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UK AND CENTRAL AMERICA

OPPORTUNITY FOR UK BUSINESS AT THE CROSSROADS OF THE AMERICAS

Central America offers a series of attractive commercial opportunities to the UK. The EU-Central America Free Trade Agreement, which entered force in 2013, has amplified that opportunity and both the British Government and Governments of the region are now taking steps to increase our bilateral trade and investment relationship. Over 70% of UK goods now have free market access into Central America, with tariffs on the remaining products falling gradually over the following 5-15 years.

The UK has demonstrated its commitment to Central America (including the Dominican Republic) and the wider Latin America region in recent years. Her Majesty's Government has sent additional diplomats, and a new Embassy has been opened in El Salvador. British business is also highly active in a range of sectors. Trade missions are becoming more frequent. But there is more that can be done. Because of the smaller size of its economies, Central America can be overlooked. However, the regional market of over 52 million people and combined GDP of £257 billion offers significant opportunity. The region is growing fast, with average GDP growth of 4.1% over the last 10 years.

This Sector Complementarity Report highlights seven sectors in which the UK is well-placed to develop its commercial relationship with Central America. These are areas of business in which Central America wishes to develop further, and where UK has specific skills and abilities. They are:

- Agriculture;
- Education;
- Energy;
- Extractives;
- Infrastructure;
- Retail; and,
- Security.

For each sector we set out what is Central America's ambition, where the opportunity lies, how achievable it is, and what are the obstacles we will need to overcome. We also identify some specific commercial opportunities on the horizon. Working closely with industry, HMG will continue to pursue these priorities and ensure a greater share of UK business in this exciting and diverse part of the World.

For further information about the countries covered, please contact the following.

COSTA RICA – Luisa Pastor – luisa.pastor@fco.gov.uk

DOMINICAN REPUBLIC – Leonora Dipp – leonora.dipp@fco.gov.uk

EL SALVADOR – Ana Ochoa de Candray – ana.ochoadecandray@fco.gov.uk

GUATEMALA – Hector Marroquin – hector.marroquin@fco.gov.uk

HONDURAS – Hector Marroquin – hector.marroquin@fco.gov.uk

NICARAGUA – Luisa Pastor – luisa.pastor@fco.gov.uk

PANAMA – Romel Adames – romel.adames@fco.gov.uk



AGRICULTURE

CENTRAL AMERICA'S GOAL: PRODUCE HIGH QUALITY AGRICULTURAL GOODS THAT MEET LOCAL AND GLOBAL DEMANDS

SUMMARY

- Central American countries hope to improve agricultural production to ensure food security and increase exports.
- Good prospects in countries like Costa Rica and the Dominican Republic; local tangible results are achievable when partnering.
- UK companies have the expertise and are in some cases already involved or have started making contacts.

POTENTIAL GAINS

Central American countries have the capacity to produce agricultural products to meet their local demand. Yet exporting is more attractive because it produces greater revenue. Balancing both is difficult and necessary in a lower to middle income region. Agriculture has traditionally been the main productive sector, but there is ample room for modernisation. Resources can be limited and countries lack expertise, resulting in slow productivity growth. There is also limited land availability for expansion. Lack of technology and efficiency in production processes presents a business opportunity for UK expertise. From Central America's perspective, training and local partnerships present development opportunities; and exporting presents an invaluable opportunity to sell overseas at a higher price. Effective agricultural policies could improve food security, reduce poverty and combat inequality.

In 2013 the EU-Central America Association Agreement (AA) came into force, offering new opportunities for Central America to export to Europe. (The Dominican Republic was already party to a separate Economic Partnership Agreement with the EU). The EU immediately liberalised 91% of the tariffs faced by Central American countries. Duties on most food and animal products were eliminated entirely. This included most fruits and vegetables, coffee, spices and fish. Banana, sugar, beef, rice and rum are still subject to quota restrictions, but on much more generous terms. All seven countries also have an FTA with the US under DR-CAFTA or the US-Panama FTA.

- Costa Rica: A large majority of the goods Central America sells to the UK are food and animal products. Of that, roughly two thirds were bought from Costa Rica. Main agricultural exports include tropical fruits and coffee, and Tesco is one British company sourcing produce there. The Food and Agriculture Organisation (FAO) estimates that in 2011 Costa Rica sold US\$719m of bananas; US\$719m of pineapples; and US\$376m of coffee. The Inter-American Institute for Cooperation on Agriculture, headquartered in San Jose, is the America's agricultural research and cooperation centre.
- Dominican Republic: Main exports are bananas, sugar and cocoa (FAO). However the sector requires foreign investment and adoption of new technologies to support future growth and sustainability. The majority of products, equipment and machinery required by the agriculture sector are tax exempt.
- El Salvador: The country's main agricultural export is coffee – US\$464m in 2011 – although it has diversified into non traditional sectors like tuna and prepared foods. Tuna exports have increased thanks to a large investment from Spain's Calvo. Within the region, El Salvador sells the least agricultural produce to the UK.
- Guatemala: Agriculture remains a large part of the economy and employer. Exports include fruits, vegetables, coffee, spices and sugar. The country sold over US\$1 billion of coffee in 2011 and US\$649m of sugar, the latter making it the region's biggest exporter. Guatemala also produces mini-vegetables which are popular in the UK.



