

CONCRETO CUADRAS SA de CV¹

Managua, Nicaragua

A sleepy Sergio Cuadras nearly dropped the phone as his frantic night foreman called him at home to report that an employee had just been electrocuted at the plant. In a flash, Sergio raced to the office, baffled as to how the accident could have occurred. Arriving at the Concreto Cuadras (C²) plant just behind the ambulance, Sergio maneuvered through the mingling crowd that had gathered as news of the injury quickly filtered through the nearby lower class neighborhood where many of his employees lived. Ignoring the group's hostile comments and angry stares, he made his way to the shop floor and received assurances from the medical team that the injuries were not life threatening. Afterwards he questioned employees who were present at the time of the incident only to discover hours later that the injured man's friends had distorted the electrocution story to place blame on Sergio for maintaining an unsafe plant. In fact, the plant was not unsafe. The accident occurred because workers were operating the equipment improperly, despite posted signs and extensive training.

At 6:00 a.m., an exhausted and preoccupied Sergio began his drive back to his central Managua home. Recent events made him question his career decision to start his construction business in Nicaragua, now two and one-half years old. A few weeks earlier he had fired a senior employee who had been stealing thousands of dollars worth of raw materials. There were constant personnel challenges, and the faux electrocution was just the latest.

Furthermore, Sergio was concerned about the upcoming November 2001 elections that were only five months away. The entire business community was wary. Economic activity had already slowed significantly as many investors were reluctant to risk their money given the uncertainty over the election's outcome. A possible socialist victory might create a very unfavorable climate for business.

Adding to these thoughts was his recent phone call from an old employer in Miami who was interested in offering Sergio a very attractive position in his former company. While C²'s

business had not been great this year, the preceding year had far surpassed his expectations. He was gradually making a name for himself as a quality contractor, and he was anxiously awaiting word on one of his largest jobs yet, a \$60,000 contract with a prominent real estate developer in town. Maybe it would just be easier to sell the business and go back to the U.S., Sergio thought. One thing was clear: if he decided to stick with his Nicaraguan construction business, he was going to have to address some fundamental issues in the very near future.

Nicaragua

Nicaragua, the largest country in Central America (about the size of New York State), is one of the poorest countries in the Western Hemisphere and it has been plagued by political unrest and natural disasters for much of its history.

Exhibit 1 presents a map of the country and **Exhibit 2a** shows macroeconomic indicators comparing Nicaragua with other countries in the hemisphere.

After gaining its independence from Spain in 1821, Nicaraguan politics were predominantly characterized by infighting among its oligarchs. The chaotic situation culminated with the arrival of a U.S. buccaneer, William Walker, who assumed the presidency for a two-year period in the mid 1850s and afterwards proposed that Nicaragua be annexed into the U.S. as a slave state. The combined forces of the British Navy, Central American opposition, and Cornelius Vanderbilt eventually succeeded in removing Walker from power in 1857.

After 30 years of relative tranquility, U.S. relations with Nicaragua turned antagonistic in the early 20th century. Upset that Panama had been awarded the canal, the local government moved to construct a competing passage with the help of Japan and Germany. When infighting erupted among local politicians, 2,700 U.S. Marines arrived in 1912

to help restore order. The U.S. military presence continued virtually uninterrupted until 1933.

Exhibit 1

Map of Nicaragua



Source: CIA Factbook

In 1937, the head of the U.S.-trained National Guard, Anastasio Somoza, assumed the Presidency of Nicaragua, a position that he and one of his sons held for 32 of the next 42 years. When not directly in power, the family continued to maintain enormous influence over government affairs and did not hesitate to orchestrate regime change if interim Presidents exercised too much independence. During much of the Somoza dynasty, Nicaragua was characterized by macroeconomic growth, swift repression of opposition, and close ties to the United States. Indeed, it is thought that Franklin Roosevelt's alleged quote, "He might be a son of a bitch, but he's *our* son of a bitch," was a reference to the eldest Somoza who immediately followed the U.S. lead in declaring war on the axis powers after the Japanese attack on Pearl Harbor.

In 1972 an earthquake decimated Managua for the second time in forty years, killing more than 10,000 people. Somoza's youngest son, known as "Tachito," appointed himself director of emergency relief efforts and was widely believed to have diverted tens of millions of dollars in international aid to his private coffers. Such behavior only galvanized support for opposition groups, especially the National Sandinista Liberation Front, also known by its Spanish acronym FSLN. Formed in 1962, the FSLN was named for Augusto Sandino, a Nicaraguan revolutionary general who fought against the U.S. military presence in Nicaragua and was assassinated by the eldest Somoza in 1934. Throughout the 1970s, the Sandinistas stepped up

their guerilla-style efforts to overthrow the dictator. After the 1978 assassination of a popular opposition newspaper publisher, Pedro Joaquin Chamorro, the remaining international and domestic tolerance for "Tachito" virtually collapsed and opposition forces succeeded in toppling the Somoza regime in mid-1979.

Once the FSLN consolidated power under Daniel Ortega, it instituted widespread social, political, and economic changes. While services such as health care and education improved for many of the country's poorest, the Marxist economic policies promoted by the new government also allowed for the nationalization of large private sector holdings, including land and commercial enterprises. Many of these assets were then redistributed to supporters of the revolution. In the early 1980s, the United States, which was politically unsupportive of the Sandinistas and wary of their close ties to the Soviet Union and Cuba, cut off economic aid and began funding counterrevolutionary military forces, or *contras*, a controversial practice that eventually led to the infamous Iran-Contra Affair.

Sandinista efforts to create a mixed economy with a large state sector failed miserably in the midst of a depressed international economy, the economic and military intervention of the United States, and the "brain drain" caused by the flight of many business leaders. The country suffered through hyper-inflation as high as 13,500 percent. As the economic situation deteriorated throughout the 1980s, the Sandinistas curtailed civil liberties to silence dissent.

