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TO - AID/W TOAID A-327
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FROM - ASUNCION

SUBJECT - Export Promotion - Noncapital Project Paper (PROP)
Project # 57-52-990-051.2

REFERENCE -

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Attached is PROP for subject project. The paper has been prepared in accordance with the approved reorganization plan for activities in the private enterprise development sector. (See TOAID A-257, 8/21/69 and TOAID A-205, 9/18/69).

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Attachment: 0/0

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PAGE 1 OF 1 PAGES

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NONCAPITAL PROJECT PAPER

Country: PARAGUAY

Project No 526-51-950-051.2

Submission Date: October 30, 1969

Project Title: EXPORT PROMOTION

U.S. Obligation Span: FY 1969 through FY 1972

Physical Implementation Span: FY 1969 through FY 1973

Gross Life-of-Project Financial Requirements:

U.S. Dollars	\$257,000	
GOP Contribution	74,000	equivalent regular budget
	120,000	equivalent GOP-owned PL 480 funds
	28,000	equivalent in-kind
Other Donors		O.A.S.
		U.N. (amount unknown)
Total	<u>\$479,000</u>	

A. SUMMARY DESCRIPTION OF PROJECT

1. Project Justification: The need and justification for a project to reorganize, revitalize and expand export promotion efforts and to diversify and decentralize Paraguay's private sector economic activity is adequately identified in the private enterprise sector analysis included in the FY 1970 Program Memorandum, Appendix B and the FY 1971 GFS Appendix G. The project will have significant potential impact on the U.S. and GOP sector goals of increased agricultural production and exports, and on improved public and private sector institutional development. This project supports the approved overall U.S. strategy of stimulation of greater private sector participation in the development process.

2. Project Goals and Targets: Establishment of a permanent Export Promotion Center with public and private sector participation which will provide the institutional basis for assisting the GOP in achieving its goal of increasing the total value of exports by at least 5% annually by 1972-73, with emphasis on such items as meat products, timber products, vegetables oils, etc.

Specifically, the Center will do the following:

- a. Act as a clearing house for export opportunities;
- b. Stimulate the private sector to improve quality, reduce costs, and increase production in response to the demand of export markets;
- c. Advise the government on policies and measures required to encourage the expansion of Paraguay's exports.

NONCAPITAL PROJECT FUNDING (OBLIGATIONS I. . . 000)

Table 1
Page 1 of 2
Country: PARAGUAY

PROP DATE
Original
rev. N°
Project N° 526-51-550-551.2

Project Title: EXPORT PROMOTION

2

Fiscal Years	L/G	Total	Cont ^{1/}	Personnel Serv.			Participants		Commodities		Other Costs	
				AID	PASA	CONT	U.S. Agencies	CONT	Dir U.S. Ag.	CONT	Dir & CONT	U.S. Ag.
Prior through Act. FY 69	G	42	40	-	-	40	2	-	-	-	-	-
Oper. FY 70	G	62	40	-	-	40	12	-	5	-	5	-
Budg. FY 71	G	84	50	-	-	50	19	-	10	-	5	-
B + 1 FY 72	G	69	50	-	-	50	9	-	5	-	5	-
Total Life		257	180	-	-	180	42	-	20	-	15	-

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^{1/} Memorandum (nonadd) column.

TOAID A-327

A.3.FUNCION

Table 1

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Exchg rate \$1 = 126 Guaranes^{2/}

Project N° 526-51-950-051.2

Fiscal Years	AID-controller <u>Local Currency</u>		Other Cash Contribution Cooperating Country ^{3/}		Other Donor Funds ^{5/} (\$ Equiv.)
	U.S.- owned	Country- owned ^{3/}	Budget	In-kind ^{5/}	
Prior through Act. FY 69	-	80 ^{4/}	-	13	-
Oper. FY 70	-	16	4	5	-
Budg. FY 71	-	14	30	5	-
B + 1 FY 72	-	10	40	5	-
Total Life	-	120	74	28	-

^{2/} As of preparation date.^{3/} GOP-owned PL 480 funds.

^{4/} About 75% of the \$80 thousand equivalent shown as cumulative through FY 1969 is available as carryover to cover a portion of costs of operating the Center in FY 1970-71. The smaller amounts of additional PL 480 support shown for FY 1970-72 will be used in combination with carryover and regular GOP budget funds to pay the local costs of the project during this 3-year period.

^{5/} In-kind contributions for office space, facilities and services.

B. SETTING OR ENVIRONMENT

Since 1966 Paraguay has been experiencing foreign trade deficits and its balance of trade and payments has been deteriorating at an accelerated pace. The foreign trade deficit in 1968, for example, was almost 14 million dollars, and prospects for 1969 indicate an even larger deficit.

