



## U.S. Department of State FY 2001 Country Commercial Guide: Nicaragua

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The Country Commercial Guide for Nicaragua was prepared by U.S. Embassy Managua and released by the Bureau of Economic and Business in July 2000 for Fiscal Year 2001.

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### CHAPTER I. EXECUTIVE SUMMARY

This Country Commercial Guide (CCG) presents a comprehensive look at Nicaragua's commercial environment, using economic, political, and market analysis. The CCGs were established by recommendation of the Trade Promotion Coordinating Committee, a multi-agency task force, to consolidate various reporting documents prepared for the U.S. business community. Country Commercial Guides are prepared annually at U.S. embassies through the combined efforts of several U.S. government agencies.

#### • MAJOR ECONOMIC AND POLITICAL TRENDS

Nicaragua has made progress since 1990 in consolidating democratic institutions and in fostering economic growth. Arnaldo Aleman became Nicaragua's president in January 1997. The two largest political forces in the National Assembly are the pro-government Liberal Alliance (including the PLC, of which President Aleman is honorary president) and the Sandinista front (FSLN). The Government has generally been able to get its initiatives through the Assembly with the support of several of the smaller parties. The PLC and the FSLN worked out a series of agreements commonly called the Pact. The main results were some constitutional reforms, the most significant of which were decreasing the percentage of the vote needed to win in the first round in the presidential election, the enlargement of the Supreme Electoral Council and the Supreme Court, and the changing the Comptroller's Office into a collegial body. Another agreement was to increase the number of votes necessary to suspend immunity of members of the National Assembly to two-third of the votes of the plenary. Supporters of the Pact cite decreased labor unrest and more rapid passage of legislation, while detractors claim the Pact has made government institutions more subject to control of the two main parties.

Municipal elections are to take place November 2000, and national (legislative and presidential) elections are scheduled for November 2001. The international donor community has urged the government to hold all elections as scheduled.

Over the last year the National Assembly has passed copyright, patent and other intellectual property legislation, as well as new laws on government procurement and on the creation of an attorney general's office. A law to allow investment of social security funds in private investments, both domestic and foreign, was also approved earlier this year. Currently before the legislature are draft laws on a civil service code, administrative dispute settlements, access to public information, a new penal code, a criminal procedures code, a law on citizen participation, an updated trademark law, and a law to demarcate tribal communal property land.

Nicaragua's economy grew by 7.0 percent in 1999, up from 4.0 percent in 1998, despite the damage caused by Hurricane Mitch in October 1998. For 2000, estimates for real GDP growth range from 5.0 to 8.0 percent (the higher figure is the government's estimate). This rapid recovery is being led by commerce, services, agriculture, and construction -- residential, commercial and public. During the first half of 2000, there is evidence that growth is slowing in the agricultural sector, due to low world prices and the ensuing financial difficulties. Nicaragua's GDP is only \$2.24 billion and per capita GDP is an estimated \$460--the second lowest in the Western Hemisphere. In March 1998, the International Monetary Fund approved an Enhanced Structural Adjustment Facility for Nicaragua. As part of the IMF program, the Nicaraguan government agreed to implement an aggressive policy directed at cutting the government fiscal deficit, implementing structural reforms, and maintaining overall monetary stability. International support for Nicaragua in the aftermath of Hurricane Mitch has been significant.

At the Consultative Group meeting in Stockholm in May 1999, donor countries pledged \$9 billion for Central American reconstruction, \$2.5 billion of which is earmarked for Nicaragua. The United States and other donor countries in the Paris Club also deferred Nicaragua's debt payments until early 2001. With a foreign debt of more than \$6 billion, Nicaragua has one of the highest per capita debts in the world. Nicaragua -- by continuing to maintain its IMF program targets -- seeks significant debt forgiveness in 2000 through the Highly Indebted Poor Countries (HIPC) initiative.

Increasingly, the donors are demanding more transparency and governability -- widely defined to mean less corruption, and more responsive and efficient administration. The donors have also made HIPC conditional on the development of a coherent poverty reduction strategy, since their taxpayers are demanding that the money saved in Nicaragua (and paid for by them) for HIPC, be directed toward the poor.

The donors are paying special attention to whether the Comptrollers' Office, whose structure was changed to a collegial body as part of the Pact, will go after government corruption. In what was considered a test case, the Comptrollers found that the head of the Tax Revenue Office had violated administrative rules in a recent scandal, but did not have enough evidence to accuse him of violating criminal laws. Their recommendation that he and

another top official be relieved of their positions was hailed as progress, while critics faulted the office for not using its subpoena powers to uncover key missing evidence.

- **OVERVIEW OF IMPORT MARKET**

Nicaragua is essentially an agricultural country with a small manufacturing base. It is dependent on imports for most manufactured, processed, and consumer items. In recent years the government has liberalized the foreign trade regime, sharply reduced tariffs, and eliminated most non-tariff barriers and foreign exchange controls. The Aleman government is firmly committed to taking further market-opening measures. As proof of that commitment, in 1999 the National Assembly passed an amendment to the “Ley de Justicia Tributaria” (Tax Justice Law), which will provide additional tax reductions. The National Assembly also enacted further legislation implementing the consumer protection law.

The U.S. remains Nicaragua's largest trading partner by far. Two-way trade in 1999 totaled \$869 million (of which \$495 million were Nicaraguan exports to the U.S. and \$374 million were U.S. exports to Nicaragua). These figures have risen steadily in recent years and are expected to continue to do so. Nicaraguan consumers maintain a decided bias in favor of American products and U.S.-style services. Emblematic of this preference were the openings over the last year of several McDonald's and a TGI Friday's.

- **MAJOR BUSINESS OPPORTUNITIES**

Best prospects for U.S. sales include agricultural commodities, fertilizer, farm equipment, food processing/packaging machinery, medical supplies, data processing equipment, electrical equipment, franchising, construction equipment, and U.S. motor vehicles and spare parts. Best investment opportunities exist in export-oriented manufacturing, tourism, mining, and agriculture. There may also be opportunities in road building, water system construction, and electricity generation.

- **MAJOR ROADBLOCKS TO DOING BUSINESS**

The major roadblocks are:

- Unpredictability of enforcement of contracts and a cumbersome and sometimes corrupt legal system. The enforcement of judicial rulings is often uncertain. The rules of the game are sometimes changed by sudden government decree or political considerations that can significantly disrupt business planning. Requests for bribes do occur.
- Slow resolution of Sandinista-era property claims (including U.S. citizen properties). Potential investors should consult a local attorney to verify property titles before purchasing property.
- High operating costs in terms of transportation, electricity, and telephone. Occasional power outages also lead to higher costs.

-- An incomplete enforcement of the intellectual property rights regime. The Aleman government signed a bilateral IPR agreement with the U.S. While a new copyright law was passed July 5, 1999, full penalties have been delayed until late 2000. In 1999, the National Assembly also passed a law to protect developers of new plant varieties and information sent by satellite and other signal carriers. In 2000, the government passed laws to protect integrated circuit designs and patents. An updated trademark law is before the National Assembly.

-- Arbitrary or slow bureaucracy. Doing business in Nicaragua can sometimes mean becoming involved with slow-moving government approvals. Foreign investors also complain about arbitrary customs procedures and valuations. The WTO customs valuation system should be implemented by September 2000, although the government has sought and received WTO approval to maintain reference prices on sugar and used clothes, cars and tires for two to three more years.

- **NATURE OF LOCAL AND THIRD COUNTRY COMPETITION**

Nicaragua's major trading partners are the U.S., Western Europe, and Central America. Nicaragua's industrial sector is small, so local competition for processed and manufactured products is non-existent for many products. Nicaragua is part of the Central American free trade area, and has free trade agreements with the Dominican Republic, Mexico, and Chile.

CCGs are available for U.S. exporters from the National Trade Data Bank on CD-ROM or via the Internet. Contact STAT-USA at 1-800-STAT-USA. CCGs can be accessed on the Internet at [www.state.gov/](http://www.state.gov/), [www.stat.usa.gov](http://www.stat.usa.gov), and [www.mac.doc.gov](http://www.mac.doc.gov). They can also be ordered in hard copy or diskette from the National Technical Information Service at 1-800-553-NTIS. U.S. exporters seeking general export information/assistance and country-specific commercial information should contact the U.S. Department of Commerce's Trade Information Center at 1-800-USA-TRADE or U.S. Embassy Managua's Economic/Commercial Section ([usbusiness@amemb.org.ni](mailto:usbusiness@amemb.org.ni)).

## **CHAPTER II. ECONOMIC TRENDS AND OUTLOOK**

- **MAJOR TRENDS AND OUTLOOK**

Nicaragua's economy grew by 7 percent in 1999, up from 4.0 percent in 1998, despite the damage caused by Hurricane Mitch. In 1999 GDP (Gross Domestic Product) reached \$2.24 billion. The primary sector (farming, livestock and fishing) grew 4.8 percent in 1999. The primary sector was characterized by declining international prices, due mainly to the economic crises in Asia and Russia, damages caused by Hurricane Mitch, and financial problems. Despite these problems, producer dynamism and good climate conditions drove agricultural growth of 7.8 percent. Coffee and sugar cane registered their highest production ever. The secondary sector (manufacturing, construction and mining) showed 4.0 percent

growth. That rate was supported by strong growth in the construction sector (53.4 percent) and in the mining sector (28.9 percent). The tertiary sector (commerce, government, transport and communication, banking, energy, housing and others) grew by 4.2 percent. Top contributors were commerce (6.3 percent), transportation and communication (6.3 percent) and banking (4.9 percent). Private investment, from both domestic and foreign sources, is rising and the private banking sector continues its expansion. Because of high population growth, GDP per capita grew by only 4.0 percent to an estimated \$460, the second lowest in the hemisphere. The unemployment rate fell from 12.3 percent in 1998 to 10.7 percent in 1999. The combined rate of unemployment and underemployment was 23.0 percent (many believe that this official level underreports the real un- and under-employment rate.)

The administration of President Arnoldo Aleman signed an ESAF (Enhanced Structural Adjustment Facility) program with the International Monetary Fund in January 1998 and continues its efforts to modernize the economy and open it to foreign trade and investment. As part of the IMF program, the government agreed to implement an aggressive policy directed to cutting the government fiscal deficit, implementing structural reforms, and maintaining overall monetary stability.

With a foreign debt of more than \$6 billion, Nicaragua has one of the highest per capita debt figures in the world. It seeks significant debt forgiveness in 2000 through the HIPC (Heavily Indebted Poor Country) initiative. In addition to adhering to sound economic policies, the government has committed itself to develop a poverty-reduction strategy and improve governability and transparency.

Accomplishments over the past year include the declaration of Nicaragua as eligible for HIPC debt relief; creation of 250,000 jobs that reduced unemployment by 2.5 percent; lowering the inflation rate from 18.5 to 7.2 percent; a tripling of credit availability from 4.5 to 13 thousand million cordobas; higher net international reserves, from 200 to almost 500 million dollars; lower tax rates on imports and on personal income and increasing the level of non-taxable income. Overall new investment (public and private) in 1999 amounted to an estimated \$727 million -- 5.8 percent over 1998, and approximately one-third of GDP.

Estimates of real GDP growth in 2000 range from 5 to 8 percent (the higher figure is the government's estimate). There is some anecdotal evidence that mounting problems in the agriculture, commerce and construction are slowing down and the economy may not realize a five percent real growth rate. Nevertheless, prospects look good for sustained economic growth beyond 2000. The government's ability to stay on track with its second IMF program, make significant progress in resolving property disputes, strengthen the rule of law, and remove obstacles to private investment will play a role in determining whether the economy can grow more rapidly. The Tourism Incentives Law is generating growing interest from potential investors, especially Japanese, Taiwanese and Europeans.

- **PRINCIPAL GROWTH SECTORS**

Construction, mining, agriculture, telecommunications, commerce and tourism will be the principal growth sectors for the next few years.

