

## **C.3 STATEMENT OF WORK**

### **Activity A. Enhanced Competitiveness of Small and Medium Enterprises**

#### **Result 1: Improved Competitiveness of Nicaraguan Firms and Farms**

The Nicaraguan private sector is dominated by micro and small businesses and a large informal sector. The recently passed SME law (2/2008) defines micro-enterprises as having 1 to 5 workers, with small enterprises employing 6 to 20 employees, and medium sized businesses with up to 150 workers. At the urban level, SMEs account for about 250,000 jobs, or 74 percent of the total. About 56 percent of urban SMEs are involved in commerce and services, 17 percent in manufacturing and the rest in other sectors.

The objective of the SME component is to expand and intensify previous interventions by donors to enhance SME competitiveness, grow business, create wealth, increase export and local sales, and create jobs through assistance to no less than 350 SMEs. The project will improve the entrepreneurial, management, marketing and information technology skills of SMEs.

The small business sector is constrained by weak capacity and limited skills in product development, planning, fund management, procurement, formulation of export plans and bankable projects. Employees lack technical skills to comply with international market requirements. They need help in critical items such as understanding consumer needs, tastes and preferences, laboratory analysis, quality certifications for export products, adequate labeling, production capacity, and other marketing and international trade practices

**Small and Medium Enterprises Competitiveness** - The Contractor, in conjunction with Nicaraguan business associations, shall develop and deliver services responsive to the enterprise development needs of SMEs. It will facilitate business linkages, both regional and international, through trainings and other events. Activities will provide training and technical assistance to SMEs that will help them to expand, increase sales and create more jobs.

Areas where assistance could be targeted include strengthening business skills, management practices, and English language skills applied to business; fostering business clusters, export conglomerates, or other forms of production/distribution links in order to have a more integrated approach to the market; generating additional export capacity and lower costs through economies of scale; helping prepare more bankable project loan applications to facilitate SMEs access to commercial credit;<sup>1</sup> and developing new value-added products for special market niches.

Other areas of assistance could include: training in the principles and procedures of laboratory analysis; phytosanitary and nutritional testing; food inspection; quality implementation systems, including ISO standards; packaging and labeling; export promotional materials (brochures, stickers, samples and tasting); product legalization and registration procedures; brands, copyrights and trademark registration; and, participation in commercial missions, international events and trade fairs.

**Agriculture Sector Competitiveness** – Assistance to the SME sector should not exclude agriculture. E&E sponsored activities will also promote the transformation of traditional

agricultural into modern export-oriented agribusinesses by working with producers and business leaders to increase trade and competitiveness of selected commodities; improve the business environment of competitive value chains; and shift to higher-value horticultural crops.

The Contractor shall assess and provide assistance to agribusinesses, producing diversified commodities and services, including the identification and promotion of niche markets. Assessments could consider location, growing conditions, the availability of skilled labor supply, energy costs, access to water, the policy environment, and opportunities for improved total factor productivity. Agribusiness expertise provided could include: food and fiber processing, distribution, and marketing to domestic and export markets; packaging and transportation of processed agricultural commodities; food safety, hygiene, and quality assurance; environmental management and regulation; and, international standards and best practices.

USAID/Nicaragua sees considerable value in direct support to SMEs to enhance competitiveness. One modality that USAID/Nicaragua wants to see developed is a matching grants program to increase SME productivity and enhance competitiveness. The E&E assistance under Component A will be demand-driven, focusing on leveraging mature projects. It will strengthen value chains or cluster initiatives, ensuring long-term sustainability of competitive businesses and increased jobs. The methodology to be applied must be based upon an open and fair competitive selection processes to contract sub-implementers and award grants to SMEs. A sub-contractor (most likely a business association) should be selected to make the business community aware of the SME program and identify potential sub-projects. The sub-contractor will screen proposals for compliance with SME development criteria and E&E objectives. Projects will then be submitted for review and evaluation by the Contractor, who will also conduct due diligence on potential partners. Approved proposals from SMEs will be awarded matching grants to increase productivity and enhance competitiveness. USAID/Nicaragua envisions the grants to SMEs to range from \$5,000 to \$10,000 per firm, with the SME matching the grant to defray the costs of the assistance packages, thus creating a sense of ownership.

