

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK  
MULTILATERAL INVESTMENT FUND

**NICARAGUA**

**HELPING SMALL PRODUCERS TO DIVERSIFY CROPS IN  
NORTHERN NICARAGUA**

**(NI-M1034)**

**DONORS MEMORANDUM**

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## PROJECT SUMMARY

### HELPING SMALL PRODUCERS TO DIVERSIFY CROPS IN NORTHERN NICARAGUA (NI-M1034)

Small producers in northern Nicaragua are currently experiencing an economic crisis due to their reliance on coffee growing. According to the national government, these producers need to explore alternative sources of income, but not give up what they know how to do best. Unión de Cooperativas Agropecuarias Soppexcca (an association of agricultural cooperatives), together with Christian Aid, identified cocoa as an alternative crop with the potential to help producers diversify their productive base and directly impact family income.

International demand for cocoa has increased substantially over the last decade. The International Cocoa Organization (ICCO) forecasts that cocoa demand will climb 30% over the next 10 years, creating a supply shortfall of approximately 25% and a potential sustained increase in international cocoa prices.<sup>1</sup> The supply situation is worse still when it comes to high-quality “fine cocoas” and certified sustainable cocoa (e.g., organic, fair trade), where increased demand, supply shortages, and rising prices are even more pronounced.

Cocoa is not new to Nicaraguan agriculture. In fact, many farmers used to grow it some 10 years ago. However, given the emphasis on coffee production, producers had few incentives to diversify their production.

The MIF will contribute with a technical cooperation project aimed at diversifying crops and developing a marketing system that will benefit 400 Soppexcca small producers located in the departments of Jinotega and Matagalpa. The project will gear efforts to professionalizing cocoa production through a model that includes building small producer production, processing, and marketing capacities. The project will also create alternative job opportunities—primarily for young people—by strengthening Soppexcca’s emerging chocolate production business.

Cocoa was selected because of its similarities to coffee and because climate change in the region is conducive to its adaptation in Nicaragua. To that end, existing coffee marketing channels will be used, thus taking advantage of infrastructure already in place, making it possible to focus on the increasing technical specialization of cocoa production.

The project will benefit another 700 workers (permanent and temporary) and the families of producers. This intervention is expected to serve as a pilot initiative to help farmers make the transition from relying on a single crop to a more diversified income stream that includes another high-value product.

The project has ample potential in terms of its replicability and demonstration effect, given that many coffee cooperatives in Nicaragua and Central America are experiencing the same problem of over-reliance on a single product. Accordingly, the dissemination and sharing of the experiences and lessons learned during the project will be highly relevant.

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<sup>1</sup> <http://www.confectionerynews.com/Commodities/ICCO-cuts-cocoa-deficit-forecast>.

**ANNEXES**

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## ABBREVIATIONS

CAid	Christian Aid
CATIE	Centro Agronómico Tropical de Investigación y Enseñanza [Center for Tropical Agricultural Research and Education]
LWR	Lutheran World Relief

**NICARAGUA**  
**HELPING SMALL PRODUCERS TO DIVERSIFY CROPS IN NORTHERN NICARAGUA**  
**(NI-M1034)**

**EXECUTIVE SUMMARY**

<b>Country and geographic location:</b>	Departments of Jinotega and Matagalpa, Nicaragua		
<b>Executing agency:</b>	Christian Aid (CAid)		
<b>Access area:</b>	Access to Markets and Capabilities Unit		
<b>Agenda:</b>	Linking Small Agricultural Producers to High Value Markets		
<b>Coordination with other donors/Bank operations:</b>	The Country Office was consulted about other initiatives in the sector or project area, and since none exist, there is no direct coordination with other donors.		
<b>Direct beneficiaries:</b>	1,100 (400 small producers and 700 permanent and temporary employees). The project will also benefit Soppexcca by providing training for its specialists, transferring the tools created by the project, participating at events, and disseminating its work.		
<b>Indirect beneficiaries:</b>	More than 1,000 additional small agricultural producers from the north-central highlands of Nicaragua who will be able to produce and sell cocoa through Soppexcca.		
<b>Financing:</b>	Technical cooperation funding:	US\$991,625	70%
	<b>Total MIF contribution</b>	<b>US\$991,625</b>	
	Counterpart:	US\$426,506	30%
	<b>Total project budget</b>	<b>US\$1,418,131</b>	<b>100%</b>
<b>Execution and disbursement periods:</b>	Execution period:	48 months	
	Disbursement period:	54 months	

