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UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523

GUATEMALA

PROJECT PAPER

RURAL ENTERPRISE DEVELOPMENT

BAS:020/1

Loan Number:520-T-032
Project Number:520-0245

UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT PROJECT DATA SHEET (Supplement)	1. TRANSACTION CODE <input type="checkbox"/> A = Add <input type="checkbox"/> C = Change <input type="checkbox"/> D = Delete <input checked="" type="checkbox"/> A	Amendment Number _____ DOCUMENT CODE 3
2. COUNTRY/ENTITY Guatemala	3. PROJECT NUMBER 520-0245	
4. BUREAU/OFFICE LAC	5. PROJECT TITLE (maximum 40 characters) Rural Interprises Development	

6. PROJECT ASSISTANCE COMPLETION DATE (PACD) MM DD YY 09 10 85	7. ESTIMATED DATE OF OBLIGATION (Under 'B.' below, enter 1, 2, 3, or 4) A. Initial FY 79 B. Quarter 4 C. Final FY 85
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A. FUNDING SOURCE	FIRST FY 79			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
	AID Appropriated Total	2,550	3,650	6,200	2,970	4,200
(Grant)	(50)	(150)	(200)	(470)	(700)	(1,170)
(Loan)	(2,500)	(3,500)	(6,000)	(2,500)	(3,500)	(6,000)
Other U.S. 1.						
Other U.S. 2.						
Host Country	-	1,000	1,000		4,670	4,670
Other Donor(s)						
TOTALS	2,550	4,650	7,200	2,970	8,870	11,840

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
		(1)	270	112	111	850	6,000	1,170	6,000
(2)									
(3)									
(4)									
TOTALS				850	6,000	1,170	6,000	1,170	6,000

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each) 140 150 610 040 120	11. SECONDARY PURPOSE CODE 160
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12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)	A. Code BR	GL	RGEN	COOP	DEL	LAB
B. Amount						

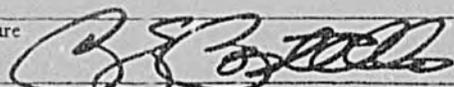
13. PROJECT PURPOSE (maximum 480 characters)

To stimulate the development and expansion of artisanry and small to medium enterprises in rural areas.

14. SCHEDULED EVALUATIONS Interim MM YY MM YY Final MM YY 07 85	15. SOURCE/ORIGIN OF GOODS AND SERVICES <input checked="" type="checkbox"/> 000 <input checked="" type="checkbox"/> 941 <input checked="" type="checkbox"/> Local <input type="checkbox"/> Other (Specify) _____
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17. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a 17 page PP Supplement)

The document attached provides details concerning the changes contained in this Project Paper Supplement.

17. APPROVED BY	Signature  Title Charles E. Cosello Director	Date Signed MM DD YY 01 20 84
		18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION MM DD YY

PROJECT AUTHORIZATION AND REQUEST FOR ALLOTMENT OF FUNDS

(AMENDMENT No. 4)

Name of Country: Guatemala
Name of Project: Rural Enterprises Development
Project Number: 520-0245
Loan Number: 520-T-032

Pursuant to the authority redelegated to me by the Assistant Administrator, Bureau for Latin America and the Caribbean, by the Foreign Assistance Act of 1961, as amended, I hereby amend the Project Authorization and Request for Allotment of Funds dated November 17, 1978, and amended March 8, 1979, May 4, 1979 and July 12, 1979 (hereinafter, as so amended, the "PAF"), which authorized a loan and a grant to Guatemala for a Rural Enterprises Development Project, as follows:

1. The second sentence of the first paragraph of the preamble is hereby amended to the following:

The Project will consist of the promotion of small and medium sized enterprises in the rural areas of Guatemala through (i) assistance to the National Finance Corporation (CORFINA) for the implementation of a pilot artisanry marketing sub-program, (ii) the establishment within CORFINA of a small enterprise credit fund, (iii) the establishment of an Appropriate Technology Adaption and Diffusion Fund and support to a Technical Assistance Program within the Technical Institute for Training and Productivity (INTECAP) directed toward the development, support and encouragement of such rural enterprises, (iv) establishment and operation of a credit fund using a sub-loan discount and advance mechanism involving the Bank of Guatemala and public and private intermediate credit institutions, and (v) technical assistance to executing agencies under the project to strengthen their capability to implement project activities.

