RESPONSIBLE BUSINESS CONDUCT

Responsible Business Conduct Country Fact Sheet

COSTA RICA

OECD

RESPONSIBLE BUSINESS CONDUCT COUNTRY FACT SHEET - COSTA RICA

This publication was prepared within the framework of the Project on Responsible Business Conduct in Latin America and the Caribbean. Launched in 2019, this project promotes smart, sustainable and inclusive growth in the EU and Latin America and Caribbean by supporting responsible business conduct practices in line with the UN, ILO and OECD instruments. It is jointly implemented by the OECD, ILO, UN Office of the High Commissioner for Human Rights and the European Union.

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1. Country Overview

The OECD, in partnership with the International Labour Organization (ILO), the Office of the United Nations High Commissioner for Human Rights (OHCHR), and the European Union (EU), has launched a four-year programme (2019-2022) to promote and enable Responsible Business Conduct (RBC) in Latin America and the Caribbean (LAC) in nine partner countries (Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Panama and Peru). Under this programme, the OECD will contribute its expertise on RBC to strengthen government policies for RBC, help business to conduct due diligence in priority sectors, and strengthen access to remedy by reinforcing National Contact Points for RBC (NCPs). This note provides background information and data on Costa Rica's trade and investment situation, with a focus on the agriculture and financial services sectors.

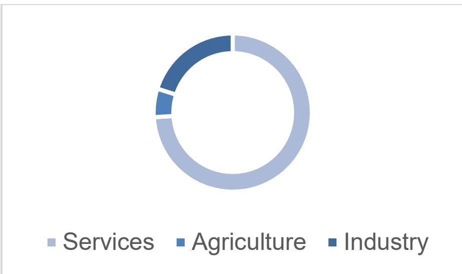
In the last decades, Costa Rica has achieved strong well-being and robust economic growth. The country is considered as an upper middle-income country and has one of the lowest poverty rates in LAC (World Bank, 2018[1]). Costa Rica was invited to open formal OECD accession talks in mid-2015 and, on 15 May 2020, OECD countries unanimously decided to invite the country to become a member of the Organisation. Costa Rica's accession will take effect after it has taken the appropriate steps at the national level to accede to the OECD Convention (OECD, 2020[2]).

The overall performance of Costa Rica's economy depends primarily on its services sector as services are also used intensively as inputs into exported goods (OECD, 2018[3]). In recent years, services have come to account for over 70% of the country's GDP, encompassing key sub-sectors such as tourism, professional services, health and education (OECD, 2018[3]).

For its part, Costa Rica's industrial sector, which consists mainly of medical devices, electronics, pharmaceutical and personal care products, wood, metals, plastics, and construction (PROCOMER, 2020[4]), has come to represent around 20% of the country's GDP in the last years (18.5% in 2019) (World Bank, 2020[5]).

Although the importance of the agriculture sector has diminished over the years – accounting for 4.2% of the country's GDP in 2019 (World Bank, 2020[5]) –, the sector benefits from strong governmental support both for its key role in poverty reduction and its export value through traditional and new crops.

Figure 1. Value Added by Activity (2019)



Source: United Nations Statistics Division (UNSD) (2019), Costa Rica Economic Indicators http://data.un.org/en/iso/cr.html

Costa Rica's focus on trade, well-being and a sustainable use of natural resources has supported steady economic, social and environmental progress over time (OECD, 2020[6]). The economy did contract throughout the 2008 global financial crisis (-1% real GDP) but rapidly rebounded, reaching one of the highest average real growth rates (4%) in Latin America between 2010 and 2016 (World Bank, 2020[5]).

Table 1. GDP trends (2000 – 2019)

	2000	2005	2010	2015	2018	2019
GDP (current bn USD)	15	20	37	55	60	62
GDP (PPP) (current bn USD)	31	42	58	80	99	103
GDP Growth (%)	3.8	3.9	5.0	3.6	2.7	2.1
GDP per capita (current USD)	3,773	4,655	8,142	11,299	12,112	12,238

Source: World Bank (2020), *World Development Indicators* (database), https://datacatalog.worldbank.org/dataset/world-development-indicators.

Productivity was growing at an average growth rate of 1.4% between 1992 and 2007, but the pace went up to 2.5% on average in the period 2007 to 2016 (OECD, 2018[7]). The rapid expansion of skill and knowledge-intensive sectors has been contributing to robust growth. However, the economy retains a dual structure, with traditional, low-productivity sectors employing low-skilled and low-paid workers, while high-productivity exporting and FDI industries employ high-skilled individuals (OECD, 2018[7]).