**Agriculture:** Agricultural production (including farming, livestock, fisheries and forestry) accounts for 27.8 percent of Nicaragua's GDP and two-thirds of exports. The sector grew 4.8 percent in 1999, up from 5.1 percent in 1998, despite the effects of the passage of Hurricane Mitch. The Nicaraguan government, as well as the international donor community, is placing great emphasis on agricultural reactivation. Farming grew 7.8 percent in 1999, up from 5.1 percent in 1998. Fishing contracted by 7.6 percent, down from an increase of 12.4 percent in 1998. For the livestock industry, 1999 was a recovery year from losses caused by Hurricane Mitch. Those losses included 59 thousand acres of pasture, \$6 million of infrastructure damage and the death of some 81 thousand head of cattle. The sector barely grew by 0.7 percent in 1999, after contracting by 1.8 percent in 1998. Nicaragua's low population density and ample grazing land offer potential for further expansion of the livestock sector.

**Manufacturing:** Export-oriented manufacturing in the free trade zones rose 14.5 percent in 1999 to \$197.8 million. As of June 2000, 11 U.S. firms operated under the free trade zone regime -- four in the government-owned zone, another two in the private Zona Franca Index, and another five as self-administered free trade zones outside the capital (Esteli, Masaya and Granada). Overall, manufacturing made up 19.7 percent of the nation's GDP, and grew 3.3 percent.

**Mining:** Foreign investors are active in Nicaragua's mines. In addition, several companies have won concessions for new exploration. Some 157,700 troy ounces of gold were produced in 1999, a 29.5 percent increase over 1998. 53,400 troy ounces of silver were produced in 1999, a 300 percent increase over 1998.

**Telecommunications:** The government is trying for a third time to privatize the government-owned telephone company, ENITEL. The tender suffered an additional delay, and the bid is supposed to take place in mid-2000. Meanwhile, the government initiated a capitalization process, which entails a re-engineering process and the seeking of additional capital through stock offerings. Cellular telephone service, private leased-line services, paging and trunked radio service are all presently offered in Nicaragua by private companies under license with ENITEL.

**Tourism:** According to the Institute of Tourism, tourism was Nicaragua's third most important source of foreign exchange in 1999, representing an \$105 million market -- an increase of 15 percent over 1999. Tourist arrivals are expected to grow by 3.5 percent in 2000, to about 468,000. The Nicaraguan Government expects 484,500 visitors by the year 2002 (20 percent from the U.S.). Nicaragua's new tourism incentive law provides tax breaks for investments in the hospitality and lodging industry, food, beverage and entertainment service, tourism infrastructure, and arts and crafts facilities.

**Construction:** Construction saw strong growth (53.4 percent) in 1999 for the sixth year running. Business and residential construction are expected to continue to rebound in the coming years after two decades of relative stagnation. Middle-class residential construction

has had some limited funding from local banks which draw on lines of credit originating off-shore, the military pension fund, and some funding through a national investment fund. It is hoped that the new changes in the national social security law permitting investment of a certain portion of the national pension fund will open up new sources of financing.

- **GOVERNMENT ROLE IN THE ECONOMY**

Since 1990, all state monopolies except for public utilities have been eliminated, virtually all price controls have been phased out, and more than 300 state enterprises have been privatized. The Government still retains a number of state enterprises in non-utility areas, such as construction, insurance, building materials, pharmaceuticals and agribusiness. Doing business in Nicaragua can still mean becoming involved with slow-moving bureaucratic approvals. Foreign investors report instances of government officials requiring favors or outright bribes to provide routine services. We have also received reports of officials offering government contracts in exchange for compensation, or asking for participation in a business, with the implied threat of retaliation if they are not allowed to "invest." In addition, despite significant streamlining in recent years, Nicaragua's legal and regulatory framework remains cumbersome and an impediment to investment.

- **BALANCE OF PAYMENTS SITUATION**

Nicaragua suffers from a chronic external accounts deficit. Despite growing export and tourism earnings and government progress on structural adjustment measures and foreign debt reduction, the country remains highly dependent upon donor assistance to balance its accounts. This dependence will continue for the foreseeable future. The current account deficit in 1999 was \$1,071 million (47 percent of a GDP of \$2.24 billion). Net official capital transfers of \$500 million and net private capital transfers of \$454 million help cover that deficit.

- **INFRASTRUCTURE SITUATION: GOODS/SERVICES DISTRIBUTION**

**Ports:** Because of poor infrastructure and high operating expenses, most containerized sea cargo and fresh fruit are shipped by highway to and from Puerto Limon in Costa Rica and Puerto Cortes in Honduras. Nicaragua has six seaports, all of which are operated by the Government-run Port Authority (ENP). The government is seeking to sell a concession for the port of Puerto Cabezas, on the Atlantic Coast. The most suitable port for commercial shipping is the Port of Corinto located on the Pacific coast, 110 miles northwest of Managua. The Port Authority is improving Corinto's facilities and hopes that it will sharply increase the port's competitiveness. The port has recently been dredged. Puerto Sandino, also located on the Pacific Coast, is primarily used for the import of crude petroleum and bulk cargo, such as fertilizer, clinker and steel. The remaining Pacific port of San Juan del Sur has limited capacity and uses barges to load and unload cargo. Beginning this year, San Juan del Sur began welcoming cruise ships. On the Atlantic Coast, Nicaragua has three seaports (El Bluff, El Rama and Puerto Cabezas). El Bluff and Puerto Cabezas are basically piers and handle limited cargo. El Rama is a floating steel wharf and is located on the Rama River, 40 miles from the coast.

**Airport:** Managua International Airport (located 7 miles east of the city center) has separate cargo facilities constructed in 1995. The main cargo carriers are Fine Airlines (based in Miami), and TACA Airlines. UPS has joined forces with Challenge Air Cargo, and now average six flights a week. In addition, most passenger airlines, including American and Continental, maintain some cargo capacity. A 3,500 cubic foot cold storage facility at the airport opened in 1996.

**Highways:** There are approximately 11,714 miles of roads in Nicaragua, approximately 2,900 of them paved. The majority of the paved roads are located in the western part of the country. The Pan-American Highway runs north-south through Nicaragua on the Pacific side and carries the majority of overland cargo. There is no all-weather east-west road. A secondary highway runs from Managua to the interior port town of El Rama, from where there is river transport to Bluefields. The unpaved road that winds from Managua to the northern Atlantic Coast town of Puerto Cabezas is passable only during the dry season (December-April).

### **CHAPTER III. POLITICAL ENVIRONMENT**

- **NATURE OF BILATERAL RELATIONSHIP WITH THE UNITED STATES**

Bilateral relations between the United States and Nicaragua are strong. Since 1990, the U.S. has provided more than 1 billion dollars in assistance and debt-relief to Nicaragua. That money has funded such projects as balance of payments support for economic stabilization, primary education, health care reform, employment generation, food donations, and the strengthening of democratic institutions. U.S.-Nicaraguan commercial relations are strong. The U.S. remains Nicaragua's largest trading partner.

- **MAJOR POLITICAL ISSUES AFFECTING BUSINESS CLIMATE**

President Arnaldo Aleman, inaugurated on January 10, 1997, is publicly committed to improving the business climate and tackling some the thorny political questions which have dampened investor enthusiasm -- the confiscated property problem, security in the countryside, and the weakness of rule-of-law. Civil-military relations have improved substantially in the last few years and cooperation between the Army, Police, and local authorities has helped to reduce insecurity in many rural parts of the country, although murders and kidnappings do occur in the North-Central part of the country. Many past human rights abuses remain unresolved.

Since the January 2000 conclusion of a political "Pact" between the former militant opposition Sandinista (FSLN) and the governing PLC, legislation of interest to investors has been passed, such as a new law on government procurement. The Pact has decreased the



number of demonstrations and strikes. However, the Pact is also viewed as making Nicaraguan government institutions more subject to the political control of the Pact parties.

- **BRIEF SYNOPSIS OF POLITICAL SYSTEM, SCHEDULE FOR ELECTIONS, AND ORIENTATION OF MAJOR POLITICAL PARTIES**

Nicaragua's government is divided into four branches: a democratically-elected president, a National Assembly, a judiciary, and the Supreme Electoral Council. Liberal Alliance candidate Arnaldo Aleman won the 1996 Presidential election with 52 percent of the vote in a field of 23 candidates. The Liberal Alliance controls key leadership positions in the National Assembly and, with the support of several small parties and non-aligned members, can usually achieve a majority on important legislative votes. The Sandinista party holds 36 of the Assembly's 93 seats. Party politics are complex and fragmented in this young democracy.

Municipal elections are to take place November 2000, and legislative and presidential elections are scheduled for November 2001.

#### **CHAPTER IV. MARKETING U.S. PRODUCTS AND SERVICES**

- **DISTRIBUTION AND SALES CHANNELS**

Distribution and sales of imported products are handled by local distributors and agents. The Nicaraguan retail market is small, though expanding.

- **USE OF AGENTS/DISTRIBUTORS; FINDING A PARTNER**

Prior to when the current law on agents and distributors went into effect, the interests of local agents and distributors were afforded considerable protection; termination of a relationship could prove costly. However, the May 1997 tax reform law established that new contracts are based on mutual consent of the parties. Contracts in effect before that date remain valid.

Partnerships among U.S. and Nicaraguan business interests are common. There is no clearinghouse of information for finding a partner in Nicaragua. It is recommended that U.S. companies seeking agents, distributors, or partners in Nicaragua either purchase the Agent Distributor Service (ADS) from their nearest U.S. Department of Commerce District Office or contact the Commercial Section of U.S. Embassy Managua, the Nicaraguan Center for Export and Investment (CEI), or local business chambers. (See Appendix E for contact information.)

- **FRANCHISING**

Nicaragua has no specific law regulating franchises. Prospective franchisees must follow the general regulations concerning foreign investment and starting a business contained in the Commercial Code and Foreign Investment Law. The franchise market for Nicaragua is

booming, particularly for fast food. According to the Nicaragua Tourism Institute, projected investment in fast food restaurants in Nicaragua will total an estimated \$21 million from 1997-2003. There are currently over 25 foreign franchises. McDonald's, TGI Friday's, Pizza Hut, Domino's Pizza, Jerry's Subs and Pizza, Subway, American Donut, Napa Auto Parts, Hertz, Avis, and Budget Rent-A-Car, among other franchises, operate in Nicaragua. Many Nicaraguans have lived several years outside of the country and have grown accustomed to fast food outlets and other franchise services.

- **DIRECT MARKETING**

There is little direct marketing in Nicaragua at the present. No specific law or regulation governs the field. Obstacles to profitable direct marketing include an unreliable postal service, inconsistent treatment of goods at Customs, and lack of an efficient delivery system.

- **JOINT VENTURES/LICENSING**

All types of business organizations are governed by the Commercial Code. The code permits joint ventures, license arrangements, general and limited partnerships, and corporations. Foreign investors are generally accorded national treatment under the Commercial Code.

- **STEPS TO ESTABLISHING AN OFFICE**

There are various ways to constitute an operation in Nicaragua; the two most common are as a sole proprietorship or as a corporation. The basic steps for organizing a business are as follows:

1. Register and incorporate the business at the Ministry of Finance (Ministerio de Hacienda y Credito Publico, in Spanish). After paying the registration fees, a tax identification number must be acquired. (Note: If incorporating, a notarized letter from the corporation's board of directors authorizing incorporation in Nicaragua is required.)
2. Register with the office of the Mayor of the Department where the business is located. At this office, the new business may elect to pay a fixed tax quota on sales or contract an accountant to maintain detailed records. If the accountant option is chosen, the books must be registered with the Ministry of Finance Office of Fiscal Records.

In addition to these steps, other permits/licenses may be required depending upon the business in question. We recommend the retention of an experienced commercial attorney for any investor interested in establishing an operation in Nicaragua. (See Chapter 11, for Embassy Lawyers List).

- **SELLING FACTORS/TECHNIQUES**

Sales and marketing techniques in Nicaragua have been increasing in sophistication. Most advertising takes place on the radio, in newspapers, on television, Internet, or, to a lesser extent, through billboards. Trade fairs and industry-specific shows have become more

frequent in the past few years. Companies are adopting more modern marketing techniques, such as door-to-door advertising and special sales promotions. This increased marketing sophistication comes in response to Nicaragua's economic growth and liberalization, as well as the greater availability of financing and larger choice of goods.

