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Second Quarter Report

FY 2013, January - March

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This report is made possible by the generous support of the American people through the United States Agency for International Development (USAID). It was prepared by CARANA Corporation.

Cover: E&E anchor firms proudly display their awards at APEN's annual Exporter of the Year Awards. Chiles de Nicaragua won for associativity and CSR among medium-sized firms. Ingemann won for associativity among small firms. From left to right, Lars Ingemann (Ingemann Food), Lucia Hurtado (Chiles de Nicaragua), Arthur Brown (USAID), Sergio Trana (Chiles de Nicaragua), Lilliam Baez (USAID), Danilo Cruz DePaula (E&E Program)

Enterprise & Employment Second Quarter Report FY 2013, January - March

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I. Executive Summary

This report highlights activities carried out by CARANA Corporation (CARANA) in support of USAID/Nicaragua's Enterprise and Employment Program (E&E) during the second quarter of FY13 (January - March, 2013 or FY13Q2). Highlights include:

SME and Value Chain Development

- E&E helped generate over \$3.6 million in new sales (43% exports) and nearly 600 new jobs through anchor firm and financial institution alliances. The majority of new sales and new jobs were in the agriculture sector, with a significant portion occurring in food insecure areas. During the second quarter of FY13, E&E reached 83% of its FY13 local sales growth target, 79% of its export sales growth target, and 99% of its job creation target.
- Anchor Firm Chiles de Nicaragua began scaling up production to reach 5 million pounds of Tabasco pepper export in 2013. This will include organic production for the first time in Nicaragua.
- E&E and Grupo Raices closed our alliance with an event in Masaya, which also marked the inauguration of the cooperative's new office and showroom, which will serve as a retail shop and a wholesale distribution center, as well as the central office.
- We concluded our formal alliance with sesame exporter EXPORNICA with the completion of their second harvest cycle. We will continue to support them in efforts to consolidate credit sources and other issues to ensure the sustainability of the anchor firm model. Results from the harvest were reported this quarter and included new sales totaling \$1,480,408 and 112 new jobs. We will co
- We began the second phase of our alliance with anchor firm Nicacentro, under which the cooperative will construct and equip a new milk collection center to serve 110 producers, improving milk quality and increasing producer income.
- As part of the alliance with SERVICONSA, we signed a new MOU with APEMAC, the small shrimp producers coop, to improve quality control at shrimp farms. A new grant will co-finance equipment for an experimental farm. We are planning a national forum with all key value chain participants to address sector level issues and ensure sustainability of our interventions.
- We helped facilitate more than \$6.5 million in loans to over 1,000 Nicaraguan SMEs through alliances with anchor firms and formal lenders. This quarter, E&E achieved 60% of its FY13 target of facilitating \$20 million in finance.
- SINRIESGOS, the credit bureau that we supported which focuses on SME finance signed contracts with 12 microfinance institutions and two commercial banks. These institutions will use its new credit scoring tool to analyze the risk associated with lending to SMEs more quickly using their credit score, rather than reviewing each firm's credit history.

- FAMA Financial began implementing a new inexpensive and flexible credit methodology that E&E helped develop, which includes a robust analysis. The tool has allowed FAMA to increase its maximum loan size from \$10,000 to \$25,000, which led to \$737,000 in new loans over \$10,000 to 71 SME clients this quarter.
- FDL presented its new Integrated Plan to Support Coffee Producers, which will provide credit for coffee renovation and technical assistance focused on increasing productivity to 3,100 additional clients facing significant challenges as a result of the spread of coffee rust in Nicaragua.
- APEN held its annual Exporter of the Year event with E&E support with over 300 people attending. APEN awarded three recognitions to E&E-assisted firms. This was one of several activities covered under our new MOU with APEN, signed this quarter.

CAFTA-DR Implementation and Policy Reform

- Under CAFTA-DR's Environmental Cooperation Agreement (ECA) supporting the Ministry of Environment and Natural Resources (MARENA), E&E printed posters for country-wide distribution illustrating the process for obtaining environmental permits, which prominently displayed the USAID logo.

Human Capital Development

- The Victoria Foundation has now placed than 80% of youth who studied Business Administration and Industrial Maintenance under our initial grant in permanent jobs. They have initiated the Food Technology technical program, which E&E is supporting under our second grant.
- The Cisco Entrepreneurship Institute at Thomas More University held a graduation ceremony for its *Creating a Business* and *Growing a Business* courses. USAID supported 68 of the graduates through partial scholarships provided by E&E. This graduation concludes our alliance, but the institute will continue to operate sustainably with its own funds. Mission Director Art Brown presided over the graduation ceremony.

Outreach

- E&E began a Twitter account in March, notifying stakeholders and interested parties of news, activities and achievements. E&E also continued generating significant understanding of USAID's contribution to equitable economic growth in Nicaragua through monthly bulletins, extensive press coverage (18 print news stories and television coverage of E&E activities), and social media. By the end of March, E&E's web page had been visited by over 125,000 people. We have over 1,882 friends and regular users on Facebook.

Finance and Management

- E&E's Q2 accruals were \$445,700 or \$148,567 per month. Our cumulative expenses are approximately \$10.2 million. We project expenditures of around \$820,000 in Q3, and spending the remaining \$300,000 in the last two months of the project.

II. Progress by Activity

The following sub-sections provide an overview of E&E's activities during FY13Q2. The report is structured along E&E's three principal areas of concentration: (1) Small and Medium Enterprise (SME) Development and Value Chains; (2) Support for CAFTA-DR and Policy Reform; and (3) Human Capital Development. Progress against Performance Monitoring Plan (PMP) indicators is highlighted in Section III. Annex I contains E&E's monthly newsletters for FY13Q2, and Annex II includes press coverage of E&E programs in the local media for the same period.

A. SME Development and Value Chains

E&E provides direct assistance to MSMEs through four principal means: (1) implementing anchor/value chain firm alliances; (2) enhancing the capacity of SMEs to access financing; (3) strengthening the capabilities of business services providers; and, (4) undertaking operations research or studies at the sector and firm level aimed at increasing competitiveness. These activities complement and reinforce each other, creating synergies to more effectively assist SMEs.

