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QUARTERLY REPORT FY 2010, FIRST QUARTER

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ENTERPRISES AND EMPLOYMENT

FY 2010 FIRST QUARTER REPORT

January 2010

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I. INTRODUCTION AND SUMMARY

CARANA Corporation is pleased to present this report, highlighting progress for the Enterprise and Employment (E&E) Program's first quarter of implementation. We are off to a quick, solid start. At the end of this first quarter, we are in full implementation mode and will begin generating concrete results in the second quarter.

CARANA and USAID signed the Employment and Enterprise Task Order on September 16, 2009. During the first week of October, CARANA fielded a start-up team led by interim team leader Carlos Torres, with the Chief of Party (COP), Danilo Cruz-DePaula arriving November 15. In December, we submitted the FY10 Work Plan which, following discussions with USAID in January, will provide a strategic and operational road map for our work in the next three quarters.

Quarter highlights include:

- The start-up team quickly established a temporary office, renting space from our local partner, SNV; interviewed and hired staff; initiated procurement of needed goods and services; and began CARANA's registration process in the country, and other legal and administrative steps. By the end of December, E&E was settled in our permanent offices. E&E is fully staffed.
- We are beginning implementation of two subprojects (Chiles S.A. and Calzados Alex) under Activity A, that will generate impact by the second quarter, increase sales by over \$2 million and create over 200 jobs. The E&E team is reviewing a portfolio of over ten anchor firm-led projects, at least three which will also start in the second quarter.
- Under Activity B, Improved Services for Small and Medium Enterprises, E&E is supporting the Nicaragua Development Institute (INDE) to establish a web-based registry of business delivery services consultants. With E&E help, the activity will be completed in January, 2010. The team also met with over ten BDS providers and leading associations and is working with them to ensure that E&E assistance generates sustainable results.
- Under Activity C, Enhanced Trade Capacity Building, at USAID's request we conducted analysis of the CAFTA-DR related National Action Plan and the Environmental Cooperation Agreement, highlighting key areas that require M&E attention. We also dialogued with representatives of the Ministry of Development and Commerce (MIFIC) and the private sector to prepare a CAFTA-DR support agenda, included in our FY10 Work Plan. E&E also worked with the outgoing Pro-CAFTA project team to ensure a smooth transition of activities.
- In support of Activity D, Policy Reform, E&E is supporting the Nicaraguan Chamber of Tourism (CANATUR) in implementing the Coastal Investment Law. In January, with E&E assistance CANATUR will hold a national level workshop targeting over 100 people, including investors, SMEs, and the public sector (including municipal authorities) to disseminate and discuss the coastal investment legislation aimed to facilitate increased investment along coastal areas. E&E began developing and prioritizing a policy support agenda encompassing over ten laws related to CAFTA-DR and/or important to supporting SME competitiveness. In the next two months we will provide significant assistance to stakeholders in their analysis and implementation.

- E&E delivered to USAID for review a grants manual to immediately initiate activities in January under Activity H, Small Grants. We expect the first grants to be awarded in January.

During this first quarter we have also invested in the administrative and operational infrastructure required for effective and quick implementation in the months ahead. For example, templates for Memorandums of Understanding (MOUs) with stakeholders in Activity A, field policy and operations manuals, etc. In sum, the team is excited about the work and the results ahead.

II. PROGRESS ON PROGRAM ACTIVITIES

The permanent Chief of Party (COP), Danilo Cruz-DePaula, arrived in country November 15. He overlapped briefly with Interim Team Leader Carlos Torres. During this time the team had an opportunity to review progress date, administrative issues, and overall strategic direction. Messrs. Torres and Cruz-DePaula held introductory meetings with USAID in November. In December, E&E presented USAID with the Annual Work Plan, and the Grants Manual. The team will discuss and these with USAID and make any necessary adjustments in January, along with a review of the Progress Monitoring Plan (PMP).

This section is divided into the nine activity areas in the Task Order.

A. Activity A – Enhanced Competitiveness of Small and Medium Enterprises

CARANA started work on Activity A almost immediately upon initiating operations in Nicaragua in early October and made considerable progress in November-December. The E&E team carried out a preliminary analysis of sectors and initiated an outreach activity to identify partners, target SMEs, and possible anchor firms. To date, E&E has identified approximately 30 anchor-firm led value chain sub-projects, narrowing these to approximately ten. Table 1 presents an overview of potential projects (included in E&E's annual work plan). However, the review and selection process is fluid and dynamic and target projects will change as the team gathers additional information and dialogues with potential partners.