- **ADVERTISING AND TRADE PROMOTION**

Most business advertising and trade promotion in Nicaragua is conducted through the print media. Below are the most commonly used publications:

**Daily Newspapers:**

**LA TRIBUNA**

De donde fue la Pepsi, 5c. al lago, Managua (circulation: 8,000 - 12,000)

Tel: (505) 248-3313, 248-3308/09, Fax: (505) 248-3311, 266-9089

WEB: <http://www.latribuna.com.ni>

E-Mail : [tribuna@latribuna.com.ni](mailto:tribuna@latribuna.com.ni)

(note: this newspaper may be moving exclusively to the internet)

**LA PRENSA**

Km. 4 Carretera Norte, Managua (circulation: 20,000 - 26,000)

Tel: (505) 249-6924, Fax: (505) 249-6928

WEB: <http://www.laprensa.com.ni>

E-Mail: [info@laprensa.com.ni](mailto:info@laprensa.com.ni)

**EL NUEVO DIARIO**

Km. 4 Carretera Norte Managua (circulation: 25,000 - 30,000)

Tel: (505) 249-0499, Fax: (505) 249-0700

WEB: <http://www.elnuevodiario.com.ni>

E-Mail: [ndiario@ibw.com.ni](mailto:ndiario@ibw.com.ni)

**LA NOTICIA**

Del Porton del Hospital El Retiro, 1c. lago, 30vrs arriba, Managua (circulation 3,500 - 5,000)

Tel: 268-0606, Fax: 266-2025

E-Mail: [info@lanoticia.com.ni](mailto:info@lanoticia.com.ni)

**Business Journals:**

**EL OBSERVADOR ECONOMICO**

Del Hospital El Retiro 2 c. al lago Managua

Tel: (505) 266-8869, 266-8708/9, Fax: (505) 266-8711

E-mail: [Fideg@tmx.com.ni](mailto:Fideg@tmx.com.ni)

**VISTAZO ECONOMICO**

Contiguo a la Universidad Catolica, Managua

Apdo Postal 282

Tel: (505) 277-2067, Telefax: (505) 278-0810

**MUNDO FINANCIERO**

Plaza El Carmen Del Canal 2, 1 c. al oeste Managua

Tel: (505) 266-9976, Fax: (505) 268-2134

E-mail: mf@ibw.com.ni

**Other Journals:**

**CONFIDENCIAL**

Rotonda Plaza España, 3c. al lago, Managua

Tel: (505) 266-3431, Fax: (505) 266-0129

WEB: <http://www.confidencial.com.ni>

E-Mail: revista@confidencial.com.ni

**BOLSA DE NOTICIAS**

Colonia Centroamérica L-852, Managua

Tel: (505) 278-6326; Telefax: (505) 277-4931

WEB: <http://www.grupoese.com.ni>

E-Mail: grupoese@tmx.com.ni

**EL SEMANARIO**

Km. 3 1/2 Carretera Sur, Managua

Tel: (505) 268-1972, Telefax: (505) 268-1973

**Trade Shows:**

There are few regularly scheduled trade shows in Nicaragua. Trade events are usually held at the Olof Palme Convention Center in Managua. This modern facility has numerous meeting rooms, the largest seating 2000. (See Appendix G, Trade Events, for more detail.) For information contact:

Olof Palme Convention Center

General Manager Ronnie Castillo Sanchez

Tel: (505) 228-1037; Fax: (505) 222-5423

The Holiday Inn-Select has a large conference facility. The Camino Real, Inter-Continental Hotel, Intercontinental-Metrocentro and the Hotel Princess have small to medium-sized conference rooms. See Chapter IX, Business Travel for contact information.

• **PRICING PRODUCTS**

There are no price controls with the exception of controls on pharmaceutical sales margins, sugar, domestically produced soft drinks, national cigarettes and liquified natural gas.

• **SALES SERVICE/CUSTOMER SUPPORT**

Most local businesses place little emphasis on sales service and customer support. U.S. and foreign businesses which have made customer service a priority have been well received.

- **SELLING TO THE GOVERNMENT**

Nicaragua's new law on Government Procurement went into effect in January, 2000. This new law regulates all government purchases except for certain procurement by the Ministry of Defense and the National Police that could affect national security. Purchases financed, even partially, by loans or grants from foreign governments or international organizations are conducted according to the procedures of the financing organization.

To participate in any government procurement one must register at the government's Suppliers' Registry at the Ministry of Finance. Within the first month of every fiscal period every agency or ministry subject to the present law must publish a calendar of bids projected for that fiscal period, with detailed information on the type of services to be acquired, projects to be performed, and material or equipment to be purchased.

Under the new law there are the following types of procurements:

- 1- **Public Bidding:** for contracts exceeding 2.5 million cordobas (currently equivalent to approximately USD 200,000), open bidding procedures must be followed. These bids must be published in "La Gaceta" or in at least two other newspapers with national circulation. If appropriate, they may also be published in international media.
- 2- **Procurement by Registrar:** for contracts between 700 thousand and up to 2.5 million cordobas. In this type of bid, the contracting agency invites all companies previously registered to participate in the bid process.
- 3- **Restricted Procurement:** for procurement between 100 thousand and 750 thousand cordobas. This process is similar to the previous category, but the number of those invited to bid may be limited to five.
- 4- **Purchasing by Quotation:** This type of procurement may not exceed 100 thousand cordobas (to be adjusted for devaluation periodically). The contracting agency must request at least three quotes from registered people or firms. All offers must be received in a sealed envelope within five days of the request for quotes.

All procurement offers must be accompanied by a performance bond equivalent between 1% to 3% of the bid offer value.

- **PROTECTING YOUR PRODUCT FROM IPR INFRINGEMENT**

**Patents:** Patent applications must be filed with the Ministry of Development, Industry and Trade (MIFIC), at the Intellectual and Industrial Property Registry. Fees are \$200 for applying, examination fee will be determined by both parties. Fees range from \$50 for the first 6 years to \$600 for a twenty-year license. On average, there is a 2-3 month delay for issuance. Protection is granted for 20 years.

**Copyrights:** Copyright applications must also be filed with the Intellectual and Property Registrar at MIFIC. There is \$10 information service fee, \$40 registration fee, \$70 fee for phonograms, \$100 fee for computer software, and \$20 for registration of contracts. Registration forms cost \$2 each, audiovisual applications cost \$70, photography costs \$20. There is a one-month delay for issuance. The protection granted is for the lifetime of the author and up to 70 years of the lifetime of his/her heirs.

**Trademarks:** Trademark applications must be filed with the Intellectual and Property Registrar at MIFIC. There is a \$50 charge to publish the trademark in the government gazette, and, on average, there is a 3-5 month delay for issuance. The applicant must present with the application a sample of the trademark for which protection is being requested. A modern trademark law is being considered by the National Assembly, and the above information may change once the new law is in effect.

Intellectual property rights protection in Nicaragua does not meet international standards, although there has been considerable progress over the last year. The government still must pass a modern trademark law and develop a credible enforcement regime. See "Protection of Property Rights" under Chapter VII, Investment Climate, for more information.

- **NEED FOR LOCAL ATTORNEY**

Local attorneys are recommended for all business activities. There are numerous law firms in Managua with experience in international business and with English-speaking attorneys on staff. See Chapter 11, U.S. and Country Contacts for a list of some prominent law firms in Managua.

## **CHAPTER V. LEADING SECTORS FOR U.S. EXPORTS AND INVESTMENT**

- **BEST PROSPECTS FOR NON-AGRICULTURAL GOODS AND SERVICES**

**Machinery:** Machinery was again the top U.S. export category to Nicaragua in 1999, with exports up by 17.3 percent, from \$49.5 million to \$58 million. Nicaragua's total imports of capital goods increased by 11 percent in 1999, driven by growth in manufacturing and construction. Construction grew by 22 percent in 1999, contributing \$131.9 million to Nicaragua's 1999 GDP. As the economy expands, the demand for electronic consumer goods, manufacturing, and construction machinery in particular is likely to grow quickly. Major competition for U.S. products comes from firms in Western Europe and Central America. The market is excellent for agricultural and used machinery. There is no local production of most kinds of machinery.

**Vehicles and Automobile Parts and Equipment (APS):** Nicaragua imported \$18.1 million worth of vehicles from the U.S. in 1999, a decrease of 10.6 percent from 1998. Import taxes on used cars are now applied based on NADA "Blue Book" values (previously, they were

based on arbitrary assessments that often resulted in high duties). This change, combined with the increased availability of financing and the country's economic growth should spur stronger growth in the demand for cars. Also, a tariff based on engine size that had a discriminatory effect on large-engine U.S. vehicles was ameliorated though not eliminated in early 1999. There is also considerable demand for servicing and parts for vehicles, and spares are increasingly available on the local market. At present, there are three NAPA auto parts stores in Managua, and many other auto shops carry U.S. parts. Two GM distributors in Managua sell Chevrolet vehicles including Cavalier, Chevy S-10, and Blazer. There is a Ford distributorship offering the Escort, Ranger, Explorer, Ford F-150, and taking individual orders for other Ford makes. There is a high demand for heavy and light U.S. trucks, buses and sport-utility vehicles, as well as tires for all motor vehicles.

**Tourism:** According to the Institute of Tourism, tourism was Nicaragua's third most important source of foreign exchange in 1999, representing an \$105 million market -- an increase of 15 percent over 1998. Tourist arrivals are expected to grow by 3.5 percent in 2000, to about 468,000. The Nicaraguan Government expects 484,500 visitors by the year 2002 (20 percent from the U.S.). Two major hotels are currently under construction in Managua, and there are plans for others. Nicaragua's new tax law provides tax breaks for investments in the hospitality and lodging industry, food, beverage and entertainment service, tourism infrastructure, and in the arts and crafts facilities. Best prospects for investment exist in accommodations outside of Managua (for example, on the Pacific coast and in eco-tourism areas).

Nicaragua's new "Tourism Industry Incentive Law", Law No. 306, provides the following incentives and benefits to foreign investors:

- 1- Exoneration from import taxes and sales tax in the purchase of local construction materials. The material and accessories must be used in the construction and equipping of the hotel and lodging industry. This exoneration is given if the products or items are not produced in the country.
- 2- Exoneration from the 15% sales tax on local products or items like furniture, passenger vehicles of more than 12-passengers or cargo trucks. These vehicles must be declared by INTUR as necessary for the operation of the tourism company. Equipment that contributes to saving energy, water, and security equipment for the project are also exonerated from paying sales tax for ten years.
- 3- Exoneration from property taxes for a period of ten years.
- 4- Exoneration from sales tax on construction, design and engineering services.

For more information, see the Institute of Tourism's website at [www.intur.gob.ni](http://www.intur.gob.ni).

**Apparel:** Nicaragua's 1999 apparel exports to the U.S. grew by 17 percent, to \$277 million. Woven apparel was the largest Nicaraguan export item to the U.S. for the past three years, with exports up 17.4 percent in 1999, to \$219 million. Knit apparel exports to the U.S. grew by 28.3 percent to \$58 million. The majority of maquila plants are in the government's Las Mercedes Industrial Free Trade Zone, which expects to employ 12 percent more workers in 2000 than in 1999. Other companies operate in the four private free trade zones, or operate

under the "self-administered free trade zones." Nicaragua's advantages in this sector are plentiful low cost labor. A major disadvantage is the high cost of transportation. Nicaragua also hopes to benefit from lower tariffs that the Enhanced Caribbean Basin Initiative could provide to manufacturers of apparel assembled with U.S. and regional fabric.

**Franchises:** Nicaragua offers significant franchise opportunities. There are currently over 25 franchise companies operating in Nicaragua (including McDonald's, TGI Friday's, Domino's Pizza, Subway, and Pizza Hut). The Nicaraguan Tourism Institute registry shows over \$21.6 million in planned new investment in fast food for 1998-2001. This includes a total of 65 restaurants scheduled to open by 2003. Because of the limited availability of investment capital and financing in Nicaragua, prospects are best for franchises that cost less than \$300,000.

