

Activity Design Document (Redacted Version)
SO2, IR 2.2
USAID/Nicaragua

I. Executive Summary

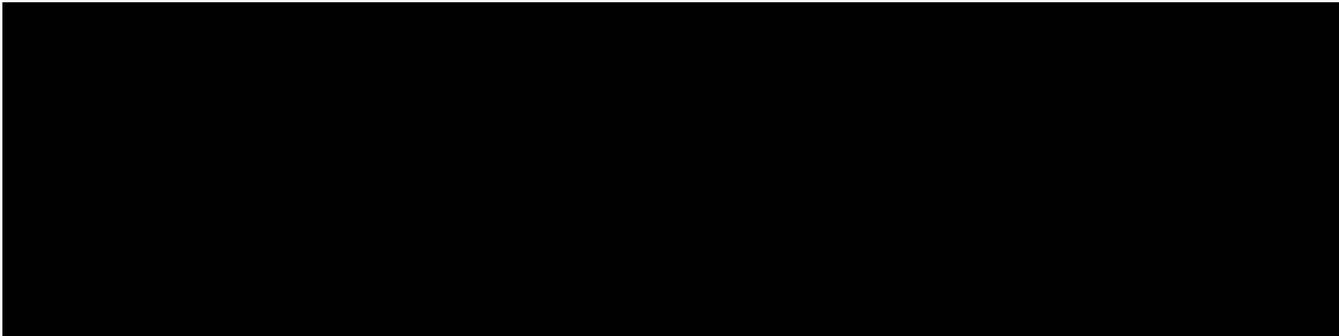
Nicaraguan market-oriented enterprises need assistance in several areas: i) organizational capacity to leverage production resources; ii) market intelligence to identify opportunities and threats; and, iii) trade capacity building activities to fully realize the benefits of the U.S./Central America Free Trade Agreement (CAFTA) and other trade agreements. Joint ventures and commercial alliances with foreign and domestic owned firms can also make a significant contribution to the growth and competitiveness of these enterprises. They need to innovate, develop joint ventures, invest in new technologies, reduce costs, and increase quality. USAID will focus on the producers' ability to identify and engage in profitable market opportunities.

The SO Team expects the Activity to achieve the following key sub-Intermediate Results.

- Competitiveness of Nicaraguan enterprises and market linkages increased; and
- Natural resources conserved through increased sales of environmentally friendly products and services.

The interventions in this Activity include the following:

- Projects that take advantage of trade and market opportunities to link Nicaraguan producers to regional and global markets;
- Technical assistance to improve the competitiveness and market linkages of Nicaraguan enterprises, with an emphasis on market oriented businesses that want to establish or strengthen links with large-scale export firms or regional and international firms;
- Projects that improve access to credit through financial sector reforms and loan portfolio guarantees, such the Development Credit Authority (DCA);
- Technical assistance primarily focused on supplying regional and international supermarkets with high quality products that Nicaragua has or may develop a comparative production advantage; and,
- Technical assistance to buyers and producers to guarantee adherence to quality standards along the production chain and stimulate value-added Nicaraguan product lines.



II. Problem Statement

Nicaragua has excellent agricultural soil, covering 11.8% of the nation's territory, where coffee, sugar cane, sesame seeds and bananas are grown along with non traditional crops such as peanuts, melon, cantaloupe, lemons, and yellow onions.

Although dependence on basic export crops has made the national economy vulnerable to global price fluctuations, Nicaragua exports of goods and services totaled US\$623 million in 2003 and agricultural production accounted for approximately 60 percent of the total. The agricultural exports included: beef (\$85.3 million), coffee (\$79.4 million), lobster/shrimps (\$82 million), sugar cane (\$34.8 million), and bananas (\$13 millions).

The agricultural sector employs an estimated 42.5 percent of the total labor force of 1.8 million people. The majority are small-scale farmers of traditional crops with very low or non existent value-added to their products. They operate in a fragmented market that impedes competitive growth, have a minimum organizational capacity, have limited access to financial and production inputs and, have inadequate standards of quality, logistics and, service.

New economic and market opportunities from free trade agreements presents agro-businesses and other enterprises with challenges and opportunities. For the country to fully benefit from these free trade agreements, the nation will have to improve its position to compete in regional and global markets. Private sector firms need to improve the capacity to compete, gain access to new markets and maintain existing market share. This competitive capacity relies on product diversification, cost efficient production and capital investment flows. At the same time, both government and producers have to understand the benefits, and begin to utilize, sustainable environmental production practices to safeguard the country's natural resource base.

Key agriculture barriers and constraints are related among other to the following:

- Uncompetitive transportation service;
- Limited hybrid seed access;
- Deficient infrastructure, especially in the rural areas;
- Limited access to financial mechanisms;
- Limited market-intelligence of the producers;
- Inefficient customs and border-crossing; and
- Limited public/private coordination, consensus, and prioritization.

To help the government and private sector address these constraints USAID intends to maintain a flexible approach in its SO2 activities. The flexibility will enable USAID to engage more directly in support of the National Development Plan (NDP) with government agencies and offices when and if opportunities arise. The planned activities will focus on working with farmers and entrepreneurs that demonstrate potential for promoting change in the agro-business sector to diversify production, produce value-added products, apply competitive practices and, consolidate efforts as organized groups that can generate economics of scale.

A. Global Trade Agreements—Opportunity and Challenge

The advent of various global and regional trade agreements – World Trade Organization (WTO), CAFTA, and the Free Trade Agreement of the Americas (FTAA) – is promising to open national markets and benefit a large percentage of Nicaraguans. Nevertheless, the Nicaraguan private sector must position itself to benefit from these new global trade opportunities. The private sector must work closely with the GON to push for good governance to reduce corruption, improve adherence to the rule of law, reform the judicial system, ensure quality labor conditions, and promote environmentally sustainable production. At the same time, private sector firms must innovate, develop joint ventures, invest in new technologies, reduce costs, and increase quality to become competitive in new markets that are opening up as a result of globalization and free trade agreements.

B. Transformation of Marketing Structures within Central America

In addition to the opportunities opened by numerous trade agreements, other trends within the region both pose challenges and present opportunities to Nicaraguan producers. Chief among these is the increasingly dominant role of supermarkets in the marketing of agricultural production, domestically, regionally, and internationally. As a result, sharp distinctions between global export markets and local domestic markets are rapidly disappearing. Supermarket standards are much more demanding in terms of food quality, safety, consistency, timing, and volume than are traditional markets. In fact, as Latin American consumers demand higher food quality and safety standards, supermarket chains are progressively applying standards that approximate U.S. and European market export standards. The domestic rural smallholder, who has traditionally been the principal source of supply for the domestic market, may find it increasingly difficult to meet these standards.

Even the poor Central America sub-region has seen explosive supermarket growth, as sales have doubled in less than a decade. Today the region's supermarket average share of food retailing is already roughly half that of the United States. In Nicaragua, there are now 40 supermarkets, up from five in 1994, and three supermarket chains are expected to build another 17 stores in Nicaragua over the next two years.

Nevertheless, Nicaragua lacks efficient sanitary and phyto-sanitary systems to meet the supermarket standards. Furthermore, most small-scale farmers and many agribusiness firms need to greatly increase the quality and safety of their products to enter these competitive, yet lucrative markets. Investments by both the GON and the private sector in quality sanitary and phyto-sanitary systems are needed.

C. Competitiveness

The Government of Nicaragua (GON) is acutely aware, in principle, of the importance of improving the business and investment climate. Although the GON is in the process of developing strategies to implement the National Development Plan (NDP) and support prioritized business areas, private sector actors in Nicaragua show a tendency to protect current market structure and insulate their businesses from globalization and competitive market forces. Efforts are needed to support private sector initiatives where firms and institutions within a specific business area build alliances and commercial relationships to improve overall competitiveness. Furthermore, agro-businesses, especially traditional sectors, lack the organizational capacity and commitment to open competitive practices; yet, many of the

prioritized business areas in the GON's NDP are traditional agro-businesses such as coffee, cattle and horticulture.

D. Related Donor Activities

Other donors seek to increase the competitiveness of agro-businesses. USAID/Nicaragua currently serves as the focal point for the Roundtable on Production and Competitiveness, which is designed to encourage coordination among the GON, donors, and the private sector. Donors, at the very least, try not to duplicate projects; and, where practical the donor community tries to complement and enhance similar programs. Below is a summary of donor programs.

