



Social Entrepreneurship Program

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To: The Board of Executive Directors
From: The Secretary
Subject: Nicaragua. Executive summary of a proposal for financing and nonreimbursable technical-cooperation for development of sheep farming on micro- and small-scale farms in the Nicaraguan dry tropic

Inquiries to: Mr. Dieter Wittkoswki (extension 2410)

Remarks: This operation is being presented in accordance with Resolution DE-183/98 entitled "Reform of the Small Projects Program and creation of a Social Entrepreneurship Program," and meets the criteria established in document GP-75-9.

On **29 March 2002**, the date on which the five-day circulation period required for this document expires, the President, or such officer as he may designate, will approve this operation.

Reference: GP-75-9(11/98)

Other distribution: Managers, Division Chiefs, Representative in Nicaragua

NICARAGUA

DEVELOPMENT OF SHEEP FARMING ON MICRO- AND SMALL-SCALE FARMS IN THE NICARAGUAN DRY TROPIC

(SP/TC-0011029-NI)

EXECUTIVE SUMMARY

Executing agency: Foundation and Center for Development Studies and Action (CESADE)

	<u>IDB (US\$)</u>	<u>Local (US\$)</u>	<u>Total (US\$)</u>
Amount and source:			
Loan:	565,000	115,000	680,000
Non-reimbursable tech.cooperation:	150,000	155,000	305,000
Total:	715,000	270,000	985,000

Resources will be drawn in foreign exchange from the Bank's Fund for Special Operations (FSO).

Financial terms and conditions:

Amortization period:	15 years
Grace period:	2 years
Disbursement period:	42 months
Execution period:	36 months
Interest rate:	3%

The grace period will apply to amortization of principal only, and not interest payments. The loan will be denominated in local currency (córdobas). A surcharge will be added to the interest rate to maintain its real value, based on the annualized variation of the consumer price index (IPC) over the previous six months, using data from the Central Bank of Nicaragua.

Problem to be solved: Small-scale producers in Nicaragua's dry tropic suffer from very low incomes and low productivity for the following reasons: (i) unsuitable choice of productive activities in relation to the region's agro-ecological potential; (ii) use of inappropriate technologies; (iii) deficient business management in productive units; (iv) environmental vulnerability caused by high seasonality of production, compounded by cultural tradition of monoculture

(maize and beans) for subsistence; (v) deficient or non-existent horizontal and vertical integration with industry; and (vi) unfavorable links with markets for their produce. The main factors hindering the productive activities of these farmers include lack of access to credit under conditions appropriate to their needs; little opportunity to receive technical assistance on productive issues; and limited access to markets for their output under favorable conditions.

Objectives:

The project's general objective is to increase and stabilize the incomes of micro- and small-scale rural producers in the dry tropic, by diversifying their production, generating value-added and marketing their produce.

The specific objectives are as follows: (i) to increase the capitalization of around 200 micro-and small-scale farms in the departments of Masaya, León and Managua, encouraging sustainable small-scale sheep-rearing, under a loan program; (ii) to optimize farms' technical and business management, blending the campesino and business rationales by providing technical assistance and training for sheep-farmers; (iii) to forge advantageous links with the market through the processing and marketing of sheep-meat products; and (iv) to strengthen institutional and business capacity in the CESADE group, to offer sustainable services to micro- and small-scale farmers in the dry tropic.

Description:

The project has two components: (i) a reimbursable loan; and (ii) a non-reimbursable technical cooperation.

The Loan Component (Bank: US\$565,000; local counterpart: US\$155,000), has the following aims:

- (a) **A program of credits** (Bank: US\$380,000; CESADE: US\$60,000; Administrator of the Trust: US\$30,000), managed by a local micro-financing institution under a trust mechanism. Financing will be provided for working capital and fixed assets for about 200 producers on small-scale sheep farms, through individual loans destined for expansion and improvement of livestock and agricultural production.
- (b) **Productive investments** (Bank: US\$150,000; CESADE: US\$15,000), to set up a sheep slaughterhouse and refrigeration unit (MFO) for the industrial component of the project, in order to add value to primary production.
- (c) **MFO working capital** (Bank: US\$35,000; CESADE: US\$10,000), this will make available essential resources to

begin meat sales, and implement the “primary production-industrialization-marketing” chain.

The *Technical Cooperation component* (Bank: US\$150,000; CESADE: US\$155,000) is intended to support activities to: (i) improve the productive and administrative management of small-scale farms; (ii) improve the quality of mutton and lamb produced by breeders; (iii) optimize integrated management of the sheep slaughterhouse and refrigeration unit (MFO), which will process and commercialize sheep-meat products; (iv) promote suitable marketing of MFO products, in terms of quality, volume and prices; and (v) strengthen the capacity of the CESADE group for technical, administrative and financial monitoring of project activities.

Environmental and social review:

At its meeting on 9 February 2001, the Committee on Environment and Social Impact (CESI) reviewed the operation but made no recommendations. The operation includes funding to enable the executing agency to monitor environmental aspects of the project.

Beneficiaries:

The direct beneficiaries of the project will be 200 low-income rural families and producers on small-scale farms. As the economic impact on the farms will be transmitted to the whole family, the benefits of the project are expected to touch no less than 1,200 people.

