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MULTILATERAL INVESTMENT FUND

NICARAGUA

**TRAINING RURAL YOUTH AND LINKING THEM
WITH HIGH-VALUE SUPPLY CHAINS AND MARKETS**

(NI-M1043/NI-T1224)

DONORS MEMORANDUM

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PROJECT SUMMARY
TRAINING RURAL YOUTH AND LINKING THEM
WITH HIGH-VALUE SUPPLY CHAINS AND MARKETS
(NI-M1043)

The objective of this project is to expand the reach and coverage of an innovative training model for rural Nicaraguan youth and enhance their access and links to high-value supply chains and markets. It proposes to expand and adapt the Tutorial Learning System (SAT) methodology in three zones in Nicaragua: the Southern Caribbean Coast Autonomous Region (RACCS), Madriz, and Nueva Segovia. SAT is an alternative rural education program that provides access to secondary, technical, and vocational education to rural youth, their families, and members of their communities. At the same time, it prepares them to start new entrepreneurial business ventures, continue their agricultural activities with improved climate adaptation measures and increased productivity, or pursue higher education.

This project seeks to address two main problems: (i) rural youth have limited access to quality secondary and/or vocational training that is relevant and tailored to the rural environment; and (ii) rural youth and their families have difficulty generating a sustainable income through linkages with high-value supply chains and markets.

The executing agency is Fabretto Children's Foundation, Inc. (Fabretto). Fabretto has almost 10 years of experience implementing the SAT methodology in Nicaragua's rural areas and is the only NGO authorized by the Ministry of Education to offer this alternative rural high school program. This project aims to introduce innovations to the SAT methodology in order to be able to reach more young people who lack access to training and job opportunities, including the following: 1) divide the SAT program into five short technical courses, known as job training, approved by the National Technology Institute (INATEC), to be able to issue technical and vocational certificates to participants in less time and with more flexibility; 2) develop a "hybrid SAT" model in partnership with the Ministry of Education and its Distance Rural Education program, to test a scaling-up strategy; 3) digitalize content and use online platforms; and 4) strengthen links with markets and financial institutions for young graduates from SAT and producers from SAT communities.

The project's main beneficiaries will be: (i) 1,800 socioeconomically vulnerable youth from RACCS, Madriz, and Nueva Segovia enrolled in SAT; (ii) 120 small producers who will have access to new markets and/or diversify their production with at least one new crop; and (iii) 31 communities that implement at least one of the SAT modalities.

The expected impact is to increase the employability of rural youth and improve their incomes. Of the young people finishing one of the SAT programs, it is expected that: (i) 50% will find jobs; (ii) 20% will increase their annual sales through group enterprises linked to new local and/or international markets; (iii) 120 SAT producers and/or young people will sell their agricultural products in new local and/or international markets; and (iv) 30 young people and/or producers will start a new business venture in the agriculture or business sector (i.e. trade, services).

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ABBREVIATIONS

CMF	Capital Markets and Financial Institutions Division
DNA	Diagnostic Needs Assessment of the Executing Agency
INATEC	National Technology Institute
JPO	Japan Special Fund Poverty Reduction Program
MINED	Ministry of Education
RACCS	Southern Caribbean Coast Autonomous Region
SAT	Tutorial Learning System

EXECUTIVE SUMMARY

TRAINING RURAL YOUTH AND LINKING THEM WITH HIGH-VALUE SUPPLY CHAINS AND MARKETS (NI-M1043)

Country and geographic location	Nicaragua; municipios in the departments of Madriz and Nueva Segovia, and the RACCS		
Executing agency:	<i>Fabretto Children's Foundation, Inc.</i> (Fabretto), which in Nicaragua is Asociación de Familias Padre Fabretto [Father Fabretto Family Association].		
Coordination with other donors/Bank operations:	This project is being executed in coordination with the IDB's Capital Markets and Financial Institutions Division (CMF), whose objective is financing and developing agricultural value chains, and the United States Agency for International Development (USAID) through its Better Approaches for Sustainable Education Services project.		
Direct beneficiaries:	Rural youth and small producers in one of the three target zones: RACCS, Madriz, and Nueva Segovia. This will include: <ul style="list-style-type: none"> - 1,800 socioeconomically vulnerable young people (ages 15-30) enrolled in one of the three SAT modalities; - 120 small producers who will have access to new markets and diversify their production with at least one new crop; and - 31 communities that implement at least one of the SAT modalities. 		
Indirect beneficiaries:	7,320 family members of young people and small producers (4 members per beneficiary)		
Financing:	Technical cooperation funding (NI-M1043):	US\$ 800,000	21%
	TOTAL MIF CONTRIBUTION	US\$ 800,000	
	Japan Special Fund Poverty Reduction Program (NI-T1224)	US\$1,000,000	27%
	Counterpart:	US\$1,947,465	52%
	TOTAL PROJECT BUDGET	US\$3,747,465	100%
Execution and disbursement period:	42 months for execution and 48 months for disbursement		

Special contractual clauses:

Conditions precedent to the first disbursement: (i) approval of Operating Regulations; (ii) selection of project coordinator; and (iii) agreement to coordinate Fabretto and USAID work in the RACCS.

Environmental and social impact assessments:

This operation has been evaluated and classified pursuant to the requirements of the IDB's Environment and Safeguards Compliance Policy (Operational Policy OP-703). Given its limited impacts and risks, it is proposed that this be classified as a category "C" operation.

Unit responsible for disbursement:

MIF/CNI.

