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ELANBiz Info Card : Software Sector and Information Technology Services of Costa Rica¹

Created by the ELANBiz team of Costa Rica. Last update 01/06/17

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Costa Rica is the Latin American country that has the highest number of software producers and professionals in computing in relation to its population. The existence of adequate technology platforms, the widespread willingness of Costa Ricans to use digital means for processing paperwork, and the widespread coverage of fixed and mobile telephony in various areas of the country, are some of the incentives to create strategic alliances between European and Costa Rican companies.

The state e-government projects have positioned the country among the most developed in Latin America, which creates opportunities for European companies to offer IT services to various public institutions through participation in public procurement. The country also has a favourable business climate to establish foreign investment that can benefit from tax and tax incentives under the Free Zone Regime.

This Info Card aims to provide the business opportunities that European companies in the area of information technology and software can find in Costa Rica, either to take advantage of the local market or to participate in the global outsourcing market using Costa Rica as a regional platform. The most attractive strategies that could be of interest would be: a) to participate in public bids for services, b) to seek a partner for collaborations in joint outsourcing, and c) to create a subsidiary of the European company in Costa Rica for the management of projects for clients within the Americas.

Description of the sector

Due to the fact that these are intangible goods, information technology services are not classified in tariff codification, which makes it difficult to account for them in foreign trade. However, it is estimated that Costa Rica exports 3% of its GDP in

¹ The information contained in this sheet is only general. For more detailed information, trade promotion events and actions and possible business contacts, please contact the Member States' Trade Offices, European trade organizations and the bilateral chambers.

telecommunications (SUTEL) and 6.8% of GDP in software services (CINDE) which proves an appropriate scenario of competitive business in which European companies can collaborate with Costa Rican companies.

Costa Rica is ranked 55th in the ICT Development Index of the countries evaluated globally, and in the last five years, Costa Rica has made the biggest progress in the world, since it has increased of 23 positions since the 80th position. Within the Americas, it is ranked 6th among the 32 countries classified by the International Telecommunication Union (ITU).

The availability of qualified human capital, the organization of the ICT sector and the access to broadband, as well as a strategic location for multinational companies have allowed Costa Rica to be a Latin American player relevant for the distribution of outsourced IT and software services internationally. After Chile (38) and Uruguay (43), Costa Rica (44) stands 3rd within the Latin American countries whose digital ecosystem is more competitive, according to the [Global Information Technology 2016 report](#). For these reasons, companies such as Intel, IBM, Oracle and Amazon have established a base of operations in Costa Rica. For European companies, Costa Rica can represent a technological platform to enter the regional markets and other countries of the Americas.

In Costa Rica there is a specific registry of companies related to the ICT sector through the study carried out by the Chamber of Information and Communication Technologies (CAMTIC, see description in Annex) and the Foreign Trade Promoter (PROCOMER) in which 897² organizations were identified in the sector.

This study describes the sector of digital technologies in the country; it is made up of nine subsectors:

1. Information Technology
2. Software development
3. Technology Marketing
4. Telecommunications and Networks
5. E-commerce
6. Digital Multimedia
7. E-learning

² The sources used in the formation of the database were: the registries of these organizations, as well as the Ministry of Economy Industry and Commerce (MEIC), public business directories and contact information provided by companies that on their own initiative requested to be included in the study. It was possible to contact 606 companies of which 219 successfully completed a questionnaire prepared for these purposes. The data collection took place between June 25, 2014 and September 1, 2014.

8. Services Enabled by Digital Technologies
9. Manufacturing of Digital Components

The IT services that represent the largest market segment for the "Technology Marketing", "Digital Component Manufacturing", "Information Technology" and "Telecommunications and Networks" subsectors is the local demand. While sales abroad are the largest component of the subsectors of "Services Enabled by Digital Technologies", "E-commerce" and "Digital Multimedia". The "Software Development" subsector distributes its sales by approximately equal parts between the domestic and foreign markets.

The various organizational areas served by software and IT services companies in Costa Rica include: pharmaceutical industry, public telecommunications, transportation, education in the public sector, construction, food industry, health in the public sector, entertainment, individuals, agriculture, manufacturers of ICT products, institutions or research centres, government abroad. Even though most of the companies declare to develop activities related to all these areas at a national level, some companies declare serving foreign clients or foreign companies located in Costa Rica.

Evolution of the activity of the sector

From the point of view of the European company interested in having a base of operation or project management for the Americas market, Costa Rica presents an attractive business area due to the international reach of the ICT sector. CAMTIC, in the mentioned study, describes that in 2004 only 30% of the companies in operation had carried out sales abroad. This fraction grows during the next decade to 47% in 2014. This estimation only takes into account digital technology companies that are operating in 2014.

As dictated by the Pareto law, 86.0% of Costa Rican exporters have sales abroad that are less than one million dollars and this group as a whole accounted for 18.0% of total reported exports. While the remaining 14.0% has exports in excess of one million dollars and accumulates 82.0% of total sales abroad. Fifty percent of exporting companies direct their sales mainly to the Central American region (Panama and Nicaragua), in addition to the United States.