1. Anchor Firm Alliances (Task Order Activity A)

During FY13Q2, E&E anchor firm alliances generated more than \$2.6 million in new sales (60% exports) and 186 new jobs. E&E continued implementation of four anchor firm alliances, while concluding four others. In addition, we began work on a new alliance with Sukarne and FDL to provide financing and technical assistance for cattle fattening and continued working with EXCAN to develop a coffee renovation fund.

A1a. Chiles de Nicaragua, S.A. (Chiles) – Tabasco chili exports

In Q2, E&E continued working with Chiles to help it source more Tabasco peppers from highly food insecure areas of northern Nicaragua, through technical assistance and loans from the Local Development Fund (FDL). Highlights this quarter include:

- Chiles exported one container with 46,000 pounds of Tabasco peppers, worth \$37,720 and created 72 new jobs by significantly expanding area under production.
- As Chiles increases its exports to reach five million pounds in 2013 (doubling what they exported in 2012), farms are also scaling production to meet this demand. Chiles now has contracts for 175 additional hectares under production. E&E stepped up technical assistance to producers this quarter, increasing agronomist farm visits from four to six times per month.
- Chiles invested \$75,000 in their Los Robles plant to double storage and processing capacity of Tabasco peppers. They hired an industrial consultant to update the plant, implement Good Manufacturing Practices and improve sanitary controls.

- E&E and Chiles continued necessary documentation and logistics (e.g., reviewing equipment offers from vendors) for the construction of three “shade houses” (greenhouses) to produce organic Tabasco peppers for the first time in Nicaragua. E&E is assisting Chiles by contracting two agronomists to supervise planting and have begun site preparation in Leon, Tipitapa and Somoto, where the shade houses will be located. Chiles will eventually continue these contracts. Production in the Somoto shade house will be implemented by families receiving support from the Fabretto Foundation, an NGO with the mission of educating children in poor communities so that they may break the cycle of poverty. A new grant agreement to co-finance 50% of the shade houses was submitted and approved this quarter. We expect construction to be completed in April.



Chiles staff and industrial consultant at the Los Robles processing plant, where they are implementing GMP

- With corporate social responsibility as an ongoing priority for Chiles, they attended unirRSE’s workshop on climate change in Nicaragua. The Central American Corporate Social Responsibility Network selected Chiles de Nicaragua as a reference firm for its program to develop strategies to deal with climate change.
- Chiles won two categories in APEN’s Exporter of the Year Awards for 2012 this quarter: Associativity and CSR for a medium-sized firm.

A1b. Eskimo, S.A. (Eskimo) – Milk and dairy production

In partnership with anchor firm Eskimo, E&E supported 220 dairy producers from the San Jose Cooperative (CASANJO) in San Jose Paiuitas, Matagalpa, and the Livestock Association of San Jose de los Remates (ASOGACA) in Boaco, who supply milk to Eskimo. The alliance concluded in December, with excellent results. The total increase in sales was more than \$1.5 million. The CASANJO collection center increased quality ‘A’ and ‘B’ milk from 52% to 94% and other collection centers (Agrolác, San Martín and Mulukukú) increased from 51% to 82%.

- Although the alliance has concluded, Eskimo continues reporting results directly related to E&E assistance. Eskimo reported an additional \$2,210 in new sales this quarter.



Donald Porras: Learning and growing

Donald Porras started doing agriculture about five years ago, but he only recently become a successful producer of Tabasco peppers. Donald studied tourism in University and began working in a hotel, but soon realized it wasn't all he had hoped for in a career. With some family land in Tisma, outside of Managua, he decided to try his hand at agriculture. With little training, he produced beans and maize on two manzanas of land. The costs were fairly low, but the crops were seasonal and prices were not great, so the best he could do was break even.

Less than two years ago, he heard about Tabasco peppers. A friend explained how Chiles de Nicaragua (CDN), E&E's partner and anchor firm, offered contracts to producers and provided technical assistance. Donald made the decision right away and switched his entire plot to Tabasco peppers.

"It was a rough first harvest," he explains, "we didn't reach the levels I had hoped for, we had problems with disease." Donald persevered. Working with a technical specialist from CDN, he began learning and making changes. They added plastic for pests, tested the soil and improved fertilizer. Seeing some improvements, Donald made further investments. With cofinancing from an E&E grant, he was able to install a drip irrigation system and double his production area.

Now Donald is consistently producing high volumes of Tabasco peppers. When asked to compare it to producing beans and corn, he laughed "There is no comparison!" Despite the higher costs of producing peppers, he retains excellent profits, about \$1,200 per manzana. Hiring people harvests, he has generated about 35 annualized jobs.

Now Donald sees a viable future in agriculture. He is already clearing additional manzanas to grow his farm. He would like to double his production every year. He believes there is a bright future for Tabasco peppers for himself and his country "There are a lot of people looking for work," he notes, "It is the right time for chili peppers." At the moment, Donald is trying to learn all he can about pepper production and grow his business. As we conclude our discussion, he asks, "are there any trainings coming up? I'm no agronomist, but I'd like to learn..."

A1c. Exprosur - Plantain exports

E&E continues providing Exprosur with technical assistance to ensure that they consistently offer high quality plantains to their buyers. Highlights this quarter include the following:

- E&E helped Exprosur export one container of plantains to Frumusa, a buyer in Costa Rica, for a total of \$7,400 in new export sales. Approximately 88% of the shipment was first-quality plantain. Exprosur expects to report significantly more domestic and export sales in the next quarter, when they will resume bagging plants in April, when weather conditions permit.
- E&E signed an amendment to our previous Memorandum of Understanding with Exprosur to extend it through July and add activities for 2013, which include technical assistance and guidance to producers in production technology, commercialization for cooperatives on Ometepe Island as well as a feasibility study for a plantain flour plant in Rivas.