- Honduras: The country is a big exporter of fish products, especially prawns, and one of the largest suppliers of the UK in the region. Honduras is also the region's biggest coffee exporter – the FAO estimates sales of US\$1.4 billion in 2014. The Zamorano Pan-American Agricultural School in Honduras is a leading education centre that could work with the UK to improve local capabilities.
- Nicaragua: Top exports in 2011 were coffee and beef, whilst the country also produces soybeans on a large scale. Relatively little is currently sold in the UK.
- Panama: Fish products, coffee, fruit and vegetables are all sold overseas, as is sugar. Given its logistical capabilities and natural resources there is potential for many more agricultural products to be sold to the EU and UK.

ACHIEVABILITY

UK expertise in agriculture technology and techniques could help Central American countries improve productivity and output. In particular, the UK can support with: technologies to produce fertiliser at lower costs; heavy machinery, including service contracts; training in crop protection; tissue culture laboratories, e.g. for cocoa; Fairtrade certification; improved irrigation systems; mechanised fumigation equipment; processing, packing and cold storage; supply chain management; expertise in climate-controlled and precision agriculture; and forestry management.

Countries are also adapting sanitary and phytosanitary requirements in line with EU standards as part of the Association Agreement, creating opportunities for companies to source produce in the region.

OBSTACLES

Working with agricultural sectors can be challenging. They are often politicised and on occasion resistant to change. It is often easier to strike deals directly with local associations, education centres or producers. However, Ministries of Agriculture recognise the importance of modernisation and reform. The cost of UK products and expertise may be a deterrent but the quality is well understood.

Companies need to take into consideration local labour and environmental issues. The region is also one of the World's most vulnerable to climate change, increasing uncertainty for foreign investment. Other barriers include road and port infrastructure, custom procedures and sanitary requirements.

TOP OPPORTUNITIES

1. Sales of technology, training and equipment to improve productivity.
2. Sourcing Central America produce for sale in the UK and EU.



EDUCATION

CENTRAL AMERICA'S GOAL: IMPROVE THE EDUCATION SYSTEM; DEVELOP ENGLISH LANGUAGE AND VOCATIONAL TRAINING SKILLS

SUMMARY

- Central America, with the exception of Costa Rica, struggles with poor quality education systems and generally weak tertiary education systems.
- The UK is known for high quality educational products and services, and has the benefit of the English language.

POTENTIAL GAINS

Central American countries want to improve educational outcomes at all levels. In some cases even primary attendance is patchy, and resources to deal with such issues are limited, though vary across the region. There are challenges to raise schooling rates, improve educational infrastructure, reduce regional and gender disparities and to increase quality, competitiveness, efficiency and equality of education – at all levels. There is also a need to develop English language training – particularly in the public sector – and vocational skills in hotels and hospitality to boost growing tourism sectors. Training in sciences and engineering also need to improve, especially as States pursue ambitious infrastructure projects. Government budgets for education for education vary greatly. Costa Rica is committed to spending 8% of GDP annually on education, whilst Panama is one of the highest spenders per capita in Latin America. The Dominican Republic has recently committed to spending 4% of GDP on education – most of which is currently going on building new schools.

Governments are more frequently looking at foreign curriculum schools as a quick fix to primary and secondary education quality. The British curriculum is highly regarded. British curriculum schools already exist in El Salvador, Guatemala and Panama, with UK providers looking elsewhere in the region.

Increasing numbers of students are looking for opportunities to study overseas. Several countries in the region have budgets to sponsor overseas study, particularly at post-graduate level. For example, Panama has a budget of roughly US\$25 million in scholarships and US\$10 million in loans for students to study abroad, with the main focus on ELT, engineering, logistics and ICT. In both Costa Rica and the Dominican Republic money is also available for overseas study. In each case there are opportunities for UK universities, or for UK HE International Unit, to agree MOUs on students coming to UK institutions; or to agree direct exchanges/ joint courses with local universities. Where scholarships do not exist, there is still scope to encourage more student numbers to the UK.

