PD-AAR-126 39462

UNCLASSIFIED

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

GUATEMALA

**PROJECT PAPER**

AGRIBUSINESS DEVELOPMENT

AID/LAC/P-213

Loan Number:520-K-039
Project Number:520-0276

UNCLASSIFIED

PDAAC 126

AGENCY FOR INTERNATIONAL DEVELOPMENT

# PROJECT DATA SHEET

1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete) — Amendment Number: ____ — DOCUMENT CODE: 3

2. COUNTRY/ENTITY: Guatemala

3. PROJECT NUMBER: 520-0276

4. BUREAU/OFFICE: LAC — 05

5. PROJECT TITLE (maximum 40 characters): AGRIBUSINESS DEVELOPMENT

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM DD YY — 0|3 3|0 9|0

7. ESTIMATED DATE OF OBLIGATION (Under 'B.' below, enter 1, 2, 3, or 4)
A. Initial FY 8|5 — B. Quarter 2 — C. Final FY 8|5

8. COSTS ($000 OR EQUIVALENT $1 = Q1.00 )

| A. FUNDING SOURCE | FIRST FY 85 B. FX | C. L/C | D. Total | LIFE OF PROJECT E. FX | F. L/C | G. Total |
|---|---|---|---|---|---|---|
| AID Appropriated Total | | | | | | |
| (Grant) | ( 600 ) | ( 170 ) | ( 770 ) | ( 2,354 ) | ( 646 ) | ( 3,000 ) |
| (Loan) | ( 640 ) | ( 250 ) | ( 890 ) | ( 5,950 ) | ( 3,550 ) | ( 9,500 ) |
| Other U.S. 1. | | | | | | |
| Other U.S. 2. | | | | | | |
| Host Country | 0 | 980 | 980 | 0 | 8,380 | 8,380 |
| Other Donor(s) | | | | | | |
| TOTALS | 1,240 | 1,400 | 2,640 | 8,304 | 12,576 | 20,880 |

9. SCHEDULE OF AID FUNDING ($000)

| A. APPROPRIATION | B. PRIMARY PURPOSE CODE | C. PRIMARY TECH. CODE 1. Grant | C. 2. Loan | D. OBLIGATIONS TO DATE 1. Grant | D. 2. Loan | E. AMOUNT APPROVED THIS ACTION 1. Grant | E. 2. Loan | F. LIFE OF PROJECT 1. Grant | F. 2. Loan |
|---|---|---|---|---|---|---|---|---|---|
| (1) ESF | 200 | 140 | 150 | - | - | 3,000 | 9,500 | 3,000 | 9,500 |
| (2) | | | | | | | | | |
| (3) | | | | | | | | | |
| (4) | | | | | | | | | |
| TOTALS | | | | - | - | 3,000 | 9,500 | 3,000 | 9,500 |

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each): 120 | 110 | 220 | 010 | 020 | 031

11. SECONDARY PURPOSE CODE: 730

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

| A. Code | COOP | PART | BF | BL | BR | | |
|---|---|---|---|---|---|---|---|
| B. Amount | | | | | | | |

13. PROJECT PURPOSE (maximum 480 characters)

To provide small farmers with profitable outlets for fruit and vegetable production through new or expanded agribusiness enterprises in rural areas.

14. SCHEDULED EVALUATIONS
Interim MM YY 0|6 8|8 — MM YY _ _ — Final MM YY 0|3 9|0

15. SOURCE/ORIGIN OF GOODS AND SERVICES
[x] 000 [x] 941 [ ] Local [X] Other (Specify) CACM

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a ____ page PP Amendment.)

17. APPROVED BY
Signature 1. [signature] 2. [signature]
Title
1. T. Totino, Controller
2. P. Kolar, Acting Director
Date Signed MM DD YY: 1|1 2|7 8|4

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION: MM DD YY

AID 1330-4 (8-79)

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

# PROJECT AUTHORIZATION

## (Amendment No. 1)

Name of Country: Guatemala

Name of Project: Agribusiness Development Project

Number of Project: 520-0276
520-K-039

1. Pursuant to Section 531 of the Foreign Assistance Act of 1961, as amended, the Agribusiness Development Project for Guatemala was authorized on December 31, 1984 (the "Authorization"). The Authorization is hereby amended as follows:

Section 3e is deleted in its entirety and the following substituted therefor:

"e. Covenant (Loan)

The Cooperating Country shall covenant that, during the life of the Loan, all reflows of principal and interest shall be deposited into a special account entitled "Agribusiness Development Funds" (ADF) to be held by the Bank of Guatemala (BOG). Funds in this special account may be used for the following purposes:

1. At the option of the BOG, to make payments of interest and repayments of principal to A.I.D., recognizing that payments due to A.I.D. are unconditional and not subject to sufficient funds from the special account being available for that purpose.

2. To cover the financial commissions of the BOG. Such commissions shall be calculated at a rate to be agreed upon between BOG and A.I.D.

3. To cover management and administrative costs and bad debt reserves on the subloans made by BANDESA and the participating banks or financieras. Such costs shall be calculated at a rate to be agreed upon between BOG and A.I.D.

4. For use as revolving funds (the "Entrepreneur Agribusiness Development Fund" and the "Agribusiness Development Fund for Cooperatives") to make additional loans on terms and conditions to be agreed upon between the BOG and A.I.D."

2. Except as expressly modified or amended hereby, the Authorization remains in full force and effect.

Victor M. Rivera
Assistant Administrator
Bureau for Latin America and
the Caribbean

MAR 21 1985
Date

Clearances:
GC/LAC:RBMeighan RM date 3-20-85
LAC/DR:ILevy ______ date ______
LAC/DR:DJohnson ______ date ______
LAC/CEN:GAdams ______ date ______

GC/LAC:PGJohnson/gw 0102B/3-19-85

-1



PROJECT AUTHORIZATION

Name of Country: Guatemala

Name of Project: Agribusiness Development Project

Number of Project: 520-0276

Loan Number: 520-K-039

1. Pursuant to Section 531 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Agribusiness Development Project for Guatemala, involving planned obligations of not to exceed Nine Million Five Hundred Thousand United States Dollars (US$9,500,000) in loan funds ("Loan") and Three Million United States Dollars (US$3,000,000) in grant funds ("Grant") over a one year period from date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the Project. The planned life of the Agribusiness Development Project is five years from the date of initial obligation.