In February 1990, elections were held under a Central American peace initiative and Violeta Barros de Chamorro, a political moderate who headed the opposition coalition and the widow of the slain publisher, defeated Daniel Ortega. After the election, the United States lifted its embargo and the *contras* ceased fighting. While some economic reforms were begun, much of Chamorro's efforts were spent holding together a fragile peace between the Sandinistas and their opponents.

Ortega ran again in the 1996 elections, this time losing to Arnoldo Alemán, leader of the Liberal Alliance and former Mayor of Managua. While economic growth increased significantly during Alemán's tenure, the President was dogged by corruption allegations from the beginning of his term. In 1998, Nicaragua was among the many countries affected by Hurricane Mitch, suffering an estimated \$1.5 billion in damage – around half its GDP – erasing much of the economic gains made since the beginning of the decade.

The climate in mid 2001 was rather tense. The global slump affecting much of the world was exacerbated in Nicaragua due to depressed coffee prices, by far the country's largest export, and the uncertainty surrounding the upcoming Presidential elections. Recent polls indicated that the November elections were very close – a statistical dead

heat – pitting the perennial Sandinista candidate, Ortega, against the Liberal party's Enrique Bolaños, a businessman who had many of his assets confiscated during Sandinista rule and who served as vice-president during most of the Alemán administration. The U.S. Government was public about its anti-Sandinista stance. It was one of many groups that favored a third party candidate's withdrawal from the race to tilt the balance in favor of Bolaños.

In many municipalities, the situation was even more dire. Given the strong power of the central government and its inefficient taxing schemes, local officials were often relegated to making spending decisions within their limited budgets. This system led to municipal spending that went to projects benefiting members of the sitting mayor's political party rather than projects in the best interest of the town. With the exception of Managua, where most of the country's economic activity was concentrated, municipalities were in a constant struggle to find resources to provide needed local services. It was not uncommon for 90 percent of a municipality's budget to be covered by donations from international aid organizations. [Exhibit 3](#) presents a list of Nicaragua's largest cities.

Sergio Cuadras

Sergio Cuadras was born into a prominent Nicaraguan family in the early 1970s. Later in the decade, Sergio's father, a very successful and well-connected business executive, recognized that the country was becoming increasingly dangerous and decided to take his family to Miami, Florida about one year before the Sandinistas toppled Somoza. The family had valuable undeveloped commercial property as well as retail outlets confiscated by the FSLN after they came into power. Sergio held the Sandinistas, and especially Ortega, directly responsible for many of the economic troubles plaguing Nicaragua. "Not only did they destroy the country's productive assets, they changed the economic culture. Even though we have been free from direct Sandinista rule for ten years, the affects will linger for a long time. This is why I am so worried about the November election," Sergio lamented.

Sergio quickly adjusted to his adopted country in Florida and, like many Nicaraguans who came to the United States during this period, he was granted citizenship. After graduating with a degree from the University of California, Sergio spent a year in his native Managua working for an architectural design firm before returning to the U.S. to obtain his Master's degree. Upon completion of his schooling, Sergio opted to join a large construction firm in Miami where he managed several multimillion-dollar projects for some of the company's most important clients. During this time, Sergio gained invaluable project management experience as well as a thorough understanding of construction budgeting.

Exhibit 3 Major Nicaraguan Cities

| Major City Populations (thousands) | |
|---------------------------------------|------------------|
| City | Population |
| Managua | 1,200 |
| Matagalpa | 127 |
| Chinandega | 130 [^] |
| Leon | 184 |
| Masaya | 139 |
| Esteli | 107 |
| Granada | 113 [^] |
| | |
| Nicaragua | 4,918* |

Sources: CIA World Factbook, Instituto Nicaraguense de Fomento Municipal

[^] Casewriter estimates based on 1995 census and historical growth rates.

After two years he left the company to work for a medium-sized architectural firm where he oversaw teams of architects engaged in the design of a national supermarket chain. While leading the effort, he became convinced of the value of designing simple yet functional structures that were aesthetically pleasing to the public.

It was the year that Sergio spent in Nicaragua immediately after college, however, that permanently changed his outlook. "It was a strange feeling. For a while I could not put my finger on it. I left Nicaragua when I was really little, and the few times I went back, it was for short periods of time, so the year I spent there right after college was pretty eye-opening for me. After completing my Master's degree, I had these really great opportunities in Florida. I was enjoying my work and doing well for myself, but it did not feel right. My country has gone through a lot of turmoil over the past 30 years and one day I woke up and realized that I wanted to be there. I knew it was going to be tough. Most of my family was still in the United States and certainly my quality of life would be much different in Managua, but Nicaragua sorely lacked talented people. I felt that there were financial opportunities for someone with my background and along the way I could make a difference."

Having made up his mind, Sergio set to work on developing a blueprint to make his vision a reality. After several months talking with family and friends, Sergio decided to combine his skills in architecture and construction management and found a company that would make and install decorative concrete structures (walls and floors) for residential and institutional clients. Having only \$25,000 in savings, Sergio approached his father who

initially contributed \$15,000 to the business.² The remaining \$50,000 in start-up capital was obtained from a Nicaraguan commercial bank loan at 17 percent interest secured against the assets of the firm. With these funds, Sergio rented and restored an old warehouse on the outskirts of Managua to serve as company offices and manufacturing facility, and he imported the capital equipment he needed to make his business operational.

Nicaragua Construction Industry

After contracting sharply throughout the 1980s, the Nicaragua construction industry rebounded for most of the next decade, posting a compound annual growth rate of 16.3 percent since 1991. [Exhibit 4](#) contains statistical information on the Nicaraguan construction industry.

