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First Quarter Report

FY 2013, October - December

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Cover: Producers with their organic Tabasco chili pepper seedlings and USAID/Nicaragua Mission Director, Arthur Brown at the signing event between Chiles de Nicaragua and Fabretto Foundation. These producers, identified by Fabretto, will be among the first producers of organic Tabasco chili peppers in Nicaragua. They will produce the peppers in shade houses, constructed with cofinancing from E&E and anchor firm Chiles.

Enterprise & Employment First Quarter Report FY 2013, October - December

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ANNEX 1: E&E NEWSLETTERS

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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 first quarter of FY13 (October - December, 2012 or FY13Q1). Highlights include:

SME and Value Chain Development

- E&E helped generate over \$2 million in new sales (39% exports) and more than 300 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 first quarter of FY13, E&E reached 26% of its FY13 local sales growth target, 47% of its export sales growth target, and 33% of its job creation target.
- We facilitated a new agreement between anchor firm Chiles de Nicaragua and the Fabretto Foundation, an educational NGO. Small farmers whose families receive support from Fabretto will participate in a pilot program to produce organic Tabasco chili peppers using shade houses for the first time in Nicaragua.
- E&E and anchor firm Eskimo helped the CASANJO milk producing cooperative reduce low-quality milk from 41% to just 6% with technical assistance and new equipment for their milk collection center.
- We helped facilitate more than \$5.3 million in loans to over 800 Nicaraguan SMEs through alliances with anchor firms and formal lenders. During the quarter, E&E achieved 27% of its FY13 target of facilitating \$20 million in finance.
- E&E teamed with APEN and ProNicaragua to host a trade mission to Nicaragua. Eight representatives of six U.S. companies traveled to the country to visit farms and participate in business round tables. Initial intentions to buy totaled \$3 million.
- With E&E support, CEI led a Nicaraguan delegation to the Produce Management Association's Fresh Summit (PMA) trade fair in California. Eight businesses represented Nicaragua, which report buyer intentions totaling \$10 million in export sales.
- E&E continued working with members of EXCAN (Coffee Exporters Association of Nicaragua) to create a coffee trust fund to rehabilitate the sector and benefit small producers, capitalized by contributions from major exporters, the IDB, and the state-owned Banco Produzcamos. E&E hired a consultant to prepare a full proposal for the IDB to manage the \$20 million fund, who will present a draft in February 2013.

CAFTA-DR Implementation and Policy Reform

- E&E published 2,500 Environmental Investment Guides and printed several posters on behalf of MARENA which prominently featured USAID. The posters illustrate the process for obtaining environmental permits and will be posted in territorial delegations of MARENA.

Human Capital Development

- E&E extended our MOU with the Victoria Foundation to develop the first vocational level Food Technology program in Nicaragua. The curriculum is now complete and we will support the training of 100 at-risk youth in the program.
- The CISCO Entrepreneur Institute trained 28 entrepreneurs through the *Creating a Business* and *Growing a Business* courses; this is the final group supported by E&E scholarships, but the Institute will continue training entrepreneurs.

Outreach

- E&E continued generating significant understanding of USAID's contribution to equitable economic growth in Nicaragua through monthly bulletins, extensive press coverage (over 26 print news stories and television coverage of a wide range of E&E activities), and social media. By the end of December, E&E's web page had been visited by over 99,894 people. We have over 1,719 friends and regular users on Facebook.

Finance and Management

- E&E had Q1 accruals of approximately \$584,634 or approximately \$198,600 per month. Our cumulative expenses are approximately \$9.74 million. We project expenditures of around \$670,000 each in Q2 and in Q3, and to spend 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 FY13Q1. 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 FY13Q1, 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 and investment capital; (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 FY13Q1, E&E anchor firm alliances generated more than \$1 million in new sales (87% exports) and more than 53 new jobs. E&E continued implementing 10 anchor firm alliances, six of which are in the final stages of implementation. In addition to continuing activities with four anchor firms next quarter, we are planning a new alliance with Sukarne and FDL to provide financing and technical assistance for cattle fattening. We also continued to work with EXCAN to develop a fund for coffee renovation.

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

In Q1, 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). Chiles exported peppers worth \$492,000 and created 33 new jobs. Other highlights this quarter include:

- Chiles added 89 producers and 150 hectares to its network of suppliers this quarter, in Managua, León, Boaco, Madriz, Rivas and Matagalpa.
- An E&E grant helped finance pumps and irrigation equipment for small producers, covering 22 hectares under production. We also cofinanced 79 protective uniforms and over 600,000 seedlings, benefiting 104 small farmers, covering 30 hectares under production.
- Chiles signed an addendum to their agreement with the Fabretto Foundation, an NGO with the mission of educating children in poor communities so that they may break the cycle of poverty. E&E previously catalyzed their partnership with Chiles to integrate small farmers whose families are receiving support from Fabretto into the Tabasco pepper value chain. With this addendum, E&E, Chiles and Fabretto will co-

finance a pilot program to produce organic Tabasco chili peppers in Nicaragua using shade houses for the first time.