Costa Rica's economy hosts around 134,000 firms according to government estimates for 2017. About 97.5% of these enterprises classify as SMEs, which account for about 340,000 employees or a third of total employment in the country, equally split between micro, small and medium firms (Ministry of Economy, Industry and Commerce, 2019[8]).

In terms of business environment, Costa Rica still needs to tackle some issues, such as burdensome regulation that limits firm entry and exit and business formalisation (OECD, 2018[7]). The country ranks 74th in the 2020 edition of the World Bank's "Doing Business Index" but was 67th in the previous year. Areas of concern are 'Starting a business', where Costa Rica ranks 144th globally, and 'Resolving insolvency', for which it ranks 137th. However, the country obtains high scores for 'Getting credit' and 'Getting electricity' (respectively, 15th and 25th globally) (World Bank, 2020[9]).

The presence of informality, not only in business activities but also in employment terms, is another characteristic of Costa Rica's economy. The combination of a relatively high share of informal jobs – estimated to have reached 41% of total employment – and a large number of workers poorly equipped for new job opportunities have hindered the transition to more productive, better paid and quality employment (OECD, 2017[10]; OECD, 2018[7]). Women and individuals older than 65 are more likely to be in informal employment (National Institute of Statistics and Census, 2016[11]).

To address this situation, a National Strategy to Transition to a Formal Economy (*Estrategia Nacional para la Transición a la Economía Formal*) was designed and approved via a tripartite agreement in February 2018, with an overall goal of reducing informality by 10% by 2025, i.e. to 32% (Ministry of Labour and Social Security, 2018[12]). A tripartite council is in charge of overseeing the implementation of the Strategy, and technical councils have been formed to establish detailed action plans in each of the areas (OECD, 2018[7]).

2. Investment

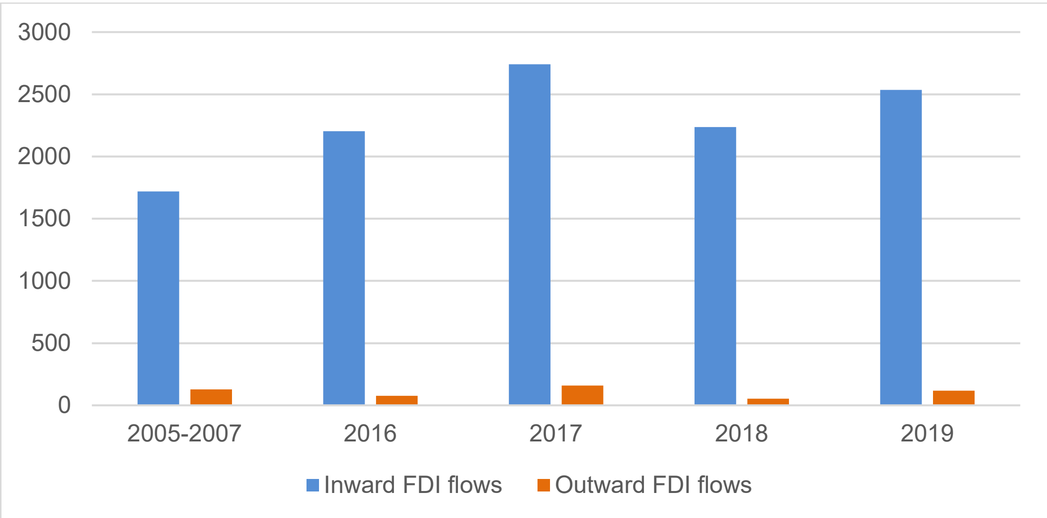
Open trade and foreign direct investment have formed an integral part of Costa Rica's successful growth model. They have underpinned the country's structural transformation from an agricultural-based economy to one with a more diversified structure, well integrated into global value chains. Strong FDI inflows also helped the economy weather the recession that followed the 2008 global financial crisis (OECD, 2018[7]).

Between 2005 and 2007, Costa Rica's pre-crisis annual average of inward FDI flows was of USD 1.7 billion (UNCTAD, 2020[13]). In 2019, the country received more than USD 2.5 billion of FDI inflows, that is 47% more than in 2005 (despite substantial fluctuations throughout the years, particularly in 2012 and 2016) (UNCTAD, 2020[13]).

Following a similar pattern, between 1995 and 2017, Costa Rica's inward FDI stock increased from 3.5% to 62.5% of GDP (UNCTAD, 2018[14]). Costa Rica's overall inward FDI stock totaled USD 41.7 billion in 2019, which amounts to 67.2% of the country's GDP (UNCTAD, 2020[13]).

