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IFAD

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**IMPLEMENTATION OF THE FIRST CYCLE
OF THE
TECHNICAL ASSISTANCE FUND PROGRAMME FOR
THE DEPARTMENTS OF LEÓN, CHINANDEGA AND MANAGUA
FINANCED UNDER THE FLEXIBLE LENDING MECHANISM**

1. The purpose of this information note is to comply with paragraph 13 of the Flexible Lending Mechanism (FLM) guidelines (document EB 98/64/R.9/Rev.1), which stipulates that "...for each FLM loan and prior to the end of each cycle, IFAD management will decide whether to proceed to, cancel, or delay subsequent cycles. Management will inform the Board accordingly."

I. INTRODUCTION

2. The overall objective of the FLM is to introduce greater flexibility into the Fund's project design and implementation in order to: match project time frames with the pursuit of long-term development objectives when it is judged that a longer implementation period will be required to meet those objectives; maximize demand-driven beneficiary participation; and reinforce the development of grass-roots capacities. The specifics of an FLM loan include: (i) a continuous and evolving design process through implementation of discrete, three- to four-year cycles; and (ii) clearly defined preconditions – or "triggers" – for proceeding to subsequent cycles.

3. This information note reports on the progress of the Technical Assistance Fund Programme for the Departments of León, Chinandega and Managua in achieving its first-cycle triggers. The note's contents are based on the findings of the IFAD missions fielded in March and May 2005.

II. BACKGROUND

4. The Executive Board approved financing for the Technical Assistance Fund (TAF) programme on 9 December 1999, and the programme became effective on 20 June 2001. The programme has a total cost of USD 20.6 million, towards which IFAD provided a loan of about USD 14.0 million and a grant of USD 200 000. The Government contributed USD 1.2 million, the beneficiaries, USD 1.6 million and the International Development Association (IDA) and the Swiss Agency for Development and Cooperation (SDC) USD 3.5 million. The Ministry of Agriculture and Forestry has overall responsibility for the programme; the Nicaraguan Agricultural Technology Development Foundation (FUNICA) is responsible for its implementation; and IDA, in addition to cofinancing the programme, acts as IFAD's cooperating institution.

5. The TAF programme is financed within the framework of the Agricultural Technology Project (PTA) as part of the National Programme for Agricultural Technology and Technical Training 2002-2016, which aims to increase the agricultural productivity and household incomes of small and medium producers (SMPs). IDA and SDC cofinance the PTA with USD 23 million and USD 2.3 million respectively.

6. Established by IFAD as part of the PTA's competitive funds component, the TAF programme promotes the provision of competitive private technical assistance services that respond to the identified needs of SMPs in the departments of León, Chinandega and Managua. It aims to ensure that SMPs and rural microenterprises have sustainable access to private technical assistance services based on a competitive supply and according to their needs.

7. The programme was designed under an FLM and is being implemented in three cycles of four years each. In accordance with operational procedures for the FLM, a review mission was fielded in March 2005 to assess the programme's first-cycle activities and their impact. To this end, mission members organized workshops and meetings with beneficiaries, service providers and other stakeholders; with representatives of the Ministry, FUNICA, the Nicaraguan Institute for Agricultural Technology (INTA) and other government bodies; and with representatives of the international development community, including the Danish International Development Assistance (DANIDA), the SDC and IDA. In May 2005, another IFAD mission visited the country to present the results to the Government, FUNICA's administrative council, beneficiary organizations and other cooperating agencies.¹ The mission concluded that the triggers for moving from the first to the second programme cycle had largely been met.

III. ACHIEVEMENTS DURING THE FIRST CYCLE

8. **First-cycle triggers.** As shown in the following table, the programme has met the triggers for proceeding to the second cycle. Four out of the seven indicators are higher than the targets set for the first cycle: a market for technical assistance services was developed; the creation of FUNICA was an important step in strengthening research and service provision; and there has been an expansion of SMP organizations in the programme area linked to local entities.

¹ The mission fielded in May, led by the country programme manager, was coordinated with the Danish, Finnish, Swedish and Swiss bilateral agencies and IDA in the framework of the harmonization and alignment process in the country. During the mission, the results were presented and widely discussed in relation to government policies.