- Chiles' management visited the Produce Management Association's Fresh Summit trade show in California, with E&E support. The experience helped them gain greater understanding of market trends and opportunities for future diversification, which may allow them to integrate producers of other in-demand products into the value chain.



USAID Director Arthur Brown and Chiles owner Sergio Trana discuss green house production at Hydroponica.

- Chiles signed an agreement with Technolinks for a 14-month project to improve technical access for producers of Tabasco chili peppers for export. Techno-Links is a competitive grant program funded by the Canadian International Development Agency (CIDA) and the Inter-American Development Bank's Multilateral Investment Fund (MIF). Chiles was selected out of a pool of 115 bidders to receive a grant of \$130,000. One component of the grant aims to increase financial access with a guarantee fund of nearly \$50,000 to assist in the purchase of irrigation equipment for small producers. Importantly, this support will continue after the E&E project has closed, helping ensure that Chiles will continue to grow and integrate small producers into the value chain.
- Chiles was invited by a Central American Corporate Social Responsibility network, of which E&E partner uniRSE is a member, to become a reference firm in Nicaragua to develop strategies to deal with climate change. Chiles was invited to INCAE business school in Costa Rica, where they discussed the anchor firm model and how USAID support has contributed to their success. Chiles will contribute to a study on strategies of export-oriented firms.

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

In partnership with anchor firm Eskimo, E&E has been supporting 220 dairy producers from the San Jose Cooperative (CASANJO) in San Jose Paiwitas, Matagalpa, and the Livestock Association of San Jose de los Remates (ASOGACA) in Boaco, who supply milk to Eskimo. This quarter, E&E also assisted milk collection centers including, CASANJO, Agrolac, San Martin and Mulukuku to improve milk handling during the transportation reception and storage phases of milk collection. Progress this quarter included the following:

- E&E helped Eskimo suppliers from ASOGACA and CASANJO increase their sales by over \$137,400 in comparison to the same period last year.

- E&E consultants conducted diagnostics to identify milk producers that were negatively affecting overall milk quality; they assessed equipment and infrastructure as well, working with each collection center to develop an action plan to improve milk quality, including center upgrades and training.
- CASANJO installed a milk chilling system, co-financed by E&E's grant to Eskimo. With the system fully functional, milk is chilled to 4°C 4-5 hours earlier than it was previously. This significantly improves the quality of the milk and immediately stops bacterial growth. As a result, producers from CASANJO are producing higher-quality milk.
- CASANJO also launched a milk classification and payment system with price differentiation based on quality. Producers are responding to this incentive; the percentage of low quality milk has dropped from 41% to 6% of total collected milk in this quarter alone. Prior to any E&E assistance, the percentage of low quality milk was 48%.
- Technical assistance in the other collection centers (Agrolac, San Martin and Mulukuku) has led to a drop in low quality milk as well, 49% to 18%. This is largely a result of training personnel in milk collection centers as well milk transporters in topics such as: best practices in collection and transportation, methodologies for quality analysis, sanitation standards, and disease control, among others.
- Consultants from E&E and Eskimo also trained producers supplying the milk collection centers in clean milking practices.



CASANJO producers with the newly installed milk chilling system at their collection center.

A1c. Exprosur - Plantain exports

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

- E&E helped Exprosur export 15 containers of high quality plantains to Costa Rica, generating \$113,000 in new export sales and six new full-time jobs.
- E&E provided training to 40 farmers in Ometepe on Erwinia fungi control and good practices in 'bagging' for cooperative members and SMEs. When producers cover bunches of plantains in plastic bags, they reduce threats from pests. Crop techniques, logistics and fruit handling were also covered in training.
- Ometepe growers purchased 31,000 bags with a grant from E&E and bagged 7,200 bunches of plantains.



Donald Obregon: Setting an example with new technology

Donald Obregón, a grower and cattleman from Rivas, owns a medium-sized farm named Talolinga, with 30 Ha of plantain. Donald has been producing plantain for a long time, and he knows the risks. “I had a terrible experience with Sigatoka and Erwina,” he tells us, the diseases had wiped out much of his plantation in the past.

When Exporsur and E&E signed an alliance agreement, Donald, an Exporsur supplier, was invited to apply new technology to old plantain areas on his farm. As an experienced and well-respected farmer in the region, Donald seemed to be an excellent choice. However, understanding the potential losses, Donald was hesitant to triple his investment, from \$1,400 to \$4,200 per hectare. He tells us that he thought, “This might not work so well, but I’ll give it a try.”

He invested in a new drip-irrigation system, began fertilizing and started a strict pest and fungus control program. Ultimately, he also decided to apply bagging technology to 10 of his 30 hectares. The investment paid off in the end. Rain was scarce between August and November this year, so without irrigation, he would have lost much of the crop. Bagging helped too, it protected the plants when they still needed time to grow before harvesting.

