on Income Tax, is that the fiscal period for income tax equalled the calendar year (January 1 to December 31), before it was from 1 October to 30 September.

Income tax and passive income: Passive income and capital gains are taxed at a rate of 15.00%. The tax on passive income and capital gains and losses (RCGPC) applies on income of Costa Rican source in cash or kind, derived from the capital gains or capital losses from property or rights of the taxpayer, and also for revenues or losses coming from foreign exchange differences originated in assets or liabilities expressed in other currency different from CRC, resulting from the time of completion of the transaction and the perception of income or payment of liabilities when they come from assets or rights not to be attributed by the holder to obtain income taxed in the aforementioned tax on profits. If such gain or income corresponding to capital or from immovable or rights pertaining
Passive income meanwhile is classified as follows and include the following items:

- Revenue from Real Estate: Those from leases, subleases, constitution and transfer of rights or rights of use or enjoyment of property.
- Income from other assets: It includes interest payments, leases and subleases use rights over movable property, royalties, rights of use, key rights, intellectual property or other intangible contributions to benefit compulsory pension plans, labor capitalization and dividend payments. The distribution of dividends is exempt when the distribution is made by delivering registered shares or capital shares of the corporation that pays them. Similarly, dividends are exempt when the shareholder is another corporation based in Costa Rica and develops an economic activity subject to tax profits, or in the case of a holding company of a financial group regulated by a superintendency attached to the CONASSIF.
- Capital Gains and Losses: Considered capital gains and losses generated by changes in the value of the assets of the taxpayer. According to the Law, no changes in net assets in cases of locating rights, distribution of marital property, contributions to guarantee trusts or testamentary and capital reductions (except the part of the capital reduction that is a deemed distribution of accumulated undistributed profits). If the capital contribution was recorded in the accounting books, the capital return is not subject to this tax. In the case of capital gains, there is the possibility of opting for a differentiated rate of 2.25% applicable to the entire transaction in the event that two conditions are met: that the asset or right subject to the transaction of which the gain arises, has been acquired prior to July 1, 2019; and, in addition, that it is the first sale of the same after that date.

There are some assumptions where certain income can be considered subject to income tax.

In the case of capital gains, we consider that when they are obtained by a non-tax resident in Costa Rica, they would not be subject to the capital gains tax, but would be subject to the tax on remittances abroad, at a rate of 30.00%.

**Withholding tax on remittances abroad:**

In relation to the following payments to natural or legal persons not domiciled, the following withholding tax shall be made:

1. Dividends – 15.00%
2. Interest, fees and other financial expenses and leases of capital goods paid or credited by natural or legal persons domiciled in Costa Rica to entities or individuals from abroad, a fee of 15% of the amount paid or credited will be paid. Interest, fees and other of the Superintendent of Financial Institutions to entities abroad that are subject to the supervision and inspection in their respective jurisdictions, a fee will be paid in five point five percent (5.50%) of the amount paid or credited. They are exempt from paying this tax, interest and fees, and other financial expenses coming from loans granted by multilateral development banks and multilateral or bilateral development agencies and nonprofit organizations that are exempt from tax or they are not subject to tax under current legislation.
3. Technical and financial or other advice as well as payments related to the use of patents, supplies formulas, trademarks, privileges, franchises and royalties, the rate of 25.00% will be paid.
4. Pensions, wages and other remuneration to be paid for personal work performed as an employee, apply a retention 10.00%.
5. Fees, commissions, allowances and other benefits for personal services performed without a relationship of dependency, apply a retention 25.00%.
6. Transport and communication services are subject to a withholding tax of 8.50%.

These withholdings could vary under the application of any of the agreements to avoid double taxation that Costa Rica has.

**Tax on legal persons:**

Tax on Corporations, is a tax that was established by the State in order to obtain resources for the Ministry of Public Security to carry out their duties as well as for the Ministry of Justice and Peace to finance the General Directorate of Social Adaptation; and...
Doing Business in Costa Rica

Tax system

the Judiciary of the Republic to finance the Judicial Investigation Agency in addressing organized crime.

This tax is required to pay by all corporations, as well as a branch of a foreign companies or its representatives and individual limited liability companies, which are registered or registering in the Register of Legal Persons of the National Registry.

The tax period is one year, from 1 January to 31 December of the same year and the accrual of the tax occurs on January 1 of each year and for new companies at the time of presentation of the deed of constitution before the National Registry, canceling the tax proportionally.