I. BACKGROUND AND RATIONALE

A. Diagnostic assessment of the problem to be addressed

- 1.1 **The situation of rural youth in Nicaragua.** Despite significant advances in fighting poverty in recent years, Nicaragua is the second-poorest country in Latin America and the Caribbean after Haiti. With almost one third of its population between the ages of 15 and 29, Nicaragua is also a predominantly young country. The country is in demographic transition. Over the next 20 years, it will have a workforce that, if trained, could step up and become a growth engine for the country.
- 1.2 However, Nicaragua faces major barriers in training its young people. This problem is even more urgent in rural areas, where more than 40% of 15-29-year-olds live. These young people have limited or no access to secondary and/or vocational training, which diminishes their future career prospects. According to estimates, fewer than 50% of the country's teenagers (ages 10-19) attend high school,¹ and the net enrollment in rural areas only reaches 22%.² This is mainly due to the lack of schools available to meet actual demand and a limited public budget for education. Quality technical training programs in secondary and vocational schools are essential for skills development, but access is often limited because of their location. The problem has worsened because of the use of memorization as the main teaching method and the curriculum's lack of relevance.
- 1.3 Without a degree or training, young people who live in rural communities survive by farming traditional products, implementing few good agricultural practices and techniques that could increase productivity and income. Moreover, this situation of subsistence farming and higher vulnerability to external events such as a decrease in international commodity prices and the effects of climate change pushes young people to migrate to urban areas in search of economic opportunities and income. Since they lack education, their possibilities of finding a decent job are limited. This wave of migration has a systemic, adverse impact on rural communities, since these young migrants are typically ambitious and have the capacity to acquire knowledge and apply it. Therefore, migration depletes the most valuable human capital that communities have, perpetuating the cycle of poverty. This worsens the current outlook and the development expectations of future generations, because it directly and exclusively affects young people, who account for the largest segment of the country's population. Nicaragua currently has a clear need for a workforce with skills in areas including agriculture, food processing, and tourism.³ To create incentives for young people to work in the agriculture sector, it is necessary to motivate them to increase their participation in cooperatives and other producer associations. This would allow them to have access to more markets and negotiate more favorable conditions.

¹ UNICEF Statistics. "At a Glance: Nicaragua." http://www.unicef.org/infobycountry/nicaragua_statistics.html.

² UNESCO. 2007. "Urban and Rural Disparities in Latin America: Their Implications for Education Access."

³ UE, MINED, OEI. October 2011. "Estudio Base para la Formulación de una Estrategia de Intervención para la Educación de Jóvenes y Adultos con Enfoque Técnico Ocupacional" ["Baseline Study to Formulate an Intervention Strategy for Education of Young People and Adults with an Occupational Technical Focus"] 37-40, 55.

- 1.4 **Adaptation of crops to climate change.** Climate change has adversely affected the areas of Madriz, Nueva Segovia, and the RACCS, the project's target zones. Located in Nicaragua's dry corridor, Madriz and Nueva Segovia have faced two consecutive years of drought. Therefore, thousands of families who depend on agriculture have lost part of their harvest, and in some cases, all of it.⁴ In addition, dependence on single crops is common in these rural areas. This is particularly true for coffee, which creates one third of rural jobs. Coffee generates very low incomes for small producers, because of current low productivity levels, resulting from the age of the plantations; the low level of technology used to maintain crops; the lack of technical assistance for producers; and the depletion of soils due to poor soil management. This income level prevents producers from reinvesting in crops⁵ in order to achieve sustainability. As a result, coffee plantations have been impacted by diseases and pests like leaf rust and borer during recent harvests (from February 2013 to date). In 2012, gold quality coffee earned Nicaragua US\$521 million, accounting for 12.7% of the country's total export revenue. However, during 2013, because of the impact of leaf rust, coffee contributed just US\$349.5 million. To date, the country has been unable to reach levels similar to those in 2012; in 2015, coffee exports totaled US\$392 million.⁶
- 1.5 The municipios of Nueva Guinea, El Rama, and El Ayote in the RACCS are characterized by an economy based on agriculture and dual-purpose livestock farming (milk and meat), generally using extensive farming practices. Livestock for meat and dairy production occupy 27% of the country's land and generate 46.85% of agricultural greenhouse gas emissions.⁷ The RACCS concentrates 27% of the country's cattle population, according to the agricultural census. The effects of climate change on the livestock farming areas are reflected in large areas with scarce water resources, placing pressure on the country's wetlands and forests. Small and medium-sized producers face limitations for access to better markets, credit, and technical assistance to enable them to make needed investments in infrastructure or production techniques to increase their productivity and meet the production and quality requirements of new markets.
- 1.6 **The SAT methodology.** In 2007, Fabretto, which has worked with children in Nicaragua's poorest communities for more than 50 years, decided to implement the Tutorial Learning System (SAT) in that country. SAT is an alternative rural education program that provides access to secondary, technical, and vocational education⁸ to rural youth, their families, and members of their communities. At the same time, it prepares them to start new entrepreneurial business ventures, continue their agricultural activities with improved climate adaptation measures and

⁴ Article published in "La Prensa": FAO: sequía devastó la siembra [FAO: drought devastated crops] (<http://www.laprensa.com.ni/2015/09/15/nacionales/1901994-fao-sequia-devasto-la-siembra>).

⁵ Studies show that a minimum of three hectares of coffee plantations are needed to get small producers to reinvest in maintaining their main crop.

⁶ [Central Bank of Nicaragua](#). 2016. "Exportaciones FOB: principales productos" ["FOB exports: main products"]

⁷ Second National Greenhouse Effect Inventory. MARENA, 2008.

⁸ The young people in SAT receive technical support in five specialized areas: agricultural technology, mathematics, English, science, and communication. The education is free of charge for rural youth; the program cost to serve one student is approximately US\$42 per month, although the cost varies somewhat by location, depending on geography (very remote communities) and by the number of young people in each group/community (the more participants, the lower the cost per student).

- increased productivity, or pursue higher education.⁹ SAT was created in 1974 by the Foundation for the Application and Teaching of Science, for rural communities in Colombia. Later, it was implemented in Honduras, Guatemala (active until 2005), Ecuador, Brazil, and Nicaragua. A total of more than 300,000 students have benefitted from it. In Nicaragua, Fabretto has used the SAT methodology for almost 10 years and is the only NGO authorized by the Ministry of Education (MINED) to offer the program. Several international organizations,¹⁰ including the Brookings Institution through its “Millions Learning” initiative,¹¹ have recognized the SAT as an effective model that could be explored further because of its extended reach and adaptation to various countries, its proven impact, and its cost-effectiveness compared with other alternative secondary education programs.
- 1.7 The young participants are elected in information and coordination meetings with community leaders and parents. The only requirements for enrollment are: presentation of documents verifying that they have completed primary education and a written expression of their interest in taking part in the program. Enrollment is open to men and women, regardless of their social, economic, ethnic, religious, or other status. Since 2007, Fabretto has had more than 1,200 rural young people from 51 communities graduate from its middle school training (third year of secondary school) and high school programs and trained 40 tutors on this methodology. A total of 917 young people have completed their middle school education and 329 young people have completed five years of high school and obtained their diplomas. In 2012, the University of Pennsylvania evaluated the SAT in Nicaragua and found that it has a 100% graduation rate for students who reach the last year, and that 80% of SAT’s graduates work, start their own business,¹² or continue studying. It also found that 67% of students who took the college entrance exam were admitted. In addition, the study showed that the SAT stands out as a method to provide education on values, morals, self-esteem, respect, responsibility, and other influential, positive character traits to students, teachers, families, and field staff, as well as to promote community unity, citizen participation, environmental awareness, public health, community safety, and gender equity.
- 1.8 The study also identified some recommendations to strengthen the SAT and make it possible to scale up the program in the future. Among others, the study issued the following recommendations: (i) adapt SAT’s materials and field practices to Nicaragua’s environment and local communities, and systematize them; (ii) deepen materials on gender equity in the SAT curriculum and tutor training; (iii) collect long-term data on the career paths of SAT’s students after graduation; and (iv) continue developing a participatory model for funding the SAT program, supporting initiatives such as small producer cooperatives.

