

**AIRGRAM**

**DEPARTMENT OF STATE**

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FROM - ASUNCION

SUBJECT - PROP - Regional Development Project No. 526-15-950-051.4  
(Sub-project under Private Enterprise Development

REFERENCE - Project No. 526-15-950-051)

1. As indicated in the above title, the attached PROP covers a sub-project activity under the Private Enterprise Development project. As such, the subject activity was included in the Congressional presentation for FY 1971, and funds for carrying out the pilot phase of the activity were obligated under the Development and Productivity project No. 526-15-950-051.1 for FY 1970.

2. The pilot project carried out by the Georgia Institute of Technology (GIT) during FY 1970 was highly successful. (See draft report att'd). The Ministry of Industry and Commerce has requested additional assistance in regional development, and the USAID has concluded that the foundation for further implementation of the activity has been well demonstrated. USAID, therefore, proposes by this PROP to establish a separate activity under Private Enterprise Development.

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Attachments: 1. PROP  
2. GIT report

*Att to LA 10-22*

PAGE 1 OF 1

DRAFTED BY APO:CDodson:nmcl	OFFICE EO	PHONE NO.	DATE 10/19/70	APPROVED BY: Remo Ray Garufi, Acting DIR
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NONCAPITAL PROJECT PAPER

Country: PARAGUAY

Project No. 526-15-950-051.4

Submission Date: October 19, 1970

Project Title: REGIONAL DEVELOPMENT (Sub-Project under  
Private Enterprise Development No. 526-15-950-051)

U.S. Obligation Span: FY 1971 through FY 1973

Physical Implementation Span: FY 1971 through FY 1974

Gross Life-of-Project Financial Requirements:

U.S. Dollars	\$190,000
Cooperating Country Contribution	(\$ 45,000 (Regular Budget) (\$ 15,000 (in kind))
Paraguayan Regional Development Centers	\$ 20,000
Total	<u>\$270,000</u>

A. SUMMARY DESCRIPTION OF PROJECT

1. Project Justification. Under Development and Productivity Center Project No. 526-15-950-051.1, a pilot program in regional development requested by the Ministry of Industry and Commerce was carried out during the 30 week period from March 15, 1970 to September 30, 1970. The objective of this pilot activity was to determine the feasibility of implementing a project in regional development; whether sustaining enthusiasm could be generated in the rural areas; and whether the Ministry would provide the required support. The pilot program was carried out by the Georgia Institute of Technology (GIT). A copy of their draft report is attached.

The pilot project was highly successful and the Ministry requested additional assistance in regional development. USAID concluded the foundation for further implementation of the project had been demonstrated. USAID therefore proposes by this PROP to establish a separate sub-project. The major objective will be the establishment of five regional private development centers under the guidance and support of the Ministry of Industry and Commerce to promote local enterprise based on identification and utilization of local resources, especially agricultural and other natural resources, manpower and infrastructure. In its request for assistance the

\* In addition to the above, \$13,000 of prior-year funding is available under PIO/T 526-051-3-00184 (Investment Promotion).

Ministry stated it had created a new Department of Regional Development in support of USAID's project. The Ministry, working within the context of the National Industrial Development Plan, has identified the development "poles" which provide the nucleus for the proposed project.

Specific project targets and proposed strategy and course of action for achieving them, as well as major USAID and Paraguayan resource inputs, are included in Parts C, D, and E of this PROPOSAL. Proposed project funding is summarized in Table No. 1, pages 3 and 4. In connection with proposed USAID inputs, it should be noted that no additional full-time U.S. advisors are required to implement this sub-project. Requirements for U.S. advisory assistance will be provided by short-term GIT contract specialists in regional development.

As indicated in Part B, Strategy, and described in Part E, Course of Action, achievement of project targets will depend to a large extent on effective coordination of Regional Development activities with other USAID project activities designed to stimulate regional and local development, i.e. Agricultural credit unions, agricultural Institutional Development (planning and marketing studies), Regional Education Centers Development under Elementary and Secondary Education, and the In-Service Training Center activities in community development. The Development and Productivity Center project, and the Export Promotion project also will provide basic support as well as the recently-established private development bank, COOPSA, and the proposed new AID loan project for the establishment of a municipal development institute.

The Paraguayan National Development Bank's credit facilities also will be an important factor in achievement of project targets, as well as the Bank's AID-financed program for feasibility studies of industrial projects.