Exhibit 4

Statistics on the Nicaraguan Construction Sector

| Year | Construction Investment (\$ millions) | | | Sector Change |
|------|---------------------------------------|----------------|----------|---------------|
| | Public Sector | Private Sector | Total | |
| 1991 | \$84.06 | \$12.54 | \$96.60 | |
| 1992 | \$84.81 | \$19.77 | \$104.58 | 8.26% |
| 1993 | \$84.65 | \$21.52 | \$106.17 | 1.52% |
| 1995 | \$91.02 | \$25.73 | \$116.75 | 9.97% |
| 1996 | \$110.97 | \$41.81 | \$152.78 | 30.86% |
| 1997 | \$114.58 | \$70.72 | \$185.30 | 21.29% |
| 1998 | \$123.22 | \$87.52 | \$210.74 | 13.73% |
| 1999 | \$207.04 | \$116.30 | \$323.34 | 53.43% |

Source: Central Bank of Nicaragua

At the beginning of the 1990s, about 90 percent of the funds invested in the construction sector were centered on rebuilding the country's decrepit infrastructure. The growth in economic activity following the consecutive victories by Chamorro and Alemán, however, brought considerable new private investment into the residential and commercial sectors, collectively accounting for more than a third of construction expenditures by the end of the decade. The construction industry was one of the primary recipients of foreign investment as well as repatriated capital. There was significant building of new hotels designed to boost the country's meager tourist industry. One observer noted that "when people start building things, it's a sign that they feel

secure. You can always run back to Miami with your bank account. But you can't take a building with you."³

In 1999, the Nicaraguan Ministry of Transportation and Infrastructure reported that there were more than 1,300 firms that provided construction services or that combined construction activities with design and project management.⁴ More than 70 percent of these firms were believed to be located in Managua where an overwhelming portion of construction activity was historically concentrated. However, the vast majority of these firms were micro enterprises with fewer than five employees. As in much of Latin America, an overwhelming majority of the informal sector was small enterprises that avoided paying income and sales taxes by handling many transactions in cash.⁵ Companies that avoided paying income taxes and failed to charge sales tax of customers were believed to have a competitive advantage over companies that complied with the law since their costs of business were effectively lowered. Many owners of medium and large-sized businesses from all sectors of the economy felt frustrated competing in this environment.

Despite the small size of many construction firms, the industry in total was believed to employ nearly 6 percent of the nation's economically active population in 1999, making it an important source of jobs for a country whose official unemployment rate hovered around 20 percent. Many of the jobs, however, were temporary in nature, in no small part due to the seasonality of the construction industry. December and January were historically slow months, as was the Easter season. The country also endured a six-month rainy season from May to October, often slowing the pace of work. A recent study performed by a U.S.-based research organization on behalf of the Nicaraguan Government showed that the majority of construction firms in the country were less than ten years old and only 15 percent had been in business since the 1980s.

Concreto Cuadras

For C², the majority of 1999 was spent setting up the plant and hiring and training employees. Early on, Sergio decided to create two companies under the C² umbrella, with different sub brands. One company manufactured prefabricated concrete walls, and the other was a field services organization responsible for installing the walls and decorative floors. See [Exhibit 5](#) for a C² organization chart. "I decided on this organizational structure for two important reasons," said Sergio. "First, just about all my jobs require competitive bidding for the manufacture of walls and the installation of floors and walls. From a customer perspective, I felt it is better to have two different organizations that each do one thing very well, as opposed to one company that tries to do everything. The second reason is that the labor laws governing the manufacturing and installation functions are pretty different since one side

is production and the other side is service. This organization structure provides me with more flexibility.”

In practice, about 65 percent of the jobs Sergio bid on for production of prefabricated walls he also won the contract for installation. In these instances, the manufacturing arm would sell the completed wall to the in-house installation company which would then be paid by the client. In those cases where Sergio did not do the installation work, the firm winning the installation contract would pay C² for the concrete materials. Since all floor work was performed on site, these transactions were handled completely by the installation company.

Sales & Marketing

Thus far sales and marketing efforts for C² had been primarily through word of mouth. After each completed project, Sergio would put up a promotional sign with C²'s information which would remain at the site for a few weeks after the work was completed. The company also took out periodic advertisements in one of the country's largest newspapers. About 65 percent of C²'s revenues came from institutional clients such as corporations, federal and local governments, and non-governmental organizations including the World Bank and United Nations. Although these clients contributed a large portion of the firm's revenues, together they only accounted for about 20 percent of total contracts. The remaining customer base was made up of homeowners whose orders averaged about \$4,000. Though the jobs were smaller, these residential customers were very important because they provided the company with needed cash flow. Payment terms for institutional clients were generally spread out over much longer periods of time and delays in payment were common.

Sergio was interested in developing additional means of promoting the company. Presently there was one business development representative. He and Sergio were responsible for bringing in new business. Most of their efforts, however, were reactive as potential customers generally initiated the first contact. Sergio explained the challenges associated with marketing his nascent firm. “In the construction business, new clients are essentially generated by old business in the form of referrals or via reputation. If someone sees a nice walkway or wall, they want to know who did the work. It is all about getting eyeballs on your work. At the same time, it is difficult to convince someone they need to make a large decorative investment in their home or business if they are not already thinking about it.” [Exhibit 6a](#) and [Exhibit 6b](#) show some of the photos appearing in promotional materials distributed to prospective clients.

Bidding

When a request for proposal arrived, Sergio would consult with his key staff members and then submit a detailed bid, including price and delivery time. Once the bids were

submitted, prospective clients would frequently go back and conduct informal discussions with contractors to see if those whose bids were not the lowest might drop their original price. For this reason, initial bids were generally much higher than the eventual contract price. Once the bid was secured, Sergio would set about procuring the necessary raw materials and generally construction would commence within a week.

Contracts were flexible to allow clients the opportunity to change requested sizes and designs. Responsibility for the production of prefabricated concrete walls rested with the plant supervisor, while installation work was the responsibility of the field services supervisor. Sergio spent much of his workday visiting the construction sites and resolving any problems that arose on the job as well as talking with clients about progress on their projects.