A second area where many SMEs in Nicaragua need assistance is in the preparation and submission of loan applications and associated business plans required by banks. Working through Business Service Providers (BSPs), the Contractor shall assist BSPs to incorporate this assistance and service into their organizations so that services will be available upon the activity's conclusion.

### **Activity B. Improved Services for Small and Medium Enterprises**

#### **Result 2: Enhanced Capacities of Nicaraguan Private Sector Business Organizations to Promote Competitive Firms and Farms**

Business development services in Nicaragua are generally not available or delivered by poorly-staffed agencies with limited capacity and experience and GON agencies are generally not good service providers. E&E will cover this deficiency by developing markets for business service providers (BSPs), drawing on existing capacity – in research and training institutions, chambers, associations and consultancy firms. Effective service providers need to be built up and pilot services tested as a precondition to establish broader markets for business development services.

Assistance is needed to help the private sector clearly articulate its service needs. Private sector organizations should be assisted to develop, for example, their capacity to analyze and research market trends that enable enterprises to compete in regional and international markets.

Potential service providers might include but would not be limited to:

- APEN – Asociación de Productores y Exportadores de Nicaragua;
- COSEP – Consejo Superior de Empresa Privada;
- CEI – Centro de Exportaciones e Inversiones;
- CADIN – Cámara de Industrias de Nicaragua;
- CANATUR – Cámara Nacional de Turismo; and
  
- INCAE – Instituto Centroamericano de Administración de Empresas.

The Contractor shall develop a strategy to strengthen BSPs for the purpose of providing more effective management practices to SMEs and facilitate their adoption of new technology. As part of this work, the Contractor shall develop specific programs to strengthen the management of BSPs, where applicable, and help them to become sustainable and capable of continuing to offer the required range of services demanded by SMEs to become more competitive.

In addition, the Contractor shall assist BSPs in developing and offering tailored technical assistance packages to SMEs. These assistance packages will address problems SMEs encounter in market analysis, product design, packaging, marketing, establishing business links, manufacturing processes, information technology, financial planning, human resource development, enterprise governance and export development. A market for business services can be fostered through sound interventions that encourage supply and demand, resulting in commercially viable delivery and payment mechanisms. The economics of these interventions require an exit strategy that creates local capabilities to continuously innovate in response to SME and value chain constraints. The Contractor shall develop an exit strategy in the early stages of this assistance program.

### **Areas for Strengthening**

USAID/Nicaragua recognized that the improvement of services requires both the demand for services from the beneficiaries and the felt need of the providers to want to give any given service or assistance. The breadth of need in the country is wide, but the value of any given intervention should not be based only the desire for a particular service but also the strategic importance it can play in improving the overall competitiveness of the Nicaraguan economy. The following is a short list of prospective initiatives. USAID/Nicaragua welcomes alternative approaches and proposals from the Contractor.

**1. Build a Roster of BSP Consultants:** The Contractor could prepare a roster of firms and consultants qualified to deliver expert services to SMEs. Those requiring specialized services and technical assistance will be able to call upon the services of those firms to develop business plans, develop viable projects, and submit loan applications. Services to be offered could include up-front business training, mentoring programs, industry-specific advice and support,

networking opportunities, coordinated sales and marketing programs, and the development of formal links with commercial banks.

**2. Improve Market Access and Market Development:** Strong market linkages enhance SMEs by concentrating on increased demand, new buyers and distribution channels. SMEs in Nicaragua often require assistance in the development of a product or service. They could benefit from market analysis and studies analyzing sector trends and product requirements to better understand the requirements of and obstacles to shipping, such as poor logistics and transport services that preclude perishable products from entering the market in the most efficient and competitive basis. Such assistance would likely be provided in coordination with Nicaragua's public/private export and investment promotion agency, CEI.

**3. Increase Access to Market Information:** Industry associations and SMEs need to increase their understanding of trends in U.S., European, Asian and regional markets. There is also a need for the timely dissemination of market research; information about free trade agreements, business opportunities and business links. Assistance in this area could be oriented to: a) increase business contacts and links between Nicaraguan SMEs and foreign firms, importers and distributors; b) provide market intelligence to design and develop new products; and c) identify and facilitate Nicaraguan participation in trade shows and commercial missions.