Prior to using this new technology he was able to harvest 1,500 plants that produced 30,000 plantains. This cycle, he harvested 2,000 plants producing 60,000 plantains per hectare. Not only has his volume increased, but his quality has also improved. This is important because producers are paid according to quality -\$0.10/first quality-plantain and \$0.06/second quality. Before, he had only 40% first quality and 60% second quality; Donald is now selling 70% first-quality and 30% second-quality. With these investments, Donald’s profit per hectare is now \$2,280, which is \$1,000 more than it was before. Donald has also lowered his risks of losing much of his crops to drought or pests.

Donald’s experience is important because he is well-known and respected in his community. As others see his success, they too, including small farmers, are beginning to invest in new technology to reduce their risks and increase their productivity and plantain quality.

- We trained 14 Exprosur agronomists and 10 laborers from four Exprosur farms in Good Agricultural Practices (GlobalGAP). The goal is farm certification to help Exprosur access international markets, and export to buyers like Wal Mart, a representative of which specified the certifications that they require when he visited Nicaragua on a commercial mission in November (more details can be found in section A3a. APEN). We expect that nine farms in Rivas will work toward GlobalGAP certification with E&E and APEN support this year.
- In alliance with the International School of Agriculture and Animal Husbandry (EIAG), Exprosur began testing new plantain varieties. EIAG has grown plants in vitro that are resistant to disease. six of Exprosur's suppliers received 100 of these plants each to test in demonstration plots on their farms.

A1d. Grupo Raíces (GR) - Handicrafts

Grupo Raíces represents nearly 200 Nicaraguan artisan SMEs. E&E provides GR with marketing and demand-based design support, as well as co-investment to purchase equipment to standardize quality or improve productivity. FY13Q1 highlights include:

- E&E helped Grupo Raices generate export sales of \$186,500 and six new jobs.
- Two representatives from Grupo Raices attended the International Artisans Fair in Milan, Italy in December. While E&E did not cofinance their participation this year, the cooperative was able to use lessons from the 2011 fair (which E&E supported) to take full advantage of the opportunity. After learning about market demands last year, and receiving technical assistance to improve product quality and design this year, they were fully prepared for the show. Initial intentions to buy totaled \$30,000.
- GR focused on helping its network of handicraft producers prepare sufficient supply for the increased demand of the holiday season. Although this alliance is coming to an end, we have delayed its closure until early 2013 due to this busy time for GR.

A1e. Tecnoagro – Cassava and other tropical tuber exports

E&E's grant to Tecnoagro has helped its suppliers – nearly all small producers – to introduce new cassava varieties that will increase yields as much as four-fold compared to traditional varieties, thus helping producers increase their profitability. We completed activities under this alliance this quarter; over the course of the alliance, we co-financed the purchase of high-yield seeds and technical assistance to 33 of Tecnoagro's suppliers. Additionally, we helped fund a commercial mission to Puerto Rico, where Tecnoagro was able to secure a market for cassava exports. Tecnoagro has generated new sales of \$1.1 million, created 156 new jobs, and incorporated 85 producers into the value chain.



U.S. buyers check out Tecnoagro's cassava, on the commercial mission E&E hosted with APEN.



Nohemí Cuevas: Employing at-risk youth

Nohemí Cuevas, single mother of 8, has owned and operated a workshop for furniture and crafts in the town of Nandasmo, Masaya for more than 20 years. Prior to opening her workshop, she made her living butchering pigs. “When I was left with the responsibility of raising my children alone, I lived in a house with plastic tables. For my children, I decided it was time to venture into another area. I bought my first wood lathe in 1990, and started out making artisanal table tops I had seen around town.”

Nohemí’s hard work paid off, and her business did fairly well, she even served as president of the Artisan Association of Nandasmo for 5 years. In this position she had the opportunity to learn about Grupo Raices and enter its National Network of Artisans. With support from the E&E project, Nohemí received two pieces of equipment for her workshop, which have helped her improve quality. She has also received training, along with other Network members, to improve design and follow market trends.

E&E’s support to Grupo Raices in improving products and accessing markets has increased demand for producers like Nohemí; she even participated in international trade missions and national fairs with Grupo Raices. Nohemi explains, “In late November, I signed a contract for \$22,000 for 400 chairs to be sent to El Salvador and one for \$1,750 for 500 *tostoneras* (plantain smashers used for cooking *tostones*) to be sent to Puerto Rico.”

While caring for her eight children, she has always been committed to helping youth in any way that she can. In particular, she has tried to employ at-risk youth in her workshop to motivate them to change their lives and become productive adults. Having staffed up to meet demand, she now employs 12 youth in her growing workshop.

At 50 years old, Nohemi is also beginning to plan for the future of her shop. She would like to have two of her children take over, one focusing on design and quality and the other on sales. But Nohemi is not done yet, she says “we are preparing part of the house to be a product showroom, and I’m planning to expand the workshop – it is too small for the orders I have. I have obtained credit from a financial institution and I plan to travel to Guatemala in February for business to offer some new products.”

This quarter, Tecnoagro participated in a commercial mission supported by E&E and APEN; more details can be found in section A3a – APEN. We also completed the implementation of our grant to Tecnoagro, which will officially close the alliance in January.