2. The project ("Project") will provide small farmers with profitable outlets for their fruit and vegetable production through new or expanded agribusiness enterprises in rural areas. The Project will achieve this purpose by providing financing credit, technical assistance, training and a market information network in support of agribusiness development.

3. The Project Agreement(s), which may be negotiated and executed by the officer to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority, shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate.

a. Interest Rate and Terms of Repayment

The Government of Guatemala (GOG) shall repay the Loan to A.I.D. in U.S. Dollars within twenty-five (25) years from the date of first disbursement of the Loan, including a grace period of not to exceed ten (10) years. The GOG shall pay to A.I.D. in U.S. dollars interest from the date of first disbursement of the Loan at the rate of (i) two percent (2%) per annum during the first ten (10) years, and (ii) three percent (3%) per annum thereafter, on the outstanding disbursed balance of the Loan and on any due and unpaid interest accrued thereon.

b. Source and Origin of Commodities, Nationality of Services (Loan)

Commodities financed by A.I.D. under the Loan shall have their source and origin in countries which are members of the Central American Common Market (CACM) or countries included in A.I.D. Geographic Code 941, except as A.I.D. may otherwise agree in writing. Except for ocean shipping, the suppliers of commodities or services shall have countries which are members of the CACM or countries included in A.I.D. Geographic Code 941 as their place of nationality, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Loan shall be financed only on flag vessels of countries which are members of the CACM or countries included in A.I.D. Geographic Code 941, except as A.I.D. may otherwise agree in writing.

c. Source and Origin of Commodities, Nationality of Services (Grant)

Commodities financed by A.I.D. under the Grant shall have their source and origin in countries which are members of the CACM or in the United States, except as A.I.D. may otherwise agree in writing. Except for ocean shipping, the suppliers of commodities or services shall have countries which are members of the CACM or the United States as their place of nationality, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Grant shall be financed only on flag vessles of the United States, except as A.I.D. may otherwise agree in writing.

d. Conditions Precedent to Disbursements (Loan)

(1) Prior to any disbursement, or the issuance of any commitment documents under the Project Loan Agreement for the Bank of Guatemala Discount Facility, the Cooperating Country 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., operational guidelines which describe the procedures (e.g. loan application, approval, disbursements, and collections), eligibility criteria and subloan terms and conditions for the $7,000,000 Bank of Guatemala Discount Facility.

(2) Prior to any disbursement, or the issuance of any commitment documents under the Project Loan Agreement for the BANDESA Credit Line, the Cooperating Country 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., an executed agreement between the Bank of Guatemala and BANDESA governing the implementation of the $1,500,000 BANDESA Credit LIne. Such agreement will also contain operational guidelines which describe the procedures (e.g. loan application, approval, disbursements, collections), eligibility criteria and subloan terms and conditions for the $1,500,000 BANDESA Credit Line.

e. Covenant (Loan)

The Cooperating Country shall covenant that the Bank of Guatemala will deposit all interest and principal repayments for subloans made under the Bank of Guatemala Discount Facility or the BANDESA Credit Line to the Agribusiness Development Funds, and will relend these funds to eligible agribusinesses or cooperatives under the terms of the Bank of Guatemala Discount Facility and the BANDESA Credit Line during the life of the Project.

f. Conditions Precedent to Disbursements (Grant)

Prior to any disbursement, or the issuance of any commitment documents under the Project for technical assistance, the Bank of Guatemala and the Non-Traditional Exporters Guild shall furnish to A.I.D., in form and substance satisfactory to A.I.D., a life of project implementation plan, covering Loan, Grant, and GOG financed Project activities.

g. Covenants (Grant)

The Bank of Guatemala and the Non-Traditional Exporters Guild shall covenant that, unless A.I.D. otherwise agrees in writing, it will establish an evaluation program satisfactory to A.I.D. as an integral part of the Project. Such program, except as the Parties shall otherwise agree in writing, will include evaluations during the implementation of the Project and at one or more points thereafter.

Victor M. Rivera
Assistant Administrator
Bureau for Latin America and
the Caribbean

12/31/84
Date

Clearances:
GC/LAC:RBMeighan RM date
LAC/DR:ILevy ______ date
LAC/DR:DJohnson ______ date
LAC/CEN:PAskin ______ date 12/31
ARA/ECP:STMyles ______ date 12/31/84

GC/LAC:PGJohnson/gw 0050B

## AGRIBUSINESS DEVELOPMENT PROJECT

## TABLE OF CONTENTS


| | SECTION | PAGE NUMBER |
|---|---|---|
| | EXECUTIVE SUMMARY | i-iv |
| I. | Project Background and Rationale | 1 |
| | A. The Rural Development Context | 1 |
| | B. The Macroeconomic Setting | 2 |
| | C. Performance and Prospects for Non-Traditional Exports | 4 |
| | D. Project Constraints | 5 |
| II. | Project Description | 8 |
| | A. Project Goal and Purpose | 8 |
| | B. End-of-Project Status Indicators (EOPS) | 9 |
| | C. Project Outputs | 9 |
| | D. Project Components | 10 |
| | 1. Bank of Guatemala Component | 10 |
| | a. Agribusiness Development Fund Activity | 10 |
| | (1) Purpose | 10 |
| | (2) Processing of Credit Requests by Private Banks | 12 |
| | (3) Operation of the Rediscount System of the Central Bank | 13 |
| | (4) BANDESA Credit Line to Small Farmer Groups | 16 |
| | b. Financial Management Improvement Activity | 18 |
| | c. Entrepreneurial Development and Assistance Activity | 19 |