The cattle industry has accounted for the biggest drop in exports. Canned meat, formerly the principal export item, accounting for 39% of total exports of 48.3 million dollars in 1967, decreased over 20% in 1968 to \$14.9 million, representing only some 31% of a total of \$47.6 million. Continuing declines in canned meat exports, on the order of 20% compared to 1968, are forecast for 1969. This is in contrast to neighboring Argentina's canned meat exports which for the current year are reported to be increasing some 25% over 1968.

During the same period imports rose over 20%, from 50.2 million in 1966 to \$61.5 million dollars in 1968, and an appreciable increase is indicated for 1969.

In addition to the natural disadvantages of high transport costs to consumer markets which Paraguay faces as a landlocked country, development of exports competitive in world markets is handicapped by excessive and complicated export procedures and documentation; disincentives in the form of export and foreign exchange taxes averaging 14% ad valorem; lack of coordination within the official sector with respect to a consistent foreign trade policy; lack of consultation between the public and private sectors in the formulation and implementation of laws, regulations and taxes affecting exports; inadequate credit for production or export financing; no organized commercial intelligence mechanism in either the public or private sectors; and the generally high costs of industrial production owing to either low productivity or the small scale of industrial production geared to limited internal markets.

Similar to many other countries in Latin America, industrial and other income producing enterprises in Paraguay have tended to overconcentrate around the capital city, resulting in lopsided economic growth of the Asunción area contrasted to other regions of the country. This overconcentration has discouraged or precluded development of diversified production based on potentially available rich natural resources, located in other regions of Paraguay.

On December 15, 1967 in recognition of the need to take positive steps to reverse the unfavorable trend of Paraguayan exports, an Agreement of Understanding was signed between the Ministries of Industry and Commerce and Finance and the USAID allocating 10 million Guaranies (approximately U.S. \$80,000) from PL 480 funds to support export promotion activities.

In May 1968, under Project Agreement N° 2 (FY168), funds were provided by the USAID to furnish the services of a qualified technician for a period of eight months to survey institutions, plans and programs in Paraguay related to the promotion of

exports and to present recommendations for a long-range plan of export promotion, combining the efforts of the public and private sectors. Additionally, the technician was to furnish counsel and guidance to the Ministry of Industry and Commerce's existing export promotion division.

In November 1968, the USAID-funded technician arrived in Asunción to initiate his assignment and in June 1969 a second Project Agreement N° 1 (FY'69) was executed extending his services from eight to fourteen months.

A report presented by the U.S. export promotion specialist in January 1969 recommended a series of measures designed to increase the export of Paraguayan products and suggested that these measures could be most effectively implemented by an organization, containing high level representatives from several government agencies and those private sector organizations most directly concerned with export development and promotion.

Following presentation of this report a decree was studied and prepared by the GOP authorizing the creation of an Export Promotion Center with objectives and functions essentially the same as those recommended by the USAID-sponsored technician. On August 28, 1969 this decree (No. 7119) was signed by the President of Paraguay and officially promulgated. Initial activities of this new Center will be funded by the PL 480 allocation originally made available under the Agreement of Understanding of December 15, 1967. However, the GOP is being urged to study and provide for the ongoing support of this activity from regular budget allocations or a special tax for this purpose.

An Executive Director of the Center has been named, a budget is being prepared, personnel being recruited, quarters have been rented, and it is anticipated that operations will commence in November 1969.

A third Project Agreement will provide for further extension of the services of the U.S.-funded export promotion specialist for up to 24 months. It is contemplated that an additional two years of similar long-term contract services may be required to the termination of USAID assistance under this project.

C. PLAN OF ACTION - USAID TECHNICAL ASSISTANCE

During the anticipated five-year physical implementation span of the Export Promotion project, from FY 1969 through 1973, major U.S. resource inputs will include:

1. Guidance, counsel and assistance of the USAID Private Enterprise Development Officer or other direct-hire USAID technician to the Export Promotion Center in evolving policy, plans and action programs of assistance to the private sector for expanding existing, or creating new lines of exportable products.

2. Long-term assistance of a contract specialist in international trade and export promotion for a period of up to four even years for:

- a. Assistance to the National Export Promotion Council in developing an export policy which will minimize impediments to and maximize incentives for increasing Paraguayan exports;
- b. Assistance to the Director of the newly-created Export Promotion Center in the organization, planning and execution of its export promotional programs and in the orientation and training of the Center's technical personnel.

3. Additional short-term contract services by USAID and U.N.-supported specialists to be given to the Center in specialized fields related to export promotion, such as export administrative procedures, export tariff and credit policy, shipping, new product research and development, market research and information, and trade development. It is estimated that USAID-support of this project will involve from four to six contract specialists for a total of approximately 1 1/2 man-years to termination, and that U.N.-support of short-term technical assistance to the Center will be of a similar magnitude.