**4. Improve Access to SME Financing:** Credit is important to the creation and expansion of an enterprise, but SME borrowers are rarely able to pay for the services associated with the establishment of a strong foundation for an enterprise. One option is to establish a targeted subsidy program that will make available on a sliding scale funds to finance assistance and capital procurements by SMEs that also need to develop the capacity to create more bankable project loan applications that meet the standards of commercial lending. Banks also need to receive assistance to help them understand SMEs and tailor financial packages for them, with more attractive prices. One option is to develop simultaneously the capacity of both in a push-pull approach. BSPs could provide the catalyst to expand SME financing opportunities.

**5. Promoting ISO Standards.** The International Organization of Standards develops and promotes standards, referred to as ISOs, that make the development, manufacturing, and supply of products and services more efficient, safer, and cleaner. These standards safeguard consumers by providing governments a technical base for health, safety, conformity assessment, and environmental regulation. ISO standards promote trade and facilitate the dissemination of technology and modern management practices. The contactor could work with a BSP to become a certifying agency for ISO standards.

### **Activity C. Support Trade Capacity Building:**

#### **Result 3: Support USAID's Cooperative Efforts with the GON to Advance the Country's CAFTA-DR Trade Capacity Building Priorities in Keeping with USG Strategic Interests.**

Since 2006, USAID/Nicaragua has supported the efforts of the GON and the Nicaraguan private sector to comply with the free trade agreement's obligations and to capture its benefits. As part of CAFTA-DR free trade agreement, the U.S. Government agreed to support signatory

countries' in addressing specific Trade Capacity Building (TCB), Environment, and Labor issues. As part of USAID/Nicaragua's Economic Growth portfolio, resources are being provided to support implementation of TCB and Environment projects as defined in the country's Trade Capacity Building "National Action Plan" (NAP) and Environmental Cooperative Agreement (ECA).

To date, this work has promoted CAFTA-DR compliance through its work with the Ministry of Development, Industry, and Trade (MIFIC) and the Ministry of Environment and Natural Resources (MARENA). This has included working on intellectual property rights, rules of origin and verification of origin, and harmonization of tariff systems. In addition, the Mission has worked with the Nicaraguan legal profession to develop a complimentary legal agenda that will reconcile the Nicaraguan legal code with the provisions of CAFTA-DR. Trade capacity building initiatives have also provided expert advice to producers and regulators on food safety standards, food labeling and packaging requirements, and ISO standards.

**National Action Plan:** As part of CAFTA-DR, signatory countries were required to develop a Trade Capacity Building "National Action Plan" (NAP). As part of its commitment, the USG agreed to help with the implementation of these NAPs. The Nicaraguan NAP was most recently revised in December 2007, and USAID/Nicaragua has initiated discussion with MIFIC on identifying concurrent priorities. The NAP should be seen as a fluid and living document. Illustrative examples of current priorities identified by MIFIC include Treatment of Foreign Investment, Contract Enforcement, Intellectual Property Rights, and Country Brand.

**Environmental Cooperation Agreement:** In keeping with CAFTA-DR's environmental provisions, the U.S. Government is encouraging the responsible use of natural resources and promoting economically and scientifically sound responses to environmental challenges. CAFTA-DR contains an ambitious Environmental Cooperation Agreement (ECA), which incorporates U.S. Government and international concerns about balancing trade with environmental protection. Article 2 of CAFTA-DR's outlines the basic requirements.

Between FY06 and FY08 USAID/Nicaragua received \$3.6 million to implement the GON "Roadmap". A subset of these resources was used to fund activities that fall under Theme A: "Institutional Strengthening for the Application and Effective Enforcement of Environmental Laws" of the "Roadmap". Work to date has focused on improved environmental regulations; improved environmental law enforcement; compliance promotion, auditing and environmental management systems; and strengthened environmental impact assessment review.

The Contractor will prepare and submit to USAID a plan to execute a set of activities to advance CAFTA-DR's TCB and environmental provisions in the event that a policy commitment is forthcoming from the GON, funding is available, and the US Government is prepared to continue its support. USAID/Nicaragua does not anticipate resources will be available for this component during the first year of activities.

