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PD-AAA-923-C1

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FROM: GUATEMALA

SUBJECT: NONCAPITAL PROJECT PAPER

REFERENCE

Country: GUATEMALA

Project No. 520-15-995-201\*

Submission Date: 7/16/70

Revision 1

Project Title: Export Development

US Obligation Span: FY 1969 through FY 1972

Physical Implementation Span: FY 1970 through FY 1973

Costs Life-of-Project Financial Requirements:

US Dollars	241,000
Cooperating Country Contribution	50,000**
Other	Indeterminate***
<b>Total</b>	

\* Agency 520-15-995-201.2

\*\* Including in-kind contributions by private sector.

\*\*\* Includes CAREL export credit facilities, UNDP inputs, IDCAP inputs.

PAGE 1 OF 7 PAGES

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**I. SUMMARY**

Central American export and tourism 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 institutions and private trading corporations, a possible AID loan for an airport customs facility and cold storage warehouse for exportable produce 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 ROCAP 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 and tourism development, without necessarily having the resources necessary to take a leading role, but with their bureaucratic mechanisms ready to act. Likewise, the private sector is fragmented into a number of separate organizations, and has had little experience in export and tourism operations. There is no trading community, as such. 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 had reservations about cooperating with the Government and the Government is hesitant about providing export incentives to private enterprise.

### III. STRATEGY

The planned strategy is to facilitate the implementation of an integrated national program of export and tourism development, with the full support and participation of the 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 tourist attractions 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 export expansion program.

These technical assistance inputs will be coordinated with parallel efforts on a regional level and those efforts conducted by regional organizations (SIECA-CABEI Programa Conjunto) and international institutions (FAO/AMCAFE, 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, admin-

istrative and incentive measures necessary to bring about a truly national and unified export development effort. On present reading it appears legislation will be passed to set up such a Center in 1970.

- B. Establish on-going commercial channels for an increasing volume of non-traditional products, not necessarily all in the US market.
- C. Develop and expand the tourism industry of Guatemala.
- D. Form 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, export infrastructure, and tourism.

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

#### V. COURSE OF ACTION

- A. 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 private sector. This Project Agreement (69-17, May 28, 1969) provides for a USAID technician. First, the technician 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"). Secondly, he will assess the feasibility of forming a private

export sales corporation. These "first stage" activities will be continued and amplified in a "second stage" (Sec. "C" below) 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.

- 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 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 and 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 USAID technician will continue to assist in the commercialization of exportable products as well as assist in the formation of export development institutions, recommend additional technical assistance inputs and suggest changes in local policies and conditions impeding export and tourism development. The technician will also 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.
- D. Given the present situation in Guatemala, the new Administration will not be able to focus on any export development program until mid 1970. The legislation drafted by the private sector could languish within the Ministry of Economy or 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, tourism, 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. A National Export Development Advisory Council will be formed after July 1, 1970, which will have as its members representatives from the public and private sectors.
  3. Agriculture produce marketing and export development activities and tourism can be carried out as part of the rural development loan.
  4. Liaison will be maintained with ROCAP, with SIECA/CABEI Programa Conjunto activities aimed at tax incentives, export credit, product and market, and tourism development on a regional level.
  5. No other Mission inputs are contemplated.
- E. Under optimum conditions (if those possibilities stated in Section "D" above do not occur), the Mission will proceed as follows:
1. Continue with the entire technical assistance project committed in FY 69, implementing it, generally speaking, during the course of CY 1970-71.
  2. Continue to commit FY 71 funds which have been allocated to back-up participant training (\$10,000. This involves: 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. In addition to these resources, the Mission understands that ROCAP is considering the possibility of negotiating an open-end personal service contract which would provide a broad range of technical expertise, on demand, in each of the Missions.

4. The Mission has held initial discussions regarding the possibility of providing loan funding for the construction of an airport customhouse and a produce grading and chilling station with warehouse, etc. at Zacapa or Puerto Barrios, which would also provide export shipping facilities, including refrigerated holding storage for fresh produce, flowers, meat and shrimp.
5. 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 and tourism complexes using resources available from the rural development loan now under discussion.

VI. FUNDING REQUIREMENTS

	<u>FY '71</u>	<u>FY '72</u>
A. Personal Services		
1) Direct		
Local Personnel	\$10,000	\$10,000
2) PACA		
Export Development Advisor	40,000	40,000
B. Participants		
2 to CACM in Marketing & Merchandising Training	5,000	5,000
2 to USA in Tourism Training	5,000	5,000
C. Commodities	-	-
D. Other Costs		
3 Trade Missions:		
a) Europe	12,000	12,000
b) Canada, Caribbean, South America	8,000	8,000
c) USA	<u>10,000</u>	<u>10,000</u>
TOTAL	<u>\$90,000</u>	<u>\$90,000</u>

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