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SERVICES POLICY REVIEW

NICARAGUA

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UNCTAD/DITC/TNCD/2013/13

FOREWORD

The Doha Mandate adopted in 2012 at UNCTAD XIII re-emphasized the importance of the development of, and access to, services, supported by adequate regulatory and institutional frameworks, which are important for sound socioeconomic development. It called upon UNCTAD to continue its work on services and assist developing countries and economies in transition in promoting the development of key services sectors and determining the right policy mix, including trade policy and strategic liberalization, which can lead to the improvement of domestic service provision and increased trade. Services Policy Reviews are an important component of this work.

A Services Policy Review examines economic and trade policy aspects of selected services sectors identified by the Government and provides an evidence-based approach to policymaking on services by reviewing policy, regulatory and institutional issues and options with a view to assisting the beneficiary in developing a coherent and comprehensive strategic framework for services. In close partnership with the Government, research undertaken by UNCTAD and at the national level is integrated into the results of national stakeholder consultations to yield policy recommendations for action.

The Government of Nicaragua identified the following four services sectors to form the focus of this Services Policy Review: financial services; tourism services; telecommunication services; and road transport services. These services have the potential to contribute significantly to the future growth and development of the economy.

The main findings of this Services Policy Review include the fact that the development of services sectors is limited in Nicaragua by the lack of a strong institutional framework and the insufficient development of associative schemes to promote cooperation among small and medium-sized enterprises. The integration of service activities in value chains may also be restricted by an insufficient supply of skilled labour and the underdevelopment of infrastructure and support services.

In recent years, Nicaragua has been actively involved in negotiating trade agreements within its regional bloc. This Services Policy Review emphasizes that in order to realize the full potential of trade agreements there is a need to have more concerted action between the national and regional levels regarding the negotiation and implementation of agreements, regulatory cooperation and economic support. Regarding trade in services in particular, it is necessary to strengthen institutional aspects and coordination and promote human capital development and sector upgrading.

Proposed recommendations for improving the contribution of the specific sectors analysed in this Services Policy Review include the following, among others:

- Consider the possibility of creating a full-fledged development bank, according priority to financing for small and medium-sized enterprises.

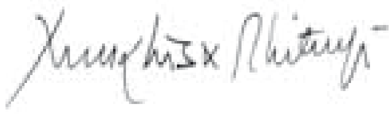
- In the financial services sector, establish a centralized credit history repository in order to ease the credit applications process and assessment of potential customers' creditworthiness.

- Develop a quality assurance framework, encompassing a mandatory evaluation of tourism services operators and facilities necessary to obtain a mandatory permit to provide their services prior to starting operations.

- Promote the concept of shared responsibility of operators and regulators of telecommunications services, with respect to the handling of consumer complaints.

- Create a national programme, supported by private banking institutions, to finance road transport services providers.

My hope is that the analysis and recommendations of this report will make a constructive contribution to the development of Nicaragua's services economy and trade.



Mukhisa Kituyi
Secretary-General of UNCTAD

EXECUTIVE SUMMARY

Increasingly, services production and trade is moving to the forefront of government agendas in the world. Boosting the services sector is seen as a way to develop economies, boost employment creation and alleviate poverty. They are able to strengthen several value chains, provide inputs for the delivery of services and goods and may be sold on their own. However, inadequate laws and policies, and inefficient institutions hamper countries' abilities to take full advantage of the benefits of services supply and trade.

The UNCTAD Services Policy Review of Nicaragua (SPR) aims to investigate policy, regulatory and institutional frameworks, and to make recommendations, in the sectors of (a) financial, (b) tourism, (c) telecommunications and (d) road transport services, with a view to maximize development gains from supply and trade in these services. Managing reform in these sectors implies differentiating the tourism sector from the others. Tourism has its development potential linked to its contribution to the balance of payment through exports and accounts in fact for the major share of services exports from Nicaragua. Conversely, the other three are infrastructure services that are not only economic sectors on their own, but are also considered key for competitiveness, as they underpin other productive activities by providing them with important inputs.

The services sector is the largest component of Nicaragua's gross domestic product (GDP), with the main contributors being tourism, personal, social and business services, government services and transport and communication. Services are also the major contributor to employment in the country. It is relevant to note that employment is concentrated in traditional service activities and not in financial or telecommunications activities that tend to have a greater need for qualified jobs. Between 2002 and 2012, services exports have been increasing slowly but steadily, contributing by an average of 16 per cent to total exports. Although services are responsible for a much smaller portion of trade than goods, it is also acknowledged that several services activities support trade in general by providing inputs for the delivery of products and by strengthening value chains.

The country seeks to increase its trade and investment opportunities in general and in the services sector. Nicaragua undertook the bulk of its trade liberalization processes unilaterally, with the main goal of promoting trade and investment opportunities. In this regard, the country has taken several service commitments in several agreements, at a regional, international and multilateral level.

The Government of Nicaragua is eager to improve the development of services in the country and numerous aspects of the recent National Human Development Plans, including the one for the period 2012–2016, provide further guidance for public policies. Through its multi-stakeholder approach, which includes public, private and academia representatives, this SPR is able to suggest additional service policies one may want to pursue to promote economic development.

The main findings of this SPR include that the development of services sectors is limited in Nicaragua by the lack of a strong institutional framework and that there is an insufficiency of associative schemes to promote cooperation among small and medium-sized enterprises (SMEs). The integration of service activities in value chains may also be restricted by an insufficient supply of skilled labour and the underdevelopment of the infrastructure and support services (ISS).

Areas for improvement that could be considered by the Government of Nicaragua, with a view to improving the contribution of the overall service sector to the economy and to socioeconomic welfare include:

- Developing a national agenda for services, which could reinforce the priority to promotion of this sector in particular, facilitating the policy and institutional coordination of several of existing and future efforts;
- Promoting services development as a vector to upgrade value chains, thus promoting a productive transformation of the economy. This course of action would reduce the dependence on traditional, low value-added activities and also foster product and market diversification;
- Enhancing quality standards and promoting the adoption of certification in services of priority to Nicaragua could contribute to the improvement of productive activities and be a marketing tool for services exports;
- Further developing the science, technology and innovation policy framework for services key sectors, which would link trade performance with economic growth through better productivity;

- Strengthening training and education strategies for upgrading the sector, by developing specific skills and abilities matching the needs of services sectors domestically and abroad;
- Complementing ongoing efforts regarding strategies for the development of SMEs with strategies aimed at enhancing the provision of access to market information regarding services markets and predictable support policy, and the promotion of cooperation efforts among SMEs;
- To ensure efficacy and efficiency in maximizing the development potential of the services sector, it is important to strengthen the internal competition regulatory framework, and the enforcement capacity, including through the reinforcement of human resources skills and of the national statistics system.

Financial Services
After a period of instability, the financial services in Nicaragua have been able to flourish thanks to macroprudential measures introduced to stabilize the system. Although banks are profitable, financial penetration in Nicaragua has been low with respect to other countries in the region. A number of factors explain the lack of access to financial services by a large part of the population and SMEs. Among them, the relatively high financial intermediation margin, the underuse of information and communications technology (ICT)-related infrastructure to process banking operations and the lack of expedient credit assessment processes can explain the relatively low financial depth of the economy. Specific recommendations are provided in chapter IV of this study to improve access to financial services.

Tourism Services
Recent developments in Nicaragua’s policy, regulatory and institutional frameworks for tourism services have led to a positive performance of the sector in terms of increased tourist arrivals, length of stay of tourists, tourism earnings, registered tourism companies, room capacity, contribution to employment in Nicaragua and investment. The study found that areas requiring attention, with a view to maximizing the potential gains from tourism include improving quality standards, particularly of accommodation facilities and SMEs operators, and generating greater awareness of consumer needs, expectations and experiences, to target these better in the current marketing and promotion efforts.

Telecommunications Services
This economic sector has created jobs and generated incomes for the country. It belongs to the service activities group that grew more between 2002 and 2012 and it explains an important part of the FDI flows to the services sector. It is not a major contributor to national exports but it has one of the biggest contributions to service exports, after tourism services. It is an important input provider for many economic activities, and is thus linked with technical progress and productivity. Hence, selecting the most appropriate strategy for the telecommunications sector constitutes not only a sectoral option but also a very important choice for the national economy as a whole. The study found that areas requiring attention, with a view to maximizing the potential gains from this sector for Nicaragua include reinforcing the competition framework and the consumer protection regime, as well as updating legislation to trends regarding technological evolution and best practices in the sector.

Road transport Services
Regarding road transport services, Nicaragua has a policy framework that provides direction and guidance for future evolution of this sector at the domestic and regional level. Nicaragua also has an institutional framework that defends the interests of private sector operators and an institutional framework for public–private dialogue about policies in the sector. Domestic services providers are satisfied with the national fleet of trucks, which allows them to provide a good service. Areas requiring attention from the perspective of improving the contribution of this sector to overall competitiveness and facilitating trade in goods include addressing infrastructure shortcomings, upgrading quality standards for small and medium services providers and addressing key bottlenecks concerning multimodal operations and procedures at border crossings. Specific recommendations are provided in this study to improve these aspects.

ACKNOWLEDGEMENTS

This publication presents the result of a services policy review undertaken by the Government of Nicaragua in collaboration with UNCTAD.

This publication was prepared by a team led by Mina Mashayekhi, Head of the Trade Negotiations and Commercial Diplomacy Branch (TNCDB) of UNCTAD. The team included TNCDB staff members and Nicaragua experts. The staff members who participated in the drafting of this report are Bruno Antunes, David Bicchetti, Alberto Gabriele and Luisa Rodriguez. Experts included Javier Bone, professor of applied economics in the University of Nicaragua and in the Central American University; Roger Rodriguez, Professor at the National Engineering University of Nicaragua; and Danilo Valerio, expert specialized in conservation and sustainable tourism. The authors are thankful to Ernesto Perez, Director of the Trade Division at the Ministry of Development, Industry and Trade (MIFIC) and to Ulvio Vargas, Head of the Investment and Services Negotiations Unit at MIFIC for their support and cooperation in preparing this study.

Comments were provided by Liping Zhang and Martine Julsaint-Kidane (UNCTAD/TNCDB), Nanno Mulder and Jorge Mario Martinez (Economic Commission for Latin America and the Caribbean, ECLAC), Jan Hoffmann and Azhar Jaimurzina (UNCTAD/Division on Technology and Logistics).

Sophie Munda formatted the publication and Laura Moresino-Borini designed the cover.

ACRONYMS AND ABBREVIATIONS

AdA	Acuerdo de Asociación entre Centroamérica y la Unión Europea (Association Agreement between Central America and the European Union)
ADB	Asian Development Bank
AIN	Asociación Internet de Nicaragua (Internet Association of Nicaragua)
ALBA	Alianza Bolivariana para los Pueblos de Nuestra América (Bolivarian Alliance for the Peoples of Our America)
ANTUR	Asociación de Tour Operadores Receptivos de Nicaragua
APEN	Asociación de Productores y Exportadores de Nicaragua
ASOMIF	Asociación Nicaragüense de Instituciones de Micro Finanzas (Nicaraguan Association of Microfinance Institutions)
BAC	Banco de America Central (Bank of Central America)
BCN	Banco Central de Nicaragua (Central Bank of Nicaragua)
BPO	business process outsourcing
BRICS	Brazil, the Russian Federation, India, China and South Africa
CAFTA–DR	Dominican Republic–Central America–United States Free Trade Agreement
CANATUR	Cámara Nicaragüense de Turismo
CANIMET	Cámara Nicaragüense de Microempresarios Turísticos
CONIMIPYME	Consejo Nicaragüense de la Micro, Pequeña, y Mediana Empresa
CANTUR	Cámara Nicaragüense de la Micro, Pequeña, y Mediana Empresa Turística
COCATRAM	Comision Centroamericana de Transporte Maritimo (Central American Comission of Maritime Transportation)
CODITRANS	Consejo Centroamericano de Directores Generales de Transporte
COMITRAN	Consejo Centroamericano de Ministros de Transporte
COMTELCA	Comisión Técnica Regional de Telecomunicaciones (Regional Technical Commission of Telecommunications)
CONAMI	Comisión Nacional de Micro Finanzas (National Commission for Microfinance)
COSEP	Consejo Superior de la Empresa Privada (Council of the Private Sector)
DGSA	Dirección General de Servicios Aduaneros (Customs Authority)
ECLAC	Economic Commission for Latin America and the Caribbean
ENITEL S.A.	Empresa Nicaragüense de Telecomunicaciones Sociedad Anónima
FDI	foreign direct investment
FENACOOP	Federación Nacional de Cooperativas Agropecuarias y Agroindustriales
FENIAGRO	Federación de Cooperativas Agroindustriales de Nicaragua
FENITUR	Feria Internacional de Turismo (International Tourism Fair)
FITEL	Fondo de Inversión de Telecomunicaciones (Telecommunications Investment Fund)
FTA	free trade agreement
GDP	gross domestic product
HFC	Redes Hibridas de Fibra Óptica y Coaxial (hyber fiber coaxial network)
ICT	information and communications technology
IDB	Inter-American Development Bank
IMF	International Monetary Fund
INISER	Instituto Nicaragüense de Seguros y Reaseguros
INTUR	Instituto Nicaragüense de Turismo (Tourism Institute of Nicaragua)
ISP	Internet Service Provider or Internet Services Providers
ISS	infrastructure and support services
ITU	International Telecommunication Union
LPI	Logistics Performance Index
MAGFOR	Ministerio Agropecuario y Forestal
MDG	Millennium Development Goals
MIFIC	Ministerio de Fomento, Industria y Comercio (Ministry of Development, Industry and Trade)

MIPYME	micro, pequeñas y medianas empresas (micro, small and medium-sized enterprises)
MMS	multimedia messaging service
MTI	Ministerio de Transporte e Infraestructura (Ministry of Transport and Infrastructure)
OAS	Organization of American States
ODA	official development assistance
OIRSA	Organismo Internacional Regional de Sanidad Agropecuaria (International Regional Organization for Agricultural Health)
ORBA	Observatorio Regional de Banda Ancha (Broadband Regional Observatory)
PEF	Programa Económico-Financiero
PNDH	Plan Nacional de Desarrollo Humano (National Human Development Plan)
PNDTS	Plan Nacional de Desarrollo Turístico Sostenible
PROCOMPETENCIA	Instituto Nacional de Promoción a la Competencia
PRONicaragua	Investment Promotion Agency of Nicaragua
RENITURAL	Red Nicaragüense de Turismo Rural Comunitário (Nicaraguan Network of Rural Community Tourism)
SIBOIF	Superintendencia de Bancos y Otras Instituciones Financieras (Superintendence of Banks and other Financial Institutions)
SICA	Sistema de la Integración Centroamericana (Central American Integration System)
SICE	Sistema de Información de Comercio Exterior (Foreign Trade Information System)
SIECA	Secretariat for Economic Integration of Central America
SME	small and medium-sized enterprise
SMS	short message services
SPR	(UNCTAD) Services Policy Review
SWOT	analysis of strengths, weaknesses, opportunities and threats
TCN S.A.	Telefonía Celular de Nicaragua Sociedad Anónima
TELCOR	Instituto Nicaragüense de Telecomunicaciones y Correos (Institute for Telecommunications and Post of Nicaragua)
TIM	Tránsito Internacional de Mercancías (international transit of goods)
UNCTAD	United Nations Conference for Trade and Development
UNWTO	World Tourism Organization
USAID	United States Agency for International Development
VAT	value-added tax
WEF	World Economic Forum
WTO	World Trade Organization
xDSL	Línea de Abonado Digital

CONTENTS

Tables

Figures

CHAPTER I: INTRODUCTION

Trade in services has become increasingly important to both developed and developing economies. Since the 1980s, world trade in services has expanded at a faster rate than that of merchandise trade and, today, many developed economies produce more services than goods. Services account for approximately 70 per cent of GDP and employment in developed countries, and approximately 50 per cent of GDP in developing nations.[1] Although trade in services currently accounts for only 20 per cent of global trade,[2] global services exports possess an important growth potential. The growing importance of services trade is also reflected in the growth of free trade agreements (FTAs) containing commitments relating to services. Furthermore, a vast body of research undertaken by UNCTAD and other organizations[3] clearly demonstrates that services can contribute significantly to enhancing productivity and economic competitiveness.

Recently, the onset of the global economic crisis has raised the profile of the services sector as a tool for driving economic growth and development. In the midst of the global economic crisis, services exports proved to be relatively more resilient and less volatile than merchandize trade. Globally, during 2008–2009, services exports grew at a rate of 9.3 per cent even as the agriculture and industrial exports recorded a steep decline.[4] This suggests that efforts to develop domestic and export-oriented services industries can play a meaningful role in ensuring that economies are more resilient to external shocks and facilitating diversification into new markets and exports.

In broad terms, the global economic crisis has challenged prevailing economic orthodoxies and has led to a reconsideration of the role of globalization as a driving force for growth and employment. The crisis has underscored the need for active policies[5] to foster profound structural changes in production, consumption and trade patterns. In this sense, to counter the debilitating effects of the crisis, countries have adopted measures to promote the long-term competitiveness of industries and enhance human capital development, while, at the same time, seeking to identify and produce new products and enter new markets.[6]

Given the enabling and driving role that Governments typically play in the development of services economies, it is useful for policymakers to devise national services development strategies. Moreover, to ensure buy-in and support, as well as to generate desirable spill-in and spill-over effects among related economic sectors, the development of these strategies should take place through participative consultations at the national level with all key actors – including parastatal institutions, potential and existing foreign and domestic investors, labour groups and academia. The inclusion of the latter two are particularly relevant for the development of services strategies given the need to ensure adequate labour transformations and the enhanced levels of human capacity needed to support growth of the services workforce.

Mindful of this, UNCTAD SPRs are designed to assist countries in improving their regulatory and institutional frameworks and in utilizing trade policies as an instrument to advance national objectives and interests. By reviewing economic, trade policy, regulatory and institutional frameworks characterizing the services sectors, SPRs can play an instrumental role in providing policymakers, regulatory authorities and other stakeholders with an improved understanding of the dynamics of particular services sectors in an economy and of issues currently confronting these sectors. In turn, this can form the basis for the development of effective reforms to the regulatory and policy frameworks that underpin these sectors. Ultimately, this can pave the way for policy reforms that advance both sectoral objectives and broader national economic and social interests.

The Government of Nicaragua – through the Ministry of Development, Industry and Trade (MIFIC) – with the assistance of UNCTAD, initiated the SPR of Nicaragua, the outcome of which is this report. The report has been developed in close communication and collaboration with MIFIC and a broad range of national government, business and civil stakeholders.

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[1] UNCTADStat (for GDP figures) and Databank by the World Bank (employment figures).
[2] This figure actually underestimates the true magnitude of global trade in services, as most services exports delivered under mode-3 are not registered.
[3] See, for example, UNCTAD, 2012; Mashayekhi et al., 2011; and WTO, 2011.
[4] It is worth noting that the crisis affected services sectors in different ways. Demand contracted more in income-sensitive services sectors – including tourism and travel, financial services, construction, retail and services related to merchandise trade, including transport – than in energy, health, education, telecommunications and some business and professional services sectors.
[5] Requiring a greater role of the State, working in collaboration with the private sector, civil society and other relevant stakeholders.
[6] UNCTAD, 2010.

The objectives of the report are:

- Assessing, in general terms, the current state of development in the services sector;
- Identifying achievements, weaknesses, opportunities and challenges in specific services subsectors;
- Identifying or determining policy options, including regulatory, institutional and sector-specific trade policy reform measures that can enhance the contribution of services to the advancement of national developmental objectives;
- Articulating ways to ensure the sustainability of the development gains occasioned by services sector reforms, including in their contribution to the achievement of the national Millennium Development Goals (MDGs);
- Identifying specific measures aimed at strengthening capacities to engage effectively in services trade and services trade negotiations.

A. Methodology

The research process underpinning the Nicaragua SPR began with the preparation of the desk study by UNCTAD. This study was used as the basis for discussion at the National Stakeholder Workshop staged in Managua on 25 and 26 February 2013. This multi-stakeholder workshop provided a platform for discussions that focused on issues and challenges and opportunities confronting key services sectors in Nicaragua.

Thereafter, a national team of experts embarked on a research process that involved extensive engagement with key stakeholders in Nicaragua. This research process drew on the content of the UNCTAD desk study, together with a comprehensive body of statistics, reports, previous studies, policy instruments and regulations. In turn, the engagement process was conducted through interviews to key government agencies involved in the design of policies pertaining to the services sector and to services providers.

The research findings by the experts were presented during the second National Stakeholder Workshop held in Managua, on 26 and 27 June 2013. This workshop provided the opportunity to critically review SPR findings and conclusions relevant to policy and obtain further inputs from stakeholders. Discussions led to further refinement and validation of recommendations to be submitted to the Government and other relevant actors. The recommendations provide the basis of strategies for the development of the service sectors and also for the identification of concrete actions and benchmarks for further services reforms.

B. Sectoral Coverage

As an initiator of this process, MIFIC suggested four services sectors to form the focus of the SPR that are of particular interest to Nicaragua:

- Financial services
- Tourism services
- Telecommunications services
- Road transport services

The Ministry identified these as sectors holding the potential to contribute significantly to the future growth and development of Nicaragua’s economy.

C. Structure of the Publication

This study is structured as follows: chapter II presents an economic overview of the economy of Nicaragua; chapter III contains an overview of the services sector in Nicaragua and examines existing trade policies for expansion of services, particularly referring to trade negotiations; chapters IV, V, VI, and VII analyse key aspects related to the sectors reviewed. Finally, in chapter VIII, a set of recommendations is presented based on the findings drawn from the desktop research and consultative engagements with key stakeholders. The recommendations are separated into a series of general recommendations applicable to the services sector as a whole, together with recommendations specific to each of the four services sectors.

PART ONE:

UNCTAD DESK STUDY:

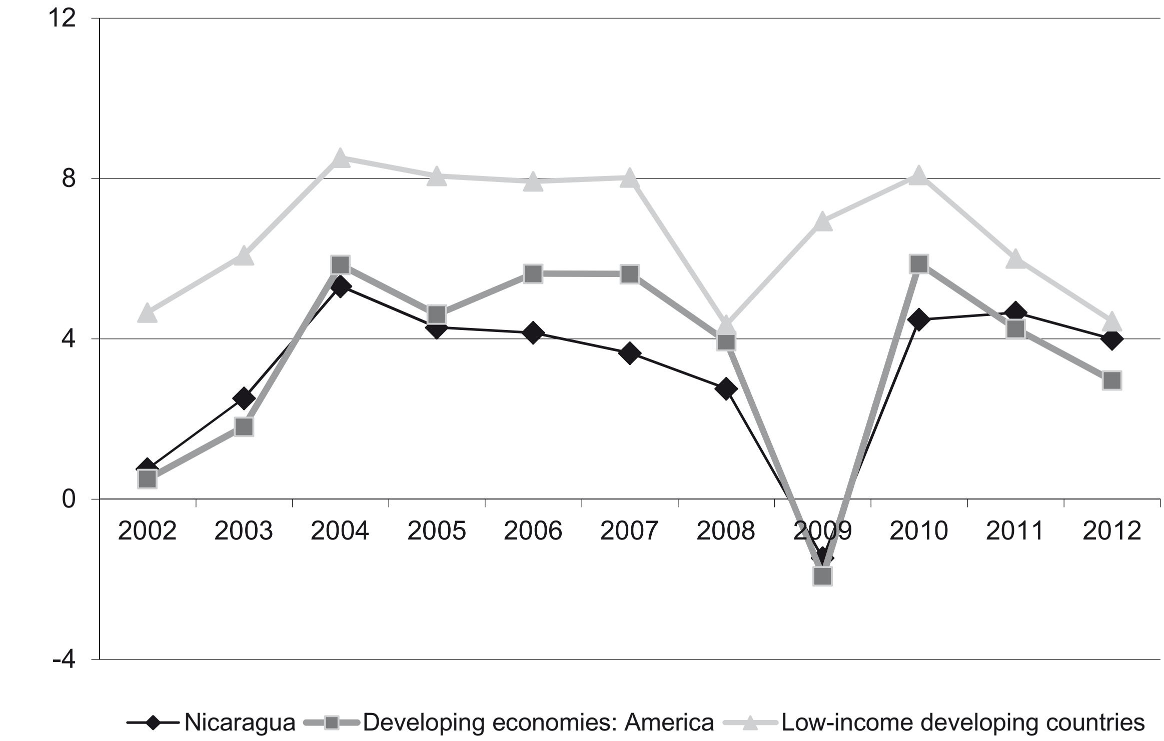
NICARAGUA ECONOMIC AND SERVICES OVERVIEW

CHAPTER II: ECONOMIC GROWTH AND DEVELOPMENT

A. Economic Growth

The Nicaraguan growth path has been similar, in the last 10 years, to that of other lower-middle-income countries. The GDP growth rate was above 2 per cent starting in 2002 until the onset of the international crisis. It then decelerated in 2008, falling to negative values in 2009. After the crisis period, the GDP growth rate recovered, reaching values not lower than 4 per cent since 2010, although the trend appears to be fading slowly as in the case of developing economies in America generally (figure 1). The fragility and uncertainty that surround the economic situation worldwide may eventually affect Nicaragua to some extent.

Figure 1. Selected Countries: Annual Average Real GDP Growth Rate, 2002–2012 (Percentage)



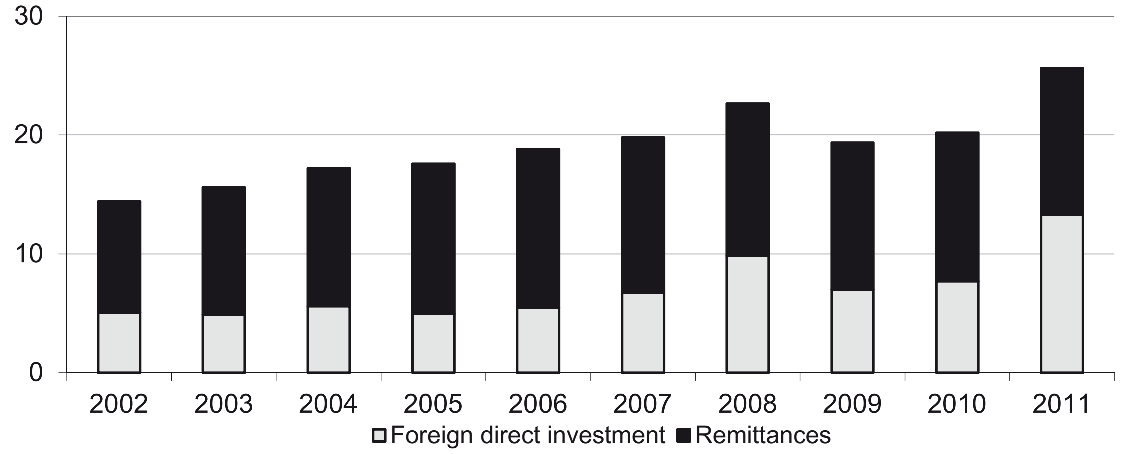
Source: UNCTADStat.
Note: Figures for 2012 are estimations.

The positive aspects of this evolution are attributed to prudent economic management, policy reforms and high levels of investment (International Monetary Fund (IMF), 2012). In fact, subsequent Governments maintained, during the past decade, consistent and rigorous monetary and fiscal policy. This has had a positive effect on tax revenues, budget deficit, levels of international reserves, levels of public debt and inflation rate. However, to sustain GDP growth in a globally fragile economic environment, further policy measures need to be adopted, which may include the adoption of strategies promoting economic diversification and infrastructure services as discussed further in this report. The adoption of proactive policies may mitigate the downside risks by reducing the impact of external shocks and, at the same time, enhance economic development of the country.

B. Financial Inflows and Investment

The balance of payments and the overall financial position of Nicaragua has greatly benefited from three categories of financial inflows: migrant remittances, foreign direct investment (FDI) and official development assistance (ODA). Both remittances and FDI maintained a sustained increasing trend in the last 10 years, as a percentage of GDP (figure 2). Both inflows peaked in 2008, with FDI reaching a value over $600 million, more than three times its value in 2002. These inflows diminished in 2009 due to the international crisis, but they have recovered afterwards as a percentage of GDP (figure 2).

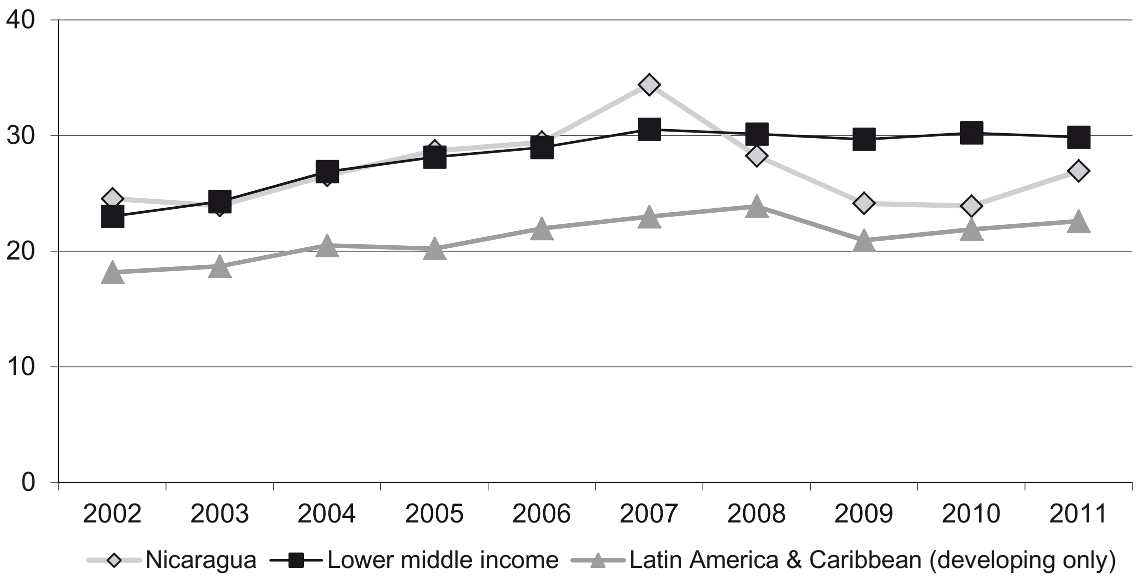
Figure 2. Nicaragua: Inflows of Foreign Direct Investment and Remittances, 2002–2011 (Percentage of GDP)



Source: UNCTADStat.

These inflows contributed to enhance the country's investment effort. Gross capital formation, as a percentage of GDP, increased in the last 10 years and peaked before the crisis at a remarkable level of over 30 per cent. It then fell during the crisis, recovering afterwards. The effect of these results was that, during the last 10 years, the investment rate in Nicaragua was higher than the average for developing countries in Latin America and the Caribbean but remains, since the crisis, below lower-middle-income countries' performance as defined by the World Bank (figure 3).

Figure 3. Selected Countries: Gross Capital Formation, 2002–2011 (Percentage of GDP)



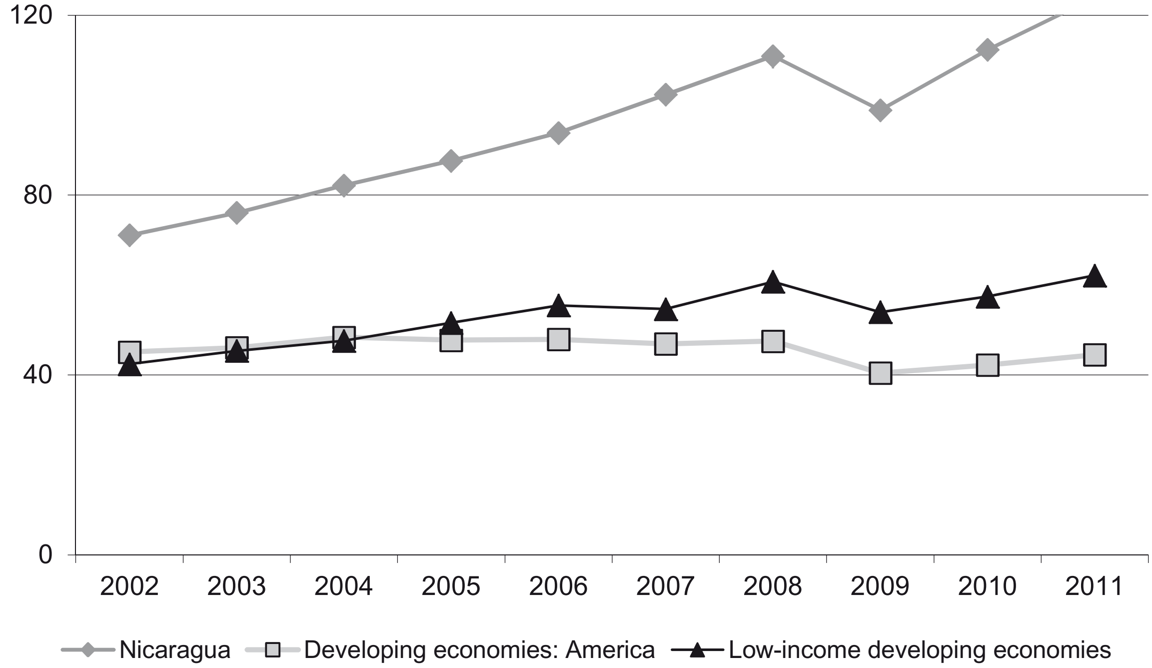
Source: World Bank: World Development Indicators.