## NONCAPITAL PROJECT FUNDING (OPERATIONS IN 1000)

Table No. 1  
Page 1 of 2  
Country: PARAGUAY

PROP DATE  
Original  
Revision  
Project n° 526-15-950-051.4

Project Title: REGIONAL ENTERPRISE DEV.

Fiscal Years	L/G	Total	Cont <sup>1/</sup>	Personnel Serv.			Participants		Commodities		Other Costs <sup>2/</sup>	
				AID	PASA	CONT	U.S. Agencies	CONT	Dir U.S.Ag.	CONT	Dir U.S.Ag.	
FY 1971	G	39	27	-	-	27	8	-	3	-	1	-
FY 1972	G	83	75	-	-	75	7	-	-	-	1	-
FY 1973	G	68	60	-	-	60	7	-	-	-	1	-
Total Life	G	190 <sup>3/</sup>	162	-	-	162	22	-	3	-	3	-

1/ Memorandum (nonadd column).

2/ Local travel and other local costs.

3/ In addition to the above, \$13,000 of prior-year funding is available under PIO/T 526-051-3-90150 (Export Promotion).

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Table No. 1  
Page 2 of 2

(\$000's Equivalent)

Project No. 524-15-950-051.04

Fiscal Years	Ministry of Jud. & Commerce		Regional Centers
	Budget	In Kind g/	
FY 1971	15	5	6
FY 1972	15	5	6
FY 1973	15	5	6
Total Life	45	15	20

**B. SETTING**

The private sector has been fully discussed in Appendix G of the FY 1971 CFS and in the FY 1970 Program Memorandum. Broadly, it suffers from a shortage of trained manpower, insufficient credit, a small local market, poor transportation to export markets, and over-concentration of activity around Asuncion. Businessmen have been in the past timid and conservative in their outlook and satisfied with small-scale, inefficient operations producing a narrow range of products. Private sector investment has remained roughly constant since 1962 at between \$50 and \$55 million annually. Industrial production has maintained the same share of total GNP--15%--since 1961.

Working first at the national level, USAID in cooperation with the UIP and EMPRINCO, helped to establish the private Development and Productivity Center in 1966. The Center was most active initially in the field of management training. The staff of the DPC has gradually been expanded and its scope of activities broadened to emphasize investment promotion and management consultation as well as training. (See PAR of September 21, 1970 for a recent evaluation of the project).

During the past year, the DPC also has taken a major role in helping to carry out the pilot phase of regional development activities to assist the Paraguayan Government in its program to create regional development "poles" around which efforts will be made to more fully exploit the potentially rich areas of the country and to encourage the participation of the communities themselves in the process of economic development. The basis for this program is the need for decentralization of economic activity now concentrated around Asuncion, and for the establishment of centers of attraction for population and capital in areas of the country that possess productive agricultural lands, rich natural resources, existing population nuclei and the elements of social and economic infrastructure.

As stated above, the pilot activity in regional development was carried out during the 30-week period ending September 30, 1970. During this time two regional development centers were created, i.e. the Centro de Desarrollo Socio-Económico del Guairá at Villarrica, and the Asociación Regional para el Desarrollo Económico y Social de Concepción. The Ministry of Industry and Commerce also has identified additional locations for similar centers, i.e. Pilar, Encarnación, Puerto Presidente Stroessner, Coronel Oviedo and Pedro Juan Caballero. The two centers at Concepcion and Villarrica have completed initial organizational activities, including establishment of a board of directors and appointment of permanent executive directors for each center. The Villarrica Center also has established a system for financing operations, i.e. the imposition of 2 % tax on all local public entertainments such as movies, etc. and the Concepcion Center is arranging for similar tax system.

The pilot program evaluation indicates that the two communities of Villarrica and Concepcion responded very well to the pilot phase of the program and that techniques of industrial development can be transferred to selected community development groups where cooperation at the community level exists. With the assistance of GIT advisors and under the coordination of the Ministry of Industry and Commerce, these two new regional centers have compiled basic inventory data, identified major resource weaknesses as well as assets, and are now preparing work plans for achieving development goals, including initiation of activities for more precise identification of specific new and/or expanded manufacturing and other enterprises.

The Ministry of Industry and Commerce has established a new Department of Regional Development which will be operational in January 1971. A qualified director has been appointed for the new Department, Dr. Juan G. Silvero, and he is now on one month's invitational travel accompanying Mr. Nelson C. Wall, the GIT contract coordinator, on visits to Brazil and Venezuela to observe regional enterprise development activities in those countries.

