

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

NICARAGUA

ACCESS TO CREDIT IN RURAL PRODUCTION CHAINS

(NI-L1080)

LOAN PROPOSAL

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ELECTRONIC LINKS	
Required	
1. Monitoring and evaluation arrangements	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37875763
2. Safeguard policy filter	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37710804
Optional	
1. Economic analysis	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37875708
2. Value chains in Nicaragua: cocoyam (quequisque), forestry, and dairy products—three case studies	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37727379
3. The financing of agricultural value chains	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37727377
4. Analysis of value chains in Nicaragua	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37727376
5. The production of cocoa and dairy products	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37858413
6. The history of Banco Produzcamos	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37858359
7. Diagnostic assessment of rural agribusiness in Nicaragua. TCP/Facility-TCP/NIC/3303	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37727378
8. Case studies for analysis of the financing of agricultural value chains. Working Paper No. 26	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37727381
9. Operating Regulations	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37931088
10. Bibliography on the effectiveness of credit, credit guarantees, and technical assistance to SMEs	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38025973
11. The Impact of Rural Business Services on the Economic Well-being of Small Farmers in Nicaragua	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38025348
12. Cocoa in Nicaragua: Analysis of the value chain	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38027152

ABBREVIATIONS

ASOMIF	Asociación Nicaragüense de Instituciones de Microfinanzas [Nicaraguan Association of Microfinance Institutions]
BFP	Banco de Fomento a la Producción (Banco Produzcamos)
CENAGRO	National Agricultural Census
FSO	Fund for Special Operations
GDP	Gross domestic product
ICB	International competitive bidding
IMF	International Monetary Fund
INFOCOOP	Instituto Nicaragüense de Fomento Cooperativo [Nicaraguan Cooperative Development Institute]
MAGFOR	Ministry of Agriculture and Forestry
MEFCCA	Ministry of Family, Community, Cooperative, and Associative Economy
MSME	Micro, small, and medium-sized enterprises
NCB	National competitive bidding
OC	Ordinary Capital
SIBOIF	Superintendencia de Bancos y de Otras Instituciones Financieras [Superintendency of Banks and Other Financial Institutions]
SME	Small and medium-sized enterprises
SMP	Small and medium-sized producers

PROJECT SUMMARY

NICARAGUA ACCESS TO CREDIT IN RURAL PRODUCTION CHAINS (NI-L1080)

Financial Terms and Conditions				
Borrower: Republic of Nicaragua		Financing sources:	OC	FSO
		Amortization period:	30 years	40 years
		Grace period:	5.5 years	40 years
Executing agency: Banco de Fomento a la Producción, in its capacity as trustee of the trust fund set up to administer project resources		Disbursement period:	5 years	
		Interest rate:	Single Currency Facility – fixed	0.25%
		Inspection and supervision fee:	**	N/A
Source	Amount (US\$ million)	Credit fee:	**	N/A
IDB (OC)	10	Currency:	U.S. dollars	U.S. dollars
IDB (FSO)	10			
Total	20			
Project at a Glance				
Project objectives and description: The general objective is to increase the productivity of small and medium-sized producers (SMPs) in the selected rural chains. This will be achieved by improving their access to credit and providing technical assistance services to enable them to integrate into the individual production chain. The final impact of this operation will be an increase in production in the agriculture sector.				
Special contractual conditions precedent to the first disbursement of the loan proceeds: (i) the trust fund from which the resources will be managed will be set up in accordance with local laws and regulations, and its governing board will be appointed; (ii) the Operating Regulations previously agreed upon with the Bank will be approved and in force; and (iii) the technical advisory unit for the trust fund will be selected and will be ready to be hired and start work (see paragraph 3.8).				
Exceptions to Bank policies: N/A				
Project consistent with country strategy: Yes [X] No []				
Project qualifies as: SEQ [] PTI [] Sector [] Geographic [] Headcount []				

* The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors, in accordance with the applicable provisions on lending rate methodology for Ordinary Capital loans.

I. DESCRIPTION AND RESULTS MONITORING

A. Frame of reference, problem addressed, and rationale

1. Macroeconomic context

- 1.1 Nicaragua has made a swift recovery from the 2008-2009 crisis, thanks mainly to favorable terms of trade, foreign direct investment, and concessional assistance programs.¹ Real GDP grew by 5.4% in 2011 and by 5.2% in 2012 (Central Bank of Nicaragua), driven largely by the construction and manufacturing sectors. Most forecasts anticipate a slowdown from 2013 onwards, with growth rates closer to 4% (Economist Intelligence Unit, IMF), based on a decline in external demand but growth in credit, investment, and trade.
- 1.2 Despite the budgetary prudence and economic stability maintained over the last few years, Nicaragua still has the lowest per capita income in Central America. Much higher growth rates are needed to make substantial inroads into poverty, and this growth needs to be supported by sustained increases in productivity. However, Nicaragua's economic structure is based on small enterprises with low productivity levels, the vast majority in the informal sector, which impairs the country's ability to significantly reduce poverty levels (IMF, 2012). Of all Latin American countries, Nicaragua is the one whose productivity has lagged furthest behind that of United States since 1960 (IDB, *Development in the Americas*, 2010).

2. Productivity, agriculture sector, and poverty

- 1.3 With 42% of the population living in rural areas and 71% engaged in agriculture, the sector makes a very large contribution to both GDP and employment (18% and 31.2%, respectively).² Nonetheless, Nicaragua's agriculture sector is characterized by low productivity, which limits its growth capacity and makes it harder for its products to gain access to international markets or attract more sophisticated buyers.³ The structure of agricultural production is dominated by small and medium-sized producers (SMPs), most of which operate informally both in terms of labor and land tenure. This producer segment accounts for 80% of productive units and 70% of agricultural land, and it produces 65% of food products, 80% of staple grains, and 65% of cattle livestock.⁴
- 1.4 Two other key features of the Nicaraguan rural sector are associated with the typical farm size: low technical levels or limited use of best practices in production,⁵ and limited or sporadic access to markets.⁶ As a result, producer

¹ International Monetary Fund (IMF), Article IV, 2012.

² *Nicaragua en cifras [Nicaragua in figures]*, 2012, Central Bank of Nicaragua.

³ For the only in-depth comparative analysis of total factor productivity in the agriculture sector, see Ludeña, Carlos, 2010, IDB Working Paper 186. The Food and Agriculture Organization database contains information to calculate partial, but sufficient, productivities up to 2011.

⁴ National Agricultural Census (CENAGRO), 2011.

⁵ CENAGRO, 2011. Only 17% of farms received technical assistance in 2011.

income⁷ and savings levels are low, so any investment effort has to rely on third-party financing.

- 1.5 The sector also displays a low level of cooperative development, one of the mechanisms that typically enable small-scale producers to overcome obstacles to growth. Just 10% of the 262,546 producers recorded in the 2011 Agricultural Census (CENAGRO) are affiliated with the 1,094 agricultural, agribusiness, and production cooperatives active in Nicaragua (INFOCOOP, 2011). Moreover, many of those cooperatives are themselves small (only 2% have over 100 members), and they lack shared capital and the managerial-commercial functions and capacities to become coordinators and facilitators of change for their SMP members.⁸ Yet, public incentives to help small-scale cooperatives recruit members harm the interests of medium-sized and large ones.⁹
- 1.6 The evolution of productivity over the last few decades has not matched the potential suggested by the abundant availability of land in the country, its ecological and climate diversity, and its water resources.¹⁰ Although productivity per hectare grew by an average of 3.9% annually in the period 2000-2011 (nearly two percentage points above the Central American average), a longer time horizon shows that productivity in the rural sector is below that of other countries in the region, which has negative repercussions in aggregate terms and makes it harder to improve living conditions for rural dwellers.¹¹

⁶ *Nicaragua: Problemáticas del sector agropecuario y desarrollo rural* [Nicaragua: Problems of the agriculture sector and rural development], <http://cederul.unizar.es/revista/num07/21.htm>.