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<b>Special contractual clauses:</b>	Conditions precedent to the first disbursement: (i) prepare and submit to the MIF an annual work plan, budget, and procurement plan for the first 12 months; (ii) select and contract the project coordinator; (iii) sign an amendment to the current cooperation agreement between CAid and Soppexcca, clearly establishing the relationship between both parties as well as their roles in this project; and (iv) carry out a process to validate the dual-currency accounting system for the project registry.
<b>Environmental and social impact review:</b>	This operation has been screened and classified in accordance with the IDB's Environment and Safeguards Compliance Policy (Operational Policy OP-703). Given that the impacts and risks are limited, the project is proposed as a category "C" operation.
<b>Unit responsible for disbursements:</b>	Country Office in Nicaragua



## I. BACKGROUND AND RATIONALE

### A. Problem to be addressed by the project

#### Background

- 1.1 The area of Jinotega in northern Nicaragua has traditionally been a coffee-growing region. The land and coffee business are passed down from one generation to the next, and the knowledge and experience of the parents becomes the knowledge and experience of their children, which entails a responsibility to carry on the family tradition. In recent years, however, the quality and quantity of coffee produced has been adversely impacted aging coffee plants and a lack of investment in replacing these plants and introducing better technologies throughout the chain, as well as coffee rust, a disease that has affected nearly 30% of coffee production in the last two years.<sup>2</sup> This situation has been compounded by a drop in international prices and new challenges stemming from climate change, such as rising temperatures and extremely irregular rainfall, resulting in more plant diseases and pest infestations.
- 1.2 Diversifying into other crops is seen as a possible solution to the economic crisis facing many producers in Jinotega, as it would decrease their vulnerability to market fluctuations and lay the groundwork for a more stable income stream. And although this alternative is not completely unfamiliar to the producers participating in this project (certain cocoa diversification efforts were undertaken in 2006), the dearth of knowledge surrounding how other crops work and how other value chains operate, along with a lack of comprehensive technical training opportunities on everything from the use of good cultivation practices to effective marketing, have caused such efforts to be very slow and poorly organized.
- 1.3 The main problem this project aims to address is the excessive reliance of rural Jinotega families on coffee growing, and the few commercial alternatives for economic diversification existing at present.

#### Proposed project

- 1.4 Cocoa's potential is highly relevant to family farming in Jinotega, and is viewed as an economically viable and technically feasible option by various pilot tests and private initiatives in the region. As a result of rising temperatures, some areas of Nicaragua—such as Jinotega and Matagalpa—are beginning to experience conditions that are more conducive to cocoa growing. The commercial outlook is also encouraging: There is the current trend of coffee buyers starting to buy cocoa, which will help consolidate the market, given the possibility of using the same commercial channel; and nearly two thirds of the cocoa produced in Nicaragua is sold in Central American markets, with the rest exported, primarily to Europe. Demand in Central America and Europe considerably exceeds supply, which reflects the global situation, namely that a 30% increase in demand is

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<sup>2</sup> Soppexcca production records, 2012-13.

expected along with a steady rise in prices.<sup>3</sup> However, current cocoa planting methods that use unreliable seeds, along with a lack of crop management knowledge, have led to low yields: only 260 kg per hectare (compared to the international average of 450-500 kg/ha).<sup>4</sup>

- 1.5 To take advantage of these market opportunities and meet domestic as well as international demand, small producers in Jinotega must improve their productivity and competitiveness. The project will therefore focus on ensuring that small producers understand the merits of planting other crops and receive technical assistance in the production of cocoa. Experts recommend growing cocoa within agroforestry systems, which means cocoa should be interplanted with complementary crops such as bananas, fruit trees, and timber species, which may enrich the soil, provide shade and nutrients, and also represent a source of additional income. These crops do not compete with one another and allow cocoa to fully develop.
- 1.6 It is also essential to incorporate genetic diversification practices for cocoa. Although not common in the region, these practices would help maximize production levels and prevent widespread losses in the event of pest and disease outbreaks. Centro Agronómico Tropical de Investigación y Enseñanza [Center for Tropical Agricultural Research and Education] (CATIE),<sup>5</sup> one of the partners in this operation, has developed six cocoa clones whose suitability for larger areas must still be validated. However, given the project areas' prevailing soil and climate conditions and the clones' enhanced resistance to pests, their use should be feasible, and if so, production could reach 896 kg per hectare in the medium term.
- 1.7 Currently, small producers harvest, ferment, and dry their cocoa individually. However, to access exclusive export markets, these processes need to be centrally coordinated. Soppexcca (an association of agricultural cooperatives) and its producers, partners in this project, must develop logistical and coordination capabilities and implement systems and infrastructure to better manage these processes.
- 1.8 Market know-how and marketing skills are essential to ensuring that small cocoa producers are able to make the most of existing opportunities. Although Soppexcca has coffee exporting experience, it still needs to build capacity in the new export market for certified high-quality cocoa. Consequently, it will need technical assistance to develop a cocoa business plan and marketing strategy, with

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<sup>3</sup> Feasibility study for a Soppexcca cocoa business in Nicaragua, financed by CAid and conducted by Twin.