- E&E worked closely with Exprosur's Board of Directors to contract a consultant to develop a feasibility study for a plantain flour plant in Rivas. The consultant is assessing the market for plantain flour, relevant regulations, transport and logistics, management, and revenue streams and benefits of constructing



Installing drip irrigation on Ometepe Island.

such a plant. The plant would create a market

for non-export quality plantains and add value in Nicaragua. Initial results indicate that there is potentially a strong market in Nicaragua for plantain flour to be used in animal feed.

- Exprosur held its Annual Assembly on March 15. Participants reviewed initial market study findings and agreed that the plantain flour plant is a top priority for 2013. They have begun looking for financing to build the plant and began discussion with Berotz Group, a Spanish company with extensive agribusiness experience, as well as other firms about its construction.
- On Ometepe Island, an E&E consultant assisted two cooperatives in developing business, trade and marketing plans for their products. The consultant also completed Seed Reproduction Manuals, a Soil Nutrition Plan and a Soil Conservation Plan.

- The Alejandro Alvarez cooperative on Ometepe Island hired 100 people to work temporarily digging channels and installing drip-irrigation hoses in a 28 hectare zone to prepare the area for new plantain production. These 100 short term jobs are equivalent to 24 annualized new jobs. The cooperative financed this labor with \$50,000 loan from Banpro, obtained with assistance from E&E.
- Exprosur received two audit visits of good agricultural practices from the Ministry of Agriculture (MAGFOR). After seven more visits, MAGFOR will prepare a report with recommendations for improvement, after which final audit would be carried out for certification.
- Exprosur signed an agreement with the International School of Agriculture EIAG to for a pilot project with 50 small producers to grow 5,000 plants in-vitro. The school has been researching and developing varieties in their biofabrication laboratory to create plants that are insect-resistant and more productive. In this alliance, Exprosur provides the export market and EIAG the specialized seed. This agreement was signed with support from Technolinks, a Canadian NGO. E&E also played a key role in facilitation the agreement. The pilot project has been successful and the partners are currently in talks to produce 8 million seedlings in-vitro in the next six years, covering 2,888 Ha. of plantains in the Rivas, including Ometepe Island.

A1d. Grupo Raíces (GR) - Handicrafts

Grupo Raíces represents nearly 200 Nicaraguan artisan SMEs. E&E has provided GR with marketing and demand-based design support, as well as co-investment to purchase equipment to standardize quality or improve productivity. FY13Q2 highlights include:

- E&E helped Grupo Raices generate an increase in sales of \$36,875 over the same period in 2012. GR also created seven new permanent jobs this quarter.
- E&E and GR held an alliance closing event on February 28 and also inaugurated the cooperative's new office. More than 50 people attended the event, including artisans that travelled as far as from Solentiname Archipelago on Lake Nicaragua, from Limay in Esteli and Cusmapa in Madriz. Daniel Handel represented USAID and COP Danilo Cruz De-Paula highlighted the alliance's success, which included direct assistance to 80 artisans, the generation of \$600,000 in new sales, the creation of 200 new jobs, the development of 260 new or improved products on the market, and grants for new sewing



Representatives from SIMAN try on hats at a Grupo Raices workshop in Masaya while seeking out products for their new line

machines and equipment to 12 workshops.

- Through an introduction made by E&E representatives from Galería SIMAN, the largest department store chain in Central America, visited the GR showroom and several workshops to identify potential products for a new line of handicrafts to potentially be sold in its stores. After the trip, the SIMAN representatives selected a number of products from GR that will be part of the new line.
- Twenty-seven artisans displayed their products in a special show-case at the Metrocentro Plaza Mall in Managua March 21-23rd. Sales increased from 19,000 at last year's show to \$32,000 this year.

A1e. Simplemente Madera (SM) – Wooden furniture

Our alliance with MAPINIIC-Simplemente Madera supported small carpentry SMEs from which SM outsourced the construction of furniture it sells nationally. The alliance had the goal of helping SM's new suppliers expand production, improving business management, marketing, customer service, production efficiency, and quality control.

In 2012, SM changed its business model to manufacture exclusively for export under a free trade zone regime. This will financially benefit SM, but it will prevent the company from selling products in Nicaragua. Thus, SM will depend on the SMEs that we are supporting to produce furniture to sell locally. SM completed the process to operate under the free trade zone regime, but the obstacles associated with this change slowed SM's implementation of the grant from E&E and we jointly decided to end our alliance. We worked with SM to finalize our grant and close the alliance this quarter.

A1f. SERVICONSA – Shrimp exports

Through our alliance with SERVICONSA, an international shrimp production and export company, we support 64 small shrimp producers (from four cooperatives and two small companies) located in some of the poorest areas of Chinandega to significantly increase their yields and incomes. Assistance this quarter was directed at members of the Association of Small and Medium Aquaculture Producers (APEMAC) and on

infrastructure improvements to other cooperative farms. Highlights include:



Construction of a new gate, part of infrastructure improvements at the Lucrecia Lindo cooperative.

- APEMAC shrimp farms receiving assistance sold \$1,016,000 worth of shrimp. These sales were from the second production cycle of the year. In the past, these producers have not consistently harvested shrimp to sell in the second cycle.



Dolores López de Cross: A secret worth sharing

When Dolores López de Cross cooked for her children, they always asked why her food tasted so good. She responded, “Well, I have a little secret.” Today, from her kitchen to the shelves of La Colonia supermarkets, people cannot get enough of her gourmet sauces, marmalades and dressings. Fittingly, she branded her products *El Secreto de Mamá* (Mom’s Secret).

Dolores began selling her products in 2001 in small shops in disposable packaging. When she realized the popularity of these products, she decided to improve her image and create the products with better ingredients and no chemicals. Her labels feature a picture of Dolores’ mother, to recognize her culinary heritage.

El Secreto de Mamá was one of the SMEs that benefited from E&E’s alliance with Casa Mántica, which owns La Colonia Supermarkets. After receiving technical assistance from E&E, Dolores has been working hard to improve practices and incorporate Corporate Social Responsibility. She invested \$15,000 in a new plant to improve production. The company has just received certification in Good Manufacturing Practices (GMP) from the national Ministry of Health. She has also collaborated with E&E partner CEI to attend international trade fairs and commercial missions.