Alex Delgado, Alex Shoes Owner

In December, the team engaged a number of stakeholders to identify other subprojects and or better understand activities and sectors highlighted in Table 1. A partial list included:

- **Tecnoagro**, exporter of agricultural products into the U.S.A.
- **Nicarao Cheese plant (NILAC)**. The company exports to El Salvador and the United States but wish to expand these markets. E&E could help in improving milk quality and production among small farm suppliers.
- **Centrolac**, a local milk processing plant, also wishes to expand its market, and therefore its supplier network. E&E may choose to work with a number of dairy companies and undertake sector-wide support.
- **Centro Empresarial Pellas (CEP)**, for example, has a project for the dairy sector which it temporarily stopped as a result of the “No Pago” movement. E&E discussed with them the possibility of conducting a pilot project based on their original, more comprehensive program. the Eskimo ice cream factory would be the anchor firm and its network of suppliers.
- **Specialty Coffee Association of Nicaragua (ACEN)**. Producers are currently not exporting all the specialty coffees produced in the country, and much of this production is being sold locally or internationally as ordinary coffee. E&E discussed with ACEN assistance to help them target new specialty coffee markets, thus increasing revenues for small farmers.

- **Oscarito's**; small manufacturer of textile costumes, children's clothing exports, needs to expand its export market and is interested in doing so through outsourcing from local SMEs. We are discussing support in a number of areas.
- **APAC** (Asociación Pueblos en Ayuda Comunitaria): has proposed a concrete intervention in improving the quality control system actually used in the chain value of cacao, coffee, tubers and mandioca. The pre-screening has been completed and project profile is under formulation.
- **OYANKA**: Handicraft exporting firm working mainly with women artisans from Cinco Pinos, Mozonte and San Juan de Oriente. We are discussing market linkages in the U.S. and Canada and quality control issues.
- **MANGOSA**. The company produces and exports fruits and vegetables to the Central American region and the United States. They have expressed interest in support in several areas. E&E met with the CEO and visited farms in December and is continuing this dialogue.
- **INVASA** This is one of the finest exporters of natural sesame to Asian markets (Japan and Taiwan). Invasa has a purchasing chain of 8 SME who crop an average of 12 to 40 Hectares of Sesame on a yearly basis with very low yields. They are interested in technical support for these small producers.

As noted above, this is a fluid, non-exclusive list. In December, the team developed Concept Papers for sub-projects with Chiles, S.A. (Rivas, Tipitapa, Jinotega, Matagalpa, Nueva Segovia) and Calzado Alex, S.A., (Granada) two anchor firms that we will begin supporting in January. These two projects should deliver early success in terms of increased sales and jobs. Both projects, but Calzado Alex in particular, also offer E&E the possibility of engaging other segments of its respective value chain and thus generate sector wide results. For example, we met with Tenería La Fuente, the largest leather producer of raw hide and leather in Nicaragua (and a key supplier to Calzado Alex) on work to improve leather quality in Nicaragua.



Drip irrigation system being introduced by Chiles S.A. to increase production

Criteria for selecting and ranking include potential sales, jobs created, expected leverage, and other considerations related to USAID's return on investments (e.g., sales increased per dollar invested by E&E) and the program's goal of promoting equitable, sustainable economic growth. We are developing these criteria in a standard ranking format to ensure that out of the many alternatives identified, we choose those with the best return for USAID's investment. In December, we subcontracted Carlos Vega Jackson to review current potential subprojects and rank them under our established criteria. We also subcontracted Edgard Bermudez to further develop several of the subprojects discussed above.

As described in the next section, the team also began discussions with

In sum, Activity A is well underway, as further discussed in Section V, Activities Planned for the Next Quarter. By FY2010 Q2, we will be implementing at least four subprojects and will have far along in the pipeline and additional two. We will also have a detailed plan related to commercial missions as well as at two potential export crop assessments.