In terms of the amount and destination of exports of digital products, in 2013, 67% of sales abroad attend markets in North America, 20% in Central America, 8% in South America, 4% in Europe and 2% in the rest of the world. Estimated sales for 2016

include 70% of sales to North America, 17% to Central America, 10% to South America, 2% to Europe and 2% to the rest of the world.

Exporting companies point out that their main export channel is their overseas partners or their own subsidiaries, as well as internet sales, customer affiliates and other export channels.

The Costa Rican government has clearly identified the sector as a priority that affects the economic development of the country. Recently, the Vice Ministry of Telecommunications, part of the [Ministry of Science, Technology and Telecommunications \(MICITT\)](#) of Costa Rica, published its "[National Plan for the Development of Telecommunications 2015-2021](#)". This document summarizes the steps that will be followed in the following years regarding the development vision of the country, pointing to 3 specific pillars: digital inclusion, digital economy and e-government and transparent. The "Bridge to Development" strategy, designed to reduce the digital divide, aims to improve access to ICTs as a fundamental tool for access to basic services, knowledge and personal development of the population.

Human Capital

Human capital is the main source of sustainable competitive advantage. This reality is especially significant for digital technology companies because high value-added products depend on a workforce with specialized skills and talents. The growth of the Costa Rican digital structure is, in the first instance, linked to an adequate supply of professionals to meet the specific demands of the industry.

The vast majority of its collaborators have a basic or advanced command of the English language. This language is followed by Portuguese. To a much lesser extent, other languages such as French, German, Mandarin and Italian are present.

Altogether, the baccalaureate and bachelor's degrees encompass more than half of the labor force occupied by the mapped companies. One in three collaborators has a bachelor's degree, and one in four collaborators has a baccalaureate degree. The doctorate degree is the least represented academic level, as there is one doctorate for every 167 employees.

However, there is a shortage of ICT specialists for existing potential demand. This means that local companies could partner with European companies to bid for tenders or outsourcing projects that they are currently unable to meet.

Quality and applicable regulations

The digital technologies sector as a high value-added industry involves complex activities with uncertain results, such as the integration of information systems and the provision of customized software. In these conditions, reputation and quality play an important role, especially when aspiring to compete in the global marketplace. It is for this reason that many companies opt for certifications, models or standards of control and quality management as mechanisms to strengthen their internal processes and ensure the delivery of value to customers.

At least 87% of the organizations consulted in the aforementioned study have formally incorporated certifications, models or standards of quality control and management. The ISO 9000 standard and the CMM / CMMI (Capability Maturity Model Integration) model are the tools with the highest number of mentions.

In Costa Rica the only legislation that regulates the sector is a regulation applied to Electronic Commerce that is still under analysis in the Costa Rican parliament. And the [Computer Crime Law LEGISLATIVE DECREE No. 9048](#) which is the reform of Section VII of the [Criminal Code of Costa Rica](#).

Imported services

There is no data recorded regarding the importation of software services, therefore statistics are not available. However, according to a [Canadian study](#) focused on business opportunities with Costa Rica, several opportunities arise despite the region's technologically advanced positioning in Costa Rica. There is unmet demand for enterprise software, including Enterprise Resource Planning (ERP), Supply Chain Management (SCM), Customer Relationship Management (CRM), financial tracking software and data warehousing.

On the other hand, software outsourcing is probably one of the main means enabling SMEs to reduce costs, which, in turn, offers ample opportunities for European companies.

Public procurement

The [Integrated Public Procurement System \(SICOP\)](#) is the only system used as a technological platform for compulsory use by the Central Administration for the

processing of administrative procurement procedures. European companies have the opportunity to offer their IT services in competition with local companies on equal terms. The procedure to participate in tenders requires an [online registration](#) in the section "Request for Registration Provider". For foreign companies the authorization to enter this remote registration is completed by a certification from RACSA, the state government digital company, to facilitate the user.

European companies without a Costa Rican domicile can still submit themselves to public tenders. All foreign bidders without a domicile in Costa Rica must prove a proxy domiciled in Costa Rica with power of attorney to present the proposal and conclude the contract, as well as to represent them judicially and extrajudicially. For specific information on public purchases we suggest referring to the [ELANBiz InfoCard "Public Purchases"](#).

Incentives for Foreign Investment

Costa Rica stands out for attracting large investments in information and communication technologies which have already established several transnational corporations. An example is Microsoft that has strengthened its presence in Costa Rica with the aim of making it the innovation laboratory of Central America, and with that, addressing better the markets of this area and having a more knowledgeable export offer in products and services. Another example is Cisco Systems, a leader in Internet networking solutions, which has designated Costa Rica as the headquarters of its operations in the Caribbean, Central and South America in order to increase the regional market.

On another token, Intel pioneered its Pentium II and III microprocessor manufacturing operations in 1998, an operation that lasted until 2014. In August 2006, Intel installed in Costa Rica the engineering services group of Latin America, which is maintained at the current target of employing 3,500 people.

The Costa Rican legal framework offers several tools of interest to facilitate the provision and export of ICT services. European companies interested in establishing a subsidiary or carrying out a project in Costa Rica may choose to enjoy the exemptions offered by the **Free Zone Regime (RZF)**.