<sup>4</sup> Moreno, Alonso et al., 2011. The fine aroma cocoa council in the Sumaco biosphere reserve. Analysis of the impact of the GESOREN–German Agency for Technical Cooperation (GIZ) program.

<sup>5</sup> CATIE, an organization specializing in agricultural technology, is headquartered in Costa Rica and has offices in several countries, including Nicaragua. It works closely with public agencies in the sector to identify solutions to problems faced by small farmers (<http://catie.ac.cr/index.php/es/>).

special emphasis on market segmentation, competition, alignment with buyers, and certifications.

- 1.9 This project therefore seeks to invest in improvements in these areas, working with producers through Soppexcca, which is well known and respected in the project area.
- 1.10 This project comes at a time of growing interest in cocoa production—a fact that has not gone unnoticed by Nicaragua’s private sector. Several large commercial enterprises operating in the country work with coffee and other crops, such as Ritter Sport and Atlantic Coffee, which have publicly expressed their plans and commitment to expand cocoa production. The executing agency and Soppexcca are part of Nicaragua’s cocoa council, a public-private forum whose members include producer cooperatives, universities, governments, and private enterprise, and falls under the National Cocoa Plan. It was in this context that various stakeholders publicly declared their commitments and willingness to work together to expand cocoa production in several regions of the country.

## **B. Project beneficiaries**

- 1.11 The project will benefit 400 small producers affiliated with Soppexcca. Around 25% of these producers are women and 15% are young people. The role of women in the cocoa value chain is expected to be the same as in the coffee value chain. In other words, women are producers and therefore leaders of the farms, with responsibility for production. They participate in decision-making and share experiences and lessons learned in the same way men do.<sup>6</sup> As the number of cocoa farm members affiliated with Soppexcca increases, it is estimated that approximately 700 new job opportunities (permanent and temporary) will be created. There are a total of 1,100 direct beneficiaries.
- 1.12 In Jinotega, the typical small producer earns net annual income of US\$2,200 from farming activities. The farmer’s dwelling is simple and has a tin roof. Most families have between four and six children, and 81% own their land. The average farm size is two hectares, and farming is the primary source of income, coffee being the most important crop.
- 1.13 Some of the young professionals participating in this project will work in Soppexcca cocoa-related businesses, such as chocolate making, cocoa nurseries, organic fertilizer production, and three coffee shops Soppexcca operates in Managua and Jinotega. Some producers will be engaged in producing cocoa and farming, while others will be employed as permanent or temporary workers.

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<sup>6</sup> Soppexcca is a benchmark in the country in the areas of gender equality and women’s participation: (1) women make up 43% of its board of directors and oversight committee; (2) women producers account for 28% of its membership; (3) women workers perform 98% of coffee drying and processing activities, and organized the country’s first cooperative of women field workers; (4) Soppexcca has its own gender policy, which was used as a model to develop the gender policies of 33 other Nicaraguan cooperatives.

1.14 In Jinotega, agriculture is the primary means of livelihood and employment. Coffee is the main crop, followed by staple grains (corn and beans), wheat, fruit, and vegetables. Jinotega is one of Nicaragua's poorest regions; in the municipio of Cuá-Bocay alone (the project's main focus area), 80% of the population lives in extreme poverty.<sup>7</sup> This region is characterized by its vulnerability to natural disasters and major reliance on one crop—coffee.

### **C. Contribution to the MIF mandate, access framework, and Bank strategy**

1.15 By improving the productivity of small producers and their competitiveness in export markets through productive diversification, the project is aligned with the MIF mandate of private-sector development and poverty reduction, particularly in rural areas which account for 63% of the country's extreme poverty.<sup>8</sup>

1.16 **Link with the Agenda.** The project will contribute to the agenda “Linking Small Producers to High Value Agriculture Markets” by giving smallholder farmers access to knowledge and better business practices that will help them increase their productivity, so that they can capitalize on clear market opportunities and position their products in high-value markets.

1.17 **Collaboration with the IDB Group.** The project is fully aligned with the Bank's country strategy with Nicaragua since it will support the development of agricultural value chains—the principal sector of the Nicaraguan economy. Cocoa is emerging as a significant export from Nicaragua and Central America, and will continue to grow in the near future.

1.18 The project's proposed business model consists of an investment and real opportunities for small producers in the northern part of the country—who are currently grappling with coffee rust and the drop in international prices—to transition to diversified production, which is more profitable, sustainable, and offers higher value added. Another valuable aspect of the project is that it provides equal access to inputs, including training for women agricultural producers, as well as various opportunities for young farmers.

## **II. PROJECT OBJECTIVES AND COMPONENTS**

### **A. Objectives**

2.1 In terms of impact, the project seeks to increase small producer income and improve their overall quality of life. With respect to outcomes, the objective is to develop a crop diversification model that will help small producers become more competitive and facilitate their access to high-value markets. The strategy includes a methodology that will strengthen the value chain for cocoa—a product with significant potential for success in the project's target area.