The rates are established annually:

a) Fifteen percent (15.00%) of a monthly base salary for legal persons who are not registered with Single Registry of Taxpayer of the General Department of Taxation or are pending registration with the Register of Legal Persons of the National Registry.

b) Fifteen percent (15.00%) of a monthly base salary, on the proportion of the time remaining between the date of registration of the company with the Register of Legal Persons of the National Registry and the end of the period, in the case of those legal persons constitute and register during the fiscal period.

c) Twenty-five percent (25.00%) of a monthly base salary for the taxpayers of the tax on profits, where the income tax return of the immediately preceding period has recorded lower gross income to 120 basis wages.

d) Thirty percent (30.00%) of a base salary monthly for taxpayers of the tax on profits, where the income tax return of the immediately
preceeding period has recorded gross income of 120 basis wages to less than 280 basis wages.

• Fifty percent (50.00%) of a base salary monthly for taxpayers of the tax on profits, where the income tax return of the immediately preceding period has recorded gross income of 280 basis wages or more.

The Superior Council of the Judiciary Power establishes the applicable base salary for each period, through a circular which is published in the Bulletin of the Official Journal La Gaceta Judicial. This concept is used as a parameter to establish sanctions and some taxes, as in the present case. Currently this amount is set to the sum of 450,200 CRC (four hundred fifty thousand and two hundred colones).

With this parameter of base salary, it is possible to establish the amounts payable for this tax, both for existing companies and for new companies that are filed for corresponding incorporation during this year.

Tax residence:
In most cases the place where a company is incorporated it is known by Costa Rican tax authorities as “tax domicile”. However, any undertaking carrying out industrial or commercial activities, agriculture in Costa Rica is subject to local tax income in the same way as a registered business, regardless of the place of incorporation. Such companies doing business in Costa Rica are subject to the rules of permanent establishment (EP).

On the other hand, under the Law on Income Tax, income from transactions conducted entirely abroad they can be considered as income from non-Costa Rican sources; therefore they would not be subject to income tax in Costa Rica. However, take note that the Tax Administration has made very broad interpretations of the criterion of territoriality, whereby activities that are developed outside the country, but are related to a Costa Rican company, may be considered taxable income when the Tax Administration considers that there is some relationship with Costa Rica’s economic structure.

Transfer Pricing:
The Code of Tax Rules and Procedures of Costa Rica (Law 4755), promulgated on May 3, 1971 established in Article 12, “Agreement between Parties” that agreements between individuals concerning tax matters are not binding against the tax authorities.

On 10 June 2003, the Tax Administration approved the Guideline Interpretative number # 20-03 called “Tax treatment of transfer pricing, according to market value”. In this guideline was established the application for transactions between related parties of the principle of comparable in a Full Competition market. It is generally based on a comparison of the conditions of a related-party transaction, with transactions that perform independent companies, ie those prices should be equivalent to the corresponding similar transactions between independent enterprises.

In that guideline was attributed to the Tax Administration the power to assess transactions between related persons or entities, if the valuation agreed determine a lower tax versus the result of the application of the fair market value, in which case, proceed to practice appropriate adjustments.

For the September 10, 2012, by Law 9069, Article 12 of the Code of Tax Rules and Procedures was modified, establishing that elements of the tax liability, such as the definition of the taxpayer, of the taxable event and others shall not be altered by acts or agreements of individuals, that they shall not become effective before the Administration, without prejudice to their private legal consequences. However, none of the laws mentioned above covered important aspects of the application of transfer pricing such as:

• Application of transfer pricing rules;
• Methods of analysis;
• OECD guidelines; and
• APA.

Following the above, for the September 13, 2013, the Ministry of Finance issued Decree No. 37898-H General to regulate the transactions made between related parties with the aim of regulating the provisions relating to the implementation of Guideline 20-03.

With the issuance of this Decree, taxpayers were forced to evaluate the agreed operations prices involving goods or services sold to companies linked locally and abroad, considering the prices that would be agreed between independent parties, based on the principle of free competition.

This decree reached any operation or transaction made by companies resident in the country:
• Local parties and outside linked;
• Individuals, companies or companies resident or domiciled in jurisdictions with lower tax rates or tax havens; and
• Related party beneficiaries of the FTZs.