2. Section E. of the PAF is hereby amended as follows:

Conditions Precedent to Disbursement of Reprogrammed Funds for the Credit Activity (Loan)

Prior to any disbursement or the issuance of any commitment document under the Project Loan Agreement for the credit activity following signature of Amendment No. 1 to this

Agreement, the Borrower shall, except as A.I.D. may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D.:

(a) A modification to the Trust Agreement between the Borrower's Ministry of Finance and CORFINA, providing for the reduction of A.I.D. loan funds from FOUR MILLION THREE HUNDRED THOUSAND UNITED STATES DOLLARS (US\$4,300,000) to TWO MILLION THREE HUNDRED AND ONE THOUSAND ONE HUNDRED UNITED STATES DOLLARS (US\$2,301,100).

(b) A credit contract between the Ministry of Finance and the Bank of Guatemala, by means of which THREE MILLION FOUR HUNDRED THOUSAND UNITED STATES DOLLARS (US\$3,400,000) of A.I.D. Loan funds will be transferred to the Bank of Guatemala, for discounts and advances to the banking system.

The funds referred to in the paragraphs (a) and (b) above will be transferred under terms and conditions no less favorable than the A.I.D. Loan and in accordance with the approved investment plan for the project.

(c) Operational Guidelines which describe the procedures (e.g. loan application, approval, disbursements, collections), eligibility criteria, and sub-loan terms and conditions for the CORFINA credit activity and for the Bank of Guatemala advance and discount mechanism, both to be funded under the credit fund.

3. Section G.2(e) is hereby eliminated from the PAF.

4. Section G. Covenants, is amended in its entirety to read as follows:

"The Cooperating Country shall covenant and agree that, except as A.I.D. may otherwise agree in writing, the Cooperating Country shall:

(a) Maintain interest rates to eligible final sub-borrowers under the credit activity as follows:

(i) At a minimum rate of 8% per annum (or at the prevailing legal market rate in the event such rate is less than 8% per annum) for subloans of \$10,000 or less, and at the prevailing legal market interest rate for subloans greater than \$10,000 financed under the Trust Agreement between the Ministry of Finance and CORFINA.

(ii) At prevailing legal market interest rates for sub-borrowers from public or private credit intermediaries funded under the Bank of Guatemala advance and discount mechanism.

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(b) Stipulate in any agreement made with any other intermediary institution to receive funds from the credit fund, that sub-loans made by such institution utilizing funds so transferred will have an interest rate no less than that established in (a) (i) for subloans deriving from funds assigned to CORFINA, and no less than that established in (a) (ii) for sub-loans made through the Bank of Guatemala discount mechanism.

(c) Deposit to the credit funds the reflows of principal and interest received from loans made from such credit funds for relending under the terms and conditions of the Trust Agreement between CORFINA and the Ministry of Finance, and under the terms and conditions of the credit contract to be entered into with the Bank of Guatemala.

5. Section 6.4 is amended as follows:

Counterpart Staffing:

The Borrower hereby covenants that, except as A.I.D. may otherwise agree in writing, Borrower shall assign the staff required over the life of the project to carry out project activities.



Charles E. Costello
Director
USAID/Guatemala

1-17-84

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P.S. In accordance with A.I.D. Handbook 3 and Delegation of Authority No. 133, and amendments thereto, USAID/Guatemala is authorized to extend the Project Assistance Completion Date (PACD) by one year. Consequently, the last phrase of the first sentence of the second paragraph of the PAF is amended to read "during the period FY 1979 through FY 1985, and the PACD (Loan) is hereby extended through July 13, 1985 and the PACD (Grant) through September 10, 1985"



1-17-84

PROJECT PAPER SUPPLEMENT

Rural Enterprises Development Project
No. 520-0245

INTRODUCTION

This PP supplement is organized into four parts. The first part presents a summary of the original project design; part two outlines the status of project implementation after three years of operations; part three presents a summary of a project progress evaluation conducted in mid 1983; part four discusses project reprogramming needs and strategies and presents a revised project description.

I. ORIGINAL PROJECT DESIGN

A. Goal and Purpose

The Rural Enterprises Project (hereinafter referred to as "project") was designed to improve the income levels of the rural poor in the Western Highlands of Guatemala. The overriding purpose of the project was to develop and expand small rural industry and artisan enterprises. To accomplish this, the program was to assist the GOG in developing a credit program focussed on small entrepreneurs in the Highlands, supported by technical assistance and appropriate technology information services for said entrepreneurs.

B. Expected Outputs

The anticipated sub-loan average was \$1,700; it was estimated that 5,500 sub-loans would be issued over the LOP and that 3,500 sub-borrowers would receive technical assistance. Furthermore, it was expected that five appropriate technology policy studies would be conducted and that 12 appropriate technology prototypes/models would be developed and disseminated. In addition, a system and procedures to export artisan products was to be developed.