## **Activity D. Policy Reform**

### **Result 4: Improved Policies to Support Competitiveness of Nicaraguan Farms and Firms.**

Policy reform is an integral and continuing feature of economic growth. In recent years, Nicaragua has accelerated the pace of reforms in response to the debt crisis and recurrent external price shocks, exhaustion of central planning as an approach to economic growth, lessons learned from the successes of other countries, the transition to democracy that make poverty, equity, and sustainability issues more important, significant advances in economy theory, and ideological shifts. These reforms address a wide range of issues, from the macroeconomic to the sectoral and microeconomic. At the microeconomic level, policy reforms include property rights, technology, reduced transaction costs through new institutions and contractual modes, incentives and direct assistance to resource allocation through price and non-price mechanisms, regulation to manage risk and internalize externalities. At the sectoral level, policy reforms include changes in public investment priorities for infrastructure, research, and education; trade policies affecting taxes, tariffs, and quantity restrictions. At the macroeconomic level, policy reforms include reducing remaining tariff and non-tariff barriers, implementing trade-related regulatory reforms, opening up service sectors and lowering undue safety, technical and harmonization standards.

Economic growth begins with competitive firms. Innovation and flexibility are key to creative approaches to achieve USAID/Nicaragua's strategic objective, substantial learning has taken place over the past several years that can and should be integrated into the competitiveness approaches to be advanced by E&E.

The Contractor shall assist Nicaraguan policy research institutes to identify, analyze, and advocate macro and microeconomic policy reforms that create incentives for trade and investment. The goal of this work is to provide the analytical foundation for policy dialogue conducive to trade and investments.

In developing this policy agenda, the Contractor shall develop in a manner consistent with the IQC's grants under contract a program to award a series of competitive grants to Nicaraguan policy research institutes. USAID/Nicaragua envisions this grant program will cover research and publishing costs. The reports will be issued under the auspices of grant recipients. The first task to be performed under this component is a study to determine the responsiveness and relevance of the work conducted in support of CAFTA-DR's complimentary agenda. This study will serve to validate USAID's work advancing that agenda and as an analytical foundation for the component's policy reform work.

This component will be developed in accordance with the IQC's grants under contracts provisions.

## **Activity E. Leadership for Competitiveness**

### **Result 5: Nicaraguans Entrepreneurs Trained in Best Business Practices.**

The Contractor will acquire training in business management for Nicaraguans entrepreneurs.

The Contractor will provide entrepreneurs the opportunity to learn while doing, learn by doing, and learn in the company of others who are doing. It will acquire specialized training for these entrepreneurs that is integrated, iterative, and networked. The training will be presented in the context of production and performance and will award a business management training certificate to participants upon successful completion of training. Specialized training will be provided to women entrepreneurs that will treat innovation, commercialization, and new venture launch.

USAID/Nicaragua's preference is for a national center of instruction with an international reputation for excellence. The Contractor will establish transparent criteria to select qualified participants.

The Contractor shall also develop a program to support internship opportunities for young Nicaraguan professionals to work with universities and policy research institutions in the United States and Latin America. These internships will be short-term in nature and will provide interns the opportunity to observe and participate in the workings of institutions conducting public policy research.

This component will be developed in accordance with the IQC's grants under contracts provisions.

## **Activity F. Operations Research**

### **Result 6: Obstacles to SME Growth Analyzed and Practical Solutions Recommended.**

Programmatic innovation and flexibility have been key to USAID/Nicaragua's enterprise development efforts. And a significant body of learning has developed in recent years that has been integrated into the competitiveness approaches to be advanced by E&E. Still, although Nicaragua has made important strides in improving its overall business and investment climates, the country continues to lag behind its neighbors in simplifying investment procedures, developing its workforce, and ensuring access to finance for farms, firms, and entrepreneurs. Also needed is a coordinated, efficient, and independent structure for food monitoring and food safety to enhance the competitiveness of the country's food industries.

USAID/Nicaragua recognizes the importance and value of continued research to address major obstacles to increased trade and competitiveness of Nicaraguan SMEs. The E&E activity will support the publication of well-focused studies aimed at resolving obstacles to SMEs competitiveness: transportation hub development; national cold storage chain creation; basic and technical education; commercial dispute resolution mechanisms, for example. The goal of the

studies is to provide practical recommendations to remove constraints to trade and investment, competitiveness, and enterprise development facing the private sector in Nicaragua.

The Contractor shall establish a grant fund mechanism similar to the one developed under Section D: Policy Reform to award grants on a competitive basis to qualified firms to conduct practical studies. Studies will examine constraints to trade and investment, competitiveness, and enterprise development. The reports will be issued under the auspices of the E&E activity.