Three short seminars in regional development also have been conducted (2 1/2 days each in Concepcion and Villarrica and 2 days in Asuncion) in cooperation with the In-Service Training Center of the National University. Each of these seminars had excellent participation of local community leaders and businessmen, as well as representatives of the Ministry, the DPC, and other organizations involved in entrepreneurial development. The In-Service Training Center (CAES) successfully carried out a 6-week pilot training program in community development (Loyola type) in July 1970, with active participation of community leaders from various regions, including Villarrica, Concepcion, and the other areas identified as development "poles." The CAES plans to expand this community development training program during 1971 and subsequent years, which will be an important resource for developing a corps of trained Paraguayans to carry out continuing activities of the regional development program.

**C. PLANNED TARGETS AND OUTPUTS**

1. **Major Target: Establishment by the end of CY 1973 of a self-sustaining institutional capacity for regional development within Paraguay, built around the Ministry of Industry and Commerce's new Department of Regional Development, and consisting of five regional development centers.**
  - a. **Establishment of Department's capability to administer and assist a coordinated program of regional development to be carried out by regional development centers.**
  - b. **Establishment of five viable regional development centers at the following locations: Villarrica, Concepcion, Pedro Juan Caballero or Pilar, Encarnacion, and Puerto Presidente Stroessner.**
2. **Output Indicators include the following, with quantification and timing subject to revisions in accordance with findings of annual PARs:**
  - a. **Establishment of a Data Center in the Department by end of CY 1971 for deposit and analysis of basic information acquired both at the regional and national level to be used by Ministry and other organizations in preparing and coordinating the implementation of a program of applied regional development research.**
  - b. **Preparation of Investment Pre-Feasibility Studies and Specific Industrial Feasibility Studies by task forces under the coordination of the Department, with staff representing the DFC, INDB, and other relevant organizations. Emphasis will be placed on enterprises related to agro-industrial priorities identified in the long-range industrial development plan: meat products, fruit and vegetable processing, milk pasteurization and processing, wood products, fertilizers, oils, clay and glass products, sugar products. Small industries and services having potential for tourism development also will be stressed. The number and value of such feasibility studies is expected to increase substantially after the first year, 1971, starting with between 5 and 7 in 1971 and increasing to between 15 and 20 in 1972 and between 25 and 30 in 1973 and 1974. (See Annex A, attached, for listing of study requirements already identified.)**

- c. Annual Jornada or Seminar participation, under auspices of the Department, for between 300 and 500 representatives of regional and national development organizations.
- d. Completion of 5 Community Audits and Establishment of 5 Labor Registers, by each of the Regional Centers (2 in 1971, 2 more by 1972, and 1 more by 1973).
- e. Participant Training in U.S. (GIT) for 5 Regional Center Directors.
- f. Local Training at CAES Community Development Course for an estimated 100 representatives, annually, from the 5 regional areas.

#### D. STRATEGY

##### 1. Basic strategy for achieving project targets are:

- a. Establishment of an "awareness" at the regional and community level of development opportunities, problems, benefits, and the feasibility of mounting regional programs to translate this "awareness" into action projects.
- b. Harnessing on a coordinated basis the credit, manpower training, and technological assistance resources available in Paraguay through COP, private and international organizations in order to carry out specific regional enterprise development activities.

2. Initial activities at the regional center and community level are directed towards the creation of the necessary local awareness, i.e. compilation of community audits by volunteer groups, preparation of resource inventories, identification of problem areas, participation in CAES Loyola-assisted six-weeks community development seminars. This knowledge and experience acquired through local self-auditing, and through participation in and exposure to training activities involving group dynamics should bring out the Paraguayan entrepreneur and motivate him to establish locally-managed manufacturing or commercial activities.

