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022

# INVESTMENT IN CENTRAL AMERICA AND PANAMA





# **Investment in Central America and Panama**

**Funding contributed by:  
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**Central American Bank for Economic Integration  
Apartado Postal 772  
Tegucigalpa, Honduras**



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# Introduction

The Contadora Group, consisting of Colombia, Mexico, Panama, and Venezuela, have been working since their first meeting in January, 1983, to foster a peaceful settlement to the conflicts in Central America. According to an official of Mexico's Ministry of Foreign Relations who was quoted in a *New York Times* article on July 24, 1984, "all of the Central American countries have now demonstrated their acceptance of the act of Contadora" in principle and that only minor details remained to be worked out. Their basic agreement for peace should have a positive impact on the future economic health of the Central American countries.

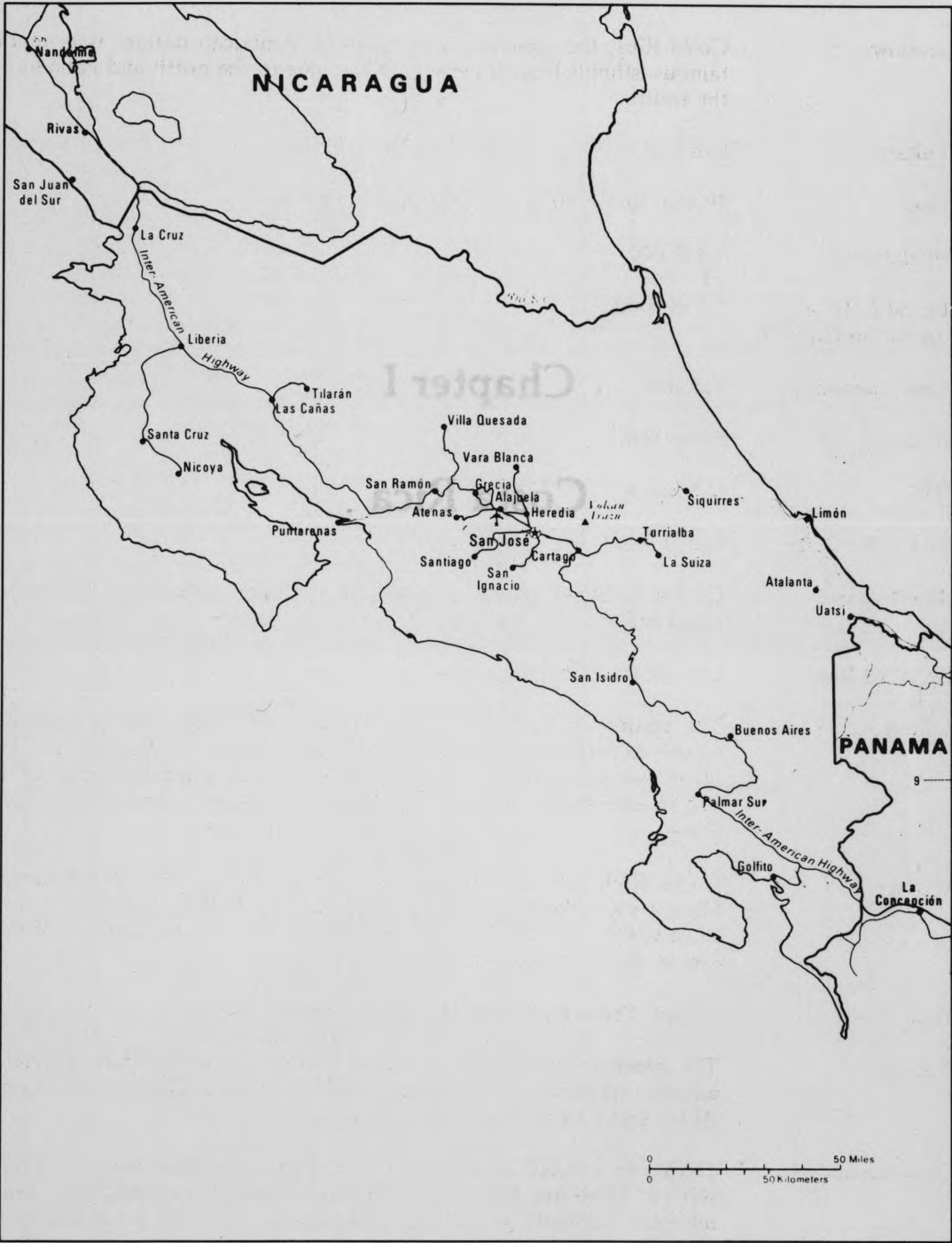
Two developments in the United States could also have positive long-term benefits for the Central American isthmus and Panama. The Caribbean Basin Initiative grants duty-free access to U.S. markets for almost all products produced or assembled in qualifying countries in the Basin for a period of 12 years. In addition, the recent report of the Kissinger Commission to Congress calls for an aid package of more than \$8 billion over the next several years to help the Central American countries with their economic development. The Jackson Plan, as it has been called, would go a long way toward strengthening the economies in the region and fostering economic development.





## Chapter I

## Costa Rica



# Costa Rica

|                                          |                                                                                                                                                                                                                                                                                        |
|------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Location:</b>                         | Costa Rica, the second smallest Central American nation, is a mountainous isthmus located between Nicaragua to the north and Panama to the south.                                                                                                                                      |
| <b>Capital:</b>                          | San José                                                                                                                                                                                                                                                                               |
| <b>Area:</b>                             | 19,653 square miles (50,900 square km)                                                                                                                                                                                                                                                 |
| <b>Population:</b>                       | 2,400,000                                                                                                                                                                                                                                                                              |
| <b>Annual Rate of Population Growth:</b> | 2.6 percent                                                                                                                                                                                                                                                                            |
| <b>Major Language:</b>                   | Spanish                                                                                                                                                                                                                                                                                |
| <b>Literacy:</b>                         | 89 percent                                                                                                                                                                                                                                                                             |
| <b>GDP:</b>                              | U.S. \$3.41 billion (1983)                                                                                                                                                                                                                                                             |
| <b>Per Capita GDP:</b>                   | U.S. \$1,420                                                                                                                                                                                                                                                                           |
| <b>Main Exports:</b>                     | Coffee, bananas, cocoa, sugar, meat, fertilizer, agricultural and industrial products                                                                                                                                                                                                  |
| <b>Exchange Rate:</b>                    | U.S. \$1.00 = 50 colones                                                                                                                                                                                                                                                               |
| <b>Railroads:</b>                        | The country is served by three railroads. A government-owned line travels between San José and the Pacific seaport of Puntarenas. The other two are controlled by foreign interests—the northern routes by the British and southern ones by United Fruit Company of the United States. |
| <b>Roads:</b>                            | Costa Rica has 16,300 miles of modern roads. The Pan-American Highway dominates the road system, running the length of the country. Most towns and cities can be reached by road with the exception of Port Limon on the Atlantic coast.                                               |
| <b>Main Ports:</b>                       | Limón, Puntarenas, Caldera, Punta Morales, Moin.                                                                                                                                                                                                                                       |
| <b>Airports:</b>                         | The international airport is located 10 miles from San José. Domestic airports are located at Chacarita, Golfito, Nicoya, Santa Cruz, Buenos Aires, and a number of other cities.                                                                                                      |
| <b>Communications:</b>                   | There are 195,000 telephones, 99 percent of which have automatic service. There are 32,000 business lines. International telephone, telex, telegram, facsimile, and data communications services are available.                                                                        |

## History

Costa Rica was discovered by Columbus in 1502 during his fourth and final voyage. From an impression he got that the land had plenty of gold, he named this place Costa Rica (Rich Coast). However, Costa Rica had little to offer in the way of plunder and riches of the kind Spain then was harvesting from Mexico and Peru.

The conquest of Costa Rica was bloodless compared to other parts of the colony of Guatemala (now Central America). Cartago, founded in the Central Valley in 1563, became the first capital of Costa Rica. It remained the seat of government until 1823 when the capital was moved to San José.

The prosperity and stability which were to characterize the country's later history were absent in the early colonial period. However, this period ended in 1821 when Costa Rica declared its independence from Spain. Costa Rica achieved freedom without bloodshed. In 1838, Costa Rica declared her sovereignty, and 10 years later the Republic of Costa Rica was formally established.

In 1871, in the administration of Don Tomas Guardia (1832-1882), the constitution was introduced which, though frequently modified, remained the nation's basic law until 1949.

Costa Rica had its first free elections in 1889, and since then the national political life of the nation has known the power of public opinion.

In 1948, a revolt led by Don Jose Figueres Ferrer set up a junta in San José overthrowing Teodoro Picado Michalski, who refused to recognize his successor. Figueres turned the government over to the elected president Otilio Ulate Blanco on November 8, 1949. The following day a new constitution, the current one, was enacted.

## Political System

Costa Rica is a democratic and unitary republic. The government is divided into three branches: executive, judicial, and legislative. All three are well developed and effective.

The executive consists of the president, two vice presidents, and the cabinet (Consejo de Gobierno).

The power of the president is limited by the right of the legislature to override presidential veto, the right of the Supreme Court to review the constitutionality of bills and administrative acts, and by a provision limiting the presidential term of office to four years. Other constraints on presidential power include a clause in the constitution outlawing a national army, which leaves no military forces at the president's disposal.

The legislative assembly is a unicameral body elected by direct popular vote for a four-year term. It consists of 57 deputies who cannot be elected for successive terms.

While the legislative and the executive powers are elected by direct vote every four years, the judiciary is elected every eight years by the legislative assembly.

## Economic Overview

Costa Rica's primary economic activity remains agriculture, employing over half the working population and accounting for about two-fifths of the country's income. Approximately half of all agricultural production is exported, representing 70 percent of total exports. Bananas remained the number one export in 1982 (U.S. \$239 million), just ahead of coffee (U.S. \$237 million). Other principal export crops include cocoa, sugar, pineapple, and abaca. Beef is also a major export item.

Since the establishment of the Central American Common Market, Costa Rica has developed an industrial base which has achieved a degree of parity, in terms of production, with the

agricultural sector. The single largest industry, based on production, is food processing, although chemical products, metals and metals working, and textiles are also important.

The economy experienced a period of decline during the last few years due to the high cost of energy, worldwide inflation, and the depressed price of coffee on the world market. Despite this, the tourist industry showed remarkable growth. In 1982, tourism grew by 39 percent, producing \$131 million in revenue, which ranks it third in foreign exchange earnings behind bananas and coffee.

Also of importance as a resource are the extensive rain forests, which cover nearly four-fifths of the country. Recent estimates place the commercial potential at around 40 billion cubic feet. Exploitation has been confined mainly to the Pacific side, but the densest forests lie in the east.

The full mineral potential is still to be evaluated, with bauxite offering the greatest opportunity for extensive development. Reserves are estimated at 150 million tons.

### **Foreign Investment Climate**

The government of Costa Rica regards the revitalization of the private sector as necessary to bring the economy out of its current depressed state. Given the severe dollar shortage, foreign private investment is especially welcome, and foreigners may undertake any legitimate business activity except in essential infrastructure sectors such as utilities, railroads, petroleum refining and distribution, and the communications media.

The government particularly encourages foreign investment in light manufacturing, processed foods, agri-business, and those other sectors which use local raw materials, have a high value-added component, and/or have substantial export potential. The government has given its full support to the Export Promotion Center (CENPRO) in its efforts to become the central organization assisting foreign private investors in their transactions with other Costa Rican institutions and government offices.

### **Repatriation of Profits and Capital**

The amount of profits that may be repatriated is based on the average rate of return for the particular industry. All repatriation is completed at the free market rate.

The 1982 Selective Capital Registration Ruling enacted by the Central Bank of Costa Rica defines clear and simple procedures that guarantee to foreign investors the ability to repatriate capital and profits. This ruling establishes a foreign exchange fund that allows the Central Bank to ensure exchange convertibility at prevailing exchange rates for repatriation of capital investments and dividends and for payment of loans, royalties, and service contracts. The investor needs only to register the investment loan or contract at the Central Bank for the guarantee to become effective.

### **Exchange Controls**

All foreign exchange transactions must be carried out through banks authorized by the Central Bank of Costa Rica. There is a three-tier system of exchange rates in effect at the present time—the official market rate, the interbank rate, and the free market rate.

The official rate is used for imports of pharmaceuticals and raw materials for the social security system. At least 1 percent of all export proceeds must be exchanged at this rate. The interbank rate is used for the other 99 percent of export proceeds and for 80 percent of all imports. Remaining transactions are converted at the free market rate.

# Investment Incentives

## Central American Agreement on Fiscal Incentives for Industrial Development

To qualify for these fiscal incentives, companies must effectively contribute to the economic development of Central America by the use of modern and efficient processes in the production (from raw materials and partly processed products) of articles used to satisfy the basic necessities of the people, or that will replace importations thereof, or that may increase exports.

Enterprises are classified as follows:

### Group A — Enterprises that—

1. produce industrial raw materials or capital goods, or
2. produce articles for consumption, packages, or semi-finished products of which at least 50 percent in value of the raw materials is produced in Central America.

### Group B — Enterprises that—

1. produce articles for consumption, packages, or semi-finished products, and
2. contribute favorably and considerably to the balance of payments and to the value of industrial production, and
3. use, entirely or in a high proportion in value, raw materials, packages, and semi-finished products from Central America.

### Group C — Enterprises that—

1. are not included in Groups A and B, and
2. merely assemble, pack, bottle, cut, or dilute other products, and
3. are listed in Annex 1 of the agreement (producers of toilet articles and deodorizers).

## Group A — Fiscal Incentives

### *New Industries*

In Costa Rica, new industries in Group A are entitled to the following benefits—

1. total exemption from import duties on machinery and equipment for 10 years,
2. exemption from import duties on raw and semi-finished material and packages, as follows: 80 percent for the first five years, and 50 percent for the next five years,
3. total exemption for five years from import duties on fuel, except gasoline, strictly required for industrial processes. This does not include fuel for transport or for the generation of energy where such is available from public sources, provided that suitable and adequate supplies cannot be obtained from Central American sources,
4. total exemption from income tax for eight years, and
5. total exemption from assets and capital taxes for 10 years.

### *Existing Industries*

Existing industries in Group A are entitled to—

1. total exemption from import duties on machinery and equipment for six years,
2. total exemption from income tax for two years, and
3. total exemption from assets and capital taxes for four years.

### **Group B — Fiscal Incentives**

#### *New Industries*

New industries in Group B are entitled to—

1. total exemption from duties on the importation of machinery and equipment for eight years,
2. exemption from duties on the importation of raw and semi-processed materials and packages as follows: 80 percent for the first three years, and 50 percent for the next two years,
3. exemption from duties on fuel as defined under "Group A—New Industries," above, as follows: 100 percent for the first three years, and 50 percent for the next two years,
4. total exemption from income tax for six years, and
5. total exemption from assets and capital taxes for six years.

#### *Existing Industries*

Existing industries in Group B are entitled to total exemption from import duties on machinery and equipment for five years.

### **Group C — Fiscal Incentives**

All industries in Group C are entitled to total exemption from import duties on machinery and equipment for three years.

### **Industrial Parks**

The industrial parks offer infrastructure and facilities for companies dedicated to the manufacture and production of merchandise destined for local, regional, and international markets.

Companies established in the industrial parks, located in special development zones so declared by the Ministry of Economy, Industry and Commerce, enjoy the following additional incentives and benefits:

1. Partial exemption from municipal taxes for five years. The exemption follows a decreasing scale in each year of 80 percent, 60 percent, 45 percent, 30 percent, and 15 percent, subject to prior approval by the respective municipality.
2. Preferential loans through the National Banking System to aid in the financing of capital assets, or for working capital.

3. A 50 percent reduction in rent during the first year and 25 percent during the second year, off the lease contract for the use of land and buildings belonging to the government, or to the corporation within the industrial parks.

To obtain the last two incentives, the capital of the company applying must be a minimum of 51 percent Costa Rican origin, and its products must have a minimum value added of 35 percent.

### Tourism Incentives

The following exemptions are granted to tourist-related activities—

| Duties and Tax Exemptions On:               | New Hotels (Percent) | Existing Hotels (Percent) |
|---------------------------------------------|----------------------|---------------------------|
| Imports of construction material            | 99                   | 90                        |
| Imports of machinery tools, and equipment   | 99                   | 90                        |
| Property taxes (for 5 years)                | 100                  | —                         |
| Municipal taxes, as approved                | 100                  | —                         |
| Income tax on reinvestment for improvements | 100                  | 90                        |
| Imports of linen and other hotel goods      | 99                   | 90                        |

### Reforestation Incentives

The following tax incentives for reforestation were approved by the government in 1979—

- The maximum no-proof deductible is 16,000 colones per hectare for a three- to five-year term.
- Tax-deductible items include, primarily, direct investment.
- Nondeductible items include investment in land, financing costs, and operating and general expenses.