⁹ Bayan. 2010. “Resumen de SAT” [“SAT summary”].

¹⁰ In 2013, the SAT was a finalist for the Qatar Foundation’s WISE Awards, which recognize innovations in education worldwide.

¹¹ Perlman Robinson, J. March 2015. “Getting millions to learn: An education revolution in rural communities of Central and South America.” [Brookings Institution](#).

¹² The most comment categories of new business ventures are: honey production, basic grain bulking, processing and sale of cereals, pig farming, grocery stores (small stores in the home selling food and other supplies), sale of traditional foods (nacatamales), vegetable farming, etc. Among these, and in the framework of relations with existing clients, successful youth initiatives have been developed providing honey and organic chia.

1.9 **Problems to be addressed by this project.** This project seeks to address two main problems: (i) rural youth have limited access to quality secondary and/or vocational training that is relevant and tailored to the rural environment; and (ii) rural youth and their families have difficulty generating a sustainable income through linkages with high-value supply chains and markets.

1.10 **The causes include:** (i) limited supply of formal and vocational education methodologies and programs in rural areas with potential for scaling up; (ii) lack of information, resources, and skills for rural youth and their families to be able to take advantage of economic and employment opportunities that markets and value chains offer; (iii) little knowledge and use of good agricultural practices and climate-smart agriculture; and (iv) limited opportunities to participate in cooperatives and/or other forms of alliance-building that also provide better access to supplies and financing.

B. Beneficiaries

1.11 The project's direct beneficiaries will be 1,830 rural young people and small producers in three areas of Nicaragua: the Southern Caribbean Coast Autonomous Region (RACCS), Madriz, and Nueva Segovia. This will include:

- 1,800 socioeconomically vulnerable young people (ages 15-30) enrolled in the SAT program;
- 120 small producers who will sell in new markets and/or diversify their production with at least one new crop;
- 31 communities that implement the SAT.

1.12 The project's indirect beneficiaries will be 7,320 family members of young people and small producers (4 members per beneficiary).

C. Contributions to the MIF Mandate, Access Framework, and IDB Strategy

1.13 The project will help meet the MIF Mandate of testing new approaches to get the private sector involved in solving economic development problems, by focusing on small producers with the capacity to grow and create economic opportunities. It will also sustainably link rural youth and their families with high-value supply chains and markets by: (i) providing rural education to strengthen their entrepreneurship and technical skills, and their values; (ii) training participants to use and manage production techniques aimed at improved productivity and adaptation to climate change; and (iii) developing and improving commercial relationships with anchor companies, both domestic and international, in high-value-added niche markets.

1.14 **Alignment with the MIF strategy.** This project's innovation and potential for scaling up are based on changing and adapting the SAT rural education methodology to make it more flexible for the employment and entrepreneurship opportunities of rural youth and to test a new method to partner with the MINED that allows for scaling up of the SAT nationwide; and to develop a business model that provides rural youth and producers sustainable access to new high-value markets and supply chains. As part of this, anchor companies will contribute to secondary and technical-vocational education, and to the employability and incomes of rural youth and families.

1.15 The project will provide lessons on how to offer a secondary and technical education model that is tailored to the rural environment, strengthens employability, and effectively integrates rural youth into agricultural value chains.

These lessons align with the priorities established in climate-smart agriculture and knowledge economy strategies, which seek innovative solutions to adapt to climate change and improve the workforce's technical skills. This project will help close knowledge gaps, grouped into the following main categories: (i) what are cost-effective models to improve employability and employment for rural youth?; (ii) what are critical factors to scale up rural training models?; (iii) what are success factors in integrating young people and/or their families into production chains?; and (iv) how can business models be developed to link to value chains, in which client companies provide sustained cofinancing for the development of their suppliers as well as making social and production investments?

- 1.16 **Cooperation with the IDB Group.** The project is consistent with the Bank's Country Strategy with Nicaragua (2012-2017), specifically regarding its particular emphasis on addressing rural areas, where there is a high concentration of poverty and the potential to develop productive partnerships. Likewise, this project will promote good practices that contribute to mitigating the effects of climate change on the rural population. Given the existing relationship between MINED and Fabretto, the project might become a benchmark for rural training and linkage to markets that is scalable to other regions inside Nicaragua and abroad.
- 1.17 This project is related to the Banco Produzcamos (a development bank in Nicaragua) operation of the Bank's Capital Markets and Financial Institutions Division (CMF), whose objective is financing and developing the country's agricultural value chains. It will help identify new value chains with the potential to receive financing and new customers like cooperatives or producer groups, which might eventually receive long-term financing through Banco Produzcamos. The project was prepared in parallel and in coordination with an operation led by CMF, with financing from the JPO. Therefore, a single intervention model and a joint budget are included in Section IV.

II. OBJECTIVES AND COMPONENTS

A. Objectives

- 2.1 The expected impact is increasing the employability of rural youth and improving their incomes. The expected outcome is expanding the reach and coverage of a formal and vocational training model for rural youth that improves their access and links to high-value supply chains and markets.