Since receiving E&E support, *El Secreto de Mamá* has grown from one employee to eight, mostly women. She began with just three products, but now the line has grown to include seven, including various chimichurris, starfruit jam, basil sauce, jalapeño relish and mango chutney. The products can be found not only in La Colonia, but not also in Wal-Mart, Bavaria supermarket, and various convenience stores. Dolores recognizes that the GMP certification has opened doors for her; she can now export to all of Central America, and even enter into the market in the United States.

- Our STTA team conducted 15 visits to shrimp farms. Technical assistance focused on maintaining water quality, APEMAC's work plan, and on preparing ponds for the next production cycle.
- SERVICONSA lent \$157,747 to small farmers for working capital and inputs.
- SERVICONSA made infrastructure improvements to three cooperatives' farms – Lucrecia Lindo, VIPALVA, and Rosita. The improvements include dividing large ponds into smaller ones to improve shrimp management at Lucrecia Lindo. At VIPALVA, they are strengthening walls and in Rosita, they are adding new ponds and improving existing ponds.
- E&E worked with APEMAC to develop a strategic plan to continue strengthening APEMAC and the shrimp production chain sustainably. A key element of this plan is a major conference of all key value chain participants to address sector level issues, including financing.
- We signed a new MOU with APEMAC to continue our alliance, improving quality control and adding a new grant to cover equipment for an experimental farm. The grant will be submitted to USAID for approval in April.

A1g. Expornica (Formerly Proniexport) – Sesame exports

Our partnership with EXPORNICA, a major sesame exporter and anchor firm in this alliance, has helped new EXPORNICA sesame suppliers with sustainable access to certified seed (which can improve yields by over 20%), financing, and technical assistance to expand yields and boost producers' profitability. We completed our technical assistance to small producers in Leon and Chinandega through our alliance with anchor firm EXPORNICA this month.

- EXPORNICA's generated new sales of \$1.5 million and helped create 112 new jobs on an annualized basis. Through alliance efforts, small producers accessed over \$330,000 in financing.
- This quarter, we worked with EXPORNICA to ensure that key alliance drivers such as access to finance remain sustainable. This required working together with FDL, the microlender that has partnered with Expornica to provide financing to many of EXPORNICA's suppliers to date. We brought together representatives from both organizations throughout the quarter to identify existing issues that could potential inhibit lending in the future. Among these issues, for example, were administrative costs incurred by Expornica in administering loans for FDL. EXPORNICA and FDL now plan to sign an agreement on how they will continue the alliance, terms for technical assistance and credit facilitation. Key points include:
 - FDL and EXORNICA will assume the costs of the technical assistance team for the next cycle – July to December, 2013. FDL will finance specialists' salaries for 2 months, and FDL will finance them for 2 months. In the final two months, EXPORNICA will pay for the assistance on a commission basis, with \$1 for each quetzal sold.

- EXPORNICA will facilitate the purchase of certified seed to be distributed to producers. Once FDL has disbursed loan funds, the cost of the seeds will be retained and repaid to EXPORNICA.
- In April, E&E will prepare and present to FDL and EXPORNICA a list of operational bottlenecks that have slowed the credit process, and that will need to be improved for a more agile and opportune process in the future.
- E&E will help prepare a new sales contract between EXPORNICA and producers.
- E&E will help prepare a work plan and chronogram for FDL and EXPORNICA for financing upcoming productive cycles.

A1h. NICACENTRO – Linking isolated milk producers to better-paying markets

Through our alliance with NICACENTRO, Nicaragua's largest dairy cooperative with more than 600 members in Matagalpa and neighboring provinces of the RAAS and RAAN, E&E is helping to establish milk collection centers in remote and food insecure areas of Northern Nicaragua, which will link small producers to formal markets. FY13Q2 was a busy quarter for Nicacentro, highlights include the following:

- We completed implementation of our first grant to NICACENTRO, with the final pieces of equipment clearing customs; we installed milk chilling and storage equipment for collection centers.
- NICACENTRO has completed construction of collection centers in Lisawé and San Pedro del Norte with a combination of its own funds and finance from Bancentro. They began serving producers in the surrounding communities, with first collections in March. E&E staff and CARANA's president participated in the inauguration of the center in Lisawé.



MOU signing for the second phase of assistance to NICACENTRO, at the collection center inauguration in Lisawé

- We signed a new Memorandum of Understanding and began working on the second phase of our alliance this quarter, which includes constructing and equipping a new milk collection center in the community of Wanawás in Río Blanco (Matagalpa), with a capacity of 7,000 liters. We will also supply a tanker truck for transport from farms

and provide technical assistance to collection center staff, as well as producers, in clean milking practices.

- We began implementation of a new grant to NICACENTRO. We anticipate that as a result of the grant, 30 producers will be supplying the center in August 2013, and 110 by the end of 2014. All producers will receive a higher price, and inclement weather will no longer affect the sale of milk from more remote farms, due to the availability of a tanker truck. We anticipate increased sales of \$200,000 between August and December, 2013, and \$900,000 per year, starting in 2014.

A1i. Enhanced Cattle Production with Sukarne and FDL

E&E is planning to sign a new MOU with the Local Fund for Development FDL and launch an alliance with anchor firm GINSA/Sukarne in April. The alliance involves financing and technical assistance for small producers to fatten cattle from approximately 160 kilos to 275 kilos before selling them. With an investment of about \$32 per cow (including inputs and the cost of finance), using Sukarne's methodology, farmers can fatten a cow to about 275 kilos and sell it for \$392, for an increased profit of \$178/cow.

This quarter, USAID approved the concept note that E&E, FDL and SUKARNE jointly developed. We then began work on an MOU for the program. Under this agreement FDL will provide financing, E&E will cover the cost of technical assistance from Nitlapan, and Sukarne will participate in the selection of producers, provide technical assistance, purchase directly from producers at a premium, and retain payments for FDL. So far, we recruited and pre-selected more than 50 producers that will participate in the program; we plan to submit the MOU for approval in April.