## Export Incentives

### Export Promotion Law

The government of Costa Rica has made an effort in the last 10 years to encourage nontraditional exports. Benefits can be granted under the Export Promotion Law for up to 10 years, and five-year extensions may be granted at the option of the Ministry of Economy, Industry and Commerce. Benefits include tax credit certificates, export increment certificates, and exemptions or refunds of duties and taxes on raw and other materials used in the manufacture of products for export, as well as machinery, etc.



To qualify for a tax credit certificate (CAT), the product must be nontraditional and the destination must be outside the Central American Common Market or a country with which Costa Rica does not have bilateral trade treaties. Only Costa Ricans and foreigners with five or more years permanent residence in the country, or firms with at least 60 percent Costa Rican capital, may apply for benefits. These limitations may be waived with the approval of the Ministry of Finance. Evidence must be shown through economic studies that benefits are essential in order to compete in international markets.

Tax credit certificates are issued by the Central Bank in amounts up to 15 percent of the FOB value of the export sale. CATs are bearer documents, freely negotiable, exempt from any taxes, and bear no interest. The holder can use them to settle any tax liability with the government. CATs are effective for one year, beginning one year after the date of issue.

Export investment certificates (CIEX) are also bearer documents issued by the Central Bank following recommendations by the Export and Investment Promotion Center. They are issued in amounts up to 10 percent of the increase in exports compared with the previous year. Unlike CATs, CIEX are immediately negotiable. The Central Bank determines annually the total amount to be granted under CIEX benefits, depending upon the availability of funds. To obtain CIEX benefits, an applicant must also be receiving CAT benefits.

### **Drawback Industries**

These are labor-intensive companies operating in Costa Rica that import semi-finished products to carry out locally the final stages of production. Once completed, the products must be re-exported, either to the original market or to other areas outside the Central American Common Market.

Companies receive the benefit of importing raw materials, unfinished products, components, and packing material for one year. Machinery and equipment can be imported duty free for a 10-year period, which may be extended.

In early 1972, there were only eight drawback companies in Costa Rica. By 1980, the number increased to 43, employing nearly 10,000 workers. The majority of these firms are involved in garment manufacturing, and other products include electric and electronic components.

### **Export Contract**

The export contract was created as an instrument to coordinate the benefits that diverse laws grant to export companies, such as: special port rates; simplification of procedures and formalities; bank credits with preferential interest rates; tax reductions; accelerated depreciation; tax certificates (CATs) based on products and markets; and export investment certificates (CIEX).

The following benefits will be granted during a period of 12 years starting with income tax fiscal period no. 84 to those companies that export non-traditional products to countries outside the Central American area and Panama:

1. A 100 percent deduction of the period's net profit solely obtained from the exports produced by the declarant. In the case of new companies, this incentive is granted starting from the time the first exportation takes place.
2. A 50 percent deduction of the amount paid through a commodity exchange for the purchase of nominative shares of corporations domiciled in the country and that have export programs of 100 percent of their production or are exporting that total. No more than 25 percent of the net income in the period in which the purchase is effected may be deducted for this concept, nor may the acquisitions of shares be made reciprocally or in a chain with the purpose of evading payment of the tax. The shares acquired must remain in the trusteeship in a State bank or in commodity exchange for a term of three

years without the possibility of having the use of more than the amount the dividends produce.

3. Full import tax exemption is granted on raw materials, goods, and packaging not produced in the country which form a component part of non-traditional products exported to third markets, including the tax stipulated in the Economic Stabilization Protocol (San José Protocol), and temporary surcharges on imports.

In order to enjoy the benefits granted in the article, the company must provide: a certification issued by the Costa Rican Central Bank for the amount of the exports; a certification issued by the National Investment Council regarding the approval of its export programs; and proof that it has complied with the controls and norms established in the regulations of this law.

## Export Processing Zones

There are now two export processing zones operating in Costa Rica, one in Moin, near the main port of the Caribbean (Limón), and one on the Pacific (Puntarenas). These zones are regulated, non-residential areas where companies that handle, process, or manufacture goods to be exported from Costa Rica receive benefits of a fully installed infrastructure combined with significant fiscal and tax incentives. Under recently approved legislation, the benefits of export processing zones will be extended to already established industrial parks in the central valley and other places throughout the country.

These benefits include total exemption from all customs duties and related taxes on imports of raw materials, manufactured or semi-manufactured products, components, parts, packing materials, etc. Machinery and equipment used in productive processes are also exempted from import duties. Also, companies operating from these zones enjoy total exemption from all duties and export taxes, as well as from taxes on capital and fixed assets for a period of 10 years. Finally, during the first six years of operation, companies in the export processing zones are totally exempt from all income taxes. This exemption decreases to 50 percent during the next four years of operation. Companies established in the export processing zones enjoy total exemption from all taxes or duties on remittances abroad. For duly registered investment, there is free remission in foreign currency of the funds from the sale of products.

## Labor

### Availability

The distribution of the labor force is as follows:

|               | Percent |
|---------------|---------|
| Agriculture   | 34.4    |
| Mining        | 0.3     |
| Manufacturing | 15.9    |
| Construction  | 6.6     |
| Other         | 42.8    |

### Minimum Wage

Salaries for the lowest wage earners in both the agricultural and industrial sectors now average \$6.20 a day including all fringe benefits.

## **Work Permits**

The Labor Code limits the number of foreign employees in a company. The total must be 90 percent Costa Rican. This amount can vary by as much as 10 percent if approved by the Ministry of Labor.

## **Labor Unions**

Workers are free to organize, but labor unions are not very prevalent, especially in the industrial sector. The majority of unionized workers are in the public sector and plantation agriculture.

## **Employee Termination**

After three months' employment, an employee has the right to receive notice if employment will be terminated. An employee also has a responsibility to give notice; if he does not, salary may be deducted from his settlement payment. A severance payment system provides that if employment is terminated without just cause, the employee can collect one month's salary for every year of employment, up to a maximum of eight months.

## **Working Hours**

Working hours are 8 hours per day and 48 hours per week for day shifts, and 6 per day and 36 per week for night shifts. Overtime is payable at time-and-a-half for day and night shifts alike, and at double-time for work on Sundays and legal holidays.

## **Vacation and Holidays**

All workers are entitled to 2 weeks' vacation with pay after 50 weeks' employment. A Christmas bonus equal to one month's salary is also payable by companies with an annual net income over \$300,000, and half a month's salary is payable by companies with less than \$300,000. There are six paid legal holidays per year: January 1, Holy Thursday, Holy Friday, May 1, September 15, and December 25. There are other national and religious holidays, but the employer has no obligation to pay hourly workers who take these holidays.

## **Sick Leave**

The employer must pay at least 50 percent of salary for the first four days an employee is on sick leave. From the fifth day, the Social Security Administration (CCSS) pays 50 percent, provided the employee has a medical certificate from a CCSS doctor. The employer is not required to pay salary after the fourth day, except for maternity leave when the obligation is half the salary for two months (CCSS pays the other half).

## **Training Grants**

The Labor Code provides for an apprenticeship period of three months at a salary equivalent to 50 percent of the minimum wage. Individual labor contracts are required for industrial employment but not agricultural. The pay period frequency should not exceed two weeks for manual workers.

**Vocational Training**

Technical and vocational training is available at the Instituto Tecnológico de Cartago and at more than 20 private technical schools. The Instituto Nacional de Aprendizaje (INA), a government-sponsored vocational training center, specializes in the preparation of skilled workers and is able to schedule programs to fit a company's needs.

**Payroll Taxes**

The following are mandatory plus reserve items affected by payroll taxes and other liabilities:

|                                            | Paid by<br>Employer<br>(Percent) | Employee<br>Deductions<br>(Percent) |
|--------------------------------------------|----------------------------------|-------------------------------------|
| Mandatory                                  |                                  |                                     |
| Social Security:                           |                                  |                                     |
| 1. Health and maternity benefits           | 9.25                             | 5.5                                 |
| 2. Disability, old age, and death benefits | 4.75                             | 2.5                                 |
| Family distribution plan                   | 5.00                             |                                     |
| Workmen's Savings Bank                     | 0.50                             | 1.0                                 |
| INA-vocational school tax                  | 1.00                             |                                     |
| IMAS-social assistance tax*                | 0.50                             |                                     |
| Total payroll taxes:                       | 21.0                             |                                     |
| Provisions for reserve                     |                                  |                                     |
| Vacation                                   | 4.17                             |                                     |
| Christmas bonus                            | 8.33                             |                                     |
| Holidays                                   | 2.08                             |                                     |
|                                            | 33.08                            |                                     |
| Other reserve items                        |                                  |                                     |
| Severance and termination (optional)       | 8.33                             |                                     |
| Accident insurance (if applicable)         | 2.75                             |                                     |
| Total                                      | 46.66                            | 9.0                                 |

\*Payable by companies with more than five employees.

**Taxes**

**Personal Income Tax**

The personal income tax schedule is provided:

| Taxable Income<br>(U.S. Dollars) |            | Marginal<br>Tax Rate<br>(Percent) |
|----------------------------------|------------|-----------------------------------|
| 0.01                             | 5,000.00   | 5                                 |
| 5,000.01                         | 10,000.00  | 7                                 |
| 10,000.01                        | 20,000.00  | 9                                 |
| 20,000.01                        | 30,000.00  | 12                                |
| 30,000.01                        | 45,000.00  | 16                                |
| 45,000.01                        | 75,000.00  | 20                                |
| 75,000.01                        | 110,000.00 | 24                                |
| 110,000.01                       | 150,000.00 | 28                                |
| 150,000.01                       | 200,000.00 | 32                                |
| 200,000.01                       | 250,000.00 | 38                                |
| 250,000.01                       | 350,000.00 | 44                                |
| 350,000.01                       | and over   | 50                                |

### Corporate Income Tax

The corporate income tax schedule is provided below:

| Taxable Income<br>(U.S. Dollars) |              | Marginal<br>Tax Rate<br>(Percent) |
|----------------------------------|--------------|-----------------------------------|
| 0.01                             | 50,000.00    | 5                                 |
| 50,000.01                        | 180,000.00   | 20                                |
| 180,000.01                       | 1,000,000.00 | 35                                |
| 1,000,000.01                     | and over     | 40                                |

### Deductible Expenses

The following are deductible expenses for corporations:

1. Expenses essential to produce the income
2. Interest payments
3. Losses not covered by insurance
4. Substantiated bad debts
5. Depreciation of assets at rates varying from 5 percent to 30 percent per annum, depending upon the type of asset
6. Reasonable amounts paid to employees as bonuses or profit sharing, subject to approval by the Tax Office
7. Remuneration to directors residing abroad and fees paid for formulas, royalties, the use of patents, etc.
8. Certain donations and contributions

In addition, companies holding industrial contracts receive an incentive in the form of deduction of reinvested profits.

**Nonresident Withholding Tax**

Nonresident individuals and companies both are subject to the withholding taxes below:

| Type                                              | Tax Rate<br>(Percent) |
|---------------------------------------------------|-----------------------|
| Dividends                                         | 15                    |
| Royalties                                         | 20                    |
| Technical service fees and<br>directors' salaries | 30                    |
| Interest on loans                                 | 10                    |
| Interest on other items                           | 30                    |
| Salaries, commissions                             | 10                    |

**Capital Gains Tax**

Capital gains are not taxed. However, if an individual sells property more than three times in a fiscal year, the law recognizes it as a regular occupation and any gain is subject to tax.

**Foreign Tax Relief**

No foreign tax relief is granted.

**Loss Carryovers**

Agricultural and industrial enterprises may carryover losses for five years at the rate of 20 percent per year.

**Export Taxes**

Export taxes are assessed at the rates shown below:

| Product                             | Tax Rate<br>(Percent) |
|-------------------------------------|-----------------------|
| Coffee:                             |                       |
| FOB price lower or equal<br>to \$95 | 4.0                   |
| FOB price between—<br>\$ 95—\$115   | 0.3 (FOB— 95)<br>4.0  |
| \$115—\$175                         | 10.0                  |
| \$175—\$191                         | 0.1 (FOB—115)<br>16.0 |
|                                     | 0.125 (FOB—175)       |

| Product                                                | Tax Rate<br>(Percent) |
|--------------------------------------------------------|-----------------------|
| FOB price higher<br>than \$191                         | 18.0                  |
| Cocoa in grain                                         | 1.0                   |
| Beef                                                   | 6.0                   |
| Sugar:                                                 |                       |
| FOB price lower than<br>\$11.50/46 kg                  | 1.0                   |
| FOB price between—<br>\$11.51/46 kg—\$16.50/46 kg      | 3.0                   |
| \$16.51/46 kg—\$21.50/46 kg                            | 5.0                   |
| \$21.51/46 kg—\$26.50/46 kg                            | 7.0                   |
| FOB price higher than<br>\$26.50/46 kg                 | 9.0                   |
| Merchandise to Central<br>America and Panama           | 6.0                   |
| Nontraditional merchandise to<br>the rest of the world | 6.0                   |
| Other traditional merchandise                          | 6.0                   |

## For More Information

Costa Rican Coalition of Development Initiatives  
P.O. Box 7170-1000  
San José, Costa Rica  
Phone: (506) 33-13-13

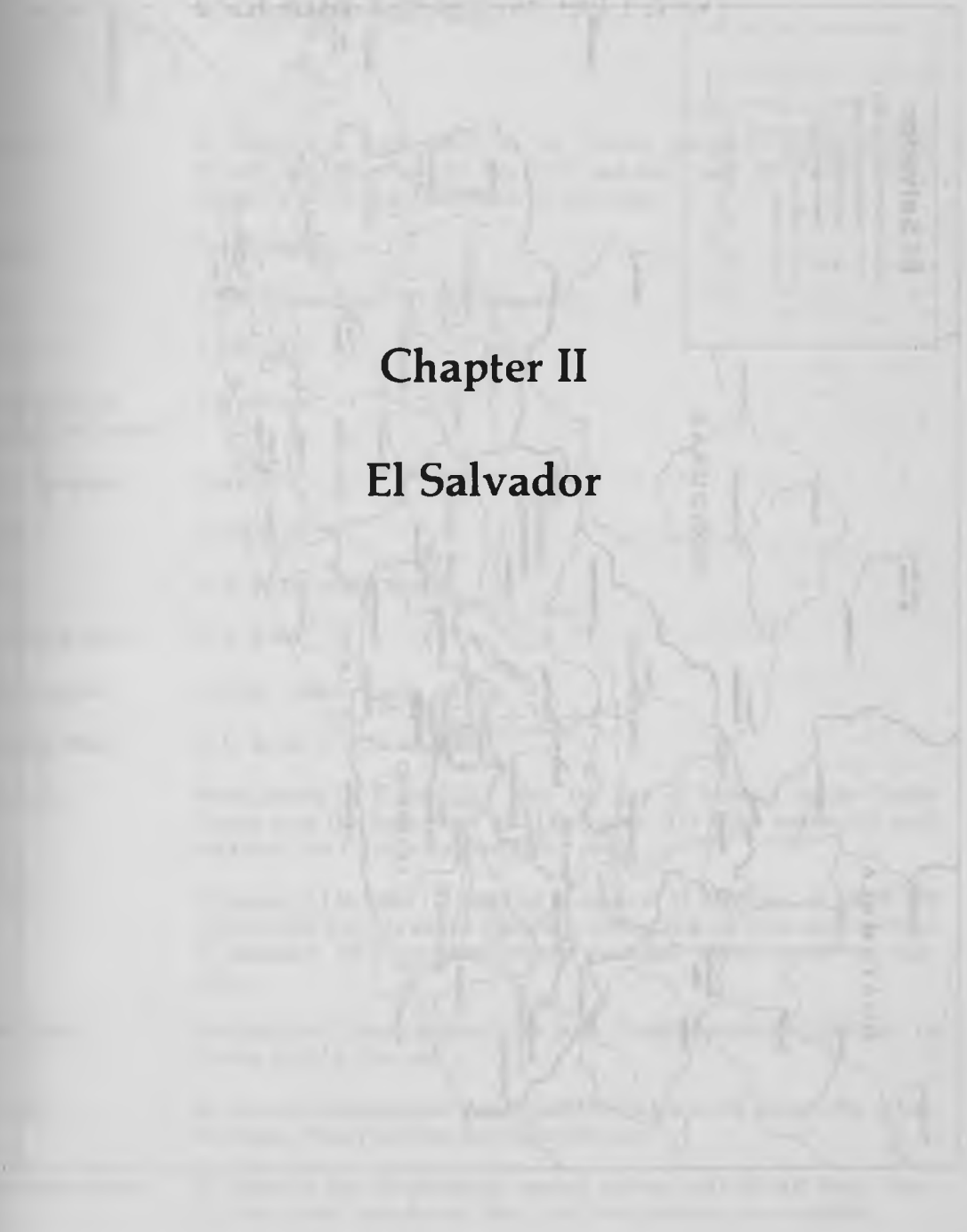
Investment and Exports Promotion Center  
P.O. Box 5418-1000  
San José, Costa Rica  
Phone: (506) 21-71-66  
Telex: 2385 CENPRO