The recent National Human Development Plan (PNDH) 2012–2016 highlights the role of investment in increasing productivity and formal employment. In particular, it recognizes the role of ICT services investments by SMEs in fostering innovation, and physical and human capital. Chapters IV and VII elaborate in more detail on possible policy venues to achieve greater productivity through investments, improved efficiency and innovation.

C. Trade

As previously mentioned, Nicaragua's trade performance strengthened in the last 10 years. In this period, there was a marked increase measured either in value or volume of exports, or in the share of exports and imports in GDP or in trade ratio. The weight of trade in the domestic economy increased rapidly in the last 10 years, in comparison with both developing countries in the American continent and with low-income developing economies (figure 4).

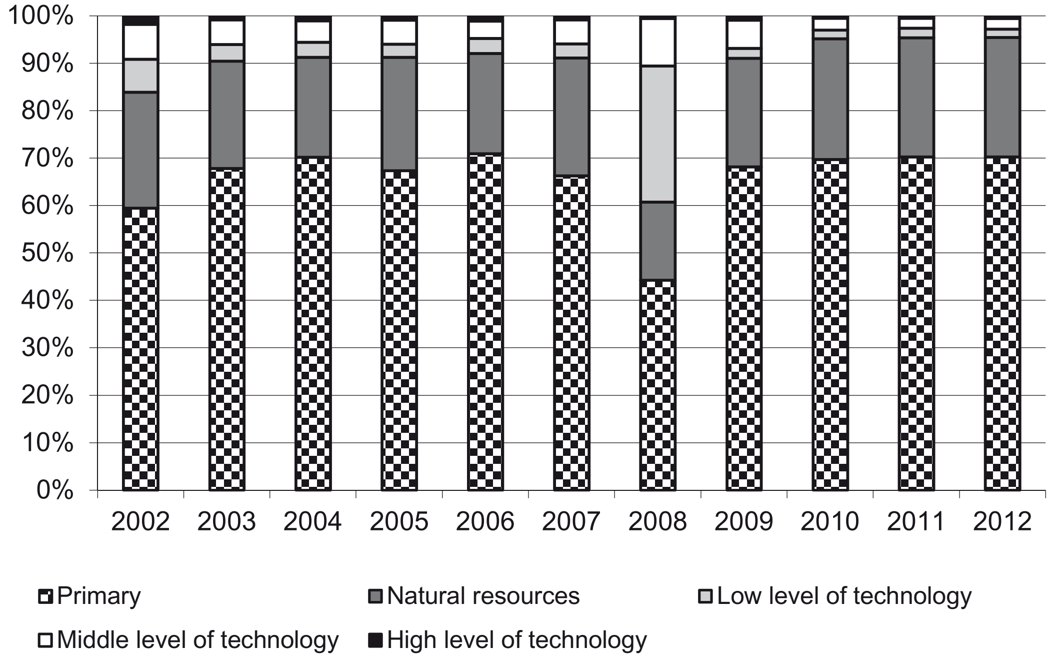
Figure 4. Selected Countries: Sum of Imports and Exports of Goods and Services, 2002–2011 (Percentage of GDP)



Source: UNCTADStat.
Note: The sum of imports and exports of goods and services was obtained from a breakdown in shares of GDP by type of expenditure, which does not always add up to 100 per cent due to statistical discrepancies.

Traditional exports characterize Nicaragua's trade performance. For the last 10 years, exports are mainly focused on primary and natural resources products, with a low level of incorporated technology (figure 5). This insufficient diversification might constitute a source of external vulnerability due to price volatility and uncertainty typical of commodity markets in the recent years, which may create major shocks as shown on figure 1. A diversification towards exports of manufactures and services in particular, whose price is relatively more stable, may contribute to a mitigation of external shocks and may become an integral part of a macroeconomic prudential plan.

Figure 5. Nicaragua: Global Exports Grouped According to Technology Intensiveness, 2002–2011 (Percentage)



Source: SIGCI Plus.
Note: The values presented in the graphic do not include the category "others" reported by SIGCI Plus according to its methodology and SITC Rev.2.

Moreover, Nicaragua's trade balance has been negative in the last two decades.[7] This deterioration of the trade balance is due to imports of fuel, intermediate goods and investment-related goods (World Bank, 2012).

According to the Global Competitiveness Report of the World Economic Forum (WEF), competitiveness also presents challenges for Nicaragua, classified as a factor-driven economy, instead of an efficiency -or innovation- driven one. Most problematic factors for doing business included inefficient government bureaucracy, inadequate supply of infrastructure and an inadequately educated workforce (WEF, 2012). Table 1 reflects the ranking of the WEF report for some countries of Latin America and the Caribbean region, including Nicaragua.

Table 1. Selected Countries: WEF Global Competitiveness Index (GCI) for 2012–2013

Country/economy	*Ranking/144*	*Score (1-7)*	*GCI 2011-2012 rank*
Chile	33	4.65	31
Panama	40	4.49	49
Barbados	44	4.42	42
Brazil	48	4.40	53
Mexico	53	4.36	58
Costa Rica	57	4.34	61
Peru	61	4.28	67
Colombia	69	4.18	68
Uruguay	74	4.13	63
Guatemala	83	4.01	84
Trinidad and Tobago	84	4.01	81
Ecuador	86	3.94	101
Honduras	90	3.88	86
Argentina	94	3.87	85

[7] UNCTADStat data for the period between 1990 and 2012. Estimations for 2011 and 2012.

Jamaica	97	3.84	107
El Salvador	101	3.80	91
Bolivia (Plurinational State of)	104	3.78	103
Dominican Republic	105	3.77	110
Nicaragua	108	3.73	115
Guyana	109	3.73	109
Suriname	114	3.68	112
Paraguay	116	3.67	122
Venezuela (Bolivarian Republic of)	126	3.46	124
Haiti	142	2.78	140

Source: WEF, Global Competitiveness Report 2012–2013.

D. Priorities of the Government of Nicaragua

The Government of Nicaragua has developed two main instruments that have defined the strategic approach in recent years to face overall economic, social and human development challenges: the Economic and Financial Programme (PEF) 2007–2010 and the policy framework of the PNDH 2008–2012 and 2012–2016.

These instruments highlight the main policy objectives of Nicaragua such as increasing trade and investment opportunities, diversifying exports and improving the efficiency of the productive system.[8] Increased trade and investment opportunities are sought through:

(a) The preservation of the macroeconomic stability, which may lead to the promotion of a favourable business environment and reduce extreme poverty;

(b) Improvement of the utilization of international markets by the private sector;

(c) The development of trade relations and trade negotiations with the Arab countries, Asia, Canada, Europe, Latin America and the Caribbean, and the United States, and of trade cooperation schemes such as the Bolivarian Alliance for the Peoples of Our America (ALBA), which facilitate the imports of fuel;

(d) Simplification of bureaucratic procedures[9] and other initiatives for promoting trade and investment. This includes the development of a single contact point for international trade, a single contact point for investments, the improvement of customs procedures and the advancement of the Central American Customs Union. This encompasses the implementation of the international transit of goods (TIM) regional initiative, a process that envisages the automation, simplification and streamlining of customs procedures.

Table 2 summarizes, as they are defined by these instruments, the PEF and the PNDH, some of the challenges, main related objectives and key factors to achieve such objectives.

Table 2. Nicaragua: Economic and Development Challenges, Objectives to Overcome Them and Key Factors to Achieve These Objectives

Policy area	*Main challenges*	*Objectives and key factors to achieve objectives*
Economic	• Productive challenges (related to shortcomings in infrastructure, technology, scientific and technological development); • Vulnerability to external shocks (weather and commodity price fluctuations); • Macroeconomic and financial	• Restructuring the economy by promoting more investments to improve innovation, physical and human capital, and use of ICT tools by SMEs; • High priority given to SMEs development and promotion of SME business opportunities; • Access to credit, multilateral financing, increased FDI for infrastructure development and productive capacity development; • High priority to environment protection,

[8] Jaramillo et al. 2006; PNDH, 2012; WTO, 2012.

[9] In 2009, Nicaragua approved a law to simplify public administration procedures and services (Nicaragua, 2009). In the framework of this law, stronger institutional coordination is pursued between the public and private sector to promote an ongoing dialogue and a common agenda.

Policy area	*Main challenges*	*Objectives and key factors to achieve objectives*
	stability; • Unemployment.	development of alternative energy sources, food security and food sovereignty; • Fostering technology, innovation, entrepreneurship and human capital development by promoting partnerships between universities, private sector and government entities.
Social and human development challenges	• Poverty prevalence; • Chronic under nutrition; • Low wages; • Inequality and social exclusion; • Low levels of education and school enrolment; • Lack of access to health and sanitation facilities, particularly in poor, rural areas.	• Expansion of programmes aimed at reducing poverty; • Expansion of programmes aimed at increasing social inclusion and equity and access to health; • Promoting increased food security and food sovereignty (through sectoral support policies – for example for grain production); • Multilateral financing and international cooperation to finance social programmes; • Macroeconomic stability as a key factor to create conditions favourable to significant poverty reduction.

Source: Based on PEF 2007–2010, and PNDH 2008–2012 and 2012–2016.

To diversify its exports, the Government of Nicaragua goes beyond the mentioned diversification of markets, referring to the development of a broader array of exportable products, including the promotion of intra-industry trade. The increase of trade and investment opportunities is sought, on the one hand, through the preservation of the macroeconomic stability and sustainability of public finances that may lead to the promotion of a favourable business environment. On the other hand, it is pursued by the improvement of the utilization of international markets by the private sector and by the development of new trade relations. In this sense, imports of intermediate and investment-related goods and infrastructure development are seen as ways to increase supply capacity and exports. In the current strategic framework of Nicaragua, science, technology and innovation are promoted as key factors to reduce the technological gap, to create better employment opportunities and to increase value added to local productions. In this context, given the objectives and the challenges identified, the elaboration of services development and promotion strategies fit particularly into the overall economic strategy.

CHAPTER III: OVERVIEW OF THE SERVICES SECTOR

A. Contribution of Services to Economic Growth

Services play an important role in the economic development of Nicaragua. In fact, services are the largest component of Nicaragua's GDP, followed at a great distance by industry that slightly prevails over agriculture. The share of services in GDP is more than half, with a steady trend over the last decade (table 3).

Table 3. Nicaragua: Participation of economic activities in GDP, 2002, 2006, 2011 and 2012 (Percentage of GDP)

	2002	*2006*	*2011*	*2012*
Primary activities	16	16	17	16
Industry	19	20	18	19
Services	55	55	56	55

Source: Banco Central de Nicaragua (BCN).
Note: Values for net taxes on products and bank charges are not included. Values for 2011 and 2012 are estimated.

Among the various services activities, for the period between 2002 and 2012, the ones that contributed more to GDP were "trade, hotels and restaurants", "personal, social and business services" and "general government services". All the contributions remain somewhat stable, with a slight increase in the participation of "transport and communications" (table 4).

Table 4. Nicaragua: Participation of Services Activities in GDP, 2002, 2006, 2011 and 2012 (Percentage of GDP)

	2002	*2006*	*2011*	*2012*
Trade, hotel and restaurants	14	13	13	13
Personal, social and business services	12	12	12	12
General government services	10	9	10	10
Transport and communications	5	6	8	8
Housing	8	8	8	7
Financial intermediation	4	5	3	3
Electricity, gas and water	2	1	2	2
All services	55	55	56	55

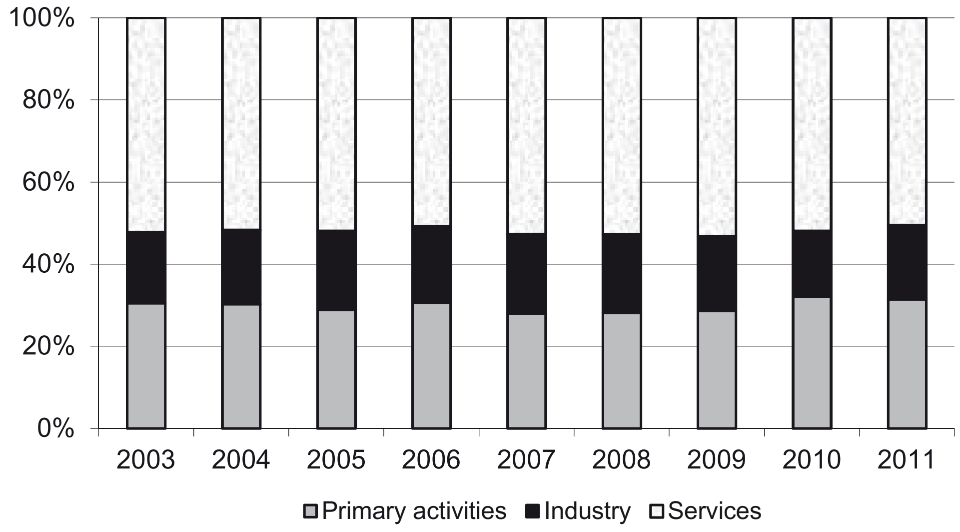
Source: BCN.
Note: Values for net taxes on products and bank charges are not included. Values for 2011 and 2012 are estimated.

B. Contribution of Services to Employment

The services sector is the major contributor to employment in Nicaragua, with a share of more than 50 per cent between 2009 and 2011. Primary activities[10] account for around 30 per cent of employment and industrial activities[11] for a little less than 20 per cent of employment in the country. These shares have been relatively stable during the period between 2003 and 2011 (figure 6).

[10] These activities include agriculture, livestock, forestry and fishing.
[11] These activities include manufacturing, construction and mining.

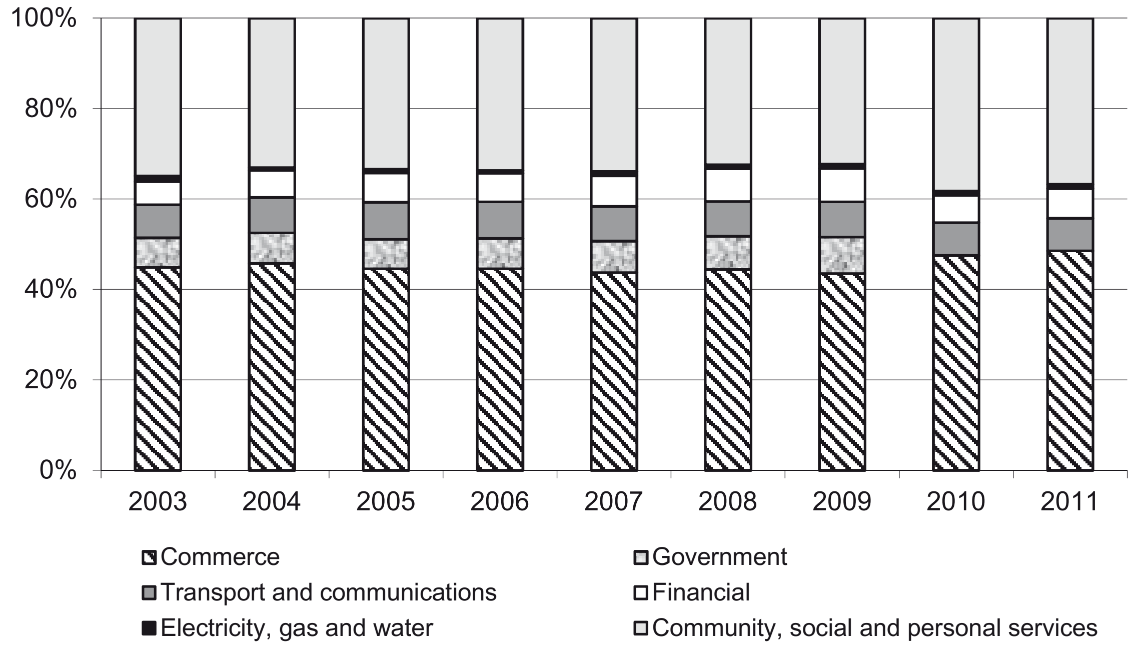
Figure 6. Nicaragua: Employment by Economic Activity, 2003–2011 (Percentage)



Source: BCN.
Note: Values for 2011 correspond to the average of first and second quarter of Continuous Household Survey data.

The two main services sectors contributing to employment are “commerce” and “community, social and personal services” that have consistently displayed shares of more than 40 per cent and 30 per cent, respectively. All the contributions have remained more or less stable during the period between 2003 and 2011 (figure 7). It is relevant to note that employment is concentrated in traditional activities and not in financial or telecommunications activities that tend to have a greater need for qualified personnel (Pozzoli and Ranzani, 2008).

Figure 7. Nicaragua: Employment by Services Activities, 2003–2011 (Percentage)

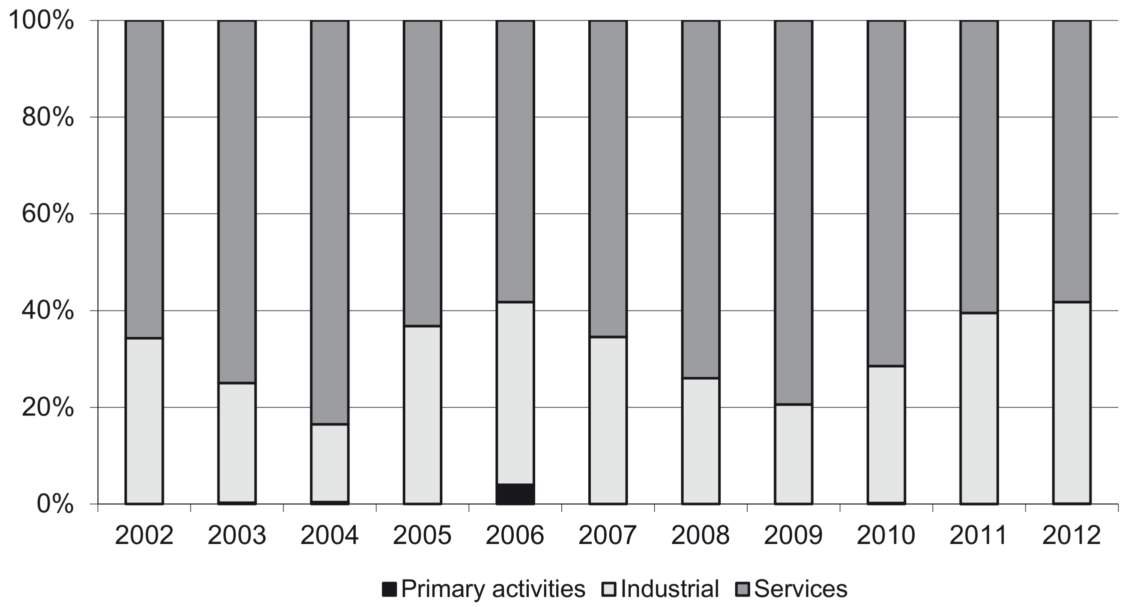


Source: BCN.
Note: From 2010 onwards, data related to government employment is included under “Community, social and personal services”. Values for 2011 correspond to the average of first and second quarter of Continuous Household Survey data.

C. Services and Investment

Flows of FDI towards Nicaragua have been mainly focused on the services sector, which is partly justified with considerable investments in ISS. With the exception of 2006, services have consistently been the destination of more than half of the FDI flows entering Nicaragua. Industrial activities are the second destination group of economic activities and the share of FDI into primary activities is scarce (figure 8).

Figure 8. Nicaragua: Foreign Direct Investment by Destination Economic Activity, 2002–2012 (Percentage)

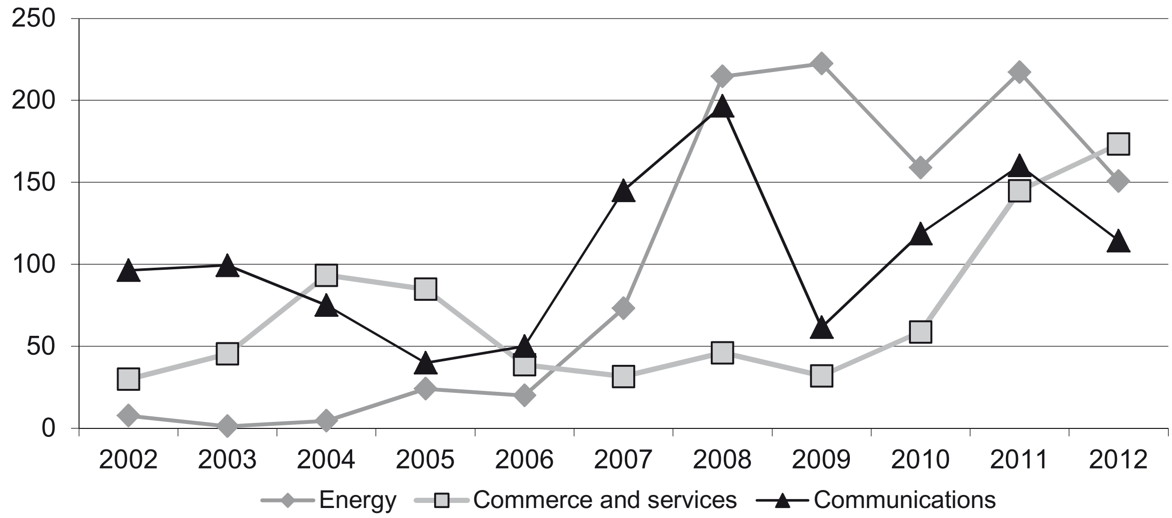


Source: BCN.
Note: From 2011 onwards, values are preliminary. Values for FDI in category "others" is not presented.

The analysis of investment flows within the services sector reveals, although with some variation, an increasing trend in recent years (figure 9). Flows of FDI into the energy sector experienced a steep increase in 2007, and especially in 2008, maintaining high values since then. This is partly explained by renewable energy projects put in place by the Government to attract investment and reduce dependence on oil imports.

In the communications sector, FDI also increased sharply in 2007 and, except for a contraction in 2009, it has kept on receiving considerable investment since then. Mobile telephony in particular has received an important part of investments in the communications sector. Commerce and services, which includes tourism, has also had a remarkable increase in incoming FDI in recent years (figure 9).

Figure 9. Nicaragua: Foreign Direct Investment by Destination Services Activities, 2002–2012 (Million dollars)



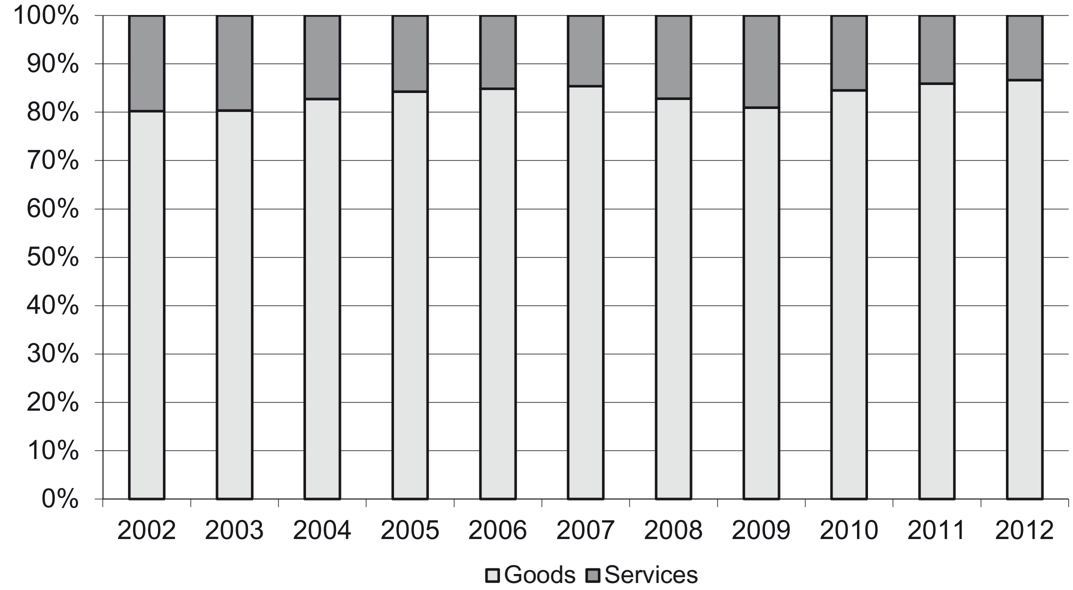
Source: BCN.
Note: From 2011 onwards, values are preliminary.

D. Contribution of Services to Trade

Since 2002, services have contributed much less than goods to Nicaragua's imports and exports, with a relatively stable share. Between 2002 and 2012, services exports have contributed between 13 per cent and 20 per cent, with an average of 16 per cent, to total exports. In the same period, services imports have contributed between 12 per cent and 16 per cent, with an average of 14 per cent, to total imports (figure 10 and figure 11). As in total trade, services trade balance has been negative in the last two decades.[12] The balance of transport explains an important part of this deficit. To a lesser extent, but also contributing to this result, is the deficit in financial services.

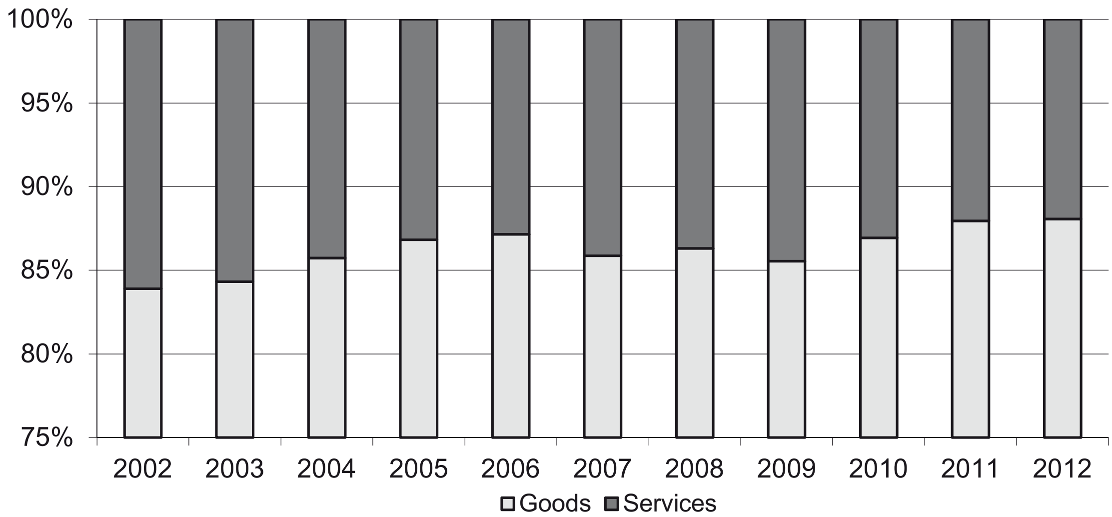
[12] UNCTADStat data for the period between 1990 and 2012. Estimations for 2011 and 2012.

Figure 10. Nicaragua: Share of Goods and Services Exports in Total Exports, 2002–2012 (Percentage)



Source: UNCTADStat.
Note: Values for 2011 and 2012 are preliminary.

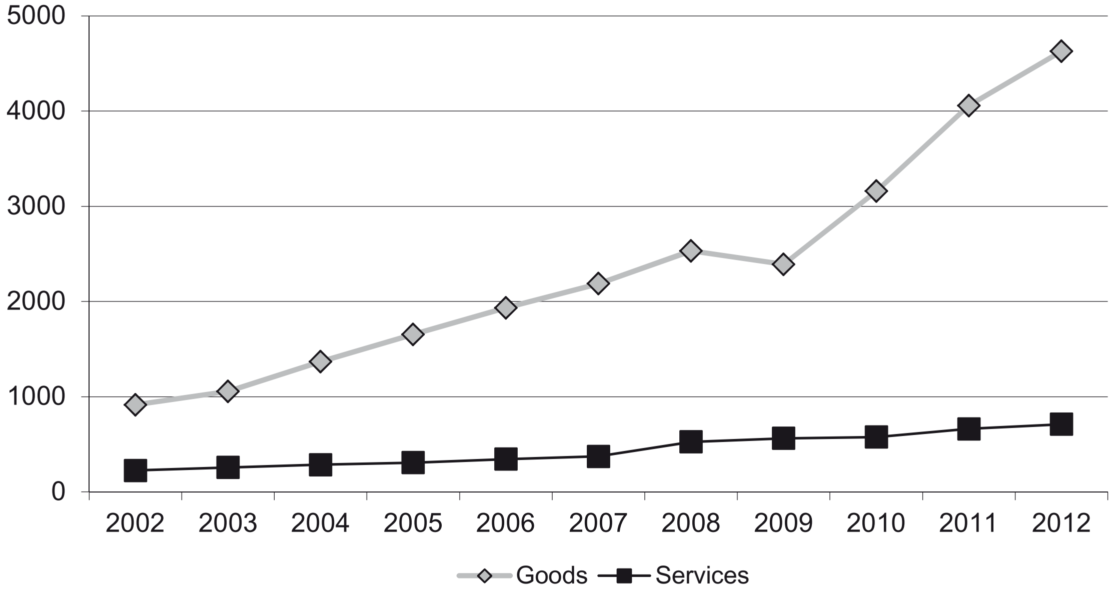
Figure 11. Nicaragua: Share of Goods and Services Imports in Total Imports, 2002–2012 (Percentage)



Source: UNCTADStat.
Note: Values for 2011 and 2012 are preliminary.

Nicaragua's service exports have been increasing slowly but steadily since 2002. The compound annual growth rate for services exports between 2002 and 2012 was 12 per cent. It is noteworthy that, unlike the case of the exports of goods, the crisis did not decrease the exports of services in 2009, demonstrating the counter cyclical characteristics of services (figure 12). However, the steep performance of goods exports after the financial crisis should not discourage policymakers from adopting a services development and promotion policy in the coming years. As mentioned in chapter II, good exports performance owes much to primary and natural resources products, whose price remain volatile and difficult to predict in the long term. In this respect, services remain a valid avenue for trade diversification policies.

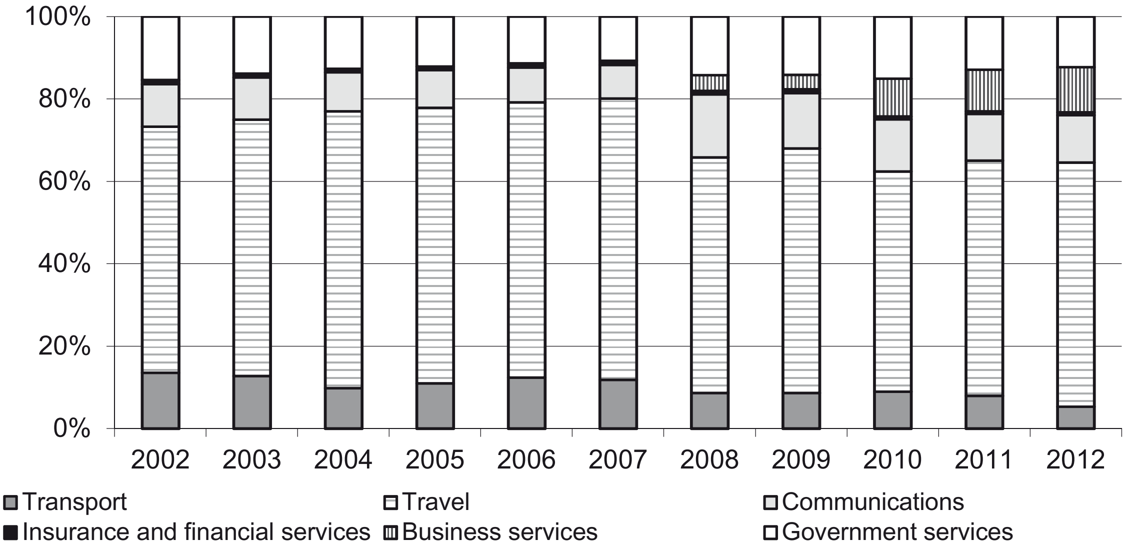
Figure 12. Nicaragua: Exports of Goods and Services, 2002–2012 (Million dollars at Current Prices and Current Exchange Rates)



Source: UNCTADStat.
Note: Values for 2011 and 2012 are preliminary.

Nicaragua's main service exports during the last 10 years were tourism services, consistently with more than half of the share of these exports. Other important contributors to services exports in this period were "communications" and "business services", with shares above 10 per cent of total business exports in 2011 and 2012 (figure 13).