A1j. Coffee Rehabilitation Program with EXCAN

A high percentage of old plants and poorly managed production, combined with climate change, has led to an increase in coffee rust ("roya" in Spanish), as well as other diseases like "ojo de gallo" and anthracnose. This has left coffee producers with low production levels and even lower profits. With coffee as one of Nicaragua's most important export sectors, overcoming coffee rust is a priority not only for producers and exporters, but for the country as a whole. The solution E&E and the Nicaraguan Coffee Exporters Association (EXCAN) have proposed is large-scale renovation.

In January and February, E&E and its financial and legal consultants engaged with members of EXCAN and representatives of the Inter-American Development Bank (IDB), as well as leading private sector organizations and major exporters, to jointly determine a funding mechanism for medium and long-term coffee rehabilitation. E&E consultants gave a presentation to the IDB with the major components and issues to be addressed in the proposal. Comments and discussion at the presentation led to a shift in strategy, from a fund to corporate credit directly with major exporters CISA and Atlantic. These exporters are now negotiating loans directly with the IDB. EXCAN may still play a role in managing the technical assistance associated with these loans, which the IDB's Multilateral Investment Fund (MIF) could fund.

In March, we continued working with our consultants, EXCAN, and financial institutions such as FDL to define a renovation scheme and establish a fund. FDL was interested in

participating, but was not able to obtain support from FUNDESUR, a savings cooperative. Due to capital limitations, the scheme is not viable without additional support.

With the time constraints of the E&E program ending this summer, we will no longer work on establishing an additional fund. Our efforts for renovation in the coffee sector however have nonetheless been successful. CISA and Atlantic will likely obtain funds directly from the IDB, to renovate 4,000 manzanas and benefit 1,300 small producers. The IDB has indicated that this would not have occurred with E&E and EXCAN's interventions.

A2. Other Cross-Cutting and Value Chain Support

A2a. Facilitating Access to Credit for MSMEs

Enhancing access to finance is a priority that we are addressing through a comprehensive strategy, assisting anchor firms and their suppliers to obtain financing, helping local financial institutions to deliver credit more effectively to SMEs, and creating a better enabling environment for SME lending. Throughout this quarter, we helped over 1,000 SMEs access loans, totaling more than \$6.5 million. Our access to credit initiatives include:

- **Central American Bank (BAC) SME Lending Support.** E&E has been working with BAC since May 2012 to help the bank create and develop an SME lending department and also to train their SME clients.
 - This quarter, E&E helped BAC lend more than \$8 million in new loans to 369 SME clients. We attribute \$2.6 million of that amount to E&E support, as it was lent to 235 SMEs that do not have formal accounting systems or financials and who prior to E&E assistance would not have qualified for loans. The average loan size was \$11,000. BAC served these clients using the specialized credit analysis methodology that E&E helped develop, specifically those businesses that are not entirely formal in their accounting and business management practices.
 - Although E&E and BAC strategized this quarter about how to support BAC in designing a new agricultural insurance product to pilot with new SME clients, we came to the conclusion that we will not be able to execute this activity before the end of the E&E project. However, BAC plans to continue the process of obtaining reinsurance, as this is a key factor in their ability to provide agricultural insurance products.
- **Banco de Finanzas (BDF) SME Lending Support.** This quarter, BDF lent \$3.88 million to 298 SME clients. E&E conservatively attributes 40%, or more than \$1.55 million, to project support in SME client training and the development of new financial products.
- **Supporting FDL in Las Segovias.** As part of an initiative supporting USAID's food security strategy, we continued our partnerships with FDL and their technical assistance (TA) partner, Nitalapan, both Nicaraguan NGOs. The program provides TA to over 2,000 small producers and rural SMEs in Las Segovias, who in turn receive financing from FDL to produce milk and coffee, and finance other commercial

endeavors. The TA ranges from clean milking practices and irrigation techniques to support in sales and marketing.

- In FY13Q2, FDL lent over \$700,000 to 413 small producers and rural SMEs in Jinotega and Matagalpa.
- This quarter, with E&E support, FDL presented its new Integrated Plan to Support Coffee Producers. This plan will provide credit for coffee renovation and technical assistance focused on increasing productivity. FDL based this new strategy on the success it has had with existing clients in the coffee sector. FDL recently conducted a study of its clientele and found that those benefitting from their program were less affected by coffee rust and other diseases than other producers. The objective of the new program is to replicate and scale this experience to reach 3,100 additional clients, covering 2,800 hectares, with \$5 million in financing with favorable interest rates and terms. Nitlapan will provide technical assistance, which FDL and E&E will cofinance. E&E has reallocated funds that were previously planned for agricultural insurance with FDL and BAC to cover the cost of this activity and expect to sign a modification to our MOU in April.



A coffee plant affected by "La Roya" or coffee rust, which is devastating the sector.

- **Credit bureau enhancement with SINRIESGOS.** E&E worked with SINRIESGOS in 2012 to develop a credit scoring tool that will enable banks to analyze the risk associated with lending to companies more quickly using their credit score, rather than reviewing each firm's credit history. The goal is to reduce the time and costs associated with lending to SMEs. After a few tweaks to meet client demand, the tool was launched and initial contracts were signed by the end of last quarter.

This quarter, SINRIESGOS signed contracts with 12 new microfinance institutions (MFIs) and two commercial banks, bringing the total of institutions using the service to 17 (13 MFIs and 4 banks). SINRIESGOS management is currently negotiating contracts with four additional banks.



Adan Talavera: Beating “La Roya” with good management

Adan Talavera hails from the Argentina region, in the Jinotega department of Northern Nicaragua. Adan’s coffee plantation is located in the hills, at an elevation of 1,000 meters. The altitude, combined with good plantation management, favors high crop yields.

Producers like Adan in Jinotega are facing a crisis. “La Roya,” or coffee rust, has spread throughout the region, affecting thousands of growers. The major effect of coffee rust is to cause premature shedding of leaves and premature ripening of berries, which results in low-quality coffee. Remarkably, Adan’s plots remain unaffected.