- Japan – grants averaging about \$50 million annually, primarily for infrastructure.
- Sweden and Denmark – annual average of 22 million and \$21 million, respectively. Less than a quarter of these budgets are for programs that focus on sustainable natural resource management and agriculture.
- Other Nordic and European countries – approximately \$5 million annually. About a quarter of these funds are for economic growth, agricultural, and environmental projects. These programs primarily focus on natural resource management, organic production, and protected area management.
- The European Union – About to begin a \$68 million 5-year budget support program. The program supports the implementation of the GON's National Development Plan with results and indicators targeted for rural areas.
- IDB – \$70 million loan for economic growth activities to increase productivity and competitiveness in the agricultural and light manufacturing sectors and implement trade capacity building projects. The loan focuses on small and medium-scale enterprises. The IDB also has a \$48 million loan for rural infrastructure projects.
- World Bank – recently approved a Country Assistance Strategy, which will support the government's Poverty Reduction Strategy Paper goals at about \$40 million in loans per year over the next three years. It is also providing a \$40 million loan to develop a cadastre system and implement other projects related to land titling.

III. Link of Activity to SO Results Framework

To achieve the Intermediate Result and Strategic Objective, the SO 2 Team will implement actions under this Activity that: (1) increase the competitiveness of Nicaraguan enterprises and improve market linkages; and (2) conserve natural resources through increased sales of environmentally friendly products and services.

There are two sub-IRs under Intermediate Result 2.2: Sub-IR 1: Increased investments in competitive business and improved market linkages; Sub-IR 2: Management systems that conserve natural resources sustained by competitive, market-oriented enterprises that are consistent with the conservation goals.

To address these sub-IRs, USAID/Nicaragua has identified five general types of activities that fit into the country context and incorporate the lessons learned from previous activities. Those activities, and the sub-IRs that they address, include:

- Promote trade-led economic growth, and improve the business and investment climate (sub-IR 1)
- Identify and address structural, policy and regulatory constraints on national competitiveness (sub-IRs 1, and 2)
- Identify regional and global market opportunities for which Nicaragua has a comparative advantage and help develop a national strategy to support private sector initiatives in key markets (sub-IRs 1 and 2)
- Support rural diversification and link agricultural producers, especially those in the P.L. 480 Title II programs, to markets for non-traditional agricultural products (sub-IRs 1 and 2)
- Provide technical assistance to improve competitiveness in “green markets” (sub-IR 2).



Linkages to other IRs, SOs, Activities and Agencies: Linkages and opportunities for synergy exist between the IRs of SO2 as well as between the two other SOs under the USAID/Nicaragua Country Plan. In particular, the following linkages have been identified:

- IR 2.1 and IR 2.2: While IR 2.1 activities will be focused on policy reform to create a more trade-friendly business and investment climate, the lack of implementation of environmental laws was one of the issues that was a major point of contention in the US Congress with regard to the Central American Free Trade Agreement (CAFTA). IR 2.2 is designed, in part, to help Nicaraguans implement their own environmental regulations. The organizations supporting implementation of IR’s 2.1 and 2.2 should coordinate their activities, share information, and meet regularly to discuss challenges and successes in their programs where they overlap.
- IR 2.2: There are two main areas for synergy.
 - IR 2.2 is designed to assist local producers meet local and international standards, and identify local, regional, and export markets for their products. The implementing organizations for both IR 2.1 and IR 2.2 should coordinate their efforts in target areas to share information regarding the producers needs as well as the requirements to meet market demands, both domestically and internationally. Regular meetings and sharing market information will help to reduce redundancies and improve efficiency under the SO2.
 - IR 2.1 and IR 2.2: Provision of technical assistance in the agricultural sector - another area of potential overlap or opportunity for synergy is the coordination of guidance given to farmers. The cognizant technical officers (CTOs) and implementing organizations for

both IRs should coordinate technical assistance in the target areas to ensure that the beneficiaries are receiving consistent and clear messages from USAID sources.

- SO1 and IR2.2: The linkages between SO1 (More Responsive, Transparent Governance) and IR2.2 (More Competitive, Market-Oriented Enterprises) are in the areas of decentralization and improved capacity of municipalities to implement environmental regulations, water and soil conservation practices.
 - Both SO1 and IR 2.2 will be working in helping municipalities to implement transparent processes, including greater public participation, when it comes to reviewing proposals for development that may include significant negative environmental impacts. The CTOs and Contractors for these activities need to work together, especially in target areas, to share lessons learned and identify potential areas for collaboration, such as in the case of joint training on public participation.
- SO3 (Investing in People: Education and Health) and IR2.2: Efforts need to be coordinated especially when activities are occurring in the same geographic zone.
 - The USAID/Nicaragua staff will coordinate efforts with regard to environmental education, in target areas. SO3 has a well-established program and lessons can be learned from their work in the regions, especially in rural areas where non-traditional forms of education are supported.
 - USAID/Nicaragua staff working on activities in rural agricultural communities, such as through the DAPs in the Health Sector, will share lessons learned, jointly sponsor training sessions, and identify other areas of joint collaboration between the SOs. While the focus communities for the DAPs are primarily the poorest of the poor subsistence farmers, the focus in the watershed program will be in those geographic areas that offer the greatest potential for economic growth, or that have the highest vulnerability to natural disasters, among other characteristics.

Other Activities These activities include, but are not limited to, both USAID-funded and other donor funded activities. Some of the other activities are listed below:

- a. PROARCA regional activities such as the clean production, protected areas programs as well as Global Development Alliance activities in certification of timber, bananas, and coffee.
- b. Regional Office of Foreign Disaster Assistance (OFDA)-related disaster training activities such as training of firemen in the area of search and rescue from buildings, training of INAFOR fire fighters.
- c. Centrally-supported initiatives such as improving management and institutional development of organizations working in protected areas.
- d. Sistema Ambiental Mesoamericano (SAM) program for the Meso American Reef.
- e. DCA to promote the adoption of productive systems under environmentally friendly practices.
- f. MFEWS regional activities such as disaster preparedness, crop monitoring, and food security policy to be incorporated in the national development plan.

IV. Summary of Activities and Expected Results

To attain the two key sub-intermediate results of this Activity, the SO 2 Team will work closely with market oriented agro-businesses and other enterprises. This Activity will include the agricultural programs under P.L. 480 Title II. The Activity is also closely linked to the Trade and Investment Activity and complements other Mission programs (i.e., increased rule of law and transparency in government and increased investments in health and education).

All actions taken under this Activity will follow the policy directives and required procedures detailed in ADS 225 entitled, “Program Principles for Trade and Investment Activities and the Impact on U.S. Jobs and Workers’ Rights”, as well as other relevant Agency policies and guidelines. The SO 2 Team will ensure that USAID-funded competitiveness actions under this Activity do not:

- a. “Provide financial incentives or other assistance for U.S. companies to relocate abroad if it is likely to result in the loss of U.S. jobs; or
- b. Contribute to violations of internationally recognized workers’ rights defined in 19 U.S.C. 2467(4)” (ADS 225.1 a and b).

For actions under this Activity that are generally permitted, but fall under “Gray-Area Activities,” the SO 2 Team will conduct an analytical review following the procedures under ADS 225.3.1.7, entitled, “Analytical Procedures for Gray-Area Activities.” The SO 2 Team will also include the required clause for “Gray-Area Activities” in all grants, cooperative agreements, contracts, Participating Agency Program Agreements, and Implementation Letters for the Project Management Unit that will be established in a GON ministry, as stated in ADS 225.3.1.8. Furthermore, the SO 2 Team will include the required clause for “Workers’ Rights” in all grants, cooperative agreements, contracts, Participating Agency Program Agreements, and Implementation Letters for the Project Management Unit that will be established in a GON ministry, as stated in ADS 225.3.2.

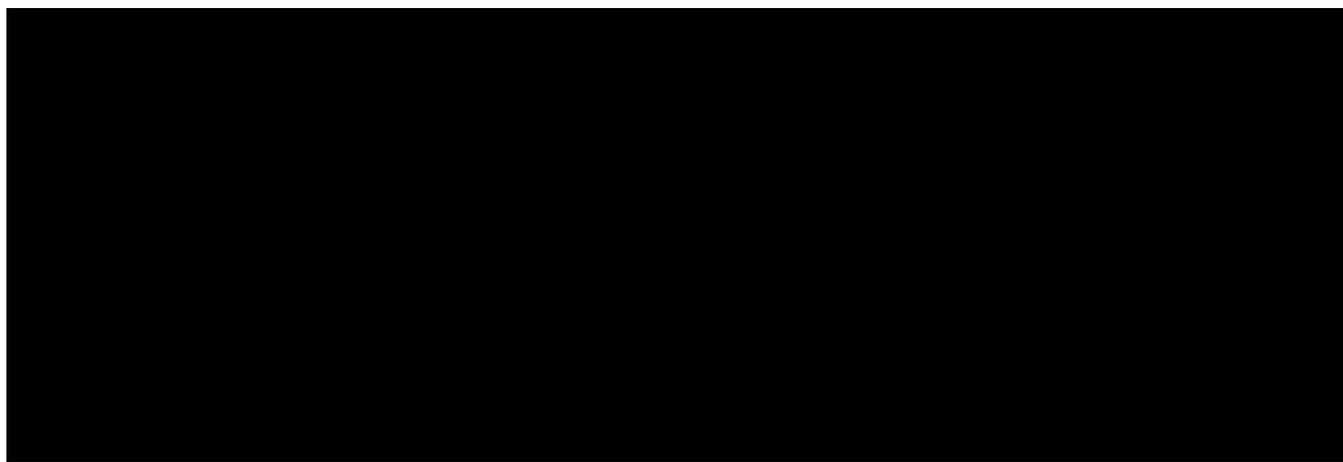
To maximize the results achieved under this Activity, the SO 2 Team, to the extent possible, will pursue opportunities for public-private sector alliances, whereby the resources of the private sector are leveraged to achieve development goals.