Costa Rican Commercial Attaché  
200 S.E. First Street  
Suite 400  
Miami, Florida 33131  
Phone: (305) 358-1891

## Partial Listing of American Companies With Operations in Costa Rica

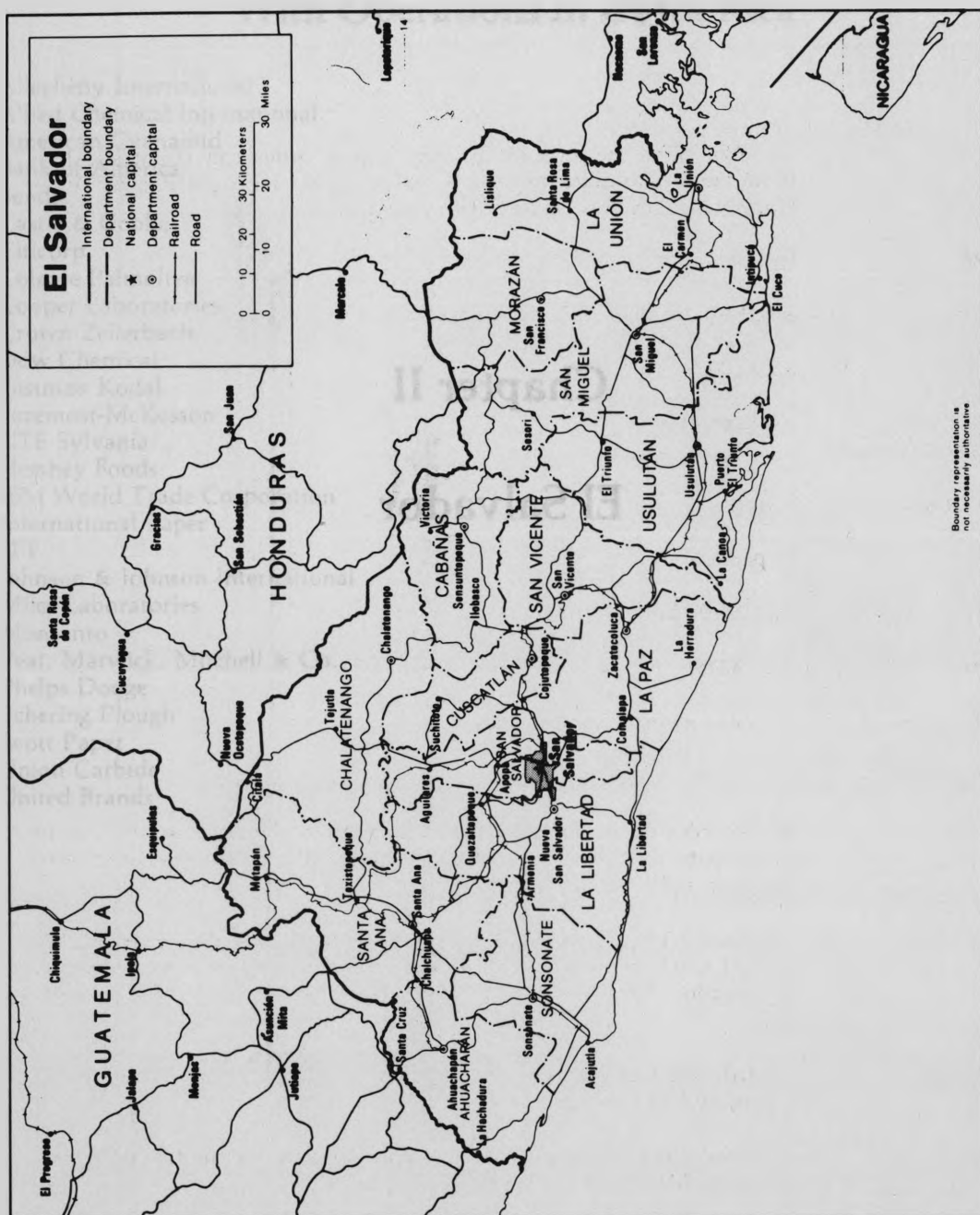
Allegheny International  
 Allied Chemical International  
 American Cyanamid  
 Bank of America  
 Bendix  
 Castle & Cooke  
 Citicorp  
 Colgate Palmolive  
 Cooper Laboratories  
 Crown Zellerbach  
 Dow Chemical  
 Eastman Kodak  
 Foremost-McKesson  
 GTE Sylvania  
 Hershey Foods  
 IBM World Trade Corporation  
 International Paper  
 ITT  
 Johnson & Johnson International  
 Miles Laboratories  
 Monsanto  
 Peat, Marwick, Mitchell & Co.  
 Phelps Dodge  
 Schering Plough  
 Scott Paper  
 Union Carbide  
 United Brands





## Chapter II

### El Salvador



Boundary representation is not necessarily authoritative

# El Salvador

|                                          |                                                                                                                                                                                                                       |
|------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Location:</b>                         | El Salvador is the smallest of the Central American countries. It is bordered by Honduras on the north and east, with the Pacific Ocean along the south and Guatemala on the west.                                    |
| <b>Capital:</b>                          | San Salvador                                                                                                                                                                                                          |
| <b>Area:</b>                             | 8,100 square miles (21,393 square km)                                                                                                                                                                                 |
| <b>Population:</b>                       | 5,100,000                                                                                                                                                                                                             |
| <b>Annual Rate of Population Growth:</b> | 3.0 percent                                                                                                                                                                                                           |
| <b>Major Language:</b>                   | Spanish                                                                                                                                                                                                               |
| <b>Literacy:</b>                         | 70 percent                                                                                                                                                                                                            |
| <b>GDP:</b>                              | U.S. \$4.07 billion (1983)                                                                                                                                                                                            |
| <b>Per Capita GDP:</b>                   | U.S. \$798                                                                                                                                                                                                            |
| <b>Main Exports:</b>                     | Coffee, cotton, sugar, shrimp                                                                                                                                                                                         |
| <b>Exchange Rate:</b>                    | U.S. \$1.00 = 2.50 colones                                                                                                                                                                                            |
| <b>Railroads:</b>                        | Ferrocarriles de El Salvador links the Bay of Fonseca at the Pacific Ocean with the main cities of El Salvador, 373 miles connecting with railroads—of Guatemala to Atlantic ports.                                   |
| <b>Roads:</b>                            | There are 7,146 miles (11,500 km) of roads in El Salvador, of which 870 miles (1,400 km) are paved highways, connecting all cities and towns of El Salvador. Most merchandise and passenger traffic moves by highway. |
| <b>Main Ports:</b>                       | Acajutla and Cutuco are the main ports. Smaller ports are Jiquilisco, La Unión, and La Libertad.                                                                                                                      |
| <b>Airports:</b>                         | El Salvador International Airport and Ilopango at the capital city of San Salvador. Major airlines service El Salvador.                                                                                               |
| <b>Communications:</b>                   | El Salvador has 42 telephonic central stations with 69,300 lines. International radio, telephones, telex, and cable services are available.                                                                           |

## History

Spanish colonization of El Salvador started with the expedition led by Pedro de Alvarado from Mexico to the area of Central America in 1524. The Central American area was then known as the Capitanía General de Guatemala, which, with Mexico, constituted the vice-royalty of New Spain. The Capitanía General de Guatemala was divided into six administrative dependencies—Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, and Chiapas—and each dependency was tied individually to the Spanish crown. After gaining independence from Spain in 1821, Chiapas became part of Mexico and the remaining were united with Mexico for the following two years. From 1824 to 1838, the countries were bound together as the United Provinces of Central America, but since 1838 each country has acted independently. Because of common interests and geographic location of the countries, there have been various attempts throughout the years to achieve political and economic integration. Since 1951 the approach has been through the United Nations Economic Commission for Latin America (CEPAL), which has fostered the development of the Central American Common Market (CACM).

## Political System

The Government of El Salvador is divided into three branches: the executive (headed by the President), the legislative, and the judiciary. The President appoints the members of his cabinet and his ambassadors abroad, while the chief justice of the Supreme Court and other justices are appointed by the legislative branch. The President is elected by direct popular vote for a period of five years and may not serve a consecutive second term. Elections in March 1984 will determine who will replace the provisional government.

## Economic Overview

Agriculture is the principal basis of El Salvador's economy, with 45 percent of its working population engaged in some form of agricultural activity. The main export crops and foreign exchange earners are coffee and cotton. Sugar is the fourth largest export behind shrimp.

Despite this heavy dependency on export-oriented agricultural products, over the past two decades El Salvador has developed a relatively dynamic manufacturing sector. This sector targets the countries belonging to the Central American Common Market as its primary market. For the most part, El Salvador's industry is based on the transformation and assembly of imported raw materials and components. The country's transportation and communications infrastructure is well-developed and efficient.

Fishing is also a traditional El Salvadoran industry, but its full potential has yet to be realized. Shrimp fishing is a rapidly developing industry. The United States is the major importer of El Salvador's seafoods.

### Foreign Investment Climate

El Salvador has historically recognized the important role of foreign capital in improving its economic development prospects, and the current government has reaffirmed this positive attitude toward foreign investment. The government's economic team views the growth of the industrial and commercial sectors as key ways to provide broad employment opportunities. Export-oriented industries are especially encouraged.

## **Repatriation of Profits and Capital**

Repatriation of profits and capital are regulated by the Foreign Exchange Control Law of May 30, 1971, which includes the regulations for application of the law. Foreign capital brought into the country must be exchanged and registered with the Exchange Control Department of the Central Reserve Bank of El Salvador. Specific regulations on remittances of foreign exchange were modified by Decree No. 37 of October 30, 1970, as follows:

- Free remittance of all net profits when the capital is invested in manufacturing enterprises and tourism.
- Free remittance of net profit up to 10 percent of the registered foreign capital per year, when the capital is invested in other activities not specified above, except when the Ministry of Economy authorizes a larger percentage.
- Free remittance of funds obtained from the total or partial liquidation of a business in proportion to the participation of foreign investment.
- Free remittance of both interest and principal on loans properly registered as foreign obligations.

## **Exchange Controls**

The Central Reserve Bank tightly controls the foreign exchange market. There presently are three exchange rates in El Salvador—

- The official exchange rate (U.S. \$1.00 = C2.50) is used for companies importing basic foodstuffs and essential medicines or raw materials for domestic use or as components in goods to be exported.
- The parallel market rate (U.S. \$1.00 = C4.00) is used for a number of imports and other transactions. These include travel and medical expenses and funds sent to students abroad. In 1982, banking officials legalized commercial bank trading in the parallel market.
- The black market (U.S. \$1.00 = C5.00).

## **Investment Incentives**

### **Central American Agreement on Fiscal Incentives for Industrial Development**

To qualify for these fiscal incentives, companies must effectively contribute to the economic development of Central America by the use of modern and efficient processes in the production (from raw materials and partly processed products) of articles used to satisfy the basic necessities of the people, or that will replace importations thereof, or that may increase exports.

Enterprises are classified as follows:

Group A — Enterprises that—

1. produce industrial raw materials or capital goods, or
2. produce articles for consumption, packages, or semi-finished products of which at least 50 percent in value of the raw materials is produced in Central America.

**Group B — Enterprises that—**

1. produce articles for consumption, packages, or semi-finished products, and
2. contribute favorably and considerably to the balance of payments and to the value of industrial production, and
3. use, entirely or in a high proportion in value, raw materials, packages, and semi-finished products from Central America.

**Group C — Enterprises that—**

1. are not included in Groups A and B, and
2. merely assemble, pack, bottle, cut, or dilute other products, and
3. are listed in Annex 1 of the agreement (producers of toilet articles and deodorizers).

**Group A — Fiscal Incentives**

*New Industries*

In El Salvador, new industries in Group A are entitled to the following benefits—

1. total exemption from import duties on machinery and equipment for 10 years,
2. exemption from import duties on raw and semi-finished material and packages, as follows: 80 percent for the first five years, and 50 percent for the next five years,
3. total exemption for five years from import duties on fuel, except gasoline, strictly required for industrial processes. This does not include fuel for transport or for the generation of energy where such is available from public sources, provided that suitable and adequate supplies cannot be obtained from Central American sources,
4. total exemption from income tax for eight years, and
5. total exemption from assets and capital taxes for 10 years.

*Existing Industries*

Existing industries in Group A are entitled to—

1. total exemption from import duties on machinery and equipment for six years,
2. total exemption from income tax for two years, and
3. total exemption from assets and capital taxes for four years.

**Group B — Fiscal Incentives**

*New Industries*

New industries in Group B are entitled to—

1. total exemption from duties on the importation of machinery and equipment for eight years,
2. exemption from duties on the importation of raw and semi-processed materials and packages as follows: 80 percent for the first three years, and 50 percent for the next two years,
3. exemption from duties on fuel as defined under "Group A—New Industries" above, as follows: 100 percent for the first three years, and 50 percent for the next two years,
4. total exemption from income tax for six years, and
5. total exemption from taxes on assets and capital for six years.

### *Existing Industries*

Existing industries in Group B are entitled to total exemption from import duties on machinery and equipment for five years.

### **Group C — Fiscal Incentives**

All industries in Group C are entitled to total exemption from import duties on machinery and equipment for three years.

## **Special Development Laws**

### **Mining Code**

Mining companies currently established in the country that were previously approved by the National Assembly are entitled to all concessions already granted. Firms that establish in the future will be exempt of all customs duties, taxes, and related duties for the period of concession. The following incentives are granted:

1. for the import of machinery, goods, and materials used only and exclusively for labor and maintenance,
2. for the import of machinery, goods, substances, and any other materials that may be necessary for the electrical installation having as a major objective the improvement of production,
3. no fiscal duties or related taxes for five years, counting on the first shipment of mine products and the payment of all taxes, and
4. for the concession period, exemption from all taxes, fiscal duties, or any related taxes on the mining profit or capital.

These incentives also apply to foreign citizens and corporations.

### **Poultry Development Law**

The poultry industry is granted a variety of benefits under the Poultry Development Law.

### **General Law on Fishing Activities**

Companies in the fishing industry are granted the following benefits for a period of five years:

1. total exemption from all consular duties and import taxes on raw materials for the installment and enlargement of all infrastructure for fishing activities,
2. total exemption from all customs duties related to the following imports: vessels, machinery, equipment, tools, spare parts and accessories, fishing equipment, and lubricants and fuel for the exclusive use of the vessels, and
3. total exemption from all customs duties on the import of equipment, tools, spare parts, and accessories necessary for the marketing of all fishing products.

## **Tourism Development Law**

This law was created to promote investment in tourism-related activities. Its benefits include:

1. exemption from import duties on machinery, equipment, tools, spare parts, accessories, furnishings, and materials necessary for the construction and maintenance of the establishment,
2. duty-free importation of vehicles strictly necessary for tourism services,
3. total exemption from fiscal and municipal taxes on capital during the first five years after the start-up of the operation, and a 50 percent reduction for the five following years, and
4. exemption from or reduction of income tax payments during the first 10 years of operations.

## **Other Development Laws**

There are also special development laws for cement production and the entertainment industry, including radio, television, theaters, and cinemas.

## **Export Incentives**

### **Export Incentive Law**

Under the current terms, which are in the process of revision, three types of enterprises qualify for concessions:

- Net export industries which are located in a free zone and export 80 percent or more of their production to markets outside the Central American Common Market (CACM) may import machinery, parts, and accessories duty-free for the life of the project and may also be eligible for a ten-year exemption from income taxes.
- Mixed companies which are 26 percent or more locally owned, located outside a free zone, and export to CACM and third markets are exempt from duties on imported machinery and equipment and income taxes for a ten-year period.
- Commercial export companies—nonmanufacturing companies which export Salvadoran or other CACM products, regardless of location—receive import duty exemption for 5 years and income tax exemption for 4 years (which is renewable).

In addition, companies that do not fall into any of these categories but which export at least 15 percent of their output to third countries may receive certificates equal to 10 percent of the value of exports. These certificates can be used to pay direct or indirect taxes.

### **Free Zone**

Companies located in the free zone at San Bartolo are eligible for duty-free entry of raw materials, packaging, and fuels, provided that these goods do not remain in the free zone for more than two years. Net export industries receive this concession for the life of the project; mixed companies, for 10 years.



# Labor

## Availability

The Salvadoran labor force is approximately 1.5 million, distributed as follows:

|               | Percent |
|---------------|---------|
| Agriculture   | 52.4    |
| Mining        | 0.1     |
| Manufacturing | 10.8    |
| Construction  | 3.9     |
| Other         | 32.8    |

## Minimum Wage

The average minimum wage is \$4.40 per day.

## Labor Unions and Negotiations

Collective bargaining is the norm in El Salvador. A law in effect since 1975 requires that all labor contracts be reviewed annually.

Unions are allowed under Salvadoran law, but the employer may choose to hire nonunion labor. In 1980, there were 124 registered unions with a total membership of 71,000. Labor disputes are relatively rare.