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<sup>7</sup> United Nations Development Programme (2012), Nicaragua Country Profile: Human Development Indicators, <http://hdrstats.undp.org/en/countries/profiles/NIC.html>.

<sup>8</sup> World Bank (2013), <http://www.bancomundial.org/es/country/nicaragua/overview>.

## **B. Description of the model/solution/intervention**

- 2.2 The project's intervention model is based on the coordination and joint efforts of four relevant entities in Nicaragua's cocoa sector that seek to strengthen the cocoa chain as a viable long-term alternative for small producers in Jinotega, with the goal of replicating the experience throughout the country. The project aims to develop a methodology that includes the following stages: the selection of suitable land for cocoa growing (agricultural production and post-harvest techniques); the manufacture of value-added products (chocolate factory); and the development of marketing skills.
- 2.3 In terms of production, an intensive training program will be designed with sector experts targeting Soppexcca small producers and workers. CATIE, an important MIF partner in other agricultural projects,<sup>9</sup> will provide expert technical assistance for the selection and provision of appropriate cocoa varieties, cocoa grafting, and subsequent research on the development of high-yield cocoa varieties.
- 2.4 As for processing, in coordination with Soppexcca, decentralized rural centers will be created, which will be responsible for cocoa selection, quality control, and value added through the initial fermentation stages. This work will be carried out at the bulking center, which is currently used as the coffee cooperative's marketing and processing area, thereby taking advantage of existing physical and institutional infrastructure to expand and professionalize their cocoa production capabilities.
- 2.5 The methodology will involve and capitalize on the participation of important market stakeholders, such as Soppexcca,<sup>10</sup> an association of 18 coffee cooperatives with 650 members that is located in Jinotega in northern Nicaragua. A business association, Soppexcca generates sustainable economic, social, and environmental benefits. Its main product, certified organic and fair trade coffee, is produced for export. In 2013, Soppexcca had eight guaranteed buyers as well as very important business relationships with Bewley's (Ireland's leading coffee company) and GEPA (Germany's largest fair trade organization).
- 2.6 To supplement the diversification strategy, the project model will take into account and make use of the MIF's capacity and experience in similar supply chain projects, and therefore includes coordinated efforts among several stakeholders with the same social and productive goals, including: (a) Christian Aid (CAid), the project's executing agency (see paragraph 2.17 on its project management role), has worked in Nicaragua's coffee and cocoa sectors for more than 10 years and has been opening up organic coffee and cocoa market opportunities, especially in Europe; (b) CATIE, which combines science, post-graduate education, and technical cooperation to reduce poverty through the integrated management of agricultural and natural resources in Latin America and

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<sup>9</sup> Project BL-M1007 serving the cocoa sector in Belize with the Toledo Cocoa Growers Association, where CATIE also provides technical assistance.

<sup>10</sup> For a video presentation on the organization, visit: <http://www.youtube.com/watch?v=eNaBZwmyg3k>.

the Caribbean. CATIE specializes in technical assistance geared to the selection and provision of resilient high-yield cocoa varieties; and (c) Lutheran World Relief (LWR), an organization focused on capacity-building for local agricultural organizations, thereby strengthening the national socioeconomic fabric. LWR offers technical assistance services, nonreimbursable financing, and training, and, in the last five years, has been involved with projects that support small cocoa producers in Nicaragua and other countries. LWR is also a MIF partner in a recently approved cocoa project in Haiti.<sup>11, 12</sup>

- 2.7 Moreover, the commercial relationships that Soppexcca has built in the coffee sector will also be important for the success of the cocoa diversification strategy. GEPA is currently purchasing coffee and has initiated talks aimed at purchasing cocoa. Consequently, this project is poised to play a crucial role in improving the quality and quantity of the cocoa crop. Soppexcca's experience will be key in supporting the cooperative's initial sales strategies, quality control issues, and marketing strategies.

### **C. Project components**

#### **Component I: Strengthening small producers for crop diversification (MIF: US\$371,676; counterpart: US\$179,800)**

- 2.8 The objective of this component is to increase yields and add value to the production of cocoa by building capacities in post-harvest processes and improving the environmental management of small cocoa farms—activities seen as essential to meeting the quality standards demanded by export markets.
- 2.9 The component's activities include: (i) an awareness campaign for producers on the advantages of crop diversification; (ii) drafting of business plans for the cooperatives and related support, culminating in a business diversification manual for cooperatives; (iii) training in harvest techniques and how to determine the optimal time to harvest individual crops; (iv) post-harvest quality control and delivery to central processing facilities; (v) design and management of drying, fermenting, and storage facilities (including the development of business plans for these facilities); (vi) establishment of a quality control system throughout the supply chain to include cocoa sampling and testing; (vii) tasting workshops for young people; and (viii) development of a national standard for assessing cocoa quality, since one does not currently exist and would constitute an extremely important tool for increasing competitiveness in terms of quality and price. This will be available to any interested party associated with the cocoa value chain and will be disseminated in the National Cocoa Council.