B. Description of model/solution/intervention

- 2.2 First, with this project, Fabretto seeks to introduce innovations to the SAT methodology. As per the recommendations in paragraph 1.7, this new SAT methodology has four main elements: 1) divide the SAT program into five short technical courses, known as job training, approved by INATEC (the public institution that governs the country's technical-vocational training), to be able to issue technical and vocational certificates to participants in less time and with more flexibility; 2) develop a "hybrid SAT" model aligned with the national secondary education strategy and its Distance Rural Education program; 3) digitalize content and use online platforms and tablets; and 4) strengthen links for young graduates from SAT and producers from SAT communities with markets and financial institutions.

- 2.3 The “hybrid SAT” model is an innovation aligned with the national secondary education strategy, which focuses on universalizing basic secondary education and technical-vocational training for young people and adults. In order to achieve broader coverage in rural areas, where geographic dispersion is an issue, the Government of Nicaragua has chosen to implement a Distance Rural Education program.¹³ Students in this program only attend classes for one day during the weekend (generally on Saturday), and work or receive vocational training during the week. Fabretto recognizes the opportunity of working with young people who choose the Distance Rural Education program and offering them technical-vocational training (the five vocational modules endorsed by INATEC are Comprehensive Agricultural Production Management, Small Ruminant Production, Production Processes for Small Agricultural Units, Sustainable Rural Production systems, and Artisanal Food Production)—an effort that would go hand-in-hand with the new rural education model. Nueva Segovia’s departmental office is currently interested in offering SAT job training courses along with distance secondary education in municipios including Jalapa, Mozonte, and San Fernando. Fabretto already offers several of its education programs in parts of Nueva Segovia, making it feasible to implement this modality of the SAT program, which is more flexible and tailored to the local context.
- 2.4 Second, the project seeks to strengthen links with markets, value chains, and entities that offer financing for young graduates and producers from SAT communities. In 10 years working with the SAT, Fabretto has developed a new generation of young people who are interested in the agriculture sector, with knowledge of good practices, an entrepreneurial vision, and the vocation to build the production capabilities of their rural communities. Seeing this new generation’s potential, Fabretto created the company Fabretto Comercial S.A. four years ago, and has worked with demanding business partners that are looking for higher volumes. These partners have paid good prices and offered favorable conditions to small producers from rural communities where the SAT has been implemented. Thus, Fabretto has identified or worked with partners like Burke Agro, Ingemann, Mayorga Organics, Feed My Starving Children, and Sol Maya, which in turn reinvest part of their profits in social benefits and education programs that Fabretto offers to young people. For example, thanks to Fabretto, the 5 de Junio cooperative in Nueva Segovia has sold organic chia seeds in international markets through Mayorga Organics and in the domestic market through Sol Maya. Ingemann and Feed My Starving Children have sold honey, and Burke Agro has expressed an interest in purchasing organic fruit. For coffee sales, the main partners have been Counter Culture Coffee, Mayorga Organics, Green Mountain Coffee Roaster, and Royal Coffee. In addition, Peralta Coffee has been a processor and exporter; the Organic Crop Improvement Association has provided organic certification services; and Root Capital has provided financing for harvesting, processing, and export of coffee beans.

C. Components

- 2.5 In order to achieve its objectives, the project is structured in four components: (i) Expansion and strengthening of SAT; (ii) Sustainable agriculture and adaptation

¹³ The implementation of this SAT modality does not require any change to the national curriculum; it is complementary, endorsed by the Ministry of Education, and in the framework of the existing agreement between MINED and Fabretto, the work areas are identified and determined jointly and the experience is systematically documented.

to climate change; (iii) Business strengthening and linkage to high-value markets; and (iv) Knowledge management and strategic communication.

Component I: Expansion and strengthening of SAT (MIF: US\$259,280; JPO: US\$329,993; Counterpart: US\$1,191,384).

- 2.6 The objective of this component is to expand and strengthen the SAT methodology in three modalities: high school, hybrid, and job training courses certified by INATEC. This objective will be achieved in partnership with MINED's Distance Rural Education program. The following activities will be financed under this component: (i) conducting socioeconomic diagnostic assessments of communities in the project's three target departments/regions (Madriz, Nueva Segovia, and RACCS); (ii) offering three information sessions for residents of the project's three target zones on SAT's educational offerings (e.g. modalities, schedules, benefits, and commitments); (iii) providing training to tutors and consultants on the SAT and hybrid SAT modalities in target zones; (iv) purchasing tools and supplies for practical training on agriculture for young students of the SAT program's three modalities (e.g. irrigation systems, seeds, agricultural tools, biological material); (v) printing books for each student by year, including textbooks and workbooks, adapted to Nicaragua's reality and its rural environment; (vi) implementing the SAT's modalities in the target zones; (vii) adapting the SAT's content to online courses and developing an online platform;¹⁴ (viii) equipping computer labs for SAT students in Fabretto's centers (i.e. purchase of equipment and supplies, tablets, computers, and solar panels for computer labs to be used by tutors and students); (ix) providing training workshops to tutors in every department in order to develop information technology skills; (x) developing a program to strengthen the gender focus¹⁵ in the SAT, with training-of-trainer workshops and training of consultants/tutors on the new program; and (xi) providing technical and educational support for tutors.
- 2.7 These activities are expected to: (i) train at least 1,800 young people through one of SAT's three modalities (high school, hybrid, and INATEC job training courses); (ii) establish at least 87 training initiatives for production; (iii) implement the SAT program with its various modalities in 31 communities; and (iv) train 80 people on the SAT program, including tutors, consultants, and coordinators.

Component II: Sustainable agriculture and adaptation to climate change (MIF: US\$286,230; JPO: US\$368,384; Counterpart: US\$402,411).

- 2.8 The objective of this component is to promote sustainable agriculture and adaptation to climate change. One of the SAT's characteristics is its "learning by doing" methodology. Theory is always accompanied by real-life practical demonstrations, with local materials and supplies. In Nicaragua's dry corridor,

¹⁴ The target audience for the online courses includes tutor candidates, working tutors, and technical advisors. The online platform will operate at equipped Fabretto centers that meet the necessary requirements, serving as hubs for the SAT centers. The beneficiaries will have access to supplementary refresher and continuing education courses to strengthen their skills as leaders facilitating educational and production processes.

¹⁵ Project resources will be used to continue an evaluation and provide technical assistance to strengthen the SAT methodology's gender focus. This will aim to strengthen aspects such as "Training Women entrepreneurs" in two phases, one emphasizing the strengthening of self-esteem and attitudes of social and economic empowerment, and another targeting women who already have their own business and would like to improve it through innovation or diversification.