## Working Hours and Fringe Benefits

The normal workweek is 44 hours, 8 hours each weekday and 4 hours on Saturday. An employee may not work more than 12 hours in any single day. Fringe benefits include paid vacations, holidays, social security, and overtime.

Employees are entitled to 15 days paid vacation per year after one year of service, and there are 8 legal holidays per year. A Christmas bonus equivalent to 15 days is payable to workers after three years of service. In case of unjustified dismissal of a worker, there is a severance compensation equivalent to 30 days pay for each year worked. (Daily salary cannot exceed U.S. \$24 for purpose of the computation.)

The social security system covers sickness, accidents, including work accidents, occupational disease, maternity, disability, old age, and death benefits. Employees contribute 3.50 percent, employers 8.25 percent, and the government 2.25 percent of a worker's salary up to U.S. \$280 per month.

### Work Permits

The government requires that a company's workforce be 90 percent Salvadoran. Work permits are necessary for all foreign employees.

## Taxes

### Personal Income Tax

|  | Taxable Income<br>( U.S. Dollars ) | Marginal<br>Tax Rate<br>(Percent) |
|--|------------------------------------|-----------------------------------|
|  | 0.00                               | 2.85                              |
|  | 2800.01                            | 2.95                              |
|  | 3200.01                            | 3.80                              |
|  | 3600.01                            | 4.70                              |
|  | 4000.01                            | 5.60                              |
|  | 4400.01                            | 6.50                              |
|  | 4800.01                            | 7.40                              |
|  | 5200.01                            | 8.30                              |
|  | 5600.01                            | 9.20                              |
|  | 6000.01                            | 10.10                             |
|  | 6400.01                            | 11.00                             |
|  | 6800.01                            | 11.10                             |
|  | 7200.01                            | 12.00                             |
|  | 8000.01                            | 14.00                             |
|  | 8800.01                            | 15.00                             |
|  | 10400.01                           | 16.00                             |
|  | 12000.01                           | 17.00                             |
|  | 14400.01                           | 19.00                             |
|  | 16800.01                           | 21.00                             |
|  | 19200.01                           | 23.00                             |
|  | 21600.01                           | 25.00                             |
|  | 24800.01                           | 27.00                             |
|  | 28000.01                           | 30.00                             |
|  | 32000.01                           | 33.00                             |
|  | 38000.01                           | 36.00                             |
|  | 44000.01                           | 39.00                             |
|  | 50000.01                           | 43.00                             |
|  | 60000.01                           | 48.00                             |
|  | 80000.01                           | 53.00                             |
|  | 100000.01                          | 60.00                             |
|  | and over                           |                                   |

**Corporate Income Tax**

| Taxable Income<br>(U.S. Dollars) |           | Marginal<br>Tax Rate<br>(Percent) |
|----------------------------------|-----------|-----------------------------------|
| 0.00                             | 4000.00   | 2.5                               |
| 4000.01                          | 10000.00  | 5.0                               |
| 10000.01                         | 40000.00  | 10.0                              |
| 40000.01                         | 200000.00 | 20.0                              |
| 200000.01                        | and over  | 30.0                              |

There is an additional tax on after-tax earnings that varies from 4 to 13 percent, depending on whether the earnings are capitalized or maintained in reserves.

**Nonresident Corporations and Individuals**

The rate of tax for income of nonresidents is 28 percent; for dividends, 38 percent. For nonresident business corporations, the tax rate is 22 percent. For branches of foreign corporations, royalties, and technical service fees, there is a withholding tax of 38 percent on income.

**Capital Tax**

There is a tax on capital for each stockholder, partner, or proprietor proportionate to participation in the company.

| Capital at End<br>of Year<br>(U.S. Dollars) |           | Marginal<br>Tax Rate<br>(Percent) |
|---------------------------------------------|-----------|-----------------------------------|
| 0.00                                        | 20000.00  | 0.10                              |
| 20000.01                                    | 40000.00  | 0.15                              |
| 40000.01                                    | 120000.00 | 0.35                              |
| 120000.01                                   | 240000.00 | 0.60                              |
| 240000.00                                   | 400000.00 | 1.00                              |
| 400000.01                                   | 800000.00 | 1.25                              |
| 800000.01                                   | and over  | 1.40                              |

**Stamp Tax**

The stamp tax rate is 1 percent for contracts, personal services, and most commercial transactions.

**Franchise Tax**

There is an annual franchise tax on businesses with capital in excess of \$400.

**For More Information**

Foreign Trade Ministry  
Investment Promotion Division  
Paseo General Escalon 4122  
San Salvador, El Salvador  
Phone: (503) 24-3000  
Telex: ISCE 20-269

El Salvador Trading Bureau  
4211 South West 5th Street  
Miami, Florida 33134  
Phone: (305) 442-0210

## **Partial Listing of American Companies With Operations in El Salvador**

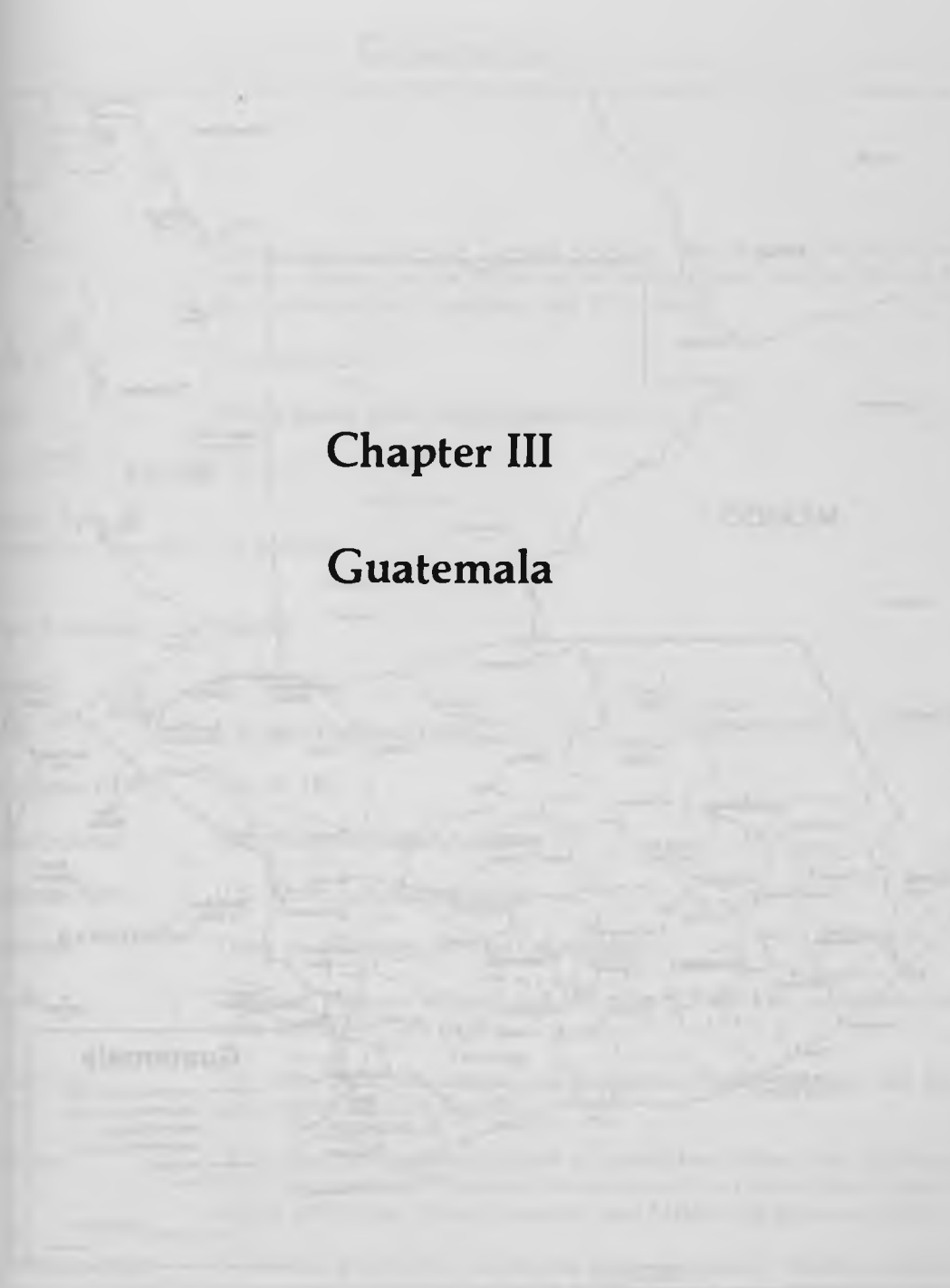
Abbott Laboratories  
ALCOA  
Baldwin United  
Bank of America  
Bristol Myers  
Cargill  
Coca-Cola  
Crown Zellerbach  
Eaton  
Exxon  
GTE Sylvania  
ITT  
Kimberly-Clark  
Maidenform  
3M  
Nabisco Brands  
National Cash Register  
Peat, Marwick, Mitchell & Co.  
Rohm & Haas  
Sears, Roebuck & Company  
Sherwin-Williams  
Singer  
Sterling Drug  
Texaco  
Texas Instruments  
Xerox

# Report 2 of 2 on the Value of the

| Item     | Value    | Unit     |
|----------|----------|----------|
| 1.0000   | 1.0000   | 1.0000   |
| 2.0000   | 2.0000   | 2.0000   |
| 3.0000   | 3.0000   | 3.0000   |
| 4.0000   | 4.0000   | 4.0000   |
| 5.0000   | 5.0000   | 5.0000   |
| 6.0000   | 6.0000   | 6.0000   |
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| 8.0000   | 8.0000   | 8.0000   |
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| 100.0000 | 100.0000 | 100.0000 |

## Chapter III

## Guatemala







# Guatemala

|                                          |                                                                                                                                                                                                                        |
|------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Location:</b>                         | Guatemala is located in Central America, bounded on the north and west by Mexico, on the south by the Pacific Ocean, and on the east by the Caribbean Sea, Honduras, and El Salvador.                                  |
| <b>Capital:</b>                          | Guatemala City                                                                                                                                                                                                         |
| <b>Area:</b>                             | 67,664 square miles (108,890 square km)                                                                                                                                                                                |
| <b>Population:</b>                       | 7,411,000                                                                                                                                                                                                              |
| <b>Annual Rate of Population Growth:</b> | 2.9 percent                                                                                                                                                                                                            |
| <b>Major Language:</b>                   | Spanish                                                                                                                                                                                                                |
| <b>Literacy:</b>                         | 47 percent                                                                                                                                                                                                             |
| <b>GDP:</b>                              | U.S. \$8.74 billion (1983)                                                                                                                                                                                             |
| <b>Per Capita GDP:</b>                   | U.S. \$1,181                                                                                                                                                                                                           |
| <b>Main Exports:</b>                     | Coffee, cotton, sugar, bananas                                                                                                                                                                                         |
| <b>Exchange Rate:</b>                    | U.S. \$1.00 = 1.00 quetzal                                                                                                                                                                                             |
| <b>Railroads:</b>                        | There are 484 miles (779 km) of railroads.                                                                                                                                                                             |
| <b>Roads:</b>                            | The basic highway network is 8,357 miles (13,449 km), of which 1,627 miles (2,619 km) are paved.                                                                                                                       |
| <b>Main Ports:</b>                       | The main ports are located at Champerico, Puerto Barrios, San José, and Santo Tomas de Castilla.                                                                                                                       |
| <b>Airports:</b>                         | La Aurora International Airport is located four miles from Guatemala City. There are also airports in the interior of the country which link the capital with Tikal, Flores, Uaxactun, and Melchor de Mencos in Peten. |
| <b>Communications:</b>                   | Guatemala has 83,735 telephones in an automatic telephone system. International telephone and telex services are also available.                                                                                       |

## History

Guatemala City was founded in 1776 as the capital. Independence from Spain on September 15, 1821, was followed by a turbulent history of dictatorships.

Gen. Jorge Ubico's dictatorship was overthrown in 1944 by the October Revolutionaries and Guatemala began modernizing the society. Social reforms began under President Juan Arevalo (1945-1950), and were continued by his successor, Jacobo Arbenz. Col. Arbenz permitted the Communist Party to gain legal status in 1952. When a group of anti-communist Guatemalan exiles, led by Col. Carlos Castillo Armas, invaded the country from Honduras in 1954, Arbenz went into exile and Castillo took over the government.

The assassination of President Castillo in 1957 precipitated a period of confusion from which Gen. Miguel Ydigoras Fuentes emerged as president in 1958. In early 1963, a military coup overthrew the Ydigoras government. The new military regime restored order in what had become a chaotic public administration.

A constituent assembly drafted a new constitution, presented in September 1965. The Revolutionary Party won the presidency by a plurality in the 1966 elections and a majority of seats in the Congress. President Julio Cesar Mendez Montenegro took office on July 1, 1966.

In 1970, Gen. Carlos Arana, the new president, declared a state of siege and an intense anti-terrorist campaign forced terrorist groups to reduce their activity markedly.

In 1974, elections were won by Gen. Kjell Laugerud Garcia. During his administration, Guatemala enjoyed less political violence and greater freedom of expression by the opposition.

Gen. Fernando Romeo Lucas Garcia was inaugurated on July 1, 1978. The last two years of the Lucas government were characterized by repression against cooperative, educational, and union leaders.

In February 1982, elections in Guatemala were universally attacked as fraudulent. On March 23, 1982, the Young Officers Movement overthrew the government. Gen. José Efraín Ríos Montt was asked to lead a new governing junta.

On August 8, 1983, Ríos Montt's government was overthrown and Oscar Humberto Mejía was named Chief of State.

## Political System

At this time there is no president. Oscar Humberto Mejía was named Chief of State after the 1983 coup. In July 1984, elections for a constituent assembly will be held and offices will be taken on September 15, 1984. In 1985, elections will be held for president.

## Economic Overview

The economy of Guatemala is largely in private hands. Public enterprises include the postal service, telephone system, electric power, national airline, railroad, one (non-monopoly) shipping company, several specialized financial institutions, and the major port authorities. Manufacturing, agriculture, commerce, and banking, as well as insurance, construction, road, sea and non-scheduled air transport, and other services are almost entirely private. The government is considering possible sale of certain public enterprises.

Guatemala continues to be primarily an agricultural country. In 1981, agriculture constituted about 25 percent of its GDP, employed 54 percent of the labor force, and represented over 58 percent of its principal exports. Arable land is more fertile in the coastal areas and on the lower slopes of the mountains, where the volcanic soil is suitable for the production of coffee, the

country's principal crop. Sugarcane, corn, and cotton are grown on the Pacific coastal areas; in the highlands, wheat, corn, beans, and a variety of vegetables, fruits, nuts, and flowers are produced. Cattle raising and rubber production are expanding on the coastal plains and in the piedmont areas. Cardamon is an important crop of the piedmont.

Guatemala's industry is still predominantly agro-based. The government's efforts to promote diversification through various incentives have led to the production of electrical and electronic equipment, paper, paper products, transport materials, wood and cork products, glassware, rubber products, beverages, and other manufactures.

Guatemala is endowed with mineral deposits of nickel, tin, zinc, silver, gold, copper, lead, mica, sulphur, mercury, chrome, iron, marble, calcium carbonate, and manganese. Oil exploration in northwestern Guatemala has resulted in some commercial discoveries, and new deposits are being evaluated. Guatemala may have the potential to become self-sufficient in petroleum during the next 8 to 10 years.

### **Foreign Investment Climate**

The Government of Guatemala welcomes private foreign investment on a par with domestic investment and has traditionally done so. In general, foreign investment receives the same treatment and shares the same obligations as local investment. There is no special legislation for foreign investment. Foreign companies are subject to the same fiscal legislation as local companies, and in principle are authorized to make disbursements abroad to amortize loans, pay interest, etc. The government of Guatemala gives priority to investment in the following areas: agriculture, agro-industrial activities oriented toward export trade, and industrial activities, preferably manufacturing operations requiring high technology.

### **Exchange Controls**

Controls are provided for in the Emergency Section of the Monetary Law (Decree 203), published on December 17, 1945, and in effect from October 13, 1962, until January 15, 1973. The controls were reintroduced as a temporary measure on April 23, 1980, with the principal purpose of controlling the export of capital from Guatemala.

Under Decree Law 5-83 (June 29, 1983), importers who have not requested foreign exchange from the Bank of Guatemala to pay their import bills are required to convert local currency into dollars at an exchange rate determined by the Finance Ministry. The rate for 1983 was U.S. \$1.00 = Q1.20. Monetary Council Resolution #9994 (July 28, 1983) imposes a five-year moratorium on all commercial obligations to foreign creditors due as of July 31, 1983. Foreign suppliers have the option either of accepting five-year stabilization bonds issued by the Bank of Guatemala as payment or making an alternative arrangement with their clients in Guatemala.

