

CHEMONICS INTERNATIONAL INC.



NICARAGUA BRIEFING PAPER 3

PROPOSAL TO EXPAND AND TRANSFORM THE CPC INTO A BUSINESS SUPPORT COMMITTEE CONCEPTUAL FRAMEWORK

IMPROVING THE BUSINESS AND INVESTMENT CLIMATE
AND IMPLEMENTING ECONOMIC REFORMS IN NICARAGUA UNDER THE
GENERAL BUSINESS TRADE AND INVESTMENT
INDEFINITE QUANTITY CONTRACT (GBTI IQC) No. PCE-I-00-98-00015-00, TO 16

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PROPOSAL TO EXPAND AND TRANSFORM THE CPC INTO A BUSINESS SUPPORT COMMITTEE

A. Introduction

The successful implementation of the National Development Plan (*Plan Nacional de Desarrollo*, or PND) will involve a significant change in mentality in Nicaragua's public and private sectors in terms of promoting competitiveness and improving the social and economic policies, which can, in turn, enable us to achieve accelerated economic growth in conjunction with social inclusion, creation of wealth and a real reduction in poverty. To achieve the goals and results outlined in the PND, it will be necessary to expand the process of private sector participation in such a way as to permit the identification, and prompt elimination, of concrete constraints to business development and the ability to attract investments, in conjunction with the provision of support and follow-up to the various programs, activities and policies promoted by the PND in all areas of the country.

Toward this end, a proposal is hereby submitted to expand the Presidential Commission on Competitiveness (*Comisión Presidencial de Competitividad*, or CPC) by effectively transforming it into a "Business Support Committee for PND Implementation" with broad private sector representation. The expansion of the CPC into this Business Support Committee would support the objectives of the tripartite program operated by the Sectoral Committee on Competitiveness (*Mesa Sectorial de Competitividad*) and made up of the Government (through its Cabinet on Competitiveness and Productivity), the donor community and the Nicaraguan private sector.

B. Improving the Business and Investment Climate

Several studies have identified a series of constraints currently in place in Nicaragua that limit the development of business and trade and the ability to attract investments. A recent World Bank study that presents the conclusions reached in a number of prior studies identifies problems in a broad range of areas, including the following:

- Cumbersome and obsolete procedures used to register new businesses
- Complex and nontransparent customs procedures
- Complex and poorly understood export sanitation laws
- Policies that hamper market access and competition
- Obsolete technical policies
- Serious problems involving the cadastre and property registry
- Lack of alternative contract dispute arbitration and resolution mechanisms
- Lack of work force training
- Lack of appropriate mechanisms for technology transfer and dissemination
- Lack of capabilities to establish and certify quality standards
- Barriers to equitable access to factors that limit small enterprise productivity and competitiveness.

Unfortunately, these studies fail to suggest a practical process for eliminating, over the short and medium terms, the constraints thus identified. The PND alludes, in varying degrees, to a number of these constraints and identifies the need to address them promptly in order to strengthen competitiveness in all areas of the country. Establishment of the Business Support Committee for PND Implementation will be key to enabling the Nicaraguan private sector, working jointly with the Government, to establish a series of practical means for prioritizing and eliminating the constraints to competitiveness.

The PND provides a conceptual framework on which to base the creation of a competitive market-oriented economy in Nicaragua. The Plan identifies the need to simultaneously focus on a process of interrelated competitiveness, which in turn should focus on a specific geographic region, the business sector in that region and the extent of the development of human capital. While competitiveness can be viewed in terms of the extent of participation in international markets, the PND suggests that there exist a series of factors that affect competitiveness at the national level. These include the factors of economic efficiency and productivity within individual businesses (e.g., business plan development, research and development, production processes and technology transfer, management, and financing, among others), which in turn are closely linked to factors intrinsic to the geographic regions in which individual businesses operate.

