NICARAGUA
INVESTMENT CLIMATE STATEMENT
2015

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Executive Summary

While the Nicaraguan government seeks to increase economic growth in part by increasing foreign investment, the country’s weak judicial system, land titling issues, and corruption create serious challenges for businesses operating in Nicaragua. To attract investors, Nicaragua offers investment incentives in many industries, including the forestry, mining, and tourism sectors. These include exemptions from import duties, property tax incentives, and in some cases, income tax relief. Another draw for investors is the Nicaraguan labor force, as unskilled labor is widely available and is relatively low-cost. Furthermore, Nicaragua has a comparatively young population, with 76% of the country under 39 years old.

However, potential investors should be aware of the political climate, as President Ortega has previously stated that his objective in Nicaragua is to implement a socialist form of government which he defines as a mixed economy guided by Christian and socialist ideals. To achieve this balance between state and private sector participation in the economy he has used funds provided by Venezuela through the Bolivarian Alliance for the Americas (ALBA) to increase the role of the state and quasi-state actors in the economy. This can put private companies trying to compete at a disadvantage. Public sector corruption, including bribery of public officials, remains a major challenge for U.S. firms operating in Nicaragua.

Additionally, U.S. investors have recently voiced concerns over their property rights in light of a proposed inter-oceanic canal. In 2013 the Nicaraguan government granted the Hong Kong Nicaragua Development Group (HKND) a 100-year concession to build the proposed canal with no competition and no opportunity for public comment. The Nicaraguan law that grants the canal concession states that property owners will be paid at "cadastral value," which U.S. investors fear will be below fair market value and in violation of the Nicaraguan government's obligations under the Free Trade Agreement between the United States, Central America, and the Dominican Republic (CAFTA-DR). U.S. Embassy Managua has reminded the Nicaraguan government of its obligations under CAFTA.

1. Openness To, and Restrictions Upon, Foreign Investment

Attitude toward Foreign Direct Investment

The Nicaraguan government seeks to attract foreign direct investment as one of its primary tools to generate economic growth and increase employment. Many of the investment incentives are designed to attract export-focused companies that require large amounts of unskilled or low-skilled labor.

Other Investment Policy Reviews

Nicaragua conducted a trade policy review through the WTO in 2013.

Laws/Regulations of Foreign Direct Investment

The Free Trade Agreement between the United States, Central America, and the Dominican Republic (CAFTA-DR) entered into force on April 1, 2006, for the United States and Nicaragua.

The CAFTA-DR Investment Chapter establishes a secure, predictable legal framework for U.S. investors in Central America and the Dominican Republic. The agreement provides six basic protections: (1) nondiscriminatory treatment relative to domestic investors and investors from third countries; (2) limits on performance requirements; (3) the free transfer of funds related to an investment; (4) protection from expropriation other than in conformity with customary international law; (5) a minimum standard of treatment in conformity with customary international law; and (6) the ability to hire key managerial personnel without regard to nationality. The full text of CAFTA-DR is available at http://www.ustr.gov/trade-agreements/free-trade-agreements/cafta-dr-dominican-republic-central-america-fta/final-text.

In addition to CAFTA-DR, Nicaragua's Foreign Investment Law defines the legal framework for foreign investment. The law allows for 100% foreign ownership in most industries (see Right to Private Ownership and Establishment for exceptions). It also establishes the principle of national treatment for investors, guarantees foreign exchange conversion and profit repatriation, clarifies foreigners' access to local financing, and reaffirms respect for private property.

PRONicaragua, the country's export promotion agency, along with the Nicaraguan American Chamber of Commerce and the Ministry of Trade publish a "Doing Business in Nicaragua" guide for investors available at http://www.pronicaragua.org/images/resource_library/Doing_Business_2014_2015.pdf.

Industrial Promotion

PRONicaragua actively promotes investments in the agroindustry, food processing, and information and communication sectors. PRONicaragua maintains an office in Washington D.C. and representatives travel frequently to trade fairs.

Limits on Foreign Control

Nicaragua requires foreign companies to have an in-country representative who is a legal resident of Nicaragua. Many companies satisfy this requirement by using their local legal counsel as a representative.

Privatization Program

Not applicable.

Screening of FDI

Not applicable.

Competition Law

Not applicable.

