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Foreign Direct Investment (FDI) Strategy



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Strategy for Promoting Direct Foreign Investment in Nicaragua

The government of Nicaragua is interested in attracting increased flows of foreign capital in the form of Direct Foreign Investments (FDI), with a view toward promoting economic growth, job creation, increased exports¹ and the successful mainstreaming of the Nicaraguan economy into the international arena, as well as stimulating the increased transfer of the technology and knowledge on which Nicaragua's economic development will depend in the coming years. In addition, increased flows of direct foreign investments would support government efforts to maintain equilibrium in Nicaragua's balance of payments and macroeconomic stability.

Toward this end, the Special Commission for Investment Promotion (*Comisión Especial para la Promoción de Inversiones/PRO-NICARAGUA*), the agency responsible for promoting FDI in Nicaragua, has developed a strategy aimed at attracting firms to make new investments in Nicaragua through the establishment of operations involving the production and export of goods and services, particularly in the areas of light manufacturing and tourism. Most recently, focus has been on the development of a strategy to take advantage of the opportunities being offered by the agroindustry and forest sectors, as well as the export of services based on the use of information and telecommunication technologies, particularly international call centers.

With support from the Business and Investment Climate Improvement Project and the Implementation of Economic Reforms in Nicaragua, the consultant visited Nicaragua from March 2-11, 2004. The primary purpose of the visit was to provide technical assistance to the Investment Promotion Commission (PRO-NICARAGUA) with a view toward:

- Reviewing statistical data and information related to the subject of the consultancy;
- Reviewing the progress recorded by PRO-NICARAGUA in developing and implementing its FDI promotion strategy;
- Reviewing the investment climate and identifying any obstacles that might hinder increased flows of Direct Foreign Investments to Nicaragua and/or the expansion of firms already doing business in Nicaragua;
- Identifying new opportunities for accelerating the flow of FDI to Nicaragua.

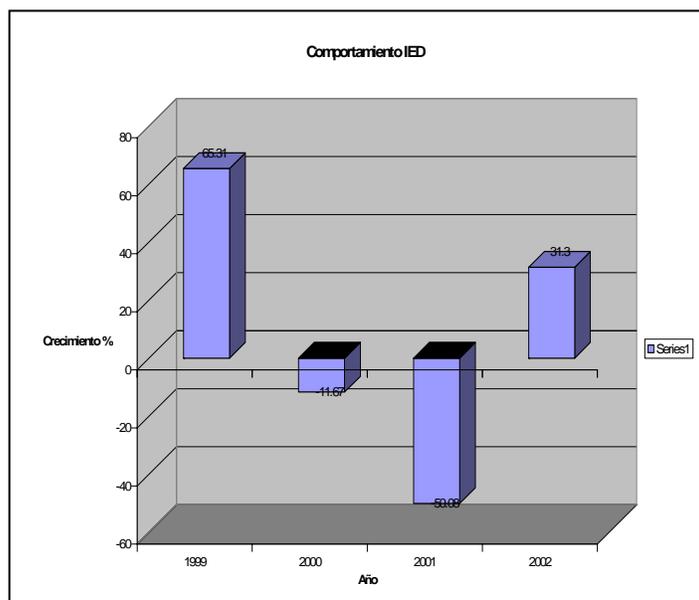
¹ According to the Central Bank of Nicaragua, the country's exports in 2002 totaled US\$606.9 million (FOB), representing a growth of 2.45 percent. This amount is lower than the US\$645.0 million recorded in 2000.

A. Recent FDI Trends in Nicaragua

As depicted in the following chart, flows of FDI to Nicaragua have exhibited unstable behavior in recent years. While 1999 witnessed a historic high of US\$300 million, representing an increase of 65.3 per cent over the preceding year, subsequent years (2000 and 2001) recorded decreasing amounts, with losses of -11.6 per cent and -50.4 per cent, respectively. In 2002, however, flows of FDI experienced an increase of 31.3 per cent. Unfortunately, figures for 2003 are not yet available.

Data on FDI trends in Nicaragua, 1998-2003

1998:	183,700,000	—
1999:	300,000,000	(% +65.31)
2000:	265,000,000	(% -11.67)
2001:	132,300,000	(% -50.08)
2002:	173,700,000	(% +31.3)



Within this scenario, the Nicaraguan government is expending considerable effort to increase flows of FDI and diversify the structure of both investments and exports, primarily through the efforts of PRO-NICARAGUA.