A1f. MAPINIIC-Simplemente Madera (SM) – Wooden furniture

Our alliance with MAPINIIC-Simplemente Madera is designed to support small carpentry SMEs from which SM plans on outsourcing the construction of over 60% of the furniture it sells nationally. The alliance has the goal of helping SM's new suppliers expand production, improving business management, marketing, customer service, production efficiency, and quality control.

SM recently decided to change 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.

This quarter, SM completed the process to operate under the free trade zone regime. The obstacles associated with this change slowed SM's implementation of the grant from E&E and we jointly decided to end our alliance; it will officially close in January 2013.

Despite the early closure, this alliance has generated impressive results, including \$184,750 in new sales and the integration of six new workshops, which received training on improved quality and design, into SM's supply chain.

A1g. 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). Highlights include:

- APEMAC shrimp farms receiving assistance sold \$120,323 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.
- Our STTA team conducted 43 visits to shrimp farms. Technical assistance focused on homogenizing technical management of farms and guaranteeing shrimp quality in preparation for the second harvest cycle, broadening the services offered by the APEMAC laboratory to cover additional farms not connected to the E&E program, assisting producers in access to finance with new credit organizations, and appropriate tracking of field and laboratory research.



Quality control specialist analyzing larva in the APEMAC laboratory

- E&E financed specialized software that APEMAC will use for farm accounting and to track shrimp production; it is similar to the system SERVICONSA uses.
- E&E specialists conducted trainings on improving shrimp harvest techniques as well as on using the new accounting system. Dr. Arturo Rojas from AVIMEX (a Mexican input provider) conducted a training event on disease management and the responsible use of therapeutic agents; there were 15 participants at each event.
- SERVICONSA lent \$438,862 to small farmers for working capital this quarter.
- Research activities to advance aquaculture in Nicaragua included the following:
 - With the support of INPESCA, the National Institute for Fishing and Aquaculture, producers harvested four experimental shrimp ponds and one Tilapia pond.
 - APEMAC is managing 10 aquariums, donated by AVIMEX for short-term laboratory experiments.
 - Our team started testing and research on feed and Gregarine (parasite) control.

A1h. Expornica (Formerly Proniexport) – Sesame exports

Our partnership with EXPORNICA, a major sesame exporter and anchor firm in this alliance, is designed to help 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. Highlights this quarter include the following:

- We continued providing technical assistance to the 797 small producers in Leon and Chinandega through our alliance with anchor firm EXPORNICA. Technical assistance focused on achieving high plant growth rates by using good management and fertilization practices in October, supporting producers in the harvesting process (cutting and threshing) of sesame in November, and assisting producers in selling the sesame and repaying their loans in December.
- To date, we have helped 917 producers access financing, 150 of whom received credit from FDL. EXPORNICA provided finance to the remaining 767 producers, ensuring the planting of 2,700 manzanas of sesame. Preliminary estimates based on the harvest indicate that crop yield is expected to average 9qq per manzana with a purchase price of not less than \$50/qq.



EXPORNICA producer harvesting sesame



Marvin Betancourt: A leader in the community

In the Unión España community, in León, Marvin Betancourt Gómez lives with his wife, 2 daughters and 3 sons. Marvin has worked in sesame productions for more than five years, but he has never had a harvest like this. This year, Marvin received a loan from FDL and technical assistance to maximize production and harvest. He also started working with other sesame producers in the area; a group of 20 producers is now cooperating.

Marvin tells us, “Normally, I’ve sold my harvest from my five manzanas of sesame, but this year I coordinated with another producer to harvest 8 manzanas together. We produced six to seven quintales per manzana.” He adds, “I can’t complain, on the contrary I have much to be thankful for. The technical specialist visited me every three weeks, he was there for the preparation of land, disease management and the harvest, helping apply the recommendations and controlling costs.” Marvin and his partner were able to employ 46 people for the harvest and after repaying his loan from FDL and covering all expenses, he retained a profit of more than \$1,200.

Marvin tells us that for years he has looked for a way to improve life for the 3,800 people living in the eight communities in the area. With his earnings he decided to invest in a *ventecita*, a small shop, selling various goods from a window in his home. His wife and oldest daughter will run the shop, and it will include a small pharmacy. This investment will not only be an additional source of income for the family, but a help to Unión España and surrounding communities. Currently, there is no such shop in the area, and people have to travel for an hour or more to reach the nearest city to purchase medicine and other products.

“As a producer and a community leader, I want to thank E&E and USAID for the assistance and the credit through FDL. With the money we’ve earned we can pay back our loans and improve the lives of our children.” After paying back their loans on time, Marvin and the other 20 producers in his group look forward to working with FDL again on next year’s production and harvest.

- Updated data on the impact of this alliance will be available in January 2013, when the harvest is complete, but at this price, producers will be making more than is generally expected per manzana, by as much as 20%.
- E&E re-hired specialists that had previously provided technical assistance to sesame producers to help facilitate the sales process. The specialists are traveling with buyers, ensuring accurate weighing of products and explaining to producers the process of retention to repay loans, in case there is confusion. Their participation is ensuring the repayment of loans, fair transactions, and transparent market relationships.
- By the end of December, 138 producers had sold their sesame, and 88 of them had fully repaid their loans. We expect that the rest of the 150 producers financed by FDL will sell their product and repay their loans by January 2013.