Table 1: Preliminary SME Anchor Firm Projects

Subproject	Observations
Chile of Nicaragua, S. A	One of a handful of suppliers of hot peppers to McIlhenny Co., the Louisiana maker of Tabasco sauce, Chile has the potential to significantly expand this relationship with increased its exports and sales. It currently subcontracts with approximately 6 small farmers, and would like to expand this to an additional 30, and the potential to generate another 250 jobs. To significantly increase its sales, however, it needs to more effectively provide TA to small farmers. E&E drafted a Concept Paper, presented to USAID for review. We are moving forward in implementation and expect to begin implementation in January.
Calzado Alex, S.A.	A successful SME producing high quality “artisan” shoes, Calzado Alex has grown significantly in recent years, including exports to Colombia and Costa Rica accounting for 10% of sales. It subcontracts from 6 smaller companies. Nonetheless, the firm’s growth has surpassed its technical, operations, and managerial capacities. E&E will assist the firm in these areas. In addition, there is an opportunity to assist its leather suppliers and down and upstream suppliers to strengthen the entire value chain. Despite the strong competition of the international shoe industry, Nicaragua may be in position to recover niche opportunities that will generate considerable jobs beyond this firm alone.
Pulperia / Retail Enhancement	There are over 26,000 <i>pulperias</i> in Nicaragua, or small retail groceries. They are major buyers of dairy and other products that are part of the family basket. There is a dearth of administrative, managerial, and operational knowledge. While they are an important source of “credit” to their customers, they in turn do not normally receive credit from his suppliers, thus increasing their working capital requirements and limiting their growth. E&E is in discussion with key value chain participants to implement a 500 <i>pulperia</i> pilot program, including access to credit. Such a program could impact thousands of stakeholders.
Jaleas Callejas (Callejas Jelly)	The company is a leading manufacturer of processed guava, mango and other fruits to make jelly preserves and marmalade. They produce locally guava and mango fruits from their own plantations and small farmers. However, they import pulp from golden Costa Rican pineapple to process marmalade. E&E may work with Callejas to reduce imports and promote production in the Ticuantepe region to supply golden pineapple. Farmers currently produce pineapple variety not competitive internationally in flavor nor in a higher brix-grade of golden (MD2) pineapple. E&E would assist Callejas implement good agricultural practices, assist supplier producers, and obtain new markets.
The Nicaragua Brewery Company	The company recycles a wide variety of glass and plastic, accounting for approx. 25% of production. Its current collection system, however, is limited and does not generate sufficient volumes. Collection is made by three companies working with an independent groups of collectors; these companies make a simple washing process and deliver them to the bottling companies. E&E is discussing a program that will allow the establishment of a collection system through defined garbage trucks routes, significantly increasing jobs and eliminating or at least reducing garbage dump scavenging.
Dairy Sector	The dairy sector is one of the largest in the country, which ranges from large farmers with herds of hundreds, to the small farmer with one or two cattle. E&E is analyzing cooperation with several potential anchor firms focusing on diversification and market expansion, but with constraints related to obtaining milk quality from small farmers to meet market requirements. These include the Nicarao Cheese Plant, Centrolac, and the Centro Empresarial Pellas.
Sesame Value Chain	Sesame has a long tradition as an export crop in Nicaragua and is produced mostly by small farmers in the lowland Pacific Region of Nicaragua. However, yields are low and need to be improved by at least a third to be competitive. E&E is considered work with several anchor firms to address this issue. In addition, the program would assist in value added practices to improve both, productivity and quality sesame produced.

B. Activity B – Improved Services for Small and Medium Enterprises

The E&E team focused primarily on assessing potential business service providers (BSP), including leading associations and NGOs to better understand their goals and objectives and identify synergies with the E&E program. To date, we have received requests for assistance from a wide range of BSP institutions such as the Nicaraguan Tourism Chamber (CANATUR), the Nicaraguan Development Institute (INDE), the Union of Agriculture Producers of Nicaragua (UPANIC), Nicaraguan Development Foundation (FUNIDES), the Nicaraguan Chamber of Industry (CADIN), the Nicaraguan Chamber of Commerce; Nicaraguan Union for Social Corporate Responsibility, (UNIRSE), Nicaraguan Export Producers Association, (APEN), the Nicaraguan Export and Investment Promotion Center (CEI), Nicaraguan Council for Micro, Small and Medium Enterprises, (CONIMIPYME), Nicaraguan Educative Forum, (EDUQUEMOS), People in Community Action Association (PAC), among others.