⁷ 62.2% of rural family income is spent on food. Household Survey to Measure Poverty (FIDEG, 2011).

⁸ *Inventario de las cooperativas productivas en Nicaragua* [Inventory of production cooperatives in Nicaragua], Central American Bank for Economic Integration, 2009.

⁹ The smaller institutions absorb most public support because the programs in question involve small amounts, and support tends to be given to institutions requesting less. *Inventory of production cooperatives in Nicaragua*, Central American Bank for Economic Integration, 2009.

¹⁰ Economic Commission for Latin America and the Caribbean, *Subregión norte de América Latina y el Caribe: Información sector agropecuario*, 2000-2010. [North Latin American and Caribbean subregion: Agriculture sector information, 2000-2010]

¹¹ Idem footnote 6.

Table 1. Average annual growth rate of agricultural productivity

Agricultural productivity, net value of agricultural production per cultivated hectare (US\$)					
Country	1980-1989	1990-1999	2000-2011	2000	2011
Belize	-1.00%	2.80%	-0.30%	1,001	967
Costa Rica	4.40%	6.40%	1.90%	1,233	1,510
El Salvador	-1.60%	1.60%	0.40%	626	653
Guatemala	-2.10%	3.30%	4.00%	614	944
Honduras	0.40%	0.40%	2.80%	446	606
Mexico	0.50%	2.70%	1.80%	261	318
Nicaragua	-1.40%	1.40%	3.90%	197	299
Panama	0.40%	0.50%	1.30%	360	415

Source: FAOSTAT and authors' calculations.

3. SMP productivity problems

- 1.7 Low productivity is generally a result of market and government failures that distort both resource allocation and incentives to innovate, and obstruct business expansion (IDB, *Development in the Americas*, 2010). No program on its own can affect the wide range of factors that condition the level of total factor productivity and its evolution over time. Exogenous (international) factors, general policies (education, infrastructure, research, development, and innovation), those of an economic nature (macroeconomic policy mix, exchange-rate and tariff policy, financial system regulation and supervision), and those with general social purposes (social security, public health, direct or indirect taxes) help shape the conditions that firms must face to invest and grow. The business environment also encompasses the set of institutions, laws, rules, regulations, and practices, both sectoral and horizontal, that influence the ease with which a firm can be created and do business in any sector of the economy.
- 1.8 Against this backdrop, this project will address two market failures associated with the low productivity of Nicaragua's agricultural SMPs (equivalent to micro, small, and medium-sized enterprises (MSMEs)): (i) the lack of access to financing for investments in better techniques or technologies that increase productivity; and (ii) the lack of stable market access, owing to their poor integration with agrifood value chains, which facilitate coordination between producers. The multifaceted problems of SMPs, as well as incentives related to the formalization and operation of the firms, considering the widest range of institutional and structural issues, are not directly addressed by this project, for obvious reasons of scale. Instead, this project takes a more targeted approach to the problems of MSMEs, with the understanding that it is only one part of any comprehensive solution to the challenges they face.

4. Access to resources

- 1.9 The problem of MSME access to credit has been widely studied. The relation between credit and productivity has been established theoretically through the link between credit and firm size, and hence ability to gain access to technology, innovation, and knowledge. A review of the literature evaluating the impact of public support programs for small and medium-sized enterprises (SMEs) has found positive results across the board in medium-term variables associated with productivity (higher levels of spending on research and development, employee training, new management practices, introduction of new production and quality control processes, creation of networks with other firms, and increased access to sources of information and financing), but only in some cases with respect to long-term objectives, including measures of employment, sales, and productivity.¹² The evidence on credit and public guarantee programs and on rural value chains in the region points to positive relationships between the relevant variables (economic and/or financial additionality).¹³
- 1.10 The causes of the chronic shortage of credit for agricultural SMPs and their organizations in Nicaragua are factors that are common to the sector, such as the high risk associated with agricultural activity (weather, pests); volatile product prices¹⁴ owing to supply and demand factors and international trade policy (which are exogenous for a small country), or the problem of asymmetric information traditionally associated with banking business (adverse selection risk and moral hazard), issues that are exacerbated in the case of intangible investments in innovations that cannot always be fully appropriated by the SMPs. However, there are also aggravating factors that are specific to the Nicaraguan situation, such as the overparcelization of land (*minifundismo*) and informality, which exacerbate the information problem and pose major obstacles for the financial entity (geographic and in terms of documentation), or the lack of adequate property titling, which makes it difficult to establish collateral, and (perceived) difficulties in enforcing contracts in the courts, which also discourages lending.¹⁵ Moreover, the 2009

¹² López, Acevedo, and Tan, World Bank, 2010, *Impact evaluation of SME programs in Latin America and Caribbean*.

¹³ González, M., A. Maffioli, L. Salazar, and P. Winters, *Assessing the effectiveness of agricultural interventions* (IDB, 2010), chapter III (pp. 111 et seq. and 103 et seq.). See also footnote 6 above.

¹⁴ In 2010, the government allocated the equivalent of 3.9% of GDP in support to the sector, proportionally more than in the European Union or the United States, as a result of the sensitivity of the rural sector to price volatility and the weather. *Evaluación de estructuras de soporte al sector agrícola para Nicaragua [Evaluation of agriculture sector support structures for Nicaragua]*, IDB Working Paper (Castillo Vargas, J. C., et al.).

¹⁵ Institutional weaknesses in the regulation of the country's business climate, particularly in terms of property and land registers, credit bureaus, and the legal system, exacerbate problems of risk and information asymmetry in the financial market (IMF, Article IV).

international financial crisis, and the “no pago” (won’t pay) movement¹⁶ made an already chronic situation even worse. These circumstances have traditionally been used to justify public credit programs (through State-owned banks) and, especially, credit guarantee programs, to reduce the perceived risk.

- 1.11 In the absence of such programs, credit for SMPs is scarce, over-collateralized, and costly, which forces them to finance their activities essentially from non-bank sources, drawing on their own resources, those of suppliers or the family, and/or supported by liens on the harvest and other movable assets. In Nicaragua, just 13% of all farms received credit in 2011.¹⁷ Between 2008 and 2011, the number of borrowers in the agriculture sector declined by 49.2%,¹⁸ but since 2010 there has been an appreciable recovery in lending to the private sector (Table 2), basically to productive sectors, and this has gone hand in hand with a sustained reduction in the arrears portfolio.

Table 2. Gross credit by type of borrower and arrears portfolio

Millions of córdobas	2010	% Arrears	2011	% Arrears	2012	% Arrears	Variation in portfolio 2012-2011
Gross portfolio	44,582	3	53.08	2.2	68,558	1.7	29.2%
Agriculture	5,241	0.8	6.91	0.6	8,545	0.3	23.7%
Livestock	1,025	4.8	886	4	1,241	1.8	40.1%

Source: Superintendency of Banks and Other Financial Institutions (SIBOIF), which encompasses banks and the two main financial companies, but not microfinance institutions.