A1i. 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. In FY13Q1:



Signing of FDL- Nicacentro agreement to provide credit to 500 producers.

- We have nearly completed execution of our first grant to NICACENTRO, installing milk chilling and storage equipment for collection centers. Only one piece of equipment remains to be installed.
- NICACENTRO began building collection centers in Lisawé and San Pedro del Norte this quarter with a combination of its own funds and finance from Bancentro. We anticipate that construction of the milk collection center will be complete in January 2013, with collection beginning in February. They will serve producers in the surrounding communities.
- Bancentro approved and disbursed a lease covering 70% of the equipment that NICACENTRO is acquiring for its milk collection centers. NICACENTRO assumed this cost, which was not included in the MOU with the E&E program.
- With E&E support, NICACENTRO and FDL signed an agreement to guarantee credit of \$500,000 to more than 500 producers in Matiguas, Rio Blanco, Paiwas and nearby zones. This will finance the investment in pastures, equipment, infrastructure and the purchase of livestock. For FDL, this alliance represents a significant expansion into the livestock sector.

A1m. Sub-projects Under Consideration

Coffee Rehabilitation with EXCAN

This quarter, engaged and dialogued regularly with members of EXCAN (Coffee Exporters Association of Nicaragua), and representatives of the IDB (Inter-American Development Bank), as well as leading private sector organizations and exporters to jointly analyze E&E's concept paper to create a coffee trust fund to rehabilitate the sector and benefit small producers, capitalized by contributions from major exporters, the IDB, and the state-owned Banco Produzcamos. Attendees expressed willingness to support the proposal.

E&E hired a consultant to prepare a full proposal to be presented to IDB to manage the \$20 million fund, which will provide loans to small and medium producers who want to renovate and/or expand their coffee farms. The consultant will present it in January, 2013.

Cattle fattening with Sukarne and FDL

E&E is planning to sign an MOU with anchor firm Sukarne and the Local Fund for Development (FDL) in early 2013. 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. FDL will provide financing, E&E will cover the cost of technical assistance from Nitalpan, and Sukarne will participate in the selection of producers, provide technical assistance, purchase directly from producers at a premium, and retain payments for FDL.

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 800 SMEs access loans, totaling more than \$5.3 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 \$2.7 million in new loans to 232 SME clients who do not have formal accounting systems or financials and who, prior to E&E assistance, would not have qualified for loans (see footnote, page one). The average loan size was \$11,900. 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.
 - BAC is planning in 2013 to adjust its portfolio of financial products to offer a broader range of products specifically adapted to the needs of SMEs.



Frank Evenor Gonzales: Investing for the future

40-year-old Frank Evenor Gonzales hails from La Perla, Jinotega, in northern Nicaragua, where he lives with his wife and two children. His parcel of land, at an altitude of 1,200 meters, has excellent potential to produce high quality coffee.

Frank is one of 1,700 producers that have benefitted from \$3.6 million in financing through the alliance between the E&E program and the Local Development Fund (FDL). The purpose of this financing, which is combined with technical assistance from Nitlapan, is to improve food security by working with small producers in *Las Segovias*, a region in northern Nicaragua.

Frank's entire parcel is 18 manzanas, and he is currently growing coffee on 8, but had not previously had the capital to invest in plants to utilize all of his land. Through FDL, Frank received financing for the planting and cultivation of 6,000 new coffee plants on the remaining 10 manzanas. Frank and technical specialists from Nitlapan predict that Frank will have excellent results on his new plantation. They anticipate that his harvest will exceed 30 quintales in the first year of harvest and 60-80 quintales per manzana in the second and third year, which could mean more than \$30,000 in profit in those first three years.

A producer that manages coffee production in a traditional way will generally plant 3,500 per manzana and produce 15 quintales. The technical assistance Frank has received has enabled him to nearly double the number of plants on his land, and quadruple his production. The specialist will ensure that Frank manages the plantation using best practices, avoiding pests and disease.

Access to finance has been difficult to obtain for coffee producers in this area. While coffee can help producers significantly increase their income, it takes about three years before new plants can be harvested. FDL has offered longer term loans to these producers, which is the key for farmers to be able to invest in coffee plantations. Frank has the opportunity to take advantage of technical assistance and will be able to wait for his new plants to produce before repaying his loan. In the meantime, Frank is carefully managing his plantation and patiently waiting for the transformational increase in his family's income.