- **BEST PROSPECTS FOR AGRICULTURAL SECTOR**

In 1999 agricultural production (including farming, livestock, fisheries and forestry) accounted for 27.7 percent of Nicaragua's GDP. The sector's growth rate was 4.8 percent in 1999, although farming grew at a robust 7.8 percent. Reasons for growth include renovation of coffee plantations and expansion of planting areas for sugar, oilseeds, white corn, dry beans and non-traditional agricultural products. However, the agricultural outlook dimmed in early 2000, due to low world prices for coffee, sugar, meat, rice, bananas and other products. Worsening the situation was the closure of the largest slaughterhouse and the financial difficulties of important buyers, such as the principal oilseed and feedgrain processor.

USDA offers the GSM 102 and 103 credit guarantee programs through BAC, BANCENTRO and BANEXPO. U.S. agricultural commodities that can qualify for this credit include but are not limited to feed grains, seed, semen, live animals, wood, rice, etc.

**Wheat:** In 1999, U.S. exports of wheat to Nicaragua totaled \$12 million, mostly through the 416(b) donation program. Average donations during the last six years were 29,385 MT per year. Three private mills import wheat into Nicaragua from the United States. Nicaragua imports primarily spring wheat, but also imports small quantities of soft wheat (and on occasion, hard red).

**Rice:** The U.S. exported \$20.6 million in rice to Nicaragua in 1999, up almost 11 percent over the previous year. Five private rice importers make most large imports and ENABAS (the Nicaraguan government's purchasing office for basic agricultural commodities) makes emergency purchases as needed. U.S. exports of milled rice (10 and 20 percent broken) are usually in 50 kg bags (which are repackaged locally into smaller bags of 2.2 kg), but small quantities of retail-size rice are also exported directly. Nicaragua imports about 76,000 to 80,000 metric tons of rice a year. In May 2000, the government of Nicaragua raised tariffs on rice to 45-55 percent in reaction to low world prices. There is pressure to provide even more protection.



**High-Value, Consumer-Oriented Agricultural Products:** In 1999, U.S. exports of consumer food products reached \$15.3 million, a 14 percent increase over the previous year. This included snacks, breakfast cereals, spices, red meats (fresh/chilled/frozen), juices, dairy products, processed fruits and vegetables, wine and beer, etc. Nicaraguan imports of consumer food products are likely to experience 10-14 percent growth in 2000.

**Vegetable Oils:** In 1999, U.S. exports of vegetable oil to Nicaragua totaled over \$9 million, compared to \$6 million 1998. Some \$7.8 million of the 1999 oil imports were soybean. Nicaragua also imports soybean oil from Argentina, palm oil from Malaysia, and palm oil (stearin) from Honduras.

**Tallow:** In 1999, U.S. exports of animal fats to Nicaragua totaled \$2.6 million, compared to \$4.8 million in the previous year. Nicaragua produces only about 2,800 MT of tallow a year and normally consumes about 17,000 to 19,000 MT.

**Agro-Chemicals:** In 1998, Nicaragua imported about \$48 million worth of agro-chemicals. While we do not have figures for 1999, the association of agro-chemical importers reports that imports were down slightly in 1999, and are anticipated to decline somewhat in 2000 as well. Approximately 18 percent of total imports come from the United States. The most significant imports are urea 46% nitrogen (fertilizer), fungicides, herbicides, and compound formula fertilizers. Third-country competition comes mainly from Europe and Central American countries.

**Poultry and Livestock Genetics:** In 1999, U.S. exports of hatching eggs to Nicaragua reached \$4.9 million, compared to \$2.4 million the previous year. The growing Nicaraguan poultry meat industry, high-quality U.S. genetics, and adequate incubator space have led to increased poultry genetics imports, mostly from the United States. In 1999, the country imported from the United States \$219,000 in cattle. Future livestock imports will depend on price and credit terms, especially for live cattle. Although the GSM 102/103 programs are available to support related imports, the program has not been widely used by Nicaraguan importers.

**Soybean meal:** In 1999, Nicaragua imported \$2.5 million of soybean meal from the United States compared to \$2.8 million the previous year.

**Yellow Corn:** In 1999, the United States donated 15,000 metric tons of yellow corn under the Section 416 (b) program to alleviate a shortage of sorghum caused by Hurricane Mitch in late October 1998. U.S. exports to Nicaragua were approximately \$7 million in 1999. The government has raised tariffs on yellow corn to protect sorghum growers, but has allowed duty-free imports of donations, to compensate poultry growers for paying above-market prices for sorghum.

## **CHAPTER VI. TRADE REGULATIONS AND STANDARDS**

- **TRADE BARRIERS, INCLUDING TARIFFS, NON-TARIFF BARRIERS, AND IMPORT TAXES**

Nicaragua is in the process of progressive import tax reductions through the year 2002. As of July 2000, Nicaragua imposes regular import duties (DAI) of 10 percent on final consumption goods and 5 percent on intermediate goods (there is no DAI on raw materials and capital goods produced solely outside of Central America, but to import raw materials and capital goods that are also produced in any Central American country one must pay a 5 percent DAI). Some 900 items are levied with a temporary protection tariff (ATP) of 5 to 10 percent, above the DAI. The maximum rate of the combined DAI and ATP on most items is 20 percent. A luxury tax is levied through the specific consumption tax (IEC) on 609 items. The tax is generally lower than 15 percent (with significant exceptions, see below). DAI and ATP are based on CIF value. IEC for domestically produced goods are based on the manufacturer's price, and for imported goods on CIF, except for alcoholic beverages and tobacco products, in which case the IEC is assessed on the price charged to the retailer. Nicaragua levies a 15 percent value added tax (IGV) on most items, except agricultural inputs. Import duties on so-called "fiscal" goods (e.g., tobacco, soft drinks, and alcoholic beverages) are particularly high. Some protected agricultural commodities such as corn and rice face tariffs of up to 55 percent. Cars with large engines (greater than 4000 cc) face an IEC tax of 25 percent. Vehicles with smaller engines are charged between zero and three percent IEC tax. Importers of many items face a total import tax burden of 15 to 63 percent. Chicken parts are levied up to 180 percent DAI.

Nicaragua's 1997 tax reform law marked an important step by the Aleman administration towards fostering Nicaragua's insertion into the global economy. The reform: a) banned almost all non-trade barriers on imports, b) eliminated the discretionality of government officials to exonerate tariffs, c) repealed the restrictive Law on Agents, Representatives or Distributors of Foreign Firms (effective July 1, 1998), d) established a "rebate" of 1.5 percent of FOB value for all exports, e) eliminated payments for permits and licenses related to export activities, f) eliminated IGV on several activities, g) reduced municipal taxes from 2 to 1.5 percent in 1998 and to 1 percent in 2000, h) eliminated income tax on interest and capital gains stemming from transactions on the local stock exchange, and i) set a schedule of progressive import tax reductions through the year 2002.

In March 1999, the National Assembly passed an ambitious tax package that put Nicaragua ahead of the rest of Central American countries in lowering tariffs and reducing exemptions. The amendment to the Ley de Justicia Tributaria (Tax Justice Act) established: a) tax exemptions for NGOs (non-governmental organizations) as long as they perform non-profit activities, b) exemptions on import taxes (DAI), luxury taxes (IEC), and sales taxes for hospital investments, c) reduction of the tax levied on vehicles based on engine size (this amendment has reduced the discriminatory tariff treatment that arises from the fact that American cars have bigger engines than their similar Japanese competition), d) exemption of DAI, ATP and IGV on crude or partially-refined petroleum, as well as on liquid gas and other petroleum derivatives, e) higher taxes on liquors and tobacco, and f) elimination of

import taxes on capital goods, intermediate goods, and raw materials destined for the agricultural sector, small handicraft industry, fishing and aquaculture.

In April 2000, the National Assembly again modified the Tax Justice Law to further reduce nominal luxury (IEC) taxes and to extend benefits enjoyed by cooperatives and the small business, agricultural, aquaculture and fishing sectors. This reform lowered the IEC levied on alcoholic beverages to between 34-43 percent (down from 40-50 percent). Cigars and cigarettes went down to 40 percent IEC tariff from 59-61 percent. The IEC on soft drinks will decrease by 3 percentage points annually until it reaches 9 percent. Cigars and cigarettes will decrease by 1 percentage point annually until the tax reaches 38 percent, and rums and liquor until the IEC arrives at 35 percent. Beers will decrease by 1 percentage point annually as well, until the IEC reaches 32 percent. The benefits of this cut, however, were reduced for imported alcoholic beverages and tobacco products, since the tax will now be based on the sales price to the retailer, rather than on CIF price.

The same amendment to the tax law calls for a 37-cent tax rebate for every pound of trawled shrimp exported; or 7 cents for every pound of farmed shrimp. The legislation conditionally extends the exemptions granted to coops of income tax, IGV, DAI and ATP.

- **CUSTOMS VALUATION**

Foreign investors sometimes complain about arbitrary customs procedures and valuations. Tariffs and import taxes for most used goods are not assessed on a CIF/bill of lading basis, but rather on a "reference price" determined by Customs at the time of entry inspection. This reference price can be significantly higher than the actual amount paid by importers. Presentation of a bill of sale (or other evidence of purchase price) that is certified by a Nicaraguan consular official is often, but not always, accepted by Customs inspectors as proof of the value of used goods. For instance, the Tax Justice Act establishes that used vehicle values will be assessed using the most recent version of the "Blue Book", regardless of the mechanical condition of the vehicle. Nicaragua is supposed to do away with reference prices by September 2000, when it must start using GATT valuation standards. However, Nicaragua has asked for and received permission to delay instituting GATT valuation on used cars, tires and clothes.

- **IMPORT LICENSES**

Permits are required only for the importation of sugar. Special permission must be sought from the Ministry of Government for the importation of firearms and explosives. U.S. exporters of food products should check with the Ministry of Agriculture concerning phytosanitary requirements.

- **EXPORT CONTROLS**

Few export controls remain in place. GON regulations currently prohibit the export of reproductive-phase and under-sized lobsters, larval shrimp, and control the export of wildlife/wildlife products. The export of capital goods as scrap no longer requires the permission of the MIFIC. Gold exports may require special permission of the Central Bank.

A moratorium on the export of precious lumber ended in August 1999. To be exported, timber must be less than eight inches thick, regardless of its length. There is a fee of 7.5 percent of the value of the lumber. Requests for permission to cut timber must be accompanied by a Management Plan, and permission will be granted based on a Plan of Operation. No permits will be issued without a sound management plan. Any processing of precious wood must be done in a mill authorized to handle such wood. INAFOR is currently receiving requests to harvest wood until September 2000. It will assess at that time when to "reopen the window" for cutting permit requests.

- **IMPORT/EXPORT DOCUMENTATION**

Imports require the following documentation: bill of lading (for land and maritime shipments), packing list, airway bill (for air shipments), and invoice.

Exports (outside Central America) require the following paperwork: export certificate and other documents depending on the products and destination.

All export documentation can be processed at the government's one-stop export center, CETREX: Centro de Trámites de las Exportaciones, Plaza El Sol, 1 1/2 al Sur No. 169, phones (505) 278-2065, 270-1587 and, Fax 277-3320.

- **TEMPORARY ENTRY**

Exporters may import inputs using a drawback system. Items like machinery, raw materials, components, packaging materials, etc. may enter duty free. Firms located in approved free zone locations can conveniently import unfinished products for processing, and re-export on a duty-free, in-bond basis. This same treatment is accorded to subcontractors of plants in free trade zones. Registered foreign investors are allowed to re-export equipment and machinery as well as to repatriate capital.

Special procedures apply for the short-term entry of goods (e.g., laptop computers, business samples, professional equipment, and exhibit materials). Upon entry, a deposit must be made with Nicaraguan Customs (Dirección General de Aduanas) equal to the tariffs and duties that would be paid for a permanent import of the same item. The Customs office determines that amount on the spot, which can be in excess of 20 percent of the value of the item. This deposit is returned when the item leaves the country (must be within six months of entry). It is possible to complete the paperwork and pay the deposit ahead of time, although this must be done in person at the Customs office (phone 505-249-5719).

