

AIRGRAM

DEPARTMENT OF STATE

W.A. Perkins
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8-27-69

GUATEMALA
PROJECT PAPER

Project No. 520-11-990-185.2 *

Original: X

Project Title: Development Planning and Investment (Exports)*

Project Period: FY 1969 through FY 1971

Project Implementation Span: FY 1970 through FY 1972

Project Financial Requirements:

US Dollars	139,000
Cooperating Country Contribution	50,000 **
Other Donors	Indeterminate ***
Total	

* Project Title and No. will change beginning FY 1971 to read: Export Development - 520-15-995-201

** Including in-kind contributions by private sector

*** Includes CAMEI export credit facilities, UNDP inputs, FOCAF inputs.

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I. SUMMARY

Central American export development is rated priority attention in a National Security Council directive; Guatemala has a chronic balance of trade deficit and needs to develop new sources of export earnings to satisfy its increasing foreign currency requirements arising from general developmental needs. [The goal of this project is to increase non-traditional exports by enabling the commercialization of existing products and to assist in developing the institutional framework necessary for a truly national program of export development. A minimum of technical assistance will be provided by the AID Mission in the first stage but the Government of Guatemala will have to demonstrate its commitment to export development by expediting action necessary for the formation of a national export development institution and by funding its operation, whereupon additional AID and other resources can be channelled into the program. These resources include technical assistance in seeking immediate sales outlets, in the formation and operation of a national export development institution and private trading corporations, a possible AID loan for an airport customs facility, and major export marketing programs funded by either the AID Feasibility Study Loan or the Rural Development Loan, or both. All USAID Guatemala activities will be coordinated with ROCAF and CACM regional institution activities in the same field.

II. SETTING

Guatemala historically has run a consistent deficit on balance of trade despite a healthy increase of exports to its CACM partners. Aside from these exports of fresh produce, clothing and textile products, processed foods and miscellaneous manufactured products, Guatemalan exports are heavily concentrated in traditional items -- coffee, sugar, cotton and recently meat -- which are subject to price movements and quantity restrictions beyond Guatemala's effective control.

A number of Government Ministries and autonomous institutions consider they have a role to play in export development, without necessarily having the resources necessary to take a leading role, but with their bureaucratic defense mechanisms ready to act. Likewise the private sector is fragmented into a number of separate organizations, and has had little experience in export operations. There is no trading community. A mixed public-private National Commission on Foreign Commerce exists and seems to have a mandate in this field but has been totally inoperative. The private sector has reservations about cooperating with the Government and the Government is hesitant about providing export incentives to private enterprise.

As yet, there is no seen need in Guatemala to export or die, and therefore no institutional mechanism which will address this need.

III. STRATEGY

The planned strategy is to facilitate the [implementation of an integrated national program of export development], with the full support and participation of the

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Government of Guatemala and its autonomous institutions along with the private sector of Guatemala. The Mission will provide technical resources aimed at identifying exportable products and implementing their sale in foreign markets and resources aimed at creating a viable institution which can unify the diffuse energies and resources available in the country and focus them on the structural or other changes needed to implement an integrated national program.

These technical assistance inputs will be coordinated with parallel efforts on a regional level by the Regional Advisor on Export Development and those efforts conducted by regional organizations (SIECA-CABEI Programs Conjunto) and international institutions (FAO/AMACAFE, for instance). New inputs beyond those already committed will be staged parri passu with actions taken by the Government of Guatemala to organize export development institutions with which the AID technical assistance inputs will interact. In the absence of suitable and necessary Government actions, or lack of interest, technical assistance on a reduced level will be provided to the private sector to assist in the development of a trading community and the identification and facilitation of specific export transactions, as well as for the development of export-oriented investment opportunities. To the extent possible, projects will aim at developing non-traditional outlets (other than in the US) for those products which are sensitive in US-Guatemalan commercial relations, e.g., textiles and meat.

IV. PLANNED TARGETS, RESULTS AND OUTPUTS

There are three broad targets, the citing of which recognizes that it is the private sector which exports; the Government provides the umbrella of incentives and facilitation.