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<sup>11</sup> Creating Alliances in Cocoa for Improved Access and Organization in Haiti (HA-M1049) with Catholic Relief Services, in partnership with LWR.

<sup>12</sup> CATIE and LWR will provide services for this project.

**Component II: Strengthening the business and marketing skills of the Soppexcca Cooperatives Union (MIF: US\$166,114; Counterpart: US\$93,240)**

- 2.10 The objective of this component is to compile in-depth knowledge of the market with a view to establishing and maintaining effective relationships with domestic and international buyers.
- 2.11 With respect to producer training, the component's main activities include: (i) conducting a market analysis; (ii) designing and implementing a marketing strategy; (iii) updating Soppexcca's business plan for cocoa, specifying the different market contexts, products and services, market participants, work plan, financial plan, and risk management; (iv) marketing and sales; (v) organizing visits to promote the sharing of experiences; (vi) developing and implementing a traceability system for production, processing, and exports; (vii) conducting cocoa promotional and communication activities; and (viii) obtaining certifications, such as fair trade and organic certifications, based on the demands of exclusive niche markets.
- 2.12 The activities related to the development of a business plan for a cocoa storage center and chocolate factory include: (i) technical training for employees; (ii) improvement of the business model, including an updated business plan; (iii) development of a market study; (iv) technical instruction by a chocolate expert to improve the quality of cocoa-based products; (v) design and implementation of a marketing strategy; (vi) design and implementation of a communication strategy for the chocolate factory and its products; and (vii) formation of a professional team to process the cocoa to ensure products meet market quality standards. During the design phase, the project team will also assess whether the chocolate factory has the potential to become a social enterprise.

**Component III: Knowledge management and strategic communication (MIF: US\$55,600; Counterpart: US\$3,900)**

- 2.13 The objective of this component is to systematize, document, and disseminate the experience and knowledge generated by the project, in order to share a business model based on the diversification of agricultural products, in this case, from coffee to cocoa.
- 2.14 The knowledge gap this project seeks to narrow involves how to ensure the sustainability of small producers' agricultural production in Nicaragua, with an impact on their families and farms. Specifically, the project hopes to determine whether this diversification strategy can generate higher incomes and make the producers more competitive in high-value markets.
- 2.15 The following target audiences have been identified for purposes of disseminating and communicating knowledge and experience generated by the project: (i) small producers associations interested in diversifying their production in any part of Nicaragua or other Central American countries; (ii) government authorities interested in adopting the diversification strategy and tools developed by the

project, in other parts of the country; and (iii) private Nicaraguan or international companies interested in purchasing cocoa from Jinotega.

- 2.16 The main channels used to reach these audiences will be: (i) specialized events; and (ii) social networks. In order to meet the knowledge needs of these audiences, the following knowledge products will be developed as part of the project: (i) a fact sheet containing basic information about the project, the challenges, intervention strategy, and outcomes achieved (executing agency to update the fact sheet annually); (ii) a guide for documenting the project; and (iii) a case study illustrating steps Nicaraguan small producers can take to diversify their production, while adding value to their products and meeting domestic and international demand.

#### **D. Project management and execution arrangements**

- 2.17 As the project's executing agency, **CAid** will be responsible for project management and coordination in the following areas: (a) administrative, financial, and accounting management; (b) technical and financial monitoring and management of project status reports; (c) procurement of goods and services; (d) communication with the MIF team; (e) communication and visibility in terms of disseminating the experience gained with this initiative both regionally and internationally. **Soppexcca** will carry out some of the activities such as bringing the knowledge, experience, and access to financing through its credit lines to the producers, and will also benefit from some of the training activities offered under this project. The 400 producers who will be direct beneficiaries under this operation will be members of Soppexcca (only part of the 400 producers are currently members, and the rest will join at the start of the project), and along with Soppexcca's technical and administrative team, will be directly responsible for farm management, cocoa production, and the sale and export of the product. CAid and Soppexcca have signed a framework agreement for projects and activities to be jointly carried out in Nicaragua. Both parties have agreed to include this project by amending the current cooperation agreement so that all roles and responsibilities are clearly defined before execution begins. **LWR** and **CATIE** will have a role in some of the project's training activities: the former will supply instructional materials on cocoa management, while the latter will furnish technical assistance to farmers for the selection and provision of the most resistant high-yield cocoa varieties.