The main contributing factor to his immunity to rust is nearly two years of technical assistance from experts at Nitlapan, through his loan with the Local Development Fund (FDL). Adan has a total of five manzanas, and two of them have just undergone renovation. The technical assistance has not only helped Adan avoid disaster, he has also improved his productivity significantly, from 12 to 18 quintales per manzana.

Adan is one of the 2,000 farmers that has benefitted from more than \$4 million in funding and technical assistance from FDL, that have resulted from the financial institution’s alliance with the E&E program. With E&E support, FDL recently initiated a program specifically for coffee renovation, providing financing paired with technical assistance to 3,000 producers, in hope of replicating experiences like Adan’s.

Adan could not be happier with the results. After producing coffee for years, he now understands best practices for higher yields, and for avoiding disease. With these tools, he can rest easy that his plot will continue to produce high-quality coffee to support his family in the future.

- **Facilitating SME finance with FAMA.** E&E has been helping strengthen FAMA's institutional capacity so that it may increase lending to SMEs. In addition to training FAMA staff, we helped FAMA develop a new credit methodology, which includes a more robust analysis, but is also inexpensive and flexible. The tool was approved in late 2012, which allowed FAMA to increase its maximum loan size from \$10,000 to \$25,000. This led to \$737,000 in new loans to 71 SME clients – all loans over \$10,000.

FAMA initiated the process for obtaining a license from the Superintendent of Banks to operate a credit service, which thus far it has not offered to clients. FAMA will have to complete two phases to offer these services, first identifying and designing a portfolio of products to offer, and second initiating implementation of these services. E&E is supporting FAMA in the first phase, and this quarter created a scope of work and hired a consultant with experience in design and management of credit products. The consultant will submit a final product in April.

A2b. New Product Development Assistance to “La Bendicion” Cooperative

Over the course of this alliance, E&E collaborated with the National Polytechnic University (UPOLI) to provide technical assistance to 20 backpack manufacturing SMEs in Nagarote and to diversify their product offerings with 60 new products including purses and handbags. We also provided a small grant to purchase equipment to expand production. Highlights this quarter include the following:

- Sales increased by \$24,200 over the same period last year. These results were due to impressive sales of school bags, summer/beach items, and uniform contracts.
- La Bendicion created 12 new jobs.
- We completed implementation of our grant, which included seven pieces of equipment to La Bendicion member workshops.
- The Santa Martha workshop had particularly impressive sales in March, increasing by \$10,000 over last year. The workshop filled several contracts that it would not have been able to take on prior to USAID assistance to purchase new equipment. The \$10,000 in sales came from the following:
 - A contract with ENACAL, a public water sector water supplier, for 300 vests and 1,500 caps;
 - A contract with Ingenio San Antonio, a sugar mill, for 500 uniforms; and
 - Sales of 500 beach purses and 1,000 school bags.

A3. Improving Business Service Provider Capabilities (BSPs) [Task Order Activity B]

E&E is supporting business service providers to reach a broad number of MSMEs and make their assistance more effective. We are also helping to create strong synergies between these organizations and anchor firm-supported SMEs.

A3a. Asociación de Productores Exportadores de Nicaragua (APEN)

APEN is one of Nicaragua's leading business service providers (BSPs). Our focus centers on supporting and enhancing APEN's service delivery in areas critical to its export promotion mission. FY13Q2 highlights include the following:

- E&E and APEN signed a new MOU for activities in 2013, which includes expanding beef traceability services, assistance to businesses seeking certification in safety and quality standards to access export markets, support for events such as “Day with and Exporter” and the “Exporter of the Year” awards, and organizational capacity building for APEN to continue to grow as an organization and implement future USAID projects.
- APEN held its annual Exporter of the Year awards in March to recognize outstanding export performance in 2012. More than 300 people attended to the event, from the public and private sectors, as well as international organizations. E&E anchor firm Chiles de Nicaragua won two prizes in the medium-sized firm category, for associativity and CSR. E&E anchor firm Ingemann Foods won for associativity in the small business category, and anchor firm Vegyfrut was nominated in CSR as well.
- APEN continued its Beef Traceability Awareness and Training program to promote participation in the livestock sector and train technical specialists and producers to implement a traceability system. APEN conducted nine workshops to impart the importance of traceability and promote the Trazarnic system, which was developed by APEN. Technicians and producers attended these training and awareness workshops in San Miguelito (Río San Juan), Managua, San Carlos, El Castillo, Nueva Guinea, Juigalpa, El Alemendro, La Florida (RAAS), and at beef producer MACESA. There were 181 participants (142 men and 39 women) at the workshops.
- APEN held three monthly “Day with an Exporter” events this quarter. Topics included trends in international beef markets, forming export consortia, coffee market access, CAFTA at seven years, and a variety of legal issues relating to exportation. A combined total of 322 people attended the events (200 men and 122 women).
- APEN, with E&E support, is helping prepare companies to earn export-oriented certifications such as Good Agriculture Practices (GAPs), Good Manufacturing Practices (GMPs), and Hazard Analysis and Critical Control Points (HACCP). In March, APEN held a HACCP Management workshop, which 23 people attended (13 men and 10 women). The second group of ten companies E&E and APEN trained in international standards also continued to work toward certification this quarter,



APEN finance manager Rodolfo Martinez displays the certificate he earned at a USAID finance and procurement training in El Salvador, which is part of E&E's organizational capacity building activity.

making necessary infrastructure and process improvements. Quarterly progress includes the following:

- Aceitera Real (HACCP): achieved entry into supermarkets with corn flour and obtained its sanitary license (prerequisite for certification); they have now been documenting sanitary procedures for 2.5 months.
- Procesa-UPANIC (GMP): established offices and a new storage area, improved their electric wiring system and have complied with personnel uniform requirements.
- PAC (GMP): hired a consultant to do a quality assessment at their plant in La Curva and held a workshop on sanitary procedures in San Ramon. They nearly have acquired their sanitary license (prerequisite for certification) and have purchased a vegetable cooling system.
- Cooperative Jorge Salazar (GMP): did lab analyses for cocoa paste and bitter cocoa and produced GPM and Sanitary Procedures manuals for their Cocoa Plant.
- Industrias Carphil (HACCP): purchased new equipment.
- Kola Shaler (HACCP): conducted a risk analysis and improved their personnel rotation system; purchased laboratory equipment.
- La Campesina (GMP): began implementing a disease control system and made investments in infrastructure.
- E&E staff guided APEN through a self-assessment of organizational capacity, covering a number of areas from human resource management to monitoring and evaluation. E&E and APEN have identified some areas for support and are undertaking related activities. This quarter, an E&E consultant helped APEN develop a strategic plan for 2013-2016 and we sent APEN's finance manager to a USAID financial and procurement training in El Salvador.