The Nicaraguan textile industry provided a stellar performance ...

With the exception of the investments generated by state enterprise privatization programs launched in the late 1990s, Nicaragua's greatest successes in attracting FDI lie in the textile products manufacturing sector, an industry in which the number of jobs has increased substantially (from 45,000 to 52,000 over the 2002-2003 period)² while exports have also increased, primarily to the U.S. market. In point of fact, exports of apparel manufactured in Nicaragua to the North American market, as measured by volume (M2), increased by 24.74 per cent in 2003 vis-à-vis the preceding year, and by 11.73 per cent when measured in terms of the

² Most apparel export firms operate within the framework of the Free Trade Zone system.

dollar value of exports.³ These growth rates significantly exceed the total growth rates for the market, while also surpassing the growth exhibited by other countries of Central America and the Caribbean.

Competitive Analysis – Textile and Apparel Manufacturing Industry					
Description			G.R. %	Participation	
Total MFA m2	2002	2003	2003-2002	2002	2003
Total WORLD	38288.15	42225.31	10.28		
China	4963.116	8286.71	66.97	12.96	19.62
CBI	3829.797	3920.291	2.36	10.00	9.28
D.R.	743.276	758.316	2.02	1.94	1.80
Honduras	1098.828	1164.55	5.98	2.87	2.76
El Salvador	816.789	894.774	9.55	2.13	2.12
Nicaragua	120.441	150.239	24.74	0.31	0.36

Source: United States Textile Office (OTEXA)

Also, as can be seen in the following table, Nicaragua's participation in that market went from 0.31 of the total in 2002 to 0.36 per cent in 2003, reflecting a gain in competitiveness. Although the numbers still represent a miniscule share of the global market, there can be no doubt that Nicaragua is exhibiting a gradual tendency toward becoming a successful regional center for apparel manufacturing, surpassing the performance of all other countries in the region.

Competitive Analysis – Textile and Apparel Manufacturing Industry					
Description			G.R. %	Participation	
Total MFA \$	2002	2003	2003-2002	2002	2003
Total WORLD	72183.131	77435.072	7.28		
China	8744.041	11608.724	32.76	12.11	14.99
CBI	9538.174	9676.301	1.45	13.21	12.50
D.R.	2173.324	2128.408	(2.07)	3.01	2.75
Honduras	2443.551	2507.341	2.61	3.39	3.24
El Salvador	1709.437	1758.028	2.84	2.37	2.27
Nicaragua	433.071	483.85	11.73	0.60	0.62

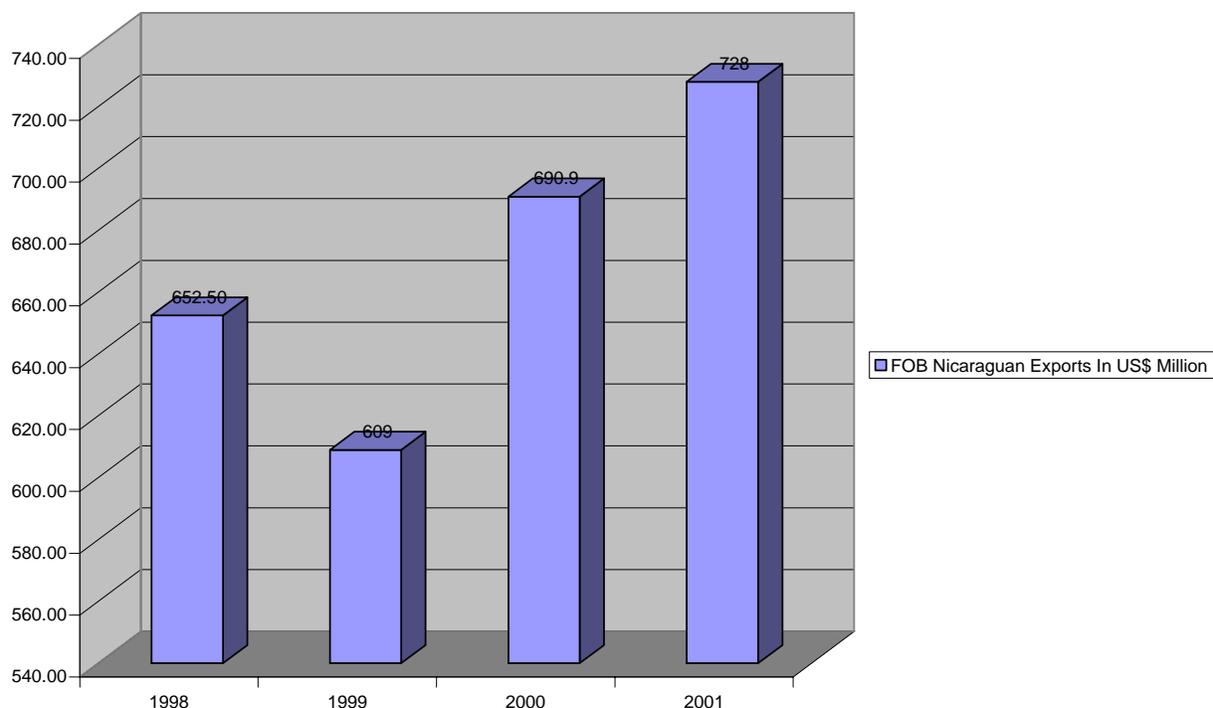
Source: United States Textile Office (OTEXA)