On 13 September 2016 the resolution DGT-R-44-2016 was published in the Official Gazette, Range No. 182, corresponding to the Informative Declaration of Transfer Pricing. In this regard, taxpayers must file a declaration of transfer pricing to the last business day of the month of June each year and includes all operations performed during the period of the
Doing Business in Costa Rica

The resolution No. DGT-R-28-2017, suspended the presentation of this return, therefore the date to start this filing is still pending.

On April 21, 2017 the resolution DGT-R-16-2017 was published in the Official Gazette, No. 75, corresponding to the documentation of transfer pricing. This document states that the information must be available to the tax authorities to be provided by the time this request it.

Resolution No. DGT-R-001-2018, of the January 11, 2018, established the obligation to submit the report country by country report (CBC) to all parent companies resident in the country, with global revenues of more than 750 million euros. Taxpayers who applied to this report must submit the first statement at the latest on December 31, 2018, for the corresponding 2017 period transactions.

By 2019, the history of regulation in Costa Rica for transfer pricing faced a transformation when on December 4, 2018, was published in the scope 202 of the Official Gazette, Law No. 9635 Strengthen of Public Finances, which added a new chapter XXXI, incorporating a new Article 81a to title V general provisions of Law No. 7092, Law on income tax. Following this, in the scope 145 of the Official Gazette, Decree No. 41818-H entitled "Amendments and additions to the Regulations of the Law on Income Tax, Executive Decree was issued on June 26, 2019 No. 18445- H of the September 9, 1988 and its reforms."

On this decree the transfer pricing practice described in Article 81bis becomes regulated, overruling the previous Executive Order 37898-H.

On 13 November 2019, the General Department of Taxation issued the resolution DGT-R-49-2019, where new guidelines for filing documentation related to transfer pricing were issued; abrogating thus the Resolution DGT-R-16-2017. In general, the resolution stresses that all taxpayers that conduct transactions with related companies should retain for the period specified in Article 109 of the Code of Tax Rules and Procedures, the documentation supporting how transfer prices are adjusted based on independent operators. In this case, the information must be available to the tax authorities under respective application.

Value added tax.

From the first of July 2019, took effect the value-added tax, which replaced the general sales tax previously ruled in Costa Rica. The main feature of this tax is that broadened the base of the previous tax and tax came to widely application not only sales of goods but also the provision of services, rights and intangible assets. The applicable rate remains at 13.00%, except for certain services and goods were taxed at reduced rates. For example: 1.00% rate for basic food products, agricultural inputs and machinery, veterinary products, products and supplies for non sport fishing. 2.00% fee for medicines and...
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raw materials, machinery and equipment for production, private education services, personal insurance and buying and selling goods and services for public universities. 4.00% fee for air tickets and health services. Some services are exempt during the first year of the law, but after 1 July 2020 tariffs will gradually increase until it reaches 13.00%. Such is the case of engineering, architecture, surveying and civil engineering construction and tourist services provided by those who are registered with the Instituto Costarricense de Turismo (4.00% second year of validity of the Act, 8.00% the third year, fourth year 13%). Products that make tax basket and inputs agricultural be exempted until 30 June 2020, after 1 July 2020 will be taxed at 1.00%.

Temporarily, some services have been given a differentiated treatment, during the first years of the law’s validity, however it is expected that the rates - in most cases- will gradually increase until they reach 13.00%. This paragraph is different.

VAT does not tax the transfer of immovable property or vehicles.

As a rule, the law allows the application of tax credits by the tax value added supported in the acquisition of goods and services taxed that are linked directly and exclusively on transactions taxed to and not exempt, but the deduction or credit is also supported for those taxpayers who have carried out transactions with institutions of the State or public or private entities that count with a special law under which they enjoy a VAT exemption.

Also it supports the tax credit relating to the tax paid on the purchase of goods and services used in operations related to exports.

The law levies on cross-border digital services, but its implementation has been suspended because it is pending the issuance of certain resolutions by the tax authorities.

The main obligations of the taxpayer before tax in the Value Added Tax (VAT), are:

1. Register as taxpayers before the Tax Administration and declare their (s) activity (ies) Economic (s) subject (s) to the Value Added Tax as well as to modify the data of tax significance at the Tax Administration database, or disenroll as taxpayer, where appropriate.