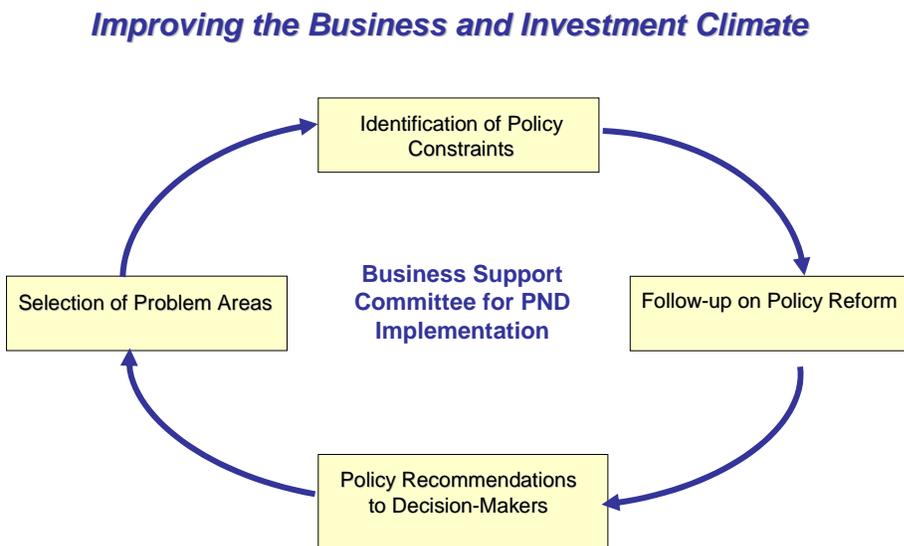
Regional factors affect the transaction costs faced by business and include physical infrastructure (roads, telecommunications, storage, ports, airports, the cold chain, and others) and the macro and micro policy frameworks, including policies relating to taxes, competition, monetary concerns, administrative processes and others. In addition, the PND affirms that competitiveness is affected by the degree of human capital development in each geographic region. In this regard, regions characterized by a higher degree of productivity and lower degree of marginality, and that in addition are located closest to the principal infrastructure systems and have access to the greatest degree of highly developed human capital, provide the most favorable conditions for business development and the creation of productive employment. In this regard, the establishment of a process of integral but practical integration is required to ensure that the benefits to be derived from PND implementation will not be limited exclusively to regions enjoying such natural and institutional advantages. To do this, it will be necessary to establish an appropriate framework of business incentives to promote the development of competitive enterprises and new economic opportunities in all regions of the country, including those affected by disadvantages stemming from their geographic isolation and lack of market linkages and those with the highest concentration of activities characterized by low levels of productivity and value added.

In coordination with the Cabinet on Competitiveness and Production, the current Presidential Commission on Competitiveness (CPC), or the Business Support Committee for PND Implementation hereby proposed will suggest a number of types of incentives and support measures necessary to improve competitiveness throughout Nicaragua, building on the valuable contributions made by the country's various productive clusters. Given the integral approach to competitiveness, these discussions will focus on weaknesses existing within businesses, including small and medium-sized agricultural enterprises. The objectives of these discussions

will be to aid the Government in identifying opportunities to properly focus its support to the promotion, development and strengthening of competitive enterprises and offer practical suggestions for establishing a means of technical follow-up on the process of economic reform and the packages of economic incentives accompanying that process. Such a process would in turn strengthen the Government's position at such time as these priorities are communicated to the donor community within the framework of the Sectoral Committee on Competitiveness.

C. The Process of Formulating, Adopting and Implementing Reforms

One of the priority tasks of the Business Support Committee for PND Implementation will be to support the establishment of an appropriate business and investment climate in Nicaragua. As previously mentioned, Nicaragua has made a number of efforts, through ProCompe and ProNicaragua, to identify the most critical policy and regulatory constraints affecting business development and the ability to attract investments to Nicaragua. These efforts, however, have been limited by the absence of appropriate follow-up to ensure the implementation of the reforms required to promote competitiveness. Taking into account these efforts, and working in coordination with the various organizations involved, the Business Support Committee will establish an iterative process to bring about the desired changes to the policy framework, which will include the following steps:



C1. Identification/Assessment of Policy Constraints

1. Building on currently existing information regarding the primary policy and regulatory constraints currently limiting competitiveness in Nicaragua, the Business Support Committee will establish an order of priority for the various types of constraints to business development and the ability to attract investments. This order of priorities will be determined in part by the complexity involved in bringing about significant short-term improvements in a given area.

2. For each problem area, the Business Support Committee will identify between three and five concrete constraints that need to be eliminated in order to improve the business and investment climate, clearly distinguishing between those that can be addressed by presidential decree and those requiring legislative action.

C2. Formulation of Policy Change Recommendations for Each Constraint

3. For each constraint identified, the Business Support Committee will propose one or more solutions for submission to decision-makers.
4. If the solutions suggested are clearly defined and the group has available the necessary know-how to identify the requisite regulatory modifications or policy requirements, a task force will be established to draft the proposed recommendations, which will be reviewed by the group and subsequently submitted to the appropriate authorities.
5. If the Committee successfully identifies the problems but lacks the technical knowledge to propose appropriate solutions, it will proceed to identify sources of technical assistance in that specific area and submit the corresponding request through the SECEP. Such technical assistance will be limited to the specific area and problem identified, thus avoiding the implementation of further studies of a general nature.