- 1.12 Productivity growth is the result of an innovation or the incorporation of technologies and knowledge that enables a firm to use factors of production more efficiently. This is a continuous process of capacity-building and may include an investment component that requires financing/credit, but it also usually requires workforce training and professional services to strengthen the firm—activities that, by definition, cannot be collateralized. Banks may shy away from the risk inherent in lending of this type and leave otherwise viable projects without credit, particularly in the absence of a solid business plan. To correct this market failure,

¹⁶ The “no pago” movement was launched in mid-2008 by rural producers protesting against what they considered to be excessive rates. In conjunction with the financial crisis, the movement had consequences for the balance sheets, income statements, and risk propensity of microfinance institutions and banks.

¹⁷ CENAGRO, 2011.

¹⁸ Superintendency of Banks and Other Financial Institutions (SIBOIF) and the Nicaraguan Association of Microfinance Institutions (ASOMIF), 2011.

technical assistance is an essential component of any modern productive inclusion program¹⁹ (see optional links 10 and 11).

5. Access to markets

- 1.13 Productive inclusion and access to local and international markets for SMPs is the other necessary condition for SMP business development. In this regard, integration into agrifood value chains, which are increasingly globalized owing to trade integration and lower freight costs, is crucial.²⁰ This is achieved through firms (or cooperatives) that act as drivers or backbones of the chain,²¹ providing a set of benefits that result in higher productivity: (i) they facilitate the discovery of prices and products in demand; (ii) they require compliance with standards and certifications and thus facilitate the application of best agricultural practices in the cultivation and post-harvest phases, ensuring yields and quality; and (iii) they strengthen the link between farmer and industry. Also, from the standpoint of access to financing, integration into value chains is a key beneficial factor because: (i) it facilitates access to financing by providing the SMP with collateral (e.g. sales contracts) that reduces credit risk; (ii) it provides the financial entities with medium- and long-term business plans containing the information needed to evaluate credit risk; and (iii) the lead firm itself can serve efficiently as a credit intermediary, reducing transaction costs.
- 1.14 In Nicaragua, coordination in the productive chain between lead firms and SMPs, as well as between the SMPs themselves, is very weak.²² This is mainly due to: (i) low levels of technical capacity and compliance with quality standards (just 17.6% of producers received training and technical assistance),²³ (ii) poor organization among SMPs,²⁴ which weakens their bargaining power and capacity to implement very small-scale business plans under financially sustainable models; and (iii) a shortage of common backbone investments in the chain that given their indivisibilities and fixed costs, require concerted action (bulking centers, cold storage equipment, etc.). Integrating farmers into modern productive chains, with

¹⁹ Many recent evaluations in Latin America and in countries of the Organization for Economic Cooperation and Development have shown that a variety of instruments for providing technical assistance to MSMEs can have an impact on sales, productivity, wages, and exports. See optional link 10. For further information from a recent review of the effectiveness of rural business services in Nicaragua, see optional link 11.

²⁰ For a detailed analysis, see United Nations Industrial Development Organization, 2008, *Agro-Value Chain Analysis and Development*.

²¹ Lead firms are those that have forward and backward linkages with PMPs. For a valid general definition, see USAID, Field Working Paper, 2008.

²² See Chapter 3 of Fernandez Arias, E., F. Jaramillo, and M. Agosin, 2009, *Growing Pains. Binding Constraints to Productive Investment in Latin America*, for an analysis of growth constraints in Nicaragua and the importance of coordination problems in the agriculture sector.

²³ CENAGRO, 2011.

²⁴ According to INFOCOOP data (2011), there are 1,094 cooperatives in Nicaragua, of which 92% have fewer than 50 members and 85% are in the agriculture sector.

value-added processes that retain the largest share of the value, is a key goal of any inclusive development program in Nicaragua.

6. Problem assessment and project rationale

- 1.15 In short, this project aims to contribute to productivity growth for SMPs in agricultural value chains in Nicaragua, by providing a comprehensive solution to the problem of financial resources and technical assistance, and to the problem of market access for SMPs. For that purpose, the project design includes three intervention tools: a program of credit guarantees to mitigate the risk perceived by the financial sector of lending to the sector; a credit program to finance subloans to SMPs in the sector; and a technical assistance program to effectively disseminate improvements in production processes and help SMPs integrate into the value chain, as well as to help strengthen it.
- 1.16 **Scale and beneficiaries.** The project is intended as a pilot or demonstration initiative, and its scale prevents it from tackling the problem at the level of the Nicaraguan agriculture sector as a whole. For that reason, it focuses on two specific value chains, with the aim of targeting its financial and technical resources to maximize the expected impact. The selected value chains are the cocoa and dairy chains. The potential SMP beneficiaries will be 12,200 ranchers (7,500 of whom are both dairy farmers and beef producers), and 6,400 cocoa producers. These are individual farmers and firms (micro, small, medium-sized) with farms of less than 50 manzanas in area. With the available resources, the aim is to provide financing and technical assistance to 5,000 SMPs, almost 27% of existing producers. The essential eligibility condition is that the beneficiary SMPs should be linked to a value chain, in other words, a cooperative, firm, or association of firms that can provide commercial outlets for its production. There are 55 cooperatives with roughly 2,086 SMPs in the dairy sector, and 39 cooperatives with 6,000 SMPs in the cocoa sector. Another potential stakeholder group are the lead firms (several in each chain), although these would not be final beneficiaries in the strict sense of the term.²⁵ It is understood that the credit provided is intended for productive investment and not for own consumption.
- 1.17 Selection was based the following criteria: (i) the priority set in the government's development plan, verified with the Ministry of Agriculture and Forestry (MAGFOR) and with the Ministry of Family, Community, Cooperative, and Associative Economy (MEFCCA); (ii) the existence of lead firms and basic organizational capacity among the SMPs; (iii) solid diagnostic assessments that show their potential to generate value-added and diversify the productive structure; and (iv) the involvement of other international actors, to leverage efforts.²⁶ Based

²⁵ See electronic link [cocoa and dairy products](#), optional link 12 (Cocoa in Nicaragua: Analysis of the value chain), and optional link 2 (Value chains in Nicaragua: cocoyam (*quequisque*), forestry, and dairy products—three case studies).

²⁶ United States Agency for International Development, Swiss Agency for Development and Cooperation, Catholic Relief Services, Protestant Relief Services, and Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ). [Work of other donors in the sector](#).

on the same criteria and the evolution of results of this initiative in the selected chains, a decision may be made to allocate resources to other chains if it is determined that the impact would be positive.²⁷

7. Strategic alignment

- 1.18 This project is consistent with the government's objectives and with the dialogue on value chains defined in the country strategy with Nicaragua for 2012-2017 (document GN-2683), as well as with the programming envisaged in the Report on the 2013 Operational Program (document GN-2696). In addition, this operation is aligned with two of the strategic priorities set out in the Report on the Ninth General Increase in the Resources of the Bank (document AB-2764) inasmuch as it will increase funding for MSMEs (Priority 3 – Institutions for growth and social welfare) and raise agricultural productivity (Priority 5 – Environment, climate change, and food security). It is also aligned with the strategic priority of supporting Group C&D countries.
- 1.19 The government's current National Human Development Plan 2012-2016 also includes an area in its governing matrix that is specifically devoted to the growth of agricultural production “with productivity increases,” which would be associated with good practices in production, fair financing and quality technical assistance. On this point, the National Human Development Plan places the emphasis on climate change adaptation and the adoption of a SME focus. There is also ongoing dialogue with the government to extend the pilot project, based on positive results over the next few fiscal years, with the aim of proposing a continuation of this effort and its expansion to other sectors and for longer time horizons.