### **Repatriation of Profits and Capital**

Provision is also made under the Emergency Section of Decree 203 to limit the rate of remittance of profits, dividends, and amortization of foreign capital invested in Guatemala to 15 percent per annum for five years in every ten-year period and 5 percent for the remaining years. These percentages may be changed by the Monetary Council, which, at present, permits dividends and profit participations to be remitted in full.

# Investment Incentives

## Central American Agreement on Fiscal Incentives for Industrial Development

To qualify for these fiscal incentives, companies must effectively contribute to the economic development of Central America by the use of modern and efficient processes in the production (from raw materials and partly processed products) of articles used to satisfy the basic necessities of the people, or that will replace importations thereof, or that may increase exports.

Enterprises are classified as follows:

### Group A — Enterprises that—

1. produce industrial raw materials or capital goods, or
2. produce articles for consumption, packages, or semi-finished products of which at least 50 percent in value of the raw materials is produced in Central America.

### Group B — Enterprises that—

1. produce articles for consumption, packages, or semi-finished products, and
2. contribute favorably and considerably to the balance of payments and to the value of industrial production, and
3. use, entirely or in a high proportion in value, raw materials, packages, and semi-finished products from Central America.

### Group C — Enterprises that—

1. are not included in Groups A and B, and
2. merely assemble, pack, bottle, cut, or dilute other products, and
3. are listed in Annex 1 of the agreement (producers of toilet articles and deodorizers).

## Group A — Fiscal Incentives

### *New Industries*

In Guatemala, new industries in Group A are entitled to the following benefits—

1. total exemption from import duties on machinery and equipment for 10 years,
2. exemption from import duties on raw and semi-finished material and packages, as follows: 80 percent for the first five years, and 50 percent for the next five years,
3. total exemption for five years from import duties on fuel, except gasoline, strictly required for industrial processes. This does not include fuel for transport or for the generation of energy where such is available from public sources, provided that suitable and adequate supplies cannot be obtained from Central American sources,
4. total exemption from income tax for eight years, and
5. total exemption from assets and capital taxes for 10 years.

### *Existing Industries*

Existing industries in Group A are entitled to—

1. total exemption from import duties on machinery and equipment for six years,

2. total exemption from income tax for two years, and
3. total exemption from assets and capital taxes for four years

## **Group B — Fiscal Incentives**

### *New Industries*

New industries in Group B are entitled to—

1. total exemption from duties on the importation of machinery and equipment for eight years,
2. exemption from duties on the importation of raw and semi-processed materials and packages as follows: 80 percent for the first three years, and 50 percent for the next two years,
3. exemption from duties on fuel as defined under "Group A—New Industries," above, as follows: 100 percent for the first three years, and 50 percent for the next two years,
4. total exemption from income tax for six years, and
5. total exemption from assets and capital taxes for six years.

### *Existing Industries*

Existing industries in Group B are entitled to total exemption from import duties on machinery and equipment for five years.

## **Group C — Fiscal Incentives**

All industries in Group C are entitled to total exemption from import duties on machinery and equipment for three years.

## **Industrial Decentralization Promotion Law (Decree 24-79)**

The main objectives of this law are to provide fiscal incentives and convenient facilities to industries located outside the Department of Guatemala, in order to give job opportunities to people in the rural areas of the country.

Incentives are as follows:

1. partial income tax exemption,
2. financing from government financing institutions at the most favorable rates, depending on the nature of the project,
3. free, priority technical assistance from government institutions in the development of technical/economic prefeasibility, export market, and commercialization studies,
4. priority in the utilization of industrial preinvestment studies performed by the institutions, and
5. preferential treatment in the utilization of industrial installations built by the government.

## **Law for Development of Tourism in Guatemala (Decree 25-74)**

This law was issued with the object of controlling, promoting, and developing the tourist industry under the direction of the Guatemalan Institute of Tourism (INGUAT). It provides fiscal incentives for 10 years for both nationals and foreigners who invest in construction, installations, services, and activities related to tourism in specified areas of Guatemala.

These incentives are as follows:

1. reductions of up to 50 percent on the 3 percent fiscal stamp tax levied on the authorized capital of a company,
2. exemption from all duties and charges on importation of raw materials, construction materials, equipment, apparatus, vehicles, ships of all kinds, utensils, furniture, and accessories in general destined for the above installations and constructions as well as all equipment destined for the entertainment of tourists, provided that the materials and equipment are not produced in Guatemala or Central America under equal conditions as regards price, quality, and delivery,
3. exemption from real estate tax on new construction and extension or modernization of existing facilities,
4. total exemption from income taxes on the profits from construction for two years after the installations start functioning or, if the beneficiary expressly requests it, from the start of activities, and
5. the prerogatives and guarantees set out in Decree 1701, provided that the benefits are not duplicated.

During the period in which the exemptions apply, no new taxes may be imposed which modify the rights acquired under the present law.

The National Financial Corporation (Corporación Financiera Nacional) extends financial guarantees to Guatemalans and Guatemalan companies in order to facilitate borrowings in connection with investments in tourism. These guarantees cover up to 85 percent of the loan value.

## **Forestry Law (Decree 58-74)**

The "Ley Forestal," Decree 58-74, provides a tax reduction of up to 50 percent to persons who incur expense in reforestation and maintenance of areas of at least five hectares (12.35 acres).

The reforestation project and the corresponding investment must be approved and supervised by the National Institute of Forestry (INAFOR). The project must be submitted to INAFOR at least one year prior to the date when the first tax payment affected by the plan is due.

The tax deduction will be based on a certificate issued by INAFOR stating that the work under the approved project has been duly performed and setting out the amount of the corresponding expense. In effect, the taxpayer may deduct the amount of the certified reforestation or maintenance expense up to a maximum of 50 percent of the total income tax obligation from all sources of income.

## **Export Incentives**

### **Incentives to Export Industries (Decree 80-82)**

This law encourages the establishment of enterprises that promote the export of goods in order to create sources of employment for the Guatemalan workforce. Only enterprises outside the

Department of Guatemala may enjoy the benefits of this law. Enterprises must be reviewed by the National Export Promotion Center of Guatemala (GUATEXPRO) to establish their importance to national economic development.

### **Fiscal Incentives**

Financial incentives include: duty-free import of raw materials to be used for production of articles; exemption from the stamp act with exception of the commercial invoice; tax exemption for machinery, equipment, spare parts, and accessories needed for production processes; tax exemption for fuel and lubricants, except gasoline; and total income tax exemption for 10 years except foreign persons (natural and legal entities) who can deduct income tax paid in Guatemala in their country of origin.

### **Other Incentives for Export Industries** (Decree 73-83, July 6, 1983)

Article 11 of this law establishes incentives for the export of non-traditional products beginning November 1, 1983, as follows:

1. The Ministry of Public Finance will issue to exporters of non-traditional products certificates of tax credit (CATs) equivalent to 10 percent of the F.O.B. price of the products.
2. The CATs are valid for one year, non-interest-bearing, issued in local currency, transferrable, and exempt from any taxes. They may be used to pay for any tax or import duty.
3. The CATs are not available for products destined for countries with which Guatemala has signed a free-trade treaty.
4. The incentive is increased to 15 percent for new non-traditional products destined for countries with which Guatemala has no free-trade treaties or where the product is not covered in a free-trade treaty.

### **Free Zone for Industry and Trade (ZOLIC)** (Decree 22-73 Amended by Decree 15-79)

The Santo Tomás de Castilla Free Zone for Industry and Trade (ZOLIC) permits a wide range of economic activities. All types of merchandise, raw materials, supplies, machinery, and equipment, and other products needed for operations in ZOLIC can enter free of import duties, taxes, quotas, and other levies whether current or enacted in the future.

An exception is income tax, which carries 100 percent exemption for the first 12 years of operations. Foreign persons (natural and legal entities) who can deduct income tax paid in Guatemala in their country of origin are not entitled to this exemption.

All exports are free from taxes, duties, quotas, and levies, except national products subject to export duty. All imports to the interior of Guatemala from ZOLIC are subject to duties, taxes, and levies. The enterprises in ZOLIC are required to pay a fiscal stamp (documentary) tax on commercial invoices.

## **Labor**

### **Availability**

There is a large supply of unskilled, semi-skilled, and skilled labor distributed as follows:

(Percent)

|               |      |
|---------------|------|
| Agriculture   | 55.4 |
| Mining        | 0.1  |
| Manufacturing | 14.9 |
| Construction  | 5.6  |
| Other         | 24.0 |

**Work Shifts**

|               | Day Shift                        | Night Shift                      | Mixed Shift               |
|---------------|----------------------------------|----------------------------------|---------------------------|
| Shift Period  | 6 a.m. to 6 p.m.                 | 6 p.m. to 6 a.m.                 | Overlapping day and night |
| Not to exceed | 8 hours daily<br>48 hours weekly | 6 hours daily<br>36 hours weekly | —                         |
| Normal week   | 45 hours (pay 48)                |                                  | —                         |

**Rates of Pay**

Rates are subject to employer-employee (union) agreement. Minimum rates have been established for some industries by the Ministry of Employment.

|                                      |                                                                                                                                                                                                                                                                                                                                                          |
|--------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Overtime:                            | Time and one-half for commerce and industry<br>Time and one-quarter for others                                                                                                                                                                                                                                                                           |
| 7th day:                             | Payable after 6 consecutive days' work or 48 hours' work in 6 days                                                                                                                                                                                                                                                                                       |
| Paid holidays:                       | January 1, Easter Thursday and Friday, May 1, September 15, October 20, December 25, and local holidays<br><br>Additionally, for employees in commerce: Easter Saturday, June 30, August 15, November 1, and half day December 24<br><br>When 2 paid holidays fall in 1 week or when 7th day and holiday coincide, payment for 7th day is not obligatory |
| Basis for 7th day and paid holidays: | Daily average of all time for the week                                                                                                                                                                                                                                                                                                                   |
| Payroll period:                      | Each week for manual laborers                                                                                                                                                                                                                                                                                                                            |



### Vacations

|           |                                                                       |
|-----------|-----------------------------------------------------------------------|
| Commerce: | 15 days after 1 year's continuous work—average of previous year's pay |
| Industry: | 10 days after a minimum 150 days—average ordinary pay                 |
| Other:    | 6 days after a minimum 150 days—average pay including overtime        |

### Christmas Bonus

Employers must pay one month's salary as a bonus for a full year's work and proportionally for lesser periods. One-half must be paid in the month of December, by the 15th, and the other half in the month of January, by the 30th.

### Separation Pay

On termination of employment, an employee is entitled to an amount of indemnification equal to one month's pay for each year of employment, calculated on the basis of the average pay for the last six months.

### Strikes

To be legal, a strike must include at least two-thirds of the workers of a production plant, and all conciliation procedures must have been exhausted. A strike cannot be called if, inter alia, the Ministry of Employment resolves that it will seriously affect the national economy. Labor conflicts are subject to the jurisdiction of the labor courts, the Court of Reconciliation and Arbitration and the Court of Appeal for Labor and Social Welfare.

### Payroll Burden

Fringe benefits are 53.27 percent of payroll as follows:

|                  |                              | Percent |
|------------------|------------------------------|---------|
| 7th day          | 1 day for each 6 worked      | 16.67   |
| Paid holidays    | 12 days                      | 3.84    |
| Annual vacations | 15 days                      | 4.80    |
| Christmas bonus  | 1 month                      | 8.33    |
| Social Security  | Employer contribution        | 10.00   |
| IRTRA            | Employer contribution        | 0.30    |
| INTECAP          | Employer contribution        | 1.00    |
| Indemnization    | 1 month for each year worked | 8.33    |
|                  |                              | 53.27   |

Outside the city of Guatemala, the employer's social security contribution is 4 percent less, making a total of 49.27 percent.

Work Permits

In order to contract the services of any foreign worker, authorization must be requested from the Ministry of Labor and Welfare. This authorization will be granted only if the National Employment Service cannot provide Guatemalan workers able to carry out the required services.

In the case of technicians, authorization will be granted for one year provided the company employs and trains the same number of Guatemalans in corresponding activities of the company. This authorization may be extended on proof that the Guatemalan apprentices are not ready to replace the foreign technicians.

Taxes

Personal and Corporate Income Tax

Individuals and corporations are taxed under the income tax law (Decree Law 229). There is no separate corporation tax law.

| Personal or Corporate<br>Taxable Income<br>(U.S. Dollars) |          | Marginal<br>Tax Rate<br>(Percent) |
|-----------------------------------------------------------|----------|-----------------------------------|
| 0.00                                                      | 1000.00  | 5.00                              |
| 1000.01                                                   | 1500.00  | 5.25                              |
| 1500.01                                                   | 2000.00  | 5.50                              |
| 2000.01                                                   | 2500.00  | 5.75                              |
| 2500.01                                                   | 3000.00  | 6.00                              |
| 3000.01                                                   | 3500.00  | 6.25                              |
| 3500.01                                                   | 4000.00  | 6.50                              |
| 4000.01                                                   | 4500.00  | 6.75                              |
| 4500.01                                                   | 5000.00  | 7.00                              |
| 5000.01                                                   | 5500.00  | 7.25                              |
| 5500.01                                                   | 6000.00  | 7.50                              |
| 6000.01                                                   | 6500.00  | 7.75                              |
| 6500.01                                                   | 7000.00  | 8.00                              |
| 7000.01                                                   | 7500.00  | 8.25                              |
| 7500.01                                                   | 8000.00  | 8.50                              |
| 8000.01                                                   | 8500.00  | 8.75                              |
| 8500.01                                                   | 9000.00  | 9.00                              |
| 9000.01                                                   | 9500.00  | 9.25                              |
| 9500.01                                                   | 10000.00 | 9.50                              |
| 10000.01                                                  | 10500.00 | 9.75                              |
| 10500.01                                                  | 11000.00 | 10.00                             |
| 11000.01                                                  | 11500.00 | 10.25                             |

**Personal or Corporate  
Taxable Income  
(U.S. Dollars)**

**Marginal  
Tax Rate  
(Percent)**

|           |           |       |
|-----------|-----------|-------|
| 11500.01  | 12000.00  | 10.50 |
| 12000.01  | 12500.00  | 10.75 |
| 12500.01  | 13000.00  | 11.00 |
| 13000.01  | 13500.00  | 11.25 |
| 13500.01  | 14000.00  | 11.50 |
| 14000.01  | 14500.00  | 11.75 |
| 14500.01  | 15000.00  | 12.00 |
| 15000.01  | 16000.00  | 12.50 |
| 16000.01  | 17000.00  | 13.00 |
| 17000.01  | 18000.00  | 13.50 |
| 18000.01  | 19000.00  | 14.00 |
| 19000.01  | 20000.00  | 14.50 |
| 20000.01  | 21000.00  | 15.00 |
| 21000.01  | 22000.00  | 15.50 |
| 22000.01  | 23000.00  | 16.00 |
| 23000.01  | 24000.00  | 16.50 |
| 24000.01  | 25000.00  | 17.00 |
| 25000.01  | 26000.00  | 17.50 |
| 26000.01  | 27000.00  | 18.00 |
| 27000.01  | 28000.00  | 18.50 |
| 28000.01  | 29000.00  | 19.00 |
| 29000.01  | 30000.00  | 19.50 |
| 30000.01  | 32000.00  | 20.00 |
| 32000.01  | 34000.00  | 20.50 |
| 34000.01  | 36000.00  | 21.00 |
| 36000.01  | 38000.00  | 21.50 |
| 38000.01  | 40000.00  | 22.00 |
| 40000.01  | 42000.00  | 22.50 |
| 42000.01  | 44000.00  | 23.00 |
| 44000.01  | 46000.00  | 23.50 |
| 46000.01  | 48000.00  | 24.00 |
| 48000.01  | 50000.00  | 24.50 |
| 50000.01  | 60000.00  | 25.75 |
| 60000.01  | 70000.00  | 27.00 |
| 70000.01  | 80000.00  | 28.25 |
| 80000.01  | 90000.00  | 29.50 |
| 90000.01  | 100000.00 | 30.75 |
| 100000.01 | 125000.00 | 32.25 |
| 125000.01 | 150000.00 | 33.75 |
| 150000.01 | 175000.00 | 35.25 |
| 175000.01 | 200000.00 | 36.75 |
| 200000.01 | 250000.00 | 38.75 |
| 250000.01 | 300000.00 | 40.75 |
| 300000.01 | 400000.00 | 43.00 |
| 400000.01 | 500000.00 | 45.50 |
| 500000.01 | and above | 48.00 |

**Additional Income Taxes**

Two surcharges on the normal rates of income tax are levied, as follows:

|                                                                                                                                                                              | On Amount of<br>Decree Law 229<br>Tax (Percent) |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------|
| 1. Decree 1627 surcharge:                                                                                                                                                    | 10                                              |
| 2. Decree 80-74 surcharge: a further 10 percent of the combined tax payable under Decree Law 229 and Decree 1627 is payable where taxable income exceeds \$10,000.00, i.e.,: | 11                                              |
| Total surcharges on normal income tax                                                                                                                                        | 21                                              |

**Dividends and Profit Participations**

These are not subject to further income tax, provided they are derived from profits on which Guatemalan income tax has been paid or from profits of entities exempt from Guatemalan income tax, and are not remitted abroad or credited to the account of a nonresident. Profits and participations remitted abroad or credited to the account of a nonresident are subject to a withholding tax of 10 or 11 percent as follows:

|                                                                                                        | On Amount of<br>Remittance<br>or Credit<br>(Percent) |
|--------------------------------------------------------------------------------------------------------|------------------------------------------------------|
| 1. Decree 1627 tax:                                                                                    | 10                                                   |
| 2. Decree 80-74 tax: where taxable amount exceeds \$10,000 a further 10 percent of the Decree 1627 tax | 1                                                    |
|                                                                                                        | 11                                                   |

The above taxes are final, that is, they are not regarded as being subject to declaration by the beneficiary nor to the graded tariff of income tax under Decree 229.