If Nicaragua’s country proposal for the Millennium Challenge Account (MCA) is funded, USAID/Nicaragua will revise its strategic objectives to ensure effective coordination and to maximize national impact.

Sub-IR 2.2.1: Competitiveness of Nicaraguan enterprises and market linkages increased.

The SO 2 Team will support activities that link market-oriented agro-businesses and other enterprises to regional and global markets. It will provide technical assistance to improve competitiveness and market intelligence to generate export opportunities. Technical assistance will also be provided to encourage investments, joint ventures and alliances that increase value-added production and improve supply quality. The focus will be on diversified, non-traditional business sectors where Nicaragua has a comparative advantage, such as light manufacturing, added-value agricultural products, and ecotourism.

The SO 2 Team will support changes in the agricultural and light manufacturing sectors that result in market-oriented competitive practices and proactive initiatives, so that they can benefit from commercial opportunities of CAFTA and other free trade agreements. USAID assistance will target agro-businesses that might be negatively affected by free trade agreements to help them make the adjustment to more market-oriented production. Technical assistance will be provided to buyers and producers to guarantee adherence to quality standards along the production chain and stimulate value-added Nicaraguan product lines. Note that a Bumper analysis was performed to assess if the assistance supports the production or growth of an agricultural commodity for export that would compete with a similar commodity grown or produced in the US (see Annex IV).



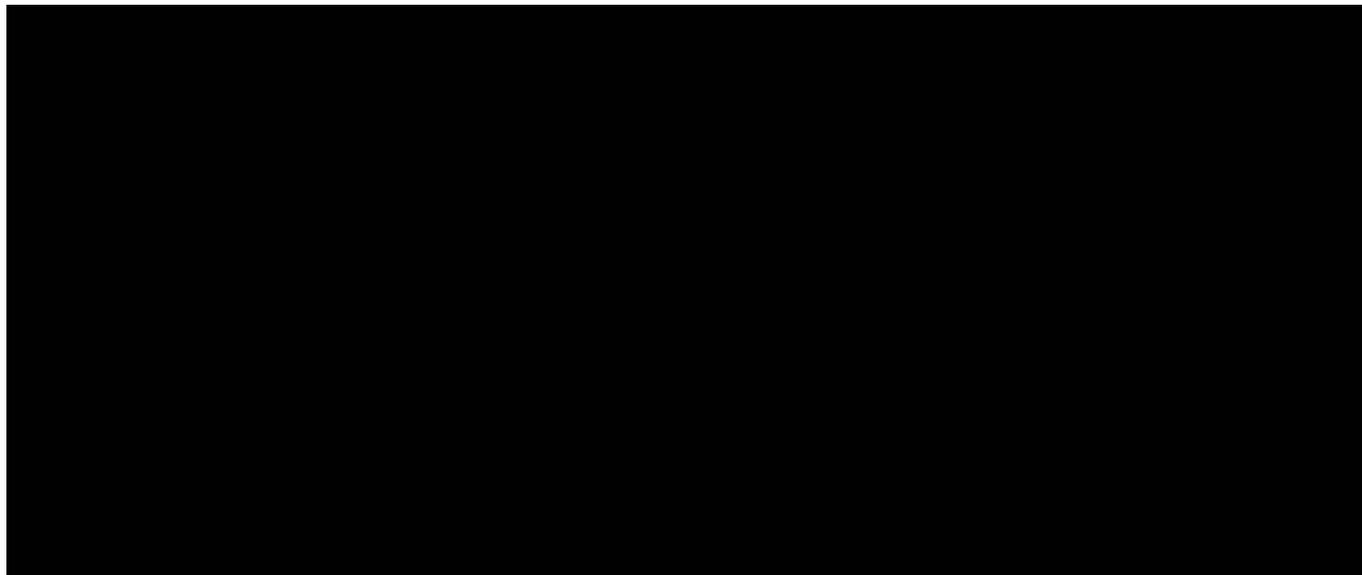
Support will be given to activities that improve access to credit through financial sector reforms and loan portfolio guarantees, such as those provided under the Development Credit Authority (DCA). As part of the DCA loan guarantee program, three Nicaraguan commercial banks will provide loans to micro, small, and medium-scale enterprises in the areas of agricultural, light manufacturing, aquaculture, and services as well as the construction of export processing zones. The U.S. government will guarantee 50 percent of each loan placed under this program. A total portfolio of \$20 million will be established.

While the Mission's Trade and Investment Activity will implement projects to help the GON institutionalize sanitary and phyto-sanitary systems to support the private sector, there are still a great deal of standards and practices that agro-businesses need to implement (i.e., product quality and safety). The SO 2 Team intends to provide technical assistance to establish these quality control systems.

The beneficiaries of this Activity are both small and medium-scale agro-businesses and large-scale enterprises. Assistance to larger firms is aimed at fostering working relationships with smaller partners.

Collaboration among large and small producers generates production efficiencies from economics of scale.

An important focus of technical assistance is to increase leadership capacity and develop collaborative commitments among agro-businesses. The aim is to create a business environment in which agricultural entrepreneurs, mainly small and medium scale producers, increase productivity, competitiveness, and long term profitability by working as a cluster. This cluster approach can generate the change from the current fragmented production to an organized group of producers that attain economics of scale and, can efficiently compete for commercial opportunities from free trade agreements. The cluster approach is consistent with the GON NDP.



The SO 2 Team will also use the same Context Indicators described in the IR2.1 ADD to gage progress in achieving this Intermediate Result.

Sub-IR 2.2.2: Natural resources conserved through increased sales of environmentally friendly products and services.

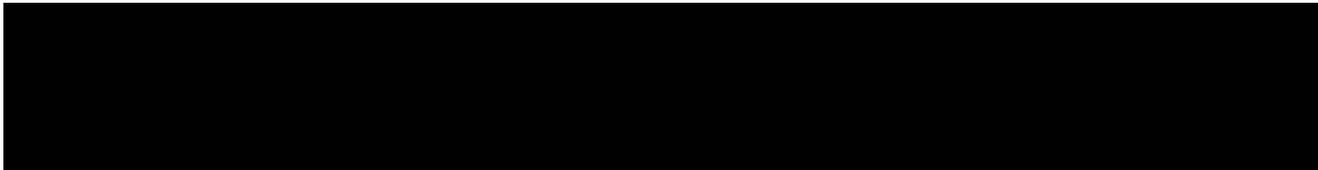
Note: Activities under this Sub-IR are now elevated as IR 2.4 (see end notes).

The SO 2 Team will help to improve the competitiveness of Nicaraguan businesses in green markets, tourism, and other enterprises that conserve and use natural resources in a sustainable manner.

The SO 2 Team will take advantage of opportunities to support certification of products by providing technical assistance to strengthen the competitiveness and sustainability of coffee, forest, agro-forest and marine products. The green market activity will focus on improving the local and national capacity to access competitive markets, and to expand business opportunities for the communities and entrepreneurs, through the sustainable management of their natural resources, increasing economic, social and conservation benefits to producers, workers and consumers. The forestry and marine production/certification component will be focused in the Atlantic Autonomous Region of Nicaragua.

Certification programs also exist for non-forest timber products. These programs certify that the products are extracted in a sustainable manner from the forest. Support for entrepreneurs will be provided to meet the certification standards of these programs, and link production to specific markets. Technical assistance related to the development of sound payment mechanisms for environmental services will be provided.

Tourism: The SO2 Team will promote investments and alliances in Eco, cultural, and agro-tourism. Nicaragua's rural based economy and its vast ecosystem diversity provide a unique strategic opportunity for the activities mentioned above. Both, private and public investments in tourism infrastructure and marketing are key elements to insure the success of these activities.