Investment Trends

According to the Nicaraguan Central Bank, foreign direct investment (FDI) has declined slightly over the past three years. Nicaragua reported USD 968 million in FDI for 2011, USD 805 million in 2012, and USD 849 million in 2013. Most of the investment is in the manufacturing sector, followed by communications, services, and mining. Notably, investments in energy have tapered off, with just USD 53 million worth of FDI in that sector in 2013, down from 2011's USD 217 million.

In June 2013 the Nicaraguan government granted the Hong Kong Nicaragua Development Group, or HKND, a 100-year concession to build an inter-oceanic canal. The concession was awarded with no public consultation and no competition. HKND representatives have stated that the proposed canal will cost USD 50 billion and will require significant amounts of labor and construction services. HKND has made available only limited information as to the financial, technological or environmental feasibility of the project. While the U.S. government as of this writing has no official position on the canal, the U.S. Embassy in Nicaragua issued a press release expressing concern over the lack of transparency involved in the project.

Table 1

Measure	Year	Index or Rank	Website Address
TI Corruption Perceptions index	2014	133 of 175	transparency.org/cpi2014/results
World Bank's Doing Business Report "Ease of Doing Business"	2015	119 of 189	doingbusiness.org/rankings
Global Innovation Index	2014	125 of 143	globalinnovationindex.org/content.aspx?page=data-analysis
World Bank GNI per capita	2013	1,790	data.worldbank.org/indicator/NY.GNP.PCAP.CD

2. Conversion and Transfer Policies

Foreign Exchange

The Foreign Investment Law (2000/344) and the Banking, Nonbank Intermediary, and Financial Conglomerate Law (2005/561) allow investors to convert freely and transfer funds associated with an investment. Article 10.8 of CAFTA-DR ensures the free transfer of funds related to a covered investment. Local financial institutions freely exchange U.S. dollars and other foreign currencies. The Superintendent of Banks and other Financial Institutions (SIBOIF) monitors financial transactions for illicit activity.

The official exchange rate is adjusted daily by the Nicaraguan Central Bank (BCN) according to a crawling peg that devalues the Córdoba against the U.S. dollar at an annual rate of 5%. The official exchange rate as of December 31, 2014, was 26.60 Córdobas to one U.S. dollar. According to the BCN, the accumulated rate of inflation for 2014 was 6.43%.

Remittance Policies

The Foreign Investment Law (2000/344) allows foreign investors to transfer funds abroad, whether dividends, interest or principal on private foreign debt, as well as royalties, and from compensation payments for declarations of eminent domain. Foreign investors also enjoy foreign currency convertibility through the local banking system.

In 2012 the local Financial Intelligence Unit (FIU) commenced operations to conduct legal, financial and accounting assessment of local financial entities. On February 27, 2015 the Financial Action Task Force (FATF), an inter-governmental body that develops policies to combat money laundering and terrorist financing, announced that because of the country's progress in such areas, Nicaragua would no longer be subject to FATF’s ongoing compliance process.

3. Expropriation and Compensation

During the 1980s, the Sandinista government confiscated close to 28,000 properties in Nicaragua. Since 1990, thousands of U.S. citizens have filed claims against the government to have their property returned or receive compensation through the administrative process established to address these claims. Although the vast majority of claims registered at the Embassy prior to 2005 have been resolved, the Embassy continues to hear accounts from U.S. citizens still seeking redress for claims arising prior to the year 1990. Claims from this period are mostly compensated in the form of fifteen-year bonds known as BPI’s (Bonos de Pago de Indemnización). Newly-issued BPIs typically trade at 60-70% of face value.

The USG remains concerned about recent reports of land invasions and infringement of private property rights affecting U.S. citizens. U.S. citizens who wish to report an expropriation or confiscation of their property by government authorities may contact ManaguaPropOffice@state.gov.

In June 2013 the Nicaraguan government granted a 100-year concession to Hong Kong Nicaragua Canal Development Investment Company Limited (HKND) to seek funds to build a canal through Nicaragua. This concession included a law that allows the Canal Authority to expropriate any land needed for canal purposes. The Embassy has been contacted by a number of U.S. citizen property owners concerned that their property will be affected by the canal project. The U.S. Embassy in Managua has reminded government officials of Nicaragua’s obligation under CAFTA-DR Investment Chapter to pay prompt, adequate, and effective compensation when expropriating property for a public purpose.