**Loss Carryovers**

Operating losses may be carried forward (there is no provision for carryback) and 15 percent thereof applied each year, without a time limit, against profits.

## Capital Gains Tax

Capital gains are treated as ordinary income. In effect, therefore, the tax rate is the top percentage bracket applicable to the taxpayer's income for the year in which the capital gains are declared.

## Foreign Taxes

No provision is made in the income tax law for the application against Guatemalan income tax of income taxes paid abroad.

## Exempt Income

Includes—

- interest on loans contracted abroad,
- interest on deposits in banks operating in Guatemala,
- dividends and profit distributions on which income tax has been paid and which are not remitted abroad or credited to the account of a nonresident,
- interest on state and municipal bonds and profit on the sale thereof,
- dividends and distributions from profits exempt from income tax,
- inheritances, legacies, and gifts, and
- insurance claims and benefits.

## Withholding Tax

Salaries and other remuneration are subject to withholding of income tax. Remittance abroad or credit to accounts of nonresidents of royalties, rents, commissions, interest, and fees for services are subject to a withholding tax.

- 11 percent on amounts up to a total of \$10,000 remitted or credited in the tax year
- 12.1 percent on amounts over \$10,000 remitted or credited in the tax year

The withheld tax is regarded as complete payment of tax in the case of royalties and fees for personal, professional, and technical services rendered in Guatemala or abroad provided such fees (including commissions) form a part of tangible capital assets shown as such in the accounts of the person making the remittance or credit to accounts.

## Other Taxes

### Company Inscription Tax

Foreign entities authorized to operate in Guatemala pay an inscription tax of \$1,000, payable within 10 working days after notification of inscription.

**Annual Company Tax**

Foreign entities pay an annual quota between \$500 and \$1,000, and Guatemalan companies between \$25 and \$500, based on gross assets as shown on the latest balance sheet. These quotas are payable in the first 15 days of January.

**Fiscal Stamp (Documentary) Tax**

The fiscal stamp (documentary) tax was increased by 50 percent, from 2 to 3 percent, by Article 5 of Decree 65-80, which became effective January 1, 1981. This tax is payable on practically all accounting documents such as receipts, contracts, debit notes, and all documents in which obligations are contracted and which result in the payment, collection, transfer, or cancellation of consideration.

Important exceptions to this general rule are personal and non-personal professional services, loan and credit contracts with banks, deposit warehouses and financial institutions, letters of credit, contracts for sale of merchandise and services, commercial invoices issued abroad and effective in Guatemala, bond certificates, coupons, savings books, and other certificates of capitalization issued by banks.

**Value-Added Tax**

Decree Law 72-83, as amended by Decree Law 120-83, established a value-added tax on the sale of all merchandise and services rendered. The tax became effective on August 1, 1983.

**Social Security Contributions**

Employers in the city of Guatemala pay a total of 11.3 percent on payroll and other remuneration to employees (except Christmas bonus); employees pay 41/2 percent. Elsewhere in the country, the rates are 7.3 and 21/2 percent, respectively.

**Property Taxes**

Real estate is subject to a tax, collected quarterly, on the value inscribed in the Register of Real Estate, which is the value stated in the latest conveyance of title deed or, if greater, the value stated in an earlier deed or the special declaration of value permitted under Decree 100. Valuations are subject to revision by the Revenue Service. On each transfer of title, a tax of 1 percent is payable.

*Tax Rates*

| Assessed Value       | Annual Tax      |
|----------------------|-----------------|
| \$1,000 to \$20,000  | \$3 per \$1,000 |
| \$20,001 to \$50,000 | \$6 per \$1,000 |
| over \$50,000        | \$8 per \$1,000 |

### **Excise [Consumption] Taxes**

These are levied under various decrees on beverages, cigars, cigarettes, tobacco, gasoline, vehicles (license plates), and air travel tickets. Air travel tickets are assessed a tourism tax of 10 percent on the fare amount and a 10 percent value-added tax.

### **Import Duties**

Duties, based on the C.I.F. value and on the weight or volume, are levied on all imports, unless exemption has been obtained under the Industrial Development Law. Classification of imports and the corresponding rates of duties are contained in tariffs issued by Customs.

### **Export Taxes**

Export taxes are levied on coffee, cotton, sugar, meat, and shrimp. The taxes are graduated to market prices and are specified in Decree 50-74 and Decree Law 60. Guatemala also has fairly elaborate laws regulating agency, distribution, or representation contracts, petroleum operations, and mining.

### **Foreign Resident Tax**

Foreigners resident in Guatemala pay an annual tax of \$30.

## **For More Information**

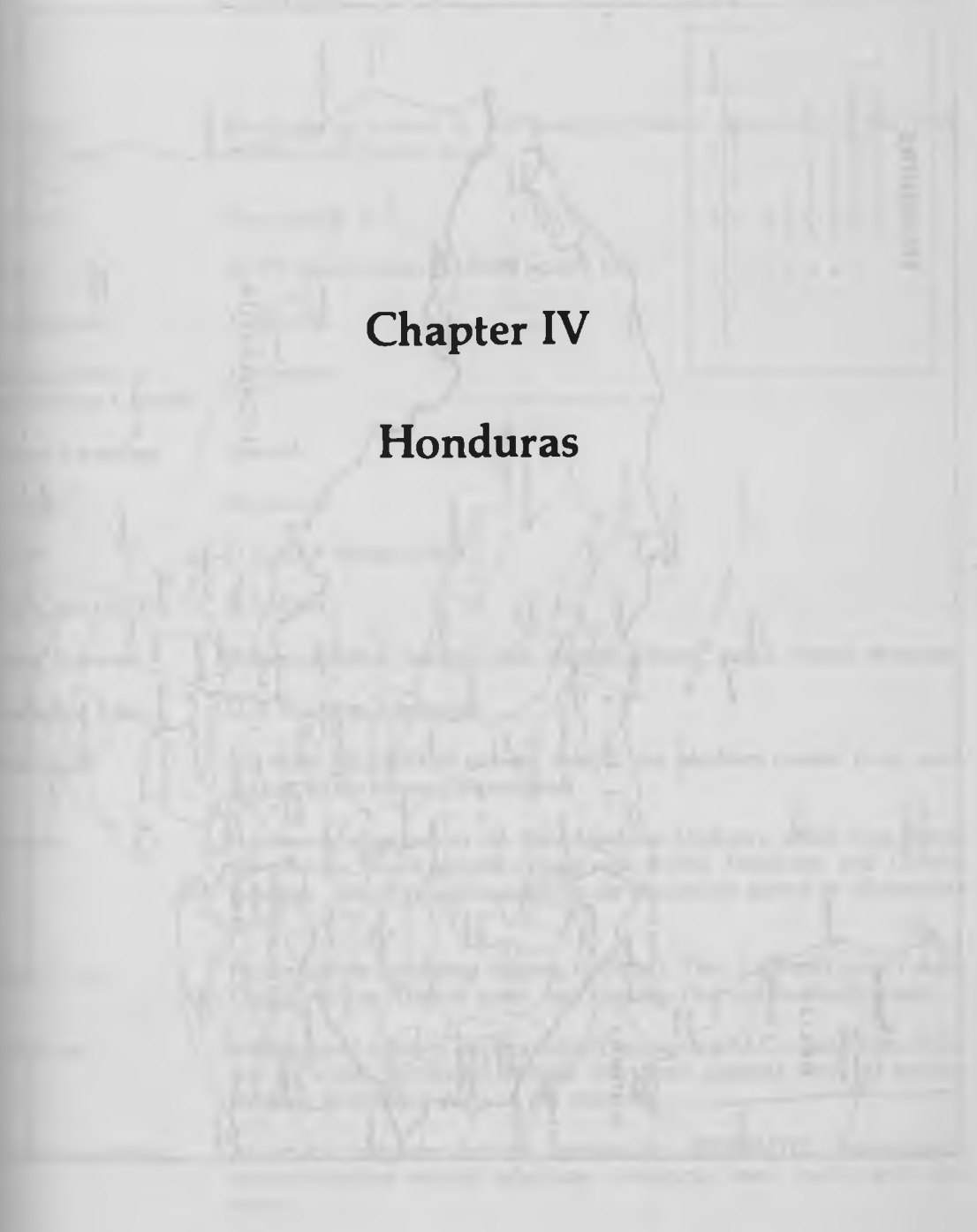
National Export Promotion Center of Guatemala  
6a. Avenida 0-60, Zona 4  
5th Floor  
Guatemala City, Guatemala  
Phone: (502) 511821-29  
Telex: (305) 4128

Commercial Attaché  
Consulate of Guatemala  
Suite 945  
25 South East 2nd Avenue  
Miami, Florida 33131  
Phone: (305) 377-3190  
Telex: 525116 Miami

## Partial Listing of American Companies With Operations in Guatemala

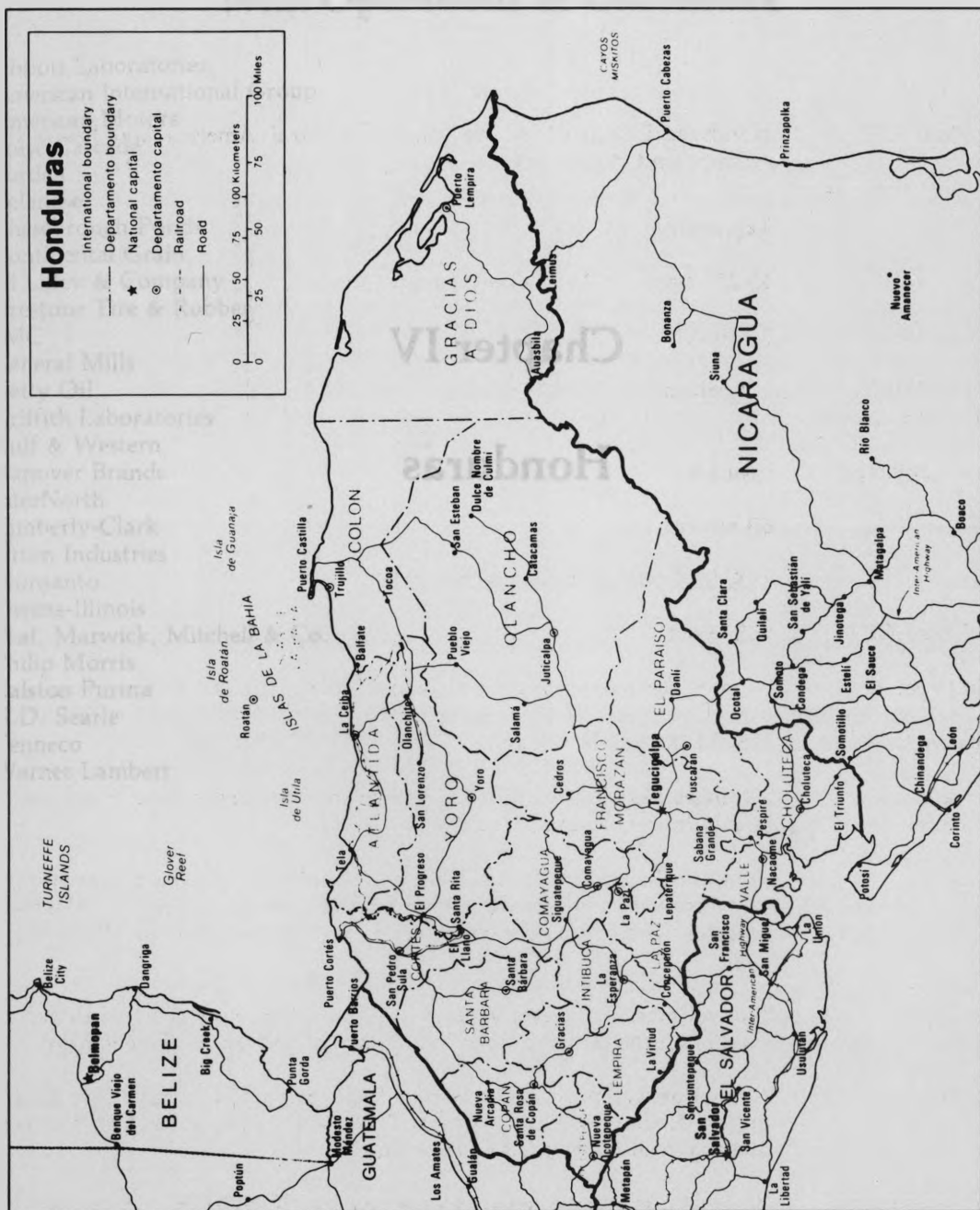
Abbott Laboratories  
American International Group  
American Motors  
Boise Cascade  
Borden  
Celanese  
Chesebrough Ponds  
Continental Grain  
Eli Lilley & Company  
Firestone Tire & Rubber  
FMC  
General Mills  
Getty Oil  
Griffith Laboratories  
Gulf & Western  
Hanover Brands  
InterNorth  
Kimberly-Clark  
Litton Industries  
Monsanto  
Owens-Illinois  
Peat, Marwick, Mitchell & Co.  
Philip Morris  
Ralston Purina  
G.D. Searle  
Tenneco  
Warner Lambert





## Chapter IV

## Honduras



# Honduras

|                                          |                                                                                                                                                                                                                  |
|------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Location:</b>                         | Honduras is located in the heart of Central America and has both Atlantic and Pacific coasts.                                                                                                                    |
| <b>Capital:</b>                          | Tegucigalpa, D.C.                                                                                                                                                                                                |
| <b>Area:</b>                             | 43,277 square miles (112,088 square km)                                                                                                                                                                          |
| <b>Population:</b>                       | 3,940,000                                                                                                                                                                                                        |
| <b>Annual Rate of Population Growth:</b> | 3.2 percent                                                                                                                                                                                                      |
| <b>Major Language:</b>                   | Spanish                                                                                                                                                                                                          |
| <b>Literacy:</b>                         | 60 percent                                                                                                                                                                                                       |
| <b>GDP:</b>                              | U.S. \$2.9 billion (1983)                                                                                                                                                                                        |
| <b>Per Capita GDP:</b>                   | U.S. \$744                                                                                                                                                                                                       |
| <b>Main Exports:</b>                     | Bananas, coffee, lumber, beef, shrimp, lobster, sugar, cotton, minerals                                                                                                                                          |
| <b>Exchange Rate:</b>                    | U.S. \$1.00 = 2 lempiras                                                                                                                                                                                         |
| <b>Railroads:</b>                        | 610 miles (981 km) of railway exist in the northern coastal zone, used mainly in the banana plantations.                                                                                                         |
| <b>Roads:</b>                            | Honduras has access to the Pan American Highway which runs across the narrow Pacific coastal region and within Honduras and Central America. The principal regions can be reached by paved or all-weather roads. |
| <b>Main Ports:</b>                       | Puerto Cortés (container loading facilities), Tela, La Ceiba, and Puerto Castilla on the Atlantic coast; San Lorenzo Port on the Pacific coast.                                                                  |
| <b>Airports:</b>                         | International airports are located at Tegucigalpa, D.C., San Pedro Sula, and La Ceiba. Domestic airlines link these airports with 30 smaller airstrips in different parts of the country.                        |
| <b>Communications:</b>                   | Automatic telephone network operated by HONDUTEL. International communications include telephone, telegraph, telex, radio, and television.                                                                       |

## History

Honduras was discovered by Columbus on August 14, 1502. The first city was founded in 1523 by Cristobal de Olid. During this period Spaniards fought among themselves, trying to take control of the territory until the arrival of Pedro de Alvarado. Alvarado founded the city of San Pedro de Sula in 1536. Today it is the industrial capital of the nation.

The colonial period was prosperous and sported wide political activity. The first capital was Comayagua, founded in 1539 by Alonso Caceres. In 1539, Honduras was incorporated into the General Captainship of Guatemala. In 1578, the discovery of silver in Comayagua led to the colonization of the nation. New cities such as Tegucigalpa became prosperous.

On September 15, 1821, the independence of the Central American colonies was proclaimed in Guatemala. They formed the Federal Republic of Central America, which lasted until 1838. After 1838, the five states established separate governments. Frequent revolutions have marked the history of Honduras. However, the basic stability achieved by President Tibuicio Carias Andino (1932-48) has been maintained by succeeding presidents.