V. Activity Level Analyses

Economic Analysis

See Annex I

Gender Analysis

See Annex II

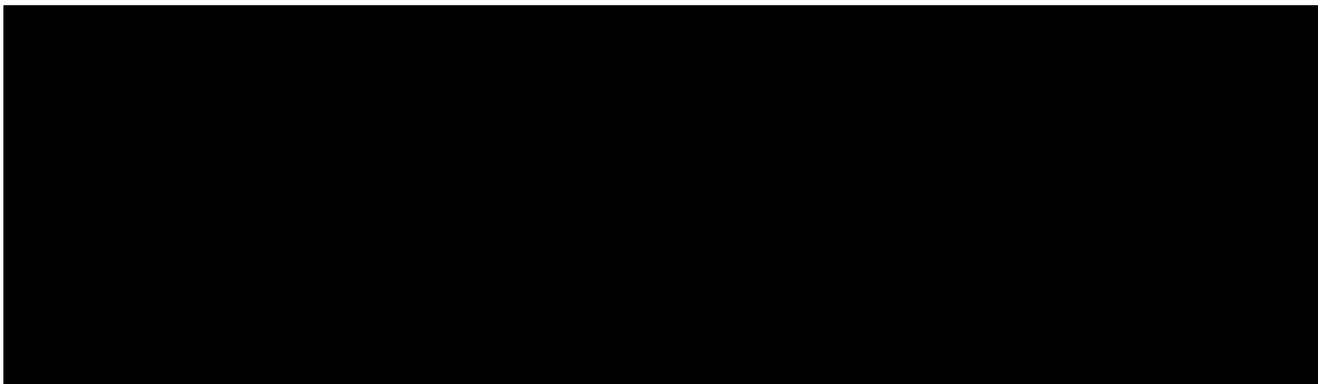
Environmental Analysis

See Annex III

Bumper Justification

See Annex IV

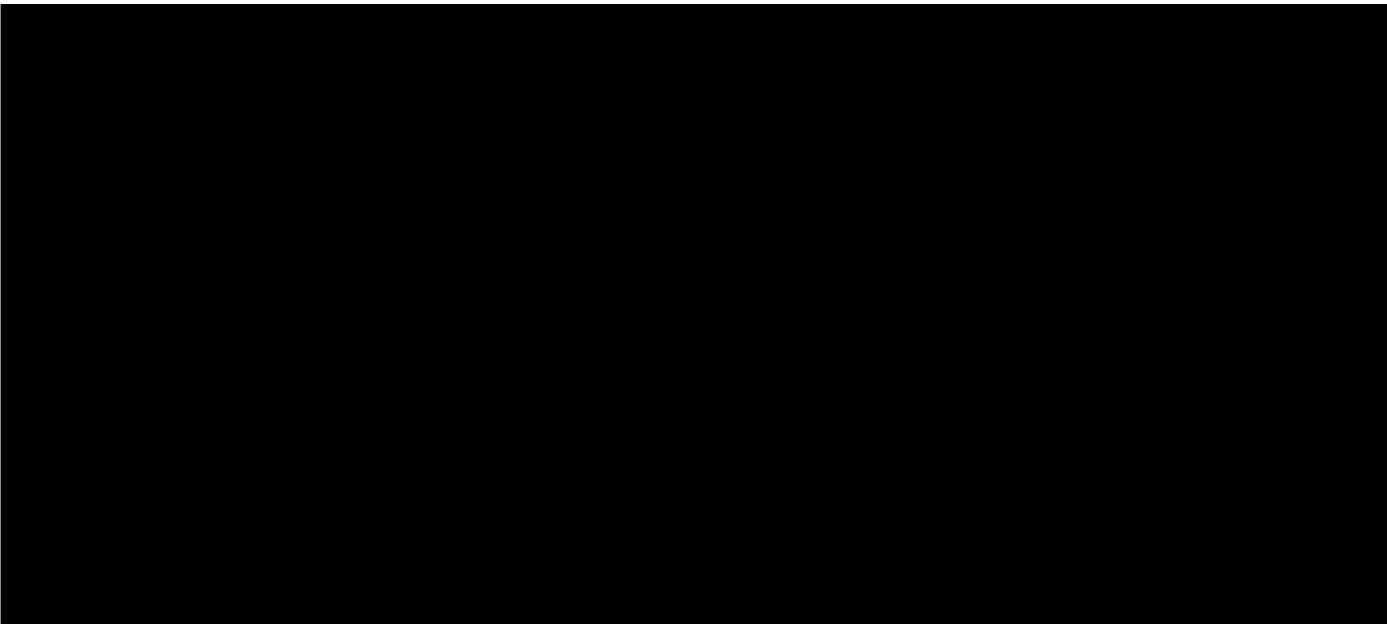
VI. Implementation and Management Plan

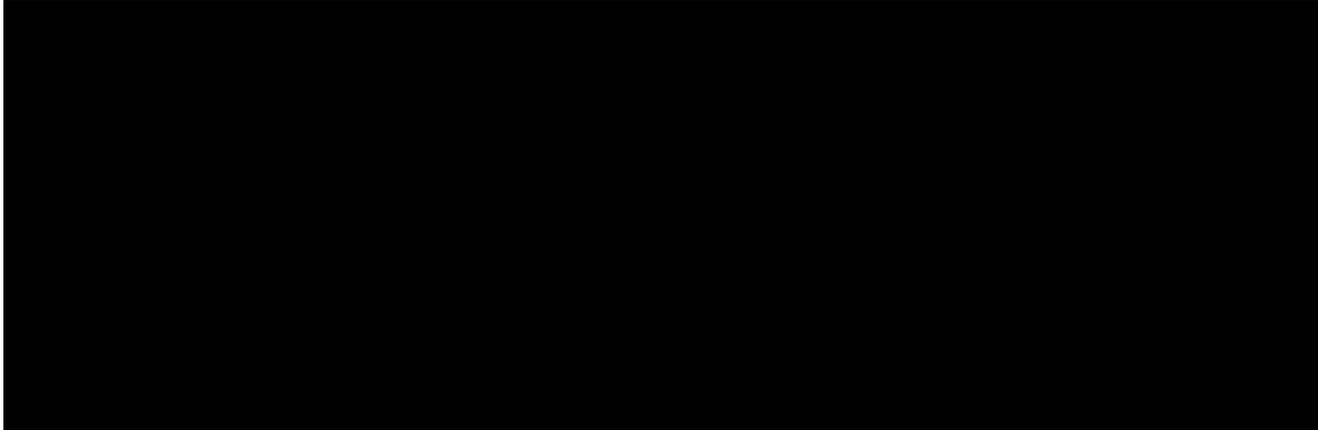


The SO 2 Team intends to award a contract for market-led trade, agribusiness, and environment projects. This contract will be the primary mechanism to implement competitiveness projects under this Activity and achieve the expected results. In addition, the agricultural and rural infrastructure projects supported by the P.L. 480 Title II program's Cooperating Sponsors will be incorporated into this Activity. The SO 2 Team also plans to establish a Development Credit Authority (DCA) loan guarantee program with three local commercial banks to facilitate access to capital for enterprises interested in increasing exports or supplying firms that export in priority sectors. Furthermore, the USDA-PAPA developed under the Trade and Investment Activity will also provide selected technical assistance under this Activity (i.e., Phyto-Sanitary, Customs, ext).

The institutions, organizations, and counterpart entities expected to play a role in implementing this Activity include: the Ministry of Development, Industry and Trade (MIFIC), the Ministry of Environment and Natural Resources (MARENA), the Ministry of Agriculture and Forestry (MAGFOR), the Secretariat for Strategic Planning and Coordination Technical Secretariat of the Presidency (SECEP), the Ministry of Finance, the Institute for Tourism (INTUR), PRO-Nicaragua, private sector representatives of the PMU, regional and local business organizations, and regional financial and economic institutions.

As stated in Section IV, all actions under this Activity will follow the principles, policies, and requirements set forth in ADS 225 and other related Agency guidelines and policy related to this area. All grants, cooperative agreements, contracts, Participating Agency Program Agreements, and Implementation Letters for the Project Management Unit will contain the clauses for "Gray-Area Activities" and "Workers' Rights," as provided for in ADS 225.3.1.8 and ADS 225.3.2, respectively.





The SO 2 Team recognizes that aggregate economic measures can obscure gender-related impacts and results. Economic growth seldom yields equally positive results for women and men or other social groups. Thus, the SO 2 Team will conduct secondary-level analyses to determine the types and levels of jobs generated as a result of USAID assistance. The SO 2 Team will also track the number of businesses that are reached by technical services and aggregate these data by woman-owned and male-owned businesses. Furthermore, the SO 2 Team will develop measures to track the increase in the participation of women in business and producer groups assisted with USAID funds and the increased leadership role women may have these organizations.

NOTES

Note # 1: The Strategic Objective was subsequently amended to elevate all environment-related activities into a separate intermediate result, IR 2.4 “Improved Management and Conservation of Critical Watersheds”

Annex I

Economic Analysis

All business promotion activities undertaken under IR 2.2 should be subjected to both an economic and financial analysis to assure both their economic and financial feasibility and to assure that they make a positive contribution to Nicaragua's economic development. The purpose of **economic analysis** is to determine whether an activity is a worthwhile investment for Nicaragua. It asks the question, does the activity, given its real economic costs, make a positive net contribution to the Nicaraguan economy? Economic feasibility is the difference between economic development and "doing nice things for a handful of poor people."