6


| SECTION | | | PAGE NUMBER |
|---|---|---|---|
| | | d. Evaluations and Audits Activity | 21 |
| | 2. | Cooperative Improvement Component | 24 |
| | 3. | Non-Traditional Products Exporters Guild Component | 25 |
| | | a. Market Information System Activity | 25 |
| | | b. Export and Investment Promotion Activity | 29 |
| III. | Cost Estimate and Financial Plan | | 33 |
| IV. | Implementation/Monitoring Plan and Evaluation Arrangements | | 44 |
| | A. | Illustrative Implementation Plan | 44 |
| | B. | Monitoring and Procurement Plan | 45 |
| | C. | Evaluation Plan | 45 |
| | D. | Gray Amendment Opportunities Under the Project | 47 |
| | E. | Conditions, Covenants and Negotiating Status | 48 |
| V. | Summaries of Analyses | | 49 |
| | A. | Technical Analysis | 49 |
| | B. | Social Analysis | 57 |
| | C. | Economic Analysis | 60 |
| | D. | Administrative Analysis | 65 |
| | E. | Environmental Analysis | 74 |

1

## ANNEXES

SECTION

1. LOG Frame Matrix
2. PID Approval Message
3. Statutory Checklist
4. E/G Request for Assistance
    a. Letter from Bank of Guatemala
    b. Letter from Non-Traditional Products Exporters Guild
5. Detailed Administrative Analysis
    a. The Guatemalan Financial System
    b. Organizational Chart for the Bank of Guatemala
6. Detailed Economic Analysis
7. Economic Tables
8. Detailed Technical Analysis
9. Guidelines for the Preparation and Presentation of Industrial Projects
10. Draft Project Authorization
11. Environmental Threshold Decision

## EXECUTIVE SUMMARY

Marketing has long been a key problem area for the small farmer in Guatemala. He is often unable to sell his cash crops, many of which are highly perishable, at consistently remunerative prices. If the installed capacity of domestic marketing and processing agribusinesses were increased, the small farmer would then find a greater demand for his product to supply both national and international markets. Unfortunately, small farmers and the public sector organizations which serve them lack the capital, know-how and entrepreneurial agility to expand processing and marketing outlets for non-traditional crops. The Guatemalan private sector, however, does possess these resources, and a few entrepreneurs have already founded agribusiness enterprises which rely heavily on small farmers as suppliers.

The proposed project will address the small farmers' marketing constraint by expanding private investment in agribusiness enterprises. By going through the private sector in order to achieve this objective, the project will support the broader policy goals of the Caribbean Basin Initiative. It will also closely complement current USAID projects in Rural Enterprises Development (520-0245), Small Farmer Marketing (520-0238), Small Farmer Diversification Systems (520-0255) and Highlands Agricultural Development (520-0274). In addition, the World Bank's recently approved Industrial Credit Project will help lay the groundwork for AID's new project by strengthening the Central Bank's capability to manage a discount facility for industrial credits - a capability easily adapted for USAID's agribusiness credits to the private sector.

Credit, technical assistance and training for new or expanded agribusinesses through the proposed project will also help Guatemala's economic recovery. Although the prices of traditional exports have recovered somewhat over the past year, Guatemala's export base remains weak and overly concentrated on a few primary products. The country's persistent foreign exchange crisis was underlined by the Bank of Guatemala's recent emergency authorization of a parallel market. The project's identification of diversified export markets and its generation of backward and forward linkages to small farmers, workers, and service industries will contribute toward a stable and more generalized economic revitalization. Furthermore, the project is expected to have an especially strong impact on small farmers since many non-traditional export crops are grown by them. In addition, larger agriculture producers will participate as suppliers to agribusiness firms who also have a significant supply from small farmers. This flexibility will help assure a sufficient and steady supply of produce for processing.

The goal of the project is to increase rural family incomes through improved production, storage, processing, marketing, and employment opportunities for high-value crops. The sub-goal is to expand and diversify

Guatemala's export of non-traditional agricultural products. The project purpose will be to provide small farmers with profitable outlets for their fruit and vegetable production. As a consequence, rural employment and incomes will be increased through new or expanded agribusiness enterprises in rural areas and through more intensive use of family and hired labor for high value crops. In carrying out the above purpose, the project will concentrate on agribusiness enterprises and producers dealing principally with fresh and frozen fruits and vegetables. However, the processing of other high-value crops such as herbs and spices may also be financed under the project, as well as the manufacturing of packing materials and other essential inputs for the agribusiness sector.

Under the Bank of Guatemala Component, $8,800,000 in AID Loan funds will finance fixed assets, working capital and feasibility studies for private and cooperative agribusinesses through an Agribusiness Development Fund. These funds will be channeled to individual entrepreneurs through the private banking system (primarily four financieras) and to small farmer groups through the GOG's National Agricultural Development Bank (BANDESA). These credit funds will be matched by approximately $5,250,000 in borrower equity and local bank credits. These AID Loan funds for the Agribusiness Development Fund will be channeled to financial intermediaries by the GOG's central bank (Bank of Guatemala.) This component also includes $300,000 in low interest credits to entrepreneurs for undertaking agribusiness feasibility studies.

Also under this Component, the Financial Management Improvement Activity will provide $240,000 in AID Grant funds for long-term technical assistance to the Bank of Guatemala and BANDESA as well as $80,000 in AID Grant financing for training of private bank personnel in credit analysis. The Entrepreneurial Development and Assistance Activity, on the other hand, will provide training and technical assistance directly to entrepreneurs. $500,000 in AID Loan funds will finance short-term technical assistance to new or expanding agribusinesses in start-up, research and development, and management. Another $80,000 in AID Grant funding will support seminars and workshops to transmit up-to-date technical information to entrepreneurs. This first Component also includes $200,000 in AID Grant funds for project evaluations and audits of financial intermediaries, cooperatives, and agribusinesses supported by the project.

The Cooperative Improvement Component will provide $730,000 in AID Grant funding to a U.S.-based PVO or consulting firm to provide technical assistance to small farmer cooperatives under the project. The AID Grant will also furnish $120,000 to pay for the initial years of local cooperative management staff, plus $240,000 to train cooperatives in improved production, packing and storing techniques.