In developing the capability of the Ministry's new Department of Regional Development, it is planned that the USAID-sponsored GIT technical assistance be directed primarily towards establishment of an effective coordinating mechanism within the Department so that it can in fact harness the necessary resources already available (but often largely underutilized) to help the regional centers carry out specific development activities. Such resources include the following:

- a. Credit:
  - CONDENA (the newly-established private development bank)
  - National Development Bank, AID, IDB, and IBRD agricultural credit programs
  - National Development Bank/IDB Feasibility Studies Program & German Industrial Development Credit Program
  - Agriculture Credit Union Program (AID, IDB)
  - Municipal Development Institution (proposed new AID-assisted project)
  
- b. Investment:
  - Development & Productivity Center
  - Export Promotion Center
  
- c. Manpower Training:
  - National University's CAES Community Development Courses
  - Regional Education Centers (AID) at Villarrica, Concepcion, Pilar, Encarnacion, and proposed new one at Puerto Presidente Stroessner
  
- d. Technological Assistance:
  - Ministry of Agriculture's Department of Economic Studies (Planning and Marketing)
  - Ministry of Agriculture's Regional Extension Offices
  - Agriculture Credit Union's 'directed' credit
  - UN-sponsored Institute of Technology and Standards

## 1. COURSE OF ACTION AND MAJOR RESOURCE INPUTS

The proposed course of action covers the 3-year USAID financial assistance period (1971-73) and the 4-year implementation period (1970-1974). The existing USAID contract with the Georgia Institute of Technology's Industrial Development Division will be extended late in CY 1970 and annually thereafter in FY 1972 and FY 1973 to provide for short-term contract consultants and a project coordinator to work with the Ministry's new Department of Regional Development and at the Regional Center level. This contract advisory assistance will be USAID's major resource input to the project (See funding Table No. 1, pp. 3 and 4) with an estimated 10 man-months of services provided for in FY 1971, 20 man-months in FY 1972 and 15 man-months in FY 1973. Peak activity will take place in FY 1972 and early FY 1973 when all 5 regional centers are put into full operation. Two new centers will be organized in late FY 1971 (Encarnación and P.J. Caballero or Pilar) and with one new center at Pto. Pte. Stroessner in FY 1972, with regional center activities at Villarrica and Concepción being accelerated during the 3-year implementation period 1971-73, as well as Encarnación and P.J. Caballero/Pilar during the 2-year period 1972-73. The final year of financial assistance (FY 1973) will be a year of consolidation, with no new centers being added, and with actual implementation extending over into FY 1974.

During FY 1971 one of the contract consultants will be a specialist in industrial planning, data collection and analysis, and it is proposed that he spend approximately 3-man months working with the new Director of the Department of Regional Development in establishing a national data collection center and in the two regional areas of Villarrica and Concepción in helping the centers expand the existing data based on community audits and resource inventories. This GIT advisor also will help with the proposed new regional centers to be created during FY 1971; specifically in organizing and carrying out initial activities for compilation of community audits and preparation of resource inventories.

The second short-term contract consultant will be an industrial engineer and also will spend an estimated 3-man months in Paraguay in FY 1971, concentrating in assisting the new Department and the regional centers to identify commercial and business opportunities and arranging for initiation of pre-feasibility and feasibility studies. (See Annex A, attached, for listing of study requirements already identified).

The third contract consultant, an investment promotion specialist, will in addition to working with the Department in the Ministry of Industry and Commerce work with the private DPC to help its staff analyze and recommend the most effective means of coordinating the activities of DPC with other national and private organizations presently seeking viable private investment projects. This investment promotion assistance will be an important step in building an overall coordination mechanism which can be used by the Ministry's new Department, in cooperation with the DPC, to complement the work carried out at the regional level to identify new business opportunities.

The FY 1972 and 1973 contract services will be for the same type of assistance as in FY 1971 but it increases in terms of man-months (see above), except that no additional GIT contract assistance is expected to be required in the field of investment promotion.

Paraguayan counterpart training for the Department and the 5 regional centers will be carried out through 3-months formal training programs at the GIT's Industrial Development Division for each of the 5 center directors, with the first two directors (Villarrica and Concepción) scheduled for such training beginning in January 1971. Invitational travel for observation for 1 month in Venezuela and in Brazil in FY 1971 also is provided for the recently appointed Director of the new Department. (The Director will ~~be~~ accompany the GIT Project Coordinator). Additional invitational travel for two delegados representing two regional areas also is programmed in FY 1971, with travel scheduled for January 1971.

Local training in the areas of community development, as well as business management, will be provided by the National University's In-Service Training (CAIS), with assistance from the GIT advisors as required. In-service training of Department and regional staffs also will be a continuing function of the GIT contract advisors. A series of 5 to 6 short-term seminars (approximately 2 to 3 days each) is scheduled for each of the years covered by the project. These seminars would take place at the regional centers and at the national level under the auspices of the new Department.