This component will be developed in accordance with the IQC's grants under contracts provisions.

### **Activity G Outreach**

#### **Result 7 Public Informed of the Benefits of Free Trade and USAID's Efforts to Support Enterprise and Generate Employment.**

The contractor will develop and execute an outreach strategy that will keep the general public informed of the benefits of free trade and entrepreneurship in general and its activities in particular. Under its auspices public awareness campaigns will be conducted. These campaigns will highlight the both the achievements and benefits of trade liberalization and the challenges facing Nicaragua in a globalizing economy. Sponsored events will include conferences with learned speakers, workshops, trade fairs, and media coverage.

### **Activity H. Small Grants**

#### **Result 8 Activity Responsive to the Short-Term and Ad-Hoc Opportunities to Promote Enterprise and Generate Employment**

The contractor should be prepared to respond in a timely manner with sufficient resources to opportunities that may emerge during the course of the contract's execution. These opportunities may be ad-hoc in nature and would include events at which the Nicaraguan private sector can promote trade, investment, and enterprise development. The private sector's participation in trade fairs, training events, invitational travel, and seminars would qualify for support under this component.

### **Activity I. Crisis Modifier**

#### **Result 9 Activity Responsive to Emergencies and Unforeseen Opportunities.**

The contractor should be prepared to manage a rapid response fund that will enable it to react promptly to opportunities or crises that may emerge during the course of the contract's execution and present opportunities to advance the activity's objectives.

The contractor has the capacity to respond to unanticipated events relating to enterprise and employment, upon written request from USAID's COTR



#### **C.4. OTHER USAID, USG AND DONOR COORDINATION**

The contractor shall support USAID's efforts to avoid duplication and to enhance synergy with other donor's initiatives related to good governance and, particularly, control of corruption. Coordination with USAID contractors, USG Agencies/Offices and other donors will be key to maximizing synergy and obtaining best results.

##### Current USAID Activities in the Business Sector

**A. Trade Capacity Building under PROCAFTA** - This activity provides assistance to help implement CAFTA-DR and assist the GON to comply with legal and normative aspects of the agreement, especially the complementary agenda which consists of a set of laws and regulations that will provide the legal and regulatory incentives for trade and investment. The agenda is comprised of the following initiatives:

- Revisions to the current Foreign Investment Law (Law 344);
- General Tourism Law (Law 495);
- Enabling legislation for the Nicaraguan Tourism Institute (Law 298);
- Incentive legislation for the Tourism Industry (Law 306);
- Coastal Zones Law;
- General Law of the Environment;
- Special Law Covering Crimes against the Environment and Natural Resources;
- Commercial Mediation and Arbitration Law (Law 540)
- Electronic Commerce Law;
- Law Covering Information Crimes;
- Law Authorizing Public-Private Partnerships in Energy and Infrastructure Investments;
- Revisions to the current Foreign Residency Law;
- Competition Law; and
- Small and Medium Enterprise Law.

PROCAFTA also helps the GON to improve its capacity as a facilitator of international trade. It works with the private sector to develop and implement strategies to capitalize on CAFTA-DR. It provides training and technical assistance to improve commercial capacity and stimulate a dialogue between the public and private sectors dealing with economic development priorities, policy reform and competitiveness. Training has been provided to more than 1,500 businessmen and women in various trade-related topics (requirements to export, tourism potential, marketing opportunities, etc). Technical assistance in the subject matters of labeling, packaging, environmental requirements, safety of various foods has been provided to SMEs. PROCAFTA conducted studies to strengthen private sector associations such as the Center for Exports and Investment (CEI), the Nicaragua Association of Producers and Exporters (APEN) and the Chamber of Industries (CADIN). These studies made recommendations on how to strengthen and improve service delivery to SMEs, published manuals (food additive legislation, high and low-acid food processing, US plant sanitation requirements and manufacturing best practices). Positive impacts include increased foreign investments, formalization of preferential customs

duties and improvements in business capacity and the legal and institutional framework for trade and investment.

The Nicaraguan public and private sectors must continue their efforts to implement CAFTA-DR in a coordinated and well-planned manner. The three major areas where they should focus are: increased access to markets, execution of the complementary agenda, and continued strengthening of commercial capacity and competitiveness. Laws already reformed and approved include: competition; mediation and arbitration; environment; copyright; water; and small and medium enterprise. Pending regulations include: a framework for joint public/private investments in infrastructure; the competition law; registration of assets for collateral to secure credit; a consumer protection law; intellectual property rights; traceability of selected products; and a framework to certify norms and standards of quality.