#### **E. Sustainability**

- 2.18 Bolstering the commercial competitiveness of the producers and Soppexcca is the core of the economic and financial sustainability strategy. Accordingly, producers will develop the requisite know-how and experience to evaluate risks throughout the value chain, identify and overcome potential obstacles, and assess new opportunities after the project ends. The project will also help Soppexcca raise additional funds to grow its businesses, increase its loan portfolio, expand its membership, and become a key player in the domestic cocoa market. Soppexcca's enhanced production and incursion into high-value markets will not only ensure



its economic sustainability, but also drive social and environmental changes in some of Nicaragua's most vulnerable communities. The various workshops and training opportunities financed by this project can be replicated by other producers.

- 2.19 The organizational strengthening of Soppexcca that will occur through this project represents the best guarantee of long-term institutional sustainability, which, along with the organization's own structures—its cooperative approach and core principles of social entrepreneurship—will make it possible to achieve high levels of ownership and leadership capabilities. Specifically, two structures will ensure the continuation of activities after project completion: the technical and marketing/export team, and the 18 producer cooperatives' decentralized facilities that have been equipped and received training under the project.

**F. Lessons learned by the MIF and other institutions in the project design phase**

- 2.20 **Diversification strategies must include two essential components if producers are to adopt them.** The first is the proven technical basis and production capacity of new varieties or crops for small producers, and the second is a clearly identified and proven market, which producers need in order to diversify. By way of example, these very issues were among the lessons learned in a previous project with Hierbapar, a Paraguayan company. The project's evaluation report<sup>13</sup> stressed the importance of having domestic and foreign markets that promote quality production and quality recognition during marketing.

- 2.21 **The transition to organic farming and diversification takes time.** Returns on investment in organic farming and diversification are significant only after two or three years, and producers may experience an initial decrease in quality and yields during the first year of transition. Consequently, producers must have sufficient time if they are to achieve sustainable production.

- 2.22 **Experience in the creation and/or expansion of social enterprises that sell chocolate to international markets.** In Ghana, CAid collaborated in the creation of Divine Chocolate, a fair trade company and proprietary trademark shared with the cocoa producers' cooperative that receives a fair price for its cocoa as well as significant share of the company's profits. CAid and the farmers have representation on Divine's board of directors and therefore have a voice in the company's direction.

**G. MIF additionality**

- 2.23 **Nonfinancial additionality.** By harnessing the knowledge obtained through the implementation of several agricultural projects, the MIF would provide an effective response to the obstacles that cocoa producers face in terms of accessing productive inputs, business skills, and market opportunities that undermine their growth potential and sustainability. If this diversification model is successful, the

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<sup>13</sup> Experiences of the Corporate Responsibility Program in Herb and Spice Production. Project ATN/SF-9937 and SP/SF-06-07-PR.

MIF may adapt and replicate it for future interventions in other value chains and countries.

2.24 The joint efforts of the MIF and CAid will pool technical knowledge and bring together key stakeholders in the public and private sectors to promote sustainability, innovation, and the inclusion of women and young people in rural economic development projects through the production of cocoa.

2.25 **Financial additionality.** The MIF funds will help train and build the capacity of excluded small producers, who are key to the success of the cocoa value chain in Nicaragua, but lack the knowledge and resources to invest. While other producer cooperatives and international nongovernmental organizations working in the cocoa value chain may make small contributions and investments in the sector, the MIF loan can provide holistic support<sup>14</sup> to ensure that small producer participation increases considerably at the national and international levels.

#### **H. Project outcome**

2.26 The expected outcome of the project is to develop a crop diversification strategy that helps small producers to become more competitive and access high-value markets. The strategy will include a methodology for strengthening the cocoa value chain, given the project area's significant potential for success. By the end of the project, it is expected that: (a) 200 new producers will be planting cocoa in agroforestry systems; (b) 200 producers will have certifications for their cocoa production; and (c) a total volume of 2,100 quintals of cocoa will be produced.

#### **I. Project impact**

2.27 In terms of impact, the project seeks to increase the income of small cocoa producers and improve their overall quality of life. By the end of the project, it is expected that: (a) the average annual income of beneficiary producers will have increased 25%; (b) some 700 new jobs (permanent and temporary) will have been created; (c) Soppexcca's total sales revenue from cocoa products will reach US\$27,000; and (d) Soppexcca's total sales revenue from cocoa (excluding cocoa products) will reach US\$280,000.

#### **J. Systemic impact**

2.28 The project will create systemic change in the country by developing a new crop diversification strategy to be implemented by key stakeholders in the cocoa value chain, illustrating how to transition from reliance on a single crop to a more diversified income stream that includes other high-value products. The potential for replicating this tool is high. Consequently, this tool will likely be used in another department of Nicaragua and may also be useful in other Central American countries. Thus, with MIF support, a new market for these producers is expected to emerge.

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<sup>14</sup> Soppexcca is in the process of requesting support from the MIF's Social Entrepreneurship Program.