Student choices at undergraduate levels are often professionally-aligned, focused on degrees which offer careers. Studying in the UK is perceived as high quality – but also as expensive. General awareness of UK higher education is low and Central Americans are more familiar with the US. For example, Panama's plan to develop a regional university hub in its City of Knowledge has so far only included US and Latin universities. Students would be attracted by the relative value of UK courses, links that UK universities have with businesses and industries, and the opportunities that many courses offer for hands-on work experience. There is also the opportunity to encourage research partnerships between UK universities and Central American institutions, taking advantage of natural resources or social/economic trends. Areas such as biodiversity, climate change, renewable energy, logistics and urban planning are of interest to UK researchers.

Finally, there are opportunities to provide educational goods – books, computers, software, classroom equipment – to supply both state and private schools.



ACHIEVABILITY

Working with Central American education systems can be challenging. Teacher unions are strong and, often, resistant to change. It is often easier to strike deals with private universities or scholarship agencies than Ministries of Education.

Although the UK's quality and strength in higher education is recognised, international competitors have often performed better. Many Central American universities have adopted the US education model, as the US is the market leader and first choice for studying abroad. Some US universities have campuses locally, which also provide English language training. Due to strong cultural and economic ties, Spain is also a popular destination. German and French agencies have been successful in making agreements with scholarship programmes in the region, guaranteeing certain numbers of students. Canada and Australia are also competitors, though they maintain a relatively low market share, whilst being recognised as good value. Mexico, Colombia, Chile and other Latin American destinations are also popular. Their success comes in part from taking the region seriously, attending education fairs and being proactive with other resources such as the use of webinars to attract individuals.

UK universities have also had success in striking deals, showing that there is openness to the UK offer. Working with a local partner is often a boost to chances of success. An increasing number of UK higher education institutions have shown interest in the region over recent years, including several visits, and Latin America as a whole is seen as a significant growth market. The quality of the UK offer is recognised, and delivery in English a significant attraction.

Better English language skills are desired across the region. UK institutions should be well-placed to benefit, but can struggle without a local presence, meaning costs are elevated. There are opportunities in training and exam certification but, again, having a local delivery partner is helpful. Equally there are opportunities in vocational training. Some countries are starting to develop sector skills councils, for example in hotels and hospitality and event management, as tourism grows. Equally there are opportunities in the retail and transport sectors to deliver training, qualifications and unification of standards.

OBSTACLES

Currently there is relatively limited knowledge of Central America in the UK, and vice versa, and little institutionalised engagement exists between universities. US universities are already well-entrenched in the system. It is often difficult to judge the reputation/success of Central American universities. Language can be a barrier to greater research links. A lack of existing local presence can make sustained engagement difficult. At times there is resistance to change and little stage revenue to support initiatives.

Another barrier is a relatively-low the level of English speaking. Students can also be put off applying due to their perception of the UK student visa process, which is not well understood.

TOP OPPORTUNITIES

1. Scholarship programmes available in Costa Rica, the Dominican Republic and Panama to send students to study overseas.
2. Panama's university hub.
3. English language training, across the region.
4. Vocational training in hotels and hospitality, event management, retail and transport industries, where UK strength is well-recognised.



ENERGY

CENTRAL AMERICA'S GOAL: TO INCREASE RELIABILITY AND REDUCE COST OF ELECTRICITY SUPPLY; REDUCE RELIANCE ON OIL IMPORTS; AND PURSUE RENEWABLE GENERATION SOURCES

SUMMARY

- Central American countries hope to increase the reliability of electricity supply, reduce generation costs and decrease expensive oil imports.
- UK has expertise in generation – particularly renewable – transmission and distribution, as well as energy efficiency and clean technology.

POTENTIAL GAINS

Central America's main energy objectives are:

- To increase reliability of supply, reduce energy costs and meet the energy requirements of growing populations – across the region, an estimated 7 (excludes DR) million people have limited or no access to electricity services. Regional energy demand increased 4.2% in 2011;
- To encourage private sector participation, including foreign investment;
- To reduce reliance on expensive oil imports; and,
- To further develop the SIEPAC regional interconnection project.

Currently, 62% of the electricity fed into the Central American grid comes from renewable sources, primarily hydropower. However, Central America has the potential to meet 100% of its electricity needs with renewable energy, with tens of billions of dollars of investment required to unlock the potential. Several assessments of the region's potential for renewable energy exist, with positive results, though many lack detail on specific technologies and geographic areas.

Despite the potential for renewable, Central American countries are increasingly reliant on imported fossil fuels, which now account for 45% of primary energy use. In 2010, petroleum imports in Central America totalled \$13.3 billion, or just under 8% of the region's gross domestic product (GDP), with domestic shares ranging from 5.3% in Costa Rica to 16.7% in Nicaragua. Across the region there are plans to construct new power plants, including coal and gas-powered, refineries and LNG terminals. Guatemala, Honduras, and Panama are the only countries in the region that operate coal-fired power plants, though the Dominican Republic is currently building coal plants in an attempt to reduce its oil bill.