Figure 13. Nicaragua: Distribution of Services Exports, 2002–2012 (Percentage)



Source: UNCTADStat.
Note: Values for 2011 and 2012 are preliminary.

E. Priorities of the Government of Nicaragua

In recent years, policies focused on the services sector have gained momentum in Nicaragua. This is justified by the enormous importance of services in the economy, responsible for more than half of the GDP, more than half of the employment and more than half of inflows of FDI. Although services are responsible for a much smaller portion of trade than goods, it is also acknowledged that services have an important dual role on trade. On the one hand, their contribution to trade has an intrinsic relevance since they account for around 16 per cent of total exports. On the other hand, services support trade in general by providing inputs for the delivery of products and by strengthening value chains.

The priorities for the development of the services sector in Nicaragua are not contained in one overall strategy, but divided among different policy instruments and institutions. These priorities include the promotion of services trade and investment opportunities, the development of services sectors linked to upgrading productive capacities in the agricultural sector,[13] and increased access to social services.

The national strategy to promote trade and investment opportunities, mentioned in chapter II, is also relevant in the services sector. The Government of Nicaragua, through the Investment Promotion Agency of Nicaragua (PRONicaragua), especially seeks to promote trade and investment opportunities in three services-related sectors: tourism; business services such as contact centres and business process outsourcing (BPO); and infrastructure services and energy. This is aligned with the suggestion of the Government of Nicaragua, through MIFIC, to focus this SPR on tourism, financial services and infrastructure services such as telecommunications and road transport. PRONicaragua based the assessment of services sectors in factors that could enhance their competitiveness potential (table 5).

Table 5. Nicaragua: Sector Specific Competitiveness-Enhancing Factors

Factor	*Specific to the following services sectors*
Cost competitiveness	Tourism and BPO
Strategic location close to the United States market	Tourism and BPO
Richness in natural resources	Renewable energy
Ongoing reform related to infrastructure upgrade, including regional efforts to develop infrastructure – ports, airports, coastline highway and airports	Infrastructure services (transport)
Integration of regional electricity markets and development of regional infrastructure	Energy distribution and telecommunications

Source: Based on sector profiles of PRONicaragua and on investment information of the "Proyecto de Integración y Desarrollo de Mesoamérica".

The Government of Nicaragua has identified that to increase the productivity of the agricultural and agro-processing sector it is necessary to strengthen some services sectors that provided inputs to agricultural productive processes, such as distribution, transport, financial activities, education, electricity, research and development and other support services. The development of some of these infrastructure services is also required to pursue another priority of the Government: the increase of universal access to water, sanitation, health and education. However, services by themselves, if carefully developed, may become exportable and not only an input to the main agricultural exports. In this regard, the final chapter of this SPR provides insightful recommendations to achieve this desirable objective.

The development of services sectors is limited by the lack of a strong institutional framework and the lack of associative schemes to promote cooperation among SMEs. The integration of service activities in value chains, of the utmost importance for their development, may also be restricted by an insufficient supply of skilled labour and the underdevelopment of ISS. In turn, infrastructure services are challenged by the high dependency on external financing. Budget constraints are also very important throughout several services sectors and strongly affect, for instance, agricultural research institutions (Ketelhöhn, 2012).

[13] Reference to the priority given to the development of the agricultural and agroprocessing sector is included in section I.V of the PNDH.

F. Services and the Millennium Development Goals

Some government strategies to develop the services sectors fit with the PNDH and the MDGs. For this reason, it is worth examining the progress in fulfilling some of these objectives. The levels of rural and urban poverty in the country have decreased. Full productive employment and widespread decent work has not yet been reached, despite the important contribution of services to Nicaraguan production and employment.

The services development approach is linked to education strategies. In this regard, there are important advances in achieving primary universal education. The primary completion rate increased from 40 to 81 per cent between 1990 and 2010 and the primary enrolment rate increased from 67 to 92 per cent in the same period. The literacy rate of 78 per cent in 2005 has improved, according to the Government, at levels ranging between 84 per cent and 95 per cent in 2010. Strategies to achieve more and better technical education and language skills are in place and seek to respond to the country's need for productive transformation.

Public and private investment has increased in priority areas. In telecommunications, for example, subscription to mobile phones increased from 0 per cent in 1990 to 82 per cent in 2011. Internet users have also grown from 1 per cent in 2000 to 11 per cent in 2011.

The contribution of services to other MDGs and objectives of the PNDH may be more indirect. Be that as it may, there is a link between the contribution of services to growth, the education and investment strategies, and the results to social and equality objectives. In this regard, there are advances in the promotion of gender equality and empowerment of women, including: 235,148 women became literate, now representing 53 per cent of total literates; 123,438 women were served for the creation of small businesses, strengthening their economic autonomy; and land and property titling to women promoted their creditworthiness. Infant mortality indicators reflect substantial progress. The mortality rate of children under 5 years old fell from 66 per 1,000 in 1990 to 26 per 1,000 in 2011, and the infant mortality rate fell from 50 per 1,000 to 22 per 1,000 between 1990 and 2011. The proportion of 1-year-old children immunized against measles went from 82 to 99 per cent between 1990 and 2011. Maternal mortality rate fell from 170 per 100,000 live births in 1990 to 95 per 100,000 in 2010. The proportion of births attended by skilled health personnel changed from 61 per cent in 1993 to 74 per cent in 2007.

G. Trade Negotiations

The Government of Nicaragua considers trade negotiations and trade agreements as a way to improve socioeconomic opportunities for the country, via increased trade and investment (World Trade Organization, WTO 2012). For the country's Government, trade negotiations and agreements are linked to the aforementioned trade policies by taking into account economic asymmetries among countries, correcting distortions in international markets and providing opportunities to improve supply capacity and infrastructure through aid for trade.

In the Uruguay Round, Nicaragua undertook commitments in five out of the twelve services sectors: business, communications, financial, tourism and transport. This includes all the services focused on in this SPR. Most of the country's commitments are under mode 3 (commercial presence) and mode 1 (cross-border trade) (table 6). No commitments were assumed under mode 4 (movement of natural persons), aside those derived from horizontal commitments made by Nicaragua (table 7).

Table 6. Nicaragua: Summary of Services-Sectors-Specific Commitments from the Uruguay Round

Sector	*Subsector*	*Commitments*
Tourism	Hotels and restaurants	• Liberalized under modes 2 and 3 (no limitations on market access and no limitations on national treatment).
	Travel agencies	• Liberalized under mode 3 (no limitations on market access and no limitations on national treatment). • Limitations described in the horizontal section apply for mode 4.
	Tourist guide services	• Liberalized under modes 2 and 3 (no limitations on market access and no limitations on national treatment).
Financial	Insurance and related	• Partially liberalized under mode 3 (market access is provided subject to compliance with certain requirements -authorizations- and some restrictions apply -for example, foreign capital participation, value of transactions, residence requirement-). No limitations on national treatment. • Limitations described in the horizontal section apply for mode 4.
	Trading for own account or for account of customers (several subsectors)	• Partially liberalized under mode 3 (market access is provided subject to compliance with certain requirements -authorizations- and some restrictions apply -for example, type of legal entity, value of assets-). No limitations on national treatment. • Limitations described in the horizontal section apply for mode 4.
Telecommunications	Public telephone services (solely cellular telephony); electronic mail; online information and database retrieval; electronic data interchanged; enhanced/value-added facsimile services; circuit-switched data-transmission services; private leased circuit services; telex; telegraph; facsimile; voice mail; online information and/or data processing	• Liberalized under modes 1 and 3 (No limitations on market access and no limitations on national treatment). • In the case of mode 2, no limitations on market access (liberalized) but unbound for national treatment (not liberalized). • Limitations described in the horizontal section apply for mode 4.
Road transport	Road transport	• No commitments were made by Nicaragua in road transport (only on air transport and rail transport).

Source: WTO, Services Schedules Database.

Table 7. Nicaragua: Summary of Horizontal Commitments from the Uruguay Round

Limitations on market access	*Limitations on national treatment*
• For mode 3: Approval of FDI subject to assessment of economic necessity; • For mode 4: Supply of professional services limited to senior and specialized personnel in connection with a commercial presence and it must contribute to the training of Nicaraguan personnel in the specialized field of activity concerned: ▪ Employment authorization required in some cases, from the Ministry of Labour; ▪ Legal, accounting, auditing, engineering, architectural and medical services require the fulfilment of conditions and authorizations for the exercise of these professions.	• For modes 1, 2, 3 and 4: Restrictions related to income taxes and royalties and payment of interest; • For mode 4 only: Liberalized for persons indicated in the previous column.

Source: WTO, Services Schedules Database.

Nicaragua has one most-favoured-nation exemption related to financial services, due to the integration under the Central American Common Market. The country has adopted the financial services protocol but not the telecommunications reference paper. Nicaragua did not assume any additional commitments within the Uruguay round.

In the Doha Round of multilateral negotiations, Nicaragua endorsed several collective proposals during the services negotiations (table 8).

Table 8. Nicaragua: Summary of Proposals in the Doha Round

Negotiating topic or sector of interest	*Specific proposal by Nicaragua*
Procedures and guidelines to conduct services negotiations[14]	Adopting parameters to assess offers from the vantage point of the offensive interests of developing countries, and particularly the needs of small services suppliers.
Further liberalization of tourism activities[15]	Facilitating the movement of natural people supplying tourism services, through: • The recognition of their qualifications; • The elimination of economic needs tests; • The elimination of nationality or residence requirements; • Broader and more in-depth commitments on all modes of supply.
Further liberalization of logistic services[16]	Using a checklist to undertake commitments across different sectors connected with logistic services. This checklist encompasses, for example, commitments regarding licensing procedures, electronic transactions, transit and freight logistics management.
Diffusion of electronic commerce in developing countries[17]	Promoting the establishment of a working group within the WTO to analyse factors constraining it and examine actions that could be adopted to support and promote its development.
Credit for autonomous liberalization[18]	Recognition of practical negotiating advantages as a compensation for having previously carried out autonomous services liberalization.

Source: Based on WTO information about the submitted proposals.

The country submitted an initial services offer in 2005. In its horizontal section, the offer eliminated some restrictions regarding investment and improved its commitments regarding business visitors and intra-corporate transferees. In its specific commitments section, the offer contained new undertakings regarding legal services, the elimination of some limitations affecting market access in financial services – namely in

[14] Proposals submitted to the WTO: TN/S/W/7 (28 October 2002), TN/S/W/16 (25 July 2003) and TN/S/W/19 (18 February 2005).
[15] Proposal TN/S/W/23 (29 September 2004).
[16] Proposal TN/S/W/20 (25 June 2004) and TN/S/W/34 (18 February 2005).
[17] Proposal WT/COMTD/W/179 (14 July 2011), submitted by Cuba, Ecuador and Nicaragua.
[18] Document JOB(02)/77 (July 2002).

the banking and insurance subsectors – and bound new commitments regarding national treatment in air transportation. Nicaragua did not submit a revised services offer.

Aside from the multilateral framework, Nicaragua has participated in most of the services-related negotiations in a regional context, as a member of the Central American Integration System (SICA). The General Treaty on Central American Economic Integration envisaged the creation of a common market. Initially, it encompassed only trade in goods but some observers note that the Dominican Republic–Central America–United States Free Trade Agreement (CAFTA–DR) process induced the decision to negotiate trade and investment in services at the subregional level, leading to a unified view on services rules between Central American countries (Pellandra and Fuentes, 2011).

Nicaragua joined the CAFTA–DR in 2005, which entailed changes to market access conditions. Commitments apply to a long list of services sectors, including the ones being focused on in this SPR, with exceptions included in country-specific negative lists. The agreement contains disciplines in areas that most Central American countries had not included in previous FTAs such as e-commerce and public procurement in services. It includes transparency obligations regarding services regimes. Although it excludes trade commitments under mode 4, it encompasses obligations related to professional standards. The harmonization of legal frameworks promoted by the CAFTA–DR led to opportunities for capturing outsourcing of professional services.

The agreement between Mexico and the Central American region, signed in 2011 and in force since 2012, includes provisions regarding the non-discrimination through most-favoured nation and national treatment principles, the progressive elimination of barriers to trade in professional services, and the simplification of procedures for facilitated entry of business visitors.

The FTA between Central America and Chile, signed and in force since 2012, entails a far-reaching liberalization of trade in services, covering areas such as investment, temporary entry of business visitors and several services sectors.

The Association Agreement between Central America and the European Union, signed and in force since 2012, includes provisions on non-discrimination, access to networks, and investment in different services sectors. This agreement was negotiated following a positive list approach and encompasses commitments in computer services, courier, telecommunications and financial services.

The implementation of services commitments and cooperation to facilitate trade in services in Central America has been moving forward. Important goals in the domain of infrastructure integration are also being achieved, namely in road transport, telecommunications and energy. A good example is the common electric network provided by the Central American Electrical Interconnection System.

The only bilateral agreement affecting trade in services is the one signed in 2008 by Nicaragua and Taiwan Province of China, entitled “Free Trade Agreement between the Republic of Nicaragua and the Republic of China (Taiwan)”. This agreement contains services-related commitments, namely regarding investment, cross-border trade and temporary entry of business persons.

Nicaragua took the bulk of its trade liberalization processes unilaterally, with the main goal of promoting trade and investment opportunities. Some studies (Jaramillo et al., 2006) see a correlation between this unilateral liberalization, undertaken prior to CAFTA–DR negotiations, and the surge of FDI flows towards infrastructural services, mainly telecommunications and energy. Be that as it may, to reap the full potential of FTAs, it would be necessary to have a more concerted action, between the national and regional levels, regarding the negotiation and implementation of trade agreements, regulatory cooperation and economic support. Regarding trade in services in particular, it is necessary to strengthen institutional aspects and coordination, human capital and to promote the services sector upgrade (Jaramillo et al., 2006).

The challenge of translating trade opportunities in services in Nicaragua into greater development opportunities requires adequate policies and investment programmes that prioritize education and infrastructure, the upgrading of services sectors and the promotion of their link with the productivity and efficiency of several value chains. This is linked to the aforementioned restrictions. More detailed recommendations regarding the advancement of the services sector are included in chapter VIII.

PART TWO:

RESEARCH BY NATIONAL EXPERT TEAM

SECTOR-SPECIFIC ANALYSIS

CHAPTER IV: Financial Services Sector

A. Introduction

Banks play a central role in economic activity through three interrelated processes that are financial intermediation, transformation of assets and money creation. Banks provide three essential services: taking deposits, payment management, and lending. They also offer countless other financial services.

In an ideal setting, banks contribute to the efficient capital allocation by channelling resources towards those economic units that achieve the highest yields of depositors funds entrusted to them. Also, other non-bank financial institutions such as insurance companies, central security depositories, stock exchanges and microfinance companies play an important role in supporting economic activity.

B. Role and Performance of the Sector

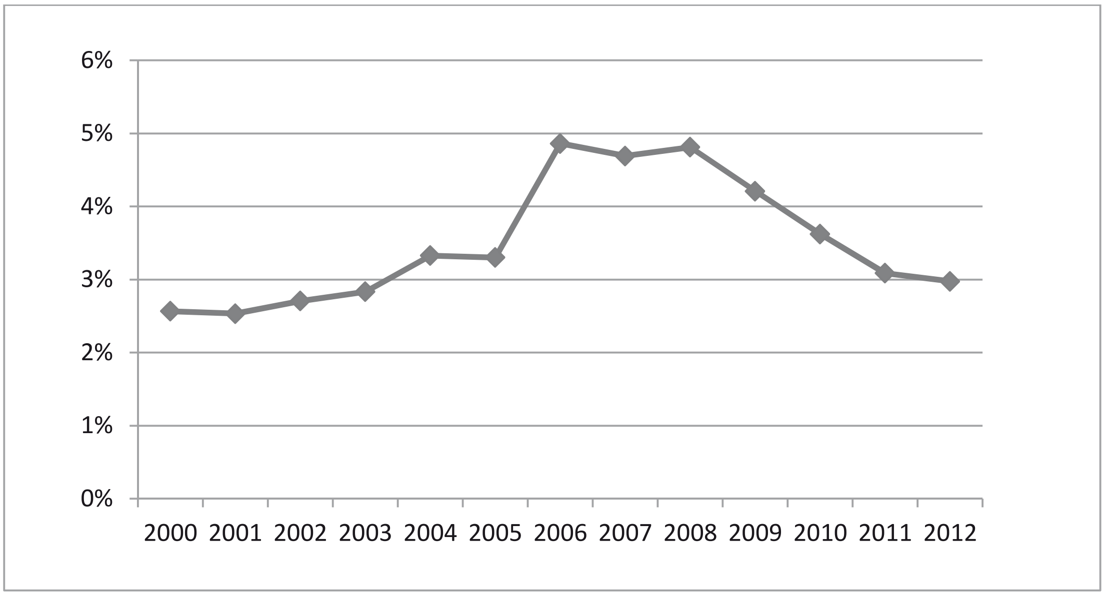
Nicaragua's financial sector was overwhelmingly privatized over the 1990s. However, a severe crisis erupted in 2000–2001, with the collapse of four of the country's seven private commercial banks, followed by rapid recovery and growth. Total banking assets have more than quadrupled, reaching almost $4 billion (or C$100 billion) by end 2010 (Superintendence of Banks and other Financial Institutions, SIBOIF). However, the financial liberalization of the 1990s has not increased significantly the supply of credit and other financial services to the vast majority of the population and SMEs. In other words, financial liberalization has not contributed to improving universal access to financial services and its impact has been at very best limited by selecting carefully potential customers.

Despite the liberalization, Nicaragua's financial services industry is still small and relatively underdeveloped, in all its subsectors. A significant holistic indicator in this respect is that of financial depth (total credit/GDP), which constitutes a broad measure of the overall financial development of a country's economy. In fact, the ratio is particularly low in Nicaragua, where it stood at 27.3 per cent in 2012, well below other countries of similar size in the region (see table 10).

Through the PNDH, the Government of Nicaragua intends to stimulate the financial system for economic growth using monetary policies, exchange rate management, and prudential standards that promote the health and strength of financial institutions. The Plan aims also at creating a credit policy for the private financial system to support funding primarily to the industry and the real economy. In its PNDH 2012–2016, the Government adopts objectives regarding the financing of productive activities that levels should reach 22.5 per cent of GDP by 2016, up from 19.1 per cent of GDP in 2012.

Nicaragua's banking sector is very concentrated, as it is constituted by only seven active banks, out of which four are foreign owned and just one is public. The value added of financial services as a percentage of GDP grew between 2000 and 2008 and then has fallen from 2009 onwards due to the effect of the international financial crisis. In fact, the Nicaraguan banks adopted a policy of extreme caution and contracted credit availability in subsequent years. Starting in 2011, the ratio of value added as a percentage of GDP approximately stabilized, although it continued to decline slightly in 2012 (figure 14).

Figure 14. Financial Services as a Share of GDP (2000–2012)



Source: BCN.

Bank credit has been aimed mainly at trade and consumption and, to a much lesser extent, to finance real investments and production activities. The figures for 2012 (table 9) show that the former received 58 per cent of the total loan portfolio of banks (for example, personals, credit card and commercials), while the latter obtained only 29 per cent (for example, industrials, agriculture).

Table 9. Banks and Financial Institutions: Credit Portfolio December 2012 (Percentage)

	Short-term	*Long-term*	*Total*
Consumer credit	0.3	14.7	15.1
Credit card	0.0	7.0	7.1
Commercials	10.5	24.9	35.4
Agriculture	3.2	9.3	12.5
Cattle-raising	0.1	1.7	1.8
Industrials	4.0	10.4	14.4
Mortgage	0.1	13.0	13.0
Housing development	0.0	0.1	0.1
Public Sector	0.0	0.6	0.6
Total	18.3	81.7	100.0

Source: UNCTAD secretariat's calculations based on SIBOIF statistics.

The structure of credit in Nicaragua is long-term in nature: about 82 per cent of the total credit has been directed to financing with terms greater than 360 days. This is explained by the fact that consumer credit and credit cards, a large share of outstanding credit, have terms longer than one year and commercial credit lines have terms typically of 18 months or more.

Loans directed to the agricultural sector target in priority production for exports. Banks do not address funding for basic grain crops such as beans, maize and upland rice, although these crops are produced by micro, small and medium-sized producers and are part of the staple diet of Nicaraguans. Similarly, regarding livestock, banks generally do not have the technical equipment to monitor credit. Also because of regular issues with land ownership, banks do not provide loans to cattle breeders.

The recent economic history of Nicaragua shows the presence, for 84 years, of the State Development Bank, which closed with the privatization process. The bank introduced modern production programmes such as the modernization of the production of deep-water rice with machines and technology that increased yields from less than 30 bushels per acre to more than 70. The development bank also introduced a coffee improvement programme that changed traditional farming practices from less than 1,000 plants per acre to more than 3,000. Another programme was the improvement of livestock herding, which consisted of a rural credit programme aimed exclusively at small rural producers where assistance was given to allow the small producers to become bank credit producers.

Currently, in Nicaragua, there is a State bank which does not receive deposits from customers. The majority of its loan portfolio is intermediated through commercial banks. This loan portfolio was inherited from the Nicaraguan Investment Finance Company, which was replaced by this new bank. The bank has limited resources and additional funding depends on the annual transfers made by the Government.

With one exception, all commercial banks established in Nicaragua have a presence in the Central American isthmus and some also in Colombia, the Dominican Republic, the United States, and one in other continents. Since these banks belong to large financial groups, they are able to offer in Nicaragua a broad portfolio of products, and to service complementary businesses such as insurance and depository facilities, among others.

On the other hand, Nicaraguan banks' financial strength is reflected in capital adequacy ratios (on average of 14.8 per cent in 2011 and 13.1 per cent in 2012), above the 10 per cent required by international agreed standards. It also reflects a good asset quality as seen in the delinquency rate of the gross loan portfolio, which is only 1.74 per cent (SIBOIF statistics).

As for the operation of banks, there are bottlenecks and inefficiencies in banking services affecting users. These include, among others:

- Long lines to obtain cash from bank offices. Customers do not use electronic banking nor Automated Teller Machines, mostly due to a lack of financial education and entrenched habits;
- Lengthy processes for the opening of bank accounts due to anti-money laundering regulations and bureaucratic processes;
- Lengthy processes of credit applications. The inefficiency has several causes including overly centralized credit analysis and stringent restrictions on (i) information-sharing of the credit history and (ii) status of prospective customers.

Taken together, these inefficiencies raise the banks operational costs. In fact, operating expenses are high because the banks' overall operation scheme is based on the physical presence of branches, which constitutes an estimated 90 per cent of total user demand management. In other neighbouring countries, such as Costa Rica, the vast majority of banking operations are handled through ICT and other automated processes.

Another prominent aspect that relates to the operational management of banks is the ICT infrastructure. Banks' efficiency is highly dependent on local technology and more investment is needed in ICT to be able to offer new real-time products to customers and be competitive internationally. Significant investments are urgently needed for the modernization of banks ICT infrastructure. In addition, if banks are to take advantage of the new ICT infrastructure being developed and automation opportunities, they will need to document carefully their processes. In addition, this leaves local banks disadvantaged with respect to foreign banks regarding cost issues and the agility with which the services are offered.

Commercial banks have a total of 320 offices distributed throughout the whole country. Nevertheless, 45 per cent of these offices are concentrated on Managua while the rest are located mostly in cities with a major level of economic activity. The total number of people employed by the banking sector amounted to 8,015 in December 2012, which represents 3 per cent of the national labour force (SIBOIF statistics).

Another significant aspect of the Nicaraguan financial sector concerns the capital structure of these banks. Out of the six existing private commercial banks, four of them have largely or wholly foreign capital stock. The Bank of Central America (BAC) belongs completely to Aval Group of Colombia; CITIBANK of Nicaragua belongs completely to CITIBANK International; Procredit Bank belongs completely to a group of European institutions; BDF Bank belongs mostly to ASSA Insurance Company of Panama. In contrast, the remaining two, Lafise Bancentro and Banpro, are Nicaraguan companies. This particularity might become a source of instability when banking crises arise since foreign companies tend to disinvest from peripheral markets and to focus on their core or home market.

The Nicaraguan banks in general have a low financial depth, a high concentration and high financial margins (tables 10–13). Those are typical characteristics of an oligopolistic market with entry restrictions.

Table 10. Private Credit/GDP, November Figures

	2002	*2012*
Costa Rica	30.4	50.6
El Salvador	38.5	39.0
Guatemala	22.8	33.2
Honduras	34.6	51.0
Nicaragua	19.4	27.3

Source: Central American Monetary Council.

According to table 10, financial depth in Nicaragua has registered some progress between 2002 and 2012, as the share of credit in the economy has increased from 19.4 to 27.3 per cent. However, relative to other similar size economies, it remains low.

As mentioned earlier, Nicaraguan banks enjoy a high financial intermediation margin, which is the result of high rates for credit applicants that discourage investment and low rates for savers who are not motivated to save (table 11).

Table 11. Financial Intermediation Margin

	2003	*2012*
Costa Rica	3.1	7.32
El Salvador	6.2	8.7
Guatemala	6.7	7.9
Honduras	10.4	11.7
Nicaragua	12.4	11.2
Panama	5.0	3.6
Central America	6.4	8.7

Source: Central American Monetary Council.

Even though Nicaraguan margins have decreased and in 2012 are slightly below Honduras, they remain well above the average in the area and are three times above Panama's margins.

The analysis of the increase in the level of financial depth, which generally means an increased ratio of money supply to GDP, is relevant because it is positively related to more opportunities for credit growth. Financial deepening can be assessed through the data in table 12, since it is associated with the increase in the relative importance of the monetary aggregates (M1, M2 and M3) (Camacho, 2011) included in the table. Therefore, it can be inferred that Nicaragua displays also a low deepening compared to other countries in the region.

Table 12. Financial Deepening (Percentage of GDP)

	Nicaragua		*Costa Rica*		*Honduras*		*El Salvador*	
	2010	*2011*	*2010*	*2011*	*2010*	*2011*	*2010*	*2011*
M1	8	8	15	15	13	13	12	11
M2	8	8	31	32	40	40	49	
M3	36	34	51	50	53	52		

Source: Central American Monetary Council.

Note: The M1/GDP relationship is the key indicator of liquidity in the economy and is related to the use of money as a means of payment and transaction facilitator. The M2 aggregate adds to the means of payment the contribution that financial intermediation brings to resource allocation. The M3 indicator adds to the M2 the deposits denominated or indexed in a foreign currency and emphasizes the role of savings in a foreign currency in the national economy.

The figures in table 13 suggest that the strong inflation containment might induce a low financial deepening while the economy remains sensitive to fluctuations. In fact, Nicaragua manages its exchange rate regime with daily preannounced devaluations equivalent to 5 per cent yearly and uses the exchange rate as an anchor for the price level.

Table 13. Financial Services Balance (Million dollars)

	2010	*2011*	*2012*[a]
Insurance service credit	4.3	3.9	3.6
Financial Service credit	0.0	0.0	0.0
Total credits	4.3	3.9	3.6
Insurance service debit	-66.2	-75.9	-61.9
Financial service debit	-6.2	-6.2	-5.0
Total debits	-72.4	-82.1	-66.9
All financial service deficit	-68.1	-78.2	-63.3
Service balance deficit	-146.2	-17.8	-150.9

Source: BCN.

[a] Includes only three trimesters.

Financial services display substantial persistent deficit levels. Nicaragua does not record any credit in relation to financial services despite the fact that the foreign trade volume has experienced significant growth rates. In the insurance category, debits practically determine the commercial deficit in this sector. Logically, this is due to the high insurance costs on imported merchandise.

Another interesting aspect is the level of profits generated by banks and financial entities that, in 2012, managed to obtain a return on equity of about 21 per cent over the previous year, which was already relatively high at around 18 per cent.

Until December 2012, insurance companies registered a total of net written premiums of C$3,256 million (equivalent to $140 million) of which 73 per cent comes from property insurance, 25 per cent from personal insurances and 2 per cent from bonds. Unlike banks, the five insurance companies show a less concentrated business distribution. Two of them, Seguros America and INISER (public) possess 28 per cent market share each, while Lafise and ASSA have 18 per cent each, and MAPFRE, the latest in the market, competes with 8.5 per cent market share.

The financial system is linked with virtually all sectors of the economy. Given the high cost of credit and the high financial intermediation margin, credit remains very scarce, expensive and virtually out of reach for small entrepreneurs. According to the fourth National Agricultural Census (CENAGRO), only 14.73 per cent of farm operators receive some type of funding while the rest of the producers (85.27 per cent) provide their own financing. This of course is a complex problem, because access to financial services is also a reflection of the high degree of informality in economic activities and the lack of a national strategy to promote the development of small and medium-sized entrepreneurs.

C. Institutional Framework and Main Actors in the Financial Industry

The Nicaraguan financial sector is composed of regulators and private financial companies, and a dedicated public institution that provides credit services to SMEs.

The Central Bank of Nicaragua (BCN)

The primary objective of the BCN is the stability of the national currency and the normal functioning of the internal and external payments. It also determines monetary and exchange-rate policy in coordination with the Government’s economic policy. Among other functions that deal with the supervised financial companies, the Central Bank acts as lender of last resort; it also sets, modifies and regulates reserve requirements; it also dictates policy interest rate, terms and conditions governing the lending and open market operations.

Superintendency of Banks and Other Financial Institutions (SIBOIF)

This Superintendency supervises, regulates and monitors all financial system institutions created under the laws mentioned in annex 1. The function of SIBOIF is to protect the interests of depositors who entrust their funds to financial companies legally authorized to accept funds, and to promote adequate supervision, to control companies' solvency and liquidity in the intermediation of resources entrusted to them.

The Deposit Guarantee Fund

The Deposit Guarantee Fund regulates the deposit guarantee system of financial institutions and supervises the liquidation of a failing financial institution. In this case, the maximum refund amount is up to $10,000 per person.

National Commission for Microfinance

The National Commission for Microfinance (CONAMI) is an autonomous State entity responsible for regulating and supervising the microfinancial institutions by authorizing their registration and operation, as well as being the entity responsible for promoting microfinance activities.

Commercial Banks

The market structure for the banking industry in Nicaragua is dominated by three banks, Banco de la Produccion, Banco Lafise Bancentro, and BAC, as shown in table 14.

Table 14. Banks and Financial Companies: Market Share, December 2012 (Percentage)

Bank	*Total*	*Deposit*	*Credit*	*Net Assets*
Banco de la Produccion	32	32	27	27
Banco Lafise Bancentro	27	27	25	22
BAC	22	23	26	29
BDF	10	10	12	10
CITI	5	5	6	7
ProCredit	3	3	3	3
Others	1	0	1	2
Total	**100**	**100**	**100**	**100**

Source: SIBOIF statistics.

These banks own together 82 per cent of total assets and deposits and 78 per cent of the credit and net assets. Although none alone has a dominant position, there may be the possibility of a tacit or explicit collusion to dominate the market, since the universe is constituted by few companies.

Foreign banks – BAC, BDF, CITI and ProCredit – though not dominating the market, taken together enjoy a market share of 48 per cent, similar in size to local banks. More specifically, BAC represents about 61 per cent of overall assets of foreign banks and BDF about 20 per cent.

The national banks, which include Lafise Bancentro, Banco de la Produccion and two small finance companies called FAMA and FINCA, also have a large market share of the various financial services provided in the country. Their share represents 59 per cent of public deposits, 53 per cent of net loans and 60 per cent of total assets.

In addition to proper commercial banks, credit unions also exist in Nicaragua. The credit unions are currently outside the regulation of the financial system.[19]

[19] The Nicaragua Institute of Cooperative Development does not provide any relevant information regarding credit unions operating in Nicaragua.

The Bank of Production Development

The Bank Produzcamos was created by Law No. 640 and has as main objectives to provide finance to micro, small and medium-sized producers in the agricultural and industrial sector. The bank emerges as a public entity with legal personality of its own, of indefinite duration and capacity to acquire rights and obligations. This bank can perform management operations, reception and placement of resources used to lend to industrial and agricultural sectors.

Nicaraguan Association of Microfinance Institutions (ASOMIF)

ASOMIF was created on 27 November 1998. It currently brings together 19 non-governmental non-profit organizations, organized under the auspices of Law No. 147, Law on Non-profit Legal Persons. Microfinance organizations have 185 offices in 62 of the 153 municipalities of Nicaragua. The total amount of their loan portfolio is $320 million.

Central American Monetary Council

The Central American Monetary Council was created by the Agreement for the Establishment of the Central American Monetary Union, signed by the central banks of Central America on 25 February 1964. The Central American Monetary Council is an entity of the Economic Integration Subsystem for Central American Integration System, working as a sectoral council of ministers. It is composed of the presidents of the central banks of Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and the Governor of the Central Bank of the Dominican Republic.