2. Self-assess, declare and pay value added tax, according to the means made available by the tax authorities. The return of the Value Added Tax should always be filed, even if the taxpayer has no tax payable in that month.

3. Count, according to the provisions established by the Tax Administration, with electronic means allowing him to issue and confirm authorized electronic vouchers to support transactions made.

Issue electronic receipts, according to the provisions established by the Tax Administration, Use of electronic invoices:

In Costa Rica governs the use of electronic vouchers, which involves the issuance of electronic invoicing, note of electronic debit, note of electronic credit and electronic ticket for backup of all transactions in respect of which must be performed confirmation procedures, acceptance of the electronic voucher, partial confirmation of acceptance of the electronic receipt and confirmation of rejection of the electronic voucher. Electronic vouchers must meet certain formal requirements and technical specifications laid down by law and regulations.

The use of electronic vouchers was performed in our Country progressively by general resolution issued by the tax authority, which was established as required to use the system of electronic receipts to taxpayers, legal entities and individuals, legal entities (corporations, etc.) collective entities. Later Decree No. 41820-H regulating this matter was issued. This establishes exceptions to the duty to issue electronic receipts provided they do not sell goods or services subject to the Value Added Tax. These exceptions are:

• The state, municipalities, autonomous or semi-autonomous institutions of the State.
• The political parties
• Solidarity associations
• The Life Insurance Company of the National Tax system
Tax system

Teaching, Savings and Loans of the National Education Association and the Multiple Services Corporation of the National Teachers.

• Natural or legal persons engaged in paid transportation of persons, who have permission or concession granted by the State and whose rate is regulated by the Public Utilities Regulatory Authority.

No exception is established for companies under the free zone regime, which should make local sales must issue electronic invoicing. In their sales abroad, they act only as receivers. For November 1, 2018 all taxpayers should have migrated to electronic billing system, unless they have any special authorization for their specific case. The agricultural sector for its part, must have fully migrated to this system on October 1, 2019.

Consumption tax:
The selective consumption tax is a tax levied on import or domestic manufacture of goods detailed in Annex of Law No. 4961, Consolidation Act of Selective Consumption Tax and its amendments.

This tax is levied on the import and transfer of the domain of specific goods, by manufacturers. Rates are variable and selective, and can be applied up to 100% and are generally applicable to products that are considered as non-essential.

The tax base is the price of the cost, insurance and freight (CIF as the acronym) plus import duties for goods imported or value or selling price of goods produced in Costa Rica. The tax is applied in only one stage in the sale of goods. Payment of the tax is required at the time of importation or, for goods produced in Costa Rica, within 15 days following the month of sale. The fiscal period is monthly.

Additionally, in Costa Rica, there are some specific consumption taxes.

Property tax real estate:
Each local municipal government is in charge of the appraisal of real property that are located in their jurisdiction. The property tax to be applied throughout the Costa Rican territory is 0.25% of the appraised value entered in the respective municipality where the tax liability arises.

Depending on the municipality or the region, the local government may apply for an exemption from the property tax if the taxpayer is an individual who has only one property within the country.

Transfer tax of real estate:
The tax on real estate transfer is 1.50% of the selling price of the property or its assessed value, whichever is greater.

In 2012 through the Act Strengthening Management Tax No. 9069 a tax was created on the indirect transfer of real estate, being understood this as a legal transaction involving the transfer of the power of control over a legal person holding the property.

Tax income of branches / branch Tax on income:
The income of branches is subject to income tax at the applicable rates for corporate taxes. Additionally, a 15.00% retention in dividends transferred abroad.

Determining Corporate Income and Deduction

Inventory assessment:
Inventories are generally recorded to the cost and can be evaluated by the average cost method compound, FIFO (first in, first out) method or retailer specific identification method. Because all legal entities must maintain records, any adjustments resulting from the different methods of inventory valuation for tax purposes and financial must be registered.

Foreign income:
Foreign source income is not taxable.

Deductions:
Depreciation and reduction. Straight line method and depreciation based on sum of digits of the year are allowed:

<table>
<thead>
<tr>
<th>Class</th>
<th>Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>buildings</td>
<td>50</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>10</td>
</tr>
<tr>
<td>Furniture and devices</td>
<td>10</td>
</tr>
<tr>
<td>Vehicles</td>
<td>10</td>
</tr>
<tr>
<td>agricultural plantation</td>
<td>2 to 10</td>
</tr>
</tbody>
</table>
The Tax Administration, as requested by the taxpayer, could adopt methods of depreciation technically acceptable for special cases justified by the taxpayer. In addition, the Tax Administration may authorize by a general resolution, the method of accelerated depreciation on new assets, acquired by the companies with monetary activities requiring constant upgrades in technology, greater installed production capacity and restructuring of production processes, in order to maintain and strengthen their competitive advantage.