- increasing the incomes, production, and productivity of small producers requires biointensive agriculture and the diversification of farm production. It is necessary to introduce profitable crops such as: chia, a crop for high-altitude zones that is low cost, has a short cycle and minimum risk, and is ideal for small producers in Madriz and Nueva Segovia; honey, as a supplement to family incomes, which improves the productivity of coffee plantations and crops in general; and fruit trees including pitahaya, passion fruit, and mango, which adapt to climate change and respond to the zone's soil and/or agroclimatic conditions. Coffee is still an attractive option, since it accounts for 25% of crop areas dedicated to exports nationwide.
- 2.9 This component's first activity will be to select and establish 27 farms:¹⁶ 9 to become pilot or model farms with comprehensive management (3 in each municipio) and 18 to become demonstration plots with intensive crop management, biotechnologies, and/or conservation practices. To start operating pilot farms and demonstration plots, financing of equipment purchases will include: (i) one sorter and one packaging machine for grains/seeds, to add value to production in order to improve efficiency, yield, and quality, eliminate or mitigate environmental impact, and strengthen the capacities of producers; (ii) four greenhouses to produce organic crops (coffee, chia, fruit trees) installed in various geographic target zones; (iii) tablets for field operations; and (iv) other tools, instruments, and production materials to be used in field and innovation schools. In addition, supplies needed to achieve crop diversification based on the agroclimatic and soil conditions of each target zone, as well as domestic and international demand for each crop, will be purchased. Diversification will be attempted for various crops, as mentioned above: fruit (pitahaya, passion fruit, banana, papaya, and/or mango); seeds (e.g. chia); and honey. Likewise, the expansion and reconditioning of coffee plantations will be financed.
- 2.10 Specialized technicians will be hired to provide knowledge about subjects like growing coffee, growing organic fruit, genetically improving coffee, and using fungi to fight pests and diseases and improve crop productivity. Six technicians will also be hired to monitor and provide ongoing advisory support to producers at pilot farms and demonstration plots. The project will support organic certification processes with resources from the counterpart and anchor companies that are currently part of the productive partnership model (Component III).
- 2.11 SAT's young graduates will be hired to closely monitor demonstration plots and capture valuable information, in order to transfer it to producers during exchanges. They will also support producers in managing records for organic certification of their products, record-keeping, and administrative controls of the farm and production costs, under the supervision of consultants and agricultural technicians in each territory.
- 2.12 These activities are expected to: (i) adapt and implement three biotechnologies according to the needs of the various agroecological zones; (ii) develop at least 150 *manzanas* for new plantations of coffee, chia, honey, and fruit; and (iii) diversify the farms of 30 producers with at least one new nontraditional crop.

¹⁶ For the most part, these farms will be those of families of Fabretto students and producers that are part of cooperatives, based on soil conditions and technical criteria for demonstration and learning purposes. The two existing demonstration plots will also be included for learning purposes. They are located in served communities (Los Mogotes and Las Pomás) and are owned by the organization.

Component III: Business strengthening and linkage to high-value markets (MIF: US\$82,272; JPO: US\$91,028; Counterpart: US\$197,300).

- 2.13 The objective of this component is to strengthen Fabretto's commercial and financial capacity through its sales company, as well as the business skills of SAT's consultants and the young people themselves, in order to attract new domestic and international partners and improve the products offered to existing partners, including Mayorga Organics, Feed My Starving Children, Sol Maya, and Counter Culture Coffee.
- 2.14 Fabretto Comercial S.A.¹⁷ was created in 2011 to support and complement efforts to help children, young people, and their families reach their maximum potential. Its work focuses on selling the following products from cooperatives, students, producers, and women that the organization supports: baskets, jewelry, coffee, and decorative wood pieces.¹⁸ In 2015, annual sales of these products totaled US\$137,848. However, this company has a weak structure within Fabretto and operates without a clear business strategy, responding to opportunities that arise. The objective of this component is to strengthen Fabretto Comercial S.A. through the following activities: (i) designing a business strategy and business plan that include financing and recruiting a sales expert; (ii) implementing a fund management model, in order to provide financing to SAT producers, cooperatives, young people, and families so they can work with the project's priority areas and/or value chains and its biotechnologies; (iii) establishing an investment fund of US\$100,000 to grant loans to producers (and in some cases, provide seed capital); (iv) training at least 15 technical agricultural consultants on business and trade; and (v) supporting the financing process with Banco Produzcamos for group enterprises and anchor companies linked to the project's value chains and/or SAT producers, young people, and families.
- 2.15 The following activities will also be financed under this component: (i) conducting a market study in each of the three target zones to identify potential local and international high-value markets for the project's products: coffee, chia, honey, and fruit; (ii) hiring market intelligence services to regularly monitor markets and various agricultural products, in order to monitor price fluctuations and select the best time to close sales and make investments; (iii) preparing technical guidelines, rules, and standards of quality for high-value markets; (iv) conducting training workshops about market intelligence for SAT tutors and agricultural consultants; and (v) conducting training workshops about business strengthening for tutors, coffee and honey cooperatives, and SAT young people.

¹⁷ Fabretto Comercial S.A. works with 20 young people and women from jewelry cooperative "NicaHOPE" in Managua, about 120 coffee producers from cooperative "5 de Junio" in Las Sabanas, and 40 women from basket cooperative "Pinos Fabrettinos" in Cusmapa. Fabretto Comercial's main business partners are located in Nicaragua and the United States, including: Feed My Starving Children, Sheil Catholic Center, National 4H Council Supply Service, Wisconsin Nicaragua Partners, U.S. Embassy in Nicaragua, and Citibank Nicaragua (now Ficohsa).

¹⁸ Fabretto Comercial S.A. does not have exclusive contracts with the producers, rather, they provide business intermediation services with client companies (for the most part responsible and in more demanding markets). Currently, the company does not charge the producers for the intermediation services. It identifies market potential for those cooperatives or groups of producers with supply capacity and puts them in direct contact with the buyers. Nonetheless, the clients make a contribution to Fabretto to continue its rural training programs and/or to the company itself for it to continue its work in the market. Fabretto Comercial also purchases small quantities in order to fill specific client orders or to provide a market exit option to the entrepreneurial ventures.