Risks:

The risks of the project are as follows: (i) producers may fail to assimilate the lessons and technologies transferred by the project on business and productive issues, thereby undermining their ability to repay their loans; (ii) producers may invest their loans in off-farm activities that do not enable them to increase their income; and (iii) the sales projected for the MFO may fail to materialize.

The project intends to mitigate these risks as follows: (i) CESADE will apply proven teaching methodologies, and the technical cooperation will consolidate these by improving the training of technical field experts, supported by optimal monitoring of the farms; (ii) the trust manager and CESADE will strictly control the use of the loans, which will be delivered partly in-kind (sheep herds); and (iii) CESADE will hire advisory services to promote and market the product to segments identified in market research; stable supply from the MFO will also help generate greater demand in all market segments.

The Bank's country and sector strategy:

The Bank's strategy in Nicaragua, set out in Country Paper GN-1931-1, dated 17 October 1996, focuses on support for the following (i) deepening structural reforms, particularly in the financial- and public sector; (ii) improvement of conditions for private investment; (iii) natural resource management; (iv) poverty reduction; and (v) human capital development for sustainable growth. By acting on the productivity of micro- and small-scale rural producers, this proposal speaks to points (ii), (iv) and (v) of the strategy.

Justification:

The project is justified for the following reasons: (i) it expands opportunities for one of the country's poorest sectors to generate stable and graduated incomes throughout the year, based on its potential to raise living standards through productive activities; (ii) sheep farming is a productive alternative that is profitable, weather-resistant, and easily adopted by micro- and small-scale producers; it complements agricultural production for subsistence and sale; and the market for sheep-meat products is growing; and (iii) CESADE is the only institution in Nicaragua specialized in the promotion and management of tropical sheep farming among small-scale producers, with a business outlook, technical know-how, and operational and administrative capacity to undertake the proposed activities.

Special contractual clauses:

As a condition precedent to disbursement of the proceeds of the loan and the technical cooperation, CESADE will present the following to the Bank's satisfaction: (i) an agreement signed between CESADE and the micro-financing entity chosen to manage the loan program; and (ii) a business plan adapted to circumstances prevailing in Nicaragua and in the target sector, at the time of project approval.

As additional conditions precedent to initial disbursement of the reimbursable loan component, CESADE will present the following to the Bank's satisfaction: (i) definitive loan regulation prioritizing the use of Bank funding in activities to enhance sheep farmers' productivity on crop growing and livestock breeding farms, without sheep production being exclusive; (ii) interagency agreements signed with UNICATS and INVERSOL to coordinate execution of the corresponding activities; and (iii) evidence that an escrow account has been set up in a commercial bank, to be used to accumulate in advance the sum needed to make the following repayment installment on the loan component (capital and interest).

In addition, as conditions precedent to disbursement of the proceeds of the *technical cooperation*, CESADE will present, to the Bank's satisfaction, terms of reference for consulting services in sheep-meat marketing, genetic technology and improvement of the management information system.

For disbursement of more than 40% of the technical cooperation funds, the institution chosen to manage the loan program will have begun disbursement of the loan to producers identified in the project.

The Bank will establish a revolving fund of up to 30% of the total amount of the two program components.

To enable CESADE and the Bank to monitor and supervise the incorporation of suitable measures for minimizing the environmental impact of sheep-meat production and processing, CESADE will hire an expert on environmental issues to prepare special annual reports. These will include descriptive and analytical information on the project's environmental impacts, measures taken to mitigate negative impacts, and recommendations on how the project could better manage the environmental effects of its activities.

Reports: CESADE will present a business plan adjusted to circumstances obtaining in Nicaragua and in the sector targeted, when the project is approved for the three-year period of the operation. Submission of this adjusted plan will be a condition precedent to disbursement of the Bank resources.

In addition, CESADE will submit *progress reports* to the Country Office within 60 days after the end of each six-month period and a final report 60 days after the last disbursement. These reports will include an analysis of the extent to which performance indicators have been fulfilled and the progress made in implementing the business plan, including: (i) number of loans and interest rates to producers, (ii) consolidated financial statements and performance indicators of CESADE, INVERSOL, and the microcredit trust fund, (iii) development of the open training programs, direct on-farm technical assistance, and training of agricultural experts, (iv) functioning of the MFO in terms of production and sales, (v) extent to which the project has managed to incorporate technology and innovation on farms [flock and business management], the gene bank, and the MFO, and (vi) a breakdown of contributions in cash and in kind approved by CESADE at the time of each report.

Audited annual financial reports of the financing component: Within 120 days after the close of each financial year for the duration of the project, commencing with the year in which the first disbursement was made and for the duration of the project, CESADE will submit to the Bank its audited financial statements and a financial report audited by independent authorities indicating how the Bank's contribution was used.

Evaluations: The Bank will contract a mid-term evaluation and a final project evaluation charged against the technical cooperation. The former will be conducted when 60% of the loan component has been disbursed; and the final evaluation will take place when the loan component has been fully disbursed.

**Exceptions to
Bank policy:**

None