- A. Create a viable and functioning mixed public/private export development institution (hereafter named Export Development Center) which can address and resolve those policy, administrative and incentive measures necessary ~~and necessary~~ to bring about a truly national and unified export development effort. On present reading it appears legislation will be necessary to set up such a Center.
commercial
- B. Establish on-going/channels for an increasing volume of non-traditional products, not necessarily all in the US market.
- C. As a corollary of B, form at least one, private, for profit, broadly-held Export Trading Corporation.

Thus, the prime target is the creation of institutions with which technical assistance inputs, from whatever sources, can cooperate. These inputs then can attack such specific problems as product development, quality control, documentation and export management, market penetration, and export infrastructure. ~~(XXXXX)~~
~~XXXXX~~

This PROP cannot specify dollar volumes or percentages of increase of exports. Neither can it really specify continuing operational and maintenance requirements and their budgetary implications at this time, inasmuch as the development of the project ~~xxx~~ depends so closely on Government action, e.g., proposed legislation for an Export Development Center and adequate staffing of such a Center, which action is now pending a decision in the Ministry of Economy.

V. COURSE OF ACTION

- A. Using the Regional Advisor on Export Development as the cutting edge, the Mission has established fresh contacts with those Government and private sector institutions involved or potentially involved in export development and thereby has fostered enhanced interest in the need for progress in this field. Realizing the obvious need for a centralized organization, for export incentives, and most difficult, for coordinated hard work to develop both, in turn implying a need for immediate "success stories" to maintain the necessary interest and participation, the Mission already has negotiated a Project Agreement with the Government and the private sector. This Project Agreement (ProAg 69-17), May 28, 1969) provides for ~~xxx~~ two technicians. The first will attempt to identify those local products commercially exportable now and assist in their commercialization through the establishment of reliable outlets in extra-CACM markets (create "success stories"). The second will assess the feasibility of forming a private export sales corporation. These "first stage" activities will be continued and amplified in the "second stage" upon demonstration satisfactory to USAID that progress is being made towards the creation of a viable national export development institution and/or demonstration that a private export sales corporation is feasible and acceptable to the private sector. These first stage operations involve approximately \$15,000 of AID FY 69 funds.
- B. Meanwhile, the Mission continues to cooperate with an informal private sector working group to maintain impetus. This group has drafted legislation considered necessary to establish a national Export Development Center and presented it to the Ministry of Economy. It has done preliminary research in the areas of impediments to export transactions, in credit policy, and has under consideration the articles of ~~xxx~~ incorporation of an export trading corporation. Initial contacts have been held with agriculturists interested in forming an export producers organization. The Mission will continue to seek to encourage forward progress on the part of the Ministry of Economy but basically will use private sector organizations for this purpose.
- C. Assuming there is satisfactory progress toward creation of a viable national export development institution, the "second stage" will be implemented. The first technician will continue to assist in the commercialization of exportable products as well as assist in the formation of the export development institution, recommend additional technical assistance inputs and suggest changes in local policies and conditions impeding export develop-

ment. The second technician will assist in the incorporation and initial operations of the private trading corporation. If the "first stage" findings indicate this corporation is feasible, this portion of the "second stage" probably will be implemented as a safety valve, whether or not the Government makes satisfactory progress toward meeting its commitments. These second-stage operations entail approximately \$40,000 of FY 69 funds committed under Proj 69-17.

- D. It is at this point in contemplating this project that the crystal ball clouds. Two major lines of possible development exist. This section deals with on-going activities to be performed in the event that the Government of Guatemala is unable to make the satisfactory progress defined in Section A. Section E proceeds on the assumption that the Government can meet its commitments and traces an optimum program consistent with Guatemala's assumed capacity to absorb technical assistance and other inputs in export development.

On the most pessimistic of assumptions, present key Government officials will become involved in the electioneering and the new Administration taking office in mid-1970 will not be able to focus on any export development program until late 1970. The legislation drafted by the private sector might languish within the Ministry of Economy or would not pass in Congress. In this case, the Mission will proceed as follows