Payments to parent company:
When the payments or credits indicated are in favor of parent companies of subsidiaries, branches, agencies or permanent establishments located in the country, the total deduction for the concepts indicated may not exceed ten percent (10%) of the gross sales obtained during the corresponding fiscal period. For this, the withholdings of the tax established in this Law must have been made.

Tax deduction:
With the exception of the value added tax, the selective tax, the tax on legal entities, the specific taxes on consumption and special taxes on them and that are established by law, penalties and interest paid on any other obligation and the tax of the income itself, all other taxes related to the usual business and the production of taxable income are deductible expenses when determining the tax base for the calculation of the tax on profits, unless the law provides otherwise.

Tax incentives:
Entities established in a free zone, will enjoy exemption from the tax on exports of goods, income taxes in various forms (ranging from 0.00% to 15.00% depending on the activity, location within the national territory and quantity of years that has enjoyed the benefit), sales tax, export tax, selective consumption tax, tax on property transfer and withholding tax payments abroad. Also they enjoy the free possession and management of foreign currency related to local operations. However, those incentives for the manufacture of export activities have been affected by the rules established by the World Organization of Trade, in force since 2015, so that these benefits will only be enabled for certain manufacturing operations in accordance with the law governing the FTZs as amended. The requirements and benefits of the Free Zone for companies in the service sector has the following changes: 1. 100.00% Local Sales: Affected to taxes and procedures of any import from abroad. 2. Customs Requirements. 3 Strategic Eligibility Index for Service Companies.

Other draw-back tax regimes apply for industries that import semi-finished materials for assembly in Costa Rica import and export of finished products.
Benefits are tax-free imports of raw materials for subsequent exports and manufactured goods. Machinery for these industries can also be imported tax free.

**Turistic development:**
The Law on Incentives for Tourism Development grants various tax benefits, such as exemption from tariffs on certain goods related to service tourism and property taxes of companies engaged in tourism, but only for those with a signed agreement of Tourism.

**Double Taxation Treaties:**
Costa Rica - Spain: This agreement was approved with Law No. 8888, in order to avoid double taxation and tax evasion on income and assets.

Costa Rica - Germany: This agreement was approved with Law No. 9345, in the number 59 range on Wednesday, April 20, 2016. In the Gazette, the agreement between the Republic of Costa Rica and the Federal Republic of Germany was given, in order to avoid double taxation on income and on capital.

Costa Rica - Mexico: This agreement was approved with the number 9644 Law on 12 April 2018, the agreement called: “Agreement with the United Mexican States to avoid double taxation and prevent fiscal evasion with respect to taxes on income”

Currently there is an Agreement under approval of international protocols, with the United Arab Emirates.
### Tax system

#### Information Exchange Agreements in Tax Matters:

<table>
<thead>
<tr>
<th>Contracting State</th>
<th>State</th>
<th>Entry into force</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>Law 9007</td>
<td>November 10, 2011</td>
</tr>
<tr>
<td>Australia</td>
<td>Law 9075</td>
<td>July 1, 2011</td>
</tr>
<tr>
<td>Canada</td>
<td>Law 9045</td>
<td>August 11, 2011</td>
</tr>
<tr>
<td>Korea from the south</td>
<td>Law 9611</td>
<td>September 18, 2018</td>
</tr>
<tr>
<td>Denmark</td>
<td>Law 9202</td>
<td>November 23, 2009</td>
</tr>
<tr>
<td>Ecuador</td>
<td>Law 9360</td>
<td>June 4, 2013</td>
</tr>
<tr>
<td>U.S</td>
<td>Law 7194</td>
<td>March 15, 1989</td>
</tr>
<tr>
<td>Finland</td>
<td>Law 9197</td>
<td>June 29, 2011</td>
</tr>
<tr>
<td>France</td>
<td>Law 9012</td>
<td>November 10, 2011</td>
</tr>
<tr>
<td>Greenland</td>
<td>Law 9200</td>
<td>December 18, 2013</td>
</tr>
<tr>
<td>Italy</td>
<td>Law 9664</td>
<td>February 19, 2019</td>
</tr>
<tr>
<td>Mexico</td>
<td>Law 9033</td>
<td>April 19, 2012</td>
</tr>
<tr>
<td>Norway</td>
<td>Law 9201</td>
<td>December 18, 2013</td>
</tr>
<tr>
<td>Netherlands</td>
<td>Law 9040</td>
<td>May 13, 2012</td>
</tr>
<tr>
<td>South Africa</td>
<td>Law 9413</td>
<td>December 7, 2016</td>
</tr>
<tr>
<td>Sweden</td>
<td>Law 9203</td>
<td>January 29, 2014</td>
</tr>
<tr>
<td>Guernsey</td>
<td>Law 9551</td>
<td>May 9, 2018</td>
</tr>
<tr>
<td>Sweden</td>
<td>Law 9203</td>
<td>January 29, 2014</td>
</tr>
</tbody>
</table>