C. Intended Impact

The impact of the project on beneficiaries would be determined by verifying the creation of 18,700 annual person years of employment and an average income increase of from 50 to 75 percent among entrepreneurs.

D. Inputs

Financial project inputs were divided as shown in Table I, below.

TABLE I

Rural Enterprises Development Financial Inputs
(In U.S. \$000)

<u>Activity</u>	<u>AID</u>		<u>GOG</u>	<u>TOTAL</u>
	<u>Loan</u>	<u>Grant</u>		
Credit	\$4,300	\$ 240	\$3,200	\$7,740
Enterprises Technical Assistance	---	275	1,159	1,434
Artisanry Market	---	155	38	193
Appropriate Technology	<u>1,700</u>	<u>500</u>	<u>273</u>	<u>2,473</u>
TOTAL	\$6,000	\$1,170	\$6,670	\$11,840

E. Expected Rate of Progress

Project designers expected that the National Finance Corporation (CORFINA) would be able to issue 1,100 sub-loans per year while maintaining a 2% bad debt rate. It was expected that the National Skills Training and Productivity Institute (INTECAP) would be able to organize and implement about 20 annual short-term courses and 20 annual credit education/promotion seminars for 400 entrepreneurs and to provide individualized technical assistance to approximately 300 entrepreneurs per year. Moreover, it was expected that the General Secretariat of the National Economic Planning Council (SEGEPLAN) would conduct one policy study and hold two appropriate technology conferences per year and develop and disseminate 12 appropriate technology prototypes/models over the LOP.

II. PROJECT STATUS AFTER THREE YEARS OF OPERATIONS

A. Progress

After three years of operations, the project had accomplished the following:

1. Credit

- a. 500 sub-loans issued (9% of expected LOP sub-loans).
- b. \$1,200,000 lent (15% of total credit funds available).

- c. 12% to 15% bad debt rate (a 2% bad date rate was expected).
- d. The average cost of credit processing/issuance was \$574, or 21.4% cost per sub-loan issued.

2. Technical Assistance

- a. 20 credit education/promotion seminars implemented (1/3 the number expected).
- b. Only one short-term course implemented (as opposed to 60 expected).
- c. 200 entrepreneurs trained (10% of number expected).

3. Appropriate Technology

- a. An appropriate technology base line survey was underway.
- b. One conference held (five conferences LOP target).
- c. No appropriate technology studies had been undertaken (five LOP target).
- d. Three appropriate technology prototypes were being developed (12 LOP target).

4. Artisanry Marketing

A short-term consultant had been hired to develop a model to export artisan products, contacts had been initiated with U.S. based firms (e.g., World Trade Institute, Creative Associates) to start activities under this component.

B. Progress Constraints

1. Delayed Project Take-off

The project was officially initiated in September, 1979, however, the GOG did not meet all the conditions precedent until March, 1981 and CORFINA did not start credit operations in the Highlands until July, 1981. Consequently, in terms of lending activities, 20 project months were lost. Furthermore, implementing institutions started operations at different times and, from the beginning, there was inadequate articulation between them.

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2. Unrest in the Highlands

The Western Highlands experienced a great deal of political violence in the late 70's and early 80's. Stable communities disintegrated, internal migration increased and small scale industrial and commercial activities diminished. Needless to say, the anticipated demand for small industry loans did not materialize.

Tourism declined severely and artisans lost their best market. Artisan loans became high risk loans and CORFINA responded by limiting the proportion of these loans to 10% of the overall portfolio.

3. Lack of Institutional Readiness

The Rural Enterprises Development Project, like many AID supported projects, is faced with serious institutional constraints as: (1) it is rather innovative, (2) it seeks to develop services which traditionally have had a modest priority in the list of local problems and needs, (3) it attempts to deploy systems which do not exist. CORFINA, INTECAP, GUATEXPRO and SEGEPLAN were faced with the dual task of implementing a project and developing their expertise to do so simultaneously.

The following are the salient institutional bottlenecks which were identified by an evaluation team which conducted a project implementation evaluation in September, 1982.

- a. CORFINA had to hire new, inexperienced personnel and develop new procedures on a trial and error basis. Consequently, processing of loan requests became cumbersome and time consuming.
- b. CORFINA has not been aggressive enough in promoting the use of credit. Its credit analysts have tended to sit behind their desks in Quetzaltenango and wait for potential borrowers to come in and request loans rather than travel to the field to promote the use of such credit. Moreover, CORFINA failed to organize a publicity campaign through local media to spark greater interest among local entrepreneurs in its loan program.
- c. CORFINA has not been able to take advantage of the credit flexibility that a trust agreement provides, rather, CORFINA has been handling credit operations using traditional and highly structured norms.

