

Nicaragua's Export Processing Zones

EXPORT PROCESSING ZONES

Nicaragua was a pioneer in the development of EPZs in Central America. In 1976, the Government of Nicaragua established the Las Mercedes Export Processing Zone, with the passage of a series of laws that provided incentives for export processing plants. In 1979, eight US companies were operating in Las Mercedes, employing 3,000 persons.

Unfortunately, political events in Nicaragua put an end to this incipient industry, while EPZs flourished in other countries of the region, particularly in the Dominican Republic and Honduras.

In 1990, Nicaragua shifted towards democracy and a market economy. In 1991, the new government enacted Decree 46-91, reestablishing EPZs in Nicaragua. By the end of 1992, five companies were operating at the Las Mercedes EPZ, employing 1,113 persons.

By December 2000, 40 companies from the United States, Taiwan, South Korea, Italy, Hong Kong, Nicaragua, Honduras and Panama were operating under the EPZ regime. Four companies from Taiwan and South Korea are scheduled to start operations this year.

EPZ OPERATORS IN NICARAGUA

Five EPZs – one stated-owned and four private – are operating in Nicaragua. Twenty-five companies are located in the five industrial parks, spread across 288,811 square meters and employing 37,000 persons. Eighteen companies are operating as Stand-Alone EPZs, occupying 51,886 square meters of industrial roof and employing approximately 5,000 persons.

Four other privately owned EPZs are currently under construction. One EPZ will be located in Managua, and the rest in Carazo (46 kilometers from Managua), Mateare and Tipitapa.

CORPORACIÓN DE ZONAS FRANCAS (state-owned – 1991)

Address: Kilometer 12.5 North Highway, Managua • PBX: (505) 263 1530 • Fax (505) 263 1700

Contact: Mr. Gilberto E. Wong, Executive Secretary • Email: se@czf.com.ni

- Decree 46-91 created the CZF in 1991 to manage state-owned EPZs.
- The Board of Directors is made up of the Minister of Economy, the Minister of the Treasury and Public Credit, the Minister of Transportation and Infrastructure, and the President of the Central Bank. The management of the business and affairs of the CZF lies with the Executive Secretary, who is appointed by the Board of Directors.
- The CZF manages one EPZ, which hosts 15 companies and 18 other companies operating as Stand-Alone EPZs.

Las Mercedes Industrial Park (stated-owned – 1992)

Address: Kilometer 12.5 North Highway, Managua • PBX: (505) 263 1530 • Fax (505) 263 1700

Contact: Mr. José Antonio López, Operations Manager • Email: gg@czf.com.ni

- Reestablished in 1992, Las Mercedes is spread on 133.44 acres next to Managua's International Airport. Twenty-five buildings occupy 140,104 square meters. Sixteen manufacturing companies from Taiwan (9), the United States (3), South Korea (2), Italy (1) and Hong Kong (1) are operating in Las Mercedes, employing some 24,000 persons. Eight companies are engaged in the apparel business and one is a shoe manufacturer.

EXPORT PROCESSING ZONES

Stand-Alone EPZs

- Twenty-five companies are operating under this modality, occupying approximately 600,000 square meters of industrial roof and employing some 5,000 persons.
- These companies are located in different areas: three in Masaya (2 from the United States and one from Taiwan); one in Granada (USA); eight in Managua (2 from Taiwan, 4 from South Korea, and 1 each from Panama and Hong Kong); seven in Estelí (4 from the United States, 1 each from Nicaragua, Honduras and Belize); two in León (Italy and Mexico) and one in San Marcos (USA). In addition to apparel, these companies are manufacturing ornaments, cardboard boxes and communications equipment.