Operations

At full capacity, the C² plant ran in two ten-hour shifts, though the number of hours fluctuated based on workload. Depending on the number of projects underway at any one time, the total number of employees varied from 30-45 people, considerably larger than most firms with five or fewer employees. During the day shift, the average number of employees working at the plant was 15. If an evening shift were needed, a few of the day shift employees would work overtime and an additional four people would be brought in, for a total of nine employees. The number of workers on a given field crew depended on the size and complexity of a job. The norm was generally a crew of six.

The plant held a number of different machines to make prefabricated concrete walls. Concrete was mixed in large mixers and then poured into a separate machine that processed and vibrated the concrete to assure proper consistency. Once this step was complete, the concrete was left in the machine to cure completely, a process that generally took about 12 hours. Once pieces of wall were finished, they were set aside for delivery to the project site. Far and away the most expensive item for C² was the pouring and installing of posts. Because of their size and the amount of concrete used to manufacture them, posts accounted for about 80 percent of the cost of a wall. See [Exhibit 7](#) for a graphic depiction of wall installation.

The installation of floors was handled on site by the field services team. Generally the process of floor installation included leveling the ground where the floor was to be laid followed by spreading the mixed concrete over the area. The most expensive materials for these projects were the concrete and imported additives that were used to provide texture and coloring. Time spent installing a floor depended on its size and the intricacy of its design.

Labor costs in Nicaragua were among the lowest in the hemisphere, with the average construction worker earning about \$65 per month at the current exchange rate. See

Exhibit 8 for historical dollar-Cordoba exchange rates. At C², Sergio paid roughly \$20 above the monthly average to his employees. Even though labor expenses accounted for less than 10 percent of total sales, “without a doubt,” Sergio lamented, “labor is my number one problem. I pay more because the time it takes to bring in someone new and train them on the equipment is an investment in time and resources, and I do not want them running off to earn an additional \$5 per month somewhere else. Sadly, it has not worked out exactly as I had planned. Employee turnover is still a problem for us, as is employee loyalty.”

Exhibit 8

Average Cordoba Exchange Rate for US \$1

| Year | Average Exchange Rate |
|--------|-----------------------|
| Jun-01 | 13.41 |
| EOY-00 | 12.68 |
| EOY-99 | 11.80 |
| EOY-98 | 10.52 |
| EOY-97 | 9.39 |
| EOY-96 | 8.40 |
| EOY-95 | 7.56 |
| EOY-94 | 6.75 |
| EOY-93 | 6.12 |
| EOY-92 | 5.00 |
| EOY-91 | 4.28 |

Source: Banco Central de Nicaragua

Sergio felt empathy for his laborers who were probably exploited their entire lives. But their attitudes were not easily changed by his relatively generous pay. “When they see an opportunity to get a little extra, even via nefarious means, at times the temptation is too great. For example, just the other week I was in the plant and an employee told me that some brand new tools were missing. It happened to be pay day so I called everyone over and told them that I was going back into my office and no one was getting paid until the tools were returned. Twenty minutes later, the tools were back in the plant. I did not have the energy to launch a witch-hunt.”

He continued: “At present, I spend way too much time on such matters. Unfortunately, the idea that ‘the better the firm does, the better off everyone is’ is not well understood in Nicaragua. For this I blame the Sandinistas.”

Competition

While there were many construction firms based in Managua, Sergio did not consider most of them direct competitors. “Sure, there are a lot of people who can build a concrete wall or put in a floor, but there are not many who can make it look as nice as we do. As far as I know, there is no one else manufacturing pre-fabricated walls using a similar production process and only one other company installing floors like us.” Sergio felt that the firm’s ability to make attractive structures allowed C² to post its impressive gross margins that ranged between 35 and 45 percent, depending on the type of construction project. Projects for residential clients were generally more profitable but contract values were not nearly as high. “My bigger competitive concern,” continued Sergio, “is that there is nothing very proprietary about our manufacturing or installation process. It would not be difficult for some of the larger players to bring in the same equipment and begin offering products that compete directly with ours.”

Business Performance

C²’s second year of operation proved to be excellent as average monthly sales increased to around \$40,000 up from the \$15,000 experienced in the last half of 1999. Sales in 2001, however, were significantly below projection, reaching a monthly average of \$25,000 as of June. “After 2000, I was really expecting a breakout year, but so far we have fallen pretty short of expectations. People are just not that interested in building something when there is a chance that the country could end up living under five years of Sandinista rule with an Ortega victory.” See [Exhibit 9](#) for historical financial statements. In late 2000, Sergio’s father moved back to Nicaragua and by April, Sergio had asked him to serve as an adviser to his company, working on general administrative issues and business development. It was then that he increased his financial investment in the company.

Sergio was cautiously optimistic about some of the business opportunities on the horizon. During the strong year 2000, Sergio injected another \$50,000 in equity into the company to purchase capital equipment such as tractors and other machinery to further build C²’s capacity and efficiency of operation. Going forward, Sergio wanted the firm to focus on larger scale projects. Before the election contest heated up, C² was working with two real estate developers building residential communities on the outskirts of Managua. He was to construct the perimeter fencing and the outdoor walkways and drives. These projects had been put on hold pending the outcome of the elections. A third project, being developed by another builder Don Jaime, was still going forward and Sergio was anxiously awaiting word on his bid.

Sergio felt that the low cost housing market presented another promising opportunity for C² in the future. Recent reports noted that Nicaragua had a deficit of 500,000 homes in 2001. Both the Nicaraguan Government and international donor organizations had expressed a strong desire to address the shortfall and many homes would be

constructed outside Managua in an effort to return people to their home cities, thus alleviating the overcrowding that plagued the capital. It was expected that the local municipal authorities would play an active role in administering the housing projects. "I think that this presents C² with an exciting opportunity," explained Sergio. "We already make the floors and the walls, and are able to manufacture the roofs as well. I think our competitive advantage in this space is that we can build something that looks a lot more expensive than it actually is. It helps people hold on to their dignity. With even just half a percent of the market, we're talking about a lot of money." C² built homes that ranged from \$2,500 to \$15,000. A 36 square meter home with all of the fixtures included would command a price of \$3,500. At its present state, C² was able to produce 200 such homes annually, but the firm would not be able to take on additional projects at that production rate. Sergio anticipated that it would take him about two to three years to increase production capacity to 800 homes and would cost about \$125,000 in capital expenditures and require a significant increase in personnel.