Several countries have committed to sustainable energy development to varying degrees. Costa Rica leads the way with its ambition to be carbon neutral by 2021. Guatemala aims to generate 80% of electricity from renewable sources by 2027. Honduras' target is 60% of electricity from renewable sources by 2022 and 80% by 2038. Nicaragua hopes to supply 95-98% of electricity demand with renewable sources by 2017. El Salvador plans to have 70% of its energy generation from renewable sources by 2018. And the Dominican Republic is aiming for 20% renewable production by 2015. Most countries in the region also have policies in place to advance renewables. Tax incentives are ubiquitous, but the region also has positive experience with tendering for renewable energy projects. Mandates for biofuel blending also exist in three Central American countries. Some countries are taking steps to reduce dependence on oil for transportation. Panama, for example, has begun to electrify its public transport. Nicaragua has overcome its low overall investment ranking by facilitating a policy framework to support renewables and to improve legal security for investors in the sector.

The region is exploring its potential for expanding these technologies in a more sustainable manner. Estimated geothermal power potential is more than twenty times current installed capacity, and geothermal alone could satisfy



nearly twice the region's electricity demand to 2020. Existing regional wind power installations currently use less than 1% of the available resource potential. Most Central American countries boast 2–3 times the annual solar radiation of world solar energy leaders such as Germany and Italy. There is also considerable regional potential for waste-to-energy and bioenergy. With a long Pacific coast and large waves and tides, there may be opportunities for UK researchers to investigate the viability of marine energy generation.

Some countries in Central America have potential to energy hubs, selling to one another excess electrical energy. Guatemala, for instance, has plentiful supply of hydroelectric, geothermal and other resources. SIEPAC (Central America Electrical Interconnection Project) involves consortium of private and public companies from Central America, Mexico, Colombia and Spain. The plan is to create a regional electricity market that decreases the cost of electricity, increases continuity and incentivises investment. The 1,800 km transmission line from Panama to Mexico will allow for capacity of 300MW in both directions.

ACHIEVABILITY

The UK is well-placed to offer technical expertise in areas such as low carbon energy generation, carbon markets, consultancy and grid connection, as well as energy efficiency in existing technologies. Energy efficiency is starting to become priority, especially where losses in transmission are significant. The UK is recognised as a world leader in green technologies and energy efficiency, and trade missions to the region have proved successful.

The electricity market is for the most part liberalised, and already attracts foreign investors, including from the UK (mostly in wind farms and biofuels). In Costa Rica the majority of electricity generation is controlled by the state. However, a limited amount (from renewable sources only) can be privately produced. And in some countries distribution is also publically-controlled (e.g. the DR).

OBSTACLES

In the renewable area, there is significant competition from the US, Germany and Spain. In hydrocarbon generation competition from Latin American countries – particularly Mexico and Colombia – is also fierce. In several countries a transparent energy secretariat is in charge of tenders, but corruption issues can make winning international tenders difficult.

Social issues can present a significant barrier to success in several countries. Hydroelectric projects are controversial, particularly in countries where indigenous rights are high on the political agenda and there is a perceived exploitation of natural resources. Protests can be highly-politicised, even violent. Environmental issues also exist in a part of the world with vast biodiversity.

In transmission and distribution there can be problems with theft of supply or difficulties in collecting payments. This is particularly true where electricity supply reaches areas with little state presence. Tax structures and subsidies are often set up in a way that makes collection more difficult still, or excludes strategic industries from making full payment. Subsidised electricity is, in some cases such as the Dominican Republic, seen as a right by populations, despite the burden this implies for the state. It is also not uncommon for some governments to try to renegotiate contracts with suppliers.

TOP OPPORTUNITIES

1. Renewable energy investments across Central America and the Dominican Republic, taking advantage of tax and other incentives.
2. Investment in traditional thermal generation.
3. Helping countries obtain higher levels of energy efficiency through new technologies.
4. Waste-to-energy and biofuel production.



EXTRACTIVE INDUSTRIES

CENTRAL AMERICA'S GOAL: EXPLOIT NATURAL RESOURCES WHILST PROTECTING THE ENVIRONMENT AND INDIGENOUS RIGHTS

SUMMARY

- Although mining bans exist in some countries, there are opportunities in the Dominican Republic, Guatemala, Honduras, Nicaragua and Panama.
- Offshore oil and gas exploration is at an early stage in Guatemala, Honduras and Nicaragua, with some others exploring possibilities.
- UK companies have the expertise and are in some cases already involved in the extractive industries.