- **LABELING/MARKING REQUIREMENTS**

The Consumer Protection Law enacted in 1995, as well as its regulations promulgated in 1999, introduced product labeling standards and consumer rights to Nicaragua. While most U.S. products will likely meet Nicaraguan regulations by following U.S. guidelines, the following should be noted: the label must list product origin, contents, price, weight,

production date, and expiration date. Proper use and risk information also should be provided. All information must be in Spanish, or if the product is destined for the Atlantic coast area, English or the local indigenous language (note: to date, this requirement is not fulfilled in practice.)

- **PROHIBITED IMPORTS**

Few restrictions exist. The Ministry of Natural Resources and the Ministry of Agriculture does regulate the use of agricultural chemicals. Military weapons may only be imported by the Armed Forces; import shipments of civilian weapons must be accompanied by a license issued by the Ministry of Government. The import duties on a few items are so high (e.g., chicken parts with a 180 percent tariff) that sales here may not be feasible. (Note: Nicaragua is obligated to allow for the import of a certain amount of poultry at a lower rate of tariff; i.e., under a Tariff-Rate Quota, or TRQ.)

- **STANDARDS**

No standards are in place for manufactured and processed products. However, standards issued by the Central American Institute of Industrial Research and Technology are often used as a guide.

- **FREE TRADE ZONES/WAREHOUSES**

The state-owned Las Mercedes Industrial Free Zone is located near Managua's international airport. Thirty (Nicaraguan, U.S., Asian, and European) are currently operating there (primarily manufacturing clothing). There are four privately owned Free Trade Zones, and there are companies operating outside the capital using the "self-administered free trade zone" regime. Exports generated by the free zones rose to \$198 million in 1999. Employment rose from 18,743 in 1998 to 28,183 (direct and indirect employment) by June 2000.

- **SPECIAL IMPORT PROVISIONS**

Importers of pharmaceutical products must provide considerable documentation to the Ministry of Health. Importers of fresh produce, livestock, and food products should check with the Ministry of Agriculture for the latest phytosanitary regulations.

- **MEMBERSHIP IN FREE TRADE ARRANGEMENTS**

Nicaragua is a member of the Central American Common Market (CACM). As such, the majority of goods produced in these nations are imported duty free. The CACM nations signed a free trade agreement with the Dominican Republic in 1998 and are negotiating an agreement with the southern cone nations of South America (Mercosur). Nicaragua has free trade agreements with Mexico, Chile and the Dominican Republic. Nicaragua is a Caribbean Basin Initiative beneficiary; the country is not a beneficiary of the Generalized System of Preferences (GSP).

## **CHAPTER VII. INVESTMENT CLIMATE**

### **• OPENNESS TO FOREIGN INVESTMENT**

Since 1991, Nicaragua has made significant progress in opening to foreign investment. This opening has paid off in average growth of 5 percent over the last few years, and visible signs of investment and economic progress, especially evident in the capital, Managua.

On May 24, 2000, the National Assembly passed a new Foreign Investment Law (Law No. 344, which replaces the 1991 Foreign Investment Law). Among other features the new law: a) assures that foreign and domestic investment receive the same treatment; b) eliminates the need to sign an investment contract; c) abolishes the foreign investment committee; d) eliminates restrictions on the way in which foreign capital can enter the country; e) recognizes the investor's right to own property and use it as he wishes, and in the case of a declaration of eminent domain, proper indemnification. In general, the law did away with the requirement to sign a foreign investment contract in order to receive benefits which most investors enjoyed anyway. The Ministry of Development, Industry and Trade (MIFIC) is responsible for the enforcement of the law. Investments contracted under the previous or any former law are still in force, unless the investor voluntarily decides to renounce that contract.

Banks freely repatriate profits. The Embassy knows of no instances in which profit repatriation has been a problem. Foreign investors receive national treatment with respect to import/export policies. There are no onerous visa, residence, or work permit requirements which inhibit foreign investment, although investors who have lived in Nicaragua but did not comply with Nicaraguan law by failing to obtain a residency permit have encountered immigration problems. In 1999, the National Assembly passed a law on government contracts that contained language that would have prohibited foreign vendors from selling to the government, but the discriminatory provision was repealed soon after.

Water and sewage systems, power transmission, ports, and airports remain exclusive preserves of the state. However, Nicaragua began in 1998 to open up to private investment in other traditionally state-run sectors. While the national telecommunications grid is run exclusively by the state telephone company ENITEL, there is private investment in cellular telephones, beepers, and public phone booths. After several failed efforts, the government is trying once again to privatize ENITEL. Nicaragua's first private power plant began operations in 1997 and a second private plant came on line in early 1999. The government plans to begin privatization of the generation and distribution facilities of the state energy company (ENEL) in the second half of 2000. In the last year or two, the government has rented out the state gasoline distributor, and the National Assembly has passed a law allowing the lease of the state cement factory. Under an Inter-American Development Bank loan, the government is looking to contract private management of some of its water systems,

as a step towards granting water and sewage concessions. The government is also working to privatize or grant concessions for some of the nation's ports.

Two major U.S. energy companies interested in geothermal power generation projects withdrew from Nicaragua in 1999 after long, unsuccessful negotiations with the government. ENEL's privatization had been mentioned as the cause of not signing new Power Purchasing Agreements (PPAs) in late 1999 and 2000. A US-based company has seen its proposed project downsized and delayed, despite several prior GON commitments to sign a PPA with the company.

The government still owns an insurance company, a pharmaceuticals producer, a construction company, and other operating businesses. The military operates several stores and companies that compete with local businesses.

The National Assembly passed a law in 1997 allowing private road concessions. The government eliminated its import monopoly in the petroleum sector. In 1995, it freed up prices on high-octane gasoline, lubricants and jet fuel, and over the last year freed prices on regular gas and kerosene. Price controls remain on liquefied natural gas.

- **CONVERSION AND TRANSFER POLICIES**

Dollars are freely available through a legal parallel exchange market operated by local financial institutions. The Central Bank monitors this activity through a reporting requirement, but in all other respects private exchanges operate free from government controls. Embassy is aware of no instances where an investor has been unable to obtain dollars or repatriate earnings or capital. Exchange transactions at financial institutions are usually completed instantly. The Central Bank also buys and sells dollars, but charges a one percent commission. Beginning in 1993, the cordoba had been on a monthly crawling-peg devaluation schedule at the rate of one percent per month. The government gradually reduced that rate of adjustment to 9 percent, and currently 6 percent. The Central Bank reports that inflation in 1999 was 7.2 percent.

The U.S. Embassy has local currency expenditures of approximately USD 2 million per annum. Local currency is purchased through the U.S. Government Regional Finance Center in Charleston, South Carolina.

- **EXPROPRIATION AND COMPENSATION**

More than 5,000 individuals and corporations (including some 840 U.S. citizens) filed property claims for confiscations that took place during the Sandinista era. A property compensation mechanism is in place, but it is slow and cumbersome. Compensation is generally provided in the form of 15-year Government of Nicaragua bonds. There is a secondary market for sale of the bonds. In mid-2000, they traded at around 21 percent of face value. About 900 U.S. citizen claims are outstanding; over 2,990 have been resolved. New property courts have been established, which should provide innovative mediation and arbitration services with the goal of speeding up property claim resolutions.

- **DISPUTE SETTLEMENT**

Difficulty in resolving commercial disputes in Nicaragua, particularly the enforcement of contracts, is a serious obstacle to investment. There is a Commercial Code and Bankruptcy Law, but both need revision. On the whole, the legal system is cumbersome, and enforcement of judicial determinations is uncertain and sometimes subject to non-judicial considerations.

Dispute resolution can be especially complex on the Atlantic Coast, where the division of authority between the central and regional autonomous governments is often murky. Furthermore, the traditional indigenous peoples of the Atlantic Coast have interpreted a regulation that says that the communities have ownership of their "traditional" areas in a very broad way, which has led to many challenges, both legal and physical, to purchases of property, even those with legal titles. Especially on the Atlantic Coast, many titles were improperly or fraudulently registered.

Nicaragua is a party to the Inter-American Convention on Arbitration and a member of the International Center for the Settlement of Investment Disputes (ICSID). Arbitration clauses are recommended as a means to avoid the uncertainty of the judicial system.

- **PERFORMANCE REQUIREMENTS/INCENTIVES**

Investors are generally not required to export specific amounts, incorporate minimum percentages of local content, agree to transfer specific technologies, or meet other performance criteria. The 1997 tax law replaced a 5 percent duty drawback for non-traditional exports with a 1.5 percent duty drawback for all exported goods. In addition, a drawback system exists enabling exporters to recover import duties paid on raw materials and components that are incorporated in exported goods.

In June 1999, President Aleman signed the Tourism Industry Incentive Law. To qualify for the benefits offered under the law, the investor must invest a minimum of USD 30,000 to USD 500,000, depending on the activity. Benefits, which are usually for ten years, include property and income tax exemptions, and full or partial import tax or value-added tax exemptions on a list of tourism development materials. For more information, see the government Tourism Institute's website at [www.intur.gov.ni](http://www.intur.gov.ni).

- **RIGHT TO PRIVATE OWNERSHIP AND ESTABLISHMENT**

Both foreign and domestic private entities may establish and own business enterprises and profit-making activities. Local law grants the right to freely establish, acquire, and dispose of virtually any type of business interest or property, with the exception of those sectors where government monopoly is established by law. The Embassy is aware of no instances where private enterprises were not treated on an equal footing with public enterprises with respect to access to markets, credit, and other business operations.



- **PROTECTION OF PROPERTY RIGHTS**

Protection of rights for both tangible and intangible (intellectual) property is inadequate in Nicaragua. The government is making progress on intellectual property rights. It signed a bilateral agreement on intellectual property protection with the U.S. in early 1998 and the National Assembly passed updated intellectual property legislation in 1999 and 2000. In addition to passing a modern trademark law, the government needs to begin enforcing the laws.

**Tangible Property:**

Lack of clear title to property, both urban and rural, continues to be a major impediment to investment. Many properties were confiscated during the Sandinista years and redistributed to individuals and cooperatives. Progress has been slow to either return confiscated properties to their original owners or provide compensation, almost always in the form of government bonds. Many claimants would like compensation in comparable pieces of property (which was authorized by Nicaraguan law in 1999) or equity shares of to-be-privatized companies. The latter would require new legislation. This year the government established new property courts, which is supposed to speed up resolution of claim for those that do not want to accept bonds.

**Intellectual Property:**

On January 7, 1998 Nicaragua signed a bilateral intellectual property rights agreement with the United States--the first such agreement in Central America and only the fourth in the hemisphere. The agreement covers copyrights, patents, trademarks, semiconductor layout designs, encrypted program-carrying satellite signals, trade secrets, and industrial designs. The agreement addresses criminal and civil penalties for infractions and provides a level of protection that exceeds Nicaragua's commitments in the World Trade Organization's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). The agreement called for full implementation by mid-1999. In 1998, Nicaragua also signed a Free Trade Agreement with Mexico, which includes some protection for intellectual property rights.

**Patents:** In February 1996, the National Assembly ratified the Paris Convention for the Protection of Industrial Property. In June 2000, the National Assembly passed a modern patent law, which will provide protection for 20 years. At the time of this writing, the law had yet to be published in the national gazette, therefore was not in effect. Regulations will also have to be published.

After a bitter parliamentary debate, the Assembly passed the Law on Protection of Plant Varieties. The government is also preparing to send the instruments of ratification of the 1978 International Convention for the Protection of New Plant Varieties.

**Copyrights:** There is piracy of video and sound recordings, U.S. satellite signals and broadcast theft. In July 1999, the National Assembly passed copyright legislation that will

greatly strengthen copyrights. Penalties are to be phased in by September 2000. A complementary law on television programming carriers was passed in November 1999. Much of the broadcast and satellite signal theft has stopped, and formerly-illicit cable operators are negotiating agreements with programmers. Video cassette piracy remains a major problem, although there are now a few legitimate video distributors. Nicaragua is a signatory to the following copyright conventions:

Mexico Convention on Literary and Artistic Copyrights (1902)  
 Buenos Aires Convention on Literary and Artistic Copyrights (1910)  
 Inter-American Copyright Convention (1946)  
 Universal Copyright Convention (Geneva 1952 and Paris 1971)  
 Brussels Satellite Convention (1974)  
 Berne Convention for the Protection of Literary and Artistic Works (1971)  
 Geneva Convention for the Protection of Producers of Phonograms (1971)  
 Rome Convention on Related Rights

Trademarks: Trademark infringement remains a potential problem area for Nicaragua. Current Nicaraguan procedures allow individuals to register a trademark without restriction, at a low fee, for a period of 15 years. A draft law on Trademarks is being considered by the Assembly.