B. Project objectives

- 1.20 The general objective is to increase the productivity of SMPs in the selected rural chains. This will be achieved by improving their access to credit and providing technical assistance services to enable them to integrate into the production chain. The final impact of this operation will be an increase in production in the agriculture sector.
- 1.21 **Selected chains.** A description of the selected value chains can be found at the electronic link [cocoa and dairy products](#). Productivity is low in both cases (7.5 quintals/manzana compared with the international standard of 20 quintals/manzana, and less than 5 liters/cow/day compared with potential production of 13 liters/cow/day).²⁸ Although other producers/sectors seemed less suited to the aims of this project than dairy farming and cocoa, a generic window will be kept open to support specific projects in productive chains other than those selected. To be eligible, the projects in question will need to make a substantial

²⁷ For an analysis of other potential beneficiary chains, see optional link 7 (Diagnostic assessment of rural agribusiness in Nicaragua) and optional link 4 (Analysis of value chains in Nicaragua).

²⁸ Source: Data from the Nicaraguan National Cocoa Program 2012-2021, and CENAGRO data, together with information from Statinfo.biz on international yields.

contribution to raising productivity and integrating small-scale producers into the value chain.

C. Results indicators

- 1.22 The system for monitoring and evaluating the proposed project will be based on the indicators contained in the results matrix (Annex II). The annual growth rate of agricultural activity will be used as the indicator to measure project impact.

II. STRUCTURE OF THE OPERATION AND MAIN RISKS

A. Structure of the operation

- 2.1 The project is structured as a global credit program, inasmuch as the amounts of the individual projects to be financed under the operation do not warrant direct intervention by the Bank. It has three components, the amounts of which constitute an initial estimate that is adjustable on the basis of observed demand. The credit and guarantee programs will finance up to 5,000 SMPs with loans averaging US\$4,000 each. In addition, up to 20 technical assistance plans will be signed with cooperatives, lead firms, or associations in order to strengthen them, which will benefit some 4,500 additional SMPs with an average intervention of US\$500 each. Financing and technical assistance are linked instruments because only on an exceptional basis, when the technical assistance is financed by third parties, will a SMP receive financing without also receiving technical assistance. Moreover, in principle, there will be no technical assistance without financing, except for cases to be specified in the project Operating Regulations. The latter will also establish eligibility criteria for the selection of specific projects. The project components are:
- 2.2 **Component I. Guarantee program. (US\$5 million).** The purpose of this component is to reduce the risk levels (and associated collateral requirements) perceived by the financial system. The guarantee program is designed to: (i) satisfy the credit needs of producers that have limited or no access to credit, despite having sustainable business plans; and (ii) minimize the fiscal cost through prudent management of the portfolio and access conditions. The fund will guarantee both the credit portfolios of intermediary institutions and individual loans to lead firms or cooperatives that onlend to SMPs, and the beneficiaries of the guarantees will be those financial entities, lead firms, or cooperatives that are eligible under the project Operating Regulations. The Operating Regulations will establish rules of access, price setting, and coverage, as well as all other conditions needed to achieve the defined purpose. The regulations will also contain provisions to prevent the concentration of risk, and other rules specially intended to prevent moral hazard (the guarantees will be issued on a *pari passu* basis, i.e., the beneficiary intermediary institution will share risk at a predetermined percentage) and adverse selection (setting a minimum score for loans and a rate ceiling on loans backed by the guarantee).

- 2.3 **Component II. Credit program. (US\$10 million).** This component will provide credit to intermediary institutions, banks, microfinance institutions, and credit cooperatives, for the purpose of financing SMPs. It may also provide financing to lead firms and cooperatives that onlend to this producer segment. The cost of the financing for the final borrower will depend firstly on the destination and maturity of the financing, as well as the risk incurred by the intermediary institutions, which will be adapted to the specific needs of each subloan and can be used for both investment and working capital. The Operating Regulations will establish provisions on the applicable rates as well as on portfolio concentration and information (see the version under discussion of the [Operating Regulations](#)).
- 2.4 **Component III. Technical assistance program (US\$4.6 million).** This component will improve coordination of the chain through cofinancing for: (i) interventions at banks, microfinance entities, and cooperatives or lead firms endeavoring to provide financing to affiliate SMPs, in order to strengthen the flow of credit, improving existing information flows, and, where appropriate, building human and institutional capacities; (ii) the design of business plans for SMPs and/or the cooperatives or lead firms to which they are linked; (iii) financing and support for implementing the technical assistance plans included in the proposed business plans for SMPs in the selected chains; (iv) targeted support for the organizational and institutional strengthening of SMP cooperatives or organizations, and the promotion of cooperative development and vertical and horizontal integration in the value chains. The component will also seek to: (i) ensure that there is no gender discrimination (the results matrix contains a gender indicator); (ii) monitor social and environmental impacts and make the most of socioenvironmentally differentiated market opportunities and the implementation of sustainable resource management processes and improvements in the producers' work and health conditions; (iii) establish the necessary coordination mechanisms with MEFCCA and MAGFOR to maximize the impact of this technical assistance, using the tools available under their respective jurisdictions; and (iv) strengthen the capacity of the project's executing agency, Banco de Fomento de la Producción (BFP), also known as Banco Produzcamos, to execute this type of project (see the version of the manual under discussion at the following link: [Technical assistance program](#)).

Table 3. Project Costs

Project cost by financing source (US\$ million)			
Component	IDB	Local	Total
Guarantee program	5.0	0	5.0
Credit program	10.0	0	10.0
Technical assistance program	4.60	0	4.60
Project audit and evaluations	0.40	0	0.40
Total	20.0	0	20.0

B. Main risks

- 2.5 A medium level of development risk has been identified in relation to the execution capacity of Banco de Fomento a la Producción (BFP), the project executing agency in its capacity as trustee of the trust fund created to administer project resources. The execution mechanism for the operation has been designed to mitigate this risk and maximize the effectiveness of execution (see Section III.A.).
- 2.6 In relation to environmental and social risks, this operation is being implemented as a global credit operation, a flexible lending instrument for which ex ante classification of environmental impacts is not feasible, as stipulated in Policy Directive B.13 of the IDB's Environment and Safeguards Compliance Policy (document GN-2208-20 and manual OP-703). The BFP will generally require the following, pursuant to the Operating Regulations: (i) it will enforce environmental rules and regulations in the operations being financed; (ii) it will use a list of excluded activities agreed upon with the IDB to determine the project's eligibility under the program; and (iii) it will notify the IDB of any noncompliance or socioenvironmental grievance brought to its attention. As part of the monitoring and evaluation process, the IDB will monitor social and environmental impacts, for the purpose of requesting corrective actions as necessary and identifying lessons for the future.
- 2.7 **Fiduciary risk.** The fiduciary risk in financial management, i.e., weaknesses in financial administration, is considered low. The fiduciary risk in procurement is also considered low, particularly in view of the execution mechanism being proposed (the technical advisory unit will have staff with experience in procurement and financial management, and training in the Bank's procurement policies will be provided).