#### Corporate Tax Compliance:

**Partial payment of the tax:**
Taxpayers are required to make partial payments of tax on profits in each fiscal period, in accordance with the following general rules:

a) The basis for calculating the partial payments is determined in the immediately preceding tax year, or the arithmetic average of the last three fiscal periods, whichever is greater.

In the case of taxpayers who for any reason will not have filed tax returns in the three periods before tax, the basis for calculating the partial payments shall be determined using the income tax return that have been filed and if it were the first, by estimation founded to be provided to the Tax Administration.

b) Determined the amount of the deposit, seventy-five percent (75) of that amount should be split in three equal installments, which should in turn be paid no later than the last working day of the months of June, September and December each year (considering that the regular fiscal period is equal to the calendar year running from January 1 to December 31).

c) Those partial payments are treated as tax credits for the corresponding tax period. The resulting balance must be paid within two months and fifteen calendar days following the end of the respective fiscal period.

#### Tax on Natural Persons:
**Natural Persons Tax Compliance:**
Tax Returns: Individual taxpayers or independent individuals must file their tax returns on the same dates as the taxpayers of the corporate tax. In addition, they are required to maintain records, and the Law allows them to apply the same deductions, except for small and medium enterprises and companies belonging to the special tax regime for the agricultural sector, which have some different rules and apply different methodologies of calculation of income and simplified documentation requirements.

Income tax levied on wages and other compensation for personal services: Employers are required to withhold tax on wages, salaries...
and bonuses and other income whose source is dependent personal work, retirement or pension and other compensation for personal services. The tax is applied using a progressive table with defined sections of taxes.

The Christmas bonus (up to the amount not exceeding one-twelfth of the wages earned in the year or the corresponding proportion to a shorter period which may have been worked), the social security contributions and severance payments that are levied in accordance with the Labor Code, are not subject to income tax.

**Current individual tax rates:**
Income tax for individuals with self-employment:

<table>
<thead>
<tr>
<th>Tax salary:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to ₡3,742,000 annually/per year</td>
<td>Not subject to</td>
</tr>
<tr>
<td>From ₡3,742,000</td>
<td>Up to ₡5,589,000</td>
</tr>
<tr>
<td>From ₡5,589,000</td>
<td>Up to ₡9,322,000</td>
</tr>
<tr>
<td>From ₡9,322,000</td>
<td>Up to ₡18,683,000</td>
</tr>
<tr>
<td>Too much of ₡18,683,000</td>
<td>25,00%</td>
</tr>
</tbody>
</table>

**Tax credits:**

| For each child | ₡18,824 Annual |
| The spouse     | ₡28,440 Annual |
The year 2015 marked the beginning of a new era on the international scene in the quest to unify the development goals of nations. 193 member countries of the United Nations signed the 2030 Agenda that gave life to the Sustainable Development Goals (SDGs). The 2030 Agenda represents a roadmap towards sustainable development that puts people at the center, from the perspective of inclusion. Implementing the 2030 Agenda brings challenges that vary in each region and country, however, there are megatrends such as population growth and population aging, growth of cities, technological innovations, weakening of the credibility of institutions, geopolitics, among others that have a global impact. As a region, Central America and the Dominican Republic present structural challenges to be solved, despite the efforts led by the Central American Integration System (SICA), there is still no unified strategy for SDG implementation and each country presents different levels of progress, with different approaches, institutions and legislation, which adds complexity. According to the SDG compliance index included in the Sustainable Development Report 2021 (1), Costa Rica is the best-ranked country in the region, occupying 50th position out of a total of 165 nations considered and achieving a score of 73.6 out of a possible 100 points. The first place in the ranking is occupied by Finland with a score of 85.9 and in the last place appears the Central African Republic with a score of 38.3.