³ This difference between the rate of growth of the total value of exports and the total volume exported reveals a bias toward production activities having a lower value added.

...but the performance of other product lines failed to follow suit.

Although Nicaragua's total exports have been on the rise as a result of the positive impact of exports of apparel, the same cannot be said about other important product lines, such as agricultural products, processed foods, furniture and others. As with the apparel sector, no significant foreign investments have flowed into these sectors. This is indicative of the decisiveness of FDI in determining variations in Nicaragua's export structure.

FOB Nicaraguan Exports in US\$ Million



Nicaraguan Export (FOB) in US\$ Million				
	1998	1999	2000	2001
TOTAL	652.50	609	690.9	728
Agricultural Products	261.10	288.2	254.5	265.1
Industry and Manufacturing	342.60	307.2	429.7	454.8
Mining	7.9	3.4	1.5	2.2
Other Products	40.9	10.2	5.2	5.9

Total Nicaraguan Exports (FOB) in US\$ Million	
Year	TOTAL GENERAL
1998	652.50
1999	609
2000	690.9
2001	728

Ministerio de Fomento Industria y Comercio (MIFIC)

B. PRO-NICARAGUA's Promotional Efforts

The Promotion Strategy

To date, PRO-NICARAGUA's strategic approach has focused on the following pillars:

- a) Generating interest in investors and the corporate executives responsible for making investment decisions for locating operations abroad, so that the option of establishing operations in Nicaragua will be considered in a positive light;
- b) Providing facilitation services and personalized attention to prospective investors visiting the country.

To a lesser extent, PRO-NICARAGUA has also concerned itself with:

- c) Improving Nicaragua's investment and business climate; and
- d) Improving the country's image, i.e., foreign investor perception with regard to Nicaragua's business climate.

Institutional Assessment

During the March 2-11 visit, the consultant was able to verify the progress recorded by PRO-NICARAGUA in designing and implementing its strategy to attract foreign investments to a variety of sectors. In the short period since its creation, the management of this agency has made significant strides in creating an efficient and highly motivated work team, which has conducted a number of proactive campaigns, including the coordination of investment promotion activities during presidential tours and the organization of road shows with prospective foreign investors in countries such as the United States, Mexico, El Salvador, Guatemala, the Dominican Republic and Costa Rica.

In addition, PRO-NICARAGUA has developed a number of key promotional tools and materials, including a Web page, implemented a system for contact management and follow-up (using Act! software), and installed a system of basic information and frequently asked questions for investors, while also developing and reproducing promotional materials. Additionally, with UN support the agency is developing a project to establish an interinstitutional investment support network (Government-Investor Network, or GIN).

PRO-NICARAGUA has also recorded significant achievements in terms of facilitating new investments in Nicaragua, including personalized attention provided to more than 40 prospective investors who visited the country in 2003.

Generally, it is extremely difficult to quantify the specific contribution made by an agency charged with promoting FDI in any country, in view of the many different factors and actors that come into play. Often, the effectiveness of the promotional agency is hampered by an unattractive investment climate or by the mistaken perception of investors regarding the conditions actually prevailing in the country. It is clear that in both cases the role of the agency responsible for promoting FDI should include efforts to resolve such issues, and above all the

agency should have the capacity to make available appropriate information effectively and efficiently to prospective investors.