The purpose of financial analysis, on the other hand, is to assure that private participants—farmers, businesspersons, workers, etc.—have an adequate financial incentive to undertake the activities that the project expects them to undertake. A key element of financial analysis is an analysis of risks faced by farmers or businesspeople in the activity being promoted, the willingness of participants to face those risks, and their ability to hedge or diversify those risks. Financial analysis cannot be carried out in the abstract. It has to be undertaken with reference to specific market participants in order to take into account their specific tolerance for risk and their specific opportunities for diversification.

Financial Analysis versus Economic Analysis

Financial analysis compares the stream of nominal benefits with nominal costs to an individual producer, measured at market prices. Where these benefits and costs stretch over multiple years, they should be discounted at an appropriate rate of interest. What rate of interest is appropriate is a question of fact. What is the cost of capital for the investment in question? If (as is frequently the case) investments are typically financed from internal cash flow, the interest rate should be the "hurdle rate" judged by a typical producer to be adequate incentive to undertake an investment. In financial analysis, unlike economic analysis, there is no requirement that such interest rates be equal across investments and, indeed, the "hurdle rate" may well be different for different classes of producers within an industry.

Shadow prices and economic analysis

For many purposes, it can be assumed that an activity that is financially viable for an individual producer is also economically viable for the economy as a whole. Exceptions to this rule occur where there are significant distortions or market failures for either outputs, inputs, or factors of production (i.e., land, labor, and capital). Where such distortions are important, it is important that prices used in the economic analysis reflect real opportunity costs of inputs, outputs, and factors to the economy, rather than the distorted market prices. Such undistorted prices are called "shadow prices." Great care should be used in the decision to use and in the selection of shadow prices. In the distant past, it was common to assume pervasive market failures in developing country economies, especially in the rural sector. More recent research has demonstrated that product and factor markets in rural areas do, in fact, reflect true market scarcities, and that market participants rationally allocate resources among competing activities in a way that reflects market prices. Similarly, shadow pricing of foreign exchange should only be used where there is a large and active black or parallel market.

Two exceptions where shadow pricing may be appropriate are: (1) the exclusion of indirect taxes (including import tariffs) from inputs, since these represent revenues to the government rather than a cost to the economy, and (2) situations in which there is a well-enforced minimum wage, with a large informal sector working (typically self employed) for lesser incomes. In these cases, a shadow wage rate lower than the established wage may be appropriate.

The existence of significant open unemployment is not, in itself, evidence of a need to shadow price labor. Rather, it is typically a symptom of an inefficient labor market producing high frictional unemployment. It needs to be addressed by improving the process by which job seekers and employers identify each other, rather than by reducing the prevailing wage rate.

Economic Viability of a Productive Activity versus Economic Viability of a Project

In addition to shadow pricing, the most important difference between an economic and financial analysis of a productive sub-activity is the USAID project overhead, the management structure, technical assistance, training, and other activities that USAID, the GON, and perhaps others, undertake to promote a productive activity. It is important that these two kinds of economic analysis, plus the financial analysis, be considered separately and that all three be carried out.

The economic analysis of a proposed productive activity (e.g. growing organic cotton) answers the question; is this a worthwhile activity in Nicaragua, in actual on-farm situations, at prices which reflect real scarcity values? If the answer is no, USAID should not try to promote it.

If the economic analysis shows that the underlying activity is economically viable, the next question is, is the activity financially viable for a producer? If the answer is no, then there is probably a policy constraint that needs to be corrected before trying to start a promotion project. Even if the underlying activity is economically and financially sound, it still may not be worthwhile to implement a project to promote the activity. For example the potential acreage may simply not be large enough to justify the expenditure on project management, training, and technical assistance, especially expatriate technical assistance. In any case, alternative management models and sources of technical assistance should be carefully examined to maximize the net benefits from the project. Clearly the scale of potential replication and a realistic assessment of the possible speed of replication are essential elements of an overall appraisal for this type of project.

Cost Benefit Analyses

The table below provides an example a cost benefit analysis for investing in various crops. In general, it shows that investments in diversified crops have a potentially much higher rate of return than basic grains. While this is just a cursory look at the kinds of cost and benefits that one can examine, it illustrates the potential economic benefits of supporting projects that work with nontraditional crops, especially those with markets both inside and outside Nicaragua. This information along with the information obtained from economic and financial analyses described above, will be used by the SO 2 Team to determine the types of clusters in which to engage. Similar types of methodologies will be conducted for non-agricultural clusters supported under this activity. These analyses will also be used to develop independent government estimates. The level of USAID investment into a cluster will largely

depend on the size of the cluster, leadership in the cluster, and market potential to name as well as other key variables.

ILLUSTRATIVE CROP COST-BENEFIT ANALYSIS (U\$)									
Crop	Permanent jobs/mz	Temporary Men-day/mz	Total Jobs/mz	FTE / mz*	Nation wide Area	Total FTE* country	NPV 5 year profile	Operational Net Income/yr	Remarks
Basic Staples									
Maize	0.25	60	60.25	0.52	600,000	313,636	(86.95)	108.00	95 qq/mz
Beans	0.25	51	51.25	0.48	400,000	192,727	169.11	66.00	15 qq/mz
Rice	0.25	60	60.25	0.52	50,000	26,136	1,900.00	540.00	70 qq/mz
USAID Focused High value crops									
Sweet Onion	0.25	352	352.25	1.85	1,000	1,850	8,051.28	2,300.00	For export
Green Onion	0.25	352	352.25	1.85	1,900	3,515	3,500.00	1,900.00	Local
Field Peppers	0.25	128	128.25	0.83	240	200	3,000.00	1,300.00	Local / regional
Carrot	0.25	118	118.25	0.79	800	629	2,500.00	1,150.00	Local / regional
Cabbage	0.25	118	118.25	0.79	1,500	1,180	3,900.00	1,480.00	Local / regional
Field Tomatoes	0.25	128	128.25	0.83	3,800	3,161	4,900.00	1,700.00	Local / regional
Strawberries	0.25	402	402.25	2.08	25	52	17,000.00	5,500.00	1/4 of Manzana
Okra	0.25	70	70.25	0.57	200	114	13,000.00	4,000.00	Export CIF 15
Plantain	5.00	1,980	1,985.00	14.00	25,500	357,000	7,175.00	2,200.00	Local / region / USA
Greenhouse Tomatoes	2.00	1	3.00	2.00	30	60	4,081.00	3,000.00	405 Square Mts
Watermelon	0.25	100	100.25	0.70	3,500	2,466	5,600.00	1,900.00	Local / regional
Cantaloupe	0.25	120	120.25	0.80	1,300	1,034	4,952.00	1,700.00	Local / regional
Rambutan	1	60	61.00	1.27	6,000	7,636	4,800.00	2,500.00	Local
Coffee	1	146	147.00	1.66	135,000	224,591	2,324.00	1,700.00	Ave Yield 10 qqs
Cinnamon	1	105	106.00	0.48	7,000	3,341	2,136.00	1,300.00	Local
*FTE= Full Time Employment equivalent									
SOURCE:									
<i>Robert Burke, NPV per Manzana, USAID June 2004 World Relief, PFID and ADRA's Production Cost calculations III Censo Nacional Agropecuario 2001, CENAGRO - INEC Central Bank - Indicadores Económicos website</i>									

Annex II Gender Analysis

I. Key Gender Issues

For the export-led competitiveness activities for the private sector described by the AAD, the key gender issues are as follows:

- **Employment & Migration.** Nearly half of the Nicaraguan labor force, ages 10 to 64 years, is female. Forty-five percent of women, ages 10 to 64, were in the labor force in 2000 and more urban than rural women participate in the labor force. Although most workingwomen participate in the informal sector, others are civil servants and work in the private sector. Young women, ages 16 to 30, have gained new employment opportunities via factories in the Free Trade Zone and they comprise 80 percent of that workforce. Their earnings often provide more than half of the income for their households and it is estimated that each *maquila* job supports five people. However, women are more likely than men to be unemployed, much more likely to be underemployed and their wages are typically 20 percent less than men’s wages because there is no Equal Opportunity law. Consequently, migration is increasing and females are becoming a greater proportion of these migrants. Uneducated rural Nicaraguans migrate to Costa Rica and the United States. Women are most likely to work as illegal domestic servants in Costa Rica and are vulnerable to exploitation and trafficking; men are more likely to work in agriculture and construction and stay for shorter periods of time. Remittances from migrants are estimated to account for about one-fourth of the national economy. New schemes to enhance employment will need to expand quality employment options for both women and men and offer a living wage to both.