4. Dispute Settlement

Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts

Nicaragua is a civil law country in which legislation is the primary source of law. The legislative process is found in Articles 140 to 143 of the Constitution. Difficulty in resolving commercial disputes, particularly the enforcement of contracts, remains one of the most serious drawbacks to investment in Nicaragua. The legal system is weak and cumbersome. Members of the judiciary, including those at senior levels, are widely believed to be corrupt or subject to political pressure. A commercial code and bankruptcy law exist, but both are outdated.

Bankruptcy

There is no tradition or culture of bankruptcy in Nicaragua. More often than not, companies simply choose to close their operations and set up a new entity without going through a formal bankruptcy procedure, effectively leaving their creditors unprotected. For their part, creditors typically avoid a judicial procedure fraught with uncertainty and instead attempt to collect as much as they can directly from the debtor, or they simply give up on any potential claims they may have. Moreover, Nicaragua's rules on bankruptcy focus on the liquidation of business entities rather than on their reorganization. They do not provide for an equitable treatment of creditors, to the detriment of creditors located in foreign jurisdictions.

Investment Disputes

Enforcement of court orders is frequently subject to non-judicial considerations. Courts routinely grant injunctions ("amparos") to protect citizen rights by enjoining official investigatory and enforcement actions indefinitely. Foreign investors are often at a disadvantage in disputes against nationals with political or personal connections. International treaties, such as CAFTA-DR, become domestic legislation once ratified by the National Assembly, and while CAFTA-DR derogated some laws, these laws have been mistakenly applied by some courts to resolve commercial disputes. Misuse of the criminal justice system sometimes results in individuals being charged with crimes arising out of civil disputes, often to pressure the accused into accepting a civil settlement.

Dispute resolution is even more difficult in the Northern and Southern Caribbean Autonomous Regions (RACN and RACS, respectively), where most of the country's fishery, timber, and mineral resources are located. These large regions, which share a Caribbean history and culture, comprise more than one-third of Nicaragua's land mass. The division of authority between the central government and regional authorities is complex and flexible. Local officials may act without effective central government oversight.

International Arbitration

The Mediation and Arbitration Law (2005/540) establishes the legal framework for alternative dispute resolution. The Nicaraguan Chamber of Commerce founded Nicaragua's Mediation and Arbitration Center. Arbitration clauses should be included in business contracts, but legal experts are uncertain whether local courts would enforce awards resulting from international or local proceedings.

The Nicaraguan government accepts binding international arbitration of investment disputes between foreign investors and the state. Nicaragua is party to the Inter-American Convention on International Commercial Arbitration and a member of the International Center for the Settlement of Investment Disputes (ICSID).

CAFTA-DR establishes an investor-state dispute settlement mechanism. An investor who believes the government has breached a substantive obligation under CAFTA-DR or that the government has breached an investment agreement may request binding international arbitration in a forum defined by the Investment Chapter.

ICSID Convention and New York Convention

Nicaragua is a member of the Convention of the Settlement of Investment Disputes between States and Nationals of Other States (ICSID). The Nicaraguan government signed the 1958 New York Convention on the recognition and enforcement of foreign arbitration awards in 2004.

Duration of Dispute Resolution

Nicaraguan bureaucratic procedures can be slow and cumbersome. U.S. investors should expect that resolutions in Nicaragua will take more time than they do in the United States.

5. Performance Requirements and Investment Incentives

WTO/TRIMS

The Embassy is not aware of any Nicaraguan violations of its WTO TRIMs obligations. Foreign investors in Nicaragua are not required to purchase from local sources or to export a specific percentage of output, nor is their access to foreign exchange limited in proportion to their exports.

Likewise, Nicaraguan tax and customs incentives apply equally to foreign and domestic investors. Among these incentives, exporters are able to recover most import duties paid on raw materials and components incorporated into exported goods.

Investment Incentives

The Tax Equity Law (amended 2009/712) allows firms to claim an income tax credit of 1.5% of the free-on-board (FOB) value of exports. The Law of Temporary Admission for Export Promotion (2001/382) exempts businesses from value-added tax (VAT) for the purchase of machinery, equipment, raw materials, and supplies if used in export processing. Businesses must export 25% of their production to take advantage of these tax benefits. See Foreign Trade Zones/Free Trade Zones for a description of incentives for investments in free trade zones.