In this regard, we feel that PRO-NICARAGUA exhibits a high level of logistical efficiency in the attention provided to prospective investors, by maintaining an effective system for distributing information to investors, by electronic means as well as by regular mail, and also by operating an effective system of follow-up on each prospective investor. This latter system includes the use of specialized software that allows the agency to identify the various phases and levels of interest that firms typically go through during the investment decision process.

This is a fundamental issue, often overlooked by other promotional agencies, as it is necessary to recognize the current status of each prospective investor, so that appropriate promotional and follow-up efforts can be made.

As a rule, the first stage in the decision-making process requires increased emphasis on developing a positive image of a country's overall investment and business climate, highlighting items such as the country's macroeconomic, social and political stability, and the provision of data and information deemed to be key for decision-making, including, where possible, comparative data showing the advantages offered by the country over other location options. Subsequently, in a second stage in which the investor reaffirms its interest in carrying out a specific project, PRO-NICARAGUA, as the institution with the mandate for conducting promotional activities, should focus on activities that will facilitate and accelerate the decision to establish operations in Nicaragua.

So far, PRO-NICARAGUA's efforts have focused on certain aspects of FDI promotion which, though limited, are essential for attracting new projects, including the following:

- Selecting and recruiting support personnel for the various operating areas, including sectoral specialists and logistical-administrative support;
- Gathering competitive data and information, with regard to Nicaragua as well as to other competing countries in the region;
- Compiling data on markets and industries with the potential to establish operations in Nicaragua;
- Providing information to investors who have either shown an interest or have been contacted by one or more of several different ways by PRO-NICARAGUA;
- Developing FDI promotion strategies that are viable for Nicaragua, including appropriate technical assistance.

Likewise, PRO-NICARAGUA has made a number of timely efforts aimed to improve the investment climate, but these have been primarily the result of external stimuli vis-à-vis specific problems and not necessarily as elements of a concerted and systematic effort aimed at monitoring and improving the business climate.

C. Recommendations

The primary operations of a promotion agency are summarized in the following four:

1. Image-building activities
2. Investor facilitation services
3. Lead generation activities
4. Climate improvement and policy advocacy

PRO-NICARAGUA conducts activities within the four basic areas above. There is, however, an evident need for PRO-NICARAGUA to carry out additional efforts with a view toward, on the one hand, significantly increasing the number of prospective investors entering the pipeline so as to ensure a constant flow of interested firms visiting the country and, on the other hand, strengthening efforts to improve Nicaragua's image, resulting from the negative perception prevailing abroad with respect to the country's investment climate and quality of life.⁴

As regards facilitation services or personalized attention provided to investors, the consultant understands that it might be desirable to extend such services so as to cover or satisfy certain needs of firms that have already established operations in Nicaragua, i.e., the so-called "after-care" services, which will also be useful as a means for gathering useful information on the expansion plans of such firms and references with regard to other potential investors in Nicaragua.

There is also a need to make changes in certain policies and practices that prevent the materialization of increased flows of FDI.

From reactive facilitation...to proactive promotion

To date, PRO-NICARAGUA has made great efforts to prepare staff to carry out promotion activities. Particularly in this initial stage, the agency has been operating in what we might term a "reactive" mode, combining the latter with a number of proactive direct marketing initiatives.

PRO-NICARAGUA's staff appear to be highly competent and motivated to carry out their assigned functions, but in order to increase their effectiveness, we feel that this staff should be expanded as soon as possible in order to satisfy new requirements regarding not only promotion, international marketing and facilitation activities, but also improvement of policies and practices related to the investment climate.

Owing to the relatively incipient nature of the agency, this staff has focused on responding to the concerns and expressions of interest generated by those prospective investors who actually visit the country. On some occasions, the staff has found itself under pressure as a result of the

⁴ Other studies have addressed this issue, reaching the conclusion that Nicaragua is often affected by a negative external perception with regard to certain areas, the majority of which do not mesh with reality, such as the following:

- High hidden costs
- Scant availability of qualified technical personnel
- High levels of bureaucracy and corruption
- Labor problems and a high rate of unionization
- Weaknesses in the justice system and the existence of laws (tax, labor) unfavorable to business
- Poor or nonexistent transportation infrastructure
- Violence and a lack of security

considerable number of simultaneous visits with which it has had to contend over a short period of time. By the same token, the pace of work diminishes when the number of visitors decreases. To a large extent, this ebb and flow is the result of the eminently reactive nature of the mode in which PRO-NICARAGUA is currently operating.