The third and final component will be administered by the private Non-Traditional Products Exporters Guild. Its first activity, Market Information Systems, will be financed with $50,000 in AID Grant funds for a statistical data system and $80,000 for a documentation center. The second is an Export and Investment Promotion Activity which will be provided with $350,000 in AID Grant monies for systematic market searches and investment promotion, and $80,000 for policy studies on such issues as transportation and export tax and foreign exchange incentives.

AID project Loan and Grant funds will be provided from the Economic Support Funds (ESF) account. The stated purpose of the project is to provide small farmers (and especially those in the indigenous Highlands) with profitable outlets for their fruit and vegetable production through new or expanded agribusiness enterprises in rural areas. The Mission believes that this project purpose as well as the activities detailed in the project description are in conformity with AID/Washington cabled guidance (see State 325543) that ESF funds "be made available only for development activities aimed directly at improving the lives of the poor, especially the indigeneous population in the Highlands".

A summary illustrative budget for the project is provided below:

Table 1

SUMMARY BUDGET
(U.S. $000)

| Component | AID Loan | AID Grant | Private Capital | Total |
|---|---|---|---|---|
| A. Bank of Guatemala Component | | | | |
| 1. Agribusiness Development Fund Activity | 8,800 | --- | 5,250 | 14,050 |
| 2. Financial Management Improvement Activity | --- | 320 | 350 | 670 |
| 3. Entrepreneurial Development and Assistance Activity | 500 | 80 | 100 | 680 |
| 4. Evaluation and Audits Activity | - | 200 | 50 | 250 |
| Inflation and Contingency | 200 | 200 | 1,800 | 2,200 |
| Component Total | 9,500 | 800 | 7,550 | 17,850 |

| Component | AID Loan | AID Grant | Private Capital | Total |
|---|---|---|---|---|
| B. Cooperative Improvement Component | | | | |
| 1. Foreign and Local Advisors | --- | 730 | --- | 730 |
| 2. Local Staff | --- | 120 | 280 | 400 |
| 3. Training | --- | 240 | --- | 240 |
| Inflation and Contingency | --- | 360 | 80 | 440 |
| Component Total | --- | 1,450 | 360 | 1,810 |
| C. Non-Traditional Products Exports Guild Component | | | | |
| 1. Market Information System Activity | --- | 130 | 200 | 330 |
| 2. Export and Investment Promotion Activity | --- | 430 | 150 | 580 |
| Inflation and Contingency | --- | 190 | 120 | 310 |
| Component Total | | 750 | 470 | 1,220 |
| TOTAL ALL COMPONENTS | 9,500 | 3,000 | 8,380 | 20,880 |

/1

# I. Project Background and Rationale

## A. The Rural Development Context

Approximately two-thirds of Guatemala's population lives in rural areas. Of this group, 750,000 are small farmers, with a much larger number employed in the provision of goods, labor, or other services to the agricultural sector. Despite the large number of people living in the country's rural areas, their income is far below that of the cities. For example, migratory workers earn less than $1,000 per year. Poor public infrastructure in rural areas such as roads, electricity and water, is a further constraint to growth in employment and personal income. Moreover, inadequate social services in health and education adversely affect the quality of life in rural areas. In the Highlands, for example, such conditions result in low rates of primary school enrollment (30%-50%) and low life expectancy (44 years), and have induced large numbers of male inhabitants (as many as 500,000) to seek low wage seasonal employment in harvesting sugar cane, cotton and other plantation crops on the south coast. This rural-urban development dichotomy has been further exacerbated by a lack of commercial and financial support services which are especially needed to transform and sell agricultural products to national and international markets.

USAID has already funded a number of projects in the Highlands with a view toward improving infrastructure, cultivation practices, and quality and quantity of inputs used by small farmers in the region. Much of this assistance, now bolstered by the presence of a long-term four-man USDA tecnical assistance team in Quezaltenango, is now bearing fruit in terms of increased yields of non-traditional crops by campesinos. What is lacking are stable markets for this increased production, most of which cannot be sold locally or regionally at a remunerative price. Most small farmers lack contacts with agribusiness firms to purchase and process their product for export. Generally, they lack the experience and resources to process their produce directly for marketing overseas.

The proposed project will help improve generation of such exports from rural areas by promoting agribusiness. An expanded number of processors will help assure a more stable and profitable market for small farmers' produce than is currently available. Through provision of production credit, technical assistance, and market information to cooperatives, the project will also enable small farmers to participate within the agribusiness system with greater self-confidence and security.

Guatemalan agribusiness entrepreneurs and small farmer cooperatives have already begun to increase their investment in the processing and export of fruits and vegetables. Many entrepreneurs are looking to agribusinesses as a particularly attractive investment given the cyclical swings in world demand for Guatemala's traditional exports and the success of Hanover Brands' subsidiary in Guatemala (ALCOSA) in exporting Highland vegetables to the U.S. market. ALCOSA, like most other processors, relies heavily on small farmers for its supply of fruit and vegetables for processing by ALCOSA. Also some cooperatives have been successful in exporting fresh produce, the most notable example being the Cuatro Pinos Cooperative in Santiago Sacatepequez.

AID has encouraged this trend, and to date the Bank of Guatemala has approved over $800,000 of AID Loan funds for new or expanded fruit and vegetable processing plants under the Small Farmer Marketing Project (520-0238). All of these plants will look to small farmers as their principal produce suppliers. Moreover, in September of this year over 200 exporters, processors, campesinos, GOG officials, and U.S. brokers attended a marketing conference in Quezaltenango sponsored by the Non-Traditional Products Exporters Guild and USAID under the Agricultural Diversification Project. This event brought together a wide diversity of actors in the agribusiness production and processing chain to share experiences and interchange ideas for improving Guatemala's non-traditional exports. The conference also encouraged the Guild to later launch a concerted publicity campaign and briefings to alter the GOG's present restrictive policy on air freight transport.