- **Banco de Finanzas (BDF) SME Lending Support.** This quarter, BDF lent \$3.7 million to 304 SME clients. E&E conservatively attributes 40%, or nearly \$1.5 million, to project support in SME client training and the development of new financial products.
- **Supporting the 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, Nitalpan, both of which are Nicaraguan NGOs.
 - The program provides TA to 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 FY13Q1, FDL lent over \$680,000 to 279 small producers and rural SMEs in Jinotega, Matagalpa, and Las Segovias. These producers, who also received technical assistance, used these funds for the purchase of cattle with calves, and the establishment of small coffee plantations.
- **Credit bureau enhancement with SINRIESGOS.** E&E has been working 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.
 - SINRIESGOS had initially launched a campaign to promote the tool in July 2012. Receiving significant interest from potential clients, SINRIESGOS responded to demand and tweaked the parameters it uses to provide credit scores. SINRIESGOS contracted a consultant to help them make these modifications, who completed the changes and presented the revised tool in November.
 - SINRIESGOS signed its first three contracts with financial institutions to use the tool in December. Of these, two are microfinance institutions and one is a commercial bank. SINRIESGOS plans to sign further agreements next quarter.
- **Facilitating SME finance with FAMA.** E&E is helping strengthen FAMA's institutional capacity so that it may increase lending to SMEs. This quarter, we trained five facilitators in finance and accounting, 13 financial analysts in credit analysis and 37 of FAMA's SME clients in finance and accounting. We hired a consultant to help develop a new credit methodology, which includes a more robust analysis, but is also inexpensive and flexible. This tool will allow FAMA to increase its maximum loan size from \$10,000 to \$25,000. The consultant presented the proposed methodology and the board accepted the proposal. We expect that FAMA will begin to implement the methodology in early 2013. The proposal included: methodology for analysis of SME credit, improvements for reporting systems and the recruiting process and training course for SME analysts.



Geovanny Montes Escobar: motivated for progress

In Geovanny Montes' workshop, located in Nagarote, León, the workday starts at 7:30 every morning. Although he is only 34 years old, Geovanny has operated his workshop for 14 years. He explains, "Since I was a child, my mom worked in the house, and I helped her attach buttons and sew hems, I was very interested in learning to make things."

When he finished high school, he started studying in the university on Saturdays, but when his two children were born, he had to stop and focus only on work so that he could support them. He started his workshop with only one sewing machine and his own determination. He began making baseball caps and visiting the local market with them, later he added men's shirts and shorts. He mentions, "Like anything at the start, it was really hard. I worked day and night, as much as I could stand. I couldn't keep a regular work schedule." Little by little he received more orders than he could handle, so he decided to employ a friend, and eventually he hired another employee.

Geovanny is one of the partners and founders of *La Bendición* textile cooperative that E&E has supported in designing new products, strengthening the associativity in the cooperative, and integrating producers into value chains. With support from the UPOLI's school of design and two Master's students in rural sustainable development, E&E provided training in silk-screening and accounting, new equipment and design and marketing advice to cooperative members.

"Support from USAID opened doors for us," Geovanny declares. Armed with new equipment, design knowledge and techniques, members of the cooperative approached local businesses offering their products. Cooperative members also came together to display their various designs in a showroom. When we visited him, he was working on an order to make 1,000 shoulder bags in 15 days. He had to hire extra people just to complete it. He says, "I received a new machine from USAID, which helps improve our quality; it does the work of four machines, helping us save on energy costs, and allowing the employees to focus on cutting and assembly, and we can finish during normal working hours"

Geovanny's workshop is doing much better than it was before receiving USAID support. Monthly income for the workshop was \$650-\$800, and has now increased to nearly \$1,900. He employs six people full time, as well as eight seasonal workers. In 2013, Geovanny plans to continue operating his workshop, with the help of his employees, and at the same time he will return to University to complete his degree.

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 \$7,522 over the same period last year. 50% were in school bags, 30% in ladies purses, and 20% in various other items.
- La Bendicion created eight new jobs (four men and four women).
- We supported a 50-hour training course in serigraphy (screen-printing) for 15 producers (eight men and seven women) from the La Bendicion Cooperative, which they attended over a four -week period in September and October.
- Equipment supplier Eminsá delivered seven pieces of equipment, co-financed by E&E, to La Bendicion supplier workshops.

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

E&E is supporting four 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.



U.S. buyers tour farms during the commercial mission.

This quarter, E&E teamed with APEN and ProNicaragua to host a trade mission to Nicaragua. Eight representatives of six U.S. companies visited the country - Wal-Mart, Bagley Produce, Farm Fresh Market, Origene Seeds, Anthony Marano Company, Total Quality Logistics and Cardenas & Stephens. The group took field trips to the north and central zones of Nicaragua as well as the Leon-Chinandega area, visiting 10 sites including fresh fruit and vegetable farms, shrimp farms and packing plants. They had the opportunity to observe processes and ask questions of producers.

We held business round tables, where at least 25 Nicaraguan exporters held more than 50 meetings with the trade mission participants. Nicaraguan firms that participated made new business contacts and learned about the demands of the market and how to become

suppliers. They also made agreements to sell their products; initial intentions to buy totaled approximately \$3 million. Other FY13Q1 highlights include the following:

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 four awareness workshops to impart the importance of traceability and promote the Trazarnic

system, which was developed by APEN. Workshops were held in Leon (1), El Triunfo (1) and El Almendor (2). There were a total of 119 participants (46 women and 73 men).



Employees produce snacks at Carphil, a company that has obtained GMP certification and is preparing for HACCP.