In order to achieve greater impact and success in landing investment projects, PRO-NICARAGUA urgently needs to significantly increase the number of firms and projects that can be considered to be “hot prospects,”⁵ as this will increase proportionately the likelihood of securing investment projects and, consequently, the likelihood of success for PRO-NICARAGUA.

It is still possible that proactive promotional activities, such as the implementation of direct promotion campaigns by means of telemarketing campaigns, road shows or promotional trips abroad, as with last year’s successful trip to Mexico, might be constrained as a result of expectations surrounding the requirements for attention at the internal level of PRO-NICARAGUA.

In other words, it is likely that the inability to deal adequately with an increased influx of visits from interested corporate executives has acted as a constraining factor on PRO-NICARAGUA’s proactive promotional activities, as a result of which an increase in support staff for promotional activities can be justified. One possibility would be to hire two (2) junior-level staff to be primarily responsible for making initial contacts with prospective investors and subsequently combining their efforts with those of more experienced personnel for purposes of follow-up and closure.

It is worth emphasizing the importance of implementing a two-pronged international marketing and promotional strategy: emphasizing proactive programs for establishing direct contact with *target firms*, while at the same time reinforcing the *country image*. There can be no doubt that the image of violence that prevailed with regard to Nicaragua during most of the 1980s continues to impact negatively on the decision-making process of many investors, particularly as a result of the lack of accurate information on Nicaragua’s current reality and its many positive attributes.

This strategy has been successfully used by other countries affected by a negative image abroad (even though that image was not necessarily consistent with reality), as was the case with the Irish Development Authority (IDA), which continued for a long time to put forth strenuous efforts to improve investors’ perception of Ireland,⁶ even after having begun the transition toward activities for promoting project generation.

The principal purpose of the image-building campaigns is to convince the international investor community with regard to the positive aspects of the country that make it attractive as a location for establishing operations. An additional objective is to generate interest in a wide range of investors who might be interested in exploring the possibilities of investing in Nicaragua. It is

⁵ The term “hot prospects” refers to contacts that are in the final stages of the decision-making process.

⁶ As a result of problems with violence in Northern Ireland, a negative image was associated with Ireland *per se*, as a result of which it became necessary to stress this point. Another interesting case, and one that can provide relevant lessons for Nicaragua, is that of El Salvador, a country that was also plagued by a period of violence and internal conflict.

important to stress the importance that the concepts, data and information distributed be as close as possible to reality, so that the promotional agency will gain credibility and establish a sound reputation for the objectivity with which it handles such information.

In particular, we recommend the use and dissemination of testimony from officers and executives of internationally known firms already doing business in Nicaragua.⁷ In this regard, the launching of an international campaign based on authentic testimony that could be presented by means of pamphlets, mass media advertising and direct messages could turn out to be of considerable benefit in enhancing the country's image.

For the direct marketing campaign, it would be desirable for PRO-NICARAGUA to carry out a number of activities aimed at gathering names of firms not currently installed, or that have shown no interest in establishing operations in Nicaragua, but that satisfy one or more of the following criteria:

- a) Firms already identified as favorable investors for Nicaragua, since they are involved in some of the sectors classified as highest priority in PRO-NICARAGUA's Strategic Plan (i.e., target industries)
- b) Firms whose competitors are already operating in Nicaragua or whose operations are similar to those being conducted by other firms already established in the country
- c) Firms with a substantial potential for investing in Nicaragua because their productive processes have requirements where Nicaragua enjoys comparative/competitive advantages, such as, for example, the intensive use of labor or natural resources abundantly available in Nicaragua (e.g., arable land, timber)

Such activities could include some or all of the following:

1. Use of the databases previously obtained by PRO-NICARAGUA from a number of different sources, including several sector studies. These databases should be continuously revised and updated by the PRO-NICARAGUA staff while the agency seeks to expand its number of leads by means of an ongoing market research effort, using for this purpose a variety of sources, including the Internet, newspapers and magazines, participants in trade fairs and exhibitions, etc.
2. Generation of personal contacts (leads) based on third-party referrals and market research efforts (e.g., market intelligence services such as Hoovers).
3. Implementation of a special attention and "after-care" contact campaign for the purpose of visiting investors already established in Nicaragua, with the primary objectives of establishing an institutional relationship, learning about the firm's possible expansion and/or contraction plans, obtaining information on the principal issues of concern to the firm, and gathering data on references regarding other prospective investors.
4. Launching of a number of direct marketing campaigns, including the mailing of communications to contacts or leads, making direct calls to individuals identified as key