The Fishing and Fish Farming Law (2004/489) exempts gasoline used in fishing and fish farming from taxes. This law's Article 111 was amended (2012/797) to allow individuals or companies to request a temporary permit to take advantage of unexploited or underexploited aquatic resources during closed season. Environmental regulations also apply (see Transparency of the Regulatory System).

The Forestry Conservation and Sustainable Development Law (2003/462) establishes preferential property tax rates and income tax exemptions, in addition to duty and tax exemptions, for inputs and capital goods used in forestry projects. Restrictions on the export of forest resources complicate investment in this industry (see Transparency of the Regulatory System).

The Hydroelectric Promotion Law (amended 2005/531) and the Law to Promote Renewable Resource Electricity Generation (2005/532) provide incentives to invest in electricity generation, including duty free imports of capital goods and income and property tax exemptions. Regulatory concerns limit investment despite these incentives (see Transparency of the Regulatory System). In particular, private investment in hydroelectric dams is banned from the Asturias, Apanás, and Río Viejo Rivers, and the approval of the National Assembly is required for projects larger than 30 megawatts on all other rivers.

The Special Law on Mining, Prospecting and Exploitation (2001/387) exempts mining concessionaires from import duties on capital inputs (see Transparency of the Regulatory System for additional information on the mining sector).

The Tourism Incentive Law (amended 2005/575) includes the following basic incentives for investments of USD 30,000 or more outside Managua and USD 100,000 or more within Managua: income tax exemption of 80% to 90% for up to 10 years; property tax exemption for up to 10 years; exoneration from import duties on vehicles; and value added tax exemption on the purchase of equipment and construction materials. The General Tourism Law (amended 2010/724) stipulates that hotel owners pay a tax of USD 0.50 per customer and 2% of the rental rate per room for tourism promotion. It also imposes anti-discrimination, public health, and environmental regulations on tourism-oriented businesses.

Research and Development

Not applicable.

Performance Requirements

Article 14 of the Nicaraguan Labor Code states that 90% of a company's employees must be Nicaraguan. The Ministry of Labor may make exceptions when justified for technical reasons.

Data Storage

Not applicable.

6. Right to Private Ownership and Establishment

Any individual or entity may make investments of any kind. In general, Nicaraguan law provides equal treatment for domestic and foreign investment. There are a few exceptions imposed by specific laws, such as the Border Law (2010/749), which prohibits foreigners from owning land in certain border areas. Nicaragua allows foreigners to be shareholders of local companies, but the company's representative must be a national or a foreigner with legal residence in the country.

7. Protection of Property Rights

Real Property

Many foreign investors in Nicaragua experience difficulties defending their property rights. The expropriation of 28,000 properties in Nicaragua during the 1980s has resulted in a large number of claims and counter claims involving real estate. Property registries suffer from years of poor recordkeeping, making it difficult to establish a title history, although some improvements have ensued from World Bank-financed projects to modernize the land administration systems in certain regions. Unscrupulous individuals have engaged in protracted confrontations with U.S. investors to wrest control of beachfront properties along the Pacific coast in the Departments of Carazo, Rivas, and Chinandega, as well as prime real estate in the cities of Managua, Granada, and Leon. Judges and municipal authorities have been known to collude with such individuals, and a cottage industry supplies false titles and other documents to those who scheme to steal land.

During the current administration, there have been reports of land invasions. President Ortega has declared on numerous occasions that the government will not act to evict those who have illegally taken possession of private property. Police often refuse to intervene in property invasion cases or assist in the enforcement of court orders to remove illegal occupants.
Those interested in purchasing property in Nicaragua should seek experienced legal counsel. The Embassy maintains a list of attorneys, available at http://nicaragua.usembassy.gov/attorneys_registered_at_embassy_managua.html. The Nicaraguan investment promotion agency, PRONicaragua, also offers assistance with due diligence (http://www.pronicaragua.org/index.php?lang=en).

The Capital Markets Law (2006/587) provides a legal framework for securitization of movable and real property. The banking system is expanding its loan programs for housing purchases, but there is currently no secondary market for mortgages.