Trade Secrets: The recently passed Patent Law provides protection for trade secrets.

Semi-conductor Chip Layout Design: A law to protect integrated circuit chip design was passed by the National Assembly in December 1999, and the government is working on drafting implementing regulations.

- **TRANSPARENCY OF THE REGULATORY SYSTEM**

Despite significant streamlining in recent years, Nicaragua's legal and regulatory framework remains cumbersome. The rules are not fully transparent, and much business is still conducted on a "who you know" basis. Lack of reliable dispute resolution mechanisms--whether judicial or administrative--complicates even relatively minor disputes with the authorities or local business contacts. Although the 1997 tax law eliminated many special tax exonerations, investors still express frustration at a high level of discretionality and over-centralized decision making in taxation and customs procedures.

- **EFFICIENT CAPITAL MARKETS AND PORTFOLIO INVESTMENT**

Nicaragua's capital base is small and the financial system has limited assets. Total assets for the Nicaraguan financial system as of December 1999, reached USD 1.8 billion (68 percent of system deposits are in dollars). Long-term financing is scarce; more the one half of the outstanding loan portfolio for the financial system consists of loans of one year or less. Interest rates are established by the market. At present, rates range from 16-27 percent for short-term loans and 14-21 percent for long-term loans with "maintenance of value" provisions (i.e., the loan is indexed to the dollar-cordoba exchange rate used at the time of

the loan approval). The new Foreign Investment Law eliminated restrictions on access by foreign investors to domestic financing to short-term working capital. Real estate mortgages are issued for terms up to 15 years and chattel mortgages are generally unavailable without a guarantee issued by a foreign bank.

Nicaragua's eleven commercial banks are supervised by the Superintendency of Banks. Nicaragua has no deposit insurance system. In June 1999, the Superintendency of Banks intervened to protect depositors of a private bank because of financial irregularities and allegations of fraud. Another bank assumed the loan and deposit portfolios, with the Government guaranteeing at least some of the loans. The Superintendency also regulates insurance companies, leasing firms, and the stock exchange. Starting this year, the Superintendency will also regulate pension funds. The Social Security Law passed in May 2000 will allow the creation of private agencies to administer pension funds. When these funds start operations, it is likely they will make funds available for private investments, including outside Nicaragua. Government bonds dominate transactions on the stock market. Several private firms have issued commercial paper, but not equity stock.

- **POLITICAL VIOLENCE**

Political violence in Nicaragua has decreased sharply in recent years. We are aware of no recent instances of political violence directly targeted at foreign business operations, although in 1999, a Canadian mining engineer was kidnapped for ransom in the northern mining area of Nicaragua. He was released unharmed. The rural zones, particularly the mountainous north and central Nicaragua, continue to experience some violence (mostly criminal acts committed by bandit groups derived from re-armed political groups). Leaders of the opposition FSLN (Sandinista National Liberation Front) party continue to argue that political violence is one of the legitimate tools for achieving political goals. In April 1999, disputes over university funding and diesel prices for public transport led to protests that disrupted commerce, caused property damage, and resulted in several casualties.

- **CORRUPTION**

Corruption continues to be a factor in Nicaragua. The government supports efforts by the Supreme Court to strengthen the judicial system, in part by weeding out corrupt and incompetent judges, nevertheless, it is apparent that corruption remains a problem in the court system. The independent Comptroller General's office (CGR) recently became a collegial body, with the two major parties contributing new members. Despite numerous investigations of corruption, none of these cases has resulted in successful prosecution, and the CGR has never recommended criminal charges be brought against any current government official. A recent investigation of a scandal involving the head of the Tax Service did result in recommending that he and another high government official be dismissed because of administrative irregularities. The CGR did not find evidence of criminal wrongdoing, but also did not use its powers to demand to see the financial records that might have disclosed this evidence. Bribery is illegal in Nicaragua. Still, foreign investors have reported instances of government officials refusing to perform routine services unless bribes are paid, or asking for "silent partnerships" in companies in exchange for

"making life easier." Additionally, the concept of "conflict of interest" is not widely understood, and political factors can affect business decision-making.

The recent passage of the Government Procurement Law, if enforced, should improve matters by requiring arms length transactions and transparent bidding procedures.

- **BILATERAL INVESTMENT AGREEMENTS**

Nicaragua has signed bilateral investment agreements with the U.S., Mexico, Spain, Taiwan, Denmark, the United Kingdom, and the Netherlands. The U.S. agreement has been submitted to the U.S. Senate for ratification.

- **OPIC AND OTHER INVESTMENT INSURANCE PROGRAMS**

The U.S. Overseas Private Investment Corporation offers financing for U.S. investments in Nicaragua. It also can provide political risk, expropriation, and inconvertibility insurance. Nicaragua participates in the U.S. Department of Agriculture's GSM-102/103 program providing credit guarantees for the importation of selected U.S.-origin agricultural products. The Nicaraguan private sector is eligible for the U.S. Export-Import Bank's short and medium-term programs to finance U.S. exports. Nicaragua is a member of the Multilateral Investment Guarantee Agency (MIGA).

- **LABOR**

Nicaragua's labor force, estimated at 1.63 million workers, is rural-based and largely unskilled. Forty-three percent of the employed population is working in the agricultural sector, 13 percent in manufacturing, and 44 percent in services. In 1998, the Government estimated an unemployment rate of 13.2 percent and a combined unemployment and underemployment rate of 25.3 percent. Nicaragua has the lowest population density in Central America. There is a shortage of skilled technicians and managerial personnel, although this is improving as members of the business and professional classes return from exile.

The high unemployment rate has eroded the strength of the trade union movement. Approximately one-third of the unionized labor force belongs to the National Labor Federation (FNT), a FSLN (opposition) -affiliated umbrella organization. Workers may freely exercise their right to strike. Under the Labor Code, workers may strike only after exhausting other methods of dispute resolution, including mediation by the Ministry of Labor. Despite the code's provisions for streamlining the mediation process, some unions ignore them when initiating a strike. The Labor Code requires employers to demonstrate just cause and obtain approval from the Ministry of Labor before firing union leaders or to conduct lay-offs. Employers who sidestep this provision may be forced to reinstate the fired employees. Approval to lay off employees is usually granted by the Ministry, but may take some time.

The Labor Code contains many provisions concerning benefits that increase business costs. For example, there are generous medical (including maternity) leave and vacation provisions, and upon termination the employer must pay an extra month's salary for each year worked. At year-end, employers must pay the equivalent of an extra month's salary. Potential investors should review the law's requirements prior to initiating business activities.

- **FREE TRADE ZONES**

The state-owned Las Mercedes Industrial Free Trade Zone is located near Managua's international airport. Thirty firms (Nicaraguan, U.S., Asian, and European) are currently operating under the free trade zone regime (primarily manufacturing clothing). Use of the Zone has expanded dramatically over the past three years. There are four private free trade zones (Index, Saratoga, Siglo XXI, Unisebaco). Investors report that the quality of the work is quite good for repetitive, simple tasks, but considerable additional training is necessary for employees to perform more complicated tasks. Employee absenteeism in the zones reportedly is higher than in Asian countries for similar work. Exports generated by the Free Zones were \$198 million in 1999. Employment rose from 16,763 in 1998 to 22,559 in 1999 (direct and indirect employment).

- **FOREIGN DIRECT INVESTMENT STATISTICS**

The information provided by the Central Bank on foreign direct investment is still very limited. From that information it is possible to estimate that the in-flow of foreign direct investment into Nicaragua has grown from \$97 million in 1996, \$184 million in 1998, to over \$300 million in 1999. In one large investment, U.S., British and Guatemalan firms joined to invest \$73 million in a power plant at Corinto. Total new private investment in 1999 was estimated \$446 million. Overall new investment (public and private) in 1999 amounted to an estimated \$727 million – 5.8 percent over 1998, and approximately one-third of gross domestic product. Private investment flows are going primarily into construction, services, industry, mining, energy, tourism, and aquaculture.

- **MAJOR FOREIGN INVESTORS**

ESSO STANDARD OIL, refiner and a major distributor of petroleum derivatives.

GREENSTONE, a Canadian-owned mining concern.

E. D. AND F. MAN, British agriculture supply and financing firm.

BELLSOUTH, investments in cellular phones and service.

AMFELS, Singaporean-owned energy generating plant.

TEXACO CARIBBEAN, sales of petroleum derivatives.

HOTEL INTERCONTINENTAL, owned by Taiwanese investors.

HOTEL MONTELMAR, owned by the Spanish Barceló Group.

BAYER QUIMICAS with German, Salvadoran, and Guatemalan investment; production of agro-chemical products primarily for domestic consumption.

PEPSI-COLA, soft drink manufacturer.

KATIVO DE NICARAGUA, paint and paint-related products.

NABISCO, processed foods.

TRITON, a Canadian-owned mining company with gold mining interests.

GULF KING, a U.S. shrimp boat fleet.

NICA HOLDINGS, U.S. capital with variety of seafood processing operations and a flower nursery.

SAN MARINO SEA FARMS, aquaculture firm with Nicaraguan and U.S. capital.

SAHLMAN SEAFOODS, U.S.-owned aquaculture operation.

SHELL NICARAGUA, petroleum distributor.

FREE TRADE ZONES, 30 apparel companies.

COCA-COLA, with capital from the U.S., Mexico, Venezuela, and Nicaragua.

HOLIDAY INN, British-owned franchise. Nicaraguan and U.S. capital (hotel still under construction).

METROCENTRO, shopping mall and hotel, with Salvadoran capital.

PLAZA INTERCONTINENTAL, shopping, cinemas, conference rooms, Taiwanese and Nicaraguan capital.

HOTEL PRINCESS, capital from Nicaragua, El Salvador and Guatemala (hotel).

COASTAL POWER (Tipitapa Power Co.), power generation, capital from Nicaragua and the U.S.

ENRON (Corinto Power Co.), power generation, capital from Nicaragua, Britain, Guatemala and the U.S.

CINEMARK movie theater, U.S. capital.

## **CHAPTER VIII. TRADE AND PROJECT FINANCING**

- **DESCRIPTION OF BANKING SYSTEM**

Eleven commercial banks operate in Nicaragua. The last state-owned bank (Banco de Credito Popular) shut down after two restructuring attempts in 1992 and 1996 failed to make it attractive to private investors. In 1999, after failing to meet capital requirements, the Bank Superintendency suspended its license. Currently the bank is officially closed and under liquidation. With the exception of the newest bank (PRIBANCO), all have correspondent relations with banks in the U.S. and Europe. All banks accept deposits in dollars as well as cordobas (in fact, 68 percent of system deposits are in dollars). The Superintendency of Banks ([www.superintendencia.gob.ni](http://www.superintendencia.gob.ni)) is the bank regulatory agency. Management of the Superintendency has been professional and in accordance with international standards. Nicaragua has no deposit guarantee system. Its banks operate under the 10 percent Basel standard for capital adequacy. Most banks are audited by local affiliates of internationally recognized accounting firms.

- **FOREIGN EXCHANGE CONTROLS AFFECTING TRADING**

The private sector has unimpeded access to foreign exchange. The last restrictions were eliminated in 1996. A legal parallel exchange market operates free from government restrictions and is growing. In 1999 the market engaged in purchases and sales valued at approximately \$5.2 billion, showing increases of 43 and 70 percent compared to 1998 and 1997, respectively. Remittance of profits generated through foreign investments, as well as original capital, is guaranteed for those investments registered under the former Foreign Investment Law. Investors who do not register their capital may still make remittances through the parallel market, although these transactions are not guaranteed by law. Embassy is aware of no investor who has encountered remittance difficulties.