⁷ Actually, PRO-NICARAGUA has already been using this mechanism to an extent, in that it includes exchanges with executives of firms operating in Nicaragua on the agenda that it prepares for the purpose of introducing the country to visiting prospective investors.

in the decision-making process (CEOs, VPs, managers, etc.) and making visits to firms. This phase should also consider the possibility of participating in trade fairs or exhibitions, but these should be preceded by an intensive effort focusing on research and preparation of appointments prior to the event, in order to facilitate the materialization of more concrete results. PRO-NICARAGUA has already had a number of positive experiences in this latter aspect of promotion, with apparently favorable results.

As regards the function of improving investment climate or policy advocacy, PRO-NICARAGUA should assume a more proactive role in improving the laws, policies and practices that define Nicaragua's legal and institutional framework. Here, however, it will be important to define the actual role to be played by PRO-NICARAGUA since, although there is an obvious need to put into effect a systematic strategy focusing on the enhancement and reform of the country's investment climate, there are certain practices that might turn out to be counterproductive and affect PRO-NICARAGUA's satisfactory performance, among which are the following:

- A tendency to attempt to cover too many areas at once without any support from an adequate institutional support structure;
- Getting bogged down in cases that are extremely difficult to resolve, i.e., "unwinnable battles" involving the expenditure of large amounts of time and resources to obtain only minimal marginal advantages;
- A tendency toward the individualization of very specific problem cases for which the solutions cannot be transferred to other investors.

In addition, by assuming the role of protector and defender of investors' rights, PRO-NICARAGUA might inadvertently become a sort of "investor's advocate"; however, it might also it may also run the risk of shedding the functions proper to a promotional agency and end up carrying out activities that might better be performed by private attorneys or a private-sector trade association.

Accordingly, we suggest that PRO-NICARAGUA conduct its policy advocacy functions either by leading or attempting to find leaders in other agencies that might carry out the transformations required for freeing the investment climate of constraints limiting the flow of FDI, particularly in those areas that have already been clearly identified by a number of sources and that constitute a significant problem for an entire sector or various sectors of the economy from the standpoint of attracting increased flows of investments.

In this regard, we were able to confirm the existence of several cases requiring the immediate attention and active involvement of PRO-NICARAGUA, MIFIC and other sector-specific institutions, including the following:

Tourism⁸

⁸ According to data made available to the consultant, Nicaragua currently has some 4,500-6,000 rooms in hotels ranked from two-star to five-star, and attracts approximately 500,000 tourists per year. However, this figure appears to be inflated as the result of transportation and trade travelers entering the country by land. The most appropriate figure for tourists is around 100,000.

This sector represents a significant potential for Nicaragua, both as an important generator of foreign exchange and jobs as well as a recipient of investments in the form of hotels, restaurants, infrastructure and related services to support the development of the tourism industry. As a rule, this industry creates strong links to other sectors such as, for example, the construction industry and the food and beverage supply industry, which has positive implications for economic growth.

Despite the statements of the government with regard to the national priority given to the sector, however, there is a need to send clearer signals with regard to the government's real interest in developing this sector, as well as to address a series of issues that currently constitute important constraints that limit its development.

For purely illustrative purposes and with no pretensions to being exhaustive, we feel that it is necessary:

- To define the sector's development strategy, including a profile for the type of tourism most appropriate for the country and, consequently, of the type of investments to be promoted. This task falls primarily to the Instituto de Turismo (INTUR), with participative support from PRO-NICARAGUA and the organized private sector. The division of labor between INTUR and PRO-NICARAGUA, in which the former will be responsible for all matters involving efforts to attract increased inflows of tourists while the latter will be responsible for promoting Nicaragua as an ideal location among hotel chains and investors in the tourism industry, should be formalized in order to ensure its continuity. In addition, this division of promotional activities should be characterized by a very close and ongoing relationship of interinstitutional collaboration, in order to avoid the implementation of two separate and/or mutually conflicting strategies.⁹ PRO-NICARAGUA, however, should wait until INTUR has defined its development strategy before proceeding to invest large amounts of resources in this sector, and focus its greatest efforts on collaborating with INTUR in developing a strategy and a profile that are ideal for Nicaragua.
- The preparation of a Master Plan for developing tourism, including classification of the various zones or regions and definition of the infrastructure priorities that should accompany the development of each area, should be a part of the strategy.
- It is recommended that marketing efforts be concentrated in specific geographic regions exhibiting the greatest development potential while at the same time implementing a marketing mix that is proportionately oriented to attracting the type of tourists and the type of investments in specific markets. It would be a mistake to attempt to cover a wide variety of segments and/or geographic areas with the meager resources available.
- Review the Tourism Law with a view toward including new legal incentives for those segments of the international market classified as priority, such as pensioners and retiree tourists. In addition, this review of the law should include any modifications necessary to improve immigrations and customs treatment for tourists entering Nicaragua by land.