- 2.16 These activities are expected to: (i) strengthen Fabretto Comercial S.A.'s sales unit; (ii) develop an investment fund model to grant financing to SAT producers and/or young people in order to develop innovative production initiatives, improve production capabilities, and/or diversify production; and (iii) train at least 15 technical agricultural consultants about business and trade.
- 2.17 Strengthening the sales unit will provide continuity to the technical assistance that Fabretto offers young people and producers, based on the requirements of the most demanding markets through customers/purchasers that are willing to invest in developing supply chains.

Component IV: Knowledge management and strategic communication (MIF: US\$80,932; JPO: US\$98,005; Counterpart: US\$41,427).

- 2.18 The objective of this component is to document, systematize, and communicate the outcomes and lessons learned from the project, in order to publicize an innovative, sustainable secondary and technical training model that can be replicated and scaled up. To do so, the project will have a strategy for disseminating lessons learned and outcomes that will be updated periodically in order to meet communication needs.
- 2.19 The following audiences have been identified to communicate knowledge and exchange good practices generated by the project: public and private stakeholders, particularly from high-value supply chains for the crops that the project promotes; business partners of Fabretto and other export companies; the Ministries of Education, Labor, and Agriculture; and technical centers or institutes interested in implementing lessons learned and good practices, and/or adopting the SAT methodology and participating in its replication and scaling up.
- 2.20 To address the knowledge needs of these audiences, the following knowledge products will be developed: (i) five INATEC job training courses adapted to rural environments and focused on developing technical-job skills with an emphasis on agricultural subjects; (ii) one systematization of the SAT methodology model, in its various modalities; (iii) one cost-benefit analysis of the SAT program's three modalities, in order to document which is the most technically and financially viable option; and (iv) three SAT case studies.

D. Governance and execution mechanism

- 2.21 The executing agency will be *Fabretto Children's Foundation, Inc.* To that end, Fabretto will establish an execution unit made up of: a project coordinator, a monitoring and evaluation specialist, a fiduciary specialist (in charge of procurement and finance), and a part-time accountant.

E. Sustainability

- 2.22 The project puts an emphasis on facilitating links with the market and maximizing the sustainability of the outcomes. This will be achieved by strengthening the SAT methodology and improving the capabilities of rural youth and producers, as well as their production initiatives. In addition, Fabretto will strengthen its sales company, in order to ensure that the links and relationships developed as suppliers of high-value chains are sustainable over time. Fabretto will also prepare its own strategy to provide financing to producers, so that the market-oriented focus of the partnerships responds to the needs of the private sector and is based on the economic potential of the geographic target zones. Supporting training for young

people and linking them to value chains in a sustainable manner is a new model for Fabretto. At the same time, young people and producers who adopt better crops and more profitable and productive farming methods will have achieved and maintained higher incomes, all with climate-smart agricultural techniques that put them in a better position to tackle the effects of climate change. Fabretto's commitment to a business strategy and long-term financing for its work in Nicaragua will ensure that the partnership with anchor companies that are willing to invest in and purchase from the communities being served is sustainable, and that farmers can take advantage of this market opportunity, even if it means investing beyond the project.

F. Lessons learned from the MIF and other institutions on project design

2.23 The following lessons are based on Fabretto's experience supporting young people and small farmers; the SAT study conducted by the University of Pennsylvania; the publication *Millions Learning* from the Brookings Institution; and various MIF projects that involve rural youth and link small producers with high-value agricultural markets:

- (i) The methodology based on "learning by doing" and tailored to the realities of each local community is essential for retaining young people and getting them interested in the agriculture sector. Therefore, the SAT seeks to train tutors to integrate theory and practice into their teaching methods; for example, teaching math and science by using demonstration farms and business projects.
- (ii) Ongoing training of SAT's tutors, consultants, and coordinators is necessary to keep knowledge updated, introduce new technologies, and prevent turnover. In the model that this project promotes, this ongoing training will strengthen their business capabilities, since those being trained are change leaders for young people.
- (iii) Small and medium-sized producers face various limitations that restrict their competitiveness and participation in value chains. The Duke Center on Globalization, Governance and Competitiveness¹⁹ proposed a methodology based on four pillars that every agricultural-production intervention must include when seeking to increase the competitiveness of small farmers and sustainably link them to value chains, whether local, regional, or global: market access; technical assistance and training; coordination and collaboration building among stakeholders; and financing. This project includes the various elements through a process of training and engaging young people.
- (iv) The key to being able to sustainably link small and medium farmers to national and global value chains is to provide them the capacity to offer purchasers the quantity and quality of a specific product in the most efficient manner, in terms of cost and time. Likewise, this implies continuous improvement of both productivity and product quality, to be able to meet the needs of purchasers. These improvements also involve perfecting logistics and using packaging that is profitable and

¹⁹ In 2012, the Duke Center on Globalization, Governance and Competitiveness conducted several studies for the MIF on systematizing value chain projects.

market-ready, as well as achieving economies of scale. The sales and market intelligence company will play an important role in this project.

- (v) Explicitly highlighting the connection between good agricultural practices (including climate-smart agricultural practices) and access to international markets facilitates a quicker, broader adoption of these practices. It is important to teach producers how to implement good agricultural practices, but it is at least as important to educate them on why they should implement them: to access markets.

G. MIF additionality

2.24 **Nonfinancial additionality.** The project will benefit from the MIF's experience working with rural youth and the development, systematization, transfer, and scaling of successful models for youth training and employability. The MIF will also provide its knowledge of high-value markets and supply chains and working with producer organizations. In addition, within the framework of climate-smart agriculture, this project will benefit from services, knowledge, partnerships, and experience developed by project clusters with similar approaches.

2.25 **Financial additionality.** The MIF's financial support will be essential for developing and scaling up the hybrid SAT model to new municipios in Nueva Segovia in partnership with the MINED; for developing all the capabilities required from tutors and consultants to implement these new modalities; and for reinforcing business mentoring, information technology, and good agricultural techniques. Not having the MIF's financial support would prevent the strengthening of Fabretto's sales company and the development of an investment fund model to finance innovative production initiatives for young people and/or producers, which would improve their production capabilities and diversify their production.