A3b. Centro de Exportaciones e Inversiones (CEI)

CEI is Nicaragua's leading export promotion BSP and a key E&E partner. Our work continues to focus on making CEI's organization of international trade fairs more effective. This quarter, highlights included the following:

- CEI and E&E signed a new MOU, activities include:
 - Support for PMA Fresh Summit Trade Show, to be held in New Orleans, USA. This will continue to build CEI and Nicaragua's reputation as a significant and reliable supplier of fresh produce to the U.S. market.
 - Cofinancing the Fifth National Encounter of Nicaraguan Producers and Exporters, for which we expect more than 700 attendees.

- Data sheets on exportable Nicaraguan products and their market potential, to assist producers in exporting these products.
- CEI and E&E began preparing for PMA, reserving booth space and reviewing design proposals for the 2013 Nicaragua pavilion. We also helped CEI begin planning for the Fifth Encounter, reserving hotel space.

A3c. Red de Empresarias de Nicaragua (REN)

E&E worked with REN, the Nicaraguan women’s business network, this quarter. With our support, they hosted a trade fair and forum, called “Women Building Tomorrow.” The Gender Commission at COSEP also helped organize the event, which took place the week of International Women’s Day, as part of their efforts to support women in value chains, and particularly women in SMEs. The goal of the event was to raise the profile of the contributions that businesswomen make to the national economy. The forum recognized the work of female leaders such as Azucena Castillo, the director of APEN. The trade fair gave businesswomen an opportunity to display and promote their products, including some that E&E has supported in specialty food, leather products and handicrafts.



Female leaders and businesswomen came together at the “Women Building Tomorrow” forum and trade fair in March.

A4. Dialogue with Other Donors

E&E met with an international mission from the Inter-American Development Bank (IDB) this quarter, which is assessing issues related to access to finance in Nicaragua and, specifically, the slow movement of IDB loans to Nicaraguan institutions such as Banco Produzcamos (BP). Mission members were familiar with E&E’s accomplishments in access to finance and value chain finance. We discussed issues related to BP’s lending and provided recommendations on how the program could be restructured. Subsequent to our meeting, the IDB mission team leader informed us that they would be adopting many of our recommendations in their report (e.g., have BP funds flow through as a “second tier” operation) and would specifically recommending implementing E&E’s value chain financing model for a new IDB program.

B. Support for CAFTA-DR and Improved Policy Environment [Task Order Activities C and D]

The E&E project has played a key role in supporting the Nicaraguan private sector in establishing a better business climate for equitable economic growth and SME development over the course of the project.

In July 2012, E&E concluded its support to activities identified during the last two years for CAFTA-DR's Environmental Cooperation Agreement (ECA) in which we worked with the Ministry of Environment and Natural Resources (MARENA). These activities involved: 1) apply current environmental norms under domestic and industrial residual water regulations focusing on those industries and/or economic activities that dump residual water in Lake Cocibolca (Lake Nicaragua) and other sources of water, 2) accredit four environmental laboratories in Nicaragua, and 3) facilitate regional accreditation of the National Office of Accreditation (ONA). We continued collaborating with MARENA on printing environmental guides and posters. This quarter, E&E worked with MARENA on the design and printing of posters illustrating the process for obtaining environmental permits.

C. Human Capital Development [Task Order Activity E]

E&E continued implementing two major initiatives to enhance the human potential of Nicaraguans. Progress in FY13Q2 includes the following:

C1. Workforce Development Program with the Victoria Foundation (VF)

E&E continued to see impressive results from our first grant to the Victoria Foundation, in which we supported at-risk youth with scholarships to VF's Business Administration and Industrial Maintenance Programs. Through a second grant signed this quarter, we are helping bring about the first technical-level Food Technology program in Nicaragua. Details and highlights for FY13Q2 include the following:

- FV has placed more than 80% of youth who studied Business Administration and Industrial Maintenance under our initial grant in permanent jobs. Many of these students received formal offers for employment before they complete their program. These primarily have come from the businesses where the students completed their practical training. VF continues supporting the remainder in their job search. Their graduation ceremony is scheduled for early April.
- VF made significant progress on activities under our new grant, completing the recruitment and selection process for the new food technology program, selecting 50 students out of 131 applicants. They were chosen based on academic and psychological exams, as well as financial need.



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Advertisements to promote VF's Programs. "200 COMPANIES ARE WAITING FOR YOU. SCHOLARSHIPS AVAILABLE!"



Nadieska Castellón Baca: Breaking the mold for a brighter future

Twenty-seven year old Nadieska Castellón Baca doesn't always do what is expected of her. As a single mother from Ciudad Sandino, a poor area outside of Managua, she might have spent her days selling products in her neighborhood. Not Nadieska though, she had a vision to give her two-year old son Franco a better future, although it might take some sacrifice along the way.

She remembers, "It was a very special day when I saw Mayela (Executive Director of the Victoria Foundation) on television talking about the project. It was my son's birthday." It was also special because that day Nadieska began preparing for the Foundation's technical education program, which E&E supports with scholarships. She showed up the first day of recruitment, took exams and interviewed. She tells us that it wasn't easy, but she passed with flying colors.

After acceptance into the program, Nadieska chose the unexpected again. Instead of joining the Business Administration program, like most of her female counterparts, she signed up for Industrial Maintenance. She was one of only two female students who chose the career. "I chose [this career] because I liked it, even though they said it was a career for men. It's a question of ability; it didn't seem as difficult because I liked what I was doing."