⁹ Such a situation might occur, for example, if one institution decided to promote mass tourism by means of chartered flights targeting a medium-low income market segment while the other promoted the installation of boutique-type hotels aimed at a high-income tourist profile. Many other types of inconsistencies are possible and could seriously affect efforts to develop and promote the sector.

- Define the funding programs, including the so-called Tourist Investment Bonds (*Bonos de Inversión Turística*, or BITs), to be used to provide support to investors.
- Work to strengthen the cohesiveness of the private sector and avoid the fragmentation of promotional efforts focusing on a wide variety of interests.
- To the extent possible, INTUR should review the allotment of resources with a view toward concentrating larger amounts on promoting Nicaragua at the international level as a tourist destination in markets classified as priority. It is likely that a review of payroll expenses will lead to a more effective use of available resources.
- In the coming years, it will be essential to ensure the continuity of both plans and personnel, in order to avoid a deterioration in levels of staff motivation.

In order to finalize decision-making with regard to the strategy for developing tourism in Nicaragua, we also recommend that a joint INTUR/PRO-NICARAGUA team conduct an exposure tour to the Dominican Republic and Costa Rica to review the principal positive and negative lessons of both models, including contacts with the individuals primarily responsible for their development, such as past and current government officials charged with promoting tourism and investments, hotel executives and private-sector trade representatives, specialists in environmental issues, and others.

Free Trade Zones

As seen previously, the FTZ sector has experienced significant development in recent years, generating to date more than 50,000 direct jobs and about as many indirect jobs. In addition, exports by free trade zone firms are on the rise, thus contributing to the country's economic growth. Nicaragua has a significant potential to continue to contribute to the development of this sector in the immediate future.

However, certain legal-administrative issues, as well as other issues related to the sector's *modus operandi*, are beginning to surface as possible sources of problems and/or as constraints to the future growth of the sector, among which the following stand out:

- Institutional issues: It would be wise to study the possibility of more clearly defining the roles, and separating the functions, of the National Free Trade Zone Commission (*Comisión Nacional de Zonas Francas*) as regulatory agency, and those of the Free Trade Zone Corporation (*Corporación de Zonas Francas*) as the state enterprise charged with developing and operating the various government-sponsored industrial parks. This issue refers more to practice over a period of years than to the actual legal mandates involved.
- Review of the Free Trade Zone Law in order to introduce whatever changes may be necessary to update and enhance the law, such as including a Subdirector General of Customs to deal exclusively with free trade zone issues, and streamlining the process by means of which free trade zone status is granted for new types of activities related to the export of services based on emerging technologies and the agroindustrial sector.
- The review of the Free Trade Zone law should also be viewed as an opportunity to define issues regarding local sales, together with the makeup of the Council of the National Commission (*Consejo de la Comisión Nacional*), particularly to ensure the involvement

of institutions that are key for development of the sector, as is the case with the Directorate of Customs.

- Nicaragua could also take advantage of this process of reviewing its Free Trade Zone law to study the desirability of including a number of additional incentives aimed at making the country more attractive to technology firms. For example, the island of Mauritius, which is promoting a transition toward activities having a higher value added, has included the following benefits:
 - Exemption of up to 50 per cent of personal income tax for a given number of IT specialists per firm
 - Total duty free importation of personal effects, excluding vehicles
 - Fast-track processing and approval of immigration visas and residency and work permits for foreign personnel
 - Electricity rates charged at industrial instead of commercial rates
 - Duty-free importation of two (2) vehicles (based on value and job creation)

Exportation of Telecommunications-based Services

The globalization process, including its impact on education and on the development of information and telecommunications technologies, opens new windows of opportunity for developing countries. Nicaragua has an opportunity to take advantage of these emerging trends in the world economy,¹⁰ and create new jobs with a higher value added, particularly with regard to promoting the development and attraction of firms involved in service exports, such as call/contact centers and business process outsourcing firms,¹¹ to offer customer care services, collection services, consultation management and international telemarketing, data entry services, administrative services, back office services (accounting and finance), and many others. Eventually, these services could be expanded to include more sophisticated tasks involving software development and other IT-based service operations. As a rule, call center and BPO operations tend to be labor-intensive, with labor costs accounting for approximately two-thirds of the total operating cost structure.