H. Outcome

2.26 The expected outcome is to expand the reach and coverage of a formal and vocational training model for rural youth that improves their access and links to high-value supply chains and markets. Expected outcomes include: (i) 95% of young people from the SAT high school program graduate; (ii) 85% of young people from the hybrid SAT program and INATEC courses have agricultural technology job training certificates; (iii) 15% increase in average annual sales of Fabretto's sales unit; (iv) 20% increase in production for at least two new categories; (v) 50% of SAT producers and/or young people adopt new practices or technologies; (vi) 48 group enterprises, anchor companies, producers, and SAT young people receive advisory support to obtain loans from Banco Produzcamos.

I. Impact

2.27 The expected impact is to increase the employability of rural youth and improving their incomes. Of the young people finishing one of SAT's programs, it is expected that: (i) 50% will find jobs; (ii) at least 20% will increase their annual sales through group enterprises linked to new local and/or international markets; (iii) at least 120 SAT producers and/or young people will sell their agricultural products in new local and/or international markets; and (iv) 30 young people and/or producers will start a new business venture in the agriculture or business sector (trade, services).

J. Systemic impact

- 2.28 The project's systemic impact will be based on the following indicators: (i) one departmental office implements the hybrid SAT modality with MINED's Distance Rural Education program, allowing for scaling up of SAT with the government for the first time; (ii) 50% of SAT young people and/or producers adopt new practices or technologies.

III. MONITORING AND EVALUATION STRATEGY

- 3.1 **Baseline.** The project has devoted necessary resources to: (i) conduct a baseline survey; and (ii) adapt Fabretto's current monitoring and evaluation (M&E) system to the project's needs. Fabretto's current M&E system monitors outcome and impact indicators. These are systematic measurements that are supported by reference frameworks (the conceptual framework, results framework, and logical framework). It is also supported by benchmark indicators; each indicator has a reference sheet that includes relevant information on how it will be observed. The executing agency is responsible for establishing an M&E system that includes a survey of reference data, broken down by gender, on the indicators defined in the project's logical framework. For Component II, there are plans to conduct a comprehensive diagnostic assessment of the means of support for demonstration farms (including natural, human, physical, and financial capital, and access to infrastructure, public services, and government programs). This will be used to prepare a farm management plan and establish the baseline.
- 3.2 **Project status reports.** The executing agency will be responsible for submitting project status reports to the MIF within 30 days after the closing of each six-month period, or more often as determined by the MIF. These reports will contain information on the progress made in project execution and the fulfillment of project milestones and objectives, as indicated in the logical framework and other operational planning tools. They will also describe difficulties encountered during execution and a summary of potential solutions. Within 90 days after the execution period ends, the executing agency will submit a final project status report to the MIF, detailing the outcomes, project sustainability, conclusions from evaluations, and lessons learned.
- 3.3 **Monitoring.** The project's indicators will be monitored on three levels: components, outcomes, and impact. A mobile platform will be used to survey former SAT students about jobs or studies they undertake after finishing the SAT program (measuring impact after one, two, and up to three years). To strengthen Fabretto's current monitoring and evaluation system—including indicators, instruments, and databases to collect, process, and validate data on programs and projects—US\$12,000 has been budgeted, to be financed by the MIF and the JPO. This system will be used to report on the project's progress, the critical factors that were proactively detected, and their solutions. It will also be used as a basis to conduct semiannual planning activities and monitor them. Monitoring will be ongoing, and Fabretto will submit semiannual reports to the MIF.
- 3.4 **Evaluations.** The IDB/MIF will use the resources contributed to hire independent consultants to conduct two process evaluations. There will be a midterm evaluation after disbursement of 50% of the resources or 18 months after the project begins, whichever occurs first. The midterm evaluation will include: (i) effectiveness of measures adopted to date; (ii) status of scheduled activities and achievement of

intermediate targets; (iii) progress and trends regarding logical framework indicators; (iv) effectiveness of the annual work plan and accomplishment of project execution; and (v) difficulties, risks, and challenges in project execution and recommendations for effective execution.

- 3.5 The final evaluation will be conducted within three months after the execution period ends. It will analyze the following factors: (i) achievement level of outcome and impact indicators established for the end of the project; (ii) effectiveness of supplier relationship model with purchasing companies to provide products for high-value markets, including strengthening a sales and market intelligence company and linking young people and producers to value chains; (iii) level of knowledge acquired by beneficiaries from groups of young people and producers who participate in the model; (iv) effectiveness of project activities (new growing techniques to improve the quality and resilience of production and to have access to high-value markets); and (v) degree of effectiveness of the tools designed within the project's framework, such as the online learning platform. Evaluation questions include: To what extent did the project have an impact on increasing the incomes of young people and farmers? To what extent did the SAT and improved production techniques contribute to the production volume and access to high-value markets? Did intervention activities to train young people and small farmers on production system techniques make a difference? How successful was the sales and market intelligence company model as a key stakeholder in the search for markets for groups of young people and producers served by the project?
- 3.6 **Closing workshop.** In a timely manner, Fabretto will hold a closing workshop with the other involved entities to jointly evaluate the outcomes, identify additional tasks to ensure the sustainability of actions started during the project, and identify and share lessons learned and best practices.

IV. COST AND FINANCING

- 4.1 The project will have a total cost of US\$3,747,465, of which US\$800,000 (21%) will be contributed by the MIF, US\$1,000,000 (27%) by the JPO, and US\$1,947,465 (52%) by the counterpart. Fabretto will provide the counterpart funds, 24% of them in cash and 28% in kind. The execution period will be 42 months and the disbursement period 48 months.