The demand for E&E assistance is strong. Indeed, many leading institutions have come to expect USAID assistance under the program. As we discussed in the Annual Work Plan and previous monthly reports, this assistance needs to be demand driven, but also strategic. Accordingly, we have asked association/business service providers to develop and/or present existing strategic planning documents that will enable E&E to view requested assistance in the context of the organization's vision and, especially, sustainability plans. We expect these plans to be formulated early in the second quarter and selection of at least five BSPs made by the end of the quarter as well.

While developing a longer-term plan, we also moved forward some concrete initial activities to generate early results. We made considerable progress on assisting INDE to establish a web-based registry of business delivery services consultants. The site will provide a roster of certified BSPs, the services they provide, and general information about their services. The objective is to house an inventory available to SMEs and to promote the use of business delivery services by Nicaraguan companies in order to promote competitiveness. In December we identified and contracted consultants to carry out the task and initiated work. INDE will complete the website in January.

In December we also dialogued with the Nicaraguan Chamber of Industry (CADIN) on how E&E can assist them to enhance their business service provider programs and better serve its members. This includes assistance to its training center and support for a planned *Centro de Atención a la MIPYME* which they plan to implement next year. CADIN is preparing a specific proposal for E&E review.

Other highlights, especially in December, include:

- Met with numerous finance-oriented BSP to assess a comprehensive approach to assist SMEs to become bankable.
- Strategized with AGORA Partnerships on finance/investment issues and synergies between our programs.
- Examined corporate social responsibility programs by a number of organizations and reviewed how these can be supported through the E&E program (e.g., incorporate UNIRSE corporate social responsibility efforts in the work of Activity A anchor firms.
- Assessed initial technical assistance and enterprise development needs through BSPs for Chile and Calzado Alex projects.

C. Activity C – Support for Trade Capacity Building

At USAID's request, E&E conducted four assessments to determine the Government of Nicaragua's (GON) compliance with CAFTA-DR:

- National Action Plan (NAP)
- Environmental Cooperation Agreement (ECA)
- CAFTA-DR Complementary Agenda (CA), and
- Commitments made by Nicaragua under the agreement

Conclusions from the analysis conducted by E&E trade and policy specialist Didier Aleman indicated that Nicaragua has only completed three of the 20 initiatives or projects highlighted in the plan. Of the total number, at least twelve are directly or indirectly related to E&E activities. E&E subsequently met with the private sector and with the Ministry of Development Industry and Commerce (MIFIC) to review pending work. Based on our discussions with MIFIC, and in consultation with USAID, E&E agreed to provide selective assistance to MIFIC in meeting pending obligations. This discrete agenda will be the driver of public sector trade capacity building efforts in FY2010. Much of this agenda includes policy, regulatory, and administrative reforms that are included under Activity D and discussed below.



E&E'S Didier Aleman, Discusses CAFTA-DR with Univ. Americana

The commitments under CAFTA-DR analysis highlighted that Nicaragua has not met approximately 57 commitments. Of these, MIFIC is responsible for approximately 29. Other institutions which have pending commitments include: MHCP (6), SIBOIF (6), DGA (5), MITRAB (4), MARENA (4) and TELCOR (5). In December, the incoming COP and Didier Aleman will meet with MIFIC Foreign Trade General Director, Sonia Somarriba, to review status and develop an implementation strategy. E&E will previously discuss the analysis with USAID and seek guidance on the best approach with the GON.

E&E also dedicated time this quarter to program coordination, especially with the ProCAFTA program ending in December. E&E staff met with with ProCAFTA to review program status and hand off and follow-up of activities that should be continued by E&E.

E&E assessed the CAFTA-DR Environmental Cooperation Agreement and provided USAID with recommendations on possible program activities in this area. This document was submitted to USAID in December.

Planning also proceeded on a Workshop for Coastal Investment Legislation proposed by the Nicaraguan Tourism Chamber (CANATUR). The workshop will target over 100 people, including investors, SMEs, and the public sector (especially municipal authorities) to disseminate and discuss the coastal investment legislation aimed to facilitate increased investment along coastal areas. E&E discussed the event with CANATUR, contracted a consultant to undertake the preliminary analysis of the law. CANATUR and E&E will hold the event in January 2010.