- **Enterprises.** A shift to a more demand-driven model in agriculture is likely to include non-traditional products for new markets and in some cases, non-traditional markets for existing products. These changes are likely to require substantial investment on the part of producers or the enterprises that are selling their products to external markets. Some of these investments may not be possible for micro, small, and medium-scale producers and entrepreneurs. Since women-owned businesses are concentrated at these scales, reduced trade barriers will not necessarily benefit women-owned businesses unless they are considered from the outset. Nicaraguan women generally have less access to productive resources in comparison to men (e.g., land, credit, extension services). For example, women have less secure access to land because of land titling laws. Without land title for collateral, women often can only access micro-credit rather than more substantial loans. Women often have less access to social capital related to their enterprises. For example, only ten percent of female farmers are involved in agricultural associations. Due to gender roles in Nicaragua, agriculture is commonly perceived as “men’s work” despite the fact that many women work on farms for their families. However, these women do not always identify themselves as farmers. The non-traditional agricultural export associations have predominately male memberships. There are some small women’s producer organizations in Nicaragua but there is only one national business organization for women, The Association of Women Entrepreneurs of Nicaragua (AMEN). It is an affiliate of the Superior Council for Private Enterprise (COSEP). However, women serve as members and leaders of other business associations and boards, including the Association of Nicaraguan Producers and Exporters of Non-traditional Products (APENN).

- **Gender Division of Labor for Agriculture and NRM.** While women tend to be more involved than men in post-harvest processing and value-added activities, the sex-based division of labor varies for the production and marketing of different crops. Women are more involved in planting, hoeing, sorting and packing for pineapple, melons and squash and hire men, as needed for field work. Women and children dominate field tomato production; men dominate the planting and picking of okra. For animal husbandry, women are more involved in poultry incubation and zero-grazing dairy operations. For tree crops, men, women and children share coffee bean and cacao picking. Men dominate coffee drying, sorting and selection. Women are generally more involved in tree/plant nurseries. Men dominate fishing but women are more involved in fish/seafood processing and sales. Men also dominate trucking businesses. There are more men involved in cold storage work than women (approximately 60:40 ratio). Trends in the gender division of labor for eco-tourism enterprises have not yet been documented.
- **Labor statistics.** To date, national labor statistics have not always been sex-disaggregated for the formal and informal sectors. However, INATEC and INIM are now cooperating to improve statistics in this area.

Priority Opportunities for Gender Mainstreaming

As defined by this AAD, supply-led, strategies focused on a limited number of goods and services have hindered Nicaragua's economic growth and employment situation. Through private sector support and coordination with the GON on removing structural, policy and regulatory competitiveness constraints, the AAD proposes to support:

- (1) An increase in the competitiveness of Nicaraguan enterprises and improve market linkages; and
- (2) Conservation of natural resources through increased sales of environmentally friendly products and services.

Proposed partners for these activities include micro, small, and medium-sized enterprises, enterprise intermediaries including business associations, financial institutions and protected area managers.

While there are specific priority opportunities for gender mainstreaming associated with the proposed activities for this AAD (see below), there are also some gender recommendations for specific categories of activities. The mission's training activities should aim to balance the participation of women and men and include topically tied gender modules, whenever possible. If information or services are provided, then opportunities should be gender-equitable or aim to redress past gender imbalances. For public education activities related to new laws or anti-corruption measures, communication efforts should be based on sex-disaggregated audience research. Whenever public or civil society dialogue about new laws or legal rights is undertaken, efforts should be taken to invite, educate and include women's NGOs, as well as representatives from women's professional associations, gender experts and high-level women leaders. With respect to partners, greater efforts should be made to engage the interests, skills and memberships of women's NGOs and professional associations, particularly for issue identification, advocacy, dialogue and dissemination of information.

Growth-driven strategies do not necessarily benefit women entrepreneurs, producers or workers. Specific steps must be taken to ensure gender-equitable opportunities and improvements in the status of women.

Sub-IR 1 – Investments in competitive business and market linkages increased.

- The choice of product or service clusters will have important gender implications. Accordingly, the selection criteria for clusters should take into consideration the specific gender division of labor for each type of good or service. In particular, it is important to consider the level of involvement of women-owned businesses and women workers for specific services (e.g., eco-tourism) or the production chains of different goods (e.g., crop or animal products). If employment generation is a criterion, then it will be important to know who will have access to these jobs when deciding between cluster options.
- New products or services provide an excellent opportunity for programs to expand women's opportunities and options. For example, women may be able to fill a wider variety of roles in eco-tourism enterprises or a new crop since there is no traditional sexual division of labor. As new markets arise, USAID programs should tap women's producer and business organizations, as well as women's NGOs, to identify how women can become more involved in tapping new opportunities.
- The AAD proposes to provide technical assistance on competitiveness and improved technologies to Nicaraguan business, with an emphasis, where appropriate, on micro, small, and medium-scale enterprises. While it is more likely that women-owned businesses will be reached by this emphasis, they will not necessarily receive technical assistance unless specific measures are taken. Given that women are much less likely to be involved in business and producer associations, it is important that the delivery mechanisms for this technical assistance are not restricted to these association venues. Taking a lesson from the formative research element of social marketing, it will be useful to identify and tap those communication channels that are preferred by business women, including farmers. Women may also have different availability for meetings and different travel restrictions than men.
- Unless financial institutions are encouraged to modify collateral-related barriers, women entrepreneurs and producers are likely to be restricted to just microfinance rather than being able to obtain larger loans. Financial sector reforms and loan portfolio guarantees (DCA) can help broaden access to credit and can be held responsible for reporting on loans to women-owned businesses. Without larger loans, women are less able to invest in their businesses and access new business opportunities that require flexibility. Their sales figures are likely to be lower than their male counterparts and the aggregate total will be lower.
- Micro, small, and medium-sized business face different trade and investment barriers than larger businesses and women-owned businesses in these categories face different hurdles than their male counterparts. To ease these scale and gender-based constraints and avoid making things more difficult for female entrepreneurs, it will be important to better understand how trade and investment barriers differ by the sex of the business owner.
- Greater attention should be given to expanding women's involvement and roles in intermediary business associations since these organizations will be critical to the success of market-led strategies.

- While Nicaragua needs to greatly expand job opportunities, these jobs should be at different skill and education levels. USAID programs should aim to ensure gender-equitable access to employment at all levels. Since jobs are an important focus of this activity, it will be critical to involve trade unions and cooperatives, including those representing women workers (e.g., UNAG), in dialogues about policy constraints to national competitiveness. The Rural Workers Organization also has a women’s office that could be included in dialogue.

Sub-IR 2 – Natural resources conserved through increased sales of environmentally friendly products & services

- As newer businesses, the gender division of labor for “green” products and services has not been well-documented. As noted above, new products and services often provide expanded opportunities for women workers, producers and business owners. Competitiveness technical assistance for these goods and services should follow the same gender-related considerations outlined above.
- The level of women’s involvement in the protected area community committees is also unclear. These committees make important decisions about loans and other benefits for community members. Therefore, USAID projects working in these areas should seek to expand women’s participation as members and leaders of these community committees. They should make loan criteria transparent and gender-equitable.
- The proposed activities for green products and services, do not address how to expand internal markets within Nicaragua. As noted in the gender discussion for IR 1.2, women often dominate consumer decision-making for their households. If female consumers (and their children) can be educated about organic food, then it may be possible to also expand the internal market for Nicaraguan organic products. Women’s NGOs, including those involved in health activities, are potential partners for this activity.

Annex III

ENVIRONMENTAL THRESHOLD DECISION

Activity Location:	Nicaragua
Activity Title:	Economic Freedom: Open, Diversified, Expanding Economies
Activity Number:	524-022
Funding:	\$139,000,000 for life of Strategic Objective (SO) (\$104,000,000 and \$35,000,000 P.L. 480)
Life of Activity:	FY03 – FY08
IEE Prepared by:	Steve Olive, MEO, USAID/Nicaragua
Recommended Threshold Decision :	Categorical Exclusion, Negative Determination with Conditions, Deferrals (2)
Bureau Threshold Decision:	Concur with Recommendation

Comments:

This is a broad SO to promote open economic growth in Nicaragua in an environmentally sustainable manner. Focus areas include the following:

- Promoting predictable, fair, open and transparent laws, policies, and regulations that increase trade and investment
- Helping the Government of Nicaragua (GON) and the Nicaraguan private sector meet the regulatory requirements of free trade
- Stimulating investments in competitive businesses and helping link these businesses to regional and world markets
- Improving access to credit through financial sector reform and loan portfolio guarantees
- Increasing access to clean, reliable and affordable energy, reliable and affordable communications, cleaner production technologies, and other improved technologies
- Increasing competitiveness in agriculture
- Developing linkages to tourism markets, green markets and other income generating activities from natural resources that are consistent with conservation goals and the management of protected areas, forests and water resources.

Pursuant to 22 CFR 216.2(c)(2)(i) and (xiv), a **Categorical Exclusion** is granted to those activities involving education, technical assistance and training, and which develop the capability of the recipient country to engage in development planning, as described in the Initial Environmental Examination (IEE) that will not have an impact on the natural or physical environment.