The positions of the countries in the region are as follows:

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>50</td>
<td>Costa Rica</td>
<td>73.6</td>
</tr>
<tr>
<td>67</td>
<td>República Dominicana</td>
<td>70.8</td>
</tr>
<tr>
<td>88</td>
<td>Panamá</td>
<td>68.0</td>
</tr>
<tr>
<td>89</td>
<td>El Salvador</td>
<td>67.9</td>
</tr>
<tr>
<td>99</td>
<td>Nicaragua</td>
<td>66.3</td>
</tr>
<tr>
<td>112</td>
<td>Honduras</td>
<td>62.5</td>
</tr>
<tr>
<td>121</td>
<td>Guatemala</td>
<td>59.9</td>
</tr>
</tbody>
</table>

Source: Sustainable Development Report 2021, Tabla 2.1, pag. 10-11

But the 2030 Agenda also represents an important opportunity for the region as it includes priority issues such as the eradication of extreme poverty, the reduction of inequality in all its dimensions, inclusive economic growth with decent work for all, sustainable cities and climate change, among others (ECLAC).
After the end of the armed conflicts in most of the countries of the region, there was an economic improvement due to the implementation of strategies aimed at greater insertion in the world market and strengthening of the service sector. However, social progress is still needed and it is difficult to turn economic progress into wellbeing for everyone, which still maintains high rates of migration of inhabitants, mainly to northern countries. Environmentally, it has a great diversity of environmental resources in its territory, with a forest cover of 39% of the surface area (greater than the world average), has a great biodiversity potential of 12% of the planet’s total (ERCA, 2016) and has other resources such as water (2). The latter provides the region with global relevance, gives visibility to it at a very important moment in history, where a level of attention and awareness of the importance of the fight against climate change has been achieved. Embracing the green agenda and installing the necessary mechanisms and institutional infrastructure to receive sustainable investments has become a priority for our region. According to a report issued by Climate Bonds Initiative in March 2021 and sponsored by CABEI, the green bond market is still very incipient, only 6 issues have been made so far (including CABEI’s), however there is potential for more growth in green bonds in key sectors such as sustainable infrastructure, agriculture and blue economy. Diversifying projects and investing in climate compatible infrastructure to meet the emission reduction targets of the Paris Agreement are other opportunities identified in the report, in this regard there are key sectors such as renewable energy, low carbon transport, water cycle management and waste management. Climate change is perhaps the greatest challenge humanity has ever faced, we are currently experiencing a global momentum where business owners and governments are increasingly aware, in our region each country has addressed this issue in different ways and has introduced policies and initiatives aimed at supporting the fight against climate change. The following is a summary: (Disposition in the order of the SDGs Compliance Index presented above) Source: Report published by Climate Bonds Initiative, March 2021 Costa Rica As part of its Nationally Determined Contributions (hereafter NDCs) under the Paris Agreement, Costa Rica has defined a mitigation target of
44% reduction in emissions versus business as usual operations by 2030. Costa Rica issued the National Decarbonization Plan, launched by the Ministry of Environment and Energy in February 2019, this plan includes goals such as:

- Achieve and maintain a 100% renewable energy grid.
- 70% of buses and taxi cabs will be zero-emission and passenger trains will be 100% electric.
- 100% of new commercial, residential, and institutional buildings designed and built with low-emission, climate-resilient systems.

Dominican Republic

The Dominican Republic has defined a mitigation target of a 25% reduction in base year GHG emissions by 2030 under its NDCs. While the government does not have specific targets for the sector, it has several climate policies and initiatives in place, such as:

- Carbon tax, introduced in 2012
- Increased hydroelectric biodiesel capacity.
- Established a forestry working group to improve sustainability in the forestry sector.

The Dominican Republic’s government is also seeking to phase out fossil fuel-generated electricity, which currently accounts for 90.5% of the country’s installed capacity.