As an attractive FDI destination in the region, Costa Rica has prioritised the development of its high-tech manufacturing sector, leading the way in IT software development, medical devices, and electronics destined to the smart tech industry. In 2017, 300 high-tech companies, a quarter of which are Fortune 100 companies, were already active in the country (The European, 2017[15]). The services sector has also been determinant in the growth of the Costa Rican economy.

Figure 2. FDI Flows, 2005-2019



Source: Costa Rica's Inter-institutional Foreign Direct Investment Group (2020), *Direct investment, reporting economy, anual (by activity)*, https://gee.bccr.fi.cr/indicadoreseconomicos/cuadros/frmvercatcuadro.aspx?idioma=2&codcuadro=%202184 and UNCTAD (2020), *World Investment Report - Country Fact sheet: Costa Rica*, https://unctad.org/sections/dite_dir/docs/wir2020/wir20_fs_cr_en.pdf.

In 2018, the largest foreign investor in Costa Rica was the United States, representing 55% of the total inward FDI into the country, followed at a distance by Spain (6.5%) (International Monetary Fund, 2020[16]). Inward flows have historically always been higher than outward flows, with investment of Costa Rica outside the country focusing on neighbour countries such as Nicaragua (30.2%), Guatemala (29.7%) and Panama (22.4%) (International Monetary Fund, 2020[16]).

Table 2. Major foreign direct investors (2018)

	USD million	As a share of total inward FDI stock (%)
Total inward FDI stock	39,393	100%
United States	21,749	55.2%
Spain	2,569	6.5%
Mexico	1,978	5.0%
Netherlands	1,624	4.1%
Switzerland	1,475	3.7%
Colombia	1,451	3.7%
United Kingdom	1,263	3.2%
Panama	1,122	2.8%
Canada	1,091	2.8%
Italy	0,651	1.6%

Source: IMF (2020), Coordinated Direct Investment Survey (CDIS) database, http://data.imf.org/regular.aspx?key=61227424

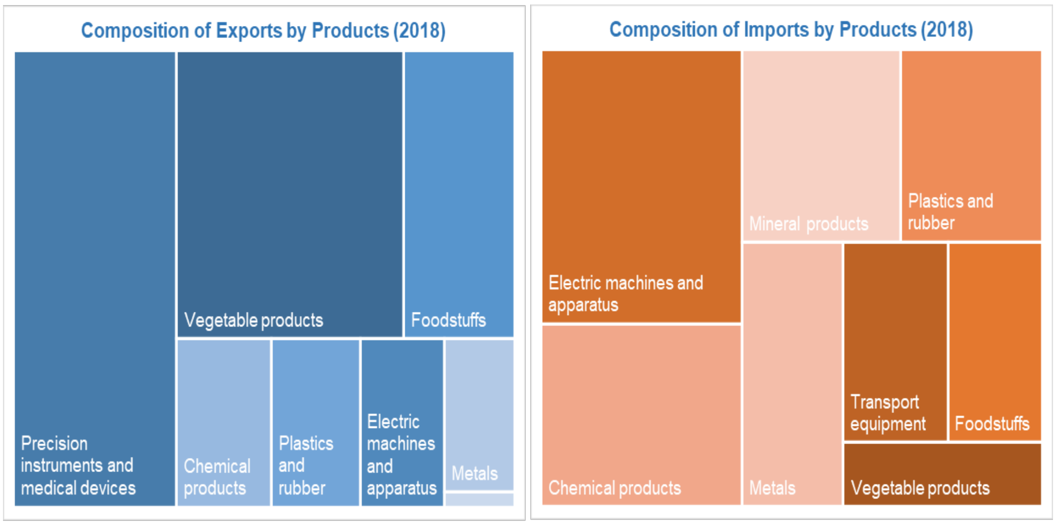
Costa Rica's political stability and its highly-skilled labour has been complemented by the creation of free trade zones and tax incentives, making the FDI inward stock reach USD 41.7 billion in 2019 (amounting to 67.2% of GDP) (UNCTAD, 2020[13]; Santander, 2020[17]). Manufacturing accounted for 58% of total inward FDI investment in 2019, followed by real estate (16.5%), professional, scientific, technical, and administrative support services (6.9%), wholesale and retail trade (6.4%), information and communication (2.1%), and accommodation and food services (2%) (Costa Rica's Inter-institutional Foreign Direct Investment Group, 2020[18]).