A **Negative Determination with Conditions** is issued as follows:

- 1) In conducting activities to reduce barriers to trade and investment, USAID will ensure that all barriers removed and policies promoted are consistent with the environmental standards set forth in free trade agreements such as CAFTA.
- 2) In promoting investment policies supported by sound natural resource management laws, policies, and programs, USAID will ensure that the GON has the ability to evaluate the potential environmental impacts of these policies, including free trade agreements.
- 3) For increasing investments in competitive businesses and improving market linkages, USAID will link businesses to programs that provide access to cleaner energy and cleaner production practices and technologies. For agricultural enterprises, USAID technical assistance will ensure that soil and water conservation practices are implemented.
- 4) In promoting the sustainable generation of income from natural resources in environmentally sensitive areas, USAID will only support activities seeking to produce environmentally friendly products for markets interested in purchasing products with environmental certification by internationally recognized organizations. Resources will be extracted in a sustainable manner.

A **Deferral** is issued for:

- 1) The clearing of forested lands for agriculture. Should the Mission decide to support such activities, an IEE Amendment must be submitted to the Bureau Environmental Officer (BEO), and no funds for these activities shall be obligated until the Environmental Threshold Decision is issued or any required Environmental Assessments are approved. In no case will USAID support an activity that clears primary, old growth forests unless an environmental assessment has been conducted or a forestry operation has been certified by an internationally recognized body that the operation implements sustainable forestry practices.
- 2) The purchase or use of pesticides (including herbicides). For each anticipated pesticide, pursuant to 22 CFR 216.3(b)(1), a Pesticide Evaluation Report and Safe Use Action Plan (PERSUAP) must be submitted to the BEO for approval prior to the activities.

If, during activity implementation, it becomes apparent that there may be environmental impacts not contemplated in this IEE, or if activities not covered by the IEE are included in final program design, an IEE Amendment shall be submitted to the LAC BEO for approval.

Date _____
J. Paul des Rosiers
Acting Bureau Environmental Officer
Bureau for Latin America & the Caribbean

INITIAL ENVIRONMENTAL EXAMINATION

Strategic Objective: Nicaragua

SO Title: Economic Freedom: Open, Diversified, Expanding Economy

SO Number: 524-022

Funding: US\$104,000,000 and \$35,000,000 P.L. 480 for 6 years.

Prepared By: Steve Olive, MEO, USAID/Nicaragua

Date: July 26, 2003

Recommendation:

Based on the attached description, USAID/Nicaragua recommends the following:

Categorical Exclusion/Negative Determination with Conditions is recommended. Most of the activities described above qualify for a categorical exclusion under 22 CFR 216.2(c)(2)(i). “Technical assistance or training programs except to the extent such programs include activities directly affecting the environment (such as construction of facilities, etc.)” However, economic or other incentives for expanding trade and market access may have direct or indirect negative impacts on the environment. For example, increased access to international markets may increase harvesting pressure on some natural resources to non-sustainable levels, thus threatening local biodiversity and tropical ecosystems. A Negative Determination with the condition that the MEO review and approve trade and market related activities prior to implementation to ensure thorough review of impacts is recommended.

A Negative Determination with conditions for the following programs is recommended:

- (1) Barriers to trade and investment reduced;
- (2) Investment policies supported by sound natural resources management laws, policies, and programs;
- (3) Increased investments in competitive businesses and improved market linkages;
- (4) Management systems that conserve natural resources sustained by competitive, market-oriented enterprises, consistent with conservation goals.

Concurrence: _____ **Date:** _____

James Vermillion
Mission Director

Background

USAID/Nicaragua will begin to implement its new Country Plan which is part of the new Central American Regional Strategy from FY03 to FY08. The Mission will implement activities under three Strategic Objectives, including this one, Economic Freedom: Open, Diversified, Expanding Economy.

Activity Description

USAID/Nicaragua seeks to promote laws, policies, and regulations that increase trade and investment in the country. USAID will improve the capacity of the Government of Nicaragua (GON) to negotiate and implement trade agreements through technical assistance and training. It will assist the GON and the Nicaraguan private sector to meet the regulatory requirements of free trade such as bio-safety, sanitary and phyto-sanitary standards, labor, environment, and other requirements of free trade agreements.

USAID also seeks to reduce barriers to trade and investment. It will encourage partnerships among the private sector, civil society groups, and the government to advocate effectively for the passage of predictable, fair, open, and transparent laws, policies, and regulations that facilitate commerce and investments in Nicaragua. These laws and regulations will be consistent with the provisions in free trade agreements for labor, environment, and intellectual property rights. All of the investment policies that receive assistance from USAID will be supported by sound natural resources management laws, policies, and programs.

Illustrative Activities:

- Trade capacity building and assistance to facilitate the implementation of the Central American Free Trade Agreement (CAFTA) and transition to free trade and competitiveness;
- Technical assistance for public-private partnerships to advocate for legal and regulatory reform;
- Establishment of alternative means to resolving commercial disputes;
- Technical assistance for the GON to integrate economic policies with policies that reduce Nicaragua's vulnerability to natural disasters and lead to sustainable use of natural resources.

USAID/Nicaragua seeks to foment more competitive, market-oriented private enterprises. USAID will provide technical assistance and training to increased investments in competitive businesses and improved market linkages for Nicaraguan enterprises. USAID will help stimulate investments in competitive businesses in Nicaragua and link these businesses to regional and world markets. Actions will be taken to improve access to credit for all businesses through financial sector reform and loan portfolio guarantees (e.g., Development Credit Authority). Initiatives will be developed to improve Nicaragua's competitiveness by approaches that may include increasing access to clean, reliable, and affordable energy, reliable and affordable communication, cleaner production technologies and other improved technologies. USAID will support Nicaragua's efforts to improve the overall business climate, decrease risk, and promote investments. Because the agricultural sector accounts for one third of the economy and more than 40% of employment, activities to increase competitiveness in this sector, at least at the outset, will be vital for achieving objectives. Rural diversification will be demand-driven by those entrepreneurs who aggressively pursue market opportunities for agricultural products.

USAID also seeks to sustain natural resources management systems that conserve natural resources through competitive, market-oriented enterprises that generate income from natural resources and use resources in a manner that is consistent with conservation goals. USAID will focus on developing linkages to tourism markets, green markets and other income generating activities from natural resources that are consistent with conservation goals and the management plans of protected areas, forests, and water resources. USAID will establish alliances with the government, private sector, international non-government organizations, and universities to develop income generating activities that help to sustain resources management systems. USAID will report the impacts of these activities on conserving biodiversity and mitigating global climate change in Nicaragua.

Illustrative Activities:

- Provide technical assistance and program support to promote trade-led economic; growth, improve the local business climate, and attract private investment;
- Identify and address structural, policy and regulatory constraints on national competitiveness;
- Identify regional and global market opportunities for which Nicaragua has a comparative advantage and develop a national strategy to support private sector initiatives in key markets;
- Support rural diversification and link agriculture producers, especially those in PL 480 Title II programs, to markets for non-traditional agriculture products;
- Competitiveness in “green markets” increased.

Discussion and Determination

A **Categorical Exclusion/Negative Determination with Conditions** is recommended. Most of the activities described above qualify for a categorical exclusion under 22 CFR 216.2(c)(2)(i), “Technical assistance or training programs except to the extent such programs include activities directly affecting the environment (such as construction of facilities, etc).” However, economic or other incentives for expanding trade and market access may have direct or indirect negative impacts on the environment. For example, increased access to international markets may increase harvesting pressure on some natural resources to non-sustainable levels, thus threatening local biodiversity and tropical ecosystems. A Negative Determination, with the Condition that the MEO review and approve trade and market related activities prior to implementation to ensure thorough review of impacts is recommended.

Below are the recommended conditions for each activity:

Activity 1: Barriers to trade and investment reduced. Increased trade and investment can have positive and negative impacts on the environment. USAID will ensure that all trade barriers removed and new policies to increase investment are consistent with the environmental standards set forth in free trade agreements such as CAFTA.

Activity 2: Investment policies supported by sound natural resources management laws, policies, and programs. USAID will ensure that the GON has the capability to evaluate and determine the potential negative impacts of free trade. Where necessary, USAID will provide technical assistance to conduct analyses of the potential environmental impacts of new economic policies, laws, or regulations. USAID will also provide support for new laws, policies, or regulations that promote the sustainable use of natural resources and decrease the vulnerability to natural disasters.

Activity 3: Increased investments in competitive businesses and improved market linkages. USAID will link businesses to programs that provide access to clean, reliable, and affordable energy and cleaner production technologies. In supporting agricultural enterprises, USAID technical assistance will ensure that soil and water conservation practices are implemented and that only USEPA approved pesticides are used. If pesticides are used, USAID will ensure that pesticides are stored, handled, and applied judiciously and in a manner as indicated on the label to ensure the safety of agricultural workers and minimize the impact on land and water resources. USAID will support the development of integrated pest management plans. If pesticides are purchased with USAID resources, a Pesticide Evaluation Report and Safe Use Action Plan (PERSUAP) will be submitted to the Bureau Environment Officer for approval. USAID will provide training on sanitary and phyto-sanitary standards as well as the new U.S. Agriculture and Bio-terrorism Protection Act to ensure that Nicaraguan producers meet the standards of U.S. and other regional and global markets. While USAID will discourage clearing forested land for agriculture activities, in cases where forested lands might be cleared for agriculture, USAID will require an environmental assessment before the activity begins. In no case will USAID support a business activity that clears primary, old growth forests unless an environmental assessment has been conducted or a forestry operation has been certified by an internationally recognize body that the operation implements sustainable forestry practices.