D. Policy Framework

The PNDH 2012–2016 instituted the policies pursued by the Government of Nicaragua regarding the financial sector. In this respect, the Government will continue strengthening the macroprudential policy framework to safeguard the stability of the financial system and to strengthening the prudential aspects and risk-based supervision, in order to limit systemic financial risks.

In the local context, the PNDH aims at strengthening the financial safety net through the modernization and harmonization of the bank resolution schemes and coordination with deposit insurance mechanisms according to best practices. The PNDH 2012–2016 states, in connection with the regional context, that the consolidated and cross-border supervision will be standardized and strengthened by adapting a new regulatory framework.

As for the microfinance sector, the PNDH proposes to strengthen microfinancial institutions, with emphasis on exportable food production, through direct conduit programmes, public sector loans and strengthening of private management.

The Government expects the Produzcamos Bank and CONAMI to play an important role in extending the geographic and demographic access coverage to credit, and in the governance, the transparency and the promotion of the microfinance sector. Produzcamos Bank's main objective is to provide support to productive micro, small and medium-sized agricultural and industrial companies. The Bank should be able to provide short, medium and long-term credit banking operations. In addition, it should also receive, channel, and perform financial and credit management of funds from the international community of granted loans for the promotion, encouragement and development of domestic production in its various forms and stages of the production process.

Currently, there are credit placement problems with the Produzcamos Bank because SIBOIF requires loans conditions that MIPYMEs cannot meet. Less than 20 per cent of the SMEs in the country have the ability to provide collateral to banks. SMEs support turning Produzcamos Bank into a real production development bank by reforming its governing law. By doing so, this institution would not need to intermediate the funds through private banks anymore, but would lend directly to SMEs thanks to development programmes, while sufficient allocated resources would contribute to make an impact on the real economy.

E. Regulatory Framework

The Government's objective regarding a stable and solvent financial system and able to contribute to a sustainable macroeconomic balance, is backed by a series of laws and institutions that have been formed and strengthened, especially in the last 23 years. The legal, institutional and political structure of the sector have worked well to ensure stable exchange rate, contained inflation, healthy and adequately capitalized banking system, relatively insulated from the international financial crisis. However, the challenge to improve access to financial services for the population and to productive credit for SMEs remains.

There are two regulated systems in Nicaragua: banks are supervised by SIBOIF and microfinancial institutions are supervised by CONAMI. Most microfinancial institutions are grouped within ASOMIF. With the exception of the Central Bank's duties, the financial system is regulated and supervised by SIBOIF, based on the Law of the Superintendence of Banks and Other Financial Institutions (Law No. 316), on the BCN Organic Law, and the laws creating and regulating different types of financial institutions in the sector (see annex 1 for a detailed description).

The regulatory scope of SIBOIF is based on the Basel Accords. In conformity with Basel I, the supervisory authorities established minimum capital requirements that supervised institutions should hold capital equal to 8 per cent of their risk-weighted assets. Basel II succeeded Basel I and added to the above requirement capital stock requirements to cover credit risk, market risk and operational risk. In order to comply, banks created a risk management unit within their internal structure. Furthermore, Basel II allowed banks to develop their own systems of risk so that they themselves could evaluate and determine their capital adequacy.

In Nicaragua the banks failed to develop these systems. In response, SIBOIF requested tougher requirements than those originally envisaged by Basel II. In Nicaragua, there are capital requirements being applied for market and credit risk but requirements for operational risk are still pending. In summary, Basel II has been partially implemented since banks did not develop and implement their own risk systems. The new recommendations contained in Basel III are more stringent than the previous ones regarding capital requirements. It includes a minimum primary capital (capital contributed by shareholders plus retained earnings) of 8.5 per cent. It introduces also additional capital buffers under the form of a mandatory capital conservation buffer and a discretionary counter-cyclical buffer, whose requirements are set directly by the national regulator. The new Basel III also diminishes the scope of self-regulation. These changes will not impact much local banks since they are already highly regulated. The key aspect for banks in Nicaragua regards the asset valuation regulation given that credit is their key asset.

F. Trade Commitments Affecting the Sector

Commitments in Financial Services in the Uruguay Round

According to the WTO negotiations commitment of Nicaragua, there is no limitation of access to foreign insurance companies and to commercial banks wishing to do business in the country.

The activity of insurance and reinsurance can only be exercised by legal persons incorporated and domiciled in the country as anonymous societies after obtaining SIBOIF authorization, subject to compliance with the existing regulatory framework. The foreign corporations may be established in the form of a branch and are subject to the same obligations as nationals. SIBOIF is responsible for establishing the percentage of reserves that can be invested abroad and for changing the minimum amounts with which insurance companies can operate. Similarly, all banks incorporated legally abroad cannot operate in the country, unless they establish a branch.

Horizontal commitments regarding financial services are summarized as:[20]

Limitations on market access:	*Limitations on national treatment:*
• For mode 3: Approval of FDI subject to assessment of economic necessity; • For mode 4: Supply of professional services limited to seniors and specialized personnel in connection with a commercial presence, and it must contribute to the training of Nicaraguan personnel in the specialized field of activity concerned.	• For modes 1, 2, 3 and 4 related to taxes on the payment of dividends to foreign shareholders and on royalties and payment of interest abroad; • For mode 4 only: Liberalized for persons indicated in the previous column.

Trading in Financial Services in the Context of Central American Integration

The Treaty on Investment and Trade in Services between the republics of Central America allows the establishment of financial companies of one party in the territory of another party with facilitation for the legal requirements. Financial companies are guaranteed national and most-favoured-nation treatment.

According to this Treaty financial services include: insurance, reinsurance, banking and other services involving financial intermediation, as well as related services of auxiliary financial nature. However, each party may adopt and maintain its own prudential measures to protect the interests of depositors and other creditors, the safety, integrity and stability of the financial system.

This Treaty created a Financial Services Committee, whose functions are to: consider financial services that are submitted by each party; participate in dispute settlement procedures; facilitate the exchange of information from national regulatory authorities; and promote the harmonization of the regulatory frameworks.

With a view to achieving a progressively higher level of liberalization, future negotiations will be held between parties every two years to eliminate remaining restrictions.

The Dominican Republic–Central America–United States Free Trade Agreement

The content of CAFTA–DR has many similarities with the Treaty on Investment and Trade in Services. Both agree on the requirements for establishing party institutions elsewhere, and the types of financial services to be offered. Both treaties have national treatment and most-favoured-nation clauses, and include sovereign measures to protect the integrity of the financial system, the establishment of a committee on financial services, and other related clauses. However, CAFTA–DR does not provide for information exchange regarding prudential standards.

Free Trade Agreement Between Central America and Panama

This Agreement has the same content as the Treaty on Investment and Trade in Services, including the decision to work on information exchange and prudential norms in line with the harmonization of regulatory frameworks. However the treaty does not provide the possibility to negotiate a further progressive liberalization.

Nicaragua–Taiwan Province of China Free Trade Agreement

The articles contained in this Agreement are consistent with the CAFTA–DR. However, the treaty goes beyond CAFTA–DR by introducing a consolidated supervision of financial groups. The clause regarding the consolidated supervision allows determining the degree of compliance with minimum regulatory international standards in order to supervise effectively financial groups. In particular, all international financial groups must be supervised by a home supervisor, which should develop a cross-border consolidated supervision of the entire group in accordance with international best practices. For example, international groups must consolidate the financial statements of the parent institutions and of their branches in which they have controlling interest locally and internationally.

[20] WTO, List of Horizontal Commitments.

European Union–Central America Association Agreement

This Agreement with the European Union allows for State support to financial services suppliers or government entities deemed to provide public interest services regarding financing agriculture, social housing and SMEs. Such support can include issuing state guarantees, tax breaks and other legal exemptions to begin operations. Insurance and reinsurance activities can only be carried out by legal persons incorporated as anonymous societies or non-governmental organizations authorized by the constitutive law.

The foreign financial service providers must comply with the requirements and obligations requested by law and financial regulations at the time of entry into force of the agreement. Banks legally constituted abroad may also operate in the country by establishing a branch.

G. Financial services: Strengths, Weaknesses, Opportunities and Threats

There is a vast market potential because of the exclusion of a very important part of the population and even companies (SMEs notably). The low financial penetration and the lack of access of SMEs to financial services strongly indicate the pertinence of opening a development bank focused on the excluded economic actors. For instance, only 14.7 per cent of total agricultural producers in the country receive some sort of funding. Short-term credit is expensive but is, in most instances, the only option available for SMEs, who use credit cards to fund their investments. Measures to reduce credit risks, like a customer credit history repository, would facilitate obtaining credit.

Furthermore, as highlighted in the economic overview of chapter II, remittances represent a substantial part of capital inflows in Nicaragua. In fact, for the past 10 years, they have represented between 10 and 14 per cent of the GDP according to UNCTADStat. As UNCTAD has repeatedly underlined, using cross-country and microeconomic studies, remittances constitute unique development opportunities. A significant amount of remittance transfers are spent on household consumption, where a share is directed to the construction of homes, healthcare and education, thus generating local employment in these service sectors. Much of the remaining remittance flows are savings that can be invested in local infrastructure and productive activities (UNCTAD, 2013). In this context, competitive transfer fees are applied in line with the commitment taken by G8 countries at the July 2009 summit in L'Aquila.[21] Given the importance of remittances, there is clearly a large scope for public policy to leverage those capital inflows. The postal system is also relevant to improve remittance flows since they have a very wide physical network, with the potential to reach underserved rural areas, trust placed by customers, relying on government support and international regulation, and are usually cheaper than banks or money transfer organizations (UNCTAD, 2013).

The financial sector is lacking the technology that would improve access to financial services for the population and SMEs, including well-functioning Automated Teller Machines, standardized credit processing and technological platform to handle financial operations automatically.

The credit unions are outside the regulation of the financial system, which represents a potential threat to macroeconomic stability as well as given them a potential competitive edge by escaping compliance standards. Local banks, especially those not linked to international banks, are vulnerable to higher capital requirements arising from Basel III. However, financial liberalization has not brought increasing access to financial services and margins have remained high.

Based on these findings, an analysis of the strengths, weaknesses, opportunities and threats of the financial sector has been performed.

Strengths

- Regional integration allows for economies of scale in the region and streamlining of processes by offering a fairly broad portfolio and complementary businesses;
- The banking system is solvent, profitable and liquid;

[21] In the declaration of the Summit, leaders committed to facilitate a more efficient transfer and improved use of remittances, with the particular objective of a reduction of the global average costs of transferring remittances from 10 to 5 per cent in 5 years through enhanced information, transparency, competition and cooperation (G8, 2009).

- A larger number of suitable products compared with the rest of the region. Nicaragua offers an even better range of products in a single group: banking, insurance, securities and deposits stores.

Weaknesses

- Administrative efficiency level is low because the business model relies heavily on manual handling of banking operations;
- Financial intermediation margins are very high, which prevent access to finance for SMEs and rural populations;
- Financial processes are not properly documented and rely heavily on manual treatment. The absence of documentation may discourage tasks automation and other efficiency-improving measures. Some foreign banks may have an advantage in this respect;
- Poor availability of credit for SMEs and low banking penetration. SMEs are often forced to use credit cards to fund their operations, making their business completely unviable, due to high costs.

Opportunities

- Improve the standard of living of the population in the short, medium and long run when the population gains access to financial services;
- The current policy and regulatory framework promotes the functioning of a more active State in the promotion of productive capacities and competitiveness;
- The creation of development banks would foster credit availability. As public entities, credit would be directed according to government objectives, thus providing for more policy space. The presence of an additional bank with development objectives would probably lower the cost of credit and might increase competition;
- Developing the financial sector could be an important component of strategies to strengthen other services sectors, particularly the transport and tourism sectors, where important spill-over effects could be created;
- There is ample room to improve access indicators, efficiency and service standards in this sector, to ensure the sector contributes more to the socioeconomic welfare of Nicaraguans. Nicaragua is lower ranked than most regional partners in this sector using different indicators;
- Since the banking practice to provide little funding to SMEs and individuals is based on aversion to risk and most financing goes to low risk operations (personal credit and credit for consumption, financing of high and medium level housing and credit for big, and to a lesser extent medium-sized enterprises), the introduction of measures to reduce market credit risks should facilitate access to credit for SMEs and individuals.

Threats

- New rules and new capital requirements arising from implementation of the Basel III recommendations may imply higher operational costs for financial institutions;
- By its position as a high-risk country, Nicaraguan banks are scrutinized very carefully by external creditors making difficult cross-border operations;
- Regulation is lacking regarding credit and savings cooperatives.

CHAPTER V: TOURISM SERVICES

A. Introduction

Tourism has emerged as a driver not only for economic progress but also for social development. It represents the largest services export sector for developing countries and is the main source of foreign exchange for one third of developing countries and for half of least developed countries (UNCTAD, 2010). According to the World Travel and Tourism Council database, in 2013 tourism's direct contribution accounts for 4.8 per cent of GDP in Nicaragua, while representing 3.2 per cent of GDP in Latin America and 2.9 per cent of GDP in the world.

The tourism sector acts as a catalyst for the development of related sectors in manufacturing and agriculture sectors, thereby promoting economic diversification and strengthening developing country economies. Tourism contributes significantly to reducing poverty and empowering women, youth and migrant workers with new employment opportunities. It also helps revive declining urban areas, open up and develop remote rural areas, and promote the conservation of countries' environmental endowments and cultural heritages.

However, developing countries encounter significant economic, social and environmental challenges in maximizing the gains from their national tourism industries. Among them, strengthening weak linkages with related sectors and reducing excessive revenue leakage from their national economies are probably the most important.

Despite the significant developmental potential of the tourism sector, it is also important to recognize that the sector can generate negative externalities, and is vulnerable to external shocks. For instance, tourism's high water and energy requirements may exceed local sustainable limits and displace other economic and social uses of finite natural resources. In fragile ecosystems, tourism's negative environmental impacts can be irreversible, stressing the need for the prevention of its negative impacts. Moreover, tourism activities are extremely vulnerable to external shocks. The tourism sector's share of GDP and exports can easily be affected by demand slumps associated with global economic slowdowns, epidemics, natural disasters, political instability and terrorism. Such vulnerability also calls for associated mitigation measures and social safety nets for those working in the tourism sector.

B. Description and Performance of the Sector

Contribution to the Economy

The tourism sector plays an important role in the economy of Nicaragua, as table 15 illustrates.

Table 15. Key Facts and Figures Regarding the Contribution of the Tourism Sector in Nicaragua in 2012 (Percentage)

Indicator	*Value*
Direct contribution to GDP	4.8
Total contribution to GDP	9.8
Direct contribution to employment	4.1
Total contribution to employment	9.3
Visitor exports	11.5 (of exports revenue)
Investment	3.3 (of total investment)

Source: World Travel and Tourism Council (2013), Travel and Tourism Economic Impact – Nicaragua.
Note: The direct contribution of travel and tourism to GDP is generated by industries that deal directly with tourists, including hotels, travel agents, airlines, other passenger transport services, restaurant activities and leisure industries. The total contribution to GDP also includes indirect contributions such as capital investment spending by all sectors in the industry, including new accommodation, passenger transport equipment, restaurants and leisure activities. Indirect contributions also encompass government collective spending, such as tourism promotion or visitor information services, and purchases of domestic goods and services by sectors providing the final tourism output (World Travel and Tourism Council, 2013).

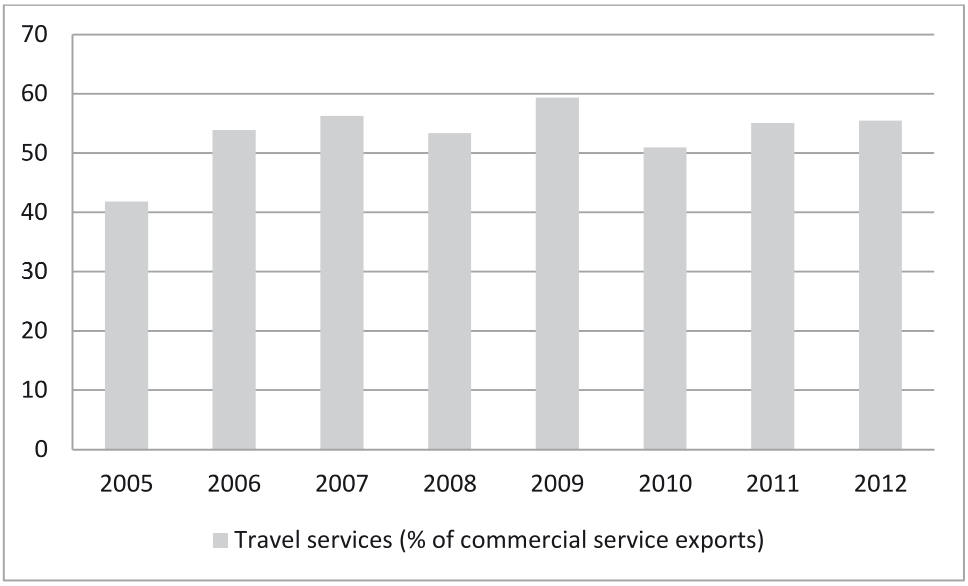
The tourism sector has contributed by 5 per cent to GDP since 2007, recording its highest contribution in 2012, with $316.30 million generated by non-resident visitors, representing a growth rate of 12.58 per cent over 2011.

Tourism services also contribute to national development objectives through increased employment. According to the latest official data provided by the Nicaraguan Tourism Institute (INTUR), up to May 2013 the tourism sector generated direct employment for 37,461 persons. INTUR estimated that during the period 2007–2011, tourism SMEs created 37,000 direct and 140,000 indirect jobs.[22]

This contribution has increased in recent years: the Government of Nicaragua estimated that between 2003 and 2009, employment figures (including direct and indirect employment) grew by 187 per cent.[23] Furthermore, the Government forecasts (PNDTS) that these figures are poised to grow with increased arrival of tourists. Their hypothesis scenario suggests that 100 tourists arriving in Nicaragua are equivalent to four jobs in the tourism sector.

The tourism sector also contributes to tax revenue collection: INTUR estimated that the sector contributed 5 per cent to VAT collection in 2011.[24] Figure 15 illustrates the importance of tourism services exports in overall services exports.

Figure 15. Travel Services as a Percentage of Commercial Services Exports



Source: World Bank, World Development Indicators Database

This sector is also important to Nicaragua given its potential in terms of investment attraction. This is why the current legislation (Law No. 306, Law of Incentives for the Tourism Industry) provided significant opening to national and foreign investment, providing fiscal benefits to natural and legal persons engaging in activities in this sector. In the view of the Government, the legal framework contributed greatly to help improve tourism infrastructure and boost the local economy. During the period between the passing of this law (in 1999) and until 2012, 563 projects were approved (related to new hotels, transportation and art events) representing an amount equivalent to $877 million. This figure could reach $1,000 million, after completion of the resort Guacalito de la Isla (equivalent to $250 million).

Demand of Tourism Services

According to the statistical bulletin of Nicaragua 2012, 1,179,581 tourists visited Nicaragua during that year, exceeding tourist arrivals in 2011 (1,060,031), representing an 11.3 per cent growth. The most important entry points were the international Airport A.C. Sandino (33.2 per cent), the Peñas Blancas border with Costa Rica (27.2 per cent), the Guasaule border with Honduras (18.6 per cent) and the Manos border with Honduras (9.9 per cent).

[22] Arévalo Garméndez G (2012). Turismo generó 177 mil empleos en Nicaragua en últimos cinco años. Available at: http://www.lajornadanet.com/diario/archivo/2012/junio/12/5.php#translate-en.
[23] PNDTS.
[24] INTUR statistical newsletter 2011.

Most of the tourists who visited Nicaragua during that year were from Central America (65.3 per cent) and from North America (24.4 per cent). The nationalities of these visitors were as follows: Honduras (21.3 per cent), United States (20.4 per cent), El Salvador (12.9 per cent), Costa Rica (13.6 per cent), Guatemala (7.9 per cent) and other countries (23.9 per cent).

Table 16. Profile of Tourists who Visited Nicaragua in 2011 and 2012

Country of origin:	Foreigners (86%), Nicaragua (14%)
Gender:	Males (69.9%), females (30.1%)
Reason for travel (statistics for 2012):	Vacations or recreational purposes (42.8%); visiting friends and relatives (29.4%); business/work-related (17.9%); religious-related (1.2%); health-related (0.2%) and Other (8.5%)
Accommodation:	Hotels (56.2%); friends'/family's home (35.5%); guest houses/bed and breakfast (4.5%); other (3.8%)
Average stay:	8.1 days
Age of visitors:	Adults between 26 and 40 years old (47.1%); over 41 years old (30.8); younger than 25 years old (22.1%)
Education:	College education (66.1%); technical education (17.6%); high school education (14.4%)
Travel arrangements:	94.4% organized their own travel arrangements; 5.6% did them through a travel agency
Companions (statistics for 2012):	Travelled alone (44.5%); with family (25.6%); with friends (29.9%)
Main markets (statistics for 2012):	Central America (65.3%); North America (24.4%)
Main markets (dynamic demand growth in 2012 vis-à-vis 2011):	Caribbean (19.5%); North America (13.5%); Central America (11.6%)
Main markets (shares per country):	Honduras (21%); United States (20%); Costa Rica (14%); El Salvador (13%)

Source: INTUR Statistical Bulletins for 2011 and 2012.

The number of tourist arrivals to Nicaragua has maintained an average growth of 9 per cent annually for several years. In addition, Nicaragua had the highest growth in revenues in Latin America despite the crisis (25 per cent in 2009, reaching $346 million).[25] Table 17, based on INTUR data, shows how tourist arrivals, tourism receipts and average stay have demonstrated sustained growth between 2007 and 2012, suggesting a positive performance of the sector.

Table 17. Tourist Arrivals in Nicaragua and Annual Income for the Period 2000–2012

Years	*Tourist arrivals*	*Tourism revenues (Million dollars)*	*Average stay (bulletin 2000–2004)*	*Average stay (bulletin 2008)*	*Average stay (bulletin 2011 or bulletin 2012*
2000	485 909	111.3	2.7	_	_
2001	482 869	109.0	3.0	_	_
2002	471 622	116.4	2.6	_	_
2003	525 775	151.8	2.7	_	_
2004	614 782	166.7	3.6	2.1	_
2005	712 444	183.5	_	2.2	_

[25] According to the index "Tourism Business Chronicle Latin America", based on data from UNWTO and the International Monetary Fund.

2006	749 184	230.6	_	2.0	_
2007	799 996	255.1	_	2.7	*6.7
2008	857 901	301.0	_	2.5	*6.7
2009	931 904	334.4	_	_	*7.4
2010	1 011 251	308.5	_	_	*7.6
2011	1 060 031	378.1			*8.1
2012	1 179 581	421.5			**8.3

Source: INTUR, taken from the historical series year 2000–2012.
* Figures drawn from the 2011 bulletin.
** Figures drawn from the 2012 bulletin.

Despite these encouraging figures, the country has low levels of daily expenditure per tourist.[26] In comparison with the rest of the Central American region, Nicaragua has the lowest level of daily expenditure, recording $42.2 in 2011 and $43 in 2012, while the regional average for 2011 was $103.4 per tourist per day. Table 18 shows that El Salvador, Honduras and Nicaragua are well below the rest of countries in the region.

Table 18. Average Daily Expenditure per Tourist in Central America in 2011 ($)

Panama	182.0
Belize	121.5
Costa Rica	118.4
Guatemala	116.8
El Salvador	94.1
Honduras	62.2
Nicaragua	42.2

Source: Boletín de Estadísticas Turísticas de Centroamérica (2011).

In addition, the domestic demand for tourism services is low. This situation could relate to the low level of wages in Nicaragua. Nicaragua's minimum wage is close to $183 for the restaurant and hotel trade sector; followed by El Salvador with $246 for the retail sector average, while Panama presents the highest minimum wage in the region ($430). In contrast, in 2012 the cost of the basic consumption basket was close to $446 in Nicaragua, and from this perspective the promotion of domestic tourism represents a challenge for tourism businesses, which must take into consideration the salary of Nicaraguans in the estimation of prices and costs.[27]

Offer of Tourism Services

The offer of tourism services in Nicaragua includes the following activities and services providers:

- Accommodation services;
- Food and beverage-related services: Restaurants, bars, cafes;
- Entertainment and nightlife: Clubs, recreation centres, nightclubs, shopping centres, cultural centres, slot halls, casinos, tourism companies associated with ecotouristic reserves and protected areas, thematic parks;
- Travel agencies, tour operators and tourist guides;
- Transport services associated with tourism services: Domestic air transport (airline companies), road touristic transportation companies, aquatic touristic transportation companies;
- Markets of handicrafts and of art pieces: Art centres and handicrafts shops;
- Vehicle rental services: Car rental companies;
- Convention centres;
- Touristic marinas: Sea, lake and river marinas.

[26] The IRTS definition (UNWTO) refers to the amount paid for the purchase of consumer goods and services and valuables, for own use or to give away, before and during trips. This includes expenses incurred by visitors, as well as expenses paid or reimbursed by other persons.
[27] Nicaragua, Ministry of Industry and Commerce.

From this list, the most significant groups, measured in terms of number of registered companies, are accommodation services providers (1,579 companies, equivalent to 23 per cent), followed by food-related companies or restaurants (1,678, representing 24 per cent), bars (2,606, representing 37 per cent), and tour operators (74, representing 1.1 per cent). The accommodation services offer of Nicaragua is mostly composed of two- and one-star hotels (81 per cent of the offer). Three-, four- and five-star hotels represent 19 per cent of the offer, most of which are foreign owned.

Table 19. Hotel Categories and Percentage Within the National Accommodation Offer

Stars	*Numbers of hotels*	*Percentage*
5	10	1
4	24	3
3	141	15
2	182	20
1	560	61
Total	**917**	**100**

Source: INTUR.

It is important to note that Nicaragua is the Central American country that has grown most in terms of room supply in recent years, witnessing a 15.3 per cent variation between 2010 and 2011; Panama follows with a variation for the same year of 8.5 per cent. The average growth for the region for this period was 3.7 per cent, while Costa Rica, El Salvador and Guatemala grew by 1.4 per cent, 1.1 per cent and 2.2 per cent respectively. Today, Nicaragua has more lodging establishments than El Salvador, Belize and Panama. A comparative analysis of figures obtained dividing the number of tourists visiting the country by the number of establishments (table 20) reveals a need for the construction of hotels to continue growing to cope with the increasing arrival of visitors.

Table 20. Number of Tourists Visiting/Number of Accommodation Establishments

Belize	349
Guatemala	455
Costa Rica	885
Nicaragua	1 448
Panama	2 454
El Salvador	2 946

Source: UNCTAD secretariat calculations based on national statistics agencies and INTUR.

In spite of the encouraging growth trends, these data merit deeper analysis. For instance, the average stay, occupancy rate and length of stay of tourists should be examined in parallel. For example, INTUR figures indicate that only 56 per cent of tourists who visit Nicaragua use hotels. In addition, a comparative analysis of accommodation figures using other indicators suggests that other countries in the Central American region seem to be doing better in terms of accommodation services provided to tourists. Table 20 shows the Central American ranking based on indicators such as rooms and beds per establishment.

Table 21. Rooms and Beds per Establishment in Central America, 2009

Indicator: Rooms per establishment		*Indicator: Beds per establishment*	
Panama	36.2	Panama	72.3
El Salvador	21.2	Guatemala	42.7
Guatemala	17.0	El Salvador	36.0
Costa Rica	16.8	Nicaragua	24.2
Nicaragua	14.8	Belize	17.7
Belize	10.2	Costa Rica	Not Available

Source: UNCTAD secretariat calculations based on national statistics agencies and INTUR.

The country in the region with most rooms and most beds is Panama, the same country that records the highest spending average of the region. The experience of Panama merits, in the view of the consultants, more in-depth analysis to shed light on the model to develop increasing quality standards for the sector.

During the two stakeholder workshops held in the context of this SPR, participants emphasized the fact that, in their view, the low quality in the supply of tourism services was linked to the limited level of expenditures by tourists in Nicaragua vis-à-vis the rest of the region.

C. Institutional and Regulatory Framework

The General Tourism Law identifies INTUR as the ultimate authority and governing body of this sector, overseeing activities of public and private actors concerning the promotion or financial exploitation of places or areas of the national territory of singular beauty, historical or cultural value. Thus, INTUR is the main government agency responsible for the direction and implementation of national policies for the promotion and development of the tourism sector in Nicaragua.

Several tourism associations exist. They are organized according to the level and ability of their companies and partners. The two most important ones are the National Chamber of Tourism (CANATUR) and the Nicaraguan Chamber of Micro, Small, and Medium Tourism Enterprises (CANTUR).

A non-profit organization, CANATUR fosters the development of tourism. It brings together the Airline Association, the Association of Travel Agencies, the Inbound Tourism Association of Nicaragua, the Managua Restaurant Association, the Association of Car Rentals of Nicaragua, the Nicaragua Hotel Association, the Nicaragua Small Hotels, Rural Inns and the Casino Association of Nicaragua.

The second institution, CANTUR, encompasses micro, small and medium food and beverage and accommodation enterprises, aggregating around 85 per cent of the national tourism offer. It is affiliated to the Nicaraguan Council of Micro Small and Medium-sized Enterprises (CONIMIPYME).

Other tourism associations include the Nicaraguan Network of Rural Tourism and Community (RENITURAL) and the Nicaragua Tourism Alliance MIPYME. The latter was formed recently (February 2013) and its members include, besides CANTUR, the Private Wildlife Reserve Network, RENITURAL, the Union Cooperative of Tourism, the Association of Tour Operators and the Association of Small Hotels in Nicaragua. This group is in the process of consolidation and launched last summer a campaign to promote domestic tourism.

The National Federation of Cooperatives (FENACOOP) and the Nicaraguan Federation of Agro-industrial Cooperatives (FENIAGRO) have developed some tourism projects and partnerships among tourism service providers related to agrotourism and ecotourism. The Private Wildlife Reserves Network is another organization promoting tourism projects: it has been recognized for its good management of human and financial resources, derived from international cooperation.

The main law affecting the sector is Law No. 495, General Tourism Law, which established rules about tourism activities, including about public and private participation in the sector. Annex 3 includes a list of relevant regulatory instruments applicable to this sector and a summary description of their contents.

D. Policy Framework

The main policy instruments defining strategies and priorities for the development of the tourism sector in Nicaragua include the 2007–2011 Strategic Vision for the Tourism Sector in Nicaragua, the PNDH 2009–2011, the PNDH 2012–2016 and the National Plan for the Development of Sustainable Tourism (PNDTS) 2011–2020.

The PNDH 2009–2011 highlights the political commitment of the Government of Nicaragua to develop this sector, given its contribution to:

- Overcome economic vulnerability due to Nicaragua's balance of payments situation, given the trade and investment attraction potential of this sector;
- Reduce poverty, given its potential to generate employment and consumption, due to its multiplier effect on productive economic activities;
- Leverage development of strategic zones and stakeholders, for instance by promoting economic opportunities for SMEs and for remote areas, such as the Caribbean Coast of Nicaragua.

The PNDH 2012–2016 refers to the goals mentioned above, and in addition gives priority to:

- Reinforcing regulation related to the protection of the environment, including by introducing policies associated with waste management;
- Reinforcing security measures in connection with tourism promotion, as a means to favour investment and social development. For this, it proposes creating a touristic police and a strategy for the protection of tourists, in coordination with INTUR and decentralized authorities;
- Promoting family, community and cooperative models production to develop the sector.

The PNDTS defines priority objectives, strategic guidelines, plans and quantitative targets for the period 2011-2020. Its main objectives are:

- Increasing the participation of tourism in the Nicaraguan economy by improving the competitiveness of tourism;
- Increasing incomes through tourism-related employment and creating opportunities for productive initiatives and improving existing ones;
- Preserving and revitalizing the natural and cultural heritage and encouraging sustainable tourism.

The following subsections summarize the action spheres of PNDTS and the record of achievement in some of its key objectives over the two years of its implementation.

Developing, improving and diversifying the tourism offer

This action sphere is about differentiating and diversifying the current tourism offer of Nicaragua and about building supply capacity. To achieve this, the Government of Nicaragua seeks to improve the quantity, quality, variety and capacity, in hotels and complementary services, to cater for the needs of tourists.

PNDTS foresees a programme for the development of key tourism products. It identifies several routes, based on their unique historical heritage, cultural and natural heritage. PNDTS also identifies their priority needs and suggests a timeframe for their development. Annex 2 summarizes this information.

Quality is one of the central points of the strategy to improve the current offer. The objective consists of aligning the services offer with expectations of consumers. Some positive results have been recorded so far. For instance, an accommodation review revealed that in 2012, 52 hotel companies improved in the quality ranking, by increasing a star, and that, in contrast, 11 establishments declined.