The Decision

Over the past few days Sergio heard from his U.S.-based former employer several more times, and he was told he would soon have to make a decision if he wanted the job. Meanwhile Sergio did some research on how much he might earn by selling his company. While there were not a lot of comparable transactions on which to base his estimate, he found that the price of some similarly-sized businesses was about one year's worth of sales.

In sunny San Juan del Sur, Sergio was taking his first Saturday off in months, hoping the break would help him clear his mind and think through the pros and cons of leaving versus staying and especially how he would address some of C²'s challenges if he decided to remain in Nicaragua. While relaxing at the popular Ricardo's Beach Bar with some friends, Sergio received a call on his cell phone. "I've been trying to reach you all day!" said the excited voice of his secretary. "Don Jaime called. We were awarded the real estate project!"

"Thank you, Maria" replied Sergio before hanging up. As Sergio reached for his drink, a smile slowly crept across his face.

Exhibit 2a

Economic Indicators for Nicaragua

| Nicaragua Economic forecast summary | | | |
|--|--------|--------|--------|
| | 2001 | 2002 | 2003 |
| Real GDP (% change) | 1.4 | 2.3 | 3.2 |
| Consumer prices (% change; average) | 7.4 | 5.1 | 6.2 |
| Exchange rate C:US\$ (average) | 13.4 | 14.3 | 15.1 |
| Current account (US\$ millions) | | | |
| Goods : exports fob | 610 | 655 | 753 |
| Goods : imports fob | -1,617 | -1,619 | -1,735 |
| Trade balance | -1,008 | -964 | -981 |
| Current-account balance | -476 | -471 | -505 |
| % of GDP | -19.3 | -18.9 | -19.7 |
| External financing (US\$ millions) | | | |
| Financing balance | -604 | -600 | -646 |
| Total debt | 6,087 | 6,104 | 6,085 |
| Source EIU Country Risk Service | | | |

| Comparative Economic Indicators | | | | | | |
|---|---------------|----------------------|--------------------|---------------------------|----------------------|---------------------------|
| | GDP (\$b) PPP | GDP (\$b) Current \$ | GDP Per Capita PPP | GDP Per Capita Current \$ | Federal Budget (\$b) | % Pop. Below Poverty Line |
| Nicaragua | \$13.1 | \$2.4 | \$2,700 | \$466 | \$0.8 | 50% |
| Argentina | \$476.0 | \$285.0 | \$12,900 | \$7,700 | \$48.0 | 37%* |
| Brazil | \$1,130.0 | \$596.0 | \$6,500 | \$3,600 | \$149.0^ | 17.4%' |
| Chile | \$153.1 | \$71.3 | \$10,100 | \$4,603 | \$17.0 | 22%^ |
| Ecuador | \$37.2 | \$14.1 | \$2,900 | \$1,079 | \$5.1* | 50%* |
| Mexico | \$915.0 | \$540.0 | \$9,100 | \$5,460 | \$130.0 | 27%* |
| Uruguay | \$31.0 | \$20.0 | \$9,300 | \$6,000 | \$4.6 | N/A |
| Costa Rica | \$25.0 | \$15.8 | \$6,700 | \$4,527 | \$2.4 | 20.6%* |
| El Salvador | \$24.0 | \$13.2 | \$4,000 | \$2,030 | \$2.2 | 48%* |
| Guatemala | \$46.2 | \$18.9 | \$3,700 | \$1,642 | \$1.8 | 60% |
| Honduras | \$17.0 | \$5.7 | \$2,700 | \$698 | \$0.4* | 53% |
| Panama | \$16.6 | \$10.0 | \$6,000 | \$3,525 | \$2.9 | 37%* |
| Cuba | \$19.2 | N/A | \$1,700 | N/A | \$14.3 | N/A |
| United States | \$9,963.0 | \$9,872.0 | \$36,200 | \$33,934 | \$1,703.0 | 12.7%* |
| All Figures 2000 except where noted. * = 99, ^ = 98, ' = 90 | | | | | | |
| Sources: CIA World Fact Book, US Department of Commerce Country Commerce Guides | | | | | | |

Exhibit 2b

Economic Indicators for Nicaragua

(continued)

| Latin America Comparative Risk Ratings | | |
|---|--|-------------|
| <i>Country</i> | <i>4Q98</i> | <i>1Q99</i> |
| Nicaragua | 72 | 61 |
| Argentina | 53 | 54 |
| Brazil | 65 | 60 |
| Chile | 27 | 29 |
| Ecuador | 59 | 71 |
| Mexico | 53 | 53 |
| Uruguay | 36 | 43 |
| Costa Rica | 41 | 37 |
| El Salvador | 45 | 42 |
| Guatemala | 59 | 61 |
| Honduras | 65 | 55 |
| Latin America Average | 54 | 52 |
| Key to Ratings | | |
| 0-24 | country faces no significant constraints on international financial transactions. Economic policies are appropriate and effective. | |
| 25-40 | country faces no difficulties in foreign transactions, but economic policies or political structure may give rise to some concern. | |
| 41-59 | country has a record of foreign-exchange crises or political problems and persistent but controllable macroeconomic imbalances | |
| 60-79 | country has serious economic or political problems. Debt rescheduling is possible. | |
| 80-100 | country faces severe economic and political crisis, often undergoing violent political upheaval | |
| Source: EIU Country Views Wire | | |