Activity 4: Management systems that conserve natural resources sustained by competitive, market-oriented enterprises, consistent with the conservation goals. In and around protected areas and forested areas, USAID seeks to support activities that generate income for the poor living in these areas and that also sustain natural resources and protect biodiversity. Thus USAID will only support activities in these areas that are certified or seek to be certified to be environmentally friendly and that ensure that resources are extracted in a sustainable manner. USAID will ensure that environmental certifications of these businesses only come from internationally recognized organizations. USAID will only support businesses in these environmentally sensitive areas that seek to produce environmentally friendly products for markets interested in purchasing products with environmental certifications.

If, during activity implementation, it becomes apparent that there may be environmental impacts not contemplated in this IEE, or if activities not covered by the IEE are included in final program design, a supplemental IEE shall be submitted to the LAC BEO for approval.

ANNEX IV

‘BUMPERS JUSTIFICATION’

(July 9th, 2004)

This document details the Bumpers Amendment justification needed for the crops PFID-F&V will work on Central America. The following table summarizes the crops, the target market, and the arguments that support their entrance non-violation of the Bumpers Amendment.

Crop	Target market			Admissibility into the US	Reference
	USA	Region	Europe		
Chiles (fresh)		X	X	No	
Chiles processed	X	X	X	X	1
Green limes	X		X	X	3
Mangoes	X		X	With treatment	5, 2
Papayas	X		X	With treatment	5, 3
Pineapples	X		X	X	5
Plantains	X	X	X	X	
Green Podded Peas	X	X	X	X	1
Roots	X	X	X	X	
Rambutan	X	X	X	X	5
Tomatoes (Regional)		X			
Onions (sweet, red)	X	X		X	1, 2
Okra	X			X	1
Seedless Watermelon	X		?	X	1
Melons	X			X	1
Specialty Eggplant	X			X	
Oriental Vegetables					
Potatoes		X			
Cabbage		X			
Tomatoes US (market)	X			Green only	3
Trellised Cucumbers and Chillies	X	X		X	
Oriental Vegetables (long beans)	X			X	
Fruits and Vegetables (pre-cuts)		X		Some fruit will need treatment	
OTHERS					
Spices	X			X	
Artichokes	X	X	X	X	
Asparagus	X	X		X	1
Berries	X	X		X	3
Squashes	X			X	2
Loroco	X	X		X	5
Pitahaya		X	X		5

Reference list:

1. When there is domestic production, imports from Central America cannot compete with market prices.
2. Imports from Central America cannot compete when Mexico enters the market.
3. Imports from Central America share the same window with Mexico.
4. It is not produced in the US.
5. US production is in low volume from Hawaii only.

The following summarizes the details on data that justifies that the crops do not compete against US producers. Some crops have not been included in this summary, as they do not present any issues regarding competition against US growers.

Chiles Processed

US market of fresh, frozen, brined and pickled peppers is dominated by imports (93%). From this total, Mexico has the main market share: 98% (2003). US local production accounts for 7% of the market. Therefore, the intended production of Central American (frozen chiles) is going to compete directly with Mexican imports and not with US local production.

Limes

The US market of limes is dominated by imports. In 2001, Florida production of limes was 2% of total imports of limes into the US. By 2002, this number was 0.1%. In 2003, AMS does not report Florida production. Mexico is the main supplier with 99% of total imports into the US in 2003. Therefore, Central American limes would be competing against Mexican limes in the US market and not with US local production.

In the EU market, US exports reported by FAS are not significant (8.8 MT in 2001 and 0 MT in 2002). Thus, Central American limes will not affect the US exports of limes to the EU as Mexico and Brazil together have the lion's share.

Green Podded Peas

California-central production of green peas represents 12% of the total consumption of green peas available in the US (2003). The other 88% corresponds to imports: 63% of total imports into the US come from Guatemala and 26% from Mexico. Therefore, Guatemalan green-peas already have the main share of the US market. Moreover, the Guatemalan imports take advantage of the window November-March when California production is at its lowest level. Guatemalan green podded peas play an important role in keeping year-round availability in supermarkets and ethnic markets (Asian cuisine) food service companies.

Onions (sweet, red)

The US production has 91% of the US market of dry onion (2003). Imports are dominated by Mexico 71%, Canada 14% and Peru 8%. Imports from Costa Rica, Guatemala and Nicaragua together represent 0.1% of US production. Thus, Central American exports of dry onions to the US do not represent a threat for US producers.

Okra

The principal suppliers of okra in the US market are Florida (38%) and Mexico (37%). Central American countries together hold 25% of the US okra market (2003): El Salvador 14%, Honduras 10% and Nicaragua 2%. However, Florida production peak is from May to July while imports from El Salvador are higher from July to September, Honduras from December to January, and Nicaragua on December. Therefore, Central American okra is entering the US when local production is low relative to the market consumption.

Seedless Watermelon

Watermelon imports into the US from Costa Rica (1%), Guatemala (0.6%), Honduras (0.8%) and Nicaragua (0.1%) together represent 3% of US production of seedless watermelon (2003). It is noteworthy that the market share of Central American seedless watermelons may be even lower because AMS does not classify imports between seeded and seedless watermelons. In addition, imports from the countries above mentioned take place during the window December-April when US production of seedless registers the lowest volumes.

Melons (cantaloupe, honeydews)

Costa Rica (25%), Guatemala (28%), Honduras (20%) and Nicaragua (0.7%) together have 74% of the US market of melons (2003) while local production share is 13%. However, US production peak is from June to August while the peak of imports into the US from Costa Rica and Honduras are from January to April, and from Guatemala from December to April. Thus, these Central American countries are taking advantage of winter window of opportunity.

Tomatoes

US local production of tomatoes has the dominant position in the market 69% (2003). The main origins of imports are Mexico (80% of imports) and Canada (18% of imports). AMS does not register imports from Central American countries as the product is not yet admissible into the US due to quarantine regulations. US production has its peak from July to December while imports have its peak from January to June. Mexican imports are high from January to April and Canadian imports are high from April to June. Therefore, Central American production (1) does not represent a threat in terms of volume for US production, and (2) will have to compete against Mexico and/or Canada during the window January-June. Further study of this product is deemed necessary as potential export capacity in the region cannot be forecasted with the information available.

Asparagus

The participation in the US market of asparagus is very competitive: Peru (35%), US (33%) and Mexico (30%). Imports from Guatemala represent 0.2% of total imports of asparagus into the US (2003). US local production peak is from March to May, Mexican peak is from January to March, and Peruvian peak from July to January. Imports from Guatemalan come July and August. Thus, Guatemalan asparagus in the US will not affect US production both in volume and in seasonality. Imports from Guatemala will compete with Peruvian asparagus.

Mango

Since 1999, AMS does not register significant volumes of mango produced in the US (Hawaii). All the volumes of mango are imported, being Mexico the main supplier (62%), followed by Brazil (14%), Ecuador (10%) and Peru (8%). Guatemala (3%), Honduras (0.1%) and Nicaragua (0.8%) together have 4% of the US mangoes market (2003). Therefore, mangoes from Central America will compete against Mexico, Brazil, Ecuador and Peru.

Papaya

Even though Hawaiian production of papaya has grown 25% from 1999 to 2003, its participation in the US market has been between 13% and 18% during the same period. Thus, Hawaiian production has not been enough to cover the increase in the US consumption of the fruit: imports increased 47%. In 2003, the main origin of imports was Mexico: 64% of the total papaya available for US consumption.

Guatemala has 0.3% of the US market. Thus, imports of papaya from Central America do not threaten Hawaiian production for two reasons: (1) Hawaiian production is not enough to supply the US market; and (2) the volume of Guatemalan papaya imported is very low.

Pineapple

About 60 percent of the world's fresh pineapple exports come from Costa Rica, the Ivory Coast, and the Philippines. Hawaiian production of pineapple has increased 5% from 1999 to 2003, while US imports have increased 66% during the same period. Therefore, the increase of Hawaiian production of pineapple has not been enough to satisfy the increased demand in the US market. The principal supplier of pineapple is Costa Rica with 68% of the US market (2003). Costa Rica together with Honduras (4%) and Guatemala (0.5%) hold 73% of the pineapple US market. Thus, imports of pineapple from Central America are necessary to supply the US consumption. The lion's share of pineapple exports from Central America into the US is in hands of large corporate firms such as Dole.

References:

Data was obtained from Market News Reports, Agricultural Marketing Service, USDA and US International Trade Commerce Department. Consultations were also made with the *Fruit and Tree Nuts Outlook of the USDA/ERS of several years.*