PNDTS contemplates several measures to build supply capacity in tourism services. For example, to ensure that SMEs can compete offering improved products and services, it foresees providing support through (a) capacity-building for service operators, entrepreneurs and SMEs; (b) promoting clustering of SMEs, and (c) strengthening the structure and capacity of chambers of tourism to assist their members in undertaking tourism activities.

Measures aimed at building supply capacity and improving access to finance to develop supply capacity are also envisaged in PNDTS. The most prominent actions in this respect are the creation of an incentive programme and of a microfinance programme. Additional actions are foreseen to further attract investment in collaboration with PRONicaragua.

Improving tourism infrastructure is another measure aimed at the same objective mentioned earlier. In this regard, PNDTS identified needs related to the development of key infrastructure and prioritized these needs. Priority infrastructure projects included, for example, (a) upgrading and improving operations of the Managua airport; (b) modernizing main ports; (c) launching a new road transport route for the South Pacific Coast; (d) improving infrastructure for passenger-related operations at southern and northern border crossings. The PNDH 2012-2016 estimates that investments in the sector will be equivalent to $554.8 million for that period, encompassing hotel, air transport and ports infrastructure.

Increasing and Diversifying Tourism Demand

This objective is about developing new markets through promotion and marketing strategies. Ongoing strategies in this area aim to raise awareness about tourist attractions in Nicaragua to increase tourism demand from foreign and domestic markets.

The target consumers identified in the PNDTS include profitable segments (with a high and middle level of expenditure) in Europe (Spain, Germany, France and the United Kingdom of Great Britain and Northern Ireland), in North America (the United States and Canada) and in South and Central America (Argentina, Brazil and neighbouring countries). The marketing plan highlights the importance of the BRICS group (Brazil, the Russian Federation, India, China and South Africa), which represents dynamic markets, in terms of new consumers, with an emerging middle class, eager to travel more.

To reach these profitable consumer segments and convince them to visit Nicaragua, PNDTS promotion efforts envisage defining a concept to create a country brand that is recognizable by tourists and that will facilitate Nicaragua's positioning as an international tourism market. PNDTS foresees using conventional channels such as participation in tourism fairs, but places a greater emphasis in developing online promotion tools, such Internet search engines and social networks.

For instance, in 2012, INTUR undertook many initiatives aimed at increasing awareness about Nicaragua's tourism offer in foreign markets. It participated in 24 international tourism fairs (including the International Tourism Fair - FENITUR, held in Nicaragua) and 48 press trips; it published 159 articles in international media, organized 11 "famtrips" (familiarization trips with international tour operators) and 5 international promotion campaigns.

With regard to Internet and social media promotion, INTUR has recently launched an Internet site (Nicaragua Tourism) that allows tourists to organize their travel itinerary. It displays the offer of available tourist providers and activities and presents these in an organized manner to facilitate planning of their visit. In addition, PNDTS encompasses a plan to expand use of ICT tools among tourism services providers, particularly among SMEs.

INTUR has been functioning as a platform to develop the marketing capacity of the private sector, and particularly SMEs, facilitating negotiations and sales. In this respect, INTUR has supported SMEs engagement in marketing activities through training in sales techniques for foreign markets, facilitating participation in tourism fairs and trade missions, and matchmaking workshops that facilitate meetings between national services suppliers and tourism operators in markets of origin. The interaction with stakeholders during the preparation of this report and during the workshops revealed that tourism entrepreneurs value the latter initiative very positively and believe that INTUR support contributed decisively to ensure continued business contact for more than five years with European and United States operators.

Strengthening the Management System of the Industry

This objective is about having an effective tourism system and national tourism administration, to ensure they are supportive of the development of this industry throughout the country. To achieve this, PNDTS proposes (a) designing a clear and decisive planning process for the development of this sector; (b) improving articulation between public and private stakeholders, enabling them to work together towards the same objectives, and (c) improving information management.

Closer collaboration and effective coordination mechanisms between key stakeholders are the most significant achievements in this sphere of action. Domestic constituencies meet periodically to define joint work agendas and actions. Collaborative interaction also involves foreign financing partners. For instance, international cooperation from Luxemburg, the Organization of American States (OAS), the Swiss Agency for Development and Cooperation, the Netherlands Development Organization, the Inter-American Development Bank (IDB), UNWTO, Italian cooperation, and the United States Agency for International Development (USAID), among others had a decisive impact in the creation of tourism routes, particularly regarding training and technical assistance to SMEs. INTUR has also created a very active donors table that meets at least four times per year to review substantial progress of ongoing cooperation projects in tourism and examine new projects with a view to obtain financing. This is an important achievement in the case of Nicaragua, which depends to a great extent on external sources for the development of key infrastructure for tourism.

Other positive results in this regard include valuable educational documents prepared by the planning office of the Ministry of Environment, to raise awareness about climate change and the importance of sustainable tourism, and the strengthening and optimizing of the organizational structure of INTUR, including through training for government officials.

This sphere of action of PNDTS encompasses an objective related to improving information management. Indeed, improving the statistical Nicaraguan system, accessing and operating information programmes will enable monitoring international and internal demand in the sector, as well as the impact of ongoing efforts. For this purpose, PNDTS envisaged awareness-raising activities for the private sector, on the importance of tourist information and the need for collaboration to get on-time and reliable data, as well as market intelligence.

E. Tourism Services: Strengths, Weaknesses, Opportunities and Threats

Strengths

- The Government of Nicaragua has developed recent strategies for the sector, which provide a roadmap for the future development of the sector until 2020. It identified strategic priorities to develop further current markets and segments of interest as well as new potential consumer markets. It has also developed a good legal basis to attract investment for medium and large enterprises;
- Recent developments in Nicaragua's policy, regulatory and institutional frameworks for the tourism sector has led to a positive performance of the sector in terms of increased tourist arrivals, length of stay of tourists, tourism earnings, registered tourism companies, room capacity, contribution to employment in Nicaragua and investment.

Weaknesses

- The interaction with stakeholders during the preparation of this report and during the workshops revealed that the main weakness observed in the sector is low quality in the supply of tourism services. According to stakeholders, this lack of quality in the tourism offer explains the limited expenditures (that is, low level of consumption and purchases) by tourists in Nicaragua, in comparison with tourists visiting the rest of the region. Lack of quality was emphasized in particular in connection with construction of tourism accommodation facilities and operation of SMEs services providers.

  Stakeholders were of the view that some tourism accommodation facilities do not comply with minimum safety requirements because of lack of technical assistance prior to starting business operations, such as architects' advice in design and construction criteria to guide investment decisions and ensure quality. The strategic objective of INTUR to increase tourism demand from the United States retiree market provides another example of problems related to tourism accommodation facilities. Indeed, despite INTUR efforts' to develop demand from this market (estimated at 40 million persons), no national plan exists for the development of facilities for elderly people that takes into account their specific infrastructure needs to ensure access to tourism facilities and mobility.

  The lack of quality related to operations of domestic tourism services providers, particularly of SMEs, which represent 85 per cent of the domestic supply, can be illustrated through the following example. According to the last census conducted by the BCN (2005), out of the 17,664 services providers that existed at that time in Nicaragua, only 7,000 were registered in INTUR and only 2,397 were categorized formally as companies successfully meeting quality criteria.

  This situation still prevails today and stems from a combination of factors including lack of financial support, lack of knowledge about the business and about the reality of the sector, and technical deficiencies (particularly, little planning and management capacity). These are important barriers to growth in this sector and explain why the estimated lifespan of tourism SMEs is five years.

  Informality also appears to be an important factor that affects quality. The interaction with stakeholders revealed that there are several reasons why tourism businesses prefer informality, the most important of which is the lack of perceived benefits from being formal providers. Other reasons include the high level of taxes and being required to undertake lengthy administrative procedures.

  The interaction with stakeholders during preparation of this study also revealed doubts from policymakers and sector operators on whether the education system and ongoing skill development programmes are effectively providing human resources with the right profiles required to develop this industry.

- In contrast, from the perspective of demand and promotion of tourism services, the main weaknesses identified were lack of ownership of a “brand image” among the main actors involved in these services and lack of knowledge about the preferences of consumers in target markets.

  In the view of the stakeholders, the country brand (that is, the identification of unique elements that characterize Nicaragua’s tourism offer, such as lakes and volcanoes) needs strengthening. This means using the brand more extensively for communication and marketing purposes and ensuring ownership of this brand by operators, such as local companies, tourism chambers, marketing agencies, tour operators and travel agencies.

  In the opinion of the stakeholders, information about consumer preferences and needs is insufficient to deliver services according to their quality expectations and achieve PNDTS objectives related to increasing and diversifying tourism demand.

- The interaction with stakeholders during the preparation of this study revealed that, from the perspective of tourism management, the main weakness is the lack of reliable and easily accessible information for the entire industry to monitor results of ongoing initiatives and guide future policymaking.

  Insufficient (direct) flight connections (particularly with South America and Europe) was also, in the view of stakeholders, an important weakness in this sphere of action.

  An additional weakness in connection with the management of the tourism industry relates to lack of proper use and management of solid and liquid waste. Although this aspect is not directly addressed by PNDTS, it could have a negative impact on existing promotion efforts. The planning office of the Ministry of the Environment undertook efforts to improve waste management systems and launched a specific awareness-raising programme (Vivo Bonito). However, overcoming this challenge will nevertheless require a more active involvement of the education sector, tourism operators, civil society and mass media.

Opportunities

- Newly designed “tourism routes” provide an opportunity for diversification of Nicaragua’s tourism offer. Untapped potential of other concepts that could be further explored include business/conference tourism and cultural tourism, including cultural exchanges and concerts with international artists within the region.

- It is estimated that the country will receive in the coming years about $90 million to support the development of the tourism sector, thanks to INTUR’s initiative to create a table of donors to develop financing partnerships. Such partnerships include Luxembourg, the European Union, the Spanish Agency for International Development Cooperation and the Swiss Agency for Development Cooperation, among others.

- Nicaragua is positioned as a country that is not expensive for tourists. Lonely Planet reported that Nicaragua was the second cheapest tourist destination in 2011. “Nicaragua is one of the few countries in Central America where, for a daily expenditure of $15 you can enjoy nature and culture.” This fact could represent an opportunity in terms of cheap labour and its impact on competiveness and attracting a certain category of tourists.

Threats

- Nicaragua faces strong competition from its regional partners and neighbouring countries, most of which have adopted a model to develop this sector based on the quality of services. This could lead to maintaining Nicaragua in the lowest ranking with respect to average spending and limit the development impact of increased tourism activities.

- Developing the tourism sector on the basis of a model based on price competition could lead to sacrificing quality and neglecting the sustainable growth and development of the industry and particularly of SMEs.

CHAPTER VI: TELECOMMUNICATIONS SERVICES

A. Introduction

From a development and policymaking perspective, the telecommunications services sector provides inputs that foster technical progress and productivity throughout the economy. In general, resorting to a more intensive use of communications allows companies to achieve cost savings and efficiency increases (WTO, 2009). Moreover, this may create additional resistance against the full effect of external market shocks.

Numerous studies describe the advantages associated with the use of telecommunications services. One of these studies confirms that, in emerging economies, Internet availability significantly contributes to enhancing SMEs productivity and exports (McKinsey Global Institute, 2011). Another study mentions that the development of broadband services had a significant positive impact in Latin America and the Caribbean, with an increase of 10 per cent in broadband penetration associated with 3.2 per cent higher GDP, 2.6 per cent higher productivity and the creation of around 67,000 jobs (Zaballos and López-Rivas, 2012).

Regarding phone services, it is important to keep in mind that, in these countries, mobile phones serve as the universal access tool, especially for their low-income population.[28] A study produced for the Groupe Speciale Mobile Association (GSMA) stated that, in developing countries, a 10 per cent increase in mobile penetration leads to 4.2 per cent increase in the long-term total factor productivity. The same study mentions that in general doubling the use of mobile data, which corresponds to standard mobile subscriptions with use of data communications at broadband speeds, leads to a 0.5 per cent increase in GDP per capita (Deloitte, 2012b).

Telecommunications services have potentially a strong incidence on the banking and financial sector, not only due to the industry quality standards but also by the regulatory requirements introduced by SIBOIF. In the tourism sector, telecommunications are not only a productivity factor but also an additional service offered to hotel guests who would like to keep in touch with their relatives or book their next stay.

Selecting the most appropriate policy approach to the telecommunications sector constitutes not only a delicate sectoral option, but also a choice with profound implications for the national economy as a whole. Telecommunications services also represent an economic sector in its own right. The mobile phone boom, for example, has created jobs and generated income for the Government, operators, manufacturers, service providers and application and content developers.

B. Description and Performance of the Sector

According to the annual report published by the BCN, the group that includes the telecommunications sector positioned itself as one of the sectors with a growing contribution to GDP (table 3 in chapter III). Telecommunications belong to the service activities group that grew more between 2002 and 2012.[29]

Regarding the contribution to employment, the group that includes the telecommunications sector has generated a total of 23,000 direct jobs in 2012. This group has accounted, between 2003 and 2011, for 7 per cent or 8 per cent of the total services activities employment which, in turn, is responsible for more than 50 per cent of employment in Nicaragua in the same period (figure 6 and figure 7 on chapter III).

The telecommunications sector growth in Nicaragua has been led mainly by FDI inflows. The telecommunications sector explains, between 2002 and 2012, an important part of FDI inflows to the services sector which, in turn, is the main responsible for total FDI inflows in Nicaragua in the same period (table 22 and figures 8 and 9 in chapter III).

[28] Source: Asian Development Bank website.
[29] For several variables, only aggregated data is available.

Table 22. Nicaragua: Foreign Direct Investment in the Telecommunications Sector, 2002–2012a (Million Dollars and Percentage)

Year	*Investment (Million dollars)*	*Participation in the investment in the total services sector (percentage)*
2002	96.4	71.9
2003	99.4	68.1
2004	75.1	43.4
2005	39.9	26.8
2006	50.1	46.0
2007	145.1	58.1
2008	196.7	43.0
2009	61.6	19.5
2010	118.7	35.3
2011	160.3	30.7
2012	114.4	26.1

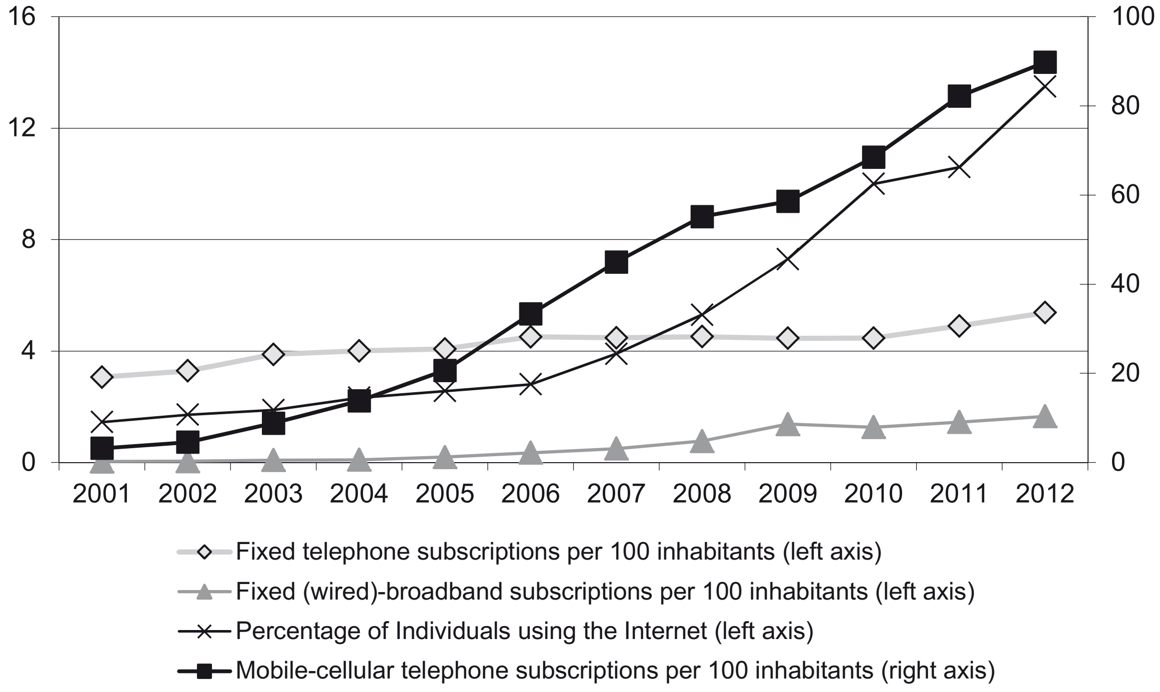
Source: BCN, consulted on 10 October 2013.
[a] From 2011 onwards, values are preliminary.

Between 2002 and 2012, the telecommunications sector received a cumulative total of investment flows of more than 1,150 million dollars (table 22). The PNDH 2012–2016 announces that, for the period between 2012 and 2016, the sector will receive investments above 2,000 million dollars from existent and new operators (Nicaragua, 2012).

In terms of exports, the communications sector accounted for 12 per cent of total service exports in 2012, one of the biggest contributions after travel, which was responsible for 59 per cent of total service exports (figure 13 in chapter III). It is important to recall that total services exports, on average, accounted only for 16 per cent of total exports in the period between 2002 and 2012.

The development index for the ICT sector, produced by the International Telecommunication Union (ITU) in Nicaragua in 2012 is 2.54, placing the country in position 114 out of 157 (ITU, 2013). However, in absolute terms, the country has improved its index score from 2.39 following efforts made for the implementation of national development strategies. This index combines several indicators to track progress on access, use and skills, including the number of subscriptions to local and mobile broadband Internet access and the number of homes with computers. Cross-country studies on social and economic inclusion effects of mobile technology have confirmed that mobile phone services have surpassed basic wired telephone services. In 2012 mobile phone subscriptions represented more than 94 per cent of total voice subscriptions (ITU, 2013). Mobile-cellular phone services have grown tremendously, with an average growth rate of more than 40 per cent between 2001 and 2012, reaching almost 90 subscriptions for 100 inhabitants in 2012. Fixed (wired) broadband subscriptions have also grown rapidly, with an average growth rate of more than 50 per cent during the same period. However, the number of subscriptions was still less than 2 per 100 inhabitants in 2012. The percentage of individuals using the Internet rose to around 13 per cent in 2012, with an average growth rate of 25 per cent between 2001 and 2012 (figure 16).

Figure 16. Nicaragua: Evolution of some Information and Communications Technology Indicators, 2001–2012 (in Subscriptions per 100 Inhabitants and in Percentage)



Source: ITU Statistics.
Note: Values indexed to the left axis are fixed telephone subscriptions per 100 inhabitants, fixed (wired) broadband subscriptions per 100 inhabitants and percentage of individuals using the Internet. Values indexed to the right axis are mobile-cellular telephone subscription per 100 inhabitants.

Geographical coverage of the telecommunications sector has also increased for the mobile phone network. At present, it reaches all capitals of departments and municipalities and 60 per cent of rural population. Currently mobile phone networks operate 2G and 3G standards.

In Latin America, the technology frequently used for broadband access has been the xDSL, followed by the HFC cable solution. There is still no national broadband strategy aimed at integrating all existing efforts to bring the benefits of high speed connectivity to the Nicaraguan telecommunications services in rural, underserved and low-income areas and to increase the adoption of broadband as a development tool to non-traditional sectors. The real transformation to the next era of knowledge will occur with the introduction of so-called next generation networks, based largely on Internet protocols and high-capacity broadband access, both fixed and mobile. These networks have the potential to reduce the basic cost of the physical networks, while increasing diversity and complexity of services that can be offered on a convergent model (WTO, 2009).

C. Institutional Framework and Main Actors

The following section presents some of the private and public institutions, regional and international organizations that constitute the institutional framework for this sector.

Nicaragua Telecommunications Company (ENITEL)

Originally created by law to privatize state assets in the operation of basic telephony services, ENITEL is currently a subsidiary company of América Movil based in Mexico, which holds 99 per cent of its shares. ENITEL currently owns the wired infrastructure of the public telecommunications network. It also provides in Nicaragua, under the brand Claro, basic telephony services and more sophisticated telecommunications services, including mobile telephony, Internet access, wired and subscription television, wireless satellite connections, microwave links, earth stations, voice, radio and private communications, short message and information services, and data transmission.

The original exclusivity rights granted to ENITEL for the provision of conventional fixed basic telephone services have now expired. Therefore, the basic telephone market should be potentially contestable. Conversely, the mobile telephone market has been an effective duopoly, where the two operators (ENITEL with the brand Claro and TCN with the brand Movistar) have competed with each other, as revealed by the market share distribution for mobile phone services in recent years (table 23). The degree of competition in this market is bound to increase with the entry of a new company, Xinwei and, possibly, of other operators. This development is expected to bring benefits to the industry and the public.[30]

Table 23. Nicaragua: Market Share of Mobile Telephony Services providers (Percentage)

Year	*ENITEL (Claro)*	*TCN (Movistar)*	*Sercom*
2002	7.3	92.3	0.4
2003	25.3	53.2	21.4
2004	31.3	38.7	29.9
2005	30.5	40.7	28.8
2006[a]	42.5	30.9	26.6
2006	69.8	30.2	n.a.
2007	67.7	32.3	n.a.
2008	67.7	32.3	n.a.
2009	66.5	33.4	n.a.
2010	68.2	31.7	n.a.
2011	60.8	39.2	n.a.

Source: Institute for Telecommunications and Post of Nicaragua (TELCOR).
[a] The merger of ENITEL and Sercom occurred in 2006.

Cellular Telephony of Nicaragua

Established in 1992 as the pioneer company for providing cellular mobile telephone services in Nicaragua, the Cellular Telephony of Nicaragua (TCN) is currently a subsidiary of Telefónica Móviles, part of the Grupo Telefónica based in Spain, which owns 100 per cent of its shares. This company, under the brand Movistar, provides the following services in Nicaragua: cell phones, Internet services, public telephony, microwave links, voice messages, particular interest services, short message services (SMS), information services, information services for immediate assistance, carrier services, satellite phones and data transmission.

Xinwei-Intelcom.Nic

The consortium Xinwei-Intelcom.Nic, whose main shareholder is the China-based company Beijing Xinwei Telecom Technology Inc., is a newly authorized company that will provide the following services: basic telephone services, mobile telephony, television by subscription, Internet services, public telephony, multimedia messaging services (MMS), voice messaging, particular interest services, SMS, information services, information services for immediate assistance, carrier services, satellite telephone services, off-site data processing, remote access to databases, e-mail, fax data, audio and video broadcast, push to talk and data transmission.

[30] The advantages of competition in telecommunications services, and in the mobile telephone subsector in particular, are widely covered in the literature; see, for instance, Li (2008).

Yota

Yota of Nicaragua is an innovative company that operates under the WIMAX standard. Majority owned by Russian capital, the company has a licence to provide basic telephone service and Internet services in Nicaragua (table 24).

Amnet Telecommunications

This company is a member of the Millicom global telecommunications group based in Sweden. In Nicaragua, Amnet has authorization to provide services for Internet access, data transmission and microwave links.

Table 24. Nicaragua: Market Share of Internet Services providers (Percentage)

	ENITEL	*TCN*	*Yota*	*Others*
2008	41.0	1.1	n.a.	57.9
2009	53.2	7.8	n.a.	39.0
2010	64.2	11.5	7.2	17.1
2011	65.7	8.8	11.2	14.3

Source: TELCOR.

Institute for Telecommunications and Post of Nicaragua (TELCOR)

Created in 1982, TELCOR is the decentralized autonomous entity that regulates, plans, monitors, implements and controls compliance with rules governing telecommunications. Its competencies and functions were specified in the 1995 General Law on Telecommunications and Postal Services. It defines the rules and supervises the application and enforcement of the law regarding the installation, interconnection, operation and provision of the telecommunications services. TELCOR also administers and regulates frequencies of radio spectrum, as well as the granting of concessions, licences, permissions or certificates to companies interested in providing telecommunications services or in using radio spectrum frequencies. TELCOR is also responsible for consumer protection and for handling consumer complaints.

TELCOR has technical and administrative autonomy to exercise administrative jurisdiction in the telecommunications sector. The Director of this Institute is appointed by the President. The effective regulatory power of TELCOR may be considered to have been eroded by several events. For instance, the Supreme Court did not allow the institute to determine which services can be classified as value added and which ones cannot. Another example is the declaration of unconstitutionality of some sectoral regulations based on the premise that they overstepped legal authority established by Law No. 200. Furthermore, a law of the National Assembly extended the licences of communication providers, thereby depriving the regulator of the ability to cancel the licences, until a new general law on telecommunications is issued.

These decisions do not favour the opening of the sector and increased competition. It may also be argued that these decisions forced the regulator to limit its activity to what is stated in Law No. 200, reducing flexibility to cope with new trends in international regulation.

The organizational structure of TELCOR is considered to have improved with the incorporation of the Office of Access to Public Information and the Environmental Management Unit. The Office of Gender is in the process of being created.

Finally, it should be mentioned that, as established by the Law No. 601 regarding the promotion of competition, the regulatory agency is authorized to investigate cases of violations of conditions of free competition that occur in the industry. In these cases, the regulator is required to coordinate with the competition agency, Procompetencia. TELCOR and Procompetencia need to coordinate their organizational, institutional and legal mechanisms to improve their action.

National Institute for the Promotion of Competition (Procompetencia)

Procompetencia is an institution with legal personality and endowed with a technical, administrative and budgetary autonomy. It is responsible for the implementation of Law No. 601 of 2006, the Law for the Promotion of Competition. The relationship of Procompetencia with the regulators in all sectors of the economy, including TELCOR, is regulated under the article 15 of Law No. 601. This article demonstrates that the competition agency should coordinate with regulators of economic sectors and markets subject to regulation, in the case of investigations of practices. In this case, Procompetencia must issue a non-binding preliminary opinion to the resolution of these regulators. This ruling should be limited to the determination of the practice under investigation and in no case shall Procompetencia rule on technical aspects of regulation.

Internet Association of Nicaragua

Born as a non-profit organization, the Internet Association of Nicaragua (AIN) comprises the main operators of Internet nodes – including the main companies in the sector of Internet service providers (ISP) – as well as nodes in the education sector and other entities linked to the development of the Internet in Nicaragua.

The Regional Technical Commission of Telecommunications (COMTELCA)

COMTELCA is a regional body established within the framework of the Central American Integration System (SICA). It was created in the spirit of the Central American Telecommunications Treaty, to coordinate and harmonize regional development of the telecommunications industry. COMTELCA's mission is to coordinate and promote the integration and development of telecommunications in Central America to meet the needs of customers in the region. It pursues its mission through a legal framework, binding for its members, that envisages to harmonize the regulations of each country and to manage telecommunications systems.

The harmonized regulatory framework in the Central American region may be achieved through COMTELCA. This harmonization would facilitate the control of some deficiencies and imperfections emerging in these markets. As an example, the fares associated with the use of roaming are considered too high, not reflecting the efficiency of regional integrated network area operators, nor giving benefits to final users.[31]

International Telecommunication Union

Nicaragua is a signatory to the international treaty and convention establishing the ITU, which is the specialized agency of the United Nations for ICT. The ITU is the global forum within which the parties work together to reach consensus on a wide range of issues affecting the future direction of the ICT industry.

D. Policy Framework

Nicaragua privatized the telecommunications sector in 1992 with several policy objectives that include the expansion of the network, improvement of the quality of service and fostering employment. At that time, the regulatory body organized the sector fragmenting the market into separate concessions awarded for local calls, long distance calls and mobile phones.

The reform has contributed to the expansion and modernization of the telecommunications sector, although there are still important needs in this regard. This change in the sector also had a positive effect in terms of efficiency and operational costs. It increased the degree of internationalization and regional integration of the Nicaraguan telecommunications sector. However, the reform has also allowed a small number of mostly foreign-owned actors to achieve a high degree of power in the domestic telecommunications market.

[31] This view was also defended by the ITU in a proposal for harmonization of mobile telephony roaming services for Central America. This study, in which the original version was elaborated by Juan Manuel Magliano and Guillermo Klein in December 2010, concluded that: 1) the region is characterized by a pro-competitive regulatory environment with market behaviour; 2) there are regional roaming failures revealed by its high prices; 3) regulatory intervention is justified.

The implementation of the CAFTA–DR required the regulator to plan and adapt the legal framework to open up the telecommunications market. In this context, sectoral policies were developed between 2005 and 2009 that aimed to increase the contribution of the sector to the economy; increase the number of users and the use of services by user; maximize efficiency; attract private investment; seek universal access and strengthen sector regulation (Nicaragua, 2005). Currently, efforts are focused on enhancing the State's capacity to regulate the sector and broadly plan its development in a market-friendly framework and also at ensuring access to telecommunications, especially in the most deprived areas of Nicaragua.

The PNDH 2012–2016 states that, among other things, social infrastructure is important for the transformation of Nicaragua. It also mentions that telecommunications and postal services development reduces inequity by geographical isolation. Furthermore, national policies define that universal access should be encouraged through the development of programmes to ensure and promote access to telecommunications services, information technology and communications and postal services in rural and remote locations of the country.

Aligned with these policies, the main guidelines of the national policy on telecommunications and infrastructure include the promotion of investment for the expansion and modernization of telecommunications and the expansion of the optical fibre network, through the implementation of the public investment programme.

In this context, it is important to mention the Telecommunications and Post Special Investment Fund (FITEL), a financial mechanism dedicated to finance the provision of telecommunications services and ICT for rural and low-income people. It is financed by 20 per cent of the monthly gross income of the regulator. By encouraging private sector participation and promoting the participation of the beneficiary population in the identification of their needs, the fund seeks the universal access of these services and, ultimately, the social and economic development of these areas.

Some of the telecommunications infrastructure projects include the following: the improvement of the infrastructure in the Caribbean Coast and Rio San Juan; the extension of the rural air installation to ensure access to public telephones and telecentres in underserved communities; connection of schools to the Internet and other ICT services; connection of health units to data services and voice-over Internet Protocol telephony; and promotion of electronic government in municipalities. The investment in connecting schools and health units is important not only for their crucial social role but also because their use of ICT services may stimulate the population to increase their own use of ICT services. An increase in the demand will contribute the expansion of supply of ICT services.

The Nicaraguan telecommunications regulator is also involved in a regional level work to prepare a feasibility study to expand broadband penetration in the Central American region. The study will analyse the future deployment of an optical fibre ring that will complement other existing networks. This is to improve access and quality of broadband as well as to lower prices for end users, thus supporting the regional participation in the digital economy.

E. Regulatory Framework

The sector's regulatory framework is contained in Law No. 200 of 1995, General Law of Telecommunications and Postal Services, whose conceptual development took place in the first half of the 1990s. This implies that it does not take into account developments in regulation that have arisen since then. It was designed to encourage investment in infrastructure and it was not focused in setting the control mechanisms to address market imperfections that are generated in more open markets.

A list of related legislation is included in annex 4. Below are several considerations regarding regulation on specific items such as licensing, entry of foreign suppliers, technical standards, competition, prices, consumer protection and universal access.

Licensing

The telecommunications sector operates under a regulatory scheme by service type. The natural or legal persons who want to operate telecommunications services in Nicaragua must obtain the authorization certificates corresponding to the service to be provided.

The major service types are:

- Public-interest services are basic telephone services offered under specific operating conditions and regulated rates on a regular, continuous, equal and fair-price basis;
- Services of general interest may be offered to the public under tariff-regulated schemes or be allowed freedom in contracting with users. These services include mobile telephony, broadcast or subscription television and data transmission;
- Special-interest services include: mobile radiolocation of persons, trunk-link services, radio-determination, earth stations and teleport (services) for satellite communications;
- Particular-interest services include telecommunications services provided by a natural or legal person to meet their communication needs, using their own licensed networks or facilities;
- Unregulated services are the ones that, due to their technical or economic characteristics, can operate with only a registration with the appropriate office, without need for more licensing regulation. These include value-added services such as e-mail, voicemail, information services, access to databases and store and forward fax.

Foreign Suppliers

In general, there is no legal discrimination for the entrance of telecommunications operators in Nicaragua, but the scarcity of radio spectrum for the provision of wireless telecommunications services is a natural barrier to the introduction of new operators.

As mentioned in the previous section, there are currently no restrictions for trade in all supply modes. Other than social media, telecommunications services are allowed freedom of investment according to the Nicaraguan Commercial Code.

Technical Standards

Technology neutrality and non-discrimination are the prevailing principles in the sector, for the purpose of investment in telecommunications projects. This is aligned with international trade agreements commitments, detailed in section F of this chapter.

The development of international telecommunications is aimed at meeting the needs of the population by ensuring that telecommunications networks function in unison as a network of networks. This requires their normalization and interoperability, which means the possibility of a user of an operator to communicate with a user of another operator. In this regard, the ITU develops guidelines for the sector to encourage countries to adopt technical standards that are harmonized at an international level.