### III. MONITORING AND EVALUATION STRATEGY

- 3.1 **Baseline.** A baseline study will be conducted at the beginning of the project to establish a benchmark for measuring the proposed indicators. Part of the baseline structure—e.g., target production levels, product quality, volumes, sales, production methods, producer capacity, cost of inputs, and market access—will be based on existing data collected in the feasibility study, which was conducted by Twin.<sup>15</sup> It will also include information on the current circumstances of the project beneficiaries and the general intervention area, broken down by gender to ensure there are sufficient data to carry out project activities from the gender perspective.
- 3.2 **Monitoring.** At the beginning of the project, the executing agency will set up a robust monitoring system based on the project's logical framework, thereby facilitating the capture of timely and relevant data for inclusion in the project's semiannual and annual reports and used in external evaluations of project activities, with a view to identifying lessons learned and best practices. Outcomes will be measured in three separate, but interrelated areas: (i) sustainability of the cocoa companies, which will be monitored monthly using indicators developed specifically for this purpose; (ii) impact on the livelihoods of small producers. The measurement will be largely based on a qualitative and quantitative analysis of the key dimensions of subsistence—economic resilience, gender, natural resource management, significant benefit, economic mobility and job creation; and (iii) impact on the market system. A participatory market assessment approach will be used to obtain information about the perspectives of the poor, in order to better understand the obstacles they face with respect to market access, and then recommend ways to improve their ability to access these markets.
- 3.3 **Evaluation.** A midterm and a final evaluation will be conducted. The outcomes will be used to determine the project's impact on the cocoa value chain, its stakeholders, and target markets, compared to the outcomes included in the baseline. Some of the key questions that will be included in the final evaluation are: To what extent did project activities have an impact on producer incomes? How satisfied were the producers with project activities? To what extent did certifications increase the value of the new product? To what extent are the project's activities sustainable over time? Were the expected outcomes achieved? What was changed or influenced by the project's contributions? How were producers informed about the investment and outcomes of the project? What lessons were learned?

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<sup>15</sup> Twin is a nonprofit organization whose mission is to strengthen the role and power of smallholder farmers in value chains. In operation for more than 25 years, Twin has been a pioneer in the fair trade movement and currently works in over 50 countries, providing benefits to some 400,000 smallholder farmers. Twin's commercial arm, Twin Trading, is directly involved in fair trade in a variety of products, including coffee and chocolate. For more information, visit: <http://www.twin.org.uk/>.

- 3.4 The outcomes, recommendations, lessons learned, and suggestions regarding the project’s replication potential will be widely disseminated to all interested parties. To this end, the project includes the publication of key outputs, such as a national standard for assessing cocoa quality, a cocoa quality manual, and the organization of at least five events to share and exchange experiences.
- 3.5 **Closing workshop.** The executing agency will organize a closing workshop at the appropriate time, in order to jointly evaluate the outcomes with other stakeholders, identify additional work required to ensure the sustainability of the actions, and identify and disseminate the lessons learned and best practices.

#### IV. COST AND FINANCING

- 4.1 The total cost of the project is US\$1,418,131, of which US\$991,625 (70%) will be provided by the MIF and US\$426,506 (30%) by the counterpart. The execution and disbursement periods will be 48 months and 54 months, respectively.

	MIF	Counterpart	Total
<b>Project components</b>			
1. Strengthening small producers for crop diversification	371,676	179,800	551,476
2. Strengthening the business and marketing skills of the Soppexcca Cooperatives Union	166,114	93,240	259,354
3. Knowledge management and strategic communication	55,600	3,900	59,500
<b>Execution and monitoring components</b>			
Project execution unit	264,868	122,066	386,935
Baseline and monitoring system	-	15,000	15,000
Final closing event	4,600	-	4,600
Midterm evaluation	15,000	-	15,000
Final evaluation	15,000	-	15,000
Ex post reviews	20,000	-	20,000
Contingencies	12,500	12,500	25,000
<b>Subtotal</b>	<b>925,357</b>	<b>426,506</b>	<b>1,351,864</b>
Impact evaluation account (5%)	46,268	-	46,268
Agenda account	20,000	-	20,000
<b>Grand total</b>	<b>991,625</b>	<b>426,506</b>	<b>1,418,131</b>
Contribution percentages	70%	30%	100%

#### V. EXECUTING AGENCY

- 5.1 Christian Aid (CAid) will be the executing agency for this project and will sign the contract with the Bank. Founded in 1945, CAid is an international nongovernmental organization headquartered in the United Kingdom. It currently

operates in 45 countries, 11 of which are in Latin America, and has more than 65 years of experience working with more than 1,000 local organizations.