- d. CORFINA has not developed a credit utilization and follow-up mechanism.
- e. CORFINA presently suffers from a loan delinquency rate of approximately 12%. It is also burdened with high operational costs of its branch office in Quetzaltenango, currently running at almost \$200,000 a year, or more than 10% of the value of its current outstanding loan portfolio.
- f. INTECAP has not coordinated its technical assistance services effectively to support credit operations. Only half the individuals who are receiving technical assistance from INTECAP are becoming borrowers.
- g. INTECAP is depending mainly on general seminars to provide technical assistance (mainly credit education). Less than ten percent of the borrowers are getting individualized technical assistance which tends to concentrate on the basics of product pricing and firm accounting.
- h. SEGEPLAN is a policy making body, they conduct planning research and occasionally evaluate programs, but they are not a program implementing entity. Out of \$2.2 million assigned to appropriate technology, only \$40,000 had been utilized by 9/15/83.

III. 1983 PROJECT PROGRESS EVALUATION

In June 1983 the Mission contracted technical assistance to conduct an in-depth project progress evaluation.^{1/} The evaluator focussed on credit and technical assistance operations. The main findings follow.

A. Credit Operations

CORFINA has developed a high risk undiversified portfolio, lending mainly to entrepreneurs involved in activities which are saturated and have little potential for expansion (e.g., needle trades). Most of the sub-loans are small (\$2,000 average) and 81.4% of their funds are being used for working capital. Most of the loan (87.5%) are being given to two to three people "informal sector" shops.

^{1/} Consultant's Final Report: Reprogramming of the Rural Enterprises Development Project, George Morelos (GAMCO, Inc.), July, 1983.

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The above findings have important implications in terms of the intended project goal and purpose. It is unlikely that small shops competing in already saturated activities and which use credit mainly for working capital will create new jobs. At best, it can be argued that the project may be helpful in keeping actual levels of employment.

Unfortunately, it cannot be determined if the level of income of borrowers is actually increasing as a result of credit inputs as CORFINA has not gathered the data needed to analyze this factor. Currently there is no information needed to determine the extent to which (1) real production costs of borrowers are increasing or decreasing, (2) sales are increasing or decreasing, (3) real net income of borrowers is increasing or decreasing, (4) real net worth (debt to equity ratio) of borrowers is more or less favorable. Nonetheless, given the small size of the loans and the part-time nature of many artisans' businesses, it can be inferred that many loans are probably financing personal consumption rather than business investments.

CORFINA has failed to institute a credit supervision system, therefore, it is very difficult to ensure that sub-loan funds are being used for the purposes manifested by borrowers or applied effectively. Technical assistance may help compensate for this gap, but CORFINA is overexposing funds to risks.

Because excessive time is required to process sub-loans (3 months average) potentially sound borrowers are not using CORFINA as a credit source. CORFINA could become a last recourse for obtaining credit and attract mainly unqualified borrowers. Delinquency is already high (12%) and it may become unmanageable under prevailing conditions.

The costs associated with credit operations are too high (over twice the level estimated originally); given lending trends, CORFINA is unlikely to reach the break-even point within the LOP. In other words, CORFINA is losing and will continue losing money lending at an interest rate of 8%. Even if the loan average increased two or three fold and the levels of lending and reflows augmented considerably, CORFINA's credit operations would not become cost efficient (at an interest rate of 8%) without a concomitant reduction in administrative costs.

B. Technical Assistance

INTECAP's technical assistance consists of providing group instruction to potential borrowers. Ten direct contact hour courses are being delivered to heterogeneous audiences of 15 to 20 individuals over a two day period. These courses tend to be costly as many of the participants do not receive loans and shop proprietors seldom attend -- barely literate substitutes are normally sent to the courses.

INTECAP's individualized technical assistance is too sporadic and the proportion of borrowers served is insignificant. Given high cost of professional technical assistance, it makes sense to use general pre-credit courses; however, post-credit services are deficient in terms of coverage and frequency. It is doubtful that borrowers are getting the type and magnitude of technical assistance they need.

Coordination between technical assistance and credit activities is deficient. INTECAP personnel (5 professionals) depend on general lists of potential borrowers given them by CORFINA. Borrowers are contacted by mail and invited to attend scheduled courses. Attendance is low (40%). In the few cases where feasibility assessments are required (loans over \$10,000) prior to credit approval, CORFINA is supposed to refer potential borrowers to INTECAP. Thus far INTECAP has only conducted twelve feasibility analyses.