POTENTIAL GAINS

Central American countries have an abundance of mineral resources, including copper, tin, gold and silver. Governments want to take advantage of those resources to improve export performance, bolster foreign currency reserves and raise tax revenues – as well as providing a source of employment. However, mining is plagued by controversy. Past excavations have resulted in environmental damage. Indigenous groups are often opposed to mining where it takes place on their territory, and large swathes of the population support them in their objection. Nonetheless, foreign companies have been able to make large mining investments in Panama, the Dominican Republic, Nicaragua and Guatemala in recent years. And there are proven mineral reserves elsewhere that are yet to be exploited.

- The Dominican Republic has reserves of gold, silver, nickel and copper. A Canadian company recently made the country's largest ever (US\$3.7 billion) foreign investment in a gold mine. Once operational, the Government sought (successfully) to renegotiate the mining contract.
- Panama's biggest foreign investment will soon also be in mining – a US\$6 billion copper mine, again through a Canadian company. The Government has agreed to not mine in indigenous areas and the opposition to new mines remains substantial. Gold is currently the country's biggest export by value.
- In Nicaragua there are proven reserves of gold and silver. The Government is actively encouraging investment in mining and procedures have been made simpler through their one-stop investment shop. UK companies are active.
- Guatemala currently operates gold, copper and tin mines. Indigenous rights and social conflict issues have traditionally been provoked by mining.
- Honduras recently lifted a moratorium on new mining contracts after a ban.
- Both El Salvador and Costa Rica have suspended all current mining concessions, and existing licences are subject to legal proceedings (including UK companies in both cases).

Oil and gas present an additional opportunity in Central America. Guatemala is the region's sole current producer, where onshore oil extraction results in the production of 10 million barrels per day, a figure the country hopes to double by 2020. The country has recently tendered contracts for new areas of exploration, both on- and offshore. This offshore trend has extended to Honduras and Nicaragua, where there are opportunities to secure exploration contracts.



In Nicaragua the presence of oil/gas has been confirmed and current plans will see production of roughly 30 million barrels per day by 2019. Following the region's lead, Panama has passed a new law that modernises the regulatory framework for oil and gas exploration, after a geological study revealed the presence of oil in Darien Province.

ACHIEVABILITY

The UK faces significant competition from Canada in the mining sector. The majority of major mining contracts belong to Canadian companies. However, UK firms have started to make in-roads and are generally aware of the opportunities. In the oil and gas sector the competition comes mostly from the US, Spain, Canada and Mexico. However, UK expertise – particularly in the offshore sector – and experience of successful exploration and exploitation worldwide provides a good basis to pursue opportunities in these sectors.

UK companies are already active in the extractives industry across the Americas, which bodes well for Central America. In mining the UK has large projects in Chile, Colombia and Peru, whilst in oil/gas exploration there are UK contracts in Brazil, Trinidad and Tobago and Guyana. Oil and gas companies maintain a large presence in Houston, making Central America easily accessible to their business.

OBSTACLES

In countries where mining and hydrocarbon exploitation is encouraged, the main obstacle remains social conflict. Bad past experiences – including environmental damage and the perception of a lack of compensation for local groups – has led to a situation where new projects are often met with scepticism and opposition, sometimes violent. In most cases community involvement in contract-making is essential, particularly in areas where government reach and visibility is limited.

Economic hardship and inequality between rural and urban areas make the situation more vulnerable – local populations can sometimes be easily persuaded to oppose new projects. This is compounded by poor communication by national authorities. Finding a means to channel a proportion of profits into local communities, and communicate that, is vital to success.

Schemes such as the Extractives Industries Transparency Initiative (EITI) and the Voluntary Principles on Security and Human Rights (VPs) can help UK companies operate in areas of significant social conflict. Honduras has been recently accepted as an EITI member and committed to a two year plan (2013-2015) to improve areas such as transparency and accountability. Guatemala has also signed up to EITI but has made limited progress. HMG is actively encouraging more countries in the region to sign up to both initiatives.

An additional obstacle is the reliability of long-term contracts with governments. As an example, the Dominican Republic recently revised the country's 2009 contract with (Canada's) Barrick. The gold mine is the largest foreign investment ever in the Dominican Republic at US\$3.7 billion. However, an inherited fiscal crisis led the Government to renegotiate the terms. Equally decisions in El Salvador and Costa Rica to suspend mining licences – even those legally obtained – show the risks associated with a change in the political climate.

TOP OPPORTUNITIES

1. Oil production/exploration in Guatemala.
2. Gold, nickel and copper mining in the Dominican Republic, Panama and Nicaragua, including supply chain opportunities.
3. Oil production in Guatemala.