	MIF (NI-M1043)	JPO (NI-T1224)	Counterpart	Total
Project components				
Component 1: Expansion and strengthening of SAT	\$259,280	\$329,993	\$1,191,384	\$1,780,656
Component 2: Sustainable agriculture and adaptation to climate change	\$286,230	\$368,384	\$402,411	\$1,057,025
Component 3: Business strengthening and linkage to high-value markets	\$82,272	\$91,028	\$197,300	\$370,600
Component 4: Knowledge management and strategic communication	\$80,932	\$98,005	\$41,427	\$220,364
Execution and supervision				
Management	\$52,365	\$66,646	\$114,942	\$233,953
Other costs				
Evaluations	\$13,200	\$16,800	-	\$30,000
Ex post review and institutional strengthening	\$7,700	\$9,800	-	\$17,500
Contingencies	\$18,021	\$19,345	-	\$37,366
Grand total (US\$)	\$800,000	\$1,000,000	\$1,947,465	\$3,747,465
	21%	27%	52%	100%

V. EXECUTING AGENCY

- 5.1 *Fabretto Children's Foundation, Inc.* is a nonprofit organization with more than 50 years of experience. It was incorporated in Nicaragua in 1990 and established a subsidiary in the United States in 1993. Fabretto currently serves 18,600 children from Nicaragua's poorest communities and their families, seeking to free them from the vicious circle of poverty through specific programs that develop the capabilities of individuals and their communities. It has a presence in and works with more than 40 communities in five departments and the RACCS in Nicaragua. Fabretto offers hope and concrete opportunities to families and communities, enabling boys, girls, and young people to have access to education from kindergarten through college. It does so through programs offering basic health care, nutrition, extracurricular activities, and technical and professional training. It also promotes economic activities in rural communities, which benefit hundreds of families and groups (cooperatives) that work in sectors such as coffee, handicrafts, carpentry, forestry, poultry, strawberries, vegetables, and basic grains.
- 5.2 As far as financing and sustainability, Fabretto (along with its subsidiaries in the U.S., Fabretto Children's Foundation; Spain, Fundación Fabretto; and the United Kingdom, Fabretto UK Charitable Trust) obtains revenue from a combination of sources, including government (15%) and private (85%) grants, nongovernmental donations, sponsorships, and fundraising events. In the past five years, these have reached an average of US\$5 million. The organization's financial health and sustainability are overseen by an internal team and by KPMG, a worldwide accounting firm that Fabretto hires annually to conduct an audit of its financial statements. As far as operations, the organization employs 285 people, most of them Nicaraguans who work in their own communities to help implement Fabretto's nutrition, health care, and education programs.
- 5.3 **Procurement.** For procurement of goods and contracting consulting services, the executing agency will follow the IDB's Procurement Policies (documents GN-2349-9 and GN-2350-9). Even though the Diagnostic Needs Assessment of the

Executing Agency ([DNA](#)) revealed a **low** need/risk level, the project team, after consulting with the EPA-CNI, determined that, pursuant to the provisions of Appendix 4 of these policies, the executing agency, as part of the private sector, will use the private sector procurement methods specified in Annex 1 of the Operational Guidelines for Technical Cooperation Projects (document OP-639); it will also strengthen its own procurement methods compatible with the Bank's policies. In addition, there will be **ex post** reviews of the project's procurement on an **annual** basis. Before starting procurement, the executing agency will submit the project's procurement plan to the MIF for approval. This plan will be updated **annually** and whenever there is a change in the methods or the goods or services to be procured.

- 5.4 **Financial management and supervision.** The executing agency will establish and be responsible for maintaining appropriate accounting of finances, internal control, and records systems, as per the provisions of the IDB/MIF's financial management rules and policies. Since the [DNA](#) revealed a **medium** need/risk level in the financial management section, there will be **ex post** reviews of the supporting documentation for disbursements on an **annual** basis. The annual frequency is justified by the financial strengthening actions agreed to by the project team, consistent with the recommendations of the DNA validation visit conclusions report from the Country Office's FMP/MIF team. In addition, the position of project accountant was added to the project's budget, to be covered with funds contributed by the MIF/JPO, in response to the recommendations and financial management areas identified in the DNA.
- 5.5 The IDB/MIF will retain independent auditors to perform **ex post** reviews of both procurement procedures and supporting documentation for disbursements. The scope of the ex post reviews will include analyzing financial reports prepared by the executing agency annually as part of its financial management. As per the Bank's procedures, funds contributed by the MIF will be used to cover the cost of these reviews.
- 5.6 During project execution, the MIF may modify the frequency of ex post reviews of procurement procedures and supporting documentation for disbursements, and the need for additional financial reports, based on the findings of ex post reviews conducted by the external auditors.

VI. RISKS AND MITIGATING FACTORS

- 6.1 **Risk 1:** The impact of potential weather phenomena (heavy rainfall, drought, hurricanes) on the expected productivity levels of the project's economic activities. Even though this risk cannot be controlled, the project's activities include product and income diversification in farms, ongoing monitoring of potential markets, and the creation of a climate and market intelligence unit as part of the project proposal. Thanks to this, some of the potential effects can be mitigated. If there is a natural phenomenon that impacts the project's target zones, the intelligence unit of Fabretto's sales company will prepare a contingency plan and a partner support plan that involves anchor companies/purchasers and takes into account each zone's specific situation.
- 6.2 **Risk 2:** The potential for another outbreak of leaf rust in the coffee industry, which is one of Fabretto's strongest sectors. This will be addressed through measures that include promoting production diversification, introducing climate-smart

agricultural technologies, and reconditioning and setting up coffee zones, in order to develop larger capabilities for resilience in coffee-producing families who are project beneficiaries.

- 6.3 **Risk 3:** The market risk and price fluctuations for agricultural products that the project promotes (mainly coffee, organic products, and niche products). The mitigating factors defined in the project's intervention model include establishing and strengthening a business unit whose main function is to provide assistance on issues such as markets, market information, negotiations, and supplier development based on market needs.

VII. ENVIRONMENTAL AND SOCIAL EFFECTS

- 7.1 No adverse environmental or social impacts are expected. The project will have an impact on vulnerable youth and their environment, and therefore the only social effect that can be expected for them and their families is positive.

VIII. FULFILLMENT OF MILESTONES AND SPECIAL FIDUCIARY ARRANGEMENTS

- 8.1 **Results-based disbursements and fiduciary arrangements.** The executing agency will comply with the standard MIF arrangements on results-based disbursements, procurement, and financial management, as specified in Annex VII.

IX. ACCESS TO INFORMATION AND INTELLECTUAL PROPERTY

- 9.1 **Access to information.** Information for this project is not confidential under the IDB's Access to Information Policy, except for the publication of the young people's business plans or the entities' strategic plans.
- 9.2 **Intellectual property.** The Bank will own all intellectual property rights on any work that Fabretto produces within the framework of this operation. However, it will guarantee through an agreement between the parties an exclusive, perpetual, irrevocable, and free license to use that work for noncommercial purposes.