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 **Borrower and executing agency.** The borrower will be the Republic of Nicaragua. The executing agency will be [Banco de Fomento a la Producción \(Banco Produzcamos\)](#), acting in its capacity as trustee of the trust fund to be created by the borrower to administer project resources. Banco Produzcamos will: (i) channel resources to the intermediary institutions, lead firms, and cooperatives or business associations, to enable them to onlend to the sector; and (ii) guarantee credit portfolios or individual loans. In its capacity as trustee, Banco Produzcamos will also provide cofinancing to the eligible beneficiaries of the technical assistance services included in the technical assistance plans of the beneficiary chains.
- 3.2 **The Bank's loan programs.** As the successor of the now defunct Nicaraguan Investment Finance Corporation, over the last few years the BFP has been gaining experience and strengths in providing first- and second-tier credit. However, the international financial crisis in conjunction with the "no pago" movement put BFP

- in a difficult situation, and today it is a bank governed by prudential regulations and procedures that have made the normal flow of credit excessively rigid and aimed at capital preservation. While this keeps it in a highly liquid position, it prevents it from achieving the objectives of its mandate. This said, the experience of working with Banco Produzcamos is based on loans 1122/SF-NI (US\$30 million) and 2203/BL-NI (US\$20 million), which support private-sector development in Nicaragua by supplying medium and long-term financing, particularly to the SME sector.
- 3.3 With the aim of ensuring effective execution of the project and helping to strengthen the BFP's capacity to execute the guarantee and credit programs synchronized with technical assistance in high-risk sectors such as agriculture, project resources will be administered by a trust fund set up by the borrower. The BFP will act as trustee, while the trustor or final beneficiary will be the borrower, represented by the Ministry of Finance and Public Credit. The approval of eligible operations under the project will be governed by the Operating Regulations and program manuals designed for this purpose by common agreement with the IDB and will not be subject to BFP rules and procedures. Nonetheless, the process of monitoring and recovering loans and managing the guarantees already constituted will be governed by the normal BFP procedures.
- 3.4 The trust fund will be financed from the initial contribution, loan recovery, income obtained from guarantee fees, and earnings from the return on its funds and those obtained by intermediary institutions as a consequence of recovering guaranteed loans up to the amount of coverage, together with other contributions that may be authorized by the IDB. The various components into which these resources will be divided are not rigidly separate compartments. If the resources of the credit component are not fully used, the IDB and the BFP may agree to use any remaining balance to provide more guarantee funds, and vice versa. With the borrower's approval, expanding the technical assistance component could also be considered.
- 3.5 Funds from technical cooperation operation NI-T1169²⁹ for US\$750,000 will be used to hire a consulting firm to serve as a technical advisory unit to support the BFP in its role as trustee of the trust fund. The technical advisory unit will fulfill functions that are fundamental to the project's flexibility and effectiveness, advising the trust fund's governing board on the approval of credit and guarantee applications formulated by the intermediary institutions and/or lead firms, as well as on the approval of technical assistance plans proposed as part of the business plans of the promoting entities (cooperatives, business associations, lead firms) for the SMPs linked to their respective chains. The technical advisory unit will have experts in finance, procurement, and the management of technical assistance programs, and it will support the executing agency in results monitoring and evaluation. The executing agency will submit terms of reference and documentation

²⁹ This technical cooperation project is expected to be approved in December 2013.

on the process for selecting experts to the IDB for its no objection before they are hired.

- 3.6 **Procurement.** As this is a global credit operation in which technical assistance will be provided in the form of nonreimbursable cofinancing, no works or goods and only a few nonconsulting and consulting services have been identified for procurement. The executing agency will use the IDB's policies for the procurement of goods and nonconsulting services (document GN-2349-9) and its policies for the selection of consultants (document GN-2350-9). When the final beneficiaries are private entities, procurement procedures aligned with normal market practices and acceptable to the Bank will be used, pursuant to Appendix 4 of the Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document GN-2349-9). In addition, the provisions of those policies on contracting in global credit loans will be observed.
- 3.7 **Disbursements and execution period.** Project resources are expected to be committed in four years and disbursed in five years from the effective date of the loan contract.
- 3.8 **As special contractual conditions precedent to the first disbursement of the loan proceeds: (i) the trust fund from which the resources will be managed will be set up in accordance with local laws and regulations, and its governing board will be appointed;³⁰ (ii) the Operating Regulations previously agreed upon with the IDB will be approved and in force; and (iii) the technical advisory unit for the trust fund will be selected and will be ready to be hired and start work.** (See the version under discussion of the [Operating Regulations](#)).
- 3.9 The trust fund will disburse the loan proceeds to the intermediary institutions or the lead firms/cooperatives-business associations, for the purpose of financing subloans to SMPs linked to the chain, either as reimbursements or as advances of funds on the portfolio committed by the first-tier intermediary. The intermediary institutions and participating entities will be able to obtain access to these resources either by signing an agreement with Banco Produzcamos based on a business plan that substantiates the technical and economic viability of SMP loan proposal (disbursement by advance) or by presenting a subloan portfolio for financing (reimbursement). In the latter case, the credit applicant will need to demonstrate the eligibility of the subloans, in other words that they are intended to finance eligible activities by SMPs integrated into one of the value chains and participating in a program to improve their operations. In either case, the trust fund will require the necessary collateral and will set aside the necessary reserves pursuant to the prudential regulations of the SIBOIF. The minimum disbursement amount from the trust fund will be US\$250,000.
- 3.10 In its capacity as the technical advisory unit, the consulting firm will hold promotional events to disseminate the project's objectives and services with trade

³⁰ A preliminary version of this contract has been reviewed by the parties.

associations, intermediary institutions, and firms and cooperatives in the agriculture sector. Nonetheless, during preparation of the operation, contact was established with intermediaries that have management capacity and experience in financing value chains for SMPs, such as the Local Development Fund, Agropecuaria Lafise, Atlantic, and the Nicacentro dairy cooperative, all of which have expressed interest in the trust fund's services.

- 3.11 The trust fund will disburse the resources of the guarantee program when called upon to do so by the beneficiary and nonpayment is verified. From that moment onwards, the BFP loan recovery department will monitor the status of the overdue loan with the intermediary in question (intermediary institution, cooperative, lead firm, or association of firms).
- 3.12 The technical assistance resources will be disbursed as nonreimbursable financing against the invoices corresponding to payments associated with the technical assistance plans included in the business plans approved by the project. The technical assistance service providers will be freely selected (by the cooperative, association, lead firm, or eligible intermediary institution, after the corresponding agreement has been signed) from among those listed in a national business register to be created by the Bank for this purpose. The technical advisory unit will verify the eligibility of expenses (for details, see the [Operating Regulations](#)).
- 3.13 Loan recoveries under the project, whether payments, prepayments, cancellations, or terminations of subloans, or income from guarantee fees or cash management, that accumulate in excess of the amounts needed to service the loan over a five-year period from the date of the last disbursement will be used to finance new operations consistent with the project's objectives.

B. Monitoring and evaluation arrangements

- 3.14 **Reports.** The project will be monitored through quarterly reports prepared by the executing agency, based on the commitments set out in the results matrix and the [monitoring and evaluation plan](#).
- 3.15 **Evaluation.** Ninety days after 50% of the loan proceeds have been committed, the BFP and the IDB will perform a midterm evaluation on fulfillment of the objectives and results, based on the results matrix, in order to identify possible corrective actions. The evolution of the indicators will be reported to the Bank periodically throughout project execution. Based on the quarterly monitoring of indicators and the midterm evaluation, the technical advisory unit will prepare reports for the BFP and the IDB, together with a final evaluation report at project completion. Impact evaluations will also be prepared (using experimental or quasi-experimental methods), at the time of the information survey ([monitoring and evaluation plan](#)).
- 3.16 **Information.** In compliance with the legal obligations on file-keeping, the BFP as trustee and with the support of the technical advisory unit, will compile and store the information, indicators, and parameters, including annual plans, the midterm

review, and the final evaluation, as needed to prepare the project completion report and the ex post evaluation to be performed by the IDB.

