

Doing Business in Nicaragua: A Country Commercial Guide for U.S. Companies

Chapter 3: Selling U.S. Products and Services

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Using an Agent or Distributor

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The Nicaraguan retail market is small but expanding. Local distributors and agents handle distribution and sales of imported products, as well as Nicaraguan products. Distribution and agency contracts are governed by the Commercial Code. Partnerships between U.S. and Nicaraguan businesses are common. There is no single information clearinghouse for identifying potential partners in Nicaragua or checking their bona fides. U.S. companies seeking agents, distributors, or partners in Nicaragua may request an International Partner Search, Gold Key Service, or a Contact List through their nearest [U.S. Export Assistance Center](#) or the [Economic/Commercial Section](#) of the U.S. Embassy in Managua. In some cases, organizations such as the [Nicaraguan Export and Investment Center](#), the investment promotion agency [ProNicaragua](#), the [American Chamber of Commerce of Nicaragua](#), and the [Chamber of Commerce of Nicaragua](#) may provide additional information on potential business partners.

Establishing an Office

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Registering a business is a relatively straightforward process. The Nicaraguan Government operates a [One-Stop Shop for Investment](#) (VUI) within the Ministry of Trade, Industry, and Development to streamline investment and business licensing. The VUI claims that the average time for registering a business is fifteen days. However, a World Bank study, [Governance Matters 2007](#), estimated that the process takes 39 days. The services of the VUI are equally available to domestic and foreign-owned businesses. The Embassy strongly recommends that an investor retain a [local attorney](#) to assist in establishing a presence in Nicaragua. See nicaragua.investway.info for detailed information on registering a business in Nicaragua.

Franchising

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Nicaragua has no specific law regulating franchising, but the [Commercial Code](#) and the [Foreign Investment Law](#) (2000/344) apply. There are more than 25 foreign franchises operating in Managua, among them McDonald's, TGI Friday's, Pizza Hut, Domino's Pizza, Papa John's, Subway, Napa Auto Parts, Hertz, Avis, Budget Rent a Car, DHL, Best Western, Holiday Inn, Burger King, and Payless ShoeSource. Many Nicaraguans are familiar with popular U.S. brands and have grown accustomed to U.S. fast food outlets and other services. Local companies such as Tip-Top (fried chicken) have developed strong local brands and are expanding through franchising.

Direct Marketing

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No specific law or regulation governs direct marketing. Some consumer product companies report successful direct selling campaigns. Informal vendors also employ the practice. Restaurants often use courier services to distribute brochures offering coupons for modest discounts. Obstacles to profitable direct marketing include confusing postal addresses and low telephone density.

Joint Ventures/Licensing

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Nicaragua's [Commercial Code](#) governs the establishment of joint ventures, licensing arrangements, general and limited partnerships, and corporations.

The [Government Procurement](#) Chapter of the United States – Central America – Dominican Republic Free Trade Agreement (CAFTA-DR) requires that Nicaragua apply fair and transparent procurement procedures and rules and prohibits the Nicaraguan Government and its procuring entities from discriminating in purchasing practices against goods, services, and suppliers from the United States. Although Nicaragua is not a party to the plurilateral World Trade Organization (WTO) [Agreement on Government Procurement](#), CAFTA-DR procurement rules are broadly based on that agreement, including the establishment of national treatment, requiring the Nicaraguan Government to treat suppliers of goods and services from the United States no less favorably than it does domestic counterparts. CAFTA-DR also provides rules aimed at ensuring a fair and transparent procurement process.

CAFTA-DR applies to most central government entities for goods and services valued above \$58,550 and construction services valued at \$6,725,000 or more. The threshold for municipalities and other decentralized government entities is \$477,000 for goods and services and \$6,725,000 for construction services. [Annex 9.1.2\(b\)\(i\)](#) of the Government Procurement Chapter lists entities covered under the agreement; entities not listed, such as the National Electricity Company (ENEL), are not covered. Purchases wholly or partially financed by foreign governments or international organizations are conducted according to the procedures of the donor organization.

CAFTA-DR also establishes rules designed to ensure transparency in procurement procedures. Nicaragua must publish its laws, regulations, and other measures governing procurement, along with any changes to those measures. Procuring entities must publish notices of procurement opportunities in advance. The agreement provides that procuring entities may not write technical specifications to favor a particular supplier, good, or service. It also sets out the circumstances under which procuring entities are allowed to use limited tendering. CAFTA-DR requires Nicaragua to maintain procedures to declare suppliers that have engaged in fraudulent or other illegal procurement actions ineligible for participation in future procurement.

The [Government Procurement Law](#) (amended 2002/427) and the [Municipal Procurement Law](#) (2007/622) provide detailed procurement procedures, including open bidding, qualified bidding, limited tendering, and purchase by quotation. The [Ministry of Finance Procurement Office](#) operates an electronic portal for central government and municipality procurement, [NICARAGUACOMPRA](#).

Distribution and Sales Channels

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Local distributors and agents generally handle distribution and sales of imported products through wholesale, self-service (supermarkets and convenience stores), and retail (“mom and pop” stores and informal vendors), channels. The Nicaraguan retail market is relatively small, but identifying one representative for the Pacific and central regions and another for the Atlantic coast is often required to ensure nationwide coverage.