In Nicaragua, with the exception of a small number of strictly local operations and a few relatively small incipient operations,¹² this industry is currently in its initial stages and is virtually nonexistent as an export sector. Nicaragua should compete with other, more advanced countries in the region, such as Mexico, Costa Rica, Panama, El Salvador, Jamaica and the Dominican Republic, where a number of firms are already in operation, creating thousands of jobs. It should be recognized, however, that almost all these countries face serious constraints with regard to the availability of a bilingual work force to support future growth, and in addition have higher labor costs than Nicaragua.

¹⁰ For example, one recent study by Deloitte, for which 100 of the world's largest banks were surveyed, revealed that these banks plan to contract or outsource offshore services valued at US\$356 billion in the coming years, in an effort to reduce their operating costs by 15 percent. Elsewhere, the Forrester company estimated that some 3.3 million jobs will be "exported" from the U.S. over the coming 10 years, primarily to India and the Philippines, as well as to other countries, including nearshore options under the outsourcing mode.

¹¹ The reference here is to Business Process Outsourcing, or BPO.

¹² It is important to point out, however, that a number of local businesspeople, as well as Nicaraguans residing abroad, are already beginning to take note of the opportunities offered by this sector.

Nicaragua currently offers certain advantages in this area, including low labor costs, low personnel turnover and high rates of worker loyalty,¹³ as well as the opportunity to apply for access to free trade zone incentives,¹⁴ among others. PRO-NICARAGUA should renew its efforts to transmit this message to the international market with a view toward persuading firms as to the country's assets and attractions.

However, Nicaragua faces a number of significant challenges to its being able to take maximum advantage of these global trends, particularly as regards labor force training,¹⁵ and a number of issues related to telecommunications, with these two areas representing the primary requirements of firms interested in establishing operating based in other countries.

In this regard, we suggest the implementation of a strategy for accelerating the development of this industry in Nicaragua, based on the following action premises:

- Perform an “English Capability Assessment” to better evaluate the actual capability level of Nicaraguans who represent the potential workers in this new high-valued added industry.
- Establish an intensive program to teach English as a second language, together with immersion courses in public and private schools, universities¹⁶ and language institutes, that would make it possible to train a critical mass of individuals, both students and instructors, who would be required to acquire and master the essential skills for working in the above-mentioned service export activities.¹⁷ At the same time, it would be desirable to implement a training program for executives, managers and supervisors, in order to prepare the future corporate directors that will spur the creation, implementation and growth of firms that will use these human resources intensively.
- Review the infrastructural, legal and institutional issues that continue to limit connectivity, the use of telephony services and access to emerging technologies, as well as the issues that impact negatively on the costs and competitiveness of the telecommunications sector. The government of Nicaragua, primarily through the actions of Telcor, in its role as regulatory agency, and ENITEL, as a utility with monopoly rights until 2005, should explore the best alternatives for reducing costs to levels similar to those prevailing in the rest of the Central American region and accelerate the connection of the fiber optic infrastructure networks (that connect Managua and other important population centers) to the regional ARCOS network and the NAP network in Florida.

¹³ Based on testimony provided by Nicaragua's established private sector.

¹⁴ The granting of ZOFA (Free Trade Zone) status could be applied to the call centers with a view toward solving the problem of deficient infrastructure and the availability of buildings designed for this type of firm.

¹⁵ With the exception of Bluefields, it is estimated that the availability of fully bilingual human resources is quite limited. PRO-NICARAGUA has begun to develop a census to determine the approximate number of personnel fluent in [English], as well as the identification of institutions involved in English-language training.

¹⁶ The possibilities for strengthening English-language fluency at the university level could include, for example, making requirements more rigorous and making English language fluency (TOEFL exam) mandatory for graduation from universities, subsidizing professors in universities that subscribe to the program, and making certain incentives subject to the achievement of program-related goals.

¹⁷ The details of the program for English-language teaching should be designed by a panel of experts in this area, as it does not fall within the scope of this study.