- 5.2 Its operations in Central America (Nicaragua, Honduras, El Salvador, and Guatemala) are centralized in its regional office in Managua, which has a 12-member team working full-time to support 35 partner organizations. These partners include Soppexcca, which CAid has been supporting for over 12 years, primarily in the area of improving the livelihoods of small coffee producers through better productive, organizational, agroindustrial conversion, and marketing processes, with an emphasis on environmental protection, and using a gender-focused generational renewal approach to empower women and young people through better access to and control of productive resources. CAid has a regional inclusive markets program whereby the work in a community setting is linked to the international level, which has helped Soppexcca share its own lessons and learn from others.
- 5.3 The objective of CAid and the project is to install capacity in the area through Soppexcca to facilitate the transfer of systematized knowledge to more cooperatives in the near future. CAid is also clearly interested in sharing the lessons learned and knowledge products generated by this project in the cocoa council. For this project, CAid will act as a catalyst given its experience in the cocoa sector in Ghana, the world's second largest cocoa producer.
- 5.4 A key objective of CAid's business strategy is to create resilient communities through an inclusive market strategy, as part of an integrated resilient livelihoods approach. This strategy focuses on poor disadvantaged smallholder farmers and works with them through participatory methods, creating and improving current practices and developing sustainable agricultural strategies. It also promotes the role of women and young people dealing with all types of violence and social barriers that hinder their inclusion in development processes. This project is consistent with CAid's objective of serving disadvantaged low-income producers by linking them with services and markets that will enable them to get more value from their assets.
- 5.5 CAid will set up a project executing unit and establish the necessary structure to execute activities and manage the project. It will also be responsible for submitting status reports on the project's implementation. Detailed information on the executing unit's structure and project status report requirements can be found in Annex VII in the project technical files.

## VI. PROJECT RISKS

- 6.1 **Climate and weather-related risks.** Nicaragua is extremely vulnerable to hurricanes and floods, which have devastated farmland in the past. CAid has extensive experience in disaster risk reduction and climate change adaptation, and has developed plans to give the beneficiaries the ability to respond to natural hazards and protect their lives and crops.

- 6.2 **Risks related to the cultivation of relatively new crops.** While most of the target producers have experience producing coffee, growing cocoa in agroforestry systems represents new territory for them. CAid and Soppexcca will help these farmers to diversify their production and obtain the benefits of producing cocoa for high-value markets. The cooperatives and technical staff of Soppexcca will carefully select the beneficiary farmers<sup>16</sup> in order to ensure their availability for this new endeavor. Meanwhile, in partnership with CATIE, the project will support the genetic development and identification of the cocoa varieties best suited for local conditions so as to maximize the success rate of cocoa grafting and increase the yields of new cocoa farms, thereby ensuring sustainability in the medium term.
- 6.3 **Market risks.** As with any other crop, variations in cocoa volumes and international prices of cocoa are determining factors for ensuring the sustainability of small producers. To minimize this risk, the project's marketing component includes obtaining certifications that will help differentiate cocoa produced in Jinotega. In addition, CAid's cocoa industry experience and Soppexcca's commercial relationships established in the coffee industry will facilitate the flow of communication with international buyers such as GEPA.

## VII. ENVIRONMENTAL AND SOCIAL IMPACTS

- 7.1 Although the project has no specific indicators for measuring environmental impact, it is not expected to have any adverse effects. On the contrary, by implementing agroforestry systems, organic cocoa production, and related activities, the project promotes sustainable land use, thereby enabling small producers to minimize environmental pollution, reduce erosion, and guarantee a sustainable ecosystem. During the project cycle, additional training activities will be carried out in the areas of environmental protection and techniques to mitigate the effects of climate change, including support to help farmers identify weather patterns and how they affect their crops.
- 7.2 In terms of social impacts, by prioritizing the participation of women and young people in the cocoa value chain, the project will help reduce historical gender and generational barriers associated with development. While, during the project cycle, it will not be possible to completely eliminate socioeconomic constraints associated with culturally ingrained beliefs and practices, the project will nevertheless help promote the inclusion of these groups in development processes given their importance to overall economic development in Nicaragua, particularly in rural areas. In addition, the cultivation and consumption of cocoa is a longstanding tradition in Nicaragua, and the project will provide support to reclaim this way of life.

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<sup>16</sup> The beneficiaries must be Soppexcca members in good standing, and must have suitable land available for the exclusive cultivation of cocoa (interplanting crops is not permitted).

## **VIII. FULFILLMENT OF MILESTONES AND SPECIAL FIDUCIARY ARRANGEMENTS**

- 8.1 **Results-based disbursements and fiduciary arrangements.** The executing agency will agree to comply with the MIF's standard arrangements related to results-based disbursements, procurement, and financial management set out in Annex VIII.

## **IX. ACCESS TO INFORMATION AND INTELLECTUAL PROPERTY**

- 9.1 **Access to information.** Under the Bank's Access to Information Policy, this document is subject to public disclosure.