PRIVATE EPZs

INDEX EPZ (Nicaragua)

Address: Kilometer 2 North Highway, Managua • Telephone: (505) 249 2887 • Fax (505) 248 1840

Contact: Mr. Edgard Ahlers, Vice-president • Email: delta@ibw.com.ni

- *Established in 1995 on Managua's north highway, Index was the first private EPZ to operate in Nicaragua. Two US and two Nicaraguan apparel manufacturers are operating on 15,188 square meters, employing approximately 3,000 persons.*

OPINSA EPZ (Taiwan)

Address: Kilometer 8.5 North Highway, Managua • Telephone: (505) 263 1826 • Fax (505) 263 1826

Contact: Mr. Steven Chang, General Manager • Email: steven@roohsing.com.ni

- *Established in 1996, Opinsa is a private EPZ owned by Taiwanese investors. Two companies from Taiwan and South Korea – one engaged in apparel manufacturing and another in wig manufacturing – occupy 17,100 square feet.*

SARATOGA EPZ (Nicaragua)

Address: Kilometer 15 Carretera Nueva a León, Managua • Telephone: (505) 228 2036 • Fax (505) 228 2031

Contact: Mr. Gilberto Cuadra, Director • Email: saratoga@ibw.com.ni

- *Operating since 1999, this private Nicaraguan EPZ is located on 70.6 hectares near Ciudad Sandino, a densely populated suburb. In its first phase, Saratoga will build 130,000 square meters of industrial roof and plans are to expand the facilities another 70,000 square meters. Three apparel manufacturers – two from Taiwan and one from South Korea – are currently operating, employing approximately 4,000 persons. A cardboard factory will be set up in January 2002. Five more companies, owned by Taiwanese and South Korean investors, are to start operations in 2002.*

UNISEBACO EPZ (Taiwan)

Address: Sebaco Valley, Matagalpa • Telephone: (505) 622 2415 • Fax (505) 622 2450

Contact: Mr. Sam Ho, General Manager • Email: presitex@ibw.com.ni

- *A private EPZ owned by Taiwanese investors, Unisebaco is located in Sébaco, about 62.5 miles from Managua, and has been operating since January 2000 on three hectares, where an apparel manufacturer occupies 10,000 square meters of industrial roof and employs 2,000 persons.*

ANOTHER SIX PRIVATE EPZs HAVE ALSO BEEN APPROVED BY CZF AND ARE UNDER CONSTRUCTION

INVERSIONES SAN MARCOS (USA) Contact Mr. Alejandro Lainez, General Manager • Email: pmdnic@yahoo.com

MATEARE EPZ (Taiwan) Contact Mr. Chen, Chih-Yen, General Manager • Email: chdy@ibw.com.ni

PORTEZUELO INDUSTRIAL PARK (Nicaragua) Contact Mr. Carlos Argeñal, General Manager • Email: cargenal@alfanumeric.com.ni

SENIKA EPZ (Korea) Contact Mr. Kyu Ick Lee, General Manager

GRANADA EPZ (USA) Contact Mr. Gabriel Pasos, President • Email: gpasos@tmx.com.ni

EXPORT PROCESSING ZONES LAW

EXPORT PROCESSING ZONES

Nicaragua's legislation defines an EPZ as a geographic area in Nicaragua treated as being outside the customs territory where export-oriented activities are undertaken and controlled by customs. For tax purposes, EPZs are deemed as being outside the national territory and are subject at all times to the tax exemptions and terms set forth in Decree 46-91 and its regulations.

EXPORT PROCESSING ZONES COMMISSION

The Export Processing Zones Commission (EPZC) is the regulatory agency for the Export Processing Zones system. The EPZC is made up of the Ministers of Economy, Treasury and Labor, the President of the Central Bank of Nicaragua and a representative from the Chamber of Industry.

The EPZC appoints a Technical Secretary, who acts as a spokesperson and is responsible for all matters relating to the EPZC.

RESPONSIBILITIES OF THE EPZC

- To consider, evaluate and approve the installation of export-oriented enterprises in existing EPZs, issuing the respective operating permits.
- To participate in the negotiation of local and international agreements relating to EPZ manufacturing operations, keeping adequate controls so as to ensure compliance.
- To determine liabilities and penalties for EPZ operators and tenants.
- To promote currency exchange and customs regulations aimed at simplifying and facilitating operations for EPZ tenants.

EPZ DEVELOPERS

Private EPZ Developers, also known as EPZ Operators, may be authorized to manage EPZs, provided these are owned and controlled by partnerships or corporations duly organized under Nicaraguan laws.

The Export Processing Zones Commission reviews and approves EPZ operating permits.