D. Activity D – Policy Reform

During the quarter E&E prepared the way for what will be an ambitious policy agenda. As noted above, in discussions with MIFIC, USAID, and other stakeholders, we identified numerous laws and regulations in CAFTA-DR's complimentary agenda which merit E&E support during the coming year. This included laws such as competition and free trade zones where we discussed with stakeholders planned interventions during the next quarter. Also related to CAFTA-DR, in December, we initiated preliminary work such as preparation of scopes of work for consultants on regional seminars on environmental practices required under the agreement, as well as possible assistance on establishing a "Green Seal" environmental certificate program for Nicaraguan goods.

An important policy initiative in December was discussions with the Superior Council of the Private Sector (COSEP) to assist them in conducting a legal and economic assessment of a new tax reform law that is scheduled to be reviewed by the National Assembly. The assessment is necessary for COSEP and its members to understand the law and be prepared to effectively engage in public and private dialogue when the law is presented to the National Assembly for passage. E&E and COSEP will implement the activity in January.

E&E also developed an agenda to assist in the passage and implementation of a series of laws and regulations impacting on SME and microenterprise development, including CACONIC, CADIN, APEN, the Council for Micro and Small-Scale Enterprises (CONIMIPYME) to define needed assistance with respect to the following laws:

- SME Law
- Mutual Guarantee Law
- Micro Finance Law
- Foreign Trade Law
- Amendments to the Free Trade Zone Law
- Biodiversity Law
- Bio-security Law
- Amendments to Intellectual Property Laws
- Regulatory legislation on bank loans to SMEs
- Leasing Law
- Exchange Invoice Law

E&E discussed these activities with USAID and incorporated into our Work Plan.

E. Activity E – Leadership for Competitiveness

Activities under this component have not begun. As part of the Work Plan process, we discussed with USAID the most effective use of training funds, given budget and time limitations (a Masters level program is expensive and would likely extend beyond September, 2011). We agreed with USAID to review alternative, shorter-term programs in Nicaragua (e.g., INCAE executive type programs), in Central America, South America, the U.S. and Europe. We will present a portfolio of potential programs and recommendations for USAID review in the next quarter.

F. Activity F – Operations Research

This activity has also not begun. As noted in the Work Plan, most of the issues to be addressed through this Activity will flow from the actual constraints encountered by SMEs in Activity A. For example, the cost structure at the firm and value chain level for shoe production is not entirely clear for SMEs such as Calzados Alex (CA) and its subcontractors. Without an appropriate base line or benchmark, it is impossible for an SME such as CA to analyze its income and cost drivers.

As also discussed in the Work Plan, our intention is to ensure that such analysis provides insight not for just one firm, but for the sector at large. Accordingly, the study may include a greater number of firms and value chain segments. We would also ensure that findings are disseminated widely, through press coverage, publication in business manuals, and as appropriate a conference or workshop.

G. Activity G – Outreach

In December, we prepared and presented to USAID the program's communications strategy based on four drivers: (1) getting the message out about E&E activities and, more important, the generosity of the American people in providing assistance to Nicaragua; (2) through participation of project activities and results, strengthen roles of value chain participants and widen understanding of national competitiveness; (3) raise profile of Nicaragua's production capability nationally and abroad; and (4) maintain smooth internal and external (e.g., with USAID) information flow on communication events. Carana Communications Director Leah Quinn led this effort, together with E&E Communications Specialist Cynthia Lacayo.

Ms. Lacayo also began meetings with media representatives of *El Nuevo Diario* (Francisco Chamorro); *La Prensa* (Mario Moncada), TV-Channel 12 (Nanda Valle) and other media outlets to give the brief overviews of the project and to pave the way for future coverage of E&E activities.

Branding of USAID and project logos in business cards, office entry, project banners, and training the staff on USAID branding policies was another important activity during the quarter.

The E&E team began planning for a number of outreach instruments which will be implemented and/or introduced during the next quarter such as a monthly newsletter and the program launching event.

H. Activities H – Small Grants

In December, we submitted the draft Grants Manual for USAID review. We expect to award grants beginning in January and throughout the work plan period. We are incorporating grants in Activity A activities such as those related to the Calzados Alex and Chile S.A. subprojects.