## B. The Macroeconomic Setting

Until the 1960s, the export of traditional primary products (coffee, sugar, bananas and beef) was Guatemala's prime catalyst for economic growth. The rise of the Central American Common Market (CACM) in 1960 enabled Guatemala to diversify into light manufactured products sold within the region. In the mid-1970s, the saturation of the Central American market resulted in efforts to promote exports of non-traditional primary and processed goods to international markets. The Agribusiness Development Project, consistent with the Caribbean Basin Initiative and Guatemalan Government policy, bolsters this attempt at a particularly critical time.

Between 1965-78, the Guatemalan economy grew at a healthy annual rate of six percent. The worldwide recession coupled with political instability within the country caused economic growth to decelerate in 1980-81 and turn negative in 1982 and 1983. The value of traditional exports declined by $320 million during 1981-82, at first reflecting a drop in coffee prices and then mirroring the deepening industrial recession. Although Guatemala has maintained an overall positive trade balance among CACM countries, foreign exchange inflows have dramatically decreased from this source.

Foreign exchange losses caused the net international reserves of the Bank of Guatemala to drop from a surplus of Q716 million in 1979 to a deficit of Q26 million in December 1983.1/ In late 1982, the Government of Guatemala (GOG) imposed foreign exchange import quotas, thereby stimulating the unprecedented rise of an officially tolerated black market for hard

---

1/ 1 quetzal = 1 US dollar

currency.[2] Loans from foreign commercial banks and supplier's credit dried up in 1983 when exchange controls prevented these obligations from being met in a timely fashion.

Lack of foreign exchange is one of the most serious problems constraining the development of non-traditional exports. Although importers theoretically have access to a quota of foreign exhange calculated as a percentage of their 1981 imports, in 1983 importers had to wait up to several months to secure these resources from the Central Bank. Another result of the foreign exchange shortage has been the closing of CACM markets to Guatemalan goods.

The GOG has enacted legislation to stimulate non-traditional exports to hard currency countries. These measures, many enacted in mid-1984, include the:

-gradual elimination of all export taxes;

-authorization of tax credit certificates (CATs) equivalent to 10 or 15 percent of the FOB value of "old" and "new" export products, respectively, that may be used to pay exporters' income tax liabilities;

-elimination of duties on imported raw materials, semi-finished products, intermediate goods, packaging and containers, machinery, equipment and spare parts for drawback industries; and

-enactment of a 10-year moratorium on income taxes of wholly-owned Guatemalan firms producing solely for exports outside the CACM region.

This legislation is likely to have little effect, however, unless foreign exchange is made available to exporters. The Agribusiness Development Project, thus, comes at a particularly propitious time. The provision of hard

---

2/ While retaining an official market at 1:1 for "essential" goods such as medicines and certain food imports, the GOG's Monetary Board authorized a new, legal parallel market on November 15, 1984. Although it is too early to assess the impact of this measure on foreign trade, the move may well have a limited beneficial impact on non-traditional exporters. These exporters (with the exception of cardamom producers who have to change 100% of their exports at the official 1:1 rate) must continue to turn over 80% their dollars earned on exports to the Bank of Guatemala at a 1:1 rate of exchange, but the remaining 20% may be changed at the higher parallel rate. However, 100% of the value of non-traditional exports to Central America may be exchanged on the parallel market. At present, it is uncertain whether legalization of the parallel market will actually attract more dollars to Guatemala, thus increasing supply and lowering the cost of foreign exchange to exporters. In negotiations with the Bank of Guatemala concerning the proposed project, USAID will strive to have the dollar portions of subloans to entrepreneurs priced, where applicable, at the parallel rate.

currency loans that enable agribusiness exporters to import equipment and raw materials and secure permanent working capital will help to alleviate a serious constraint restricting Guatemalan agribusiness. Guatemala's low labor costs give it a comparative advantage for a variety of agribusiness products for which there is strong demand in the United States.

Lack of capital, nevertheless, is not the sole constraint restricting agribusiness development. Raw material producers must be provided the technical assistance, credit and prices needed to produce export quality agribusiness products. Agribusiness processors must have the necessary capital, technical assistance, information, transport and importer connections to take advantage of market opportunities. Bankers must process and disburse loans in a timely manner. Since agribusinesses will be paying commercial interest rates, they have a right to expect efficient service. The Agribusiness Development Project is designed to facilitate linkages throughout the entire production and marketing chain, and in so doing will address these constraints and input needs.

C. Performance and Prospects for Non-Traditional Exports

Although industry has been growing throughout the last decade and accounts for 16 percent of Gross Domestic Product, Guatemala is primarily an agricultural economy. Agricultural production contributes one-fourth of GNP and employs about 54 percent of the working population.

The United States is Guatemala's largest trading partner, accounting for 35 percent of exports ($400 million) and 32 percent of imports ($359 million). Between 1979-83 exports to the U.S. only grew at an annual compounded rate of two percent in nominal terms, while imports declined at an annual rate of 7 percent.

Coffee is still Guatemala's major source of foreign exchange, accounting for 30 percent ($351 million) of all export earnings in 1983 ($1,159 million). During the price boom of 1977-78, it provided about 45 percent of export goods. The five traditional agricultural exports (coffee, sugar, cotton, bananas, livestock) generated 50 percent of export earnings, down from an average of 64 percent during 1976-79. Although traditional exports can be expected to continue to provide the bulk of export earnings during the next decade, non-traditional products clearly provide the greatest potential for future growth.

Cardamom is by far the largest generator of foreign exchange among non-traditional exports, yielding $31 million worth of exports in 1983. Although the value of sales dropped in 1981-82 (from $55.6 million in 1980 to $34.3 and $29.7 million in 1981 and 1982, respectively), some of this may be accounted for by under-invoicing allegedly practiced by cardamom exporters, especially given the less than proportional drop in volume exported during those years. Another factor behind the decline in the value of 1983 cardamom exports from its high in 1980, was the decrease in the product's export price from $11.10 per kilo in 1980 to $7.16 per kilo in 1983. Nonetheless, given continued high returns to cardamom producers (many of whom are small farmers) and Guatemala's continued position as the world's largest supplier, cardamom should continue to grow as one of the country's key non-traditional exports.