In October 1955, the Honduran armed forces seized power from a de facto Chief of State, established a military council of government, and pledged a return to freely elected constitutional government. The elections of 1957 and control of the Constituent Assembly were won by the Liberal Party. A constitution was drafted, Dr. Ramon Villeda Morales was elected as President, and the assembly became the elected Congress for the first six-year term.

A provisional military government succeeded the Villeda administration when the armed forces seized power on October 3, 1963, 10 days before a presidential election. The following military government was led by Brig. Gen. Oswaldo Lopez.

Ramon Cruz of the National Party won the 1971 elections. Popular discontent and demands for land reform ended in a coup in December 1972, in which Gen. Lopez again took control. Lopez was succeeded by Gen. J. A. Melgan in 1975, after a political bribery scandal became public.

Honduras made vast economic progress under Melgan. In August 1978, the armed forces replaced Melgan with a three-man junta, headed by Gen. Policarpo Paz Garcia. Under Garcia, open elections were held for a Constituent Assembly, which prepared a new electoral law and a new constitution. On November 29, 1981, general elections ended in the victory of President Roberto Suazo Cordova and the Liberal Party. The new government was installed on January 27, 1982.

## Political System

The 1982 Constitution provides a relatively strong executive, unicameral legislature, and judiciary appointed by the Congress. The president is elected directly by popular vote. Congressional seats are assigned to persons carried on party lists according to the number of votes the party received with proportional representation. The judiciary consists of a Supreme Court of Justice, Courts of Appeal, and several courts of original jurisdiction, such as labor, tax, and criminal courts.

Honduras is divided into 18 departments, with departmental and municipal officials elected for two-year terms. Members of Congress and the President serve for four-year terms.

## Economic Overview

Honduras' economically active population is estimated at 1,043,802 for 1983, of a total population of over 3.9 million. The principal source of income is agriculture, accounting for 40

percent of GDP, followed by the industrial sector with a 16 percent participation. Vigorous efforts have been made in the past three decades toward creating much of the basic physical infrastructure and in diversifying the economy. Continuing efforts are being made to promote nontraditional industries for both export and domestic markets.

The private sector dominates the economy, despite a large amount of government and government-guaranteed investment in the 1970s. Forestry lands are under the control of the government's forestry corporation, which handles all lumber exports. Coffee from the mountainous regions and bananas from the coasts account for half of Honduras' export earnings. Other exports include: meat, sugar, cotton, shrimp and lobsters, mineral concentrates, soaps and detergents, cigars, tobacco, fruit juices and preserves, textiles and apparel, and wood products.

Honduras' economy is characterized by its foreign trade, and its main trading partner is the United States, representing 53 percent of its exports and 48 percent of its imports, excluding petroleum. Currently, all petroleum is imported. However, additional mining and petroleum exploration ventures are being planned. A hydroelectric dam, to be completed in 1986, will supply almost all of the country's electricity needs and reduce dependence on petroleum by up to 20 percent.

Price controls are established on only a few of the basic items and price supports exist on domestically produced basic grains, sugar, and cement.

### **Foreign Investment Climate**

Honduras has maintained an open-door policy to foreign investment and firms have engaged in profitable businesses for over a century. The government continues promoting increased domestic and foreign participation in the development process.

### **Repatriation of Profits and Capital**

Under the Honduran constitution, foreign firms enjoy national treatment in terms of rights and obligations. No restrictions exist as to remittance of dividends, interest, royalties, or repatriation of capital, although a 15 percent tax rate applies on dividends paid to nonresident foreign investors.

### **Exchange Controls**

Honduras has maintained an official rate of exchange of two-to-one in relation to the U.S. dollar since 1918. As pressure on the lempira grew, a system of controls by the Central Bank of Honduras has been implemented whereby imports have been regulated following a priority classification, and access to foreign exchange requires approval by the Central Bank, no matter what the purpose.

Honduran companies and institutions that wish to obtain foreign loans must request permission for "foreign indebtedness" from the Central Bank of Honduras to repay such loans in the currency contracted.

# Investment Incentives

## Central American Agreement on Fiscal Incentives for Industrial Development

To qualify for these fiscal incentives, companies must effectively contribute to the economic development of Central America by the use of modern and efficient processes in the production (from raw materials and partly processed products) of articles used to satisfy the basic necessities of the people, or that will replace importations thereof, or that may increase exports.

For the purpose of granting fiscal incentives, industries are classified as follows:

### Group A — Industries that—

1. produce industrial raw materials or capital goods, or
2. produce articles for consumption, packages, or semi-finished products of which at least 50 percent in value of the raw materials is produced in Central America.

### Group B — Industries that—

1. produce articles for consumption, packages, or semi-finished products, and
2. contribute favorably and considerably to the balance of payments and to the value of industrial production, and
3. use, entirely or in a high proportion in value, raw materials, packages, and semi-finished products from Central America.

### Group C — Industries that—

1. are not included in Groups A and B, and
2. merely assemble, pack, bottle, cut, or dilute other products, and
3. are listed in Annex 1 of the agreement (producers of toilet articles and deodorizers).

## Group A — Fiscal Incentives

### *New Industries*

New industries in Group A are entitled to the following benefits—

1. total exemption from import duties on machinery and equipment for 10 years,
2. exemption from import duties on raw and semi-finished material and packages, as follows: 100 percent for the first five years, 60 percent for the next three years, and 40 percent for remainder of term, and
3. total exemption for five years of import duties on fuel, except gasoline, strictly required for industrial processes, not including fuel for transport or for the generation of energy where such is available from public sources, provided that suitable and adequate supplies cannot be obtained from Central American sources, and
4. 50 percent exemption from income taxes for eight years.

### *Existing Industries*

Existing industries in Group A are entitled to—

1. total exemption from import duties on machinery and equipment for six years,
2. total exemption from income tax for two years, and
3. total exemption from taxes on assets and capital for two years.

## **Group B — Fiscal Incentives**

### *New Industries*

New industries in Group B are entitled to—

1. total exemption from duties on the importation of machinery and equipment for 10 years, and
2. exemption from duties on the importation of raw and semi-processed materials and packages as follows: 100 percent for the first one to three years, and 50-80 percent for remainder of term depending on date of investment,
3. exemption from duties on fuel as defined under "Group A—New Industries," above, as follows: 100 percent for the first three years, and 50 percent for the next two years, and
4. total exemption from taxes on assets and capital for three years, and
5. 50 percent exemption from income tax for six years.

### *Existing Industries*

Existing industries in Group B are entitled to total exemption from import duties on machinery and equipment for five years, and exemption from income taxes for two years.

## **Group C — Fiscal Incentives**

Industries in Group C are entitled to total exemption from import duties on machinery and equipment for three years, and exemption from income taxes for two years.

### **Incentives for Small- and Medium-Size Companies**

Incentives under the Honduran program for small- and medium-size industries and for craftsmen vary according to the proportion of locally produced raw materials used in the manufacturing, assembly, finishing, or packaging process. The greater the percentage of locally produced raw materials, the more liberal the incentives.

To qualify for large-investor incentives provided by the government of Honduras, an enterprise must have a capitalization of U.S. \$500,000 or more, employ at least 75 Hondurans, and export at least 25 percent of its production. If the enterprise is involved in the packaging or manufacture of consumer goods, at least 35 percent of the value of materials used in production must be of Honduran origin.

### **Agricultural Incentives**

Under the Agricultural Development Law, agricultural enterprises are exempt from import duties and related charges on imports of equipment, seeds, fertilizers, fuels, and other selected items, for a period of five years.

### **Mining Incentives**

Revisions to the Mining Code made in 1982 offer new mining ventures lower tax and royalty rates for their first five years of operation. Total tax liability for new and established mines is limited to 55 percent under the revised law.

## Tourism Incentives

In accordance with the Law of the Honduran Tourism Institute, all investors in the construction, exploitation, extension, or reconstruction of hotels or similar tourist-attraction businesses benefit from one-time, 100 percent exemption from import duties, consular fees, etc., on imports of construction materials, furnishings, equipment, etc., not produced in the required specifications and prices within the country. Tourist-industry enterprises in any location within the country are also exempt from income taxes for up to 10 years, except in San Pedro Sula and Tegucigalpa, where this exemption is applicable only for the first five years, and enterprises receive a 50 percent income tax exemption for the second five years.

## Export Incentives

There are two basic incentives to encourage the production of nontraditional export products:

- **Drawback system** — The government reimburses the taxes that companies pay when they import raw materials, semi-finished products, parts, packing, and packaging that are used in finished products which are exported outside the Central American area.
- **Guarantee or bond system** — The interested party may request, upon presentation of the guarantee bond, the importation of raw materials, semi-finished products, parts, packing, and packaging to be incorporated into the finished product to be exported to non-Central American countries.

## Free Zone

The Free Zone of Puerto Cortés operates under the jurisdiction of the National Port Authority (ENP), an autonomous enterprise headed by a board of directors whose chairman is the Minister of Economy. The incentives include—

- Free import of machinery, equipment, and accessories for production. Free import of raw materials, semi-finished products, containers, and samples.
- Exemption from taxes, charges, consular fees, internal consumption taxes, and other taxes directly or indirectly related to customs operations.
- Free import and re-export of manufactured or semi-manufactured materials.
- Total exemption from state, department, and municipal taxes.
- Companies and industries within the zone are 100 percent exempt from all export taxes. They are allowed to sell a small percentage of their production for local consumption, but the buyer is subject to all duties and charges required by law as if the product were a regular import.
- No tax is assessed on profits obtained from operations within the zone.

## Labor

### Availability

The total labor force exceeds one million, and is classified as follows:



## Percent

|                                       |      |
|---------------------------------------|------|
| Agriculture, fishing,<br>and forestry | 54.5 |
| Manufacturing                         | 13.0 |
| Commerce                              | 9.4  |
| Construction                          | 4.2  |
| Communications                        | 3.9  |
| Finance                               | 0.9  |
| Utilities                             | 0.4  |
| Other services                        | 13.7 |

## Minimum Daily Wage

| Activity                                                       | Tegucigalpa and<br>San Pedro Sula | Rest of the<br>Country |
|----------------------------------------------------------------|-----------------------------------|------------------------|
| Agriculture and breeding                                       |                                   |                        |
| 1-5 workers                                                    | \$2.30                            | \$2.30                 |
| 6 or more                                                      | 2.50                              | 2.50                   |
| Mining                                                         | 3.30                              | 3.30                   |
| Manufacturing                                                  |                                   |                        |
| 1-5 workers                                                    | 2.65                              | 2.65                   |
| 6 or more                                                      | 3.30                              | 2.75                   |
| Artisans                                                       |                                   |                        |
| 1-5 workers                                                    | 2.65                              | 2.65                   |
| Construction                                                   | 2.65                              | 2.65                   |
| Commerce                                                       |                                   |                        |
| 1-5 workers                                                    | 2.65                              | 2.65                   |
| 6 or more                                                      | 3.30                              | 3.30                   |
| Transportation                                                 |                                   |                        |
| passengers and merchandise                                     | 3.30                              | 2.75                   |
| Financial activity                                             | 3.30                              | 2.75                   |
| Services                                                       | 3.30                              | 2.65                   |
| Docking services including ware-<br>house and repairs to ships |                                   | 3.55                   |
| Loading, unloading<br>merchandise at seaport                   |                                   | 3.55                   |
| Refining of petroleum and similars<br>(pumping of the same)    | 3.55                              | 3.55                   |
| Maintenance and repair of railroads                            | 3.55                              | 3.55                   |
| Growth of bananas and plantains<br>destined for export         | 3.55                              | 3.55                   |

**Working Hours and Fringe Benefits**

*Work Shifts*

|               | Day Shift                        | Night Shift                      | Mixed Shift                      |
|---------------|----------------------------------|----------------------------------|----------------------------------|
| Shift Period  | 5 a.m. to 7 p.m.                 | 7 p.m. to 5 a.m.                 | Overlapping day and night        |
| Not to exceed | 8 hours daily<br>48 hours weekly | 6 hours daily<br>36 hours weekly | 7 hours daily<br>42 hours weekly |
| Normal week   | 44 hours (pay 48)                | —                                | —                                |

*Rates of Pay*

Rates are subject to employer-employee (union) agreement.

|                                      |                                                                                                                 |
|--------------------------------------|-----------------------------------------------------------------------------------------------------------------|
| Overtime:                            | Time and a half                                                                                                 |
| 7th day:                             | Payable after 6 consecutive days' or 48 hours' work in 6 days                                                   |
| Paid holidays:                       | January 1, Easter Thursday and Friday, May 1, September 15, October 3, 12, 21, and December 25                  |
| Basis for 7th day and paid holidays: | Daily average of total time for the week                                                                        |
| Payroll period:                      | Each week for manual laborers, but can be taken as an advance with settlement of the payroll on a monthly basis |

*Vacations*

Workers are entitled to ten days after one year of continuous work, 12 days after two years, 15 days after three years, and 20 days after four or more years.

*Christmas Bonus*

The law requires a Christmas bonus equal to one month's salary for workers employed a full year, and proportionately less for workers employed less than a year.

### *Separation Pay*

On termination of employment, an employee is entitled to an amount of indemnification equal to one month's pay for each year of employment, with a maximum of eight months calculated on the basis of the average pay for the last six months. A worker who has been employed a full year must be given one month's notice prior to termination; a worker who has been employed two years or more must be given two months' notice. If these requirements are not met, then one or two months' pay must be added to the indemnification.

### *Labor Unions and Negotiations*

Honduras claims one of the best organized labor movements in Central America. The low number of labor disputes and the existing labor conditions are a reflection of the cooperation between unions and employers.

To be legal, a strike must include at least two-thirds of the workers of a production plant, and all conciliation procedures must have been exhausted. A lockout must be total. One month's notice to workers is required when all conciliation procedures have been exhausted.

Labor disputes are subject to the jurisdiction of the Labor Courts, the Court of Reconciliation and Arbitration, and the Courts of Appeal for Labor and Social Welfare.

### *Pensions*

Three percent of the amount paid to social security is allocated to pension plans.

### *Work Permits*

Authorization to contract the services of a foreign worker must be requested from the Ministry of Labor and Welfare well in advance of the employee's arrival in Honduras.

### *Employee Training*

In December 1972, the government of Honduras created the Instituto Nacional de Formación Profesional (INFOP), a training institute for all sectors of the economy and all levels of labor. This center is financed with contributions from the government, autonomous institutions, and the private sector.

## **Taxes**

### **Corporate and Personal Income Tax**

Resident companies and individuals are subject to tax on income both from sources within the country and from foreign countries. Nonresident companies and individuals are taxed on income only from sources within the country.

Companies are taxed under the same income tax law as individuals. Scaled rates of income tax, ranging from 3 percent on the first \$2,500 of taxable income to 40 percent on the excess over \$500,000 apply as follows:

| Taxable Income<br>(U.S. Dollars) |                        | Rate of<br>Taxation<br>(Percent) |
|----------------------------------|------------------------|----------------------------------|
| 0.01                             | 2,500.00               | 3                                |
| 2,500.01                         | 5,000.00               | 5                                |
| 5,000.01                         | 10,000.00              | 9                                |
| 10,000.01                        | 25,000.00              | 12                               |
| 25,000.01                        | 50,000.00              | 14*                              |
| 50,000.01                        | 100,000.00             | 21                               |
| 100,000.01                       | 250,000.00             | 27**                             |
| 250,000.01                       | 500,000.00             | 34                               |
|                                  | 500,000.01<br>and over | 40                               |

\*A 10 percent surcharge is levied on taxable income greater than \$50,000.

\*\*A 15 percent surcharge is levied on taxable income greater than \$250,000.

### Nonresident Tax

Income obtained from Honduran sources by companies or persons nonresident in Honduras is taxed as follows:

|                                                                                                                                                                                     | Percent |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|
| Income from rent of buildings,<br>land or equipment                                                                                                                                 | 10      |
| Royalties from the operations of mines,<br>quarries, and other natural resources                                                                                                    | 10      |
| Wages, salaries, commissions, or any<br>other compensation for services<br>rendered whether in or out of the<br>national territory                                                  | 10      |
| Rents of profits obtained for foreign<br>companies through their branches, sub-<br>sidiaries, agencies, legal representatives,<br>or others operating in the country                | 15      |
| Rents, profits, dividends, or<br>participation in profits                                                                                                                           | 15      |
| Royalties or other amounts for patents,<br>designs, procedures and secret<br>formulas, trademarks, rights of author,<br>and other similar rights, including<br>films and videotapes | 10      |
| Interest on trading operations, bonds,<br>certificates, and other obligations                                                                                                       | 5       |

|                                                                |    |
|----------------------------------------------------------------|----|
| Income from airplane, ship, and land transportation operations | 5  |
| Income from communication services                             | 5  |
| Insurance premiums and guarantees                              | 10 |
| Income from shows (circuses, international singers, etc.)      | 10 |
| Any income not mentioned above                                 | 10 |

Corporations and individuals making the above types of payments are responsible for withholding the tax and paying it to the Central Bank of Honduras.