Because CORFINA does not have credit follow-up mechanisms, INTECAP cannot identify problem cases on a timely basis and is unable to assist in overseeing proper application of sub-loan funds.

The estimated technical assistance cost is \$350 per individual. Given the general and limited nature of technical assistance provided, this service is too costly to the project. Moreover, the services of INTECAP are underutilized; well qualified professionals are being used to deliver general courses to small, poorly educated audiences.

IV. PROJECT REPROGRAMMING

A. Rationale

It has been determined that the project is unlikely to have the desired effects if it continues providing small loans (at a high cost) for activities with little potential for employment and income generation. The Mission believes that the project has better possibilities of having positive effects on employment and income if adjustments are made, particularly in the credit component.

The following reprogramming recommendations, based on the two project evaluations conducted thus far, were made to the GOG by the Mission.

1. Broaden the project's potential impact by (a) expanding the list of economic activities eligible for financing, (b) increasing the sub-loan ceiling from \$30,000 to \$100,000 and (c) extending the geographical coverage beyond the Western Highlands. Promotion of credit fund through a number of ICI's nationwide and extension loans in larger amounts for a wider range of business activities is

expected to greatly increase loan disbursements and to have a more positive effect on production output and job creation. Average loan size will increase from around \$2,000 to \$25,000, clearly still within the small business spectrum.

2. Direct more credit to larger firms by increasing the eligible enterprises fixed assets limits from 5,000 to 25,000 in the case of artisanry and from 50,000 to \$250,000 in the case of industry. Relatively larger and more solvent firms can be expected to make more effective investments than small, informal sector firms.
3. Bring sub-borrower interest rates closer to market rates. Following extended negotiations with the GOG, USAID and the GOG have agreed upon a compromise position. CORFINA will continue to lend its resources at a subsidized rate of 8% for subloans under \$10,000, this given the GOG's political objection to penalizing CORFINA's largely small business/artisan clientele with higher market rates. For loans between \$10,000 and \$100,000, CORFINA will charge subborrowers market rates (currently 12%), since these clients will probably be larger firms with a greater ability to absorb market interest rates.

Other intermediaries, such as Cooperative Federations or the National Agricultural Development Bank (BANDESA), who may borrow wholesale from CORFINA, will lend primarily in amounts under \$10,000 at 8%. On the other hand, public and private banks drawing funds from the Bank of Guatemala discount mechanism under the project will lend to subborrowers at prevailing legal market interest rates, currently 12%.

Commercial banks will tend to lend to more medium-sized businesses at market rates. Consequently, USAID will urge informal small business borrowing targets on commercial banks as well as support a wide-scale media campaign so that commercial banks will give relative priority to small businesses in their lending.

4. Emphasize lending to growth enterprises and agro-industry given their special development impact. Labor intensive enterprises will also be given a priority position as USAID and the GOG prepare detailed eligibility criteria for CORFINA and for the Central Bank's discount system.
5. Develop a more specialized, agile and complete credit scheme. This will require (a) use of private sector banks to serve unmet credit needs (verified in the national

credit need survey conducted under the projects' progress evaluation) of medium sized industry, (b) use credit cooperatives to channel funds to artisans, (c) streamline CORFINA's lending systems and procedures so that it can select and follow-up sub-loans more effectively and develop a better quality small industry portfolio. The details of this revised credit scheme will be contained in revised trust agreements and credit regulations among CORFINA, Bank of Guatemala and the Ministry of Finance. However, a broad outline of how the revised credit system will work is given in George Morelos (GAMCO, Inc.) Final Consultant's Report on July, 1983.

6. Provide growth specific technical assistance to entrepreneurs (i.e., industrial profiles elaboration, output improvement, financial management, etc.) upon request. INTECAP will provide most of such assistance relying on its four AID funded consultants in Quetzaltenango, eight of its own consultants in the rest of the country, as well as support from its vocational education instructors located at its regional centers throughout the country.
7. Use other public and private resources besides INTECAP to provide technical assistance to entrepreneurs and have INTECAP provide services on a management by exception basis. The \$100,000 grant fund in the Bank of Guatemala will be used to contract short term TA in accounting, industrial engineering, marketing, etc., mainly from local consulting firms.
8. Deploy the resources of CORFINA's artisans park (which serves the Western Highlands) to organize pre-export activities (production, design improvement, quality control, purchasing, etc.); short term technical assistance to train CORFINA personnel in these areas will help bolster the park's commercial capability.
9. Articulate artisanry lending with artisanry marketing more tightly in order to provide needed marketing follow-up services to sub-borrowers more effectively. CORFINA's participation in the centrally funded AID project to mount a CBI exhibition at the July 1984 Atlanta Mart Gift Show will help support such marketing activities.
10. Use funds originally assigned to appropriate technology R&D to increase the funding available for credit in order to emphasize immediate to medium run economic effects rather than long run effects.