EPZ Operators must:

1. Provide adequate facilities for efficient supervision by customs agents.
2. Issue internal regulations for the efficient operation of EPZs.
3. Execute projects in accordance with the terms and timetables originally agreed upon.
4. Provide efficient services to EPZ tenants.
5. Ensure that Nicaraguan laws and regulations governing EPZ management are properly applied.
6. Observe the guidelines issued by the Export Processing Zones Commission in relation to EPZ management, promotion and development.
7. Submit an annual report to the Export Processing Zones Commission.
8. Perform the duties set forth in Decree 46-91, its regulations, customs authorities and the EPZC.
9. Comply with all the laws of the Republic of Nicaragua.

EPZC OPERATING FEES

- Application.....US\$ 500
- Performance bond10,000
- Service fees for EPZ tenants:
 - Less than one year None
 - 13-36 months..... \$ 0.05/square meter/month
 - More than 3 years \$0.10/square meter/month

EPZ TENANTS

Any business, industrial plant or establishment – either domestic or foreign – may be authorized by the EPZC to establish manufacturing operations at an EPZ or any extension thereof. EPZ tenants are subject to the laws of the Republic of Nicaragua.

Every EPZ tenant must be organized as a partnership or corporation under Nicaraguan law to operate under the EPZ system. Foreign corporations may also do business at the EPZs through their duly registered subsidiaries, which are subject to the same legal provisions.

EPZC OPERATING FEE FOR EPZ TENANTS

- Application US\$ 300
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STAND-ALONE EPZs

These are companies with EPZ status wherever they locate for purposes of accommodating resource-based activities. This is a highly flexible tool enabling companies to operate from convenient locations while enjoying EPZ benefits.

EPZC OPERATING FEES

- Application US\$ 300
 - Performance bond 10,000
 - Service charge \$ 0.25/square meter/month (use of EPZ benefits)
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BENEFITS FOR EPZ TENANTS

- 100% corporate tax holiday during first 10 years of operation, and 60% thereafter, including payments to nonresidents, either abroad or in Nicaragua, for loan interest, commissions, fees and remittances for legal services, advertising, marketing, consultant services and the like, which are not subject to withholding at source. This exemption does not include personal income, salaries, wages or fees paid to national or foreign workers at the EPZs.
- Exemption from property or land taxes, including capital gains on the sale of stock or other partial or complete equity interest in an EPZ business, provided that the company is closing operations.
- Tax exemption on incorporation, restructuring, mergers and amendment of partnerships or corporations, including tax stamps.
- Exemption from customs duties, value-added tax, sales tax, excise tax, trade turnover tax, or other applicable taxes on the importation of raw materials, equipment, machinery, spare parts, samples, dies and supplies by EPZ tenants, as well as applicable taxes for importation of equipment to establish and operate low-cost diners, health services, childcare centers, recreational facilities and any other type of goods and services as may be required to meet the needs of EPZ workers.

- Exemption from customs duties on the importation of loading equipment, passenger and service vehicles used by EPZ tenants.
 - Total exemption from excise, sales or selective consumption taxes.
 - Total exemption from municipal taxes.
 - Total tax exemption on products manufactured in the EPZs.
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APPLYING FOR EPZ STATUS

The following are procedures for setting up a business in a Nicaraguan EPZ:

- An application form must be submitted to the EPZC Technical Secretary, signed by the legal representative of the company, along with the documents listed below:
 - Full description of manufacturing process.
 - Start-up date.
 - Required facilities and training for Nicaraguan work force.
 - Any other general information that may be deemed necessary to facilitate the Commission's decision-making process.
- Two bank references on the firm or its main partners.
- Two commercial references on the firm or its main partners.
- A certified copy of the Articles of Incorporation of the company in Nicaragua.
- Audited financial statements for the past three years, including cash flow, balance sheet and income statement. In the case of new companies, sufficient documentation should be provided to support the company's operations.
- Interested parties must fill out an application to set up operations within an EPZ. Application forms are available at the pertinent EPZ management office.
- Upon reviewing the documentation, EPZC will approve or deny EPZ status. If the application is approved, an operating permit will be issued within eight business days.