The GON and Nicaraguan private sector need to address the problems caused by the rejection of products entering foreign markets, including those caused by deficient labeling, hygiene, traceability of products, and lack of proper registration of producers. Finally, private associations such as the Nicaraguan Association of Producers and Exporters (APEN), the Center for Exports and Investment (CEI), the Supreme Council of the Private Sector (COSEP), and private service providers should be further strengthened to help SMEs overcome problems related to poor productivity, limited quality assurance, limited value added, unfamiliarity with export requirements and foreign markets, limitations in logistics and inadequate transport, trademarks, labeling, food security, and limited access to financing.

Other concerns that need to be addressed are: limited expertise to implement the administrative aspects of CAFTA-DR; low competitive capacity of SMEs; and lack of commitment to economic reform and trade liberalization.

**B. Development Credit Authority (DCA)** - There are two active DCAs in Nicaragua, one sponsored by the USAID Regional Program to finance clean energy and the other, sponsored by USAID/Nicaragua, to finance the investments of SMEs. Banks appear reluctant to make loans to SMEs, preferring less risky consumer loans and those to bigger, more established clients. The activity will encourage Nicaraguan commercial banks to lend to SMEs.

The US\$10 million remaining in the SME line can be targeted to finance SME beneficiaries of this activity. The banking sector in Nicaragua does not have much experience lending to SMEs, despite an expressed interest. Training and technical assistance are needed to demonstrate to banks new methods of analyzing SME cash flows, pricing products appropriately (including interest rate and collateral), risk management, and providing incentives for loan officers to generate business in the SME sector. The expertise and assistance to be provide banks will advance competitiveness by expanding the client base of the banking system while promoting sound financial policies and practices.

**C. Alliance to Create Rural Development Opportunities through Agro-Enterprise Relations (ACODAR)** - The activity is working in Nicaragua's northern highlands helping farmers and agribusinesses increase productivity and sales. It works with foreign and local partners to generate new business alliances, market information, management skills, links to

market, exposure to markets, business plans, contract negotiations, value chain development, technical assistance and equipment for processing infrastructure. Thirty foreign buyers have been identified to purchase commodities produce by project participants.

The activity will aid 5,400 producers and leverage US\$20 million from partners to complement USAID's \$7.6 million. It will encourage municipalities to invest in roads and other productive infrastructure

#### Other USG Activities

**The Millennium Challenge Corporation (MCC):** In July 2005, the Millennium Challenge Corporation's Board of Directors approved a five year compact with the GON for US\$175 million. Its development strategy addresses property rights, under-developed infrastructure, and low value agriculture production. The MCC program is active in the northwest part of the country where there is significant potential for economic growth because of fertile land and geographic location. The MCC will finance an improvement to the property registry with attention paid to gender issues. The cost of that initiative is US\$26.5 million. MCC will upgrade 58 kilometers of the Pacific Corridor highway between Leon and Managua at a cost of US\$92.8 million. It plans to develop a rural business service program at a cost of US\$33.7 million<sup>1</sup>.

#### Other Donor Programs in Trade Development.

Enterprise development is an important theme for the donors with programs in Nicaragua. USAID maintains collaborative relations with those that support SME development in the country: the World Bank, the Inter-American Development Bank, the European Union, the United Kingdom's Department for International Development, and the Swiss Office of Cooperation.

**The World Bank:** The WB's strategy for Nicaragua during the period 2008-2012 will attempt to support the GON's policy priorities and poverty reduction program. It states four principle objectives: reactivating the economy by stimulating productivity and competitiveness; human capital development by improving social equity and opportunity; investing in infrastructure and sustainable development; and strengthening governance and accountability by modernizing state institutions and promoting citizen participation.

**International Finance Corporation (IFC):** The IFC commenced operations in Nicaragua in 2004 through the multi-donor funded LAC Technical Assistance Facility which supports SME capacity building and access to finance. The facility seeks to improve the business enabling environment for SMEs and to simplify administrative procedures through the *Municipal Scorecard* project undertaken in eight municipalities. It conducted a diagnosis and prepared recommendations on how to facilitate licensing of new businesses and provision of construction permits. In cooperation with the World Wildlife Fund, the facility is modernizing the Nicaraguan timber industry. The IFC has plans to invest in infrastructure and improvements in key sectors (energy, industry and services). The IFC has established partnerships with the Chamber of Commerce and the Association of Municipalities.