Nicaragua is no exception to the rule of international standardization. Article 38 of Law No. 200 dictates that the regulator must establish specifications for telecommunications equipment, to ensure compatibility with the established networks. To move forward with the manufacturing, marketing and use of telecommunications equipment, it is also necessary that the regulator issues certificates of approval to confirm that the equipment is complying with the established specifications. The procedure of approval will be limited to a mere registration for certain terminal equipment of widespread use and globally standardized manufacturing. It is noteworthy that, currently, all those goods that can be used in electronic communications systems necessarily require an approval from the regulator to be allowed into the country. This results from an interpretation of the law from the regulator and from the Customs Authority (Dirección General de Servicios Aduaneros – DGSA), which does not take advantage of the mere registry possibility which would reduce the barriers to the introduction of communication equipment.

Access mechanisms, other than interconnectivity, are not regulated in Nicaragua. There is a proposal prepared by the regulator with a wider scope of regulating access to all essential installations and associated services, which includes but it is not limited to interconnectivity. This proposal uses long-run incremental costs to determine rates.

In article 84 of the regulations of the Law No. 200, several technical responsibilities are attributed to the regulator, including numbering administration, signage and other basic technical plans for the development of telecommunications networks. The definition of the basis and criteria for the establishment of these technical plans is also attributed to the regulator.

The numbering plan is currently under reform, which includes a study on the feasibility of implementing number portability. The regulatory entity is the one that will rule, regulate, control, monitor and identify any action with respect to number portability.

Competition

Competition in the telecommunications sector is addressed in articles 24 and 25 of chapter I, title II, of Law No. 200. Article 24 establishes that telecommunications services will be provided in a system of free competition. Article 25 prohibits operators to leverage their advantageous situation to introduce practices that hamper competition or that lead to unfair competition. This is aligned with international trade agreements commitments, detailed in section F of this chapter.

It is important to mention that article 24 provides an exception to free competition, stating that telecommunications services can also be provided on an exclusive basis or with a limited number of operators, by a predetermined period of time, when the law so decides for technical or market reasons. This rule was applied to the creation of the Nicaraguan Telecommunications Company (ENITEL), a spinoff of the Nicaraguan Institute for Telecommunications and Post (TELCOR), which retained the operation of telecommunications services in Nicaragua.

Regarding the prohibition of abuse of dominant position, stated in article 25, there is no definition of what is considered an abuse of dominant position or what constitutes an unfair practice. The legislation also does not set procedures for preventive mechanisms, nor to determine, research, monitor or sanction abuse of dominant positions or unfair practices.

In the text of CAFTA–DR, some anticompetitive practices are detailed: anticompetitive cross-subsidization;[32] anticompetitive use of information obtained from competitors; and not making available, on a timely basis, information necessary for suppliers to deliver public telecommunications services.

Article 25 also states that basic phone operators are bound to give satisfactory access and competitive rates to the telephone network service providers, whose licences have been authorized by the regulator. This is also aligned with international trade agreements commitments, detailed in section F of this chapter. In the case of interconnection, regulators have to pay special attention to the possible barriers imposed by incumbents, either through a number of requirements or by uncompetitive interconnection rates. In this regard, regulators may be involved in setting interconnectivity prices, either with reference prices or with upper limits.

Price Regulation

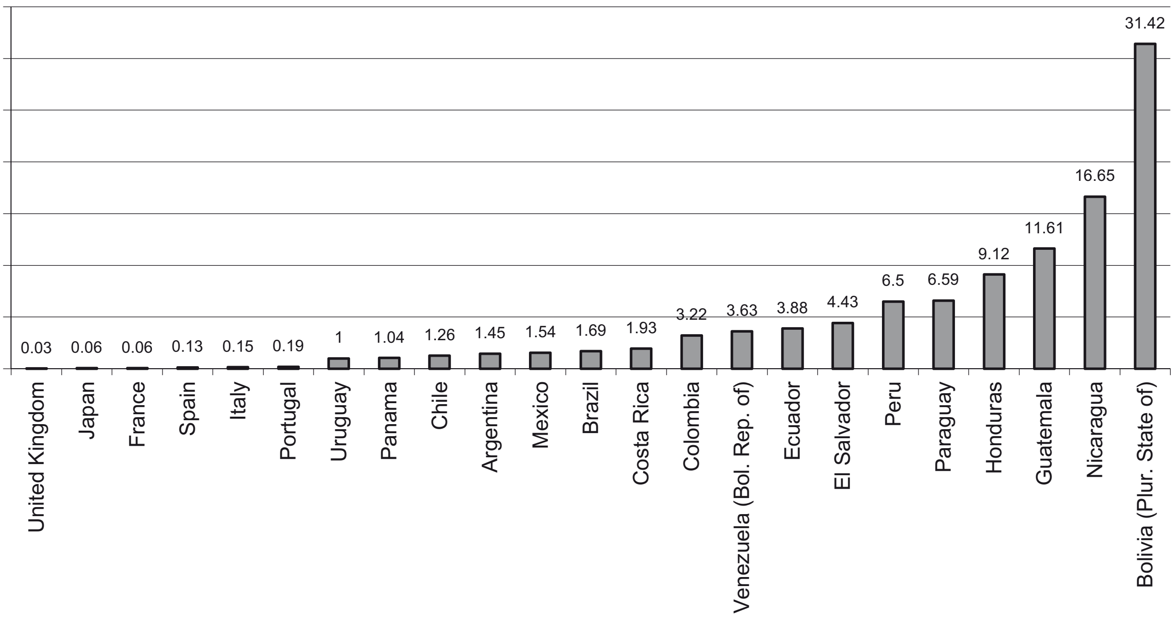
The price regulation framework was defined when basic telephony was much more important than it is today. Hence, there is a strict regulation control on prices of basic telephony services. On the other hand, some non-basic telephony services have approved price bands that are far from being a strict regulation.

In the case of basic telephony services, tariff structure seeks to promote efficient expansion of public service networks, enabling the recovery of costs and investments, and providing the basis for healthy competition in the provision of services. Rates are revised regularly according to a price cap system and a productivity adjustment factor. For mobile phone services and for television services, the regulator approves a price band within which operators pact the final rate with users. Other telecommunications services have their prices established through direct contractual agreement between the operators and the services users.

In 2012, the prices of broadband services, either fixed or mobile, in relation to GDP per capita were still very high in Nicaragua (figures 17 and 18). Regarding broadband services access, some of the taxes on several mobile terminals, paid when introduced in Nicaragua, may serve as a barrier to the implementation of the plan to enhance broadband at the national level.

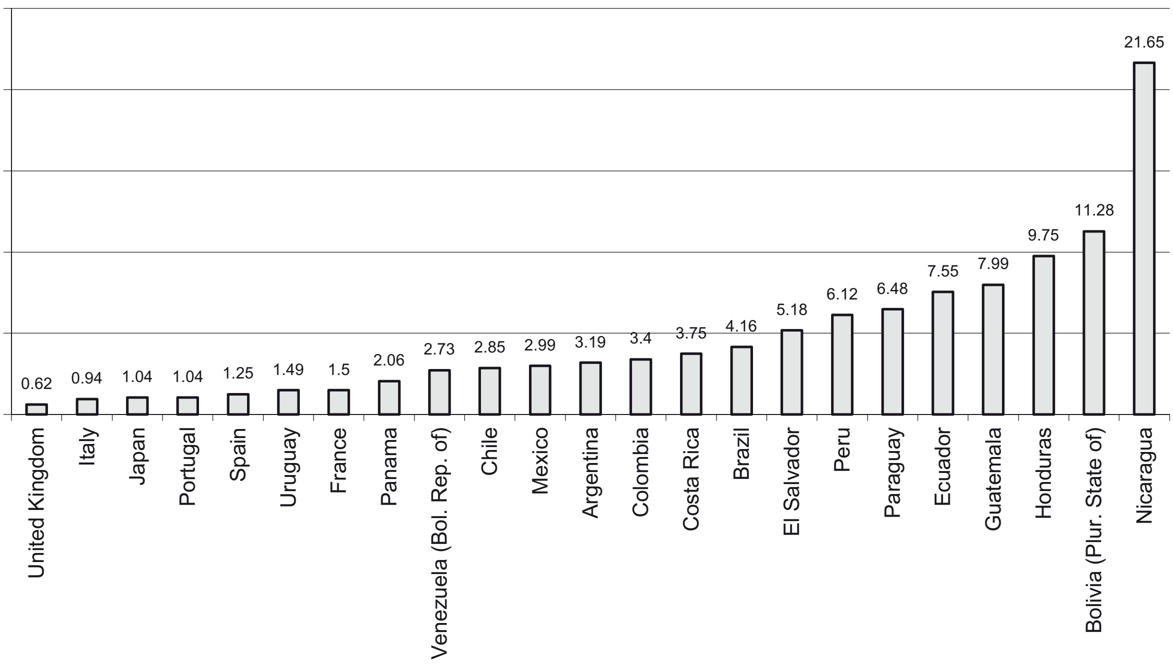
[32] Cross-subsidization may include the subsidization by an economic agent of its activities in an open market by its activities in closed markets, or the transfer of costs of its activities in an open market to its activities in closed markets.

Figure 17. Selected Countries: Wired Broadband Rates of 1 Megabit per Second (Mbit/s) in Relation to GDP Per Capita, 2012 (Percentage)



Source: Regional Broadband Observatory (ORBA) of the Economic Commission for Latin America and the Caribbean (ECLAC), based on rates published by the operators in September of 2012.

Figure 18. Selected Countries: Mobile Broadband Rates of 1Mbit/s in Relation to GDP Per Capita, 2012 (Percentage)



Source: ORBA of ECLAC, based on rates published by the operators in September of 2012.

Consumer Protection

The users of telecommunications services may submit a complaint or grievance through several channels. Firstly, they can be submitted directly to the supplier. Users who believe they have not received a satisfactory answer from the operator may present their claims to the regulator, to the Consumer Defence Directorate of the Ministry of Development, Industry and Trade (MIFIC), or to the courts.

With the new consumer protection law, the Consumer Defence Directorate will probably become an auditor of decisions taken by the regulators in regard to consumer complaints, not dealing directly with grievances related to regulated services such as telecommunications.

Representatives of consumer associations that were consulted argue that the biggest issue with the claims process is the slow response to complaints presented by the users. A revision of the legislation could consider the possibility of applying penalties in case of no reply within deadlines.

Universal Access

One of the recent attempts to promote access to broadband in Nicaragua is a rule facilitating the provision of services by micro operators in inaccessible regions with high poverty rates. This regulation has provided an essential mechanism for economically depressed regions to have sources of local development though micro telecommunications services that provide local voice and Internet access.

Currently under discussion is a new legislation pertaining to the installation of towers that support the transmission of mobile telephony services signals, which can have an impact on the expansion of networks. One important point of the discussion is the possibility of mandatory sharing of tower infrastructure. The argument for the mandatory sharing is that it will allow more operators within the same infrastructure, stimulating competition. Other motives are advocated in favour of mandatory infrastructure sharing: environmental protection, public health, security and land planning. On the other hand, it is argued that such mandatory sharing will not provide security to investors, hence preventing the development of networks. It is relevant to note that there are cases in which established operators lease capabilities to third party suppliers of towers that are not necessarily operators of telecommunications services. These suppliers have proliferated as subcontractors that allow established operators to reduce their network maintenance.

F. Trade Commitments Affecting the Sector

Overall, there are currently no restrictions on trade in telecommunications services for supply modes 1, 2, 3 and 4. There is an exception for telecommunications services underpinning for social communication, in which the law dictates that the provider must be Nicaraguan, in the case of a natural person, or that 51 per cent of the capital must be from Nicaragua, in the case of a company.

The treaties with commitments relevant to the sector stipulate the principle of non-discrimination between domestic and foreign suppliers in regard to public network and services access and use. It also stipulates pricing based on costs directly related to the provision of services, technological neutrality regarding fundamental plans, and prevention of anticompetitive practices from monopolistic or large providers.

The CAFTA–DR also stipulates that each party shall ensure that economic agents of other parties have access to and use public networks and services in its territory or across its borders, including lease circuits, under terms and conditions that are reasonable and non-discriminatory. For this reason, it is considered that the scope of this treaty is the access to markets and not only the access to services by users.

In relation to the obligation of the companies, the CAFTA–DR establishes principles that telecommunications operators need to implement when it comes to interconnectivity. These principles include the obligations of the parties to (a) ensure interconnectivity; (b) ensure the confidentiality of commercially sensitive information to operators and users; and (c) the obligation to register interconnection contracts. It also establishes principles of non-discrimination on the resale of services and number portability services, except mobile commercialization and dialling parity.

The treaty also encourages member States to maintain a suitable-sector specific regulation and competition. The objectives are to prevent anticompetitive conduct from major suppliers; to promote the resale of services at reasonable prices; to offer access to network elements on an unbundled basis and on terms, conditions and cost-oriented rates that are reasonable, non-discriminatory and transparent; to provide interconnection for the facilities and equipment under conditions not less favourable than they would provide to their affiliates; and to supply – to another party public telecommunications services providers – physical co-location of equipment necessary for interconnection in terms, conditions and cost-oriented rates.

The Government of Nicaragua defends for this sector the principles of free competition, non-discriminatory access to services, effective regulation and transparency of administrative procedures. This takes into account the legal end of the exclusivity period for basic telephone service and also international agreements, such as the CAFTA–DR.

The Association Agreement between Central America and the European Union (AdA) tried to use a wording that could be used as an internal legal standard, clear and without ambiguity, without need for extra mechanisms. On the one hand, AdA stipulates that regulators must have the necessary capacity and clarifies, on the other hand, the rights and obligations of telecommunications services operators. Hence, regulators must have sufficient authority to enforce free competition in the market so that these commitments are no longer subjected to the capacity that the regulator might have to implement them. This, in opposition to what happened with the DR-CAFTA, means a more effective promotion of free competition with the implementation of the agreement.

G. Telecommunication services: Strengths, Weaknesses, Opportunities and Threats

Strengths

- Sustained investment in the sector has promoted the expansion of service coverage;
- The main goals of the privatization have been broadly achieved;
- The sector legislation, despite being of long standing, is seen by stakeholders as sufficient for promoting investment;
- TELCOR has sufficient organizational structure to regulate the industry in the technical aspects, including spectrum control;
- In technological terms, the sector has developments in last generation telecommunications networks that lay the foundation for the development of broadband;
- Operators have internal plans for staff training that improve human capital in the sector;
- Operators have some degree of regional integration that promotes efficiency and effectiveness in their operations;
- The introduction of new technologies in the provision of services also promotes efficiency, which tends to reduce operating costs;
- The range of services will increase with a new operator of telecommunications services, which will improve the level of competition in all sectors.

Weaknesses

- While it is true that the current legislation encourages investment, it does not have the proper ex ante tools of an open market to foster competition;
- There is lack of coordination between the telecommunications services regulator and the competition agency to implement ex post measures;
- The lack of adequacy of the presently existing services-based regulation mechanism fails to take into account the unique characteristics of each oligopolistic subsector of the overall telecommunications market, which in turn shape the degree and form of competitive behaviour of each economic agent. It also does not consider the rapidity of technological progress;
- The efficiency of the sector has not been reflected in end-user rates;
- There is a high market concentration in the mobile phone services and in the Internet access services;
- The regulator lacks a team in its organizational structure to monitor and control anticompetitive practices, unfair competition and market concentration;

- Numbering and roaming resources are not properly managed as scarce resources, as they in fact are, and are therefore subject to hoarding on the part of incumbents, which may weaken competition and generate inefficiencies;
- In the particular case of roaming, incumbents have so far maintained high tariffs, failing to pass to consumers the cost reduction enjoyed thanks to their connection with the regional Central American network;
- There is no broadband national plan being implemented. Furthermore, the introduction of equipment that could facilitate the implementation of such a broadband plan has a high taxation;
- Excessive bureaucratic process and the response time by the regulator discourage users to lodge complaints and grievances;
- The possibility of a mere registry of telecommunications equipment entering the country is not being used to its full extent;
- Currently there is still little investment by operators established in the rural areas of little economic performance, which does not facilitate the improvement of social and economic indicators of human development.

Opportunities

- The implementation of a national broadband plan would result in a benefit to all economic sectors and directly to service users;
- The existence of ample unmet demand for telecoms services implies that there is still room to justify future investments;
- There is currently a debate on the urgency to modernize the sector's legislative and regulatory framework to promote competition. This debate is consistent with Nicaragua's participation in multiple ongoing regional, international and multilateral trade integration processes;
- The trade agreements that were subscribed provide a basis that may contribute to the modernization of the legal and regulatory framework;
- With the implementation of the AdA, TELCOR would be allowed to apply ex ante and ex post regulatory measures that are needed in the sector. This may include, for example: a wider regulation of access mechanisms; a more detailed definition of competition concepts and procedures for preventive mechanisms; a more detailed definition of procedures to determine, research, monitor or sanction abuse of dominant positions or unfair practices; the promotion of faster responses to complaints; and others.

Threats

- If no decisive action is carried out, the presently existing regulatory framework will not allow the achievement of a higher degree of competition;
- Legislation proposals for the installation of support structures for transmission equipment might actually discourage investors and therefore undermine strategies to increase coverage.

CHAPTER VII: ROAD TRANSPORT SERVICES

A. Introduction

Transport plays a key role linking consumers and producers. It contributes to integrate markets within an economy and to integrate these domestic markets with the rest of the world. Thus, a sound transport network is a requisite for each country's active participation and integration in the global economy.

Road freight transport is the second most important means of transport for inland trade in goods, after rail transport. A very rough calculation suggests that freight road transport accounts for over one third of total inland freight transport.[33] This sector also plays a key role in trade among neighbouring countries. For example, 90 per cent of trade among neighbouring countries in Latin America takes place by truck, rail and pipelines.[34]

The characteristics of the road transport sector in each country depend on specific circumstances that affect costs, among which geography, the efficiency and capacity of transport modes, and energy. The existence of natural monopoly (or oligopoly) and economies of scale (or scope) are important features of road transport services.

Freight transport services have linkages with other infrastructure services. For example, for transport to be efficient (that is, trade facilitating) it needs to be combined with other services, such as financial, communication and professional services. Multimodal transport and logistics also present linkages with this sector, as these can contribute to reduce costs and delays significantly.

B. Description and performance of the sector

The transport and communications sectors are an important part of the economy of Nicaragua: for 2008 and 2009, their contribution was 7 per cent of national GDP and from 2010-2012, they represented 8 per cent (BCN, 2012).

The road transport sector contributes to the eradication of extreme poverty and hunger, as it generates direct and indirect employment. According to official figures (BCN, 2012), the transport and communications sector represented a contribution of 4 per cent to total direct national employment over the past five years.

Trade in road (freight) transport services represented between 7 per cent and 8 per cent of total services trade during the last five years.

Table 25. Road Freight in Relation to Total Services Trade (Million dollars)

	2008	*2009*	*2010*	*2011*	*2012*[a]
Road freight exports (X)	15.7	15.0	12.9	14.3	12.9
Road freight imports (M)	81.7	69.0	80.1	88.6	72.0
Road freight trade (X+M)	97.4	84.0	93.0	102.9	85.2
Total services	1 276.4	1 224	1 292	1 497	1 217.5
Participation	8%	7%	7%	7%	7%

Source: BCN.
[a] Includes only the first three quarters of 2012.

Although the sector generates between $14 million and $15 million annually in exports,[35] imports of transport services in Nicaragua represent a large part of commercial service imports as the table 26 shows.

[33] WTO (2010), Road Freight Transport Services, document No. SC/W/324, dated 29 October 2010.
[34] Hummels D (2007), Transportation costs and international trade in the second era of globalization, *Journal of Economic Perspectives*, 21(3).
[35] Banco Central de Nicaragua: Balanza de Pagos Presentación Standard.

Table 26. Transport Services as Percentage of Commercial Services

	2009	*2010*	*2011*	*2012*
Transport services (% of commercial services exports)	9	9.1	8.1	5.4
Transport services (% of commercial service imports)	46.3	49.0	46.1	52.0

Source: World Bank.

The sector plays a critical role in trade in goods within the Central American bloc, as 100 per cent of traded goods are transported by truck, in the case of trade with Mexico, the percentage reaches 90–95 per cent.[36]

Nicaragua's main domestic road transport points are Corinto and the port of El Rama. Between 60 and 70 per cent of export operations are done through Corinto, the rest take place through Puerto Limon in Costa Rica and Puerto Cortes in Honduras. Puerto Limon in Costa Rica handles 70 per cent of exports and 30 per cent of imports transported through containers. In turn, the Port of Corinto in Nicaragua handles 80 per cent of imports and 20 per cent of exports through containers.

The main export products that generate transport operations are listed in table 27.

Table 27. Main export Products and Main Production Location

Product (relevant company)	*Location*
Dry coffee mills located in the north; Beef (slaughterhouse Nuevo Carnic)	Managua
Slaughterhouse (San Martin)	Rivas
Slaughterhouse (Amerrisque)	Chontales
Seafood	Rama, the Bluff and Caribbean coast
Round wood and timber	Rama, El Coral, Masaya, Carazo, Municipality of Las Maderas, and Xiloá
Processed wood	Managua

Source: Interview with TransAmerica freight transport company.

The performance of the transport sector in Nicaragua is affected by infrastructure shortcomings, supply-capacity constraints of some transport operators, bottlenecks affecting transport operations at border crossings and multimodal operations in ports, and regulatory inadequacies.

Infrastructure Shortcomings

Indicators of road access show significant deficiencies in Nicaragua. For instance, in comparison with countries of similar income, the percentage of paved roads over total roads in Nicaragua falls short by about 30 per cent.

Table 28. Paved Roads (Percentage of Total Roads), 2009

Nicaragua	*Average low- and middle-income economies*	*Average Latin American countries*	*Average world*
11.62	44.8	22.4	65.0

Source: World Bank, World Development Indicators.

In addition, this sector is not reliable and excessively vulnerable to the vagaries of the weather (Ministry of Transport and Infrastructure, MTI, 2005). Roads are continuously in poor condition because of lack of maintenance (drainage), due to lack of funding. When these roads are repaired, they become damaged shortly after rains begin. This situation affects the time and cost of transporting goods and often makes this service inaccessible, especially to small farmers. In Nicaragua, the production of corn and beans is concentrated mostly in Matagalpa, Jinotega and New Guinea, where more than 96 per cent of the roads

[36] Presentation by Mrs. Rosa Maria Rodriguez, Director of Road Transport of MTI, during the First Stakeholders' workshop, held in Managua on 25 and 26 February 2013.

can only be used during the dry season. Transport in these conditions becomes impossible or highly expensive and in fact, this is one of the main obstacles to the competitive development of these products (Tijerino, Vega and Bone, 2008).

Nevertheless, the road network reflects a widening of roads and a significant 24 per cent expansion in the period 2005–2011, while in 2000–2005 the network remained virtually unchanged. The most important advances occurred in all-weather roads, which expanded by 64 per cent, making it easier to transport agricultural crops. Paved roads also increased by 30 per cent.[37]

In addition, transport operations face delays due to bottlenecks in certain highway sections like Managua, Masaya, Granada, Carazo and Managua's Northern Highway.

Low Quality and Productivity of Small and Medium-Sized Services Providers

The vast majority of services operators in Nicaragua are small and medium-sized carriers, some of which are clustered through cooperatives. They are unable to meet quality standards due to the cost of compliance and the small scale of the volume they handle. This problem can be illustrated by truck overload, a common practice of these carriers to lower their costs of operation. In this sense, although the law stipulates a maximum load of 500 quintals for certain transport units used for transporting beans and sugar cane to Central America, they load 1,100 quintals. The situation goes unnoticed at border crossings due to anomalies in control scales. This practice reduces the lifespan of roads and freight units.

These operators have low rates of utilization of equipment. The study entitled "Plan for the Modernization of the Institutional and Business Environment of Road Transport in Central America"[38] indicates that small and medium-sized enterprises have very poor operational conditions with very low indices of equipment exploitation, only 30,000 to 40,000 kilometres per year. In contrast, in Europe the rate of utilization of land transport equipment is more than 150,000 kilometres per year (SIECA, 2009b). It is important to note in this regard that, in truck transport operations, customers only pay one-way trips. In contrast, in the case of transport operations using containers, shipping companies pay the round trip. Since return cargo cannot be guaranteed, some deals have to be rejected.

There are no legal requirements framing the access to the transport profession by these transport operators and their exercise of this profession. In this regard, there are no criteria to qualify the competence of the service providers, as well as their financial capacity (financial guarantees), their responsibilities and obligations. As a result, deliveries are often delayed, merchandise is damaged or lost, and accidents that cause death and injury are frequent, raising insurance costs (SIECA, 2009b).

These operators face high operating costs per transport unit and have very low or non-existent profit margins. These operating costs result from the high cost of inputs (particularly fuel and tyres) and poor road conditions near production centres, particularly of small and medium-sized agricultural producers.

The high cost of fuel contributes significantly to increasing operating costs (around 38–48 per cent). As table 28 shows, Nicaragua recorded the highest prices of fuel in the Central American region for the period 2004–2011. Up to 26 April 2013, Costa Rica and Nicaragua registered the highest prices of diesel fuel per gallon in Central America with $4.88 and $4.15, respectively. This reflects the lack of effectiveness of policies to generate local energy sources and to mitigate the high cost of fuel.

[37] Nicaragua 2011 Road Network, MTI, Division of Planning, Traffic Management Division, Office-Road Inventory, May 2012.
[38] "Plan de modernización del sistema institucional y empresarial del transporte terrestre en Centroamérica"

Table 29. Central America: Internal Average Prices of Fuel, 2004–2011 ($ per Gallon)

Country	*Diesel*	*Regular (gas)*	*Premium (gas)*
Nicaragua	3.21	3.54	3.69
Costa Rica	3.13	3.73	3.88
Honduras	3.01	3.37	3.61
El Salvador	2.96	3.16	3.35
Guatemala	2.84	3.26	3.36
Panama	2.61	2.88	3.04

Source: ECLAC (2011a), Central America: Hydrocarbons Statistics.

Small and medium-sized carriers also reported lack of access to funding as a major problem. They noted their only option is resorting to microfinancial institutions, which charge very high interest rates for short-term financing. They cannot request financing to commercial banks for several reasons:

- Because banks require trucks to be new: However, the entire national carriers' fleet relies on imports of used trucks (as most Central American countries) due to lower prices. A new truck costs between $120,000 and $150,000 while a used one costs around $30,000. In addition, high operating costs and high financial costs inhibit the recovery of investment of a new vehicle within five years;
- Because banks require collateral to cover twice the value of the funding and offer an interest rate ranging from 18–24 per cent;
- Because customs require that imported trucks are free of charge to authorize using them in transport operations, therefore not allowing their use as collateral or security to obtain financing.

Challenging Matters Concerning Multimodal Operations and Trade Facilitation

The main national point for transport operations, the Port of Corinto, has several operational and structural weaknesses that result in slow loading and unloading of ships. There is a serious problem affecting the refrigerated cargo because the port only has 29 outlets and not all of them work. For this reason, containers with perishable goods require the use of a generator that costs $35 per day plus fuel consumption, which is charged to customers. Of all the companies that provide transport services through containers, only La Veloz and Transamerica have generators.

Corinto is a very small port with scarce logistics. New neighbourhoods that hinder truck traffic increasingly besiege the port space. This situation has worsened the process of unloading of ships, as some of them need to be removed from the port working areas, causing delays and increased costs to transport operators.

Lengthy and burdensome procedures at border crossings have an impact on the cost and efficiency of operations of transport services providers. The best example illustrating this problematic is the Peñas Blancas border crossing, where authorities operate independently from one another. Box 1 enumerates the different agencies and sequence of steps involved, in the case of exports, at the Peñas Blancas border crossing.

Box 1. Procedures Taking Place at the Peñas Blancas Border Crossing

1. The trucks arrive at the border crossing between 4 to 6 a.m., while customs agencies receiving documents start working at 8 a.m.;
2. Customs agencies: From 10 to 11 a.m., the customs agencies present documents to the customs office, where one person serves all carriers;
3. COOTRACAR (Freight Cooperative): The typing process by COOTRACAR of relevant documents takes around 10 minutes and costs around $3.5. There are only five counters;
4. Module of the Division of Income (Direccion General de Ingresos): One person, without any automated system, collects the payment of freight taxes. This procedure takes around 15 to 20 minutes;
5. Customs Random Control System Module: There is only one person responsible for exports and imports control. If the red light comes up, exit is delayed by 1 hour;
6. Quarantine/animal and plant health control by the Ministry of Agricultural Forestry (MAGFOR): If there is a need to spray the merchandise, the delay is greater. These inspections are repeated on the Costa Rican side of the border;
7. National police/narcotics control: The police review of the truck has a cost of C$3,000. According to interviewed carriers, police check, on average, 70 per cent of the vehicles, despite the fact that the law only requires controlling 10 per cent;
8. International Regional Organization for Agricultural Health (OIRSA): A person is responsible for fumigation, where a fee of $6 must be paid;
9. Exit.

Source: Interview with the Nicaraguan Transport Association.

For the Nicaraguan Carriers Association, these procedures are too long, expensive and unduly burdensome, affecting considerably their efficiency and operations. They indicated that these procedures take over 6 hours during the low season (first three months of the year) and 12 hours during the high season (the rest of the year). In exceptional cases, they take up to 3 days. The problem is similar on the Costa Rican side of the border.

The costs incurred by the passing of a truck are: $32 for the visa of the driver, $28 for payment to MAGFOR, $35 for payment of insurance, $8 for payment of toll, $5 for circulation rights, $3.5 for typing relevant documents, $6 for payment to OIRSA, totalling $117.50. In addition, freight taxes are equivalent to 10 per cent of the cost of freight. Moreover, drivers who do not have their papers in order are fined $70; when the export comes in several trucks and a single vehicle does not have the papers in order, the fine is charged to the other vehicles as well.

In addition to the lengthy and costly procedures at the border crossing, the Nicaraguan Carriers Association also complained about the lack of service culture from customs authorities. They noted a lack of interest in assisting customers overcoming difficulties and expediting the process. They indicated, for example, that customs inspectors stop trucks after entering the country, even if the green light appeared at the random control customs checkpoint; that drivers are questioned with threats of heavy fines and that this process lends itself to many irregularities.
The Government is taking action to solve the bottleneck of Peñas Blancas. An ongoing project is being implemented in three stages:

(a) The first stage consists of expanding the road, by building a four-lane road in the last 400 metres before reaching the border, where currently 650–800 trucks circulate per day. The new road will be 24 metres wide and 23 centimetres thick. It will have access to different customs, weight and dimension checkpoints. This first phase will be ready in June 2013;
(b) The second step is the organization of a parking area for heavy and light vehicles and construction of a building centralizing immigration, customs, police inspection and MAGFOR premises;
(c) The third stage will be the construction of warehouse and parking facilities for trucks that have overload problems or do not meet requirements for crossing the border.

Additionally, a new border crossing will be built on the Costa Rican side, in Las Tablillas to coincide with the one of San Pancho (in Nicaragua) located in San Carlos – Rio San Juan. These two places will be connected by the La Fe bridge and will be ready in 2014. It will take about 4,500 truckloads carrying an estimated 60,000 tons and save 100 kilometres on the route from Panama to the rest of Central America. It will also streamline the flow of goods from Nicaragua to Puerto Limón.

Apparently, there is a plan to reorganize Peñas Blancas, which includes transforming an abandoned market, located near existing facilities, into the load area and opening a new border crossing in Los Chiles that will be exclusively used by tourists and individuals.

Interviewed carriers also reported problems concerning truck imports. In their view, they face unnecessary and burdensome procedures when nationalizing trucks, brought from the United States. Outside the Nicaraguan territory, they face several circumstances affecting the timeliness of delivery and cost of import. Interviewees stated that, for example, once the truck is purchased in the United States, INTERPOL takes three days to certify that the vehicle has no illicit origin. A $1,000 fee is then charged to ensure the truck leaves the United States territory. Interviewed carriers also indicated that extensive and long controls are conducted at all border crossings.

The interviewed carriers also mentioned several requirements affecting the timeliness of delivery and cost of import of the trucks inside Nicaraguan territory. Once the truck enters into Nicaraguan territory, it undergoes an inspection; afterwards, either import taxes are paid or the truck is transferred to a bonded warehouse. After paying taxes, carriers reported several difficulties, including that, for instance, local authorities do not allow the circulation of the imported trucks because they do not carry the original engine number (section on regulatory inadequacies) and that, in addition, the police usually send the engine to the crime laboratory where it undergoes additional tests, which take from 10 months to one year to complete.

According to sector representatives, two procedures could have a positive impact in the sector: domiciliary delivery and cargo consolidation. Domiciliary delivery is a situation where legal entities are authorized by the DGSA to undertake procedures related to dispatching merchandise away from the border crossing. Cargo consolidation allows the processing, with the same transport documents, of cargo addressed to different recipients. Although the legal framework allows both operations, these are not currently taking place in Nicaragua.