3. Trade

With respect to merchandise trade, Costa Rica principally exports manufactured products. In 2018, they accounted for 75% of the country's good exports, followed by agricultural products, which represented 25% of merchandise exports during the same year (WTO, 2019[19]). The most exported manufactured products in 2018 were precision instruments and medical devices (28.9% of the total), followed by chemicals (including medicaments) (6.2% of the total), and plastics and rubber (5.8% of the total). As to agricultural products, bananas are the most exported item (9.1% of the total), followed closely by pineapples (8.9% of the total) (WTO, 2019[19]).

Costa Rica's merchandise imports are predominantly manufactured goods. In 2018, they represented more than 75% of the country's total merchandise imports (WTO, 2019[19]). These manufactured goods consist mainly of electric machines and apparatus (19.3% of total), chemicals (12.8% of total), and transport equipment (7.3% of total). The country also imports mineral products, principally fuels, which accounted for 10.6% of total imports in 2018 (WTO, 2019[19]).

Figure 3. Composition of Exports and Imports by Products (2018)



Source: WTO (2019), *Trade Policy Review: Costa Rica*, https://www.wto.org/english/tratop_e/tpr_e/s392_e.pdf.

Costa Rica has concluded several free trade agreements (FTAs), currently in force with 50 trade partners, which cover almost 94% of the country's exports in goods (Costa Rican Investment Promotion Agency, 2020[20]).

Box 1. EU-Costa Rica Trade Relationship

There are several agreements and projects between the EU and Central America, which includes Costa Rica (European Commission, 2020[21]). The EU is an important trading partner for Costa Rica. In the last decade, trade between the EU and Costa Rica grew constantly, with an average annual growth of 7.25%, going from USD 2,385 million in 2010 to USD 4,146 million in 2019 (Ministry of Foreign Trade, 2020[22]). In 2019, the EU was the third market for Costa Rican exports (18.4%), after North America (42%) and Central America (18.6%) (PROCOMER, 2020[23]). During 2019, the EU imported principally agricultural products (55.4%) (mostly bananas and pineapples), precision instruments and medical devices (30.6%) (mostly prosthesis), food products (7.9%) (mostly juices and fruit concentrates), and electronics (2%) from Costa Rica (PROCOMER, 2020[23]).

Costa Rica's trading partners, which includes the United States, the EU and China, together account for two thirds of the world's GDP (Costa Rican Investment Promotion Agency, 2020[20]). The United States are Costa Rica's largest trade partner for both exports and imports (World Bank, 2018[24]).

Table 3. Top Export Partners (2018)

Ranking	Country	USD billion	% of total exports
1	United States	4.62	41.10
2	Netherlands	0.68	6.03
3	Belgium	0.67	6.00
4	Panama	0.58	5.16
5	Guatemala	0.57	5.07
6	Nicaragua	0.48	4.28
7	Honduras	0.39	3.50
8	El Salvador	0.29	2.63
9	Mexico	0.28	2.53
10	Dominican Republic	0.24	2.15

Source: World Bank (2018), WITS, https://wits.worldbank.org/CountryProfile/en/Country/CRI/Year/2018/TradeFlow/Export

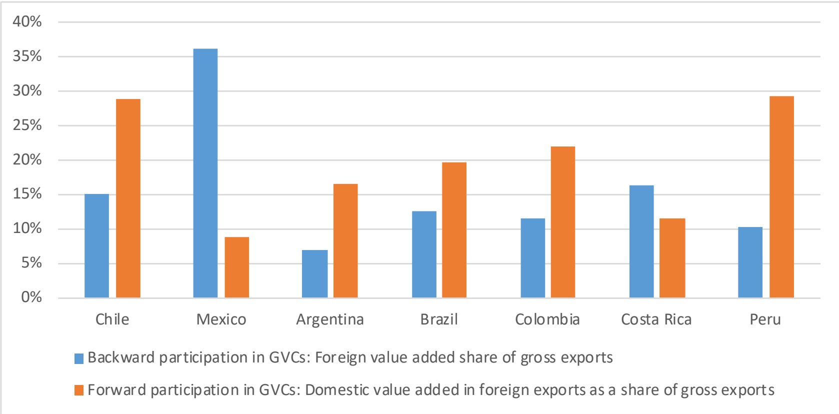
Table 4. Top Import Partners (2018)

Ranking	Country	USD billion	% of total imports
1	United States	6.48	39.10
2	China	2.27	13.71
3	Mexico	1.67	7.05
4	Guatemala	0.41	2.51
5	Germany	0.41	2.50
6	Japan	0.37	2.25
7	Brazil	0.35	2.11
8	Colombia	0.31	1.86
9	Hong Kong, China	0.29	1.75
10	Chile	0.28	1.69