- 3.17 **Audit.** The BFP will present the IDB with financial statements for the project (including statements for the trust fund), audited by an independent firm acceptable to the IDB. The audit will be performed according to terms of reference previously approved by the IDB. The annual and final audit reports will be delivered no later than 120 days following the end of the period, fiscal year, and date of last disbursement, respectively.

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives	Aligned		
Lending Program	Lending to small and vulnerable countries.		
Regional Development Goals	Percent of firms using Banks to finance investments.		
Bank Output Contribution (as defined in Results Framework of IDB-9)	i) Individuals (all, men, women, youth) benefited from programs to promote higher labor market productivity, ii) Micro/small/medium productive enterprises financed, and iii) Farmers given access to improved agricultural services and investments.		
2. Country Strategy Development Objectives	Aligned		
Country Strategy Results Matrix			
Country Program Results Matrix	GN-2696	The intervention is included in the 2013 Country Program Document.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)	GN-2683	Dialogue area on value chains.	
II. Development Outcomes - Evaluability	Highly Evaluable	Weight	Maximum Score
	7.8		10
3. Evidence-based Assessment & Solution	6.8	33.33%	10
4. Ex ante Economic Analysis	8.5	33.33%	10
5. Monitoring and Evaluation	8.1	33.33%	10
III. Risks & Mitigation Monitoring Matrix			
Overall risks rate = magnitude of risks*likelihood	Medium		
Identified risks have been rated for magnitude and likelihood	Yes		
Mitigation measures have been identified for major risks	Yes		
Mitigation measures have indicators for tracking their implementation	Yes		
Environmental & social risk classification	B.13		
IV. IDB's Role - Additionality			
The project relies on the use of country systems (VPC/PDP criteria)			
The project uses another country system different from the ones above for implementing the program	Yes	The program will use the national systems belonging to BFP for financial registry and disbursement of eligible expenditures.	
The IDB's involvement promotes improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality			
Labor			
Environment			
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project			
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan	Yes	The ex-post impact evaluation will provide evidence on the impacts of providing credit and technical assistance to small producers in the selected value chains.	

The general objective is to increase productivity of Small and Medium Producers (PMPs) in selected rural value chains, through increasing access to credit and provision of technical assistance (TA).

The POD and its annexes provide a description of problems and their causes, however value chain specific evidence is lacking. Evidence of the effectiveness of the intervention is not provided. The results matrix is adequate, has vertical logic, and its indicators are SMART, but key outcome metrics are missing baseline data.

The economic analysis in general complies with the requirements of the DEM, though some assumptions are not properly justified. The monitoring and evaluation plan is adequate and meets the requirements. The proposed impact evaluation is based on a difference-in-difference approach.

Project documentation includes a risk matrix that identifies potential risks and mitigation measures, including indicators to monitor implementation.

RESULTS MATRIX

Program objective:	The program objective is to increase the productivity of small and medium-sized producers (SMPs) in the selected rural chains. This objective will be achieved by improving their access to credit and providing technical assistance services to enable them to integrate into the production chain.
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Indicators	Unit	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	Target	Description
OUTPUTS COMPONENT I: GUARANTEE FUND									
1. Total credit to SMPs prompted by guarantees set up with program resources	US\$ (millions)	0	1	1.5	2.5	2.5	2.5	10	Measures the total amount of credit guaranteed with program resources, both SMP credit portfolios held by intermediary institutions, cooperatives or business associations, or lead firms, and individual loans (50% of the loan amount is guaranteed). <i>Source:</i> Technical advisory unit reports containing information from Banco Produzcamos and the intermediary institutions participating in the program.
2. Cumulative number of SMPs obtaining loans guaranteed by program resources	Number	0	250	500	1,000	1,750	2,500	2,500	Measures the number of SMPs receiving credit from intermediary institutions, cooperatives or business associations, or lead firms, guaranteed with program resources. <i>Source:</i> Technical advisory unit reports containing information from Banco Produzcamos and the intermediary institutions participating in the program.
OUTPUTS COMPONENT II: CREDIT FUND									
3. Cumulative credit to SMPs or SMP organizations	Number	0	250	500	1,000	1,750	2,500	2,500	Measures the number of loans extended to SMPs with program resources. <i>Source:</i> Technical advisory unit reports containing information from Banco Produzcamos and the intermediary institutions participating in the program.
OUTPUTS COMPONENT III: NONFINANCIAL SUPPORT FOR PRIVATE SECTOR DEVELOPMENT IN THE PRODUCTION SECTOR									
4. Technical assistance plans of promoter entities* financed	Number	0	2	4	4	5	5	20	Measures the number of technical assistance plans financed. <i>Source:</i> Technical advisory unit report containing information on agreements signed between Banco Produzcamos and the promoter entities participating in the program.

5. SMPs that receive technical assistance as part of the technical assistance plans financed	Number	0	837	1,674	2,511	3,348	4,500	4,500	Measures the cumulative number of SMPs receiving technical assistance services (included in the technical assistance plans) financed under the program. <i>Source:</i> Technical advisory unit report containing information on the agreements signed between Banco Produzcamos and the promoter entities participating in the program.
6. Women managers, directors, or owners of an SMP who receive technical assistance as part of the technical assistance plans financed	Number	0	80	250	375	660	900	900	Measures the cumulative number of women (individual SMPs) receiving technical assistance services (included in the technical assistance plans) financed under the program. <i>Source:</i> Technical advisory unit report containing information on the agreements signed between Banco Produzcamos and the promoter entities participating in the program and the National Agricultural Census (CENAGRO).
7. SMP organizations that receive technical assistance as part of the technical assistance plans financed	Number	0	1	2	2	3	2	10	Measures the number of SMP organizations (cooperatives, associations) receiving technical assistance services (included in the technical assistance plans) financed under the program. <i>Source:</i> Technical advisory unit report containing information on the agreements signed between Banco Produzcamos and the promoter entities participating in the program.

* Note: A promoter entity is defined as a cooperative, lead firm, business association or even an intermediary institution that promotes a business plan for a set of beneficiary SMPs linked to the value chain, which includes a technical assistance plan to improve operations.