C. Institutional Framework and Main Actors

There are few large transport companies in Nicaragua, and they are governed by international quality standards. Therefore, they must meet a number of requirements for maintenance and quality demanded by these standards. Companies are obliged to comply with the legal requirement of the Weights and Dimensions Certificate issued by the MTI for each of their units, and the emission-level targets, targets of waste oil disposal, and the like. They also have liability insurance policies for all units and risks to which the company may be subjected during the transport of goods.

These large companies compete on quality and are able to take advantage of economies of scale. A survey conducted on large companies in Nicaragua revealed that the profit margin in the sector is estimated at 10–12 per cent. These companies operate with fixed costs in terms of wages, salaries, staff benefits and entitlements. The base salary of a driver is around $300 and with incentives the total income reaches $500 to $600. However, to compete on prices, these companies usually lower their profit margin to between 6 and 9 per cent.

According to interviews held with transport companies, the main competitors in the sector and their market shares are:

- Transamerica, with a market share of 18–22 per cent in shipping and 5 per cent in trucks;
- La Veloz Transportation, with 18–22 per cent;
- Hernandez Transportation, the largest, with 30–40 per cent;
- Molina Transportation, with 15 per cent.

In addition, other operators participating in the Nicaraguan market include PREMAR Transportation (a logistics group that encompasses bonded warehouses, customs agencies, internal transport and international transport operations; its major clients for domestic transport are Cargill and BIMBO industries, among others) and TGL, which operates in the west of the country, using tank trucks.

The vast majority of services operators in Nicaragua are small and medium-sized carriers. A large group of small carriers owns few units and are organized into cooperatives, which retains ownership of their equipment. Therefore, the association functions as a freight broker. Among these types of associations, we can mention:

- Multimodal Nicaraguan Transportation, comprising some 100–150 small carriers;
- COPETRANCO, with members which provide about 50 tractor trailers;
- Reyes Transportation.

Services operators that are grouped in cooperatives receive several benefits, such as tax exemptions, which include VAT, tariffs and tax on luxury items (ICS) among others, provided for in the General Law on Cooperatives.

The participation of foreign services suppliers of transport services in Nicaragua is very limited. This might be due to requirements applicable to foreign providers of transport services, included in article 3 of Law No. 616 that reforms article 49 of Law No. 524 – General Land Transport Law. This provision is detailed in the regulatory framework analysis in this chapter.

The main institutions related to the transport sector in Nicaragua are MTI, the national police and municipal governments. The first is responsible for developing policies and regulation of different categories of road transport services including:

- Heavy duty, which relates to vehicles that exceed the capacity of 8 tons;
- Multimodal, which involves the transfer of at least two different modes of transportation by a single provider;
- Special cargo, which involves the transfer of chemicals, flammable, explosive, toxic, hazardous, bulky or heavy-weight cargo.

The Ministry also issues technical standards related to freight, vehicle type, capacity, years of operation or service life and transport of toxic and hazardous substances, including pesticides. It is also responsible for the registration of individuals or companies who use their own vehicles for multimodal or specialized freight operations, for issuing the certificate of weights and dimensions and for granting operating licences to service companies and operators who are engaged in the transport of toxic and hazardous substances.

The municipal governments are responsible for regulating companies that provide freight services classified by law as:

- Commercial hauling, which refers to freight transport vehicles with a capacity of less than 3 tons;
- Light cargo, that is, cargo vehicles from 3 to 8 tons.

Several institutions are involved in road transport operations at border crossings. These include the Customs and Tax Authority, MAGFOR, the police and the regional entity for animal health (OIRSA).

The National Chamber of Commerce of Nicaragua and the Council of the Private Sector of Nicaragua (COSEP) play an active and consultative role when the Government is considering regulations on matters relating to transport and logistics.

The Sectoral Council of Ministers of Transport of Central America (COMITRAN) and the Central American Commission of Maritime Transportation (COCATRAM) are relevant regional institutions in this sector. COMITRAN is the forum where regional discussions on regional standards and where key decisions affecting the sector take place. On the other hand, COCATRAM has been involved in recent times in impact assessment studies of ideas to promote multimodal operations and improve transport connectivity within the region.

D. Policy Framework

National Objectives for the Sector

The Government of Nicaragua has identified this sector as strategic because of the role it plays regarding the stability of supply of basic foods at fair prices to producers and consumers.[39] To develop the road transport sector, the MTI identified the following priority objectives:[40]

[39] IMF (2011b), Informe de avance sobre el Plan Nacional de Desarrollo Humano hasta 2010.
[40] Nicaragua, MTI (2005), Plan Estrategico 2005-2011. A new plan is being prepared, with release expected for 2014.

- Improving integration and interconnectivity with other modes of transport;
- Improving safety;
- Increasing use of locally available renewable energy sources;
- Strengthening the institutional framework for the development of the transport industry, promoting public and private sector cooperation;
- Promoting public investment;
- Extending the road network to reduce transportation costs and loss of product quality.

It is important to note that the policy objectives pursued specifically for the road transport sector are linked to broader national objectives pursued by MTI, to improve overall transport operations in Nicaragua,[41] such as:

- Preserving the environment and promoting national energy sources;
- Improving security in transport operations;
- Improving access to infrastructure, vehicle mobility, reliability of operation in the transport system;
- Improving the connectivity of Nicaragua with the Central American region and with the world;
- Improving the connectivity of Nicaragua's most populated Pacific coast zone with rural areas and with the Caribbean Coast (see PNDH 2008–2012 and IMF 2011b);
- Improving the quality of services, taking into account customers' needs;
- Improving the skills of government officials and transport operators through University programmes to be developed;
- Improving access and reliability of transport services in rural areas, in order to facilitate both domestic and international distribution and trade activities and reducing their cost;
- Developing cargo centres (to facilitate modal interconnectivity);
- Improving responsiveness in case of natural disasters (in order to be able to maintain transport networks and services).

In addition to these objectives, the PNDH 2012–2016 indicate the priority given by the Government to: (a) invest in development and maintenance of the rural road transportation network; (b) promote the emergence of new operators in this market, to create and modernize existing distribution channels; (c) improve overall logistic performance, by increasing quality, speed of delivery and incorporating new technologies.

Regional Objectives for the Sector

The Central American region has developed some common goals to develop and harmonize approaches regarding policymaking and regulation for the transport sector. These goals relate to improving the regional system of integrated transport, developing sources of energy in the region to cope with the cost of fuel imports, common rules related to road transport safety and building the capacity of small and medium road transport operators.

Article 4.14 of the Treaty on Investment and Trade in Services between the Republics of Central America instructs the parties to develop a work programme in order to improve trade flows of road transport services between their territories. Thereafter, the region developed a master plan for the development of the transport sector 2001–2010, which envisaged an investment of around $4,564 million, and regulatory and technical capacity-building measures.

The Central American region has also developed energy-related goals. In this sense, in December 2007, presidents of SICA agreed[42] to give full support to the Central American Sustainable Energy Strategy 2020, adopted at the third Meeting of energy Ministers of SICA (Guatemala City, 13 November 2007). The targets of the sustainable energy strategy for 2020 for Central America aimed at substituting, in private and public transport operations, 10 per cent of gasoline with ethanol and 5 per cent of diesel with biodiesel. Presidents and Ministers supported the creation of an energy coordination unit in SICA, to follow up on and prioritize the implementation of activities of the action matrix for integration and energy development in Central America. To date, there have been no major advances in this field.

[41] Ibid.
[42] XXXI Meeting of Heads of State and Government of the countries of SICA's December 12, 2007.

Central American presidents also agreed in 2007 to instruct the ministers of the transport sector in Central America to channel resources jointly towards the implementation of actions to ensure an improvement in road traffic safety. As a result, common standards were developed on weights and dimensions; on uniform road signals; on design, construction maintenance of road transport networks and on mechanical review of vehicles. Several manuals were developed for managing risks in roads.

Many of these standards appear not to be widely known, adopted or implemented. Indeed, during the preparation of this study, consulted local carriers reported knowing little about the *American Manual of Standards for Vehicle Mechanics Review*. Companies apparently have "their own preventive maintenance programmes" for vehicles every 10,000 kilometres. They also reported knowing very little about the *American Road Safety Manual*. This is important because there is a high rate of accidents with considerable injuries for persons, increase in insurance costs, deterioration and loss of cargo and impact on delivery commitments (SIECA, 2009b). On this point, they observed that the practice of carriers from other countries is to avoid transport operations at night and if required, to undertake them in convoys and accompanied by security squads.

Regional instances also adopted a plan in 2009[43] to improve the efficiency, productivity and professionalism of small and medium-sized road transport operators. The plan was based on a study done by the Secretariat for Economic Integration of Central America (SIECA).[44] The plan proposed actions aimed at harmonizing standards of service in the region, to improve efficiency in trade flows. These actions relate to (a) training of drivers, cargo operators, managers and presidents of transport companies; (b) improved design of curricula for training activities, (c) improved organization of transport associations and (d) developing an information system enabling easy access to relevant information on standards, guidelines, requirements and procedures for the sector in the region.

Local carriers consulted in the context of this SPR acknowledged the efforts made in Central America through delivery of some courses and seminars for drivers. However, they did not fully agree that these initiatives led to professionalization of operators. They were of the view that Governments had a minimal role in the field of training and education to develop the road freight industry and that the efforts to professionalize drivers and other operators were the result of initiatives from employers and organized unions, rather than the result of guidance or involvement from the Governments.

E. Regulatory Framework

Major laws affecting the freight transportation sector are the General Land Transport Law (Law No. 524) and its reform and amendments (Law No. 616). Article 3 of Law No. 616, that reforms article 49 of Law No. 524, specifies that foreign companies wishing to operate international freight and establish themselves in the country have to meet several requirements: (a) 51 per cent of its capital must belong to Nicaraguans or be subjected to the principle of reciprocity and to the central American integration agreements, and (b) the effective control and management of the company should be held by a Nicaraguan person.

Box 2. Limitations Affecting Transport Commitments in FTAs by Nicaragua

The requirements applicable to foreign providers of transport services have been reflected, in the form of limitations, in services commitments in FTAs signed by Nicaragua. For instance, the Mexico–Nicaragua FTA provides that:

- Only Nicaraguans will perform the transfer of any load within the national territory;
- Domestic carriers are the only services providers that can perform road transport operations in situations of cargo destined for export outside Central American territory (such as transfers to temporary ports, local load and domestic traffic);
- The cargo entered into national tax warehouses can only be moved to another point inside the national territory by national carriers;
- Only Nicaraguan nationals can provide public transport services within Nicaragua;
- The MTI may authorize vehicles with foreign plates to provide load transfer services in exceptional and temporary circumstances, that is, in the case of special cargo only if the owner of the company is based in Nicaragua and the principle of reciprocity is maintained;

[43] SIECA. Resolución No. 3-2009 de la COMITRAN XXVII. See http://www.sieca.int/Documentos/DocumentosMostrar.aspx?SegmentoId=2&DocumentoId=1808

[44] SIECA (2009c), Propuestas formuladas para mejorar la eficiencia, productividad y profesionalización de pequeños y medianos transportistas terrestres. See http://www.sieca.int/PortalData/Documentos/F5309ED6-3CF0-4C6D-B84B-012F6BAABEC7.pdf.

- The State of Nicaragua and its authorities reserve the right to authorize the owners of motor vehicles from the signatory countries of SICA, to undertake load transfer operations only if they apply a reciprocal treatment to Nicaraguan nationals in their home countries;
- Foreign companies providing international freight services must meet the following special requirements for their establishment in Nicaragua: (a) 51 per cent of its capital, at least, should belong to Nicaraguans and (ii) effective control and direction of the company should also be in the hands of Nicaraguans.

Appendix X of the list of specific commitments of the European Union–Central America Association Agreement contains the same provisions mentioned above.

Source: Foreign Trade Information System (SICE) of the OAS. Information retrieved from the FTA between Mexico and Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua – annex I – Non conforming measures – List of Nicaragua.

Law 524 regulates the provision of the public service of transportation for people and goods in general, and in the case of freight transport services, establishes the certificate of weights and dimensions for purposes as a requirement to provide freight services. The reform to Law 524 introduced, for the first time in Nicaragua, regulation on transport of special cargo. Annex 5 presents an exhaustive list of legislation and regulations applicable to the transport sector in Nicaragua.

Only natural persons or legal entities can move domestic cargo within the territory of Nicaragua. To move within the national territory, all freight vehicles and specialized multimodal vehicles must register with the MTI. Vehicles transporting goods and exceeding 8 tons must obtain a certificate from MTI of weights and dimensions, which will be valid for five years and shall be approved annually. This certificate is recorded in the National Registry of Concessions, kept by MTI, and contains, among other information, the vehicle weight (maximum weight per axle group and the maximum allowable weight) tare, load-carrying capability and type of fuel used.

Article 24 of the Central American Highway Traffic Treaty specifies that, to provide circulation permits to transport vehicles, the number of the engine and the chassis serial number have to be clearly identified. For domestic authorities, this requirement means that such numbers should not change unless the vehicle characteristics undergo significant transformations. This situation has created several difficulties for transport operators. A first example is the significant delay to start operations, once a used truck is imported from the United States. This delay is because these trucks do not bring their original plate numbers, as in the United States the original number is replaced when the engine is refurbished for export. Another example relates to the introduction, in 2007, of a requirement by the Customs Agency that all trailer heads/container chassis must have plates, following provisions of the Central American Highway Traffic Treaty, which states that trailers or semi-trailers shall be equipped with a licence plate on the back.

In modern multimodal transport operations these heads or chassis are used to transport containers of different dimensions, this is why they can easily change. The 2007 requirements means that if a trailer head travels with cargo to Costa Rica and wants to return with another chassis carrying containers of another dimension, this is not allowed. If the trailer head returns with a different chassis than the one it had before crossing the border, the unit is held by customs and imposed a fine of $50 per day until the chassis is repatriated. If the repatriation takes more than 90 days, it is declared abandoned. An interviewed freight company mentioned that the trailer and chassis plate requirement appears to be an obstacle to embracing modern multimodal transportation.

F. Road Transport Services: Strengths, Weaknesses, Opportunities and Threats

Strengths

- The existing policy framework at the domestic and regional levels provides direction and guidance for future evolution of the sector. Most objectives set by MTI in the sector strategy of 2005 were achieved;
- There is an institutional framework that defends the interests of its associates;
- There is an institutional framework for public–private dialogue about policies in the sector, including the Institutional Committee for Trade Facilitation (consisting of MTI, MIFIC, DGA, PN, MAG and APEN); the Interagency Transportation Commission (composed of MIFIC, the Directorate of Land Transport, MTI, PN, DGSA and the Nicaraguan Carriers Association) and the Committee on Transport and Logistics that works in the Chamber of Commerce of Nicaragua;

- The domestic fleet of truck features mostly refurbished vehicles imported from the United States. Services providers indicated that, although trucks imports are used vehicles, the domestic fleet of trucks is modern and allows providing a good service.

Weaknesses

- Nicaragua's road access (in terms of paved roads) shows deficiencies and the network is vulnerable to weather vagaries, particularly near important agricultural production centres;
- Small and medium-sized transport operators have limited access to bank financing, they do not comply with quality standards and some of them do not have the ability to purchase insurance policies;
- Operation costs of transport operators are high due to high prices of fuel and spare parts, to poor quality of roads, to low utilization rates of trucks and to burdensome procedures and controls affecting the movement of goods across national borders, particularly bottlenecks at border crossings;
- There are structural and logistical weaknesses affecting operations in Nicaragua's main transport point for exports and internal trade (the Port of Corinto);
- Regulatory inconsistencies seem to affect the use of trucks: On the one hand, the national police does not extend the circulation card to used imported trucks because the number plate of the engine is not the original one; on the other hand, the requirement for trailer heads to re-enter the country with the same trailer chassis affects negatively multimodal operations;
- Regulatory inconsistencies and cumbersome procedures affect the import of trucks;
- Limited openness to international trade and foreign investment limits the presence of foreign operators;
- There are some problems affecting free competition when some companies make bids to transport services. There is a monopsony situation in certain segments of the sector, affecting margins of services suppliers, who face increased costs;
- Statistics regarding freight control are lacking.

Opportunities

- Nicaragua has several plans to upgrade relevant infrastructure including specific actions to overcome the bottleneck in Peñas Blancas and the construction of a port at Monkey Point on the Caribbean coast of Nicaragua;
- Expansion plans exist towards the Central American market, to the extent that countries make the land transport flow more flexible between their territories;
- Implementation of regulations allowing domiciliary clearance and cargo consolidation could lead to expedite procedures at border crossings and significant improvements for operations of small and medium carriers.

Threats

- In certain activities that require freight transport of services there exists monopsony, which become inflexible rates despite rising costs;
- A potential market opening could bring in the presence of strong competitors that are more efficient. In this scenario, small and medium-sized carriers could be eliminated from the market;
- The policy objective related to generating local energy sources, to cope with the high cost of fuel, has a negative record of achievement at the domestic and regional level. Failure to address this problem in the long term could affect prospects of development of local services providers and the overall sector.

CHAPTER VIII: RECOMMENDATIONS

A. Cross-Sectoral Recommendations

Policies focused on the services sector have gained momentum in Nicaragua. However, these policies are scattered among different policy instruments and institutions. Services development strategy could benefit from a national agenda that could reinforce the priority in developing the services sector and that would facilitate the policy and institutional coordination of several of existing and future efforts.

By adopting a coordinated approach to services, Nicaragua has the opportunity to strengthen the national economy and to alleviate part of the population from poverty. Services policies can also be used to promote more social equality and stability, and at the same time, to upgrade the value chain, thus promoting a productive transformation of the economy. These efforts would reduce the dependence on traditional, low value-added activities and also foster product and market diversification. These outcomes are aligned with government strategies and contribute to risk management associated with external economic shocks.

Quality and certification services help the economy transversally and can be a marketing tool for services exports. Quality processes contribute to the improvement of productive activities and certification processes allows for market recognition. The use of international standards as a base for the certification processes will extend this recognition at an international level. In this regard, the priority given to the national innovation system is an important foundation for the above mentioned strategies. This system requires the policy and institutional coordination of public authorities, private companies, academia and other institutions, that may include labour unions, professional and sector specific associations (ECLAC, 2010a).

A strong education strategy is important for the development of the services sector and for the upgrading of productive activities in general. Beyond what was already mentioned regarding the relevance of the development of language and ICT skills, policies to develop both technical and superior education are significant. These may include a continuous dialogue between the private sector and the education sector, to foster a better match between knowledge development and application.

The development of ISS has a significant impact in terms of competitiveness for the economy at large when it comes to trade issues. However, the development of ISS should be complemented by proper economic policies that support the real economy. Strategies for the development of SMEs are, more often than not, also important for the development of the services sectors. On the one hand, SMEs may find opportunities to provide support services to productive value chains. These services may also include knowledge services in the midst of the results of innovation and quality strategies. On the other hand, SMEs may find opportunities to incorporate themselves in the productive stages of the value chains, either producing goods or services.

The strategies for the development of SMEs should also require commitment from both the public and the private sector. Among possible forms of commitment, one can mention the facilitation of access to market information and a predictable support policy. With the regulatory public support, the cooperation efforts among SMEs may enable them to generate economies of scale in order to better reap the benefits of several of the mentioned strategies: innovation, quality and certification, and others. Trade promotion strategies support both goods and services providers. Actions that can be considered may include trade facilitation efforts, development of country and sector-specific brands and other public support to private commercial efforts.

As already mentioned, reducing bureaucracy, as well as simplifying and streamlining administrative procedures promote trade and investment. One of the actions that can be considered is to include simplifications through the reform of the Commercial Code, including the promotion of ICT services innovations like the electronic signature among others.

In this regard, the example of Brazil is particularly revealing. During the past 10 years, Brazil embarked on a series of projects aiming at simplifying bureaucratic procedures and increasing government efficiency. For instance, the tax code revision, coupled to the development of ISS, brought many advantages: informal businesses registered and became formal companies; *bancarization*, tax collection and business revenues increased; the provision of social protection reached the poorest people; and new companies, particularly SMEs and microfirms, and job opportunities were created. More recently, the Government of Brazil started the implementation of SISCOSERV, a computerized system and a tool for the formulation, monitoring and assessment of services policies and intangibles. In addition to improved tax-collection efficiency, the system allows for a fine tuning of trade and domestic policies by providing direct measures and statistics of services and intangibles value added. Although Nicaragua would need to implement several intermediate objectives to attain similar efficiency and business opportunities, nevertheless, the Brazilian example remains a source of inspiration for developing countries in the region.

In addition, it is necessary to have in place adequate regulations and institutions that have to be integrated in the global trade and investment policy. In this sense, it is important to strengthen the internal competition and regulatory framework, and enforcement capacity, including through the reinforcement of human resources skills and of the national statistics system. The institutional coordination and mandate clarification between the competition institutions and sector-specific regulators is highly relevant to ensure effectiveness and efficiency in reaching the correspondent policy objectives.

B. Financial Services Recommendations

Financial services play a key role in providing credit to the entire economy. They have the capability to foster trade and to promote economic and social development when the right policies are in place. The main objective when it comes to financial services is to ensure that finances flow through the real economy and promote employment creation and economic growth. At the same time, proper regulatory measures ensure that credit or financial bubbles remain subdued and external contagion remains contained. This is all the more important for developing countries, whose trade and debt is denominated in a developed country's currency, having limited monetary options in case a crisis should erupt.

In this respect, Nicaragua's regulator, SIBOIF, has maintained a macroprudential regulatory approach with some success. In a world dominated by uncertainties and large financial spill-overs from developed countries, a cautious approach is commendable. Nevertheless, a key issue remains: the low financial penetration of financial services in the country. The regulatory approach pursued by SIBOIF and CONAMI, especially regarding risk management, could be used as a catalyst for upgrading banking and financial services with respect to the automation of processes and reporting requirements. Improved operational efficiency would give opportunities for financial services exports as well.

To support financial penetration, regulations allowing for a more facilitated collateralization of assets, while at the same time avoiding concurrently pledged and asset overestimations, would support economic upgrading. For instance, with the current legislation, SMEs offering transport services are not able to access credit by collateralizing the trucks that they import due to conflicting legal requirements. These companies are forced to use more expensive credit, with an impact on their competitiveness.

To solve this conflicting legal requirements issue, collaboration across different public administration (police, customs, MTI) is needed. By following the SPR methodology (see section regarding methodology in the introduction of this document and the 2013 UNCTAD note on the methodology of SPRs[45]) with its multi-stakeholders involvement; this collaboration would favour the streamlining of the bureaucracy and the credit worthiness of these borrowers, thus decreasing credit risk and lowering interest rates.

Moreover, as noted in the cross-sectoral recommendations, the structure of the banking industry in Nicaragua requires proper supervision by competition authorities. The high profit generated by banks, while keeping relatively high reserves and intermediation margins, appears at odds with a competitive economic environment. A State development bank can also be used as a policy instrument to create additional competition in the national market. Another venue for fostering competition would be the upgrading of the local financial markets, where independently audited companies would levy capital on the stock market.

In addition, the establishment of a centralized credit history repository, as exists in many other countries – for instance, the System of Credit Information of the Central Bank of Brazil – would ease credit applications processes while assessing potential customers' creditworthiness. Small credits could be treated in a decentralized fashion to expedite the process while more complex or risky credits would remain the competence of the main credit centres.

[45] Available at: http://unctad.org/en/Pages/DITC/TNCD/Services-Policy-Review-Series.aspx

In this context, the enhanced capabilities of a development bank could provide financial support to key sectors of the economy while Nicaragua tries to diversify its source of external earnings. It is worth considering the possibility of creating a fully-fledged development bank, according priority to SMEs financing. The development bank would preferably be endowed with a mixed capital base, including both national and foreign partners, in order to enhance trust in the bank's governance capacities. This may require recapitalizing and upgrading the presently existing Banco Produzcamos with the capability of providing full financial services and of accepting deposits from the public. Banks could also be motivated to provide credits to SMEs by strengthening the current MAGFOR scheme. For instance, this may include the establishment of a registry of regular producers of strategic products in key economic sectors to expedite and facilitate access to credit, or the contractual arrangements between the bank and producers to minimize risks and indebtedness by using future harvests as collateral. This policy could be complemented by special guarantees and tax incentives.

The high profit generated by banks, while keeping relatively high reserves and intermediation margins, confirms that the Nicaraguan banking industry has characteristics of an oligopolistic market with entry restrictions, as mentioned in the financial services sector analysis in chapter III. A state development bank can also be used as a policy instrument to create additional competition in the national market.

C. Tourism Services Recommendations

Tourism has the potential to lift up from poverty a large part of the population. In fact, tourism services have the capacity to create rapidly job opportunities for workers with limited skills and education, which can be progressively developed while upgrading tourism services with time. At the same time, tourism services are a relatively stable source of foreign currency. To this end, the interaction with stakeholders during the workshop and during the preparation of this study led to the conclusion that the strategy to attract tourists needs to be further elaborated. A domestic and international marketing and outreach strategy should be developed to improve the attractiveness of tourism in Nicaragua. This SPR reveals that stakeholders believe there is a gap between the conceptualization of tourism routes and ensuring these routes represent attractive products that capture the attention of potential new visitors.

The following specific actions are suggested to achieve this objective:

- Developing further the electronic platform created to organize the travel itineraries of foreign visitors, to promote and disseminate more entertainment options available for tourists (such as cultural and nightlife activities);
- Developing plans to promote conference and business tourism, and cultural tourism (including cultural exchanges and concerts with international artists from the region);
- Creating or improving mechanisms to monitor the perceived quality of tourism experience by visitors, involving universities, hotels and restaurants (and other tourism operators) in this initiative, to administer surveys and analyse their results;
- Undertaking more research and studies on the profile of tourists, to be better equipped to attract them and deliver services according to their quality expectations. Taking into account that the strategic marketing plan of the PNDTS highlights the importance of BRICS (as mentioned in the tourism services sector analysis in Chapter IV) and that service operators lack knowledge about their culture and language, a targeted strategy could include, for instance, preparing tourist guides and tour operators for BRICS countries by learning about their culture and language, promoting cultural exchanges and developing profiles of these visitors. This would enable the development of quality services, customized according to customers' needs and expectations;
- Promoting increased linkages (a) within the tourism industry, (b) with other sectors that are relevant for the domestic tourism industry (restaurants, entertainment activities,) and (c) with foreign tourist operators (such as airline companies, tour operators and travel agencies) to increase awareness about the tourism offer in Nicaragua.

There was wide acknowledgement that competing through low prices will affect negatively the future sustainability and the development impact of this industry. In order to move towards a model based on quality standards, it was recommended to improve the enforcement of quality criteria in the industry. The specific actions suggested to achieve this included developing a quality assurance framework that encompasses a mandatory evaluation of quality criteria for operators and facilities to obtain a mandatory permit to provide tourism services, prior to starting operations.

To overcome weaknesses affecting the supply capacity of SMEs, such as lack of access to financing, deficiencies concerning management, and lack of knowledge about the sector, a recommendation was made to develop an incentive programme.

Such programmes will provide access to financing for SMEs, with conditions attached regarding improvement of quality. To access such programmes, SMEs should provide business and investment plans, and granting of such financing would be based on quality parameters. In the case of accommodation facilities, a standard would be required to ensure facilities are at minimum three-star hotels.

In addition, it was suggested to develop technical assistance initiatives aimed at improving the quality in services offer and improved business abilities of SMEs, prioritizing coaching initiatives, instead of training. The creation of a new office of INTUR to support SMEs could contribute to reach those goals. This new office would facilitate the processing of credit and provide coaching advice for matters such as: adequate infrastructure, adequate equipment, market intelligence, customer service; hygiene management of food and beverage services and cleaning services in accommodation facilities.

This office should have its presence in departments through municipalities (to ensure support is not only provided from Managua for SMEs located in Managua) and operate in close partnership with private sector organizations such as CANATUR, CANIMET, ANTUR, HOPEN, cooperative tourism unions and rural tourism networks.

Another recommendation (to reduce the burdensome requirements affecting SMEs that induce informality of operators) was to create a one-stop window for all procedures needed for initiating operations of tourism businesses. This one-stop shop could centralize all procedures that are considered most burdensome, such as those that need to be undertaken with municipalities, with the Health Ministry (permits related to food and beverages), police and tax administration. Less burdensome procedures, such as those related to fire prevention (processed with fire-fighting brigades) and licences of operation (processed with INTUR) could be centralized.

D. Telecommunications Services Recommendations

Telecommunications services belongs to the service activities group that grew most between 2002 and 2012 and it explains an important part of the FDI flows to the services sector. It is not a major contributor to national exports but it has one of the biggest contributions to service exports, after tourism services. It is an important input provider for many economic activities and is thus linked with technical progress and productivity. Hence, selecting the most appropriate strategy for the telecommunications sector constitutes not only a sectoral option but also a very important choice for the national economy as a whole.

Policies and regulations need to be more effective in ensuring sustainability for companies in rural and underserved areas. Several of these companies have showed little performance and have become unsustainable, becoming unable to ensure maintenance. This situation has led to little investment and advancements regarding economic and social indicators in these areas. Creating incentives in less covered regions to promote the use and ownership of information technology is also relevant to promote the demand, thus contributing to the expansion of the supply of ICT services. Such incentives could consist in combining training and subsidies, in the form of investments in connections and in campaigns to promote the use of this technology in schools, health units and other governmental entities and key stakeholders that can leverage the impact of these initiatives throughout the population.

In technological terms, the sector has developments in last-generation telecommunications networks that lay the foundation for the development of broadband. The implementation of a national broadband plan would result in a benefit to all economic sectors and directly to service users. It is also important to continue the involvement in the regional efforts towards the expansion of broadband penetration, namely in the possible future development of an optical fibre ring that will complement other existing networks.

The current regulatory framework was designed to encourage investment and appears to contain insufficient control mechanisms to prevent abuses of dominant position, which may derive from the high degree of power that some companies have gained after the privatization. The perception that prices in the sector are high and that competition is lacking in certain segments, such as basic and mobile telephony, is causing dissatisfaction among consumers and is affecting the affordability of services. Overcoming this situation requires developing ex ante and ex post tools to promote competition and to develop a stronger consumer protection regime. For this, an improved dialogue among both public and private stakeholders is required, to hold technical discussions and allow common ground to be identified, based on best practices and experience of countries with similar macroeconomic and social structure. This is consistent with Nicaragua's participation in multiple ongoing regional, international and multilateral trade integration processes.

It is important to review price regulation and to reinforce control in markets where optimal competition has not yet been achieved. This course of action would entail shifting the approach, from "services-based regulation", to "market based on the rule of reason" to take into account the unique characteristics of each oligopolistic subsector that shapes the degree and form of competitive behaviour of each economic agent. It would also allow the rapidity of technological progress to be accommodated.

The elimination or reduction of possible exclusivity arrangements could also facilitate entry of other services suppliers. Moreover, long and bureaucratic procedures regarding the granting of licences and authorizations were also deemed to constitute a barrier to entry of new operators. To overcome this situation, simplifying the system of authorization was recommended by reducing the number of steps and procedures to obtain a licence and by creating a unique licence for telecommunications services providers (except for authorizations for radio electrical spectrum).

All goods that can be used in electronic communications require an opinion from TELCOR to allow entry into the country. Excessive regulation and taxes regarding imports of key telecoms equipment was also found to affect the implementation of the plan to enhance broadband at the national level. These measures in practice act as a barrier to trade, increasing the cost of consumption of mobile technology and thus creating an obstacle for the use of mobile services by segments of the population with fewer resources. It affects competition, availability of services and affects growth in the sector, particularly of data services.

Current usage of numbering resources also acts as a barrier to entry for new operators. It is therefore recommended to determine these resources in a more efficient manner, for instance by promoting that the regulatory agency monitors more closely their effective use after they have been assigned and that, in case numbers are not effectively used, these resources should be available for reassignment to other operators. It could also be considered to make mandatory the public disclosure by the regulator of how these resources are assigned.

The legislation in Nicaragua is considered weak regarding consumer protection against illegal and abusive practices of services operators. Most common complaints include billing, breach of contracts related to promotions and new services offered, mandatory submission to services, collusive pricing practices, lack of consumer information, high interconnection charges and fraudulent calls to international destinations that are not recognized by users. Consumer complaints are handled through long and bureaucratic processes. It is suggested to promote the concept of shared responsibility of operators and regulators of telecommunications services with respect to the handling of consumer complaints, with a view to better protect their rights.

E. Road Transport Services Recommendations

Road transport services play a key role for the trade performance of the country. They are the preferred services for exports and imports to neighbouring countries and main trade partners. However, the sector suffers from a number of shortcomings. Supportive policies targeted at road services are needed to modernize and improve quality in services supply. The lack of access to finance for small and medium-sized transport operators was identified as major problem from that perspective, impeding the purchase and renewal of transport units.