Source: World Bank (2018), WITS, https://wits.worldbank.org/CountryProfile/en/Country/CRI/Year/2018/TradeFlow/Import

Its focus on the production of precision instruments and medical devices, electronics, chemicals, and metal-mechanics has given Costa Rica a competitive advantage in comparison to regional peers in LAC (OECD, 2016[25]). In particular, Costa Rica is well integrated in North American global value chains. As a result of its role in processing and exporting inputs, the country is connected in value added trade mainly through "backward linkages",[1] as shown by the "Trade in Value Added" statistics (see Figure 4).[2]

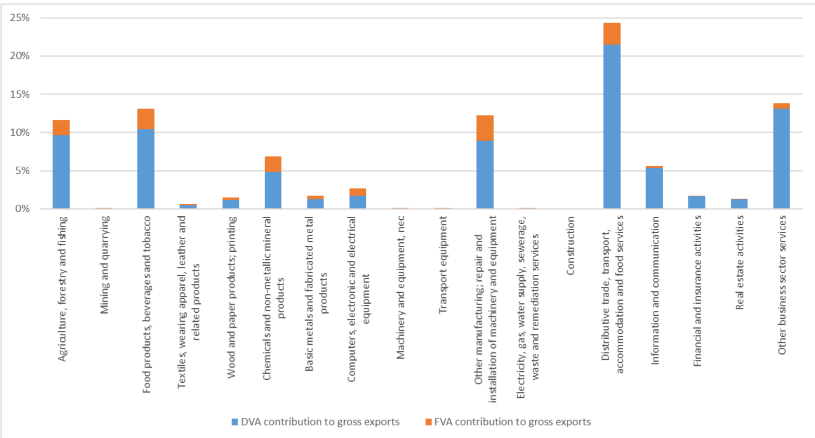
Figure 4. Backward and forward participation in GVCs, 2015



Note: Data for Ecuador and Panama are not available.
Source: OECD TiVA 2018.

Looking at industry details, Costa Rica's largest backward integration is for "other manufacturing: repair and installation of machinery and equipment" and "distributive trade, transport, accommodation and food" (see **Figure 5**).

Figure 5. Industry shares of domestic and foreign value added content of gross exports, 2015



Source: OECD TiVA 2018

[1] Economies can contribute to global value chains (GVCs) by importing foreign inputs for producing the goods and services they export (backward GVC participation) and also by exporting domestically produced inputs to partners in charge of downstream production stages (forward GVC participation). These degrees of participation are measured empirically through ratios. *Forward GVC participation* corresponds to the ratio of "domestic value added sent to third economies" to the economy's total gross exports. It captures the domestic value added contained in inputs sent to third economies for further processing and export through value chains. *Backward GVC participation* refers to the ratio of the "foreign value added content of exports" to the economy's total gross exports. See OECD (2019), Guide to OECD's Trade in Value Added (TiVA) Indicators, 2018 ed., https://www.oecd.org/sti/ind/tiva/TiVA2018_Indicators_Guide.pdf.

[2] The 2018 update of the OECD's "Trade in Value Added" (TiVA) database provides a new suite of indicators to better understand complex trade relations and global supply chains that create value throughout the production and distribution process.

4. Responsible Business Conduct

In 2013, Costa Rica adhered to the OECD Declaration on International Investment and Multinational Enterprises and established a National Contact Point for RBC (NCP) within the Ministry of Foreign Trade (COMEX) to implement and disseminate the OECD Guidelines for Multinational Enterprises (OECD, 2013[26]).

Box 2. Costa Rica's National Contact Point at a glance

National Contact Points for RBC (NCPs) are agencies established by governments. Their mandate is twofold: to promote the OECD Guidelines for Multinational Enterprises, and the related due diligence guidance, and to handle cases (referred to as "specific instances") as non-judicial grievance mechanisms.

The Costa Rican NCP was established in 2013, and is assigned to the Ministry of Foreign Trade (COMEX). It is currently regulated by the Executive Decree No. 40970-COMEX-MEIC, which establishes its legal mandate, structure and functions (Government of Costa Rica, 2018[27]).

As of April 2020, Costa Rica's NCP had not received any specific instances.

In the context of the project "Responsible Business Conduct in Latin America and the Caribbean", the NCP of Costa Rica developed, together with the OECD Secretariat, a capacity-building roadmap. This roadmap lists and describes a number of capacity-building activities that the NCP has identified as priorities based on an assessment of its capacity-building needs by the OECD Secretariat.