Indicators	Unit	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	Target	Description
OUTCOMES									
Average productivity of SMPs in the cocoa chain benefited by the program	quintals per manzana	7.5	7.77	8.0	9.4	11.2	13.0	13	<p>Measures the average amount of cocoa produced by area, in quintals per manzana, for the SMPs or SMP organizations served by the program.</p> <p>Expected annual production yields internationally could average 1.32 metric tons per hectare, or 20 quintals per manzana.</p> <p>1 quintal = 45 kilograms</p> <p>1 hectare = 1.431 manzanas; 1 manzana = 0.698 hectares</p> <p>Source: Data from the National Cocoa Program of Nicaragua 2012–2021 for the baseline and survey data (see monitoring and evaluation plan.)</p>
Average productivity of SMPs in the dairy product chain benefited by the program	liters/cow/day	3.95	4.15	4.35	5.35	6.65	8.0	8	<p>Measures the average amount of milk produced by area, in liters/cow/day, for the SMPs or SMP organizations served by the program.</p> <p>The baseline for the dairy product sector was calculated as average output per cow/day in winter and summer.</p> <p>Source: Data from the Multilateral Investment Fund (MIF) program with CENTROLAC, for the baseline and survey data (see monitoring and evaluation plan).</p>
Difference between SMPs or SMP organizations in the cocoa chain financed by the program, and the control group, in terms of the percentage change in sales	Percentage points	0	0	0	14	15	12	12	<p>Note: No baseline data currently available. The information will become available as a result of the processing of the agricultural census and survey data (see monitoring and evaluation plan).</p> <p>The measurement assumes that the beneficiary and control groups are similar or equal in terms of sales levels at the start of program intervention (for further details, see monitoring and evaluation plan).</p> <p>Source: Technical advisory unit on the basis of survey data (see monitoring and evaluation plan).</p>

[illegible]

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country: Nicaragua

Project number: NI-L1080

Name: Access to Credit in Rural Production Chains

Executing agency: Banco de Fomento a la Producción (BFP)

Prepared by: Santiago Alejandro Castillo, Senior Procurement Specialist (FMP/CNI), and Jorge Osmin Mondragón, Fiduciary Specialist in Financial Management (FMP/CNI)

I. EXECUTIVE SUMMARY

- 1.1 In view of the analysis of information obtained on site at Banco de Fomento a la Producción (BFP) during preparation of this operation, the level of risk in terms of financial management is regarded as low, as there are clear regulations on financial administrative procedures, based on the standards issued by the Superintendency of Banks and Other Financial Institutions (SIBOIF) and the Office of the Comptroller General of the Republic. The requirements and agreements for financial administration of this program are based on the provisions contained in the Financial Administration Law and the country's budgetary system, which regulates the procedure for using disbursements received by the State, and financial execution follows SIBOIF rules and procedures.
- 1.2 In relation to fiduciary management in procurement, the BFP has no experience in procurement processes and does not have a solid structure to support the procurement processes to be conducted as part of this project, as will be described in the following sections.
- 1.3 In terms of financial management, the executing agency has previous experience and has demonstrated satisfactory management capacity in recent IDB-financed operations. Nonetheless, training on specific issues will continue to be provided, with the aim of improving certain control issues and maintaining the ex post disbursement review modality.

II. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

- 2.1 **In relation to procurement**, the BFP has recently been working to set up a procurement unit to manage all of its procurement processes. The staff who will be responsible for procurements under this operation are two recent hires without experience in IDB procurement processes, who do not have the technical background and skills needed for an operation of this complexity. Nonetheless,

this risk can be mitigated with training and close supervision by the IDB, supported by a procurement specialist with experience in IDB projects who will be contracted with program funds.

- 2.2 **In relation to financial management**, the BFP has experience in executing Bank projects and in complying with the regulations of the governing institution of the National Financial System, and it uses the SIBOIF unified accounts manual for its accounting records.

III. FIDUCIARY RISK EVALUATION AND MITIGATION MEASURES

- 3.1 **On financial matters**, in accordance with the assessment of the financial management capacities of the BFP, the risk is considered to be low, and the institution is currently embarked on a process of modernizing its technological platform, including the development of new accounting software that will enter into operation as from the second four-month period of 2014. Nonetheless, to ensure effective execution, it would be advisable to hire a financial specialist. Moreover, the executing agency needs to contract the services of an external audit firm as soon as possible, to enable it to fulfill its contractual commitments in the agreed-upon timeframes.
- 3.2 **In the procurement area**, the risk associated with procurements is high in the BFP, because procurements in the framework of the IDB-financed operation will be handled by new BFP staff, who have no training or operational experience in procurements applying the IDB's policies and procedures. They will spend a long time on procurement processes and the learning curve will be very high, which will result in execution delays and a procurement plan that is behind schedule.
- 3.3 The BFP and the Project Team Leader will ensure the quality of all procurement procedures. For that purpose, the Project Team Leader will arrange training events in the IDB's procurement policies, contract administration, and the use of process tools prepared by the IDB, as well as conduct market surveys and keep the procurement plan up to date. This risk should be mitigated by strengthening the procurement area by hiring at least one procurement specialist, with experience in managing procurement processes under IDB regulations. Program resources, or other IDB funds provided via a technical cooperation program to support BFP procurement staff, should be used for this contract, so it is not called into question or subjected to conditions by BFP senior management.
- 3.4 Another risk detected in the area of financial and procurement matters concerns the lack of secure filing facilities for the documents generated by the project's financial and procurement processes and other project documents. The physical space available to staff is also very limited, which could result in delays and processes not being handled with due efficiency and effectiveness, and the possibility that information valuable for the operation and the IDB might be lost. For that reason, it is recommended that these risks should be mitigated with

resources from the operation or other IDB funds through a technical cooperation operation.

- 3.5 The overall fiduciary risk for the project is regarded as medium.

IV. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE CONTRACT

- 4.1 To expedite negotiation of the contract by the project team, and mainly the Legal Department, the agreements and requirements to be considered in the special provisions are listed below:
- a. Special conditions precedent to the first disbursement: (i) the trust fund from which the resources will be managed is set up in accordance with local laws and regulations, and its governing board is appointed; and (ii) the Operating Regulations have been approved and entered into force.
 - b. It is recommended to use the exchange rate prevailing in the country on the date on which foreign exchange resources are converted into local currency (córdoba).
 - c. Annual financial statements for the project and the entity will be presented within 120 days after the end of each fiscal year and after the date of the final disbursement.
 - d. The terms of reference and process for selecting the procurement and financial management support staff must have the Bank's no objection before the staff in question are hired.

V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

1. Procurement execution

- 5.1 Project procurements financed by the IDB will be conducted pursuant to the policies set forth in documents GN-2349-9 and GN-2350-9 and will be executed under BFP responsibility.
- 5.2 Given the chains that have been identified, and in view of the size of the firms and cooperatives involved in them, the average value of technical assistance contracts is not expected to exceed US\$100,000, although justified exceptions will be considered. The executing agency will use the Bank's policies for the procurement of goods and nonconsulting services (document GN-2349-9) and the policies for the selection of consultants (document GN-2350-9). When the final beneficiaries are private-sector entities, procurement procedures aligned with normal market practices and acceptable to the Bank will be used, pursuant to Appendix 4 of the Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document GN-2349-9). Moreover, the provisions contained in those policies relating to contracting in loans to financial intermediaries will also be observed.

- 5.3 **Procurements of works, goods, and nonconsulting services:** Contracts for works, goods, and nonconsulting services¹ generated under the project and subject to international competitive bidding (ICB) will be executed using the standard bidding documents issued by the IDB. Procurements subject to national competitive bidding (NCB) or shopping procedures will be implemented using the national bidding documents agreed upon with the Bank. The technical specifications of the procurements will be reviewed by the Project Team Leader during the preparation of selection processes.
- 5.4 **Selection and contracting of consulting firms:** Consulting service contracts generated under the project will be implemented using the standard request for proposals issued by or agreed upon with the Bank. The terms of reference for contracting consulting services will be reviewed by the Project Team Leader.
- 5.5 **Selection and contracting of individual consultants:** Individual consultants will be selected and contracted taking into account their qualifications to perform the work, based on a comparison of the qualifications of at least three candidates. The terms of reference for the contracting of consulting services will be reviewed by the Project Team Leader.
- 5.6 **Recurring expenses:** This category consists of expenditures incurred in respect of office supplies, transportation, and operating expenses. These will be financed by the project from the annual budget approved by the Bank and will follow the executing agency's administrative procedures, which were previously reviewed and agreed upon with the Project Team Leader.
- 5.7 **Operating expenses:** The operating expense modality is not expected to be used in this project.