11. Emphasize practical appropriate technology activities and articulate appropriate technology prototype/model adaption and diffusion with production technical assistance. These activities will be carried out under the project management of INTECAP and the Planning Council, with technical assistance in specific technologies provided by local consulting firms or PVOs such as the Mesoamerican Center for Appropriate Technology (CEMAT).

A multi-institutional GOG commission studied the above recommendations over a two-month period and decided to accept and implement them; subsequently, a GOG-Mission commission made the necessary project design modifications. The following revised project description reflects the modifications made.

B. Revised Project Description

1. Goal

The goal of the project is to help generate off-farm employment opportunities and increase the income level of poor self-employed individuals.

2. Purpose

The purpose of the project is to stimulate the development and expansion of artisanry and small to medium sized enterprises in rural areas. In support of this purpose, the project will:

- a. Facilitate access to long-term credit by existing and new rural enterprises;
- b. Provide needed technical assistance in financial administration and production (including use of appropriate technology) to new and existing rural enterprises;
- c. Expand market opportunities for artisanry products.

3. Outputs

By complying with this project purpose and with the outputs outlined below, the project will complement activities of other AID projects, especially Rural Electrification (520-0248) and Small Farmer Diversification (520-0255). For example, a small grain mill financed by CORFINA may well use power, made possible by the Rural Electrification Project and provide a service, grain milling, which will aid small farmers under the Small Farmer Diversification Project.

By July, 1985, project activities will achieve the following outputs:

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a. Credit (CORFINA and Bank of Guatemala/ICIs)

- 1) At least 1,200 sub-loans to enterprises will be processed/issued.
- 2) A new credit line will be established by the Bank of Guatemala to channel funds to small and medium sized industry. This will include:
 - a) A central bank/intermediate credit institution (ICI) discount system portfolio,
 - b) An operating credit promotion mechanism,
 - c) A network of at least five participating ICI's operating at least 25 credit windows in rural areas.
- 3) A credit program will be developed by CORFINA. This program will serve primarily artisans and small entrepreneurs in the Western Highlands and will include:
 - a) An operating regional credit office with credit promotion, analysis, issuance and follow-up mechanism,
 - b) A central credit office with credit promotion, analysis, issuance and follow-up mechanisms.

b. Technical Assistance (INTECAP)^{2/}

- 1) At least 800 entrepreneurs will be trained individually in financial administration and production.

^{2/} The reprogrammed project will have INTECAP's professional consultants concentrate their efforts on small to medium sized industry as opposed to 1-3 person informal sector enterprises where they have concentrated in the past. In addition, approximately \$100,000 will be allocated to a fund at the central bank to pay for specialized consulting services from private firms or individuals. The Mission believes that the changed focus of INTECAP services, as well as recourse to private business consultants (including those sponsored by the International Executive Service Corps) will improve both the quantity and quality of technical assistance provided to borrowers under the credit fund.

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- 2) At least 10 regional courses in business development areas (e.g., accounting, inventory control, quality control, etc.) will be delivered.
- 3) Credit agents will be trained, as follows:
 - a) 12 from CORFINA.
 - b) 15 from cooperatives.
 - c) 25 from private sector banks.^{3/}

c. Appropriate Technology (INTECAP)

- 1) At least ten appropriate technology prototypes/models will be developed, tested and disseminated.

d. Artisanry Marketing (CORFINA-Artisans Park)

An artisanry marketing system and procedures will be developed; this system will include:

- 1) Internal and external market demand information (e.g., market entry channels, quality standards requirements, pricing structure, retailer/purchaser lists, etc.);
- 2) Promotional materials (e.g., catalogs, posters);
- 3) Advisory services to producers on product development, quality control, sales techniques, consumer and distribution norms;
- 4) A local network of quality controlled supply outlets;
- 5) A local network of finished product suppliers, buyers and distributors;
- 6) An export promotion mechanism based on participation in specialized trade fairs, sales missions and follow-up.

(See IMPLEMENTATION PLAN, Appendix One).

^{3/} Private sector credit agent's training will be financed using funds from input component e., "Assistance to Implementing Institutions."