The capacity-building roadmap can be accessed on the Costa Rican NCP's website (available here).

Costa Rica has also adhered to the OECD Council Recommendations on the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas (2011), the OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector (2017), and the OECD Due Diligence Guidance for Responsible Business Conduct (2018).

As part of its vision and development model based on sustainable growth, Costa Rica perceives RBC as a key tool to achieve sustainable development (Government of Costa Rica, 2018[27]). In this context, in 2008, the Government established the National Consultative Council on Social Responsibility (*Consejo Consultivo Nacional de Responsabilidad Social*) to promote corporate social responsibility (CSR). This multi-sectoral platform has 70 members from the public and private sectors, civil society, and international development agencies (National Consultative Council on Social Responsibility, 2020[28]).

In addition, in June 2017, the Government approved the "National Social Responsibility Policy" (*Política Nacional de Responsabilidad Social,* PNRS), which sets out the vision and framework to promote and enable RBC in Costa Rica (see Box 3). The PNRS relies on international instruments, including the OECD Guidelines for Multinational Enterprises, and recognises the unique role that the NCP plays in promoting RBC with companies operating in and from Costa Rica (Government of Costa Rica, 2017[29]). In order to implement the PNRS, the Ministry of Economy, Industry and Trade (MEIC) created the Social Responsibility Advisory Board (*Consejo Asesor de Responsabilidad Social*, CARS), which is in charge of coordinating and monitoring the implementation of the PNRS. The MEIC serves as the technical secretariat of the CARS, which is composed of two representatives of national organizations specialized on social responsibility, two representatives from the public sector, one representative from the private sector, and a member of the academia (Ministry of Economy, Industry and Commerce, 2020[30]). The mandate of the CARS, which was initially established for two years, ended in April 2020, and the process for the designation of new members should begin shortly.

In September 2020, the Government publicly announced that it is taking steps to consider the need for the development of a National Action Plan on Business and Human Rights, which would contribute to promote RBC in the country.

Table 5. Adherence / Ratification of International Instruments

Instrument	Ratification or Adherence
OECD Guidelines for Multinational Enterprises	Y
9 Core UN Conventions on Human Rights	8/9
UN Convention against Corruption	Y
Fundamental ILO Conventions	8/8
Extractives Industries Transparency Initiative (EITI) Member	N
Voluntary Principles on Security and Human Rights	N

Table 6. Rankings in Global Indices

Indicator	Country Ranking	Number of Countries
WEF Global Competitiveness Index (2019)	62	140
World Bank Doing Business (2020)	74	190
ITUC-CSI Global Rights Index (2020)	Rating 2	144
Yale Environmental Performance Index (2020)	52	180
Freedom House Freedom of the Press Index (2017)	13	198
RSF World Press Freedom Index (2020)	7	180
Global Slavery Index (2018)	159	167
WEF Global Gender Gap Index (2020)	13	153
Transparency International Corruption Perception Index (2019)	44	198
World Justice Project Rule of Law Index (2020)	25	128

Box 3. National policy and/or legal frameworks enabling RBC

The “National Social Responsibility Policy 2017-2030” (*Política Nacional de Responsabilidad Social,* PNRS) currently constitutes the main framework for the promotion of corporate social responsibility (CSR) standards and good practices among companies and public and private organizations in Costa Rica.

Although the PNRS was not designed with a focus on RBC, its preamble acknowledges the need to adopt actions towards social and environmental sustainability, as well as good organizational governance, based on international instruments and standards on RBC such as the OECD Guidelines for Multinational Enterprises (the Guidelines).

The PNRS has seven thematic axes linked to the SDGs, which set out different expectations regarding business activity, including the respect of human rights, the fight against corruption, fraud and bribery, the promotion of public and private investment with environmental and social criteria, and the promotion of decent, formal and safe work.

The PNRS also provides for actions to be undertaken by the NCP to promote the implementation and visibility of the Guidelines, both with national and foreign companies.