And her results speak for themselves. Nadieska is one of the top three students in the program, with an average grade of 90.5/100. She did her practical training in a *La Casa de las Mangueras*, an industrial equipment company. Before even completing her practical study, she was offered a permanent position as an Industrial Machinery Assessor.

After traveling to Managua every day, working so hard, and obtaining employment, you might think Nadieska would be content. However, her plans for the next year are to apply to the National Engineering University to become an Industrial Engineer. "My advice for young people is to never abandon you dreams. We can contribute to the country. And being the key to my family's success right now, I'm telling you it's a big deal for me. I'm going to continue, because there are opportunities in Nicaragua, but you must seek them out. I know, I found them."

- As food technology is a new course offering, applicants were somewhat limited; by selecting only 50, VF was able to maintain its high admissions standards. E&E supported VF in designing a communications strategy for next year's recruitment process. The campaign, which will feature TV, radio and social networking promotions, focuses on positive images of people working in food technology, and on the demand for these skills in the labor market; some ads feature the slogan "200 companies are waiting for you."
- VF also hired instructors, scheduled classes, created and printed student course guides and initiated the program this quarter. Food Technology students competed the first module of their course in March
- The food technology program will not only benefit students in this program, but SMEs in Nicaragua who have not previously had access to technical specialists in food technology who will have knowledge of quality control, nutritional testing and other related areas. The selection of the topic for this program was based on a demand analysis that VF conducted in 2010.

C2. The CISCO Entrepreneur Institute at Thomas More University

- In partnership with Cisco, the U.S.-based technology company, and Thomas More University, E&E helped establish the Cisco Entrepreneur Institute on Thomas More's campus in 2011. The center has been one of the most successful in Latin America, with Cisco using it as a benchmark for institutes at other universities. This quarter we completed our support to the Institute.



CISCO Entrepreneur Institute graduates proudly display their diplomas at their graduation ceremony.

- In January, the institute held a graduation ceremony for 94 students from *Creating a Business* and *Growing a Business* courses, 68 of whom were supported with scholarships from USAID. This was the last group of the 180 students that received scholarships with USAID funds. Graduates from these courses have been trained to improve overall management, increase productivity, improve quality, reduce costs and obtain bank financing. More than 50% are close to starting their own businesses.
- One week after the graduation, the Institute began its student recruitment program for the next group of entrepreneurs to be trained. This is perhaps the most important achievement of the alliance – the Institute will continue to operate sustainably, using its own funds, without USAID support in the future.



Manuel Estrada Morales: An Entrepreneur at Heart

Manuel Estrada Morales takes his business seriously, and he is not one to miss an opportunity. 28- year old Manuel recently graduated from the Cisco Entrepreneur Institute at Thomas More University, where he was a recipient of a scholarship funded by the E&E program. He surprised everyone at the graduation by handing out product samples when receiving his diploma.

“My advice to young people is that you have to leave the comfort zone, I'm young and middle class with a plan to improve my status, and gradually create something that will be mine and will also support the country's economy and create jobs.”

Manuel's product, *Conguito* spicy onions and pickled vegetables, came from his mother's recipes. Friends had always told her she should sell her spicy onions, and now Manuel is making that dream a reality. He knew how to make the product, but not how to turn it into a viable business. That's where the *Creating a Business* course came in. With the skills and tools he learned there, Manuel is confident he can turn his mother's delicious onions into a source of income for his family.

Manuel's strategy is to sell his products at *La Colonia* Supermarkets. "I've been saved and invested in this project, I do not want to go into debt. I want to just capture a little market share at first, but I want it to be a secure market." Manuel has invested in raw material, labels and packaging. He plans to start with about 450 units of spicy onions and 100 more units of pickled vegetables in two *La Colonia* stores.



D. Support Activities and Programs

D1. Outreach [Task Order Activity G]

E&E continued to generate a high level of awareness among the press, stakeholders, and the general public of USAID's efforts to promote equitable growth in Nicaragua. Eighteen stories highlighting of E&E were published in local newspapers and shown on local television this quarter, highlights included:

- *El Nuevo Diario* also published an article called “small businesses conquer international markets,” which mentioned E&E's support of Chiles de Nicaragua. In the newspaper's “Dialogue” column in the economic section; it featured an interview with E&E Director Danilo Cruz-DePaula, who spoke about his expectations for 2013.
- *La Prensa* published article about Grupo Raices' launch of the new store in Masaya and the successful closing of the alliance.
- *La Prensa* and *El Nuevo Diario* published stories about the CISCO Entrepreneurship Institute graduation. It was also covered by Channels 2, 14, 15, and 23.

E&E continues updating its web content on the project's website (over 125,000 visits to date), Facebook (over 1,882 friends and regular viewers), Twitter (over 30 followers) and YouTube accounts, which can be accessed at:

<http://www.nicaraguaempresayempleo.com/>
<https://www.facebook.com/EmpresasyEmpleoNicaragua>
<http://www.youtube.com/user/empresasyempleo?feature=mhee>
<https://twitter.com/empresasyempleo>

D2. Small Grants [Task Order Activity H]

E&E's small grants component leverages funds for projects that merit investment to create employment, expand sales, and increase incomes of grantees. From January through March 2013, E&E prepared and submitted the following three grant proposals:

- A second simplified grant for Cooperative NICACENTRO, for the procurement of industrial dairy equipment to establish a new collection center, for milk purchases and for the start-up of a milk collection route servicing collection centers in the RAAN and RAAS. The amount of this grant is USD \$150,000. The grant application was submitted to USAID on March 1st, 2013 and approved on March 8th, 2013.
- A third simplified grant for anchor firm Chiles de Nicaragua, to introduce the new shade-house technology for the cultivation of organic Tabasco peppers in the amount of USD \$25,000. The grant application was submitted to USAID on March 7th, 2013 and approved on March 15th, 2013.
- A second simplified grant for APEN, for the co financing of consultants for the Beef Traceability program, SMEs certifications program and business support programs. The amount of the grant is \$42,700. The grant application was submitted to USAID on March 25th, 2013 and we expect its approval by early April.