Although the value of exports of vegetables and fruits declined by 28% from 1982 to 1983 (volume was only off by 20%), these products nevertheless have experienced significant growth during the past decade. Between 1975 and 1981, fruit (including preparations or processed fruit) and vegetables grew at annual compounded rates of 39 and 37 percent respectively. This high increase reflects the low base at which Guatemala began in 1975 -- only Q.8.6 million in fruit and vegetable exports compared to Q.52.4 million in 1982.

The decline in 1982-83 can be explained by the world-wide economic recession that diminished demand, reduced volume of trade within the Central American Common Market, limited foreign exchange and financing, which in turn reduced investment in Guatemala. Since an 18 month lag usually exists between economic trends in the United States and their effect on trading partners, demand should be strong for high quality fruit and vegetables during the mid 1980's. With the support of the proposed project, Guatemala's supply side problems will be addressed to take advantage of existing opportunities.

D. Project Constraints

Section II.A. of the PID discussed five potential constraints to the success of the proposed project: investor uncertainty, lack of market information, managerial inexperience, inadequate credit, and poor rural infrastructure.

As to the first constraint, investor uncertainty, the climate in Guatemala for both domestic and foreign investors has improved greatly over the past year. Political violence in the rural areas has diminished, and a new constitution and newly elected president are expected before the end of next year. An example of the country's renewed optimism in the future is to be found in the Non-Traditional Products Exporters Guild's organization (with USAID support) of a major promotion of the country's exports during the C/CAA Conference on the Caribbean in Miami during the first week in December.

The second constraint, market information, will be partially addressed by the marketing and export promotion activities of the Guild which will be supported under the present project. However, there is also a great need for linkage of Guatemalan producers and exporters to regional and international market information. Fortunately, ROCAP's proposed FY 1985 Non-Traditional Agricultural Export Support Project will regionally finance a variety of technical assistance, training, and market data base links which will complement USAID's country strategy in dealing with this constraint.

The third constraint addressed in the PID, managerial inexperience, is decidedly the smallest obstacle to prospective success of the project. As one of the historically strongest economies in Central America, Guatemala has a comparably advanced cadre of managers, exporters and financial intermediaries. Granted, to date this human infrastructure has concentrated most of its skills in managing traditional exports or production for a local or regional market. New skills will be required to start or expand the production, processing and marketing of fruits and vegetables. Nonetheless, USAID believes that Guatemala's professional managers, business schools, and private trade organizations, with the added support of this project, are more than equal to the challenge of agribusiness development.

The last two constraints, credit and infrastructure, admittedly pose greater difficulties. Given the $22.4 million in estimated credit demand detected by a Mission-contracted credit survey, the credit lines for agribusiness under this project will only partially aid in alleviating this constraint. A portion of funding to be made available for agribusiness under the recently approved $20.0 million IBRD Industrial Credit Project will complement AID's effort in addressing this need for credit.3/ AID's long term credit to agribusiness under the proposed project will also complement short-term lines for general imports under the IDB's Industrial Reactivation Project (US$60.0 million), the AID/BLADEX line for non-traditional export financing ($25.0 million), and the recently approved AID/EXIMBANK insurance program for up to $300 million in import letters of credit for Central America and Panama. However, the urgent need for dollars inherent in this credit demand and the cumbersome foreign exchange controls of the Bank of Guatemala pose a more worrisome obstacle to the project.

Fortunately, USAID has already made progress with the BG in designing an off-shore mechanism under the ongoing Rural Enterprises and Small Farmer Marketing projects whereby dollar denominated letters of credit will be available to businesses without going through foreign exchange controls. This same mechanism has been built into the present project's design so that agribusiness borrowers will get timely access to both quetzal and dollar financing needs from the Bank.

The final constraint, infrastructure, and particularly international transportation, is perhaps the most severe problem facing the project. For example, sea cargo space is insufficient from November to mid-April, forcing fresh produce exporters to book well in advance and sometimes store the products over one or two days in refrigerated containers. Service to Miami and New Orleans is provided by two roll-on, roll-off steamship companies. However, due to an unbalanced cargo situation, fees tend to be higher than normal. The average number of full refrigerated containers going to Miami in the months of November to March is 300, while the

---

3/ The IBRD Project will fund a wide variety of industrial ventures including metalworking, pharmaceuticals, and forest products. Agribusiness lending is expected to be a minor proportion of its portfolio.

monthly average for the remaining 8 months is 15 to 20. The principal shipping company (CCT) estimates an average of 70% empty refrigerated containers on the backhaul trip from Miami to Guatemala throughout the year.

Air cargo service for non-traditional exports is an even greater problem, especially for fresh produce. The Government of Guatemala controls charter flights and has tended in the past to disallow competition by other carriers. This lack of competition combined with unbalanced north/south cargoes has resulted in costly and irregular service provided only through AVIATECA (the national airline), Pan American Airways, and one flight a week by a small charter company (MacLean).

USAID helped spark a national debate on the transport issue with its and the Guild's sponsorship of a Fruit and Vegetable Marketing Conference in Quezaltenango in September, and with the funding of two separate studies on the issue in the course of designing the present project. Currently, the Guild and CANIZ, a large local freight forwarder, have launched a campaign in the local media to stress the serious limitations caused by the lack of space and high cost of freight by sea and by air. Private exporters have also held meetings or sent letters of protest to the Chief-of-State, AVIATECA and other GOG ministries to press the need for better transport for non-traditional exports, particularly by means of an "open skies" policy to bring in additional air freight lines to Guatemala. USAID is encouraging this transportation dialogue between the public and private sectors, one which will continue to be pressed by means of policy studies and workshops under the present project (see Project Description for USAID project strategy in addressing this constraint). Expected increases in the production and processing of non-traditional exports for shipment should also bring pressures to bear to expand international transport capacity between Guatemala and foreign markets. In sea freight, for example, locally based shipping lines do have access to additional refrigerated containers which could be put on to meet added demand. An expansion in volume of container shipments would also provide some price relief to exporters as higher volumes are exported from Guatemala.