- **FINANCING AVAILABILITY**

Nicaragua's capital base is small and the financial system has limited assets. Total assets for the Nicaraguan financial system as of December 1999 were \$1.8 billion. Long-term financing is scarce; approximately 55 percent of the outstanding loan portfolio for the financial system consists of loans of one year or less. Interest rates are established by the market. At present, rates range from 15-27 percent for short-term loans and 14-21 percent for long-term loans with "maintenance of value" provisions (i.e., the loan is indexed to the dollar-cordoba exchange rate used at the time of the loan approval). Real estate mortgages are issued for terms up to 15 years, and chattel mortgages are generally unavailable without a guarantee issued by a foreign bank.

- **HOW TO FINANCE EXPORTS/METHODS OF PAYMENT**

Exports are financed through existing resources of the banking system or through funds of second-tier institutions, primarily the National Investment Finance Company (FNI) or the Central American Bank for Economic Integration (CABEI – <http://www.bcei.hn/>). Export financing through the local banks is mostly short-term and carries higher interest rates than funds obtained through FNI or CABEI. Various methods of payment are utilized for export financing, the most common being on-sight and on-delivery. Virtually all Nicaraguan banks have correspondent relationships with U.S. banks (see "List of Banks with Correspondent U.S. Banking" below).

- **TYPES OF AVAILABLE EXPORT FINANCING AND INSURANCE**

The U.S. Export-Import Bank ([www.exim.gov](http://www.exim.gov)) provides short- and medium-term guarantees for sales to the private sector. Nicaragua participates in the U.S. Department of Agriculture's GSM-102/103 programs ([www.fas.usda.gov/excredits/exp-cred-guar.html](http://www.fas.usda.gov/excredits/exp-cred-guar.html)) providing credit guarantees for the importation of selected U.S.-origin agricultural products.

- **PROJECT FINANCING AVAILABLE**

The U.S. Overseas Private Investment Corporation ([www.opic.gov](http://www.opic.gov)) provides financing and insurance for investments with U.S. investor participation. OPIC offers loans and loan guarantees for projects with a minimum 25 percent U.S. investor beneficial interest, and political risk insurance covering currency inconvertibility, expropriation, and political violence. It also provides specialized coverage for leasing, oil and gas exploration, natural resources, and contractors.

Some project financing is available through FNI and CABEI. FNI manages a series of funds from international donors, including projects for non-traditional exports, small business support, renovation of coffee plantations, and assistance to the livestock sector. CABEI manages project funds for a variety of purposes, including agroindustry, manufacturing, tourism, and export industries. Private sector financing is also provided by the Inter-American Development Bank (through its Multilateral Investment Fund and Inter-American Development Corporation) and the World Bank (through its International Finance Corporation).

- **LIST OF BANKS WITH CORRESPONDENT U.S. BANKING**

Private Nicaraguan banks have the following correspondent U.S. banks (the first three correspondents listed for each bank are the most important for that bank):

**Banco de America Central (BAC)**

BAC Florida Bank, Miami, FL

Bank of America, Miami, FL



**Banco de Crédito Centroamericano (BANCENTRO)** ([www.bancentro.com.ni/](http://www.bancentro.com.ni/))

Citibank of New York, New York, NY  
Bank of America, Miami, FL  
BAC Florida Bank, Miami, FL  
Dresdener Bank Latin America AG, Miami, FL  
AMTRADE International, Miami, FL  
BPD International, New York, NY  
The International Bank of Miami, Miami, FL  
Banco Internacioal de Costa Rica, Panama  
Union Planter, Miami, FL  
First Union Bank of Florida, Miami, FL  
Hamilton Bank, N.A., Miami, FL  
Executive National Bank, Miami, FL  
Barclays Bank, Miami, FL  
Republic National Bank, Miami, FL

**Banco de Exportación, S.A. (BANEXPO)** ([www.banexpo.com.ni/](http://www.banexpo.com.ni/))

Bank of America, Miami, FL  
Amtrade International Bank, Miami, FL  
Hamilton Bank, NA, Miami, FL  
Banco Central Hispano, Miami, FL  
The International Bank of Miami, Miami, FL  
Barnett Bank, N.A., Miami, FL  
Citibank of New York, New York, NY  
Barclay Bank, Miami, FL

**Banco Mercantil (BAMER)** ([www.bancomer.nic.com/](http://www.bancomer.nic.com/))

Bank of America, Miami, FL  
Hamilton Bank, N.A, Miami, FL  
Dresdener Bank Latin America AG, Miami, FL  
BAC Florida Bank, Miami, FL  
Chemical Bank, Miami, FL  
Pine Bank, Miami, FL  
Citibank of New York, New York, NY  
International Bank of Miami, Miami, FL  
Banco Internacional de Costa Rica, Panama

**Banco de la Producción, S.A. (BANPRO)** ([www.notifax.com.ni/banpro/](http://www.notifax.com.ni/banpro/))

Bank of America, Miami, FL  
Dresdener Bank Latin America AG, Miami, FL  
Barclays Bank, PLC, Miami, FL  
Banco Internacional de Costa Rica, Miami, FL  
BAC Florida Bank, Miami, FL  
Terra Bank, Miami, FL  
Hamilton Bank, N.A., Miami, FL  
Banco Aleman Platina, Panama

**Banco de Finanzas, S.A. (BANFIN)** ([www.bcofinanzas.com.ni/](http://www.bcofinanzas.com.ni/))

Bank of America, Miami, FL

Banco Atlántico, Miami, FL

**Banco Intercontinental, S.A. (Interbank)** ([www.interbank-nic.com/](http://www.interbank-nic.com/))

Bank of America, Miami, FL

Banco Internacional de Costa Rica, Miami, FL

AMTRADE International Bank, Miami, FL

Citibank of New York, New York, NY

Banco Atlantico, Miami, FL

**Banco Caley Dagnall**

Terra Bank, Miami, FL

Pine Banking Corporation, Miami, FL

Republic National Bank, Miami, FL

Bank of America, Miami, FL

Barclays Bank, PLC, Miami, FL

Citibank of New York, New York, NY

**Banco del Café (BANCAFE)** ([www.bancafe.com.ni/](http://www.bancafe.com.ni/))

First Union National Bank of Florida, Miami, FL

Pacific National Bank, Miami, FL

Bank of America, Miami, FL

AMTRADE International Bank, Miami, FL

**Banco Nicaraguense de Industria y Comercio (BANIC)**

BAC Florida Bank, Miami, FL

Bank of America International, Miami, FL

Chase Manhattan, New York, NY

Bank of America, Miami, FL

Hamilton Bank, Miami, FL

Citibank of New York, New York, NY

**Primer Banco Inmobiliario de Nicaragua (PRIBANCO)** does not yet have a correspondent bank relationship.

**CHAPTER IX.  
BUSINESS TRAVEL**

- **BUSINESS CUSTOMS**

Business customs are informal. However, the use of coats and ties or business suits is increasingly common. Delays are common in the start of scheduled appointments, and flexibility in business travel is recommended. Business lunches are lengthy, and most Nicaraguan executives are unavailable between Noon and 2:00 p.m. However, many executives and senior government officials work late into the afternoon.

- **TRAVEL ADVISORY AND VISAS**

No Department of State travel advisory is in effect for Nicaragua. However, travelers are encouraged to review the latest Department of State consular information sheet on Nicaragua prior to initiating travel (available at <http://travel.state.gov/nicaragua.html> or by calling 202-647-6575). U.S. citizens do not need to obtain a visa for visits of less than 90 days. Tourist cards are required and may be obtained upon entry for \$5.00. Visas are required for stays of 90 days or greater. Individuals wishing to establish themselves in the country must request a resident visa from the Office of Immigration. There is a departure tax of \$20.00.

- **HOLIDAYS**

The following holidays are observed in Nicaragua:

- New Year's Day: January 1
- Holy Thursday: Variable (2001: April 12)
- Good Friday: Variable (2001: April 13)
- Labor Day: May 1
- Sandinista Revolution Day: July 19
- Festival of Santo Domingo (Arrival): August 1\*
- Festival of Santo Domingo (Farewell): August 10\*
- Battle of San Jacinto: September 14
- Independence Day: September 15
- Immaculate Conception Day: December 8
- Christmas Day: December 25

\* Holiday in Managua only

- **BUSINESS INFRASTRUCTURE**

**Transportation:** According to the Ministry of Transportation and Infrastructure, by mid-2000, Nicaragua had a highway network consisting of 1217 miles of paved highways, 1711 miles of paved roads, 3880 miles of all-season unpaved roads and 4906 miles of dry-season unpaved roads. The total road network is 11,714 miles. The Government has an ambitious program to repair hurricane damage and improve the road system. Many highways lack adequate maintenance. Reportedly, the Ministry of Transportation and Infrastructure can provide proper maintenance to only ten percent of the road network.

**Ports:** Because of poor infrastructure and high operating expenses, most containerized sea cargo and fresh fruit are shipped by highway to and from Puerto Limon in Costa Rica and

Puerto Cortes in Honduras. Nicaragua has a total of six seaports, all of which are operated by the Government-run Port Authority (ENP). The government is seeking to sell a concession for the port of Puerto Cabezas, on the Atlantic Coast. The most suitable port for commercial shipping is the Port of Corinto located on the Pacific coast, 110 miles northwest of Managua. The Port Authority is improving Corinto's facilities and hopes that it will sharply increase the port's competitiveness. The port has recently been dredged. Puerto Sandino, also located on the Pacific Coast, is primarily used for the import of crude petroleum and bulk cargo, such as fertilizer, clinker and steel. The remaining Pacific port of San Juan del Sur has limited capacity and uses barges to load and unload cargo. Beginning this year, San Juan del Sur began welcoming cruise ships. On the Atlantic Coast, Nicaragua has three seaports (El Bluff, El Rama and Puerto Cabezas). El Bluff and Puerto Cabezas are basically piers and handle limited cargo. El Rama is a floating steel wharf and is located on the Rama River, 40 miles from the coast.

**Airports:** Managua International Airport (located 7 miles east of the city center) has separate cargo facilities constructed in 1995. The main cargo carriers are Fine Airlines (based in Miami), and TACA Airlines. UPS has joined forces with Challenge Air Cargo, and now average six flights a week. In addition, most passenger airlines, including American and Continental, maintain some cargo capacity. A 3,500 cubic foot cold storage facility at the airport opened in 1996. To reach the Atlantic Coast, most business travels travel by air to the small airports at Puerto Cabezas, Bluefields, Rosita, Bonanza and Siuna. There is also a small airport at San Carlos, at the western end of the San Juan River.

**Language:** The official language of Nicaragua is Spanish, but English is spoken by some in business and government circles, as well as on the Atlantic coast.

**Telephone Communications:** Nicaragua's communication system (telephone, telex, etc.) is presently being updated with the installation of fiber optic technology. Telephone density is 3.0 telephones per 100 inhabitants. Public phones are just beginning to operate all over the country. Cellular phones are now available in Nicaragua with coverage over the entire Pacific Coast. Approximate cost per minute is 26 U.S. cents. Communications with the U.S. are readily available; AT&T, Sprint, and MCI have direct line service to the U.S.

**Housing and Hotels:** The following hotels in Managua cater to the international business traveler. Cost for a single-room ranges from \$50 to 180 per night (excluding 15 percent tax). They are listed in approximate order of price (most expensive first):

Hotel Intercontinental, Tel: (505) 228-6991, Fax: (505) 228-3087 (Downtown, near the main government office buildings)

Hotel Princess, Tel: (505) 270-5045, Fax: (505) 270-2574, E-mail: princess@munditel.com.ni (Near the center of the banking area, USAID, and the highway to Masaya)

Hotel Camino Real, Tel: (505) 263-1381, Fax: (505) 263-1380, E-mail: info@caminoreal.com.ni, Website: www.caminoreal.com.ni (Near the Airport)

Hotel Mansion Teodolinda, Tel: (505) 228-7974, Fax: (505) 228-3692, E-mail: hotel@teodolinda.com.ni, Website: www.teodolinda.com.ni (Downtown)

Hotel Cesar, Tel: (505) 265-2728 and 265-2760, Fax: (505) 265-2888 (South Highway)

Hotel Ticomo, Tel: (505) 265-0210 and 265-1273, Fax: (505) 265-1529 (South Highway)

Hotel Las Mercedes, Tel: (505) 263-1081, Fax: (505) 263-1082/3, Website: www.lasmercedes.com.ni (Near Airport)

Hotel Estrella, Tel: (505) 289-7010/13, Fax: (505) 289-7010/3 (Near Bello Horizonte)

There are no first-class apartment buildings in Nicaragua. There is an ample supply of houses for rent, but rental costs are high, from \$750 to \$1,500 per month for a 3-bedroom house in safe neighborhoods.