4. Inputs

a. Credit

AID will contribute \$5,701.1 in loan funds and \$134,200 in grant funds for credit activities. The loan funds will finance sub-loans (\$2.3 million CORFINA and \$3.4 million Bank of Guatemala) for final borrowers; the grant funds will help finance credit analysis personnel for CORFINA. The GOG will provide \$3.2 million counterpart funds for sub-loans by CORFINA and \$197,000 for CORFINA credit operations.

b. Technical Assistance to Enterprises

AID will contribute \$206,100 in grant funds to INTECAP for this activity. This amount will finance four LOP professionals (in economics, accounting and engineering) and some operating costs. In addition, AID will provide \$60,100 in loan funds to INTECAP for vehicles and teaching/demonstration equipment. CORFINA and INTECAP will provide \$143,500 to finance eight technicians, support personnel and operating costs.

c. Appropriate Technology

AID will provide \$463,600 in grant funds and \$40,000 in loan funds for appropriate technology activities. These funds will finance contract services for policy studies to be coordinated by SEGEPLAN (\$100,000) and technicians/contract services and equipment for INTECAP to conduct prototype adaptation research, demonstrations and dissemination (\$343,600). SEGEPLAN and INTECAP will provide \$273,000 for support personnel and operating expenses.

d. Artisanry Marketing

AID will contribute \$155,100 in grant funds and \$125,000 in loan funds for this activity. The grant funds will finance advisory and related services to develop a marketing pilot sub-program. The loan funds will be used to establish a rotating fund to provide quality raw material (e.g., mercerized thread) to artisans and to purchase final products. CORFINA will provide \$97,000 to render quality control and product development assistance to artisans; in addition the GOG will provide \$38,000 for international marketing promotion and information services.

e. Assistance to Implementing Insitutions

\$211,000 in all will be provided by AID to finance the services of consultants in the areas of credit portfolio management and evaluation, credit discount systems, small industry development services and international marketing.

(See PROJECT BUDGET, Appendix Two).

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5. Revised Implementation Arrangements

In addition to the activities outlined in the Project Implementation Plan in Appendix One, USAID will take special steps to assure timely implementation of the Central Bank discount mechanism, as well as coordination of this component with other project activities. A long-term advisor with experience in banking and finance will be contracted to assist the Bank of Guatemala and participating banks in designing operational guidelines (e.g. eligibility criteria, subloan terms and conditions, how banks apply for funds to the discount mechanism). The advisor will then work with the banks in implementing the mechanism, spot-checking initial loans submitted for approval, and monitoring subloan activity by business size, economic sector and geographic location. These and other findings will be communicated through monthly reports by the advisor to USAID and the Central Bank. The advisor will also meet with participating commercial bank managers at least quarterly to assure smooth functioning of the discount system.

The External Finance Division of the Central Bank's Credit Department will be charged with coordinating implementation of the discount system with the help of the long term advisor. In addition, the long term project coordinator, presently located in SEGEPLAN, will be the primary means of integrating Central Bank as well as CORFINA credit operations with appropriate technology and technical-assistance to entrepreneurs funded under the project. Preparation of operational guidelines by CORFINA and the Central Bank for their respective credit funds will also include provisions in subloan contracts to assure that eligible subborrowers have received or at least have considered appropriate technology/technical assistance services of INTECAP or other project approved sources (e.g. private consultants). In order to check on the attainment of these linkages, USAID will analyze monthly reports by the project coordinator in addition to carrying out formal project evaluations. The project's first evaluation will be scheduled one year after the loan and grant agreements have been signed. The scope of the evaluation will examine such areas as the use of credit and its effect on employment generation, and the proportion of credit received by small to medium-sized businesses.

APPENDIX TWO
 SUMMARY ILLUSTRATIVE BUDGET
 (U.S. \$ 000)

CONTRIBUTIONS TO THE PROJECT	A.I.D.						TOTAL
	GRANT		LOAN		GOG		
	Original	Revised 8/17/83	Original	Revised 8/17/83	Original	Revised 8/17/83	
<u>I. Activity</u>							
1.1 Credit Fund	240.0	134.2	4,300.0	5,701.1 ^{a/}	3,200.0	3,200.0 ^{d/}	9,035.3
1.2 Technical Assistance to Enterprises	275.0	206.1	---	130.6	1,159.0 ^{b/}	1,159.0	566.6
1.3 Handcrafts Market	155.0	155.1	---	125.0	38.0	38.0	417.1
1.4 Appropriate Technology	500.0	463.6	1,700.0	43.3	273.0 ^{c/}	273.0	631.2
1.5 Technical Assistance to Implementing Institutions	---	211.0	---	---	---	---	211.0
TOTAL	1,170.0	1,170.0	6,000.0	6,000.0	4,670.0	4,670.0	11,840.0

Notes: ^{a/} \$1,775,000/CORFINA which includes \$16,200 for equipment and \$3,983,700/Bank of Guatemala.