- APEN, with E&E support, is preparing companies to earn export-oriented certifications such as Good Agriculture Practices (GAPs), Good Manufacturing Practices (GMPs), and Hazard Analysis and Critical Control Points (HACCP). Of the 20 companies that received training in our first phase, four have now undergone inspection and evaluation in GMPs - Rodsen, Cola Shaler, Carphil and Empacadora Vargas. All four passed the inspection and are now certified. These companies are now 4 of only 12 companies in Nicaragua certified in GMPs. Cola Shaler and Carphil continue their preparation for HACCP certification.
- E&E and APEN focused on preparing a second round of companies for certification this quarter, working with the 10 firms. Consultants concluded training and gave each firm a manual to prepare for evaluation in November. APEN continues to work with the firms to make the necessary infrastructure improvements to achieve certification.
- The Export Assistance Office (OFEX), which E&E helped establish, held a training on how to participate in business round tables, prior to the trade mission. Fourteen people participated (8 men and 6 women).

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:

- With E&E support, CEI led a Nicaraguan delegation to the Produce Management Association's Fresh Summit (PMA) trade fair in Anaheim, California. 8 businesses represented Nicaragua October 27th and 28th at the fair. The exhibitors were Tropicana Fruit Farms, AgroesNica, AGROEXPORT, UNAG and Distribuidora El Carmen. The group of companies offered a wide variety of products including roots and tubers, okra, malanga, red and black beans, pineapple, banana watermelon,

chili peppers, cocoa and chia seeds. Exhibiting companies report buyer intentions totaling \$10 million in export sales.

- E&E supported EMPASA, Cooperative Jorge Salazar, and Chiles de Nicaragua to “walk the show,” to learn about international markets, packaging, technology, trends and competition. 19,000 industry professionals attended the show, from more than 70 countries, representing global fruit and vegetable value chains.



AGROEXPORT representative meeting with an international buyer at E&E and CEI's booth at PMA in Anaheim

A3d. Cámara Nacional de Turismo (CANATUR)

Tourism is one of Nicaragua’s fastest growing sectors. The National Chamber of Tourism (CANATUR) is a key to Nicaragua’s tourism sector, ensuring that the industry develops sustainably from a business, social, and environmental perspective. In FY13Q1, E&E and CANATUR supported Nicaragua’s nascent medical tourism sector. E&E hired a consultant focused on the creation of medical tourism association in Nicaragua.

- The consultant identified changes the Association will propose in its solicitation of the National Assembly to adjust Law 306, so that its benefits extend to medical tourism. One such request is a tax exemption on the importation of medical equipment and hospital replacement materials.
- The consultant created a list of the primary medical products and services that the Association will market abroad.
- The final report included the following recommended steps to establish a vibrant association that will catalyze growth in the sector:
 - Generate interest and increase membership through an awareness campaign, highlighting the economic potential of the sector.
 - Make certifications a top priority to position Nicaragua in the market.
 - Complement certifications with highly qualified human resources, by offering ongoing training to people working in the sector.
 - Obtain membership in the principal international organizations that represent the industry with a presence at international events.

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. As a result of budget considerations in the final year of implementation, we have focused our efforts on the environmental agreement with MARENA.

B1. Support for CAFTA DR

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) applying 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) accrediting four environmental laboratories in Nicaragua, and 3) facilitating regional accreditation of the National Office of Accreditation (ONA).

This quarter, E&E published 2,500 Environmental Investment Guides and printed several posters on behalf of MARENA. The posters illustrate the process for obtaining environmental permits and will be posted in territorial delegations of MARENA.

E&E continues monitoring the results of our previous activities. E&E previously financed 502 business inspections to evaluate existing residual water management practices affecting sub-basins that feed Basin 69 of Rio San Juan and Lake Cocibolca. MARENA's legal team processed environmental permits for 333 SMEs. We developed 296 environmental management plans and conducted 70 trainings on environmental management. MARENA reports that businesses are complying with environmental norms.

This quarter MARENA also reported that it is improving its laboratory network, promoting cooperation and associativity. The Center for Research on Aquatic Resources has received its accreditation and other laboratories are in the process. Laboratories that we supported but were not selected for accreditation have continued to improve their processes, launching monitoring and recording systems, as well as scheduling periodic calibration of lab equipment, as specified by ISO 17025.

The ONA is also in the process of obtaining its regional accreditation; it received a pre-assessment visit in December, which is a prerequisite for accreditation. They expect a full evaluation next quarter and to complete the process by the end of the year.

B2. Policy Reform

Given the upcoming Municipal Elections, there was not a great deal of movement on policy reform initiatives before the Assembly. We are still keeping a close eye on the Export Product Promotion Law developed with support from E&E, which the National Assembly will take up after Fiscal Law Reform Law. We now expect this will happen in FY13Q2

B2a. Support for the Superior Council for the Private Enterprise (COSEP) Agenda

As per COSEP's request, we continued to focus on helping the coffee sector to design and launch initiatives using the anchor firm model to help small and medium producers in these sectors expand (see *A1j – Sub-projects under Consideration*).