Intellectual Property Rights

CAFTA-DR made Nicaraguan standards for the protection and enforcement of intellectual property rights (IPR) consistent with U.S. and emerging international intellectual property standards. To implement the agreement, Nicaragua strengthened its legal framework to 1) provide state-of-the-art protections for digital products such as software, music, text and videos; 2) afford stronger protection for patents, trademarks, and test data, including an electronic system for the registration and maintenance of trademarks; and 3) deter piracy and counterfeiting.

The legal regime for protection of IPR in Nicaragua is adequate, but enforcement of intellectual property law has been limited. In 2009, the Nicaraguan government focused on improving interagency cooperation on IPR enforcement against copyright and trademark infringement. The Nicaraguan government also improved its cooperation with private industry to combat IPR crimes in some areas, such as identifying vendors of pirated goods and offering training to Nicaraguan police officers. Despite Nicaragua's efforts, the U.S. continues to be concerned about the piracy of optical media and trademark violations in Nicaragua. The U.S. also has concerns about the implementation of Nicaragua's patent obligations under CAFTA-DR, including the mechanism through which patent owners receive notice of submissions from third parties, how the public can access lists of protected patents, and the treatment of undisclosed test data. The U.S. has expressed concern to the Nicaraguan government about inadequate IPR enforcement.

With the advent of the European Union Central America Association Agreement, a wave of Geographical Indications (GI's) has been registered in Nicaragua for various products of European origin. Thus far, no adverse effects on U.S. businesses have been observed due to implementation of GI obligations under the Association Agreement, although U.S. industry representatives are concerned that this could change in future as markets continue to grow. For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at http://www.wipo.int/directory/en/.

Resources for Rights Holders

A list of lawyers can be found at:
http://nicaragua.usembassy.gov/attorneys_registered_at_embassy_managua.html

Embassy POC: ManaguaEcon@state.gov

8. Transparency of the Regulatory System

Investors regularly complain that regulatory authorities are arbitrary, negligent, or slow to apply existing laws, at times in an apparent effort to favor one competitor over another. Lack of a reliable means to resolve disputes with government administrative authorities or business associates quickly has resulted in some disputes becoming intractable. The Competition Promotion Law (2007/601) created a decentralized institution, PROCOMPETENCIA, to investigate and discipline businesses engaged in anticompetitive business practices, including price fixing, dividing territories, exclusive dealing, and product tying.

The Government Procurement Law (amended 2010/737) establishes safeguards to encourage open competition among suppliers bidding on government contracts. CAFTA-DR also stipulates that CAFTA-DR member companies receive national treatment when bidding on government contracts. However, there are still many allegations of irregularities in the procurement process, in particular the splitting of procurements into smaller lots, an action which allows the government to use a different set of regulations that creates a less competitive bidding process.

The Directorate General of Taxation in the Ministry of Finance and Public Credit (MHCP) collects income and value-added taxes, as set forth in the Tax Code (2006/598). Investors have complained of arbitrariness in taxation and customs procedures, as well as a lack of delegation of decision-making authority. Tax audits of foreign investors have increased in frequency and duration, to the point where they may hinder normal business operations. Investors also complain that customs authorities classify goods incorrectly and doubt its declared value so as to boost tariff revenue. The Embassy has received numerous complaints from investors and non-governmental organizations about goods and donations being held up in customs without legal reason.

The Environment and Natural Resources Law (amended 2008/647) authorizes the Directorate General for Environmental Quality in the Ministry of Natural Resources and the Environment (MARENA), to evaluate investment plans and monitor ongoing operations to verify compliance with environmental standards. Some investors complain that MARENA takes political considerations into account in determining whether to issue an environmental permit. Budgetary constraints limit MARENA's ability to enforce environmental standards.

The Coastal Law (2009/690) provides a framework for environmental protection, public access rights, commercial activity, and property rights along the shoreline of any body of water in Nicaragua. For coastal property along the Atlantic and Pacific Oceans, the law establishes environmental and public access requirements. Developers have expressed concern that the government implements measurement techniques outside of those stipulated by the law.