To overcome this, the creation of a national programme, supported by private banking institutions, to finance road transport services providers was recommended. Such a programme would require the attention of the public development bank, Banco Produzcamos, which would facilitate credit access to SMEs and ensure a competitive interest rate to promote new investments.

Strategies and targets to increase the use of alternative energy sources, to cope with increasing operation costs due to high prices of gasoline, are also lacking implementation nationally and regionally. It is therefore recommended to develop policies domestically aimed at developing sources of biodiesel and promoting their use for road transport carriers. The latest experience that was recorded while producing this study was an effort, undertaken in the mid-1990s, in the context of a cooperation programme with

Austria. It involved a planting programme of *tempate* (an oleaginous plant, also known as *jatropha*) and a processing factory. On that occasion, the programme was not successful because *tempate* agricultural performance was minimal.

At the regional level, interaction with stakeholders during the preparation of this study suggested the need to review the targets set in the Central American Sustainable Energy Strategy 2020. Therefore, it was suggested to include this matter for review in the regional agenda and explore new means to enhance cooperation at the regional level to promote development of alternate energy sources.

To overcome infrastructure shortcomings affecting downloading of cargo and uploading of trucks in Corinto, it was suggested to undertake an exhaustive review of port facilities in Corinto to find ways to overcome structural problems that affect efficiency of cargo operations of road transport carriers.

The current national regulatory framework on registration plates makes difficult the process of importing of trucks and operations of services suppliers in the sector. It is therefore recommended to promote a review of the relevant legislation, which combined with a credit policy to SMEs would promote new investments in the sector. In order to achieve this objective, the Central American Highway Traffic Treaty may require adaptations to the needs of the sector and trend for multimodal transportation in the twenty-first century.

The streamlining and modernization of the regulatory framework would also bring benefits and reduce non-tariff barriers to import and export. Procedures and controls governing the movement of goods across national borders are currently having a great impact in the efficiency of transport operators. Costly and burdensome procedures at border crossings related to import and export controls and payments of taxes lead to considerable delays. Several initiatives are currently ongoing that might improve this situation at key border crossings in the near future.

The interaction with stakeholders during the course of this study also revealed the merit of exploring the following courses of action:

- Maximizing the use of the regime for facilitation of customs procedures, which is currently limited to few services providers. The change in the current regime should ensure that warehousing services providers and SME services providers could benefit from these facilitated procedures;
- Involving the DGSA in a discussion about the merits and how to promote the use domiciliary delivery;
- Involving the General Division of Income in a discussion about the merits and how to allow the payment of freight at the source (as opposed to at the border crossing);
- Engaging in discussions with transport cooperatives to assess alternatives to promote the use of consolidation of cargo operations among SME transport providers;
- Bring to the attention of the Institutional Committee for Trade Facilitation, the Interagency Transportation Commission and the Committee on Transport and Logistics the merits of a one-shop window for all procedures at the border crossing and discuss in these settings ways to implement this initiative;
- In this regard, during the two stakeholder workshops an idea suggested conceptualizing the border crossing as an administrative unit, under the oversight of a coordinator (administrator of the border crossing), external to all institutions present at the border crossing, who would be responsible for managing coordination among different institutions and for the physical infrastructure.

During the course of this study, Nicaraguan carriers expressed the view that strategies related to capacity-building for small services providers had not been fully implemented. Therefore, these strategies had not yielded the desired results in terms of improved organization of the private sector, and professionalization of operators.

As a strategy relevant across the entire transport sector, it is very important to move forward in the process of producing statistics regarding transport services. This would allow for a more sustained identification of barriers and more targeted proposals for the development of this services sector.

It was suggested to bring to the attention of CODITRANS matters raised in this study concerning the problems currently faced by road transport services providers and engage in a discussion aimed at finding ways to implement existing resolutions and improving existing programmes to overcome capacity inadequacies of small and medium-sized services providers.

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ANNEXES

ANNEX 1: Financial Regulation in Nicaragua

A. Inventory of Laws and Regulations Applying to the Financial Sector

1. Decree No. 42-92, Organic law from Bank Central of Nicaragua, published in the Official Gazette Nos. 148 and 149, from 5 and 6 August 2010.
2. Law No. 561, General Law of Banks, Non-Bank Financial Institutions and Financial Groups, posted in the Official Gazette No. 232 from 30 November 2005.
3. Law No. 316, Law of the Superintendency of Banks and Other Financial Institutions, published in the Official Gazette No. 196 from 14 October 1999.
4. Law No. 551, Law on Deposit Insurance System, published in the Official Gazette No. 168 from 30 August 2005.
5. Law No. 515, Promotion Act and Regulation on the Use of Credit Card and Regulations, published in the Official Gazette No. 11, 17 January 2005.
6. Law No. 176, Regulatory Law Loans between Individuals, published in the Official Gazette No. 112, 16 June 1994.
7. Law No 587, Capital Market Law, published in the Official Gazette No. 222, 15 November 2006.
8. Decree No. 18-24, Securities Law No. 146 in 1971.
9. Law No. 793, Law Establishing the Financial Analysis Unit, published in the Official Gazette No. 117, 22 June 2012.
10. Law No. 640, Bank Law Creating the Production Development (PRODUZCAMOS), published in the Official Gazette, No. 223, 20 November 2007.
11. Law No. 735, Law on Prevention, Investigation and Prosecution of Organized Crime and the Administration of Seized, Forfeited and Abandoned, published in the Official Gazette Nos. 199, 19 October, 200, 20 October 2010.
12. Law No. 741, About the Trust Agreement, published in the Official Gazette No. 11, 19 January 2011.
13. Law No. 769, Promotion Law and Regulation of Microfinance, published in the Official Gazette No. 128, 11 June 2011.
14. Law No. Law of Promotion and Development of Mipyme, published in the Official Gazette No. 28, 8 February 2008.
15. Law No. 733, General Law on Insurance, Reinsurance and Bonds, published in the Official Gazette Nos. 162, 25 August, 163, 26 August, 164, 27 August 2010.
16. Decree No. 107, Nationalization Act and Creation of the Nicaraguan Institute of Insurance and Reinsurance, published in the Official Gazette No. 36, 20 October 1979.

B. Description of the Regulation and Supervision Scope of SIBOIF

Law 561 (General Law of Banks and Other Financial Institutions and Non-Banking Financial Groups) regulates the activities of financial intermediation and the provision of other financial services with resources from the public, which are considered of public interest.

The SIBOIF has been established as a fundamental State agency with a function to protect the depositors' interests who entrust their funds to financial institutions legally authorized to receive deposits and to strengthen safety and public confidence in these institutions, promoting adequate supervision to seek their proper liquidity and solvency in the intermediation of resources entrusted to them.

Institutions governed by this law are commercial banks and branches of foreign banks, financial groups, financial companies, investment banks, and representative offices of foreign banks and financial institutions, all supervised by the SIBOIF. This also includes the Bank Produzcamos created by Law 640, whose purpose is to provide finance to micro, small and medium producers in the agricultural and industrial sector. In addition, through the SIBOIF there is a relation to the Deposit Guarantee Fund, created by the Law 551 of the Deposit Guarantee.

Law 551 regulates the deposit guarantee system of financial institutions for the purpose of restoration of savings deposits, demand and deadlines, to individuals and corporations when an intervention and a liquidation of financial institutions that is part of this system occurs. In this case, the maximum refund amount is up to $10,000 per person. The same law states that all financial institutions authorized to operate by the SIBOIF that accept financial resources from the public throughout the country are part of the deposit guarantee.

Because of its importance, the National Assembly passed the Law No. 515 on Promotion and Ordering of the Use of Credit Card and its Regulations that falls within the scope of the supervision operated by SIBOIF. This law regulates the relationship between the issuer and the card user, establishes the basic safety related clauses in adhesion contracts concluded between the card issuer and the user, as well as regulates the method of calculating the interest charged.

In addition, the Board of Directors of SIBOIF adopted a Statement on the Promotion and Regulation on the Use of Credit Card whose content describes in detail the way in which to calculate the current and default interest, related charges and other technical details.

Capital Market Law 587 aims to regulate the stock markets, natural and legal persons directly or indirectly, involved in them. The SIBOIF is in charge of authorizing individuals or legal entities involved in public offerings. The institutions that function under this law are broker-dealers and the Nicaragua Stock Exchange.

General Law 733 on Insurance, Reinsurance and Bonds supervises the formation and operation of national and foreign insurance companies, reinsurance, bonds, as well as the participation of insurance intermediaries and auxiliaries. Institutions governed by this law are the five existing insurance companies, a number of brokerage firms and individual brokers all supervised by the Insurance Supervisory Authority. This also includes the state insurance company INISER created as an autonomous public entity with legal personality and capacity to acquire rights and obligations.

The Regulation Scope of CONAMI

In addition to financial companies and banks regulated by the laws mentioned above, there are other companies incorporated as non-profit organizations of commercial nature devoted to providing microfinance services. These microfinance companies should possess a minimum capital base of C$4.5 million (around $190,000). These entities providing credit services are supervised by the Law No. 769 on Development and Regulation of Micro Finance, which provides the legal framework for the granting of authorization to operate in the microfinance market. The CONAMI has the authority to supervise on the microfinance companies. Along with these institutions there are other unregulated companies consisting of 11 microfinance institutions registered with the Ministry of Interior but are not members of ASOMIF.

Transverse Laws to the Institutions Described Above

There are other laws that affect all financial companies when performing certain operations. These laws are:

Law No. 793, Establishing the Financial Analysis Unit, approved in June 2012. This law aims at preventing money laundering with property and assets derived from illegal activities and terrorism financing.

Law No. 735, on Prevention, Investigation and Prosecution of Organized Crime and the Administration of Seized, Confiscated and Abandoned Property, approved in October 2010. This law establishes the procedure of lifting the bank, financial or tax secrecy in case of investigation regarding organized crime and also the modalities regarding the administration of property derived from illegal activities

Law No. 741, on Contract of Trust, published in January 2011. This law aims to create a regulatory framework for trusts as a tool for wealth management, channelling public and private investments, and provision of guarantees among others.

Law No. 146, on Financial Securities, passed in 1971. This law regulates the essential characteristics of the financial securities handled by the financial system. These financial instruments are key to the development of active and passive activities of private and public banks.

Regulation for Lenders Outside the Regulated System

Law No. 112, Loans Between Individuals, approved in June 1994. This law establishes the upper limit of current interest rate individuals can agree, based on the average lending rate of banks to the date of the loan.

ANNEX 2: Nicaragua's Prioritization of Tourism Routes

Destination	*Basic attractions*	*Main products*	*Development priority*
San Juan del Sur (South Pacific coast)	Nature Culture History	▪ Sun and beaches ▪ Nautical activities ▪ Nature observation and discovery (turtles) ▪ Cultural tourism: Gold route ▪ Touristic port: Cruises	1 (immediate) ▪ Destinations that have benefited from tourism development ▪ Actions required: only promotion and marketing
Colonial and volcano route	Culture Nature Experience	▪ Cultural tourism ▪ Nature observation ▪ Health and wellness ▪ Tours	1
Ometepe	Nature Sightseeing Wellness	▪ Nature observation ▪ Health and wellness ▪ Farm ecotourism	1
San Juan river	Nature Adventure History	▪ Nature observation ▪ Adventure tourism ▪ Cultural tourism ▪ Transit route	1
Managua	Business and events Centrality Gastronomy	▪ Conference ▪ Urban tourism ▪ Health and wellness	2 (short-term) ▪ Destinations with insufficient tourism offer ▪ Actions required: Strengthening supply capacity in terms of quantity and quality and selective promotion strategies.
Leon and its surroundings	Culture Beach (not massively exploited)	▪ Sun and beaches ▪ Cultural and religious tourism ▪ Cruises	2
Bluefields + Corn Islands + Pearls Lagoon	Beach (Caribbean coast) Discovery Adventure	▪ Nature observation ▪ Adventure tourism ▪ Nautical activities (diving, snorkelling, navigation)	2
Mountains and valleys	Coffee culture History Nature and sightseeing	▪ Coffee route ▪ Cultural routes ▪ Farm ecotourism	2
Atlantic (northern) coast	Nature Indigenous culture	▪ Community tourism ▪ Ethnic tourism ▪ Ecotourism	3 (medium-term) ▪ Destinations with social, economic and development needs, ▪ Requiring a longer timeframe to build supply capacity ▪ Actions required: Changing attitudes of local population towards tourism
Fonseca Gulf	Nature	▪ Nature/outdoor activities ▪ Ecotourism	3

Source: Presentation by Ms. Martha Nora Torres (of INTUR) during the SPR second stakeholder workshop (Managua, 26 and 27 June).

ANNEX 3: Regulatory Instruments Applicable to the Tourism Sector

A. Existing laws and by-laws

1. Law No. 298, Creation of the Nicaraguan Tourism Institute (INTUR), published in Official Gazette No. 149 of 11 August 1998;
   a. Decree No. 64-98, (Implementing Regulation of Law No. 298), published in Official Gazette No. 190 of 9 October 1998.

   This law created INTUR as an autonomous legal entity, with its own capital resources and full capacity to exercise rights and obligations. INTUR is the legal successor of the Ministry of Tourism.

2. Law No. 495, General Tourism Law, published in the Official Gazette No. 184 of 22 September 2004;
   a. Decree 129-2004, (Implementing Regulation to Law No. 495), published in Official Gazette No. 184 of 22 November 2004;
   b. Law No. 724, Law of Partial Reform to Law 495, published in Official Gazette No. 138 of 22 July 2010;
   c. Decree 71-2010, Addendum to Decree 129-2004, published in Official Gazette No. 224 of 23 November 2010.

   This law regulates the tourism industry by establishing rules to its activities. The tourism industry is considered as an economic activity of fundamental interest and priority to the State and therefore declared as national interest. The promotion strategy of this industry is framed within a sustainable economic development model.

   The partial reform to this law sought to strengthen development, promotion and marketing plans to position Nicaragua as a diverse, safe and accessible tourism destination, by providing the necessary resources to INTUR to improve, increase such plans and make sure benefits reach all economic sectors involved in the tourism industry.

3. Law No. 306, Law of Incentives for the Tourism Industry of Nicaragua, published in Official Gazette No. 117 of 21 June 1999;
   a. Decree No. 89-00, (By-law to Law No. 306), published in Official Gazette No. 168 of 02 September 1999;
   b. Decree No. 27-2005, Reforms and addenda to Decree 89-99, published in Official Gazette No. 83 of 29 April 2005;
   c. Law No. 575, Law of Partial Reform to Law 306, published in Official Gazette No. 149 of 2 August 2006.

   This law provides incentives and benefits to national and foreign natural persons and legal entities that are active in the tourism industry.

4. Law No. 766, Special law for the control and regulation of casinos and gambling houses, published in Official Gazette No. 124 of 5 July 2011;
   a. Decree No. 46-2011, (Implementing regulation to Law No. 766), published in Official Gazette No. 173 of 13 September 2011;
   b. General Guidelines for the operation of Casinos and gambling houses, published in Official Gazette No. 79 of 1 May 2012.

   This law provide for rules, procedures and basic requirements for the authorization, regulation, control, supervision and functioning of casinos and gambling houses. These are permitted to operate in Nicaragua as they contribute to promote national tourism industries and increase fiscal revenues.

5. Law No. 690, Law for the development of coastal areas, published in Official Gazette No. 141 of 29 June 2009;
   a. Decree No. 78-2009, (Implementing regulation to Law No. 690), published in Official Gazette No. 180 of 24 September 2009;
   b. Certification No. 005-690-CDZ-2011, Rules of procedure for the delimitation of coastal areas at the request of private individuals, published in Official Gazette No. 83 of 9 May 2011.

   This law aims to regulate the use, sustainable exploitation and access to citizens of the coastal areas of the Pacific Ocean and the Caribbean Sea. Despite that most parameters of this law refers to maritime areas, this law also regulates access and use by the population to lake coastal areas such as Cocibolca and Xolotlan; crater lakes and artificial lakes created or acquired by the State; and maritime and lake islands with permanent population.

6. Law No. 694, Law for the promotion of admission of residents who are beneficiaries of retirement pensions and other private incomes, published in the Official Gazette No. 151 of 12 August 2009;
   a. Decree 83-2009, (implementing regulation to Law No. 694).

   This law establishes a regulatory and procedural regime, applicable to national and foreign natural persons that formulate a request to reside during an undetermined period in Nicaragua, under this category of residents. Promoting the admission of this special category of residents is deemed in the interest of the State of Nicaragua to promote “special tourism” activities.

7. Law No. 835, Sustainable Rural Tourism Law of the Republic of Nicaragua, published in Official Gazette No. 45 of 8 March 2013.

   This law seeks to promote the design and implementation of guidelines and actions that contribute to the development of tourism in rural territories, following an economic sustainable model. It seeks to create conditions and promote adequate measures to ensure that rural and indigenous communities and African descendants have access and can exploit natural resources related to tourism. It also aims at improving living conditions, reduce poverty and promote cultural values as a result of tourism activity.

B. Regulation of Tourism Operators

1. Regulation of tourism guides, published in the Official Gazette No. 40 of 26 February 2001.
2. Regulation on tourism companies and activities, published in the Official Gazette No. 40 of 28 April 2001.
3. Regulation on the price regime, reservations and complementary services in tourism lodgings, published in the Official Gazette No. 99 of 28 May 2001.
4. Regulation on hostelry, published in the Official Gazette No. 203 of 25 October 2001.
5. Regulation on food, beverages and entertainment, published in the Official Gazette No. 203 of 25 October 2001.
6. Regulation on travel agencies, published in the Official Gazette No. 96 of 23 May 2001.
7. Erratum to regulation on the activity of renting companies of automotive and aquatic vehicles (rent-a-car), published in the Official Gazette No. 108 of 08 June 2001.
8. Regulation on travel agencies and tour operators, published in the Official Gazette No. 100 of 29 May 2001.

C. Laws and by-Laws Undergoing Preliminary Analysis, Discussion or Revision

1. Partial reform to the General Law on Road Transport (under discussion in the Transport and Utilities Commission of the Parliament). This reform encompasses provisions related to road passenger transport considered as touristic transport. The General Law established that road passenger transport is operated through concessions from the MTI, awarded by public tendering

processes. This reforms aims to establish that given its characteristics, touristic transport should not be subject to public tendering processes.

2. Addendum to the Law on Aquatic Transport (under discussion in the Tourism Commission of the Parliament). This addendum seeks to facilitate and improve the competitiveness of tourism operations in Nicaragua within the region, by facilitating the arrival of ships and vessels of touristic use and of foreigners to harbours, coastal areas and docks.

3. Implementing regulation to Law No. 835.

4. Partial reform to Law No. 306 (undergoing preliminary analysis).

5. Law on Air Transport (undergoing preliminary analysis), to introduce similar provisions as the ones mentioned under point 2 above regarding the law on aquatic transport.

6. Law on Health Tourism (undergoing preliminary analysis).

7. Law on the Conservation of the Granada Islands (undergoing preliminary analysis).

8. Law on “Green Destinations” (undergoing preliminary analysis).

9. Regulation on tourism projects in environmentally protected zones and areas of historic preservation (undergoing preliminary analysis).

10. Law on the Tourism Promotion of Handicrafts, Folkloric Music and Dances (undergoing preliminary analysis).

D. Related Laws and Decrees

1. Political Constitution.
2. Law No. 290, Organization, Competencies and Procedures of the Executive Power and its Reforms.
3. Law on the Tax Coordination Pact.
4. Law on the Environment.
5. Law on Municipalities.
6. Law on National Waters
7. Decree 07-2009, published in the Official Gazette No. 53 of 18 March 2009. It facilitates procedures for foreigners, who may process admission visas while being on Nicaraguan territory.
8. Executive Decree No. 79-2009, published in the Official Gazette No. 185 of 1 October 2009. It creates an inter-institutional commission to develop and implement regulation on navigation of the San Juan river, specifically in the zone where the International Court of Justice provided limited navigation rights to Costa Rica.

ANNEX 4: Inventory of Laws and Regulations Applicable to Telecommunications Services

Decree No. 1053, Organic Law of the Nicaraguan Institute for Telecommunications and Post (TELCOR), published in the Official Journal No. 137 of 12 June 1982.
The Law creates TELCOR as the exclusive provider of telecommunications services in Nicaragua, having all the self-regulatory powers and the operation of public telecommunications services in the country.

Law No. 200, General Law of Telecommunications and Postal Services, published in the Official Journal No. 154 of 18 August 1995.
This Law regulates telecommunications and postal services, promotes the availability of a wide range of telecommunications services and efficient postal services in competition, at the lowest cost, with high quality, to all the inhabitants of the country.

Law No. 210, Law of Incorporation of Privates in the Operation and Expansion of Public Telecommunications Services, published in the Official Journal No. 231 of 7 December 1995.
This Law (a) creates a public telecommunications company, ENITEL S.A., as a spin-off of TELCOR, regulated by Decree No. 1053; and (b) creates the basis for the international public tender of ENITEL S.A., and the sale of state assets related to the operation of telecommunications services. Postal services were not the subject of this privatization.

Law No. 293, Law of Reform of Law No. 210, Law of Incorporation of Privates in the Operation and Expansion of Public Telecommunications Services, published in the Official Journal No. 123 of 2 July 1998.
This Law amends the original terms of the bidding process in Law No. 210, in order to make the company more attractive for privatization.

Law No. 322, Law on Protection of Programme Carrying Satellite Signals, published in the Official Journal No. 240 of 16 December 1999.
This law protects entities that emit wired or wireless programme-carrying signals, including those aimed at a satellite or passing through it, in order to ensure adequate resources to prevent unauthorized use. It also establishes civil and criminal penalties for individuals or corporations.

Law No. 326, Law of Reform of Law No. 200, General Law of Telecommunications and Postal Services, published in the Official Journal No. 244 of 22 December 1999.
This Law eliminates the requirement that the capital of any telecommunications company should be 51 per cent national. The requirement persists for social media.

Law No. 389, Law of Reform of Law No. 210, Law of Incorporation of Privates in the Operation and Expansion of Public Telecommunications Services, published in the Official Journal No. 70 of 17 April 2001.
As for Law No. 293, this Law amends the original terms of the bidding process in Law No. 210, in order to make the company more attractive for privatization.

Law No. 670, Law of Extension of Licences of Companies and Individuals that Operate Radio, Television and Cable Television, published in the Official Journal No. 181 of 22 September 2008.
This Law eliminates the Regulator's power to change the licences of operators of radio, broadcasting and subscription television. This is temporary, until the National Assembly issues a new general telecommunications law.

Decree No. 19-96, Regulation to the General Law of Telecommunications and Postal Services, published in the Official Journal No. 177 of 19 September 1996.
This Decree establishes general application procedures of the General Law of Telecommunications and Postal Services.

Decree No. 128-2004, General Regulation of TELCOR Organic Law, published in the Official Journal No. 238 of 7 December 2004.
This Decree reforms the Organic Law of TELCOR.

Decree No. 44-2000, Regulation to the Law on Protection of Programme Carrying Satellite Signals, published in the Official Journal No. 189 of 6 October 2000.
This Decree regulates and permits the application of the Law on Protection of Satellite Signals.

Decree No. 131-2004, Reforms to the Decree 19-96, Regulation to the General Law of Telecommunications and Postal Services, published in the Official Journal No. 2 of 4 January 2005.
This Decree adapts in a general way the procedural framework for the implementation of the CAFTA DR.
Decree No. 84-2003, Reforms to the Decree 02-96, General Regulation of TELCOR Organic Law, published in the Official Journal No. 230 of 3 December 2003.
Envisages the addition of FITEL to the organic structure of TELCOR, defining that the regulator will administrate the fund.

Decree No. 05-2006, Constitution of the Telecommunications Investment Fund (FITEL), published in the Official Journal No. 19 of 26 January 2006.
This Decree constitutes the Telecommunications and Post Special Investment Fund (FITEL).

ANNEX 5: Legislation and Regulations Applicable to the Transport Sector in Nicaragua

Law No. 524, General Land Transport Act, published in the Official Gazette No. 72 of 14 April 2005.

Law No. 616, Amendments to the Law of Land Transport Law, published in the Official Gazette No. 84 of 7 May 2007.

Law No. 274, Basic Law for the Regulation and Control of Pesticides, Toxic Substances, Hazardous and Similar, published in the Official Gazette No. 30 of 13 February 1998.

Decree 42-2005, Rules of the Road Transport Act, published in the Official Gazette No. 113 of 13 June 2005.

Decree 78-2005, Reform Decree 42-2005, Rules of the Road Transport Act, published in the Official Gazette No. 207 of 26 October 2005.

Decree 34-2006, Reform and Addition to Decree 42-2005: Rules of the Road Transport Act, published in the Official Gazette No. 137 of 14 July 2006.

Decree 65-2007, Reform Decree 42-2005: Rules of the Road Transport Act, published in the Official Gazette No. 128 of 6 July 2007.

Decree 104-2007, Reform Decree 42-2005: Rules of the Road Transport Act, published in the Official Gazette No. 223 of 20 November 2007.

ANNEX 6: List of Interviewees and Questionnaires

Interviewees were given a preparatory presentation on the “Introductory Note to the Nicaraguan Services Policy Review”, prepared by UNCTAD, with an emphasis on the objectives of the study. They were also presented with the results of the first workshop with stakeholders, held shortly before the interviews. In some cases, interviews were based on structured questionnaires, specially designed for this SPR. Each questionnaire used was presented for discussion at the beginning of the interview.

Below follows a list of interviewees, organized by sector. Whenever a structured questionnaire was used in the interviews, its short version is also included in the information regarding the corresponding sector.

A. List of Interviewees

Horizontal Issues

1. Danilo Nunez, Director of Investment Promotion Policy, MIFIC
2. Ulvio Vargas, Services Sector Negotiations Specialist, MIFIC
3. Rafael López Altamirano, Economista, COSEP

Financial Sector

1. Hipparchus Loaisiga , Chief Economic Division, and five specialists, BCN
2. Justo Pastor Montenegro, Finance Manager, Banco Lafise BanCentro
3. Álvaro García, Division of Financial Regulation, SIBOIF

Tourism Sector

1. César Argeñal, Director of Tourism SMMEs, INTUR
2. Nora Martha Torres, Director of Planning, INTUR
3. Francisco Meza, Chief Investment Officer of INTUR
4. Claudia Aguirre, Association of Tour Operators
5. Rodolfo Baca, Centro Empresarial Pellas
6. Roberto Baca, Sustainable Tourism Solutions, founding partner

Telecommunications Sector

1. Neon Eduardo Rodriguez Melendez, TELCOR Legal Department.
2. Marcela Freight, Planning and Development, TELCOR.
3. Mariano Ernesto Curi, Department of Planning and Development, TELCOR.
4. Cristian Gomez, Regulatory Manager, ENITEL S.A.
5. Edwin Garcia Tellez, Regulatory Management, ENITEL S.A.
6. Jose Pablo de la Roca Robinson, Xinwei-Intelcom.Nic, S.A.
7. Angela Duarte, Head of Education Department of Outreach and Consumer Protection Directorate MIFIC Consumer.
8. Nomel Perez Soza, President of the Consumers Association of Nicaragua, ACN.
9. Jose de los Angeles Gonzalez Solis, Chairman Consumer Association of Leon, ADECONLE.
10. Ayerdis Brenda Castillo, President Consumer Defence League of Nicaragua, LIDECONIC.

Transport sector

1. Transport and Logistics Committee of the Chamber of Commerce of Nicaragua. Consultants attended a meeting attended by government representatives and carriers. The meeting was chaired by Eliezer Trillos, President of the Nicaraguan Association of Freight Carriers
2. Marvin Escobar Icabalceta, General Manager Transamerica, Mr. Oscar Calero, Operations Manager and Engineer Maintenance Manager, Marlon White
3. Meeting with the Board of Nicaragua Trucking Association, attended the meeting seven entrepreneurs
4. Eduardo Mendoza Torres, Administrative Manager, Central Transport Unionists, S.A.
5. Rosa Maria Rodriguez, Director General of Land Transportation, MTI

6. Mirian Reyes, Director Department Weights and Dimensions MTI
7. Eddy Artola, Director of Risk Management in the General Division of Customs Services associated with Transport Services

B. Questionnaires

Questionnaire for interviews with the banking system private sector:

1. What would be your assessment about the most important issues, strengths and weaknesses of Nicaraguans commercial banks, expressed as a SWOT?
2. Is Basel II being implemented and what are the most relevant regulatory standards? What are the most relevant implications for the banks of the application to Basel III?
3. What are the prudential rules with more impact for the banks? Why?
4. Briefly describe the technological platform of banks. Is it competitive at the regional (Central America) and International level?
5. Do you know if there are private investment funds, from non-traditional private institutions, specialized in projects in the framework of CAFTA–DR?
6. Does the payment system, agreed by the countries of the region, work properly?
7. Which and how important are the border crossing banking services provided by banks in Nicaragua? How were they affected by the FTA?

Questionnaire for interview with the telecommunications regulator:

1. Do you consider that the regulator has an appropriate organic structure, considering current legislation? What would you propose as structural changes?
2. What are the advantages and disadvantages of telecommunications sectoral legislation for Nicaraguans and foreign investors?
3. Are there public policies that contain the national objectives for the sector? In what way have public policies promoted telecommunications universal access?
4. According to international statistics for the telecommunications sector, is Nicaragua the less developed country in the region? Are there inconsistencies between those statistics and the reality?
5. What are the plans to develop the National Broadband Plan in Nicaragua?
6. Are there intentions to encourage the entrance in Nicaragua of Mobile Virtual Operators?
7. Are there intentions to regulate the entrance of new basic telephone operators by a local loop unbundling?
8. In the case of a new legislation, are there intentions to regulate interconnection rates based on costs?
9. In the case of a new legislation, are there intentions to regulate the number portability?
10. Regarding basic telephone services, what is the market structure and the share of the main companies? Is there interest from the Government to encourage the expansion of the copper public switched telephone network?
11. Regarding mobile telephone services, what is the market structure and the share of the main companies?
12. Regarding Internet access services, what is the market structure and the share of the main companies?
13. What plans exist to extend coverage to rural and underserved areas of the country?
14. Are there foreign investment statistics from 2007 to 2012 for the sector, disaggregated by type of investment?
15. Are there employment statistics in the sector?
16. How do you manage complaints from the consumers of these telecommunications services? How many complaints do you receive monthly? How many are answered and how fast? Does the regulator have a relationship with consumer protection bodies? What kind of relationship?
17. What are the main problems and threats that limit the development of the sector?
18. What are the main strengths and challenges that you envision for this sector?
19. What do you propose to solve the problems?

Questionnaire for interview with the telecommunications private sector:

1. Do public policies benefit the telecommunications sector?
2. Does Nicaragua have an appropriate legal framework?
3. Do you consider that the regulator has an appropriate organic structure, considering current legislation? What would you propose as structural changes?

4. What are the advantages and disadvantages of telecommunications sectoral legislation for Nicaraguans and foreign investors?
5. Regarding the promotion of telecommunications universal access, are public policies effective? What do you think about the effectiveness of the funding and relationship mechanism between the regulator and the operators, in terms of carrying out projects that promote universal access?
6. What mechanism do you suggest to solve inconsistencies in statistics and to reveal real tariffs?
7. Do you consider it appropriate to develop a National Broadband Plan in Nicaragua? What characteristics and objectives do you think the plan should have?
8. Is there interest from the private sector to expand the copper public switched telephone network?
9. What is your company's share in the mobile phone services market?
10. What is your company's share in the Internet access services market?
11. What has your experience been in projects of the regulator to extend coverage to rural and underserved areas of the country?
12. What has been the level of investments in Nicaragua of your company in the last 5 years? How does it compare to investments in other countries of the region? How many direct and indirect jobs has your company generated?
13. How do you manage complaints from your clients? Do you have a structure for it? How many complaints do you manage monthly? How many are resolved and how fast?
14. What are the main problems and threats that limit the development of the sector?
15. What are the main strengths and challenges that you envision for this sector?
16. What do you propose to solve the problems?

Questionnaire for interviews with the transport sector:

1. What is the volume of cargo handled by the sector in Nicaragua, generated locally or abroad? Disaggregate by refrigerated, liquid, bulk and container cargo.
2. Where is this cargo generated and in what proportion?
3. How many freight carriers are in the country? What is the informality in the sector?
4. How is the cargo distributed between the different companies?
5. What are the main existing regulations for this sector? What is the role of the MTI?
6. What is the institutional framework of the sector and the role of each participant?
7. What are the main problems and threats that limit the development of the sector?
8. What are the main strengths and challenges that you envision for this sector?
9. What do you propose to solve the problems?

Printed at United Nations, Geneva – 1502727 **(E)** – March 2015 – 549 – **UNCTAD/DITC/TNCD/2013/13**