C3. Follow-up on the Implementation of Policy Reforms

6. Depending on the complexity of the policy recommendations necessary to address the constraint identified, the Business Support Committee will appoint some of its members to follow up on the process of implementing the changes suggested.
7. The Committee will continue to add to its agenda new problem areas to be assessed, as new constraints are identified and the process of adoption and implementation of reforms continues to be implemented in the country.
8. As the Business Support Committee successfully advances toward the identification and elimination of constraints to business development, investment attraction and job creation in Nicaragua, it will be increasingly prepared to tackle more complex issues requiring action by the legislative and other branches of the government.

D. Members of the Business Support Committee for PND Implementation

The Business Support Committee will provide follow-up assistance to the process of prioritizing and implementing the economic reforms required to strengthen competitiveness and employment in Nicaragua. It will act as the private sector counterpart to the Cabinet on Competitiveness and Production in establishing country positions, in conjunction with the Sectoral Committee on Competitiveness, to support Government-approved public policies aimed at identifying the constraints that need to be eliminated while at the same time providing legitimacy to the overall reform process. The group will focus on the factors that prevent small and medium-sized enterprises from participating actively in markets, as well as on the conditions necessary to spur competitiveness, attract investments, generate employment and increase the availability of economic opportunities for the poorest population segments, including tourism, the food industry, light manufacturing, natural resource-based products, and small enterprise development.

Business Support Committee for PND Implementation

The Business Support Committee will include:

- Members of the CPC
- 1 representative from COSEP
- 2 leading figures from the business clusters under ProCompe
- 2 leaders from Nicaraguan SMEs
- 2 foreign investors doing business in Nicaragua
- 1-2 leading law offices specializing in trade and investment
- 2 leading agroexporters

The Business Support Committee will come into existence as a result of the expansion of the CPC and will include key representatives from a broad range of private activities in Nicaragua. The Committee should be made up of a group of between 10 and 15 businesspeople from a variety of sectors, as identified in the accompanying box. These Committee members will include: (1) current members of the CPC; (2) a number of dynamic leaders from the entrepreneurial clusters currently being organized under the Competitiveness programs; and (3) representatives from COSEP, AMCHAM, law firms, SMEs, agroexporters, foreign investors and small producers.

E. Follow-up on PND Goals and Results in Individual Regions

The second task of the Business Support Committee for PND Implementation will be to ensure an efficient and timely process for implementing the various activities, programs, investments and support measures identified in the PND. In this regard, the agenda for each meeting of the Committee will include a brief presentation on the implementation of the PND's competitiveness component by MIFIC and SECEP. This presentation will focus on the programs of public investment in, and support to, the business sector currently being implemented, or to be implemented in the future, in the various regions of the country as part of the PND implementation process. At the conclusion of the presentation, Committee members will have an opportunity to participate in an open discussion of issues such as the following:

- Relevance of the activities and programs identified to the implementation of the PND and to the improvement of competitiveness and employment;
- Management and/or administrative constraints encountered to date;

- Intermediate results achieved to date;
- Changes that need to be made to the implementation process in order to ensure achievement of PND goals and objectives.

Members of the Business Support Committee could accompany Government representatives on visits to the various regions for on-site verification of the progress recorded in the various areas of intervention.

F. Economic Agreement with Productive Sectors

The organizational results of the tasks, plans, activities, programs, and support included in the competitiveness component could be grouped together in an Economic Reactivation and Employment Agreement to be executed by the various productive sectors, workers and the Government. The Business Support Committee would work jointly with the productive sectors and with the Government and other organizations involved with competitiveness to establish this national agreement, which would include, among other things, the following:

- a. Lists of programs designed to strengthen competitiveness to be implemented at the national level over the next three years;
- b. Estimated budget, by program and region, for public activities;
- c. Intermediate results for the next three years;
- d. Policy requirements and regulatory changes necessary to improve the business and investment climate in Nicaragua;
- e. Others.

The Economic Reactivation and Employment Agreement, which should be signed at the time the final version of the National Development Plan is submitted, will be followed by local development agreements between the Government, local authorities and businesses and groups of workers at the regional level. These latter agreements will include the following:

- a. List of public programs and activities for strengthening competitiveness in the individual regions;
- b. Estimated budget by program and towns within regions for the various public activities included in local programs;
- c. Productive sector commitments for investments in the various regions;
- d. Local authorities commitments to support the program to strengthen competitiveness at the regional level;
- e. Others.