First-Cycle Triggers

	Triggers	Status as of 15 March 2005	Level of achievement (%)
Specific objective: SMPs have access to private technical assistance services based on a competitive supply and meeting their needs.	3 000 SMPs have access to technical assistance services in six municipalities in the departments of León and Chinandega.	7 847 SMPs have access to technical assistance services in 12 municipalities of León and Chinandega.	260
	The programme has been extended to a second region in Nicaragua.	In October 2004, activities began in the Segovias region with resources of the DANIDA-financed Agricultural Sector Support Programme (PASA). ^a	100
Result 1: SMPs have formed organizations, and demand, contract, use and cofinance technical assistance services that respond to their needs.	60% of SMP organizations using technical assistance services are satisfied with the identification process and with supply negotiations.	88% of the organizations are satisfied with the results. ^b	146
	80% of organizations are legally authorized to cofinance technical assistance services.	100% of participating organizations cofinance technical assistance services according to the established operational rules.	125
Result 2: A competitive and sustainable supply of demand-oriented private technical assistance services has been developed to meet demand.	20 independent professionals and at least five companies have been contracted for technical assistance services.	66 independent professionals and five companies have been contracted.	200
	The number of registered suppliers has increased.	Programme year (PY) 1: 182 suppliers. PY 3: 239 suppliers. Increase in registered suppliers: 31%.	100
Result 3: technical assistance services have been developed that selectively and sustainably link supply and demand.	An increase in the percentage of technical assistance contracts has created a market between beneficiaries and providers.	PY 1: 0. PY 3: 2.4% of groups developed exchange mechanisms in order to develop joint businesses.	100

^a The Technical Assistance Fund-Segovias is a subcomponent of the second phase of PASA, under the umbrella of an agreement between the Government and DANIDA. FUNICA has been selected to design and implement this five-year fund (2004-2009) covering 13 municipalities in Esteli, Madriz and Nueva Segovia, and taking account of the lessons learned by the West TAF.

^b The degree of satisfaction is an average figure calculated from a sample of 40% of the groups involved in the TAF.

9. **Logical framework indicators.** In addition to the achievements shown in the preceding table covering more than 200 projects, results include:

- A total of 47 new agricultural and livestock technologies were supplied and 34 are in use.
- Eight companies and 155 professionals compete in the technical assistance services market.

- Some 15 professionals have received technical training.
- A total of 231 proposals are being implemented.
- About 37% of participating households are woman-headed.
- Some 203 groups finance between 15% and 30% of their proposals.
- Some 231 groups manage bank accounts to finance their proposals.
- Groups can generally afford costs, which average about USD 80 per person.
- A total of 294 contracts for service delivery have been established between beneficiaries and suppliers.
- Five technology adoption investments have been implemented by the users.

10. **Development objective: Productive and marketing capacities of SMPs and rural microenterprises are strengthened.** Through the programme, beneficiaries were able to develop their organizational capacities and improve their resource management skills. Improvements were achieved in cattle weight, milk and agricultural production; in traditional crop yields; in the quality of some produce sold in local markets; and in prices. Nevertheless, the application of technology has been limited to the more effective and less expensive components of the recommended innovations. Impact has been highest for groups belonging to an organization or linked to markets. Beneficiaries have understood the constraints limiting their growth and the importance of improving market access and understanding more fully the market's role in determining the success of their initiatives.

11. **Specific objectives: SMPs have access to private technical assistance services based on a competitive supply and meeting their needs.** The most relevant result has been the development of a local market for technical assistance services where beneficiaries can compare suppliers and negotiate service costs. The development of a market for more specialized services is still at an early stage, mainly because a level of activity that could make the local supply of these services attractive has not yet been generated. By creating incentives and allowing decisions to be demand-led, the programme has been able to test both the market for services and the probability of its long-term sustainability. This was valuable for the beneficiaries, and it has led to different types of relationships with suppliers. The strategy has been noted by other national and international programmes, and by international forums. Women make up a high percentage of the target group and have been actively involved in decision-making processes, including those outside established parameters.

12. **Result 1: SMPs have formed organizations, and demand, contract, use and cofinance technical assistance services that respond to their needs.** Proposals implemented under the TAF programme generally have low budgets (with an average of USD 2 000 per group and USD 150 per person). This suggests that potential demand has not yet been fully realized, probably because the strategy – which is based on agricultural production with little entrepreneurial vision and is therefore insufficiently market-oriented – has not been adequately diversified. This discourages the best proposals and the most qualified groups. Existing capacity needs to be better supported.

13. **Result 2: A competitive and sustainable supply of demand-oriented private technical assistance services has been developed to meet demand.** The programme's performance in this area is adequate, having brought together more than 200 service providers. However, technical assistance supply is concentrated on agricultural production aspects and is insufficiently market-oriented. Over the past year, initiatives relating to market access and financing have been developed to address these problems.

14. **Result 3: Technical assistance services have been developed that selectively and sustainably link supply and demand.** A significant effort has been made to strengthen links between supply and demand based on formal contracts between FUNICA and beneficiary groups. Under this scheme, almost 300 contracts have been drawn up and groups are managing their resources adequately. Beneficiaries and other public and private entities with technical assistance programmes

have expressed appreciation of these results.² A market for technical assistance services has started to develop and has strong potential, but more needs to be done to achieve the results and economic impacts foreseen. In particular, groups need to build their managerial and decision-making capacities in order to obtain other financial resources linking them to new markets.

IV. OPERATION AND PROCEDURE OF THE TAF

15. The TAF programme has tested some innovative approaches to competitive private technical assistance service provision, adapting them to the current role of the government and to market requirements. The Ministry has a more-active role in proposing sectoral policies and in initiating a development process with a new focus – dealing with trade liberalization, market development and the privatization of technical assistance services.