In spite of these constraints, a number of firms continue to successfully export fruits and vegetables to overseas markets. One local firm, for example, has recently expanded processing capability and currently exports roughly 4,800,000 lbs. per year of fresh and frozen snow peas, cauliflower, pineapple slices and other produce to U.S. and European markets. In October, 1984, for example, CANIZ reported export shipments (mostly of perishable fruits, vegetables and ornamental plants) of over 500,000 lbs. per week.

It is anticipated that cost and space constraints for sea freight will improve in response to an increased flow of non-traditional exports generated by the project. Sea shipments are expected to account for the bulk of agribusiness exports financed by the project.

## II. Project Description

### A. Project Goal and Purpose

The goal of the project is to increase rural family incomes through improved production, storage, processing, marketing, and employment opportunities for high-value crops.

The sub-goal of the project is to expand and diversify Guatemala's export of non-traditional agricultural products.

The project purpose is to provide small farmers with profitable outlets for their fruit and vegetable production through new or expanded agribusiness enterprises in rural areas. The project will strengthen backward linkages to small farmers through their production and sale of high-value crops to processors and exporters, while simultaneously improving forward linkages by expanding employment in agribusiness plants.

In carrying out the above purpose, the project will concentrate on agribusiness enterprises dealing principally with fresh and frozen fruits and vegetables. However, the processing of other high-value crops such as herbs and spices may also be financed under the project, as well as the manufacturing of packing materials or other production inputs.

The concept of integrated financing of the production-marketing chain (based on the experience of AID Project 520-0238) will be prevalent in this project. While processor needs for working capital, expanded plant and equipment, and improved management will be financed primarily by the private banking system, the correlative needs of small farmer producers for financing production, collection, grading and cold storage facilities, will be met by BANDESA (The National Agricultural Development Bank), thereby facilitating the integration and capitalization of the production-marketing system.

The project is consistent with USAID/Guatemala's country development strategy emphasis on economic reactivation and increased rural income and employment generation in the Highlands where most of the project activities will be undertaken. Nonetheless, viable projects which have a positive impact on small farmers in other geographic areas will also be eligible for financing.

B. End-of-Project Status Indicators (EOPS)4/

By the project termination date, the following EOPS will have been achieved:

1. At least 15,000 small farmers having direct access to improved markets (higher product prices and/or greater quantities marketed) provided them by new and/or expanded private agribusiness enterprises;

2. At least 5,000 small-farmer members of groups and/or cooperatives having improved agricultural productivity and reduced post-harvest product losses through more timely access to and use of agricultural production credit and packing/storage facility investment credit from BANDESA;

3. At least 850 jobs for rural families created by the establishment and/or expansion of agribusiness enterprises, of which 50% will be women;

4. Processing and marketing of an additional $150 million annually of high-value crops by agribusiness enterprises during the life of the project; and

5. Attainment of financial break-even points by one of every three newly established agribusiness and cooperative ventures.

C. Project Outputs

By the project termination date, the following project outputs will have been attained:

1. Establishment and/or expansion of at least 20 private agribusiness enterprises through the provision of credit, technical assistance, training and market information;

2. Strengthening of at least 10 participating cooperatives in financial management, accounting, product storage and marketing through the provision of credit, technical assistance and training;

---

4/ Numbers of small farmers and plant workers to be benefited by agribusinesses were extrapolated by multiplying ALCOSA's (the Hanover Brands Subsidiary) experience with 1,500 participating farmers times the number of agribusinesses plants expected to be financed under the project, and then deflated by 50% given the smaller size of many project financed enterprises relative to ALCOSA. The number of small farmer cooperative beneficiaries (plus added labor for semi processing) was calculated by multiplying those benefited presently by the successful Cuatro Pinos Cooperative (250 small farmers) by the number of cooperatives expected to be supported under the project. The projected increase in exports due to the project, the average amount and number of cooperative and agribusiness credits and prospective agribusiness plant employment was based on data provided by a credit survey completed by the Development Alternatives, Inc. (DAI) in October, 1984.

3. Institutionalization of improved agribusiness credit analysis and loan appraisal in four private financieras (finance companies), three commercial banks and BANDESA;

4. Institutionalization in the Non-Traditional Products Exporters Guild of a data collection, documentation and information distribution system for the international marketing of fruits, vegetables and other high-value, non-traditional crops;

5. Institutionalization of systematic market searches, investment promotion and market-related policy studies in the Guild;

6. Training of the following individuals:

- 20 private bank and BANDESA managers and analysts in credit analysis techniques

- 60 entrepreneurs in financial and business management (including cooperative managers)

- 1,500 employees in plant management, quality control and processing operations

- 5 technicians from the Non-Traditional Products Exporters Guild in information management systems

D. Project Components

1. Bank of Guatemala Component

a. Agribusiness Development Fund Activity

(1) Purpose

This activity will provide $8,800,000 in AID Loan funds to finance fixed assets, working capital and feasibility studies for private and cooperative agribusinesses. These funds will be channeled to private entrepreneurs through four private financieras and interested commercial banks, and to farmer groups through BANDESA. These funds will be matched by approximately $5,250,000 in borrower equity and local bank credits. AID Loan funds under this component will be routed to the private banks through a discount mechanism to be administered by the Bank of Guatemala. BANDESA will receive $1,500,000 of these AID Loan funds through a line of credit to be signed with the Bank of Guatemala.

$7,000,000 of the activity's Loan funds will be sub-lent primarily by the country's four private financieras: Financiera Agropecuaria S.A. (FIASA), Financiera Industrial, S.A. (FISA), Financiera Guatemalteca, S.A. (FIGSA) and Financiera de Inversión, S.A. (FINSA). Commercial banks will also be eligible to draw on this funding. However, their participation is expected to be limited given their great emphasis on short-term lending to traditional agriculture and industry. A more detailed analysis of the commercial banking sector is included in Annex 5.