Exhibit 5

Concreto Cuadras Organizational Chart

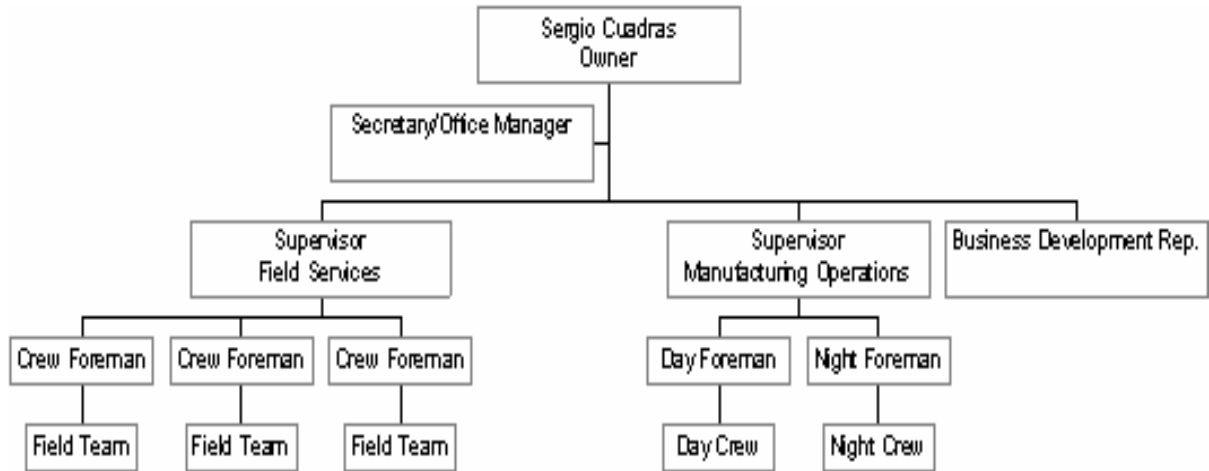
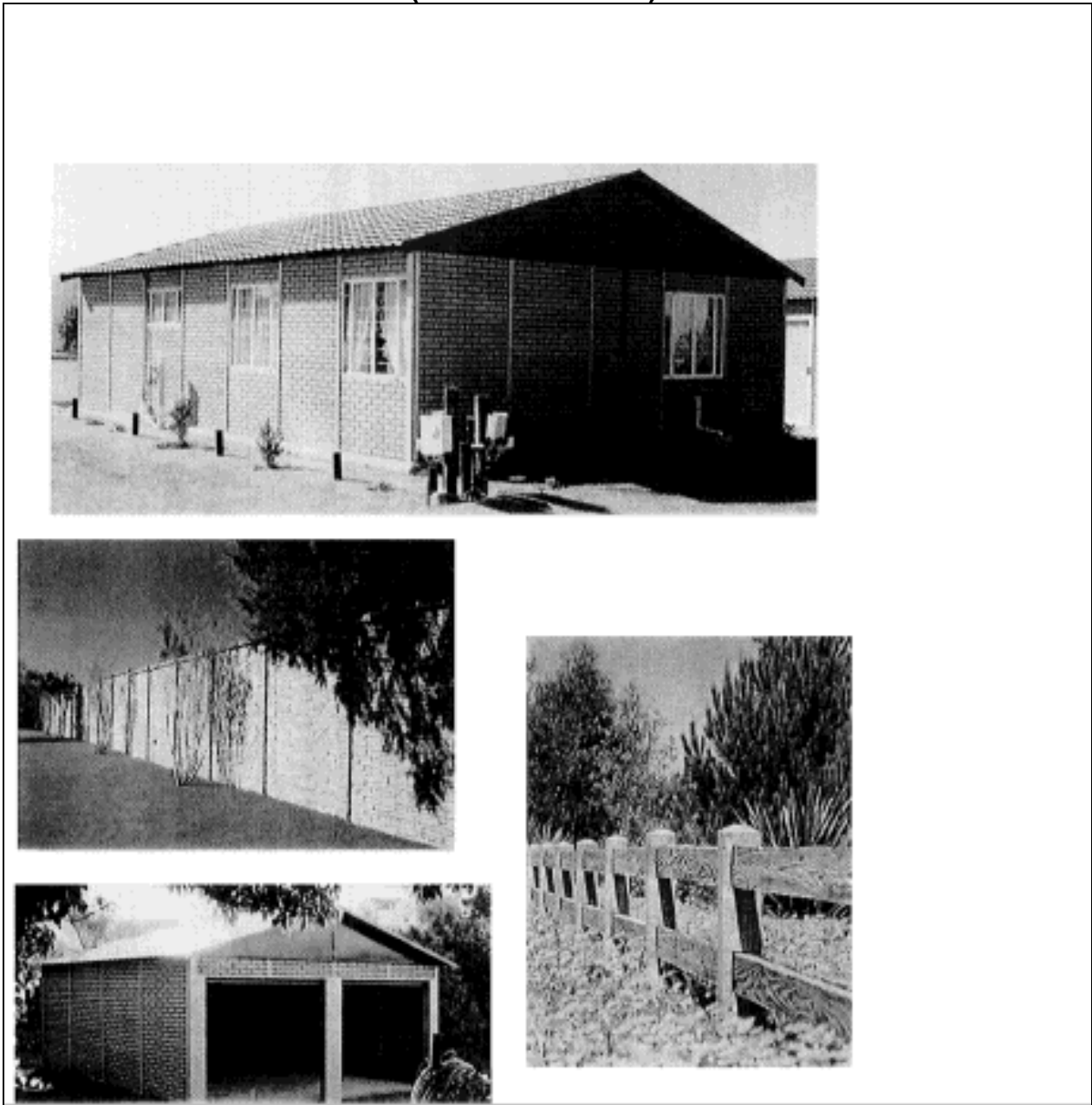