For projects, for example, with only an investment of \$ 150,000 in 3 years, the European company can enjoy a series of tax incentives and benefits granted by the Costa Rican government, as well as tax incentives. This regime is regulated by the [Law of Free Zones No. 7210](#) and its [regulation](#). For more details we recommend reading the [ELANBiz Infocard called "Investing in Costa Rica"](#).

In 2007 Costa Rica ratified the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA -DR). In the high-technology sector, most multinational companies come from the United States and the CAFTA agreement is expected to strengthen Costa Rica's attractiveness as a destination for foreign investors. European SMEs that establish strategic alliances with Costa Rican companies can enjoy these benefits.

Events of the sector

The main events in Costa Rica in the TICS sector can be found updated on the CAMTIC website:
<http://www.camtic.org/eventos/>

ExpolTcomm

It is an annual event (November) carried out by a private initiative where there are conferences, business rounds and networking for all sectors of the ICT industry.



Opportunities for European companies.

When it comes to assessing the conditions offered by Costa Rica, factors such as the quality of the workforce, education and training options, labour supply, ICT sector organization and broadband access are the main interests of companies IT of Costa Rica. It is important to note that the import / export of ICT services is not being taxed currently.

The ICEX³ recommendations conclude that Costa Rica is a country that has several arguments in its favour to attract foreign investment, although it is also necessary to consider aspects that, although not negative, can be an obstacle when investing in the country. As for the attractions, it is worth noting the following:

- ✓ Very stable political and social situation
- ✓ Economy open to foreign investment and foreign trade
- ✓ High coverage of public services

³ Extracted from the document "[The Information and Communication Technologies \(ICT\) market in Costa Rica](#)" prepared by ICEX and the Economic and Commercial Office of the Spanish Embassy in Panama and Costa Rica, 2013.

- ✓ Free zones with significant incentives for investment and trade
- ✓ Good image of Costa Rica abroad
- ✓ Good image of European companies in Costa

With regard to the obstacles to investing in Costa Rica, these are basically the following:

- Market size: small market
- Bureaucratization / strong need for guarantees
- Strong presence of the public sector
- Public infrastructures require modernization

Finally, it is worth mentioning briefly some factors to be taken into account in the Costa Rican market:

- Achieving contracts takes a considerable amount of time and, therefore, some financial capacity
- Public projects are progressing slowly
- It should be considered as a further step in the implementation in the region.

LINKS OF INTEREST

- **PROCOMER:** Costa Rica's foreign trade promotion agency: www.procomer.com
- **CINDE** – agency for the promotion of foreign direct investment in Costa Rica: <http://www.cinde.org/es/por-que/incentivos>
- **CAMTIC - Chamber of Information and Communication Technologies:** [Cámara de Tecnologías de Información y Comunicación \(CAMTIC\)](http://www.camtic.org).
- **CAATEC - High Technology Advisory Commission of Costa Rica :** [Comisión Asesora en Alta Tecnología de Costa Rica \(CAATEC\)](http://www.caatec.org).
- **INTER-AMERICAN BANK FOR DEVELOPMENT:** Innovation, R & D and Productivity in the Costa Rican ICT Sector: A Case Study IDB-WP-189.: [Innovation, R&D and Productivity in the Costa Rican ICT Sector: A Case Study IDB-WP-189.](http://www.idb.org/~/media/Files/Publications/IDB-WP-189.pdf)



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- **MICIT** - Vice Ministry of Telecommunications, part of the Ministry of Science, Technology and Telecommunications of Costa Rica: [Viceministerio de Telecomunicaciones, parte del Ministerio de Ciencias, Tecnología y Telecomunicaciones \(MICITT\) de Costa Rica.](#)
- **Legislative Decree N ° 9048:** [Reforma de Varios Artículos y Modificación de la Sección VIII Denominada Delitos Informáticos y Conexos del Título VII del Código Pena.](#)
- **Criminal Code of Costa Rica:** [Código Penal No. 4573](#)
- **National Telecommunication Development Plan:** [Plan Nacional de Desarrollo de las Telecomunicaciones 2015-2021](#)

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ANNEX

CAMTIC (<http://www.camtic.org/>)

The Chamber of Information and Communication Technologies (CAMTIC) was created in 1998 and is currently made up of about 200 companies. Together, they form a strategic block that seeks to strengthen and support the digital technologies sector in Costa Rica.

Under the motto "Costa Rica: Green and Intelligent", today CAMTIC represents the main organization of the sector of digital technologies and the only one of Central America that covers all subsectors of digital technologies.

Its role and leadership have placed it in a strategic position, with positions of representation in various regional technology organizations, including the Latin American Association of Information Technology Entities (ALETI), the International Federation of Multimedia Associations (FIAM) and the Alliance Information and Services Technologies (WITSA).

Vision:

We will be a major international provider of innovative and high value information and communication technology products and services, a convergence centre with local and international linkage in an environmentally friendly, democratic and secure environment.

Mission:

Integrate and align the actions of the various players in the information and communication technologies sector to promote their sustainable and competitive international development and socio-economic progress.

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