INFRASTRUCTURE

CENTRAL AMERICA'S GOAL: DEVELOP TRANSPORT INFRASTRUCTURE TO MEET DEMANDS OF MODERN, GLOBALISED ECONOMY

SUMMARY

- Central America countries are modernising national infrastructure in an effort to compete globally and improve citizens' welfare.
- Major projects include new ports, airports, railways, bridges, roads, housing, logistics parks and, potentially, an inter-Oceanic canal in Nicaragua.
- Opportunities for UK companies in town planning, design, architecture and engineering of major projects. Also opportunities in heavy machinery; equipment and security for transport services; and expertise in project financing, including public-private partnerships.

POTENTIAL GAINS

Public expenditure on infrastructure in Central America has increased rapidly in recent years. Leading the way is Panama, which has spent over US\$14 billion over five years. Projects include new roads, ports, airports, housing and bridges – and does not include the US\$5.3 billion Panama Canal expansion, due to be complete in 2015, which will then transport 8% of world trade. Other countries in the region are following suit, with a particular focus on transport infrastructure. There are major port developments ongoing or about to commence in Costa Rica, Honduras, Guatemala and El Salvador. Airport expansions are taking place in Panama and El Salvador, Central America's two hubs. Nicaragua has recently approved a 100 year concession to a Chinese company to construct an inter-Oceanic canal, including new ports, airports and an oil pipeline. And Guatemala is planning to construct a dry (rail) canal, also to include oil and gas pipelines, logistics parks and port expansions.

Central America's objective is to create infrastructure which facilitates international trade and encourages inward investment, taking advantage of its strategic location between the Americas. The major focus is therefore on transport systems. However, there are other opportunities in waste and water management and energy. The contribution towards GDP of construction in the region currently stands as: Panama - 17.4%; Honduras - 6.4%; Nicaragua - 5.3%; Costa Rica - 5.1%; El Salvador - 3.0%; Guatemala - 2.8%; and the Dominican Republic – 4.1%.

International institutions (Inter-American Development Bank, World Bank and CAF) have financed many projects in Central America, resulting in higher standards of public procurement procedures. Public-private partnerships are starting to develop. In Honduras, Guatemala and El Salvador there is specific legislation allowing for PPP structures, though they have not been tested yet. Panama does not have such legislation but wants to use PPP for specific projects, including possibly further expansion of the Panama City Metro.



ACHIEVABILITY

Private sector and foreign participation is generally welcome in both construction of transport assets and provision of transportation services – especially where there is a lack of capacity to do so locally. Most of the largest port facilities are managed by major foreign operators, following past privatisation processes. Airports on the other hand are usually managed by governments, but there are opportunities in the design and construction of new terminals.

The region has some very active construction firms, but they often lack the technical expertise to deliver on the full range of projects. In construction there is major competition from European, US and Latin American competitors. UK companies are unlikely to win, for example, road building contracts. However, the UK has globally renowned expertise to offer in sustainable construction related consultancy, urban regeneration, engineering and design. In particular, UK firms with expertise in creative and technical services should be well-placed to win business. There are also clear areas for joint cooperation, using UK strengths in consultancy. The UK also has an expertise in city planning, and a growing reputation in urban development and regeneration, stemming from 40 years of dealing with post-industrialised urban areas. Currently there are only a few UK businesses already active in bidding for infrastructure contracts in the region. Halcrow has been providing engineering consultancy in Panama since its ports were privatised in the 1990s. Mabey Bridge has a long history of building steel bridges. Foster and Partners have designed and will provide engineering services for Panama City's new airport. And many UK companies are establishing offices in Colombia and Brazil to enable bidding for some of Latin America's big infrastructure opportunities. In the past, Central American contractors have looked to US, Spanish, German, French, Italian, Brazilian and Mexican companies for assistance. Several foreign companies have been assisted by export guarantees provided by development banks in their country. The development of local relationships is very important, and companies are advised to establish a full-time local presence.

OBSTACLES

As in other Latin American markets, there are issues with corruption in some government tendering processes. However, foreign expertise is needed and welcomed, and so governments will make efforts to attract UK expertise and the prestige they can bring. Bidding rounds organised by international institutions are clean, as are those of the Panama Canal Authority.

Constructors from other countries have been active in the market for many years. UK companies need to find means of establishing themselves locally, which means dealing with issues such as local labour law requirements. But these can be overcome and a local presence, or partnership with another active company in the market, is essential to winning contracts.

Social conflicts can present problems, particularly in projects that involve construction through indigenous territories.