1. Continue working relations with the private sector (including, as indicated in C above, assist in setting up the export trading corporation) and attempt to extend the scope of the private sector working group. This would include the formation of widely representative working groups to address such questions as minor tax incentives, credit incentives, implementation of "draw-back" and general warehousing laws, transportation, market development, documentation, product development and so forth. To a large extent, the resources of the various Chambers of Commerce, of Industry, of Agriculture, etc. and the American Chamber of Commerce will be used.
2. Efforts will be made to channel the Chambers' and the working group's position papers and recommendations to responsible government entities for implementation. The existing but moribund National Commission for Foreign Commerce will be considered for use as a possible mechanism for this purpose. Within reason, the Mission will make representations to Government officials in support of the private sector initiatives. In effect, this will be an effort to implement the concept of an export development institution without having the formal legal institution in existence. Obviously this entails much greater problems of coordination ~~and~~ and implies a slower process of development per unit of Mission input.
3. Agriculture produce marketing and export development activities can be carried out as part of the rural development loan.

maintained

4. Liaison will be maintained, through the Regional Advisor for Export Development, with SIECA/CABEI Programa Conjunto activities aimed at tax incentives, export credit, and product and market development on a regional level.
5. No other Mission inputs are contemplated under this pessimistic alternative.
- E. Under the more optimistic set of assumptions, the Mission:
 1. Will proceed with the entire technical assistance project committed in FY 69, implementing it, generally speaking, during the course of CY 1970.
 2. Will commit FY 70 funds which have been allocated to back-up participant training (\$10,000) and travel (\$2,000). This involved a) training trips for government officials to existing national export development institutions in, for instance, Bogotá and San José and, b) for executives of the private trading corporation, trips to Combination Export Manager operations in the US.
 3. For FY 1971 funds, the following allocations are contemplated:

(Export Development Advisor (full time contractor)	\$35,000
Product Development Advisor	10,000
Transport and Warehousing Specialist (short-term consultants)	10,000
European Trade Mission (short-term consultants)	17,000
	\$72,000
 4. In addition to these resources, the Mission understands that ROCAP is considering the possibility of negotiating an open and personal service contract which would provide a broad range of technical expertise, on demand, in each of the Missions.
 5. Another vehicle for the possible infusion of substantial resources is the enlarged feasibility study loan. One of the Planning Council's high priority targets on the eligibility list is export development. The Mission has knowledge of at least one proposal, from ~~INTERNATIONAL MARKETING ASSOCIATION~~, to perform a large-scale export development/marketing project.
 6. The Mission has held initial discussions regarding the possibility of providing loan funding for the construction of an airport customhouse which would also provide export shipping facilities, including refrigerated holding storage for fresh produce, flowers, meat and shrimp.

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7. As Guatemala's capacity for implementing coordinated policies in the export field increases and as it develops an institutional capacity to deal with export-related problems, there will be enhanced opportunities to put into operation substantial agro-business complexes using resources available from the rural development loan now under discussion.

DAVIS

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NONCAPITAL PROJECT FUNDING

(Obligations in \$ 000's)

PROP Date: 8/30/69

Original: X

Project No.: 520-11-990-185.8

Country: Guatemala Project Title: Development Planning and Investment (Exports)

Fiscal Year	Ap.	L/G	Total	Cont.	Personnel Services			Participants		Other Costs	
					AID/	PASA /	CONT	U.S.	CONT	U.S.	CONT
								Agencies	Govt.		
Prior thru Oct. FY 69	AG	G	55	55	-	-	55	-	-	-	-
Operations FY 1970	AG	G	12	-	-	-	-	10	-	2	-
Budget FY 1971	AG	G	72	55	-	-	55	-	-	17	-
B & I FY 1972	- AG	- E	-	-	-	-	-	-	-	-	-
TOTAL			<u>159</u>	<u>110</u>			<u>110</u>	<u>10</u>		<u>19</u>	

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Exchange Rate \$1 = 1

Project No. 520-11-390-185.2

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<u>Fiscal Years</u>	<u>AID Controlled Local Currency</u>		<u>Other Cash Contribution Cooperating Country</u>	<u>Other Donor Funds</u>	<u>Food for Freedom Commodities</u>		
	<u>U.S. Owned</u>	<u>Country Owned</u>			<u>Metric Tons (000)</u>	<u>CCC Value & Freight (000)</u>	<u>World Market Price (000)</u>
Prior thru Oct. FY 69							
Operational FY 1970			15,000				
Budget FY 1971			15,000				
B & I FY 1972			20,000				
B & I FY 1972							
TOTAL			<u>50,000</u>				

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