### **Dividends and Profit Participations**

Dividends and any kind of profit-participation payments to foreign residents, nationals, and Honduran companies are taxed at a rate of 10 percent for cash payments, and 5 percent for payments in stock. Such tax should be withheld by the company making the payment. The income is not taxable to the receiver.

### **Operating Losses**

Carrybacks and carryovers of operating losses are not permitted by the Income Tax Law.

### **Capital Gains Tax**

Capital gains are treated as ordinary income.

### **Capital Losses**

Agricultural and livestock enterprises and industrial enterprises classified as basic by the Industrial Development Law and the Central American Agreement on Fiscal Incentives may obtain authorization from the tax authorities to consider capital losses as deductible items and to carry over such losses against ordinary income for up to three years.

### **Foreign Income Tax**

No provision is made in the Income Tax Law for the application of credit against Honduran income tax for income taxes paid abroad.

### **Sales Tax**

A sales tax of 5 percent is payable monthly by means of a Sales Declaration.

## **Social Security Contribution**

The maximum taxable portion of each salary for social security purposes is \$300, with the employer paying 7.5 percent and the employee paying 3 percent.

## **Property (Real Estate) Taxes**

Property tax is payable to the municipality where property is located. The taxable value is determined by each municipality. Generally, the tax is 0.75 percent on each \$500.

## **Import Duties**

Duties are based on CIF value and are levied on all imports unless an exception has been obtained. This exception is granted only to companies specially classified by the government.

## **For More Information**

Office of Investment Promotion  
Ministry of Economy and Commerce  
Tegucigalpa, Honduras  
Phone: (504) 22-7746  
Telex: 1396

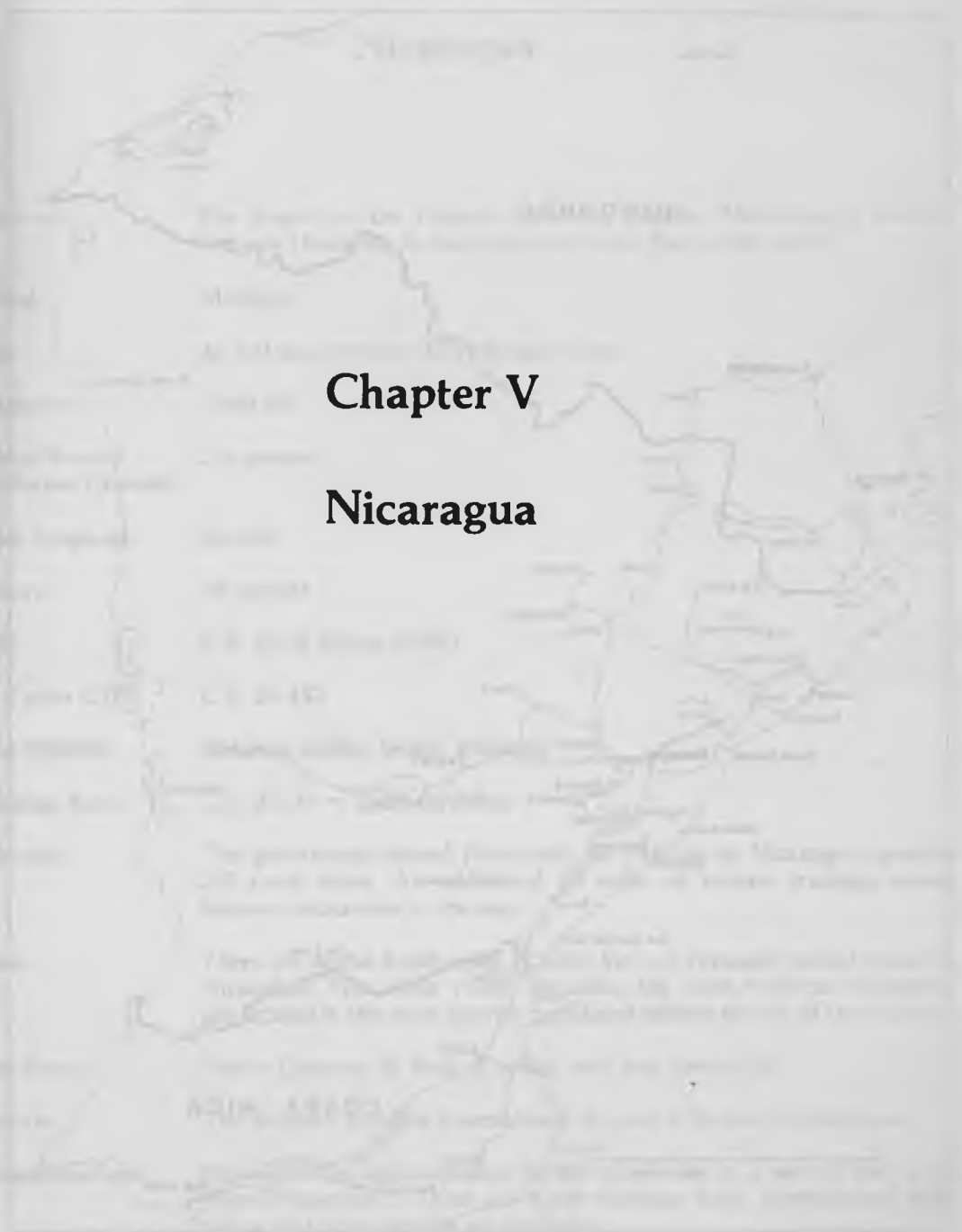
Embassy of Honduras  
4301 Connecticut Avenue, N.W.  
Washington, D.C. 20008  
Phone: (202) 966-7700

## **Partial Listing of American Companies With Operations in Honduras**

ACF Industries  
Alberto Culver  
AMAX  
Boise Cascade  
Cargill  
Castle & Cook  
Champion International  
Crown Cork & Seal  
First Boston  
Halliburton  
IBM World Trade Corporation  
The Interpublic Group of Companies  
Mobil  
Norton Simon  
Occidental Petroleum  
Parker Hannifin  
Peat, Marwick, Mitchell & Co.  
R.J. Reynolds  
Seatrains Lines  
Shell Oil  
Siemens  
Stokely Van-Camp  
Texaco  
Timex  
United Brands  
United Technologies  
Warnaco  
Xerox







## Chapter V

## Nicaragua



# Nicaragua

|                                          |                                                                                                                                                                                                                 |
|------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Location:</b>                         | The largest of the Central American nations, Nicaragua is located between Honduras to the north and Costa Rica to the south.                                                                                    |
| <b>Capital:</b>                          | Managua                                                                                                                                                                                                         |
| <b>Area:</b>                             | 45,700 square miles (118,400 square km)                                                                                                                                                                         |
| <b>Population:</b>                       | 2,540,000                                                                                                                                                                                                       |
| <b>Annual Rate of Population Growth:</b> | 2.4 percent                                                                                                                                                                                                     |
| <b>Major Language:</b>                   | Spanish                                                                                                                                                                                                         |
| <b>Literacy:</b>                         | 88 percent                                                                                                                                                                                                      |
| <b>GDP:</b>                              | U.S. \$3.58 billion (1982)                                                                                                                                                                                      |
| <b>Per Capita GDP:</b>                   | U.S. \$1,432                                                                                                                                                                                                    |
| <b>Main Exports:</b>                     | Bananas, coffee, beans, livestock                                                                                                                                                                               |
| <b>Exchange Rate:</b>                    | U.S. \$1.00 = 10.00 cordobas                                                                                                                                                                                    |
| <b>Railroads:</b>                        | The government-owned Ferrocarril del Pacifico de Nicaragua operates 270 track miles. An additional 60 miles of private trackage serves banana plantations in the east.                                          |
| <b>Roads:</b>                            | There are about 8,400 miles (13,500 km) of variously paved roads in Nicaragua. The major roads, including the Inter-American Highway, are located in the more heavily populated eastern section of the country. |
| <b>Main Ports:</b>                       | Puerto Cabezas, El Bluff, Corinto, and San Juandel Sur                                                                                                                                                          |
| <b>Airports:</b>                         | The Augusto Sandina International Airport is located in Managua.                                                                                                                                                |
| <b>Communications:</b>                   | Nicaragua has approximately 58,000 telephones in a service that is 95 percent automatic. There are 8,500 business lines. International telephone and telex services are available.                              |

## History

The Spanish reached Nicaragua in 1522 and ruled it as a colony until 1821. The country was part of the Central American Federation until 1838. In 1912, at the Nicaraguan government's request, U.S. forces established bases in the country. They left in 1925, but returned in 1927 when a guerrilla group, led by Augusto Cesar Sandino, was organized to oppose U.S. intervention. The U.S. forces finally left in 1933, when their role was assumed by a newly created National Guard, commanded by Gen. Anastasio Somoza Garcia. Sandino was assassinated in 1934, reputedly on Somoza's orders, but some of his followers ("Sandinistas") remained active in opposing the new regime. Somoza became Minister of War, seized power in a coup in 1935, and took office as President in 1936. He was succeeded in 1947 by one of his own nominees, but quickly overthrew him and installed an uncle as President. When the latter died in 1950, Gen. Somoza resumed the Presidency and remained in power until his assassination in 1956. The Somoza family continued, however, to dominate Nicaraguan politics until 1979, with one of them ruling either directly as President or as Commander of the National Guard.

In June 1979, the Frente Sandinista de Liberation Nacional (FSLN) announced the formation of a provincial government, the five-member (subsequently reduced to three) Junta of National Reconstruction. With the FSLN in command of many towns and poised for the final onslaught on Managua, Somoza resigned from office and left the country in July. After the capital had fallen to the Sandinistas, the Junta and its Provisional Governing Council took power as the Government of National Reconstruction.

## Political System

Executive power is exercised by the three-member Junta, which has appointed a cabinet of 22 ministers. Legislative power is held by a 51-member Council of State, which is responsible for drafting a constitution to provide for elections to be held in 1985.

## Economic Overview

About 5 to 7 percent of the total land area in Nicaragua is arable. However, no more than 60 percent of that land is cultivated. The main crops produced are sugarcane, maize, sorghum, cotton, coffee, rice, beans, cocoa, sesame, bananas, and tobacco. Agriculture employs 45 percent of the labor force.

Manufacturing, chiefly food processing operations, contributes about 25 percent to the total GDP. Food processing activities include sugar refining, soft drinks, beer, and other alcoholic beverages, dairy products, meat processing, cooking oils, flour, and instant coffee. Additional industries are involved in the production of cement, cigarettes, leather goods, plastic goods, textiles, plywood, chemicals, and metal products. A small mining sector is involved in the extraction of gold, silver, copper, and salt. There is an oil refinery in Managua with a capacity of 650,000 tons.

## Foreign Investment Climate

The private sector controls about 60 percent of the country's economy. The government is expected to introduce a new foreign investment law in the near future, which would permit all types of investment, including 100 percent foreign-owned. The current foreign investment law permits free repatriation of profits and capital.

## Repatriation of Profits and Capital

Although profits may be freely repatriated, there is a lack of foreign exchange and a 45 percent tax on all remittances of profits abroad. In addition, the 1980 Decapitalization Law allows the government to confiscate a company suspected of liquidating its assets.

## Exchange Controls

The Central Bank is the authority responsible for all foreign exchange dealings. A two-tier exchange-rate system is currently in effect:

- The official exchange rate of U.S.\$1 = C10 is used in most transactions.
- A parallel market rate of U.S.\$1 = C28 is used for purchases of nonessential items, payments to students abroad, and health-related travel. This parallel market is under complete government control and supervision.

There is a severe shortage of foreign exchange, which makes it very difficult for businesses to obtain the necessary imported productive inputs. As a result, many factories are operating at 50 percent or less of capacity.

## Investment Incentives

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#### Group A — Industries that—

1. produce industrial raw materials or capital goods, or
2. produce articles for consumption, packages, or semi-finished products of which at least 50 percent in value of the raw materials is produced in Central America.

**Group B — Industries that—**

1. produce articles for consumption, packages, or semi-finished products, and
2. contribute favorably and considerably to the balance of payments and to the value of industrial production, and
3. use, entirely or in a high proportion in value, raw materials, packages, and semi-finished products from Central America.

**Group C — Industries that—**

1. are not included in Groups A and B,
2. merely assemble, pack, bottle, cut, or dilute other products, and
3. are listed in Annex 1 of the agreement (producers of toilet articles and deodorizers).

**Group A — Fiscal Incentives**

*New Industries*

New industries in Group A are entitled to the following benefits—

1. total exemption from import duties on machinery and equipment for 10 years,
2. exemption from import duties on raw and semi-finished material and packages as follows: 80 percent for the first five years, and 50 percent for the next five years,
3. total exemption for five years from import duties on fuel (except gasoline) strictly required for industrial processes. This does not include fuel for transport or for the generation of energy where such is available from public sources, provided that suitable and adequate supplies cannot be obtained from Central American sources,
4. total exemption from income tax for two years, and
5. total exemption from assets and capital taxes for 10 years.

*Existing Industries*

Existing industries in Group A are entitled to—

1. total exemption from import duties on machinery and equipment for six years,
2. total exemption from income tax for two years, and
3. total exemption from assets and capital taxes for four years.

**Group B — Fiscal Incentives**

*New Industries*

New industries in Group B are entitled to—

1. total exemption from duties on the importation of machinery and equipment for eight years,
2. exemption from duties on the importation of raw and semi-processed materials and packages as follows: 100 percent for the first three years, and 50-80 percent for the remainder of the term, depending on the investment,
3. exemption from import duties on fuel as defined under "Group A—New Industries" above, as follows: 100 percent for the first three years and 50 percent for the next two years,
4. total exemption from income tax for six years, and
5. total exemption from assets and capital taxes for six years.

## **Existing Industries**

Existing industries in Group B are entitled to total exemption from import duties on machinery and equipment for five years.

## **Group C — Fiscal Incentives**

Industries in Group C are entitled to total exemption from import duties on machinery and equipment for three years.

## **Export Incentives**

The government introduced new export incentives for agricultural products in 1982 to encourage production of traditional products such as cotton, coffee, and sugar. Taxes were lowered on export production of cotton, meat, coffee, sugar, sesame, and molasses. Another incentive allows exporters to convert some foreign exchange earnings at the preferential parallel rate for a number of products.

## **Labor**

### **Availability**

The labor force is distributed as follows:

| Type          | Percent |
|---------------|---------|
| Agriculture   | 41.8    |
| Mining        | 0.4     |
| Manufacturing | 15.0    |
| Construction  | 4.6     |
| Other         | 38.2    |

### **Minimum Wage**

The minimum wage is U.S. \$3.50 per day. Average wages are \$0.65 per hour for unskilled labor and \$1.30 per hour for skilled labor.

### **Working Hours and Fringe Benefits**

The average workweek is 44-48 hours. Fringe benefits include paid vacations, holidays, overtime, and a Christmas bonus.

### **Labor Unions and Negotiations**

Strikes are prohibited under the Emergency Economic Decree of 1981. The Ministry of Labor regulates all private-sector labor negotiations for new contracts and pay increases.

**Work Permits**

The government requires that 75 percent of a company's workforce be Nicaraguan. Managerial personnel are exempt from this restriction. Foreign nationals are required to obtain a work permit.

**Taxes**

**Personal and Corporate Income Tax**

Personal and corporate income are subject to the same tax schedule, as shown below:

| Personal or Corporate<br>Taxable Income<br>(U.S. Dollars) | Marginal Tax Rate<br>(Percent) |
|-----------------------------------------------------------|--------------------------------|
| \$ 0.00- 4000.00                                          | 6                              |
| 4000.01- 5000.00                                          | 8                              |
| 5000.01- 7000.00                                          | 10                             |
| 7000.01- 9000.00                                          | 12                             |
| 9000.01- 11000.00                                         | 15                             |
| 11000.01- 13000.00                                        | 18                             |
| 13000.01- 15000.00                                        | 21                             |
| 15000.01- 17500.00                                        | 24                             |
| 17500.01- 20000.00                                        | 27                             |
| 20000.01- 25000.00                                        | 32                             |
| 25000.01- 30000.00                                        | 35                             |
| 30000.01- 40000.00                                        | 37                             |
| 40000.01- 50000.00                                        | 38                             |
| 50000.01-100000.00                                        | 40                             |
| 100000.01-150000.00                                       | 42                             |
| 150000.01-200000.00                                       | 45                             |
| 200000.01 and over                                        | 50                             |

Individuals are allowed a personal deduction of \$6,000. Total tax may not exceed 40 percent of taxable income.

**Loss Carry Forward**

Losses from a corporation or partnership may be carried forward for a period of five years.

**Non-Resident Withholding Tax**

Non-residents are subject to the same tax rates as residents. Profits or dividends remitted abroad are taxed at a rate of 45 percent.