In addition to environmental regulation, mining investments are regulated under the Special Law on Mining, Prospecting and Exploitation (2001/387), which the Ministry of Energy and Mines (MEM) administers. MEM also retains the authority to grant oil and gas exploration concessions. In November 2009 the Committee on Infrastructure and Public Services in the Nicaraguan National Assembly decided to allow MEM to directly issue licenses for study, exploration, and the eventual exploitation of geothermal energy throughout the country (2009/714). These reforms to the Law of Exploration and Exploitation of Geothermal Resource (Law 433) allow MEM to negotiate directly with any investor interested in geothermal exploration without public bidding or licensing process.

The Electricity Sector Law (amended 2004/465), Energy Stability Law (amended 2008/644), and Electricity Distribution and Use Law (2008/661, amended 2010/731) establish the legal framework for the electric power sector. The Ministry of Energy and Mines Law (612/2007) sets policy for the sector and grants licenses and concessions to investors, while the Nicaraguan Energy Institute sets prices and regulates day-to-day operations. The Renewable Source Electricity Generation Law (2005/532) establishes tax, financial and economic incentives that contribute to renewable energy development within Nicaragua, exonerating hydroelectric, geothermal, wind, and solar energy investors and producers from many taxes.

Under CAFTA-DR, Nicaragua is committed to opening its telecommunications sector to U.S. investors, service providers, and suppliers. In practice, the sector lacks a regulatory framework that would encourage free competition. In a widely criticized concession process, TELCOR awarded radio spectrum in September 2009 to Russian firm Yota which has close ties to senior government officials. In January 2013, in yet another questionable concession process, TELCOR awarded a mobile phone concession to Chinese firm Xinwei.

9. Efficient Capital Markets and Portfolio Investment

Existing policies allow the free flow of financial resources into the product and factor markets, as well as foreign currency convertibility. The Central Bank respects IMF Article VIII and does not impose any restrictions.

Money and Banking System, Hostile Takeovers

Among other services, local financial institutions offer commercial loans, credit lines, factoring, leasing, and bonded warehousing. BANPRO, Lafise, and BAC constitute the largest financial institutions in Nicaragua, competing with several other smaller banks.

The Foreign Investment Law allows foreign investors residing in the country to access local credit and local banks have no restriction to accept property located abroad as collateral. However, many investors find lower cost financing and more product variety from offshore banks. Short-term government and Central Bank bonds, issued in Córdobas but indexed to the dollar, dominate Nicaragua's infant capital market. Foreign banks have acquired a presence in Nicaragua through the purchase of local banks.

Foreigners are allowed to open bank accounts as long as they are legal residents in the country. Recent Central Bank data show that in 2014 the credit portfolio of Nicaraguan commercial banks grew by 19.4% compared to 2013. The banking system's loan portfolio totaled USD 3.73 billion as of December 2014. Interest rates on loans denominated in Córdobas averaged 12.62%; loans denominated in U.S. dollars averaged 9.31%.

The Superintendent of Banks and other Financial Institutions (SIBOIF) regulates banks, insurance companies, stock markets, and other financial intermediaries. SIBOIF requires that supervised entities provide audited financial statements, prepared according to international accounting standards, on a regular schedule. The Deposit Guarantee System Law (2005/551) established the Financial Institution Deposit Guarantee Fund (FOGADE) to guarantee bank deposits up to USD 10,000 per depositor, per institution.

CAFTA-DR allows U.S. financial services companies to establish subsidiaries, joint ventures, or bank branches in Nicaragua. The agreement also allows cross-border trade in financial services. Nicaragua has ratified its commitments under the 1997 World Trade Organization Financial Services Agreement. These commitments cover most banking services, including the acceptance of deposits, lending, leasing, the issuing of guarantees, and foreign exchange transactions. However, they do not cover the management of assets or securities. Nicaragua allows foreign banks to operate as 100%-owned subsidiaries or as branches.

10. Competition from State-Owned Enterprises

President Ortega has used funds provided by Venezuela through the Bolivarian Alliance for the Americas (ALBA) to increase the role of the state and quasi-state actors in the economy. Through Petronic, Nicaragua’s state-owned oil company, the government owns a 49% share in ALBA de Nicaragua (ALBANISA), the company that imports and monetizes Venezuelan petroleum products through the ALBA Energy Agreement. President Ortega and the FSLN have used ALBANISA to purchase television and radio stations, hotels, cattle ranches, electricity generation plants and pharmaceutical laboratories. ALBANISA's large presence in the Nicaragua economy and its ties to the Nicaraguan government put companies trying to compete in industries dominated by ALBANISA entities at a disadvantage.