Exhibit 6a

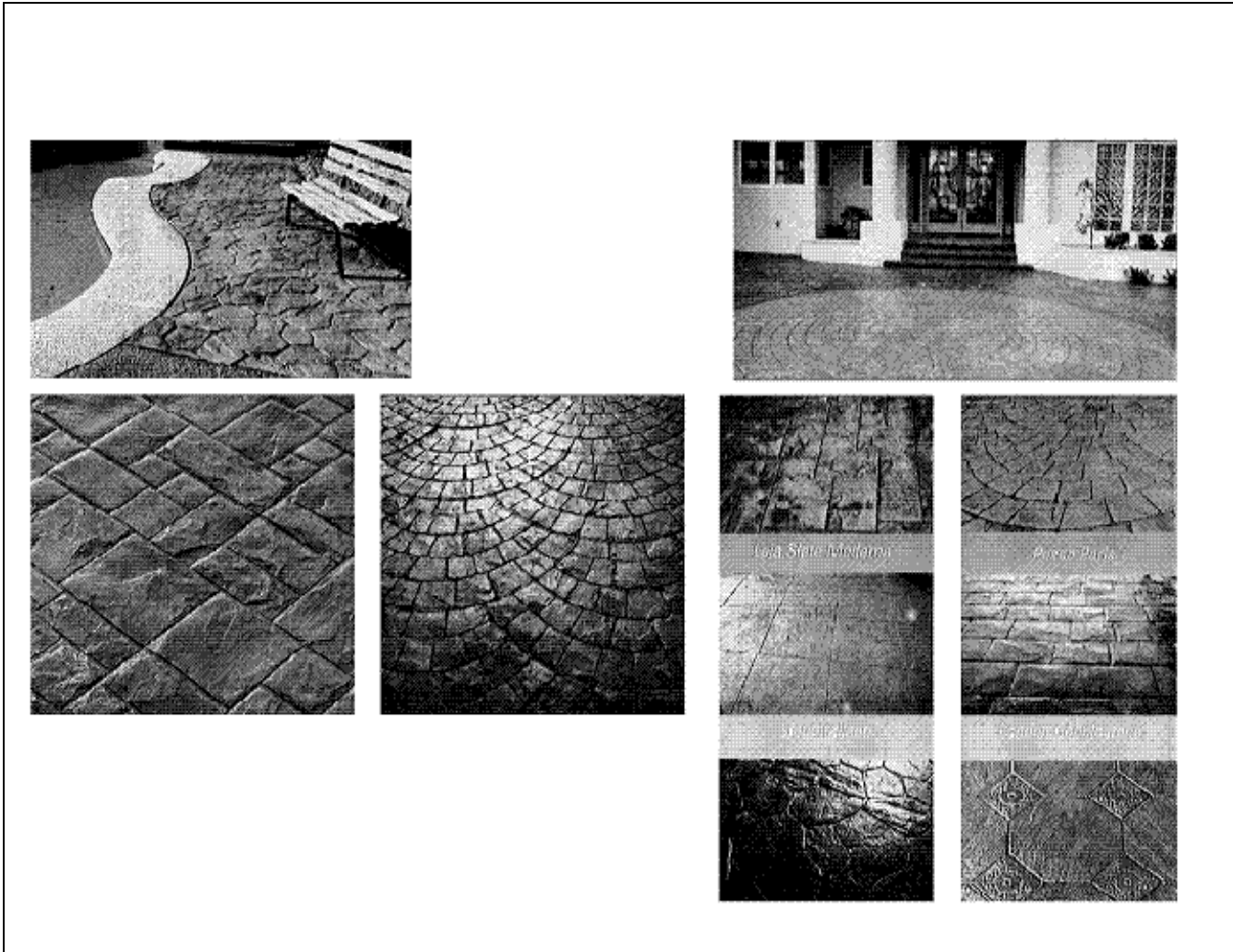
Concreto Cuadras Promotional Materials (Walls and Homes)



Source: Concreto Cuadras Promotional Materials

Exhibit 6b

Concreto Cuadras Promotional Materials (Floors)