In addition to the training and coordinative activities discussed above it is proposed that the new Department sponsor, under the auspices of the Ministry, an annual one-week regional conference or Jornada. To the maximum extent possible all organizations interested in the economic development of Paraguay would be involved in planning and participating in the meeting. The first annual meeting will be held in FY 1971 and will focus on economic development problems and possible solutions. After the first year, these conferences will provide an annual review of progress in meeting national and regional development goals.

A small amount of USAID assistance is proposed for commodity and local cost support, including a vehicle for use by GIT contract advisors, office filing equipment for the Department's proposed Data Center, local travel expenses and related local costs.

The COP's major contribution to the project will be the annual budget of the new Department, estimated at the equivalent of US\$15,000 annually, and will cover the salary of the new director and supporting secretarial assistance. The Ministry also will provide in-kind contributions estimated at US\$5,000 equivalent annually, in the form of office space, utilities, supplies and related services. Each of the regional centers will raise revenue required to cover all local staffing and operating costs, with total annual contributions estimated at approximately US\$6,000 equivalent for FY 1971 and FY 1972 and approximately US\$8,000 for FY 1973. These local contributions

are to be generated from self-imposed taxes at the community level such as the 2 Guaraní per capita tax imposed by Villarrica on entrances for all public entertainment functions. Actually, total annual revenue to be derived from such taxes in Villarrica already is estimated at about \$600,000 with only about one half of this amount required to cover salary of the Center's Director and for supporting operating costs, leaving the other half for contributions to various types of community development projects and services, as well as the establishment of a small reserve fund for contingency use.

**ANNEX A - IDENTIFICATION OF SPECIFIC OPPORTUNITIES & NEEDS**

On the basis of the findings of community audits and resource inventory activities already initiated by the Villarrica and Concepción Centers, the following specific business opportunities and development activities have been identified, with special note of requirements for feasibility studies where required:

1. Villarrica - ~~Food~~ Processing - (Directiva del Frigorífico Central Comercial, Industrial y Financiera - (FRIGUSA) already interested (Feasibility study required).
2. Villarrica - Sugar Products Processing, including making of candy caramels, liquors, and utilization of by-products such as bagasse for paper production. (Feasibility studies required).
3. Villarrica and Concepción - Small Metal Silo Manufacture for agricultural processing purposes. (Feasibility studies required).
4. Villarrica and Concepción - Fruit and Vegetable Processing, with emphasis on citrus juices and other products. (Feasibility study required).
5. Villarrica - Wine making, with emphasis on improvement of quality based on already-existing industry.
6. Villarrica - Handicrafts, with emphasis on improvements in production of "aho Poi" through formation of cooperative of producers and ucopiadores for better quality control and more efficient production.
7. Villarrica - Tourism activities, including establishment of facilities and services, including modern hotel, promotion of handicrafts, etc.
8. Villarrica and Concepción - Establishment of Agriculture Credit Unions for "Directed Agriculture Credit Program" and Savings and Loan Associations for mobilizing local savings for home construction, etc.
9. Concepción - Wood Products Manufacture, with emphasis on furniture such as folding chairs and tables and low-priced furniture for domestic market. (Feasibility study required).
10. Concepción - Soap Manufacturing (Feasibility study required).
11. Concepción - Balanced Feed Processing for livestock production (Feasibility study required).
12. Concepción - Building Materials Production, with emphasis on incorporation of small activities for production of cal, tiles, etc.

13. Concepción and Villarica - Small Milk Pasteurization and Processing Industries. (Feasibility studies required).

Also, on the basis of the above-mentioned audits and inventories, specific manpower training requirements already have been identified in the field of vocational skills such as plumbing, electrical installations, mechanics, etc. with special emphasis on needs related to projected projects by ANDE and COMPOSAN in both Villarica and Concepción areas. Plans are required for arranging necessary training with the Regional Education Centers located in these two areas.

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SUBJECT - PROP Review - Regional Development - No. 526-15-950-051.4

REFERENCE - TOAID A-284

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The AID/W Evaluation Panel reviewed this PROP on December 9, 1970, and approves it for life of project. The Mission is to be commended for the design and layout of this PROP.

ROGERS

PAGE 1 OF 1 PAGES

DRAFTED BY GAHill:mew	OFFICE LA/OPHS	PHONE NO. 29882	DATE 12/9/70	APPROVED BY: LA/DP:JHeller
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Mr. L. Sleeper:LA/DR

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