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<sup>1</sup> At the time of writing, MCC had notified the GON that it will not approve disbursement for any projects or activities not already contracted by MCA-Nicaragua.

**Inter-American Development Bank (IDB):** The IDB is the largest single donor in Nicaragua and accounts for approximately 22 percent of the foreign assistance disbursed in Nicaragua during the period 2002-2006. Its interim program for the period 2007-2008 includes 8 investments that total US\$160 million and 2 policy-based loans valued at US\$20 million each. The program will invest in energy, housing, health, and poverty reduction. The energy investment will rehabilitate power plants and transmission lines to improve energy efficiency. Health investments are scheduled to receive US\$20 million and poverty reduction initiatives another US\$20 million. Investments in housing will be financed in the amount of US\$15 million and the Managua Water Basin will receive US\$10 million. Technical assistance will be provided to support the creation of a development bank, the preparation of a national tourism development strategy, investment promotion, and public investment programming in housing, energy, and the environment.

**European Union:** The European Union (member states and the European Commission) disbursed US\$232 million in the period 2002-2006, which accounts for 50 percent of the aid disbursed in Nicaragua during that period. The commission recently completed a Country Strategy Paper for Nicaragua that covers the period 2007-2013. It will require financing in the amount of 214 million euros and will cover three areas: governance, democracy, and rule of law (20 percent of the program), education (35 percent); and macroeconomic stability, and trade and investment (40 percent). The strategy will be financed through non-earmarked budget support and the sector wide approach (SWAPs) mechanism.

**The United Kingdom Department for International Development (DFID):** DFID has a US\$4 million project to strengthen SMEs and support business climate improvements in the period from 2008 to 2010.

**The Swiss Agency for International Development (COSUDE):** COSUDE has a US\$6.5 million operation to support micro-enterprises and SME development in the agro-food industry and tourism during 2001-2012. COSUDE has another project of US\$3 million to support training services for SME's in 2006-2008 **Holland:** Holland is supporting the "National program for the Nicaraguan SME development" which is promoting the development of the SME sector. This program is implemented by the Nicaraguan Institute for SME Development (INPYME) and MIFIC.

**GON Sector-Wide Approach (SWAP) – PROMIPYME:** The GON, in coordination with the private sectors, and dialogue with the donor community, elaborated a Sector Wide Approach (SWAP) to strengthen MSMEs. This new program is called the "Micro, Small and Medium Enterprise Development Program (PROMIPYME by its Spanish acronyms). PROMIPYME will try to align the different trade projects that donors are implementing in Nicaragua. It has 8 objectives: (1) business climate enhancement and policy formalization, (2) institution building, (3) intra-business cooperation, (4) human resource upgrade, (5) productivity, quality and market enhancement, (6) technological innovation, (7) export development, and (8) access to financial services The SWAP plans to provide up to US \$186 million for 2008-2012 and be financed by multiple donors. The principal donors are: IDB, EU, COSUDE, DFID, GTZ, Holland, Austria and Finland

The following PROMIPYME projects are currently under discussion:

1. SME export development to increase and diversify Nicaraguan exports;
2. Improve business and investment climate, and SME competitiveness project;
3. Improve competitiveness and integrate into international markets; and
4. Trade promotion.

## **C.5 CONTINGENCY**

USAID is confident that the political and economic environments in Nicaragua are propitious for the timely and expeditious implementation of E&E. Its experience working with top reforming countries has shown that approximately 85 percent of microeconomic reforms occur within 15 months of a change of government. Nicaragua changed governments in January 2007 and while the new one has not demonstrated a strong commitment to market-based reform and modernization, it has not rejected them either. There is a risk that the GON could retrogress in its policy of trade liberalization and market opening. In that event, USAID would have no other alternative, but to reconsider the underlying assumptions of E&E and reprogram the activity. That could result in the activity's outright cancellation or reprogramming funds intended, for example, for the GON's TCB and directing them to private organizations or foundations capable of promoting competitiveness and enterprise development in Nicaragua.

**END OF SECTION C**