The government owns and operates the National Sewer and Water Company (ENACAL), National Port Authority (EPN), and National Electricity Transmission Company (ENTRESA). Private sector investment is not permitted in these sectors. In sectors where competition is allowed, the government owns and operates the Nicaraguan Insurance Institute (INISER), Nicaraguan Electricity Company (ENEL), Las Mercedes Industrial Park, Nicaraguan Food Staple Company (ENABAS), and the Nicaraguan Petroleum Company (Petronic). Through the Nicaraguan Social Security Institute (INSS), the government owns a pharmaceutical manufacturing company, Laboratorios Ramos.

There are few mechanisms to ensure the transparency and accountability of state business decisions. The U.S. Department of State's Fiscal Transparency report cites the need for Nicaragua to improve reporting on allocation to and from state-owned enterprises.

OECD Guidelines on Corporate Governance of SOEs

ALBANISA's President is also the Treasurer of the FSLN and vice-president of Petronic, the state oil company. The company is managed privately with no formal government oversight.

Sovereign Wealth Funds

Nicaragua does not have a sovereign wealth fund.

11. Corporate Social Responsibility

Many large businesses have active Corporate Social Responsibility (CSR) programs that include improvements to the workplace environment, business ethics, and community development projects. The Nicaraguan Union for CSR (UniRSE), which includes 66 companies, is working to create more awareness for CSR in Nicaragua. UniRSE organizes events and studies best practices throughout the region. Increasingly, both Nicaraguan and foreign businesses recognize that CSR programs must go beyond compliance with environmental or labor law, but more work is needed in this area.

OECD Guidelines for Multinational Enterprises

Not applicable.

12. Political Violence

The proposed inter-oceanic canal that would cross all of Nicaragua has led to at least forty protests. Protestors blocked roads, burned tires, and in one instance threatened to light a gas tanker truck on fire. In December 2014, clashes between protestors and police turned violent and media reported that 50 protestors were injured. While political demonstrations and strikes occur sporadically, they are usually non-violent and limited to urban areas. Typically, protests in Managua take place at major intersections or rotundas. Activities observed during past protests include, but are not limited to, the use of tear gas, rubber bullets, fireworks, rock throwing, tire burning, road blocks, vehicle burning, and physical violence between members of rival political parties. Police have often been slow to respond and reluctant to interfere in violent confrontations between rival political factions.

13. Corruption

Public sector corruption, including bribery of public officials, remains a major challenge for U.S. firms operating in Nicaragua. The Penal Code (amended 2007/641) and the Special Law on Bribery and Crimes Against International Trade and Foreign Investment (2006/581) define corruption offenses and establish sanctions. Offering or accepting a bribe is a criminal act punishable by a fine and a minimum three years in prison. Legislation similar to the U.S. Foreign Corrupt Practices Act makes bribery by a Nicaraguan company of a foreign official a criminal act punishable by a minimum five years in prison. The Attorney General and the Controller General share responsibility for investigating and prosecuting corruption cases. The anticorruption provisions of CAFTA-DR require each participating government to ensure under its domestic law that bribery in matters affecting trade and investment is treated as a criminal offense or subject to comparable penalties.

U.S. Foreign Corrupt Practices Act: In 1977, the U.S. enacted the Foreign Corrupt Practices Act (FCPA), which makes it unlawful for a U.S. person, and certain foreign issuers of securities, to make a corrupt payment to foreign public officials for the purpose of obtaining or retaining business for or with, or directing business to, any person. The FCPA also applies to foreign firms and persons who take any act in furtherance of such a corrupt payment while in the United States. For more detailed information on the FCPA, see the FCPA Lay-Person's Guide at: http://www.justice.gov/criminal/fraud/.

UN Anticorruption Convention, OECD Convention on Combatting Bribery

Nicaragua ratified the United Nations Convention against Corruption (UNCAC) in 2006 and the Inter-American Convention Against Corruption in 1999. Nicaragua has a well-developed legislative framework criminalizing acts of corruption. The Penal Code and Law 581 cover all relevant aspects of corruption, including bribery, embezzlement, extortion, and money laundering.