The Government of Costa Rica has also enacted RBC-related legal instruments. For instance, in 2012, the Agreement-36-2012-MINAET of the Ministry of Environment, Energy and Telecommunications established Costa Rica's Carbon Neutrality Program (*Programa País Carbono Neutralidad*), which aims to guide the country towards Carbon Neutrality (Government of Costa Rica, 2012[31]). The program was updated in 2018 and took the name "Carbon Neutrality Program 2.0" (Government of Costa Rica, 2018[32]). 2018 also saw the creation of the National Climate Change Metric System (*Sistema Nacional de Métrica para el Cambio Climático,* SINAMECC), a tool to ensure the collection, monitoring and reporting of data related to climate change at national level and across the different sectors of the economy (Government of Costa Rica, 2018[33]). More recently, in February 2019, Costa Rica adopted a National Decarbonisation Plan for 2018-2050 (*Plan Nacional de Descarbonización 2018-2050*), with the aim to achieve a zero net emissions economy by 2050, in accordance with the objectives of the Paris Climate Change Agreement (Government of Costa Rica, 2019[34]).

5. Target sectors

5.1. Agriculture

Agriculture is a successful sector in Costa Rica. In 2019, it accounted for 4.2% of the country's GDP and 12.1% of employment (World Bank, 2020[5]). The sector is comprised of a universe of small businesses as the vast majority (85%) of enterprises are of micro size, followed by small (11%) and medium (2.7%) (Ministry of Economy, Industry and Commerce, 2019[8]).

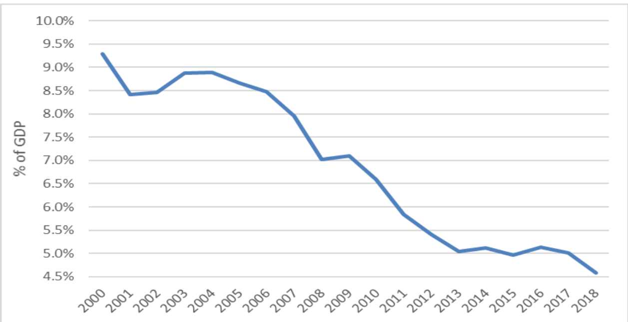
The success of Costa Rica's agricultural sector has been underpinned by exports, concentrated both in new and traditional crops. Costa Rica is a highly competitive and leading exporter of tropical fruits, such as pineapples (51.7% of global trade in 2018) and bananas (8.74% of global trade in 2018) (OEC, 2019[35]). In the last decade, the country's exports of agricultural products increased significantly, achieving a growth rate of 5.1% (Ministry of Foreign Trade, 2020[36]). In 2019, Costa Rica exported 668 agri-food products to 206 countries through 885 companies (PROCOMER, 2019[37]).

The agricultural sector in Costa Rica benefits from a strong government commitment as it is seen as a key factor to achieve poverty reduction, as well as agricultural and rural development. It is also supported by the provision of a range of general government services for agriculture, including extension services, research and development, and plant and animal health services (OECD, 2017[38]).

Costa Rica is internationally recognised for its approach to environmental protection and sustainable development: 30% of the national territory is under some form of environmental protection. While the country's emphasis on environmental protection has involved some short-term trade-offs – notably in the form of increased pressure on land availability – it has also provided longer-term benefits for the agricultural sector, including potential new opportunities for higher-value "green" marketing (OECD, 2017[38]).

Moreover, in light of the agricultural sector's vulnerability to climate change, the Government has launched several strategies to adapt and mitigate the phenomenon, with a direct impact on agricultural practices. A number of environmental regulations encourage adaptation efforts in the agricultural sector. However, their impact is sometimes limited due to limited monitoring and enforcement challenges (OECD, 2017[38]).

Figure 6. Agriculture, forestry and fishing value added (% GDP)



Source: World Bank (2019), *World Development Indicators* (database), https://datacatalog.worldbank.org/dataset/world-development-indicators.

Relevant initiatives

The guide Good Agricultural Practices (*Buenas Prácticas Agropecuarias*, BPA) of the Ministry of Agriculture and Livestock (MAG) establishes guidelines that must be applied in agricultural production in order to minimise the risks of environmental degradation and physical, chemical and biological contamination of agricultural products. The guide provides mandatory standards and recommendations for a wide range of environmental and social issues (Government of Costa Rica, 2008[39]).

The MAG, together with other government entities and sectoral initiatives, has also developed technical guides that provides guidance for the sustainable production of specific agricultural products, such as pineapples, rice, etc.

In addition, the Voluntary Certification in Good Agricultural Practices (*Certificación Voluntaria en Buenas Prácticas Agropecuarias* of the Phytosanitary State Office (*Servicio Fitosantiario del Estado*) is a program established to distinguish the farms that implement measures to protect the health of the farm workers and the consumers, as well as the environment. The farmers that register in the program participate in capacity-building activities on good agricultural practices, receive support for the implementation of such practices in their farms, and are audited to verify that they comply with the requirements of the certification (Government of Costa Rica, 2019[40]).