TOP OPPORTUNITIES

1. Panama City Metro – construction of lines 2 and 3, including a fourth bridge over the Panama Canal to accommodate light rail.
2. Panama Canal projects – up to US\$12 billion in investment in maritime services, port developments and logistics parks.
3. Ports developments – major port developments in Honduras, El Salvador, Panama and Costa Rica – as well as management contracts.
4. Airport expansion in El Salvador, worth some US\$250 million.
5. Inter-oceanic Canal projects in Nicaragua and Guatemala, should they get the go-ahead.



RETAIL

CENTRAL AMERICA'S GOAL: OBTAIN HIGH QUALITY GOODS THAT SATISFY DEVELOPMENT NEEDS AND PREFERENCES OF A GROWING MIDDLE CLASS

SUMMARY

- Central America's retail sector is reasonably-well integrated.
- Main opportunities for UK companies are in fashion and food & drink, forming partnerships with local groups that dominate the sector.
- UK retailers have been relatively slow to reach Central American markets, giving a lead to Spanish, Italian and French competitors.

POTENTIAL GAINS

Central American countries are relatively small – the largest population is Guatemala with 15 million people and largest economy is the Dominican Republic at US\$59 billion. However, combined together the region's population is 54 million with a GDP of US\$257 billion – a more attractive proposition to UK exporters. The market is host to a growing middle class whose purchasing power is growing due to economic growth and remittances (US\$18 billion in 2012) from the US. Central Americans are brand-conscious and have had exposure to UK products that are available in the US.

There is a trend of commercial integration in the retail sector in Central America. Mall developers, department stores, brand representatives and franchisers in the region have developed alliances with foreign brands, competing for regional deals and facilitating a regional approach to the market. Closing a deal with one of these key stakeholders can offer access to the entire regional market. The biggest players are Panamanian distributors which have a competitive advantage due to better connectivity and the logistics services and tax advantages offered by the Colon Free Zone. Real estate developers in El Salvador and Guatemala have built malls across the region, which they also manage. Venezuelan real estate groups also have a regional presence.

Central American countries (excluding the Dominican Republic) are also integrating economically. The Association Agreement (AA) between Central America and the EU, which recently entered force, provides legal certainty within the entire market based on a standard set of trade rules including an adequate and effective protection scheme for intellectual property rights. The AA also provides for a progressive reduction of import duties. In the specific case of clothes and shoes, this reduction is set to be implemented in ten annual stages, whilst tariffs on most food and drink have been cut immediately. As part of the AA, there is also a commitment towards harmonisation of customs procedures. The Dominican Republic is not involved in the AA, but is party to an Economic Partnership Agreement with the EU.

Panama plays a key role as a distribution hub for the wider region. The Colon Free Trade Zone is the second largest in the world after Hong Kong, with \$30 billion in trade done annually buying and redistributing goods to CA, the Caribbean and the northern part of South America. International retailers such as Diageo, Adidas, BMW, Proctor & Gamble and Samsung have established regional distribution HQs in country. Panamanian companies have capitalised on this, closing regional deals with many European brands. Panama is also important as a regional showcase for brands. Its connectivity, safety and dollarised economy have made it a shopping hotspot, attracting wealthy Colombians, Brazilians and Venezuelans. Panama and the Dominican Republic have a market for luxury goods, less common elsewhere in Central America.



In 2008 Central American supermarkets formed a strategic alliance called SUCAP (Supermercados de CentroAmerica y Panama). SUCAP groups 16 supermarket chains with 281 stores and annual sales up to US\$2.2 billion. The alliance buys bulk products that the companies have in common to access better prices and compete with international players such as Walmart, offering a large market to UK food, drink and other exporters.

ACHIEVABILITY

In many parts of the region foreign retailers are not permitted by law to operate. For that reason business alliances with local partners (who will often represent the brand across the region) is usually the easiest way to market, although some brands have been able to operate as a local subsidiary.

With new mall developments underway, developers and local partners are eager for new brands, and UK brands have a strong reputation. The success of products such as whisky, Land Rover and Mini reveal a fondness for the British brand. The legacy of the 2012 Olympic Games means that Britain is 'in fashion'. Nonetheless, UK brands have been relatively slow to reach the Central American market – and Latin America more broadly. French, Italian, Spanish and US brands are all present already across the region. A growing middle class and buying power, however, means there is room for more – but the competition can be fierce.

Embassies in the region are actively promoting British products, including through trade missions. Good relationships with local partners exist and we are aware of many actively seeking British brands to work with. The following UK fashion brands are already in the market: Jimmy Choo, Hackett, Karen Millen, Lush, Accessorize, Clarks, Mothercare, Thomas Pink, Ted Baker, Burberry, Ben Sherman, SuperDry and Firetrap.