^{b/} Includes expenses for CORFINA and INTECAP.

^{c/} Includes \$50,000 originally assigned to the Appropriate Technology Bulletin.

^{d/} Includes pari passu for CORFINA's credit fund.

Not Available Document

Activity	Agency	Task	Start	End	Value	
1. CREDIT	CONFINA, RINGO Dept. of Foreign Trade	1.1 CONFINA credit program with expansion/follow-up and program update developed	1.1.1	01/20/84	02/28/84	\$1,000,000
		1.1.2	03/01/84	03/31/84	\$1,000,000	
		1.1.3	04/01/84	04/30/84	\$1,000,000	
		1.1.4	05/01/84	05/31/84	\$1,000,000	
		1.1.5	06/01/84	06/30/84	\$1,000,000	
		1.1.6	07/01/84	07/31/84	\$1,000,000	
		1.1.7	08/01/84	08/31/84	\$1,000,000	
		1.1.8	09/01/84	09/30/84	\$1,000,000	
		1.1.9	10/01/84	10/31/84	\$1,000,000	
		1.1.10	11/01/84	11/30/84	\$1,000,000	
2. TECHNICAL ASSISTANCE	INTECAP, IN short term contract advisors	2.1 INTECAP technical assistance	2.1.1	01/20/84	02/28/84	\$1,000,000
		2.1.2	03/01/84	03/31/84	\$1,000,000	
		2.1.3	04/01/84	04/30/84	\$1,000,000	
		2.1.4	05/01/84	05/31/84	\$1,000,000	
		2.1.5	06/01/84	06/30/84	\$1,000,000	
		2.1.6	07/01/84	07/31/84	\$1,000,000	
		2.1.7	08/01/84	08/31/84	\$1,000,000	
		2.1.8	09/01/84	09/30/84	\$1,000,000	
		2.1.9	10/01/84	10/31/84	\$1,000,000	
		2.1.10	11/01/84	11/30/84	\$1,000,000	
3. APPROPRIATE TECHNOLOGY	INTECAP, IN short term contract advisors	3.1 Appropriate technology policy recommendations	3.1.1	01/20/84	02/28/84	\$1,000,000
		3.1.2	03/01/84	03/31/84	\$1,000,000	
		3.1.3	04/01/84	04/30/84	\$1,000,000	
		3.1.4	05/01/84	05/31/84	\$1,000,000	
		3.1.5	06/01/84	06/30/84	\$1,000,000	
		3.1.6	07/01/84	07/31/84	\$1,000,000	
		3.1.7	08/01/84	08/31/84	\$1,000,000	
		3.1.8	09/01/84	09/30/84	\$1,000,000	
		3.1.9	10/01/84	10/31/84	\$1,000,000	
		3.1.10	11/01/84	11/30/84	\$1,000,000	
4. ASSISTANT MARKETING	CONFINA, RINGO Dept. of Foreign Trade	4.1 Assistant marketing system/procedures developed	4.1.1	01/20/84	02/28/84	\$1,000,000
		4.1.2	03/01/84	03/31/84	\$1,000,000	
		4.1.3	04/01/84	04/30/84	\$1,000,000	
		4.1.4	05/01/84	05/31/84	\$1,000,000	
		4.1.5	06/01/84	06/30/84	\$1,000,000	
		4.1.6	07/01/84	07/31/84	\$1,000,000	
		4.1.7	08/01/84	08/31/84	\$1,000,000	
		4.1.8	09/01/84	09/30/84	\$1,000,000	
		4.1.9	10/01/84	10/31/84	\$1,000,000	
		4.1.10	11/01/84	11/30/84	\$1,000,000	
5. TECHNICAL ASSISTANCE TO RECEIVING AGENCIES	INTECAP, CONFINA	5.1 INTECAP technicians trained	5.1.1	01/20/84	02/28/84	\$1,000,000
		5.1.2	03/01/84	03/31/84	\$1,000,000	
		5.1.3	04/01/84	04/30/84	\$1,000,000	
		5.1.4	05/01/84	05/31/84	\$1,000,000	
		5.1.5	06/01/84	06/30/84	\$1,000,000	
		5.1.6	07/01/84	07/31/84	\$1,000,000	
		5.1.7	08/01/84	08/31/84	\$1,000,000	
		5.1.8	09/01/84	09/30/84	\$1,000,000	
		5.1.9	10/01/84	10/31/84	\$1,000,000	
		5.1.10	11/01/84	11/30/84	\$1,000,000	

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