16. The creation of FUNICA, a private foundation with the participation of both the public and the private sector, is a step towards a diversified system of technical assistance service delivery with a transparent and equitable allocation of public resources. A challenge that still needs to be met is to devise valid strategies, including for new products that have a market focus.

17. The programme has promoted a high level of local participation, mainly with respect to the transparent and competitive allocation of public resources, with 12 offices in local entities receiving proposals and 13 regional committees strategically aligned with local entities. Some problems have arisen, however: complex administrative procedures, together with insufficient support for beneficiaries, have slowed the process of approving and implementing proposals, which has led to dispersion, low-budget projects and high transaction costs.

18. Financial management procedures should promote rather than deter demand. The Ministry's centralized and overly bureaucratic resource management and allocation process is at the root of the programme's low financial implementation – negatively impacting on the success of the TAF programme. What is needed are dynamic, decentralized and timely operating schemes to respond quickly to beneficiary needs. The challenge for the programme in its second cycle will be to make adjustments to the procedures, while adhering to the principles of transparency, participation and decentralization.

19. The programme proposed that beneficiaries provide cofinancing despite an unfavourable environment due to competition from free services. All groups cofinance the services they receive. Cofinancing ensures direct control over service quality and is therefore essential, but it must be improved to avoid creating disincentives that go against or weaken the programme's objectives.

V. MAIN CONCLUSIONS

20. The inclusion of the TAF programme within the wider framework of the PTA has been positive in that it has sparked national dialogue on the need to channel public resources to SMPs through new technical assistance services. The TAF has gradually evolved as a valid instrument for innovative technology, and its initial results have been positive, as evidenced by its expansion to the north of the country. With the beginning of PRORURAL, a rural sector-wide approach prepared by the Agricultural Public Sector of Nicaragua, a more active role for the Ministry in the promotion of innovative technology policies would strengthen the programme.

² An agreement has been stipulated between the Government and DANIDA for the expansion of the TAF in a new area.

21. Both for the Ministry and FUNICA have a key role in including the programme in a new sectoral framework. During implementation of both the programme and the PTA, the Ministry has positioned itself as the manager of the new agricultural-sector framework. FUNICA, as the programme's implementation agency, has contributed importantly to programme development – gaining high credibility from both public- and private-sector entities. In the programme's second cycle, both for the Ministry and FUNICA will face new challenges because of the need to play a more active role in the programme's strategic planning and its innovative technology initiatives as part of the new sectoral policy; strengthen alliances with entities that are better placed to provide technical marketing assistance; and finance research and other areas necessary for agricultural development.

22. Programme implementation is supported by the development of a vast territorial network of local private and public organizations. Twelve local offices and 12 integrated committees representing a wide range of stakeholders – producer organizations, municipalities, private organizations and independent specialists – are proving that public resources can be channelled transparently. However, much of this receives little recognition because of the red tape involved in accessing funds and gaining proposal approval. Streamlining the bureaucracy is one of the main challenges that the programme will face in its second cycle.

23. The programme's performance in achieving first-cycle triggers and performing the tasks set out in its logical framework has been good. The results to date show that progress has been more than satisfactory and provides a basis for moving to the second cycle. However, progress has been hampered by low financial execution resulting from: a slow learning process; a strategy that is overly focused on agricultural production; the need to make adjustments in the financial/administrative process at all levels; and laborious procedures for the approval of withdrawals. The inclusion, in the last part of the first cycle, of a competition mechanism has improved the programme's performance.

VI. TOWARDS THE SECOND CYCLE

24. The first programme cycle ended on 30 June 2005. The second cycle will become effective on 1 July 2005 retroactively. The amount disbursed during the first cycle was SDR 1 211 518; funds available for the second cycle amount to SDR 5 848 482, taking into account the undisbursed balance of the first cycle, which will be reallocated to the second cycle.

25. The main recommendations for the second cycle are to:

- (i) include the programme in the harmonization and alignment process already begun in Nicaragua;
- (ii) improve the programme strategy, and its capacity to meet the differing needs of a wide range of beneficiaries, and strengthen synergies between different types of beneficiaries and their territory including the expansion of the programme to other municipalities in the region;
- (iii) revise programme indicators, with greater emphasis on improving competitiveness and smallholders' access to markets; and
- (iv) revise programme management to improve the monitoring and evaluation system, simplify procedures for accessing resources and strengthen the capacities of SMP organizations to manage funds.

It is also recommended that IFAD, together with for the Ministry, revise their present procedures and define new mechanisms.

26. IFAD management considers that there is a firm basis for proceeding to the second cycle. The above-mentioned changes were reflected in the amended loan agreement, the operational manual and the cost tables for the second cycle. An annual work plan will be agreed among the Ministry, IFAD, IDA (in its role of cofinancier and cooperating institution), SDC, DANIDA and other concerned agencies.