OBSTACLES

The main obstacle is legal barriers to foreign retailers operating. This can be overcome by working with a local partner, but this carries the risk of reputational damage to the brand should the right partner not be selected. For some brands this is a red line. Choosing the right local partner and due diligence are therefore extremely important. Specifically in the Dominican Republic, Law 173 acts as a barrier to ending a local distribution agreement.

Another risk to the brand is the quality of local skills and human capital in the retail sector. In some countries finding good quality staff can be quite difficult. Staff training represents an additional cost. Security is another issue, although most shopping is done in malls which are well secured.

A major difficulty is the lack of awareness amongst UK brands of Central America's potential. Those brands looking at Latin America will typically target Mexico and Brazil, given their market size. However, Central America is an easy entry point into Latin America, and its location and connectivity makes it a good stepping stone into the region, taking advantage of Panama's connectivity.

TOP OPPORTUNITIES

1. Striking a brand representation deal with a Panamanian local partner.
2. Relationships with Salvadorean mall developers or department stores.
3. Panama and the Dominican Republic's growing luxury market.
4. Food and drink sales contracts with SUPAC.



SECURITY

CENTRAL AMERICA'S GOAL: STRENGTHENING SECURITY IN CENTRAL AMERICA: AN OPPORTUNITY FOR UK BUSINESS

SUMMARY

- Central America spends over US\$1 billion annually on public order, safety and justice.
- The main opportunities for UK companies focus on security equipment, data-security and expertise/training.

POTENTIAL GAINS

Insecurity – mainly from organised crime – is the primary threat to Central America's development. Responding to the need to tackle it, the Heads of State of Central America, Mexico and Colombia approved the Central American Security Strategy (ESCA) in 2011, an instrument to guide the coordinated actions to tackle insecurity and some of the root causes.

The region invests huge sums in tackling crime – over US\$11 billion 2007-10. Data from the Economic Commission for Latin America and the Caribbean (CEPAL) show investments of US\$457 million in defence; US\$1.6 billion in security; and US\$1.58 in justice in 2010 alone. Motivated by internal security concerns, particularly counter-narcotics operations, the public expenditure in this sector is increasing rapidly. Currently, El Salvador is the country in the region that allocates the largest amount of its GDP (2.8%) to security and justice. Surveillance and police patrols are the main recipient of public spending and have been increasing in recent years. According to the UN Development Programme, National Police Forces have traditionally been the key player in the Central American security policy.

Rising insecurity rates and perception of the governments' inability to tackle and manage the impact of crime have resulted in an increased use of private security services – including a number of UK security companies. The Northern Triangle of Guatemala, Honduras and El Salvador has the highest concentration of these services mainly due to the impact of organised crime and the "maras" or gangs. The region invests more than \$600 million/year in private security alone (World Bank).

International cooperation in the region has an important role in supporting governments' efforts; the Inter-American Development Bank (IDB) estimates donations exceeding \$490 million from 2008-2011, with funding from different sources including the US and EU. The region also receives donations from the Organisation of American States, World Bank and the Central American Bank for Economic Integration; as well as benefiting from cooperation with Mexico, Chile and Colombia.



ACHIEVABILITY

The private security sector in Central America is large and growing fast. This has raised concerns about the lack of adequate oversight of the industry and the lack of resources for law enforcement in the region. These concerns are particularly pertinent in the North Triangle.

Security guards outnumber police in Guatemala by a ratio of four to one. Honduras, the most violent nation in the world in terms of its homicide rate, has twice more private security personnel than police officers (29,000). In El Salvador there are about 25,000 private security agents compared to 20,000 national police. Even in Costa Rica, considered a bastion of relative security and rule of law in Central America, has twice the number of security guards than policemen (13,000). Nicaragua and Panama have the region's best safety records.

Private security companies can be a necessary tool for companies doing business in the region. Local police forces typically lack the resources to adequately protect the private sector from criminal forces, fuelling the demand for private security. UK companies such as G4S and CSC are already heavily involved across the Central America region.

OBSTACLES

UK export licenses are required for some security related exports – and all applications will need to comply with the Consolidate Criteria, including human rights. At a local level there are difficulties in the issuing of licences for security companies to operate; this is linked to the lack of proper regulation of the private security industry.

Another risk is institutional weakness. The lack of coordination between the security sector and judicial institutions, and the lack of capacity and funds to work effectively, also impact on governments' capacity to fund contracts with foreign suppliers.

TOP OPPORTUNITIES

1. Security Clothing and Equipment: for protection and surveillance.
2. Data-security: to prevent identity fraud and for data management for criminal investigation/intelligence and for the Prison System.
3. Cyber: Assisting Central American countries to develop cyber policies and capabilities.