Resources to Report Corruption

Nicaragua's Supreme Audit Institution is the Contraloría General de la República de Nicaragua (CGR). The CGR can be reached at (505) 2265 2072 and more information is available at its website www.cgr.gob.ni.

14. Bilateral Investment Agreements

Nicaragua has signed and ratified bilateral investment treaties with Argentina, BLEU (Belgium-Luxembourg Economic Union), Chile, the Czech Republic, Denmark, Finland, France, Germany, Italy, the Netherlands, Russian Federation, South Korea, Spain, Switzerland, Sweden, Taiwan, and the United Kingdom. CAFTA-DR and the EU Association Agreement also include an Investment Chapter.

Bilateral Taxation Treaties

Nicaragua does not have a bilateral taxation treaty with the United States.

15. OPIC and Other Investment Insurance Programs

The U.S. Overseas Private Investment Corporation (OPIC) offers financing and insurance against political risk, expropriation, and inconvertibility to U.S. investments in Nicaragua. Nicaragua is a member of the World Bank’s Multilateral Investment Guarantee Agency.

16. Labor

Nicaragua's population is young and while official unemployment rates are low, underemployment is estimated to be 46% of the working population. Nicaragua lacks skilled labor and often employers import administrative or managerial employees from outside of Nicaragua.

Per Nicaraguan labor law, at year-end employers must pay an equivalent of an extra month's salary. Upon termination of an employee, the employer must pay a month's salary for each year worked, up to five months' salary. Some business groups say this provides an incentive for workers to seek dismissal once they have completed five years with a firm.

There are no special laws or exemptions from regular labor laws in the free trade zones, and only a minority of those workers are union members.

The law provides for the right of all public and private sector workers, with the exception of those in the military and police, to form and join independent unions of their choice. Workers can exercise this right in practice, though roadblocks exist for unions not affiliated with the ruling party. In general, labor unions are allied with political parties, and clash with each other along party lines. The law provides the right to collective bargaining. A collective bargaining agreement cannot exceed two years and is automatically renewed if neither party requests its revision.

17. Foreign Trade Zones/Free Ports/Trade Facilitation

The Nicaraguan government reported that in 2014, there were 193 companies operating in the free trade zones (FTZs) throughout Nicaragua and a total of 50 industrial parks, creating over 110,000 jobs. Most free zones are in Managua and approximately 40% belong to the textile and apparel sector.

In addition to export incentives and duty free capital imports granted by the Tax Concertation Law and the Temporary Admission Law for Export Promotion, the Free Trade Zones for Industrial Exports Decree (1991/46 and amendments) provides a 10-year income tax exemption for Nicaragua and foreign investments in FTZs. The National Free Trade Zone Commission of Nicaragua (CNFZ) administers the FTZ regime. The CNFZ requires a deposit to guarantee that final salaries and other expenses be paid if a company goes out of business.

18. Foreign Direct Investment and Foreign Portfolio Investment Statistics

Table 2: Key Macroeconomic Data, U.S. FDI in Host Country/Economy

	Host Country Statistical source*		USG or international statistical source		USG or International Source of Data: BEA; IMF; Eurostat; UNCTAD, Other
Economic Data	**Year**	**Amount**	**Year**	**Amount**	
Host Country Gross Domestic Product (GDP) ($M USD)	2013	11,255	2013	11,255	www.worldbank.org/en/country

Foreign Direct Investment	**Host Country Statistical source***		**USG or international statistical source**		**USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other**
U.S. FDI in partner country ($M USD, stock positions)			2013	211	USG Source
Host country's FDI in the United States ($M USD, stock positions)			2013	N/A	USG Source
Total inbound stock of FDI as % host GDP	2013	7.5%			

Source: Nicaraguan Central Bank Data

Table 3: Sources and Destination of FDI

The IMF's Coordinated Direct Investment Survey does not have the data available for Nicaragua, nor is such data available from publically-available Nicaraguan government sources.

Table 4: Sources of Portfolio Investment

The IMF's Coordinated Portfolio Investment Survey does not have any data available for Nicaragua, nor is such data available from publically-available Nicaraguan government sources.

19. Contact for More Information

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