5.2. Financial services

Financial services constitute another important sector of the Costa Rican economy. Over the last decade, exports of financial services in Costa Rica increased constantly, reaching almost USD 120 million in 2018 (Ministry of Foreign Trade, 2020[41]). Costa Rica's banking sector is characterised by a small number of strong players, with State-owned banks and non-State public law banks still largely dominating the market (OECD, 2020[6]). The two State-owned banks are commercial banks, while one of the non-State public law banks is mortgage-focused (Government of Costa Rica, 1953[42]; Housing Mortgage Bank, 2020[43]). As of 2018, the two State-owned banks and Banco Popular (worker-owned) accounted for 58% of the total banking system assets and 56% of the total banking sector loans. Foreign-owned banks account for the lion's share of private banking activity, representing 93% of privately-held assets and loans extended by private banks in 2018 (OECD, Forthcoming (November 2020)[44]).

As part of the OECD accession process, Costa Rica has made considerable progress in reforming its financial system. In particular, concrete policy actions have been taken to limit base erosion and profit shifting, fight tax evasion and avoidance, strengthen the role of the tax administration, improve cash management practices in the Ministry of Finance, and align corporate governance of State-Owned Enterprises (SOEs) with the OECD Guidelines on Corporate Governance of SOEs (OECD, 2018[7]).

State-owned banks are now required to comply with Directive No. 102-MP, entitled "General Policy on Transparency and Disclosure of Financial and Non-financial Information for SOEs, their Subsidiaries and Autonomous Institutions Policy" (*Política general sobre transparencia y divulgación de informacion financiera y no financiera para empresas propiedad del Estado, sus subsidiarias e instituciones autónomas*). This Directive, issued in April 2018 in the context of Costa Rica's accession to the OECD, aims to ensure high standards of transparency and information disclosure. It requires SOEs to include in their annual reports, corporate governance reports, or other annual reporting instruments, financial and non-financial information, including, at a minimum, information on the existence of provisions or policies on ethics, environmental protection and/or sustainability and corporate governance (Government of Costa Rica, 2018[45]).

In terms of general corporate governance in the financial sector, the Corporate Governance Regulation (*Reglamento sobre Gobierno Corporativo*), approved by the National Council of Supervision of the Financial System (*Consejo Nacional de Supervisión del Sistema Financiero,* CONASSIF) in 2016, is also aligned with the OECD Principles of Corporate Governance. This Regulation covers all entities operating in the financial markets, including banks, listed companies, State-owned banks, SOEs issuing bonds, pensions, institutional investors and market operators. It is mandatory and enforced on a "comply and explain" basis, but it does not include guidance on the disclosure of non-financial information, and environmental and social risk reporting is not mandatory as per its provisions (Government of Costa Rica, 2016[46]; OECD, 2020[47]).

However, other elements of Costa Rica's legal framework include reporting requirements pursuant to which companies must disclose information regarding environmental, social and governance issues. These reporting requirements cover issues such as waste, water and energy management, biodiversity protection, working conditions and social protection (Climate Disclosure Standards Board, 2017[48]).

Beyond good corporate governance, the banking and financial sectors in Costa Rica appear to have some degree of awareness of specific RBC-related issues, such as, for instance, environmental sustainability. This is coherent with the country's objective to achieve a zero net emissions economy by 2050 (Presidency of Costa Rica, 2018[49]), which implies that financial institutions reduce the emissions of their operations. In addition, the green bond market in Costa Rica is on the rise and banks are looking to diversify their offering of green instruments (International Finance Corporation, 2017[50]).

In the same vein, the National Stock Exchange of Costa Rica (*Bolsa Nacional de Valores*, BNV) is engaged in developing sustainable capital markets and is the first in Central America to have issued green bonds. The BNV joined the United Nations Sustainable Stock Exchanges (SSE) initiative and thereby committed to promote long-term sustainable investment through the United Nations peer to peer learning platform (Sustainable Stock Exchanges Initiative, 2018[51]).

Relevant initiatives

Recently, Costa Rica implemented new financial-sector laws and regulations against money laundering (Financial Action Task Force, 2018[52]). Also, with the ongoing introduction of enhanced monitoring by the financial regulator (*Superintendencia General de Entidades Financieras*, SUGEF) of "Designated Non-Financial Businesses and Professions" (DNFBPs), Costa Rican regulatory and executive authorities are effectively enhancing their ability to understand the activities and financial flows of Costa Rica's economic actors (U.S. Department of State, 2019[53]).

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