4. Assistance for conferences, seminars and short courses in various aspects of export development and promotion which will be made available to public officials representing agencies whose activities are export-related and to top and middle managers of export oriented private enterprises or agencies, through experts contracted by USAID in its assistance program to the Development and Productivity Center, or through experts provided by other international aid agencies such as the O.A.S.'s Interamerican Export Promotion Center, INTAL (LAFTA), supported by IDB, or UNIDO.

5. Technical assistance to the Center, especially in the area of product research and development and product standards development, through the U.N.-supported National Institute of Technology and Standards, USAID Rural Development Division staff, the technical staffs of other international agencies in Paraguay and specialists of other Paraguayan Government agencies such as the Ministries of Agriculture, Public Works, the National Development Bank, the Central Bank and the National Planning Secretariat.

6. Commodity support to the Center of approximately \$20,000, principally for publications, films, visual aids and office and transportation equipment imported from the U.S.

7. Observation and training visits for Center staff and National Export Promotion Council members of from two weeks to three months to the U.S. and third countries to study activities of public and private institutions related to export promotion. Also, the Center will cooperate actively with the Development and Productivity Center in organizing one or more jointly-sponsored trade and investment missions of private and public sector representatives to the U.S. and third countries. Approximately \$42,000, over the five-year period will be spent for participant training.

D. EXPORT PROMOTION CENTER

The Export Promotion Center will undertake the following activities designed to stimulate and increase Paraguayan exports:

1. Formulation and implementation of a GOP export development and promotion policy which will tend to eliminate or minimize current administrative and legal impediments to exports and provide more effective fiscal and financial stimuli for exports. These recommendations will be channeled principally through the National Export Promotion Council, which also was created by Decree N° 7119 of Aug. 28, 1969.
2. Product export development, including the investigation and identification of potential exportable products and the most effective means of promoting their production. Studies will be made of the possibility of expanding sales of traditional products as well as developing markets for non-traditional products.
3. Market research, including the determination of the best markets for Paraguayan products with respect to price, quality and delivery requirements.
4. Establishment of agencies or commercial representatives abroad, especially in those commercial centers considered most strategic for increasing the volume of Paraguayan exports.*
5. Study of the most effective means for taking full advantage of the concessions granted to Paraguay by member countries of LAFTA (including the Andean grouping possibilities) and preparation of recommendations in relation to future negotiations.
6. Establishment of an information service, including the preparation of a marketing guide of Paraguay which will maintain up-to-date listings of Paraguayan exporters and their products. This information will be mailed to Paraguayan Embassies and Consulates for distribution to interested importers, trade associations and chambers of commerce. A bulletin containing up-to-date market information on export possibilities will be distributed regularly to Paraguayan exporters.
7. Organization and promotion of exhibits of Paraguayan products abroad and promotion of the country's participation in international trade fairs.
8. Preparation of recommendations for national public and private financial institutions as to the most appropriate methods of financing exports and of providing other types of financial assistance to the private export sector.

* These Agencies will be private business representatives operating on a private profit making basis without GOP financing.

E. NATIONAL EXPORT PROMOTION COUNCIL

The National Export Promotion Council will act primarily on the studies and recommendations of the Export Promotion Center to propose to the GOP:

1. Adoption of the most appropriate trade policy for export development and promotion.
2. Priorities for the goals and objectives for an export development and promotion program.
3. The adoption of suitable mechanisms and programs which will stimulate the sale of Paraguayan products in foreign markets.

The above activities will be coordinated with studies and recommendations being prepared by the GOP Ministry of Foreign Affairs in respect to policy and action programs being considered by such regional development groups as the Cuenta del Plata,* the Andean Group and the LAFTA.

The National Export Promotion Council will be formed by representatives of the following public and private institutions:

The Minister and Under-Secretary of State, for the Ministry of Industry & Commerce;

The Under-Secretary of State and one alternate, for the Ministry of Finance;

The Under-Secretary of State for Economic Affairs and one alternate, for the Ministry of Foreign Affairs;

The General Director and one alternate, for the Ministry of Agriculture and Livestock;

The Director and one alternate, for the Central Bank of Paraguay;

The President and one alternate, for the National Development Bank;

The Executive Secretary and one alternate, for the Technical Planning Secretariat;

The President and one alternate, for the Chamber of Exporters;

The President and one alternate, for the Federación de la Producción de la Industria y el Comercio (FIPRINCO);

The President and one alternate, for the Paraguayan Industrial Union;

The President and one alternate, for the National Chamber of Commerce.

* For example, at the 1969 Brasilia Meeting of the Cuenta del Plata group, it was agreed to carry out a study of products that might be an object of mutual commerce leading to integration of the region.