**Food:** Numerous restaurants in Managua offer first-class international and continental cuisine. Outside of the capital, the local diet consists of chicken, beef, fish, rice, beans, plantains and potatoes.

**Health:** Health conditions in Nicaragua are improving, although it remains a tropical country with the presence of malaria, dengue fever, and a variety of gastro-intestinal disorders. Sanitary practices should be carefully followed, particularly outside of Managua. Typhoid, polio, tetanus, diphtheria and gamma globulin (or Hepatitis A) are recommended vaccinations prior to leaving the U.S., particularly for an extended stay.

Local hospitals are adequate for basic care. However, they fall short of U.S. standards and are not recommended for serious conditions. There are a modest number of U.S.-trained physicians. There are many pharmacies with adequate supplies of most commonly used medications.

- **TEMPORARY ENTRY OF GOODS**

Special procedures apply for the temporary entry of goods (e.g., laptop computers, business samples, professional equipment, and exhibit materials). Upon entry, a deposit must be made with Nicaraguan Customs (Dirección General de Aduanas) equal to the tariffs and duties that would be paid for a permanent import of the same item. The Customs office determines that amount on the spot, which can be in excess of 20 percent of the value of the item. This deposit is returned when the item leaves the country (must be within six months of entry). It is possible to complete the paperwork and pay the deposit ahead of time, although this must be done in person at the Customs office (phone 505-249-5719).

## **CHAPTER X. ECONOMIC AND TRADE STATISTICS**

| <b>APPENDIX A -- COUNTRY DATA</b>   | <b>1998</b> | <b>1999</b> | <b>2000</b> |
|---|-------------|-------------|-------------|
| <b>Population (millions)</b>  | 4.80        | 4.94        | 5.07        |
| <b>Population Growth Rate (%)</b>   | 2.8         | 2.8         | 2.8         |
| <b>Religions:</b> 73% Catholic, 16% Protestant,<br>8% no preference, 2% other |             |             |             |
| <b>Government System:</b> Democratic  |             |             |             |
| <b>Languages:</b> Spanish, English on Atlantic Coast                          |             |             |             |
| <b>Work Week:</b> By law, 6 days (48 hours)                                   |             |             |             |

**APPENDIX B – ECONOMY: 1998, 1999, AND 2000 (PROJ.) IN USD MILLIONS**

|   | <b>1998</b> | <b>1999</b> | <b>2000</b> |
|---|-------------|-------------|-------------|
| <b>GDP (Current US\$)</b>   | 2,126       | 2,267       | 2,427       |
| <b>GDP Growth Rate (%)</b>  | 4           | 7           | 7           |
| <b>GDP Per Capita</b>   | 442         | 459         | 479         |
| <b>Government Spending as % of GDP</b>  | 31.1        | 6.9         | 33.7        |
| <b>Inflation (%)</b>  | 18.5        | 7.2         | 8.0         |
| <b>Unemployment (%)</b>   | 13.2        | 10.7        | 9.1         |
| <b>Foreign Exchange Reserves (Net)</b>  | 306         | 357         | 439         |
| <b>Average Exchange Rate for \$1.00</b>   | 10.5        | 11.8        | 12.7        |
| <b>Debt Service Ratio (Ratio of Principal and<br/>Interest on Debt to Foreign Income) (%)</b> | 22.5        | 14.9        | 16.22       |

**APPENDIX C – TRADE: 1998, 1999, AND 2000 (PROJ.) IN USD MILLIONS**

|                                     | <b>1998</b> | <b>1999</b> | <b>2000</b> |
|-------------------------------------|-------------|-------------|-------------|
| <b>Total Country Exports (FOB)</b>  | 573         | 544         | 602         |
| <b>Total Country Imports (FOB)</b>  | 1,384       | 1,683       | 1,691       |
| <b>Total Country Imports (CIF)</b>  | 1,492       | 1,846       | 1,854       |
| <b>U.S. Exports to Nicaragua*</b>   | 337         | 374         | 376         |
| <b>U.S. Imports from Nicaragua*</b> | 453         | 493         | 569         |

(\*includes Free Trade Zone Goods)

**APPENDIX D – INVESTMENT**

The information provided by the Central Bank on foreign direct investment is still very limited. From that information it is possible to estimate that the in-flow of foreign direct investment into Nicaragua has grown from \$97 million in 1996, to \$184 million in 1998, to over \$300 million in 1999. In one large investment, U.S., British and Guatemalan firms joined to invest \$73 million in a power plant at Corinto. Total new private investment in 1999 was an estimated \$446 million. Overall new investment (public and private) in 1999

amounted to an estimated \$727 million – 5.8 percent over 1998, and approximately one-third of gross domestic product. Private investment flows are going primarily into construction, services, industry, mining, energy, tourism, and aquaculture.

## **CHAPTER XI. U.S. AND COUNTRY CONTACTS**

### **APPENDIX E -- U.S. AND COUNTRY CONTACTS**

(Contents: U.S. Embassy Contacts, Other U.S. Government Contacts, Bilateral Business Councils, Nicaraguan Government Agencies, Banks, Market Research Firms, International Financial Institutions, Trade and Industry Associations, Local Attorneys, Real Estate Agents)

#### **U.S. EMBASSY TRADE PERSONNEL**

Department of State  
Chief, Economic/Commercial Section, Anthony Interlandi  
Economic Officer, Timothy Stater  
Economic/Commercial Officer, Isabella Detwiler  
U.S. Embassy Managua  
Unit 2703 Box 2  
APO AA 34021  
TEL: (505) 266-6010, ext. 4641; FAX: (505) 266-9056  
E-mail: [usbusiness@amemb.org.ni](mailto:usbusiness@amemb.org.ni)  
Internet: [www.usembassy.state.gov/managua/wwwhcom.html](http://www.usembassy.state.gov/managua/wwwhcom.html)

Commercial Assistant Javier Torres  
U.S. Embassy Managua  
Unit 2703 Box 2  
APO AA 34021  
TEL: (505) 266-6010, ext. 4559; FAX: (505) 266-9056  
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U.S. Department of Agriculture/Foreign Agricultural Service (USDA/FAS)  
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Nicaraguan American Chamber of Commerce in Miami  
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Asociación de Bancos Privados de Nicaragua (ASOBANP)



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Telecommunications, Mining/Oil/Gas, Environmental, Intellectual Property and Technology  
Law, Labor Law, Litigation and Arbitration/Bankruptcy/Product Liability, Pharmaceutical,  
General Insurance, Aviation & Shipping Law, Taxation and Customs Law, Real Estate Law  
Edificio Málaga, Plaza España (2 nd floor)  
TEL: 505-266-4157 and 266-1211; FAX: 505-266-4156  
E-Mail: [jmunguia@ibw.com.ni](mailto:jmunguia@ibw.com.ni) Internet site: [www.lexmundi.org](http://www.lexmundi.org)

#### **NICARAGUAN REAL ESTATE FIRMS**

Bienes Raices Alpha, S.A.  
Las Palmas detras del TELCOR, Managua  
TELEFAX: 505-266-5678

Bienes Raices Sotelo & Novoa, S.A.  
Cine Altamira, 2 1/2c. abajo, #437, Managua  
TEL: 505-277-3401; FAX: 505-278-2790

Blandon Bienes Raices  
Sandy's Carretera a Masaya, 2c. arriba, #76, Managua  
TEL: 505-278-5306; FAX: 505-278-0045

Gonzalez Pasos Bienes Raices  
Parque Las Palmas, 1/2c. al oeste, Managua  
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TEL: 505-266-8910; FAX: 505-266-1002  
E-mail: [gonpasos@ibw.com.ni](mailto:gonpasos@ibw.com.ni) Internet: [www.GonzalezPasosRealtors.com/](http://www.GonzalezPasosRealtors.com/)

Rappaccioli International Investment, S.A.  
TELEFAX: 305-665-2187 (Miami), 505-266-6763

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TEL: 505-278-2676; FAX: 505-278-2657

RE/MAX Nicaragua  
General Manager Marcos Menocal  
Calle El Arsenal, #305, Granada  
TELFAX: 505-552-4562; Cellular: 882-3585

Sniders Realty  
P.O. Box 3931, Managua  
TEL: 505-278-3230; TELFAX: 505-552-4702  
E-mail: [srealty@ibw.com.ni](mailto:srealty@ibw.com.ni) Internet: [www.ibw.com.ni/~srealty/](http://www.ibw.com.ni/~srealty/)

## **CHAPTER XII. MARKET RESEARCH AND TRADE EVENTS**

### **APPENDIX F -- MARKET RESEARCH**

#### **AVAILABLE IMIs (Economic and Sector Studies)**

(Reports are available through the Embassy's Econ/Commercial Section and most are posted on the Embassy web site at [www.usembassy.state.gov/managua](http://www.usembassy.state.gov/managua))

- Promoting tourism, June 12, 2000
- Import regulations for used medical equipment, March 29, 2000
- Rental of commercial space in Nicaragua, March 31, 2000
- Nicaragua water projects, March 30, 2000
- Privatization of ENEL slated for mid-2000, March 6, 2000
- Economic fact sheet, 1998-1999 economic statistics
- Nicaragua's poverty profile report, January 21, 2000
- State-owned bank closed by Bank Superintendent, January 21, 2000
- Nicaraguan insurance market, January 12, 2000
- Privatization of state telecommunications company moving forward, January 21, 2000
- Economic effects of the Hurricane Mitch on Nicaragua, December 1998
- Nicaragua sets out to transform itself with international help, December 1998
- Buying property in Nicaragua, December, 1998
- Nicaraguan tax system, July 1997
- Nicaraguan labor laws, November 1997

### **USDA/FAS COMMODITY REPORTS AND MARKET BRIEFS**

(Key agricultural commodity reports on Nicaragua by USDA/FAS, available through the Agricultural Office in the embassy. For the latest figures on US exports to Nicaragua, visit the FAS Online, at [www.fas.gov](http://www.fas.gov), select search, then select BICO reports.

- Sugar Annual Report 2000
- Overall Crop Report 1999
- Trade Policy Report 2000
- Livestock Report 1999
- Nicaragua: Preliminary Agricultural Damage Report from Hurricane Mitch, November 1999
- Nicaragua and Hurricane Mitch: 2<sup>nd</sup> Preliminary Report, November 1999
- Nicaragua: Response to Hurricane Mitch: Some of the activities, February 1999
- Nicaragua: Hurricane Mitch and Grain and Feed, February 1999
- Nicaragua: Hurricane Mitch and Oilseed Production, February 1999
- Nicaragua: Hurricane Mitch and Bananas, February 1999
- Nicaragua: Hurricane Mitch and Tobacco, February 1999
- Nicaragua: Hurricane Mitch and Sugar, February 1999
- Nicaragua: Hurricane Mitch and Fruit and Vegetable, February 1999
- Nicaragua: Hurricane Mitch and Coffee, February 1999
- Nicaragua: Hurricane Mitch and the Livestock Sector (including Poultry), February 1999
- Nicaragua: Hurricane Mitch and Aquaculture, February 1999

#### **APPENDIX G -- TRADE EVENT SCHEDULE**

(Firms should consult the Export Promotion Calendar on the National Trade Data Base or contact Embassy Managua at [usbusiness@amemb.org.ni](mailto:usbusiness@amemb.org.ni) for more information.)

- Feria de Unipyme (Small and Medium Industry Exposition). In Managua each year in early August and early December.
- EXPICA (Central American Livestock Exposition). Each year, usually the last week of August at Parque de Ferias IFAGAN in Managua. 2000 dates are July 20 to July 30. Contact: Mr. Walter Zavala, TEL: (505) 266-9634; FAX : (505) 266-9640.