C. Human Capital Development [Task Order Activity E]

E&E continued implementing two major initiatives to enhance the human potential of Nicaraguans. Progress in FY13Q1 includes the following:

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

This quarter, 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 FY13Q1 include the following:

- FV has now placed 85% of youth who studied Business Administration under our initial grant in permanent jobs. VF continues supporting the remainder in their job search.
- The Industrial Maintenance students that we supported are in the last phase of their program, which includes a professional practicum and a course in innovation. 48% of these students already have received formal offers for employment when they complete their program. These primarily have come from the businesses where the students are completing their practical training.
- Throughout November, VF carried out their annual recruitment process for new students in 2013. E&E support enabled them to broaden their recruitment efforts, visiting more departments than ever before. The process was a success – VF received 605 applicants, a 21% increase from last year. 48% of applicants were female 52% male. 93 applications came from outside of Managua this year, including the first 3 applicants ever from the Atlantic coast. VF is now in the process of application review and student pre-selection
- E&E extended our MOU with VF to provide a grant for \$100,000 to support the training of at least 100 at-risk youth in a new Food Technology vocational education program. So far, under this grant, VF has completed a curriculum and established standards for accreditation of Food Technology programs with the National Technical Institute (INATEC), as it is the first of its kind.



Industrial Maintenance students at VF in the classroom-based phase of their training



Alfonso César Silva: Making the most of an opportunity

We met 19 year old Alfonso Cesar Silva in 2011, at the start of his vocational course in Industrial Maintenance. He was one of two students chosen to address the audience at the signing event for the alliance between the E&E Program and the Victoria Foundation, and he turned out to be a good choice.

He told us about coming from a low-income family, which like many in Nicaragua, was split up due to economic hardship. His mother had to immigrate to Costa Rica for work, along with two of his sisters. He stayed with his grandmother in the poor and sometimes dangerous Jorge Dimitrov neighborhood in Managua. Nevertheless, Alfonso says that good people who want to improve themselves live there. He sees himself as part of this group, especially now after having finished the program and graduating as Technician in Industrial Maintenance. He humbly tells us that he was not “the best” student, but with an overall grade of 93/100 he certainly excelled.

He refers to his coming to study at Foundation as one of the hardest processes that he has ever endured, “I had to study for a whole month just to be able to pass the admission tests. There were so many exams and tests! When they called to notify me that I had been selected, I felt very lucky.”

He did his three-month internship, which all students must complete as part of the program, at the Nicaraguan brewery *Compania Cervecera de Nicaragua (CCN)*. Before he finished, CCN offered him a temporary 3-month contract as industrial mechanic. Alfonso is working hard to gain permanent employment when his contract ends in March 2013.

Now he earns over \$300 per month, helps support his home and is also saving to study engineering at the university level. He says, “Now I feel like a successful youth in my family and worker in my country,” and his confidence is evident. On our last visit, he addressed the USAID director in English without a hint of hesitation (see photo with USAID Director Arthur Brown, above). He tells us that he has not stopped thanking God or the USAID E&E program for changing his life.

To his peers he recommends: “Take advantage of the opportunities that present themselves, it doesn’t matter where you live, how you are treated, never let go of your dreams, work for them and strive to get what you want, with faith and with sacrifice you can do it. What you do today, that is your future.”

- This grant to VF 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 Entrepreneurship 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, the Institute continued delivering the Creating a Business and Growing a Business courses to 28 entrepreneurs (14 female and 14 male). These students, the final group of the 180 students supported by E&E scholarships, completed their course in the first week of December. Their graduation is scheduled for January 2013. The Institute will continue offering these courses sustainably, without E&E support in the future.

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. Results during FY13Q1 include:

- Twenty-six news stories in print media highlighted E&E's activities (primarily articles in *El Nuevo Diario*, *La Prensa*, and *La Jornada* newspapers). Top stories included the PMA Fresh Summit Trade Show in Anaheim, California which we supported with CEI; the U.S. buyer mission to Nicaragua, which we supported with APEN and ProNicaragua; and the new Food Technology program we are supporting with the Victoria Foundation.
- Several local television stations covered the launch event for the Victoria Foundation's new program, the launch event for SINRIESGOS new credit tool, the signing of the FDL-NICACENTRO agreement, and the international trade mission.
- E&E continues updating its web content on the project's website (over 99,894 visits to date), Facebook (over 1,719 friends and regular viewers), 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>

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 October through December 2012, E&E awarded one new grant with a value of \$100,000.

- We successfully closed the follow-on grant award for Chiles de Nicaragua. The grant had been modified to extend its duration from October 2012 to December 2012. We are currently planning a new grant for FY13Q2.
- We submitted a grant application for the Victoria Foundation and obtained approval on December 6th, 2012. The grant in the amount of \$100,000 will support the Foundation in the establishment and registration of a new food technology career that will be offered starting in January 2013. Our grant will also provide scholarships for 100 selected students from groups of at-risk youth.
- The grants awarded by USAID through the E&E Program to Swisscontact, EXPORNICA, and EXPROSUR were successfully closed.