Panama

Under its NDCs, Panama has specific sectoral climate targets, which focus primarily on increasing carbon sinks, renewable energy, and sustainable forestry:

- Increase renewable energy capacity by 15% by 2030 and 30% by 2050 compared to the base year of 2014
- Increase reforested areas by 1 million hectares by 2030

In addition to these targets, Panama plans to continue implementing the following climate policies:

- Participate in international emissions trade
- Boost investment in renewable energy sources such as solar, wind and biomass.

El Salvador

El Salvador aims to establish a National Climate Change Policy Plan, which includes several regulatory framework goals within its NDCs:

- Strengthening the institutional and legal framework of the National Climate Plan by 2019.
- Establish a sectoral climate plan at the national level, including agriculture, water and infrastructure.

El Salvador’s climate goals included in its Five-Year Development Plan (2014-2019) include the following:

- Reduce economic losses caused by climate variability in the agricultural sector by one percentage point of GDP.
Increase the number of municipalities at risk from early warning systems by 20%.

• Restore 10,000 hectares of salty forest and surrounding ecosystems

• Renew 30% of coffee plantations, thus ensuring their resilience to climate change.

• Reduce the number of threatened or endangered species by 10%.

• Reduce the consumption of ozone-depleting substances by 25%.

Nicaragua
Nicaragua has defined the following goals in its NDCs:

• Achieve 60% renewable energy by 2030.

• Increase forest absorption capacity by 20% by 2030.

Nicaragua’s National Climate Change Policy is currently in the discussion stage. It will outline the country’s plans and will include the following aspects:

• Increasing agricultural resilience.

• Creating a low-carbon development strategy

• Solutions for human resettlement due to climate change

• Developing green infrastructure

• Achieving forest conservation and restoration

• Promoting knowledge, research and funding for climate change mitigation and adaptation.

Honduras
Honduras has the following climate targets as part of its NDCs:

• Reduce national GHG emissions by 15% by 2030.

• Achieve 80% of electricity supply from renewable sources by 2038.

In the context of the country's NDC commitments, the Honduran government aims to continue its progress towards the creation of a climate policy framework, which includes:

• Developing a national climate change investment plan.

• Focusing on water resources, risk management, agriculture, forestry and biodiversity, and infrastructure and renewable energy projects, which are core priorities of the National Climate Change Agency.

Guatemala
As part of its NDCs, Guatemala has defined targets of 11.2% (unconditional) to 22.6% (conditional) reduction in GHG emissions by 2030 compared to the usual scenario. These targets are incorporated into Guatemala’s national development plan known as the K’atun 2032 National Development Plan.

The specific objectives included in the plan are:

• Achieve 80% of electricity from renewable energy by 2027.
• Improve energy savings by 25% in the industrial and commercial sectors by 2027 compared to the 2013 baseline
• Reduce industrial wood fuel use by 15% by 2027 compared to 2013 baseline

Finally, COVID-19 came to delay the SDG implementation process, yet globally the climate, biodiversity and pollution crisis persisted, despite the pandemic (as highlighted by Mr. Liu Zhenmin in the 2021 Sustainable Development Goals report). Concentrations of key greenhouse gases continued to rise despite temporary emission reductions in 2020 linked to confinements and other measures in response to COVID-19. The effects of the pandemic include increases in unemployment rates impacting poverty rates, in addition to the anticipated significant impact on the educational deficiencies of a generation and the long-term impact on the productive capacity of countries. But it is also important to highlight that COVID-19 tested the capacity for adaptation, collaboration, innovation and resilience of human beings and this adds optimism that we will be able to face the challenges of the 2030 Agenda successfully.

References:

(1) SUSTAINABLE DEVELOPMENT REPORT 2021 - By Jeffrey D. Sachs, Christian Kroll, Guillaume Lafortune, Grayson Fuller, and Finn Woelm - DOI: 10.1017/9781009106559

(2) Los Objetivos de Desarrollo Sostenible en Centroamérica y la República Dominicana, visualizando desafíos, viabilizando compromisos - Publicación de las Naciones Unidas - LC/MEX/TS.2017/31/Rev.1

(3) Oportunidades de financiamiento verde en Centroamérica y el Caribe 2021 - Publicado por Climate Bonds Initiative, marzo 2021 www.climatebonds.net, patrocinado por BCIE.

(4) Informe de los Objetivos de Desarrollo Sostenible 2021, tomado de