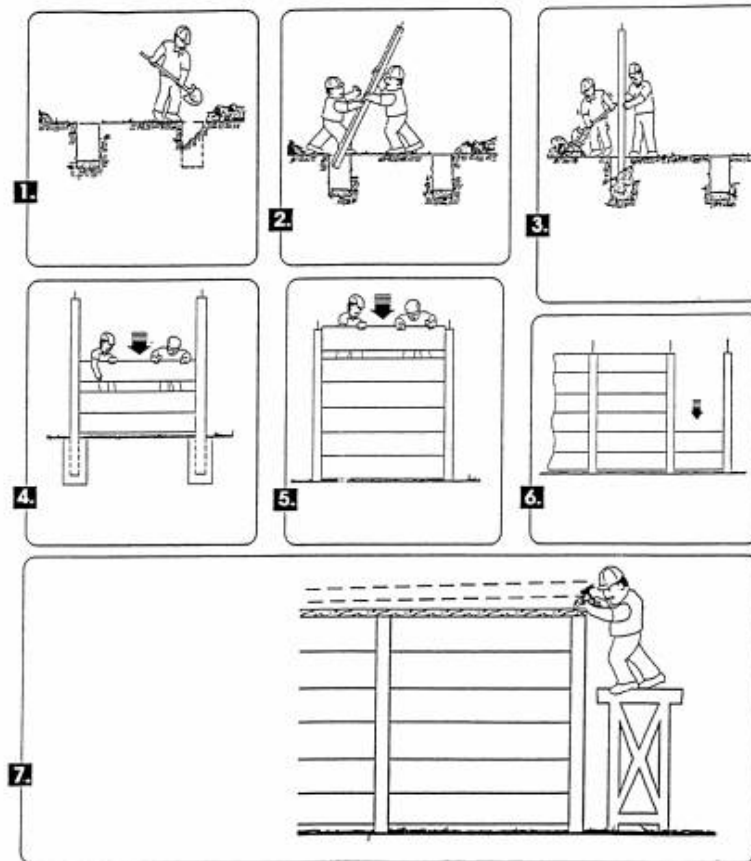


Source: Concreto Cuadras Promotional Materials

Exhibit 7

Wall Installation

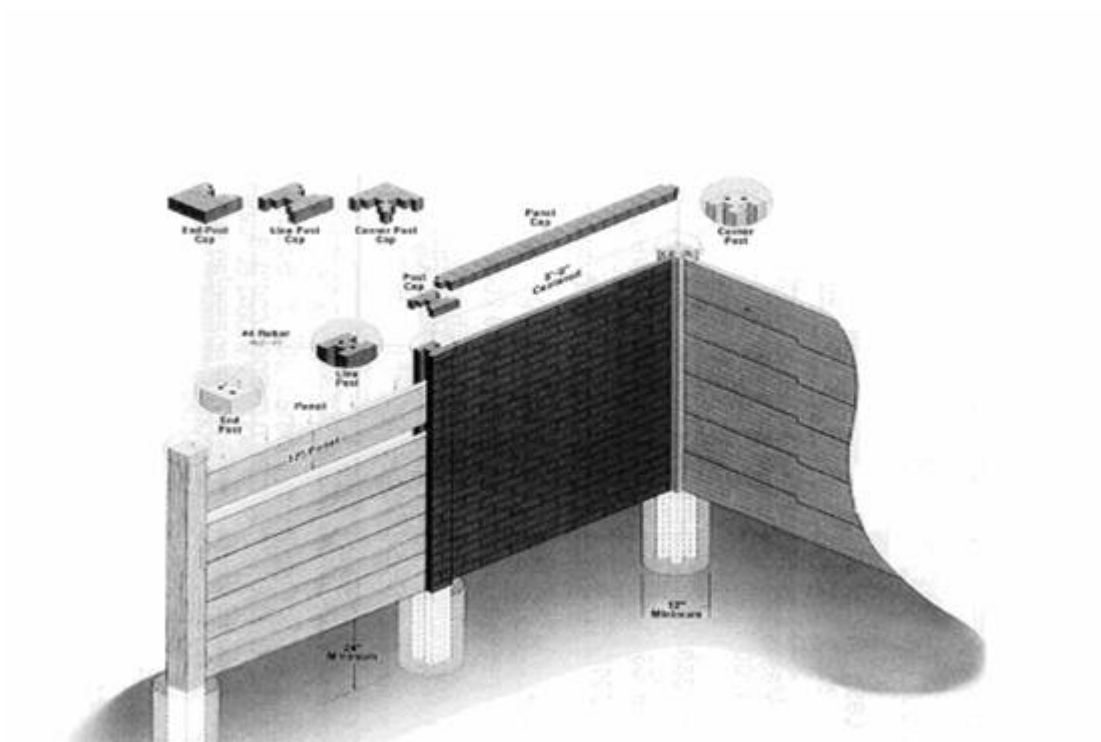
Concrete Cuadras: Installation Process



Source: Concreto Cuadras Promotional Materials

Exhibit 7

Wall Installation (continued)



Source: Concreto Cuadras Promotional Materials

Exhibit 9

Concreto Cuadras Consolidated Financial Performance

| Reported Earnings (\$ thousands) | | | |
|--|---------|---------|-----------------------------------|
| | 1999 | 2000 | Six Months Ending June 2001 |
| Sales | \$75.6 | \$370.3 | \$115.8 |
| Cost of Good Sold | \$54.4 | \$295.2 | \$ 92.3 |
| Salaries | \$12.6 | \$ 35.8 | \$ 10.0 |
| Advertising/Promotion | \$ 2.0 | \$ 5.4 | \$ 1.9 |
| Rent | \$ 2.0 | \$ 2.0 | \$ 1.0 |
| Depreciation | \$ 8.0 | \$ 12.0 | \$ 6.0 |
| Other Operating Expenses | \$ 1.7 | \$ 3.3 | \$ 2.4 |
| Interest Expense | \$ 6.8 | \$ 10.0 | \$ 8.0 |
| Tax Loss Carryforward | | -\$11.9 | |
| EBT | -\$11.9 | -\$ 5.3 | -\$ 5.8 |

| Balance Sheet as of June 30, 2001 (\$ thousands) | | | |
|--|----------------|---------------------------------------|----------------|
| Assets | | Liabilities | |
| Current Assets | | Current Liabilities | |
| Cash | \$ 12.0 | Accounts Payable | \$ 26.7 |
| Accounts Receivable | 35.0 | Current Portion of LT Debt | 5.0 |
| Inventory | 10.1 | 1 Yr. Loan from Sergio Cuadras | 10.0 |
| Other Current Assets | 3.8 | Other Current Liabilities | 3.9 |
| Total Current Assets | \$ 60.9 | Total Current Liabilities | \$ 45.6 |
| Long Term Assets | | Long Term Liabilities | |
| Plant and Equipment (net of depreciation) | \$118.7 | Long Term Bank Debt | \$ 45.0 |
| | | Other LT Liabilities | \$ 12.0 |
| Total Assets | \$179.6 | Total Liabilities | \$102.6 |
| | | Owners Equity | 77.0 |
| | | Total Liabilities & Equity | \$179.6 |

ENDNOTES

¹ This case was written by Dennis Burke of the University of Texas at Austin under the supervision of Professor Richard Linowes of the Kogod School of Business at American University in Washington, D.C. It was produced in conjunction with the Emerging Markets Development Advisors Program (EMDAP) under the sponsorship of the US Agency for International Development (USAID) and managed by the Institute of International Education (IIE). The case is meant to serve as a basis for class discussion.

² Total investment from Sergio's father grew to \$25,000 in 1999, in exchange for which he owns 36% of the equity.

³ Garvin, Glen, "Political Stability Builds Good Times for Nicaragua," Miami Herald, 25 February 2001, 1L.

⁴ Alamo Community College, "Estudio de la Demanda de Capacitación de la Fuerza Laboral del Sector de Construcción," 2002.

⁵ The sales tax in Nicaragua was 15% at the time of the case.