More than 1,000 wholesalers operate in Nicaragua. U.S. company PriceSmart operates a retail warehouse store in Managua but also sells wholesale. There are three major supermarket chains in Nicaragua: Palí, La Unión, and La Colonia. Wal-Mart Central America and Costa Rican Corporación de Supermercados Unidos (CSU) operate a total of 38 supermarkets, including the mid-range Palí and upscale La Unión stores. La Colonia is a local chain of eight supermarkets, with seven located in Managua and one in Chinandega. There are also as many as 16,000 “mom and pop” stores and informal vendors that compete with larger retailers.

Nicaragua has a total of 2,299 kilometers of paved roads, primarily located along the Pacific region of the country. However, many of these are in poor condition. The well maintained, 370 kilometer Pan-American Highway runs north-south along the western coast from Honduras to Costa Rica, giving Nicaragua access to the Atlantic coast seaports of [Puerto Cortés](#) in Honduras and [Puerto Limón](#) in Costa Rica. There are no paved roads linking the Pacific and the Atlantic coasts, but a road extends from Managua to El Rama, a river port that offers waterway transportation (maximum draft of 16 feet) to Bluefields on the Atlantic coast. The Pacific coast [Puerto de Corinto](#), the largest port in the country, is equipped with two warehouses, several storage tanks, special equipment for bulk freight, a crane to handle containers, and power outlets for refrigerated containers.

[Sandino International Airport](#), located 13 kilometers from the capital, was recently renovated. The airport offers basic cargo handling, including refrigerated storage, with connections to major cities in Central America and the United States. Bluefields and Puerto Cabezas on the Atlantic coast each have a small commercial airport.

The Central Intelligence Agency, [World Fact Book](#) provides basic information on infrastructure in Nicaragua.

Selling Factors and Techniques

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Sales and marketing techniques in Nicaragua are similar to those employed in the United States. Trade fairs and industry-specific shows are common. Nicaraguan companies have begun to adopt modern marketing techniques,

including door-to-door advertising, point-of-sale promotions, and internet sales. Spanish language sales materials are a must.

Electronic Commerce

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CAFTA-DR's [Electronic Commerce](#) chapter requires nondiscriminatory, duty free treatment of digital products and encourages cooperation in numerous policy areas related to electronic commerce. Electronic commerce is still developing in Nicaragua. Currently, there are no laws or regulations restricting its use or regulating the treatment of electronic transactions.

Trade Promotion and Advertising

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Much of the population is poor and receives information via radio. Other popular means of promotion are billboards, banners, printed flyers, and loudspeaker announcements. Advertising for higher-income segments of the population can be found in newspapers, television, cinema, and cell phone text messaging. Publicity through the internet is very limited, although growing. According to the [Nicaraguan Authority for Telecommunications](#), in 2006 there were 23,624 internet subscribers in Nicaragua.

Pricing

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A [value added tax](#) (IVA) of 15% applies to the sale of [many goods and services](#).

A [selective consumption tax](#) (ISC) is levied on [variety of goods](#). The tax generally ranges from 10% to 30% but is as high as 59% for tobacco products and alcoholic beverages. The ISC on domestic goods is based on the manufacturer's sale price, while the ISC on imported goods is based on the CIF value.

The [Consumer Defense Law](#) (1994/182) caps the retail markup for pharmaceutical products at 30% for generics and 35% for branded products and caps the wholesale markup at 35% for generics and 30% for branded products. The [Nicaraguan Energy Institute](#) regulates liquefied natural gas prices. Prices for public utilities such as water and electricity are also regulated. See Chapter 6: Investment Climate Statement, [Transparency of the Regulatory System](#) for more information.

Sales Service/Customer Support

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Many local businesses place less emphasis on customer service and customer support than is the norm in the United States. Nicaraguan consumers are

demanding better service and are receptive to foreign-owned businesses that make customer service a priority.

Protecting Your Intellectual Property

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Protecting intellectual property rights is a major concern for businesses operating in Nicaragua. Various forms of intellectual property may be registered with the Ministry of Trade, Industry, and Commerce, [Intellectual Property Registry](#). For information regarding the status of intellectual property protection in Nicaragua, see Chapter 6: Investment Climate Statement, [Protection of Property Rights](#).

Due Diligence

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Thorough due diligence can reduce exposure to risk inherent to doing business in Nicaragua. Before finalizing any contract, U.S. companies are urged to obtain information on the bona fides of the contracting firm, including reliable business and financial references. For commercial transactions, requiring cash in advance or negotiating a letter of credit is advisable until a payment track record is established.

The Embassy's [Economic/Commercial Section](#) can provide assistance in identifying potential business partners through its International Partner Search. Representation or distribution agreements should include an arbitration clause and be reviewed by a [local attorney](#). See Chapter 6: Investment Climate Statement, [Dispute Settlement](#) for more information.

For information on the serious risk involved in purchasing real estate in Nicaragua, see Chapter 6: Investment Climate Statement, [Expropriation and Compensation](#) as well as [Protection of Property Rights](#).

Local Professional Services

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The Embassy recommends obtaining a [local attorney](#) to facilitate business transactions. Many attorneys have cooperative agreements with law firms throughout Central America and the United States.

Several local accounting firms have established cooperative agreements with U.S. accounting firms. Many are members of the [American Chamber of Commerce of Nicaragua](#) and may be contacted through that organization.

A limited number of contact centers and business process outsourcing vendors employ bilingual professionals who offer a variety of services to international

firms, including telemarketing, consumer and commercial collections, back office work, data entry, market intelligence, and financial analysis.

The U.S. Embassy, Managua, Economic/Commercial Section takes no responsibility for actions readers may take based on the information in this guide. Readers should always conduct their own market research and due diligence before entering into any commercial arrangement.