



# SERVICES POLICY REVIEW



# NICARAGUA





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## FOREWORD

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

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

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

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

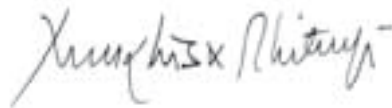
In recent years, Nicaragua has been actively involved in negotiating trade agreements within its regional bloc. This Services Policy Review emphasizes that in order to realize the full potential of trade agreements there is a need to have more concerted action between the national and regional levels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

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

- Consider the possibility of creating a full-fledged development bank, according priority to financing for small and medium-sized enterprises.
- In the financial services sector, establish a centralized credit history repository in order to ease the credit applications process and assessment of potential customers' creditworthiness.
- Develop a quality assurance framework, encompassing a mandatory evaluation of tourism services operators and facilities necessary to obtain a mandatory permit to provide their services prior to starting operations.
- Promote the concept of shared responsibility of operators and regulators of telecommunications services, with respect to the handling of consumer complaints.

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

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



Mukhisa Kituyi  
Secretary-General of UNCTAD

## EXECUTIVE SUMMARY

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

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

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

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

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

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

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

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

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

### **Financial Services**

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

### **Tourism Services**

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

### **Telecommunications Services**

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

### **Road transport Services**

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



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

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

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