¹ Policies for the procurement of goods and works financed by the Inter-American Development Bank ([GN-2349-9](#)), paragraph 1.1: Nonconsulting services are treated as goods.

2. Table of thresholds (US\$ thousands)

Cost category	Amount (US\$ thousands)	Procurement method	IDB review
Works	>1,500	ICB	Ex ante
	<1,500 > 150	NCB	Ex ante
	< 150	Shopping	Ex ante
	>1.0	Direct contracting pursuant to paragraph 3.6 in document GN-2349-9	Ex ante
Goods	>150	ICB	Ex ante
	<150 > 25	NCB	Ex ante
	< 25	Shopping	Ex ante
	>1.0	Direct contracting pursuant to paragraph 3.6 in document GN-2349-9	Ex ante
Nonconsulting services	>150	ICB	Ex ante
	<150 > 25	NCB	Ex ante
	< 25	Shopping	Ex ante
	>1.0	Direct contracting pursuant to paragraph 3.6 in document GN-2349-9	Ex ante
Consulting firms	>200	International short list	Ex ante
	<200	National short list	
	>1.0	Single-source selection pursuant to paragraph 3.10 in document GN-2350-9	Ex ante
Individual consultants	See section V of policy GN-2350-9		Ex ante
	>1.0	Single-source selection pursuant to paragraph 5.4 in document GN-2350-9	Ex ante

Note: The thresholds set for ex ante review are based on the executing agency's fiduciary capacity for execution and may be modified by the Bank should that capacity change.

Major procurement processes

Activity	Procurement type	Estimated date	Estimated amount (US\$ thousands)
Goods			
Nonconsulting services			
Firms ²			
Annual program audit	Quality- and cost-based selection (QCBS)		200.00
Individual consultants			
Management facilitators for technical assistance under component III	National individual consultant selection based on qualifications (NICQ)	May 2014	500.00

Note: The BFP procurement unit will prepare the procurement plan; the project does not yet have well-defined procurement and contracting processes.

3. Procurement supervision

- 5.8 Procurement processes will be supervised as indicated in the procurement plan, with ex post reviews, if any, being conducted every six months or according to the project supervision plan.

4. Special provisions

- 5.9 **Measures to reduce the likelihood of corruption:** The provisions set out in documents GN-2349-9 and GN-2350-9 on prohibited practices and ineligibility of firms and individuals will be observed.
- 5.10 **Unification of thresholds:** At the request of the executing agency, in the case of procurements for goods that are in stock or easy to obtain, with standard specifications and of small value, as well as simple small-value civil works, the Project Team Leader, having obtained a technical opinion from the procurement specialist, may authorize the BFP to use the shopping method for procurements with amounts estimated to be above the thresholds for this modality, provided the value is between US\$25,000 and US\$150,000. The latter is in accordance with the provisions shown in the corresponding tables of authority (OA-420 and OA-421), which authorize the Project Team Leader to waive contractual conditions, and the authority provided for decision-making on procurement matters, pursuant to the Procurement Function Operational Guidelines (OP-272-2).
- 5.11 **Management facilitators:** The management facilitators who will provide technical assistance in Component III will be hired under the “service delivery contractor” modality, which will be included in the project documentation

² In the case of consulting services, this means including firms of various nationalities on the shortlist. See the policy on the selection and contracting and consulting services ([GN-2350-9](#)) paragraph 2.6.

(Proposal for Operation Development, Operating Regulations, and loan contract). This is in accordance with the provisions of clause 3.21 in document GN-2350-9.

5. Records and files

- 5.12 The procurement units are responsible for the custody and management of contract documents. They will appoint a person to take charge of this activity, maintain a specific area for document storage, and ensure documentary evidence on all payments made to suppliers and contractors is recorded in the files. The physical file will be kept for a three-year period.

VI. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

1. Programming and budget

- 6.1 The Law on Financial Administration and the Budgetary System in Nicaragua requires the National Public Investment System to annually program the investment of external and domestic funds for each project, by institution. The approval cycle of the General Budget of the Republic is as follows: the Ministry of Finance and Public Credit formulates the budget; the national legislature approves the initial budget and its amendments; and executing units attached to government institutions execute it. The General Budget is administered by the Ministry of Finance.

2. Accounting and financial information system

- 6.2 The institution uses the SIBOIF unified accounts manual to record and control financial operations. This is a national system that regulates the country's financial system and generates the financial reports required by the Bank (financial statements and other reports)

3. Disbursements and cash flow

- 6.3 Disbursements will be made to the project using the Central Bank of Nicaragua as the depository bank, through an external loans administration account opened and operated by the General Treasury of the Republic. The latter, at the request of the executing agency, will transfer the funds to the executing agency's current account in a commercial bank. Disbursements of IDB funds will be made as advances of funds in accordance with the project's liquidity needs. These activities will be included in the annual work plan and the procurement plan. New disbursements can only be made if at least 80% of the previous disbursement has been accounted for, pursuant to the IDB's policy.

4. Accounting and financial reports

- 6.4 Financial statements for the project and the entity will be issued in accordance with international accounting standards accepted by the Bank in its Financial Management Policy (OP-273-2) and will need to be audited annually by an independent firm eligible for the Bank. The institution's automated accounting system will be used, in accordance with the SIBOIF unified accounts manual. In

addition, the program will also file midterm financial reports, which do not need to be audited and will be presented in conjunction with the technical monitoring report or progress report.

5. Internal control and external audit

- 6.5 The BFP has an internal audit unit and a reliable internal control system, with manuals and defined procedures, under the responsibility of the Financial Department. Operating Regulations will also be prepared, containing, among other things, procedures for financial processing, expense justification, and the handling of support documentation, clearly defining authorizations, reconciliations of investments made, and permanent bank reconciliations.
- 6.6 The external audit reports for the program and the review of disbursement processes and requests will be delivered 120 days after the end of each fiscal year during the disbursement period, and 120 days after the final disbursement, in accordance with International Standards on Auditing (ISA) and the guidelines issued by the Bank for this purpose.

6. Financial supervision

- 6.7 The executing agency will ensure that operations are monitored and controlled on a centralized or decentralized basis within national territory. The following rules will also apply: (i) precedent to the first disbursement of the loan proceeds, a launch workshop will be held to train members with execution responsibilities on the use and application of the regulatory instruments for fiduciary management; (ii) financial accounting visits will be made to verify the progress of project execution and the application of internal control measures, emphasizing the quality and timeliness of the accounting records and the appropriateness of support documentation in the review of financial execution processes; (iii) disbursement requests will be reviewed ex post by the external auditor, who will also validate the implementation of current and future recommendations made to the project. The Bank's financial execution report will fulfill the financial inspection visits plan.

7. Execution mechanism

- 6.8 The project's technical and fiduciary execution mechanism will be defined in detail in the Operating Regulations, including the functions with respect to control of financial management that will be carried out by the unit responsible for the trust fund.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/13

Nicaragua. Loan ___/BL-NI to the Republic of Nicaragua
Credit Access for Rural Productive Chains

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Nicaragua, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a program to support credit access for rural productive chains. Such financing will be for the amount of up to US\$10,000,000 from the resources of the Single Currency Facility of the Bank's Ordinary Capital, corresponds to a parallel loan within the framework of the multilateral debt relief and concessional finance reform of the Bank, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on ___ 2013)

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(Adopted on ___ 2013)