By mid-1983 these four private financieras held 5.8% (or $151 million) of the banking system's assets of $2.6 billion. They are the only institutionalized source of medium-term (3-7 years) bank credit in Guatemala thus constituting the logical intermediary for investment credits under this project. Although they have had some experience with agribusiness lending, such credits have largely been confined to expansion of existing businesses rather than funding of new ventures, in part due to lack of internal resources to finance such undertakings. The financieras' assessment of credit-worthiness is also heavily biased toward provision of suitable security or guarantees by credit applicants as opposed to a cash flow or profitability analysis. The financieras' agribusiness lending to date has not involved small farmers in sub-projects as fully as would be the case under the proposed project. Consequently, the activities financed herein are needed to increase the quantity of the financieras' lending in the agribusiness sector and direct it to small-farmer supported operations.

Processing of fresh and frozen fruits and vegetables will be emphasized among the agribusiness enterprises to be financed by financieras and commercial banks under the Fund. However, other types of agribusiness investments may also be financed such as: processing of oil seeds; manufacture of packing containers and materials; dehydration of fruits, vegetables and spices; preparation and distribution of seeds; treatment of fruits and vegetables for export; and preparation of other agricultural inputs. For the purpose of identifying these possible investments, a comprehensive survey of credit demand by type and location of agribusiness enterprise was undertaken for the Project Paper, the results of which are summarized in the Economic Analysis in Part C. of Section V.

An estimated 15,000 small farmers, primarily located in Guatemala's Western Highlands, will directly benefit from the private banks' credits by being provided with processing and marketing outlets for their high-value agricultural products. Although approximately $750,000 in small-farmer production credit will be provided directly by BANDESA with AID Loan funds, it is anticipated that up to 25% of each entrepreneur's sub-loan from this Fund may be used to finance small-farmer production credit and inputs. These entrepreneurs would then advance funds to small farmers contingent on the latter supplying the agribusiness with the resulting produce under a contract arrangement. Also, entrepreneurs may use their own resources to guarantee small-farmer production credit obtained from BANDESA, a practice presently common among agribusinesses in the eastern region of Guatemala.

It is expected that at least 80% of the Project's sub-loans will be administered by four private financieras who currently specialize in medium-term agricultural and industrial financing and have expressed interest in administering these proposed credit lines. A summary analysis of the finance company sub-sector and of each individual institution's financial situation and credit analysis capability is contained in Section V. Part D., Institutional Analysis. Since a limited number of sub-borrowers will be drawing on these credit lines, the financieras and technical assistance financed by the project will be able to closely review and monitor each sub-loan.

Agribusiness entrepreneurs will be identified, selected, financed and provided technical assistance and training as illustrated in the flow chart in Figure I. USAID will sign a loan agreement at concessionary terms 5/ with the Bank of Guatemala through which AID Loan funds will be transferred to the commercial banks and financieras at 7% using a rediscount mechanism. Commercial banks' rates to entrepreneurs will be at the maximum legal commercial bank rate, presently at 12%. Of this amount 3% will be used to service the AID Loan to the Bank of Guatemala, 1% will cover the Bank's cost of administering the AID Loan, 5% will go to the private banks to cover sub-loan administrative costs, bad debt reserves and profit, and 3% will be reinvested in the Bank of Guatemala's Agribusiness Development Fund for relending to agribusinesses. This 12% rate of interest reflects a real rate, after accounting for inflation, of approximately 4%. Financieras' rates to entrepreneurs will be at market interest rates, currently around 15%. However, it is possible that competition may induce financieras to lend at a lower rate in order to attract interest of entrepreneurs in using credit funded under the project. At the 15% rate, 3% would service the AID Loan, 1% would cover the Bank of Guatemala's cost in administering the Loan, and the remaining 11% would be divided between covering the financieras' administrative costs, bad debts and profit (minimum of 5%) and being reinvested in the Agribusiness Development Fund for relending.

(2) Processing of Credit Requests by Private Banks

The first screening of a potential borrower will be by the private banks' review of the credit application and subsequent personal interview with the entrepreneur to discuss his application. The sub-loan form will require mostly economic and financial information (e.g. projected financial statements, cash flows), background of the venture's owners and managers, and a minimum of technical detail. The application, in essence a pre-feasibility study, may require that the entrepreneur contract at his/her own expense technical assistance to adequately prepare the proposal.

If the bank approves the "bankability" of the credit proposal and determines that the proposed sub-project meets the eligibility criteria, it will sign a credit agreement with the entrepreneur. Initial disbursement under such an agreement will be contingent upon the completion of a feasibility study for the venture which will be reviewed by the private bank. Based on recent Mission conversations with the World Bank and the Bank of Guatemala, all private agribusiness credit requests under this project are

---

5/ 2-3% annual interest, 25 years to amortize the loan with a 10-year grace period.

expected to be channelled through a special Unit in the Bank of Guatemala as part of the IBRD's new Industrial Credit Project. This Unit's responsibility will be solely to review fulfillment of eligibility criteria but not to judge feasibility.

The private bank will also make "soft" sub-loans 6/ available to the entrepreneur to finance the cost of the required feasibility study. Short-term consultants to assist entrepreneurs in preparing these studies will be contracted by the entrepreneurs. Their specialties will include such areas as management and operation of processing plants, agricultural economics or agronomy (with experience on the production side of an integrated agribusiness operation), and expertise in export marketing of fresh and frozen fruits and vegetables. $300,000 in AID Loan funds will be provided through the private banks to finance approximately 50 person-months of these short-term consultants. If the completed study deems the venture feasible, the entrepreneur may use the study to obtain complementary financing from other banks or investors, in addition to the private bank's resources. The credit agreement may also condition disbursement of funds on the documented confirmation of the availability of other financing if needed to complete the sub-project. After initial disbursement, the private bank will monitor the use and eventual repayment of the funds. The general format for the credit application and an outline of the content of a typical pre-feasibility study are provided in Annex 9.

Investment sub-loan terms will be at commercial interest rates with maturities ranging from 3-7 years. Sub-loan size will range from $100,000 to $800,000 per credit (a credit range based on loan demand detected in a Mission contracted credit survey); sub-loans below $100,000 will be channeled to USAID's Rural Enterprises Project (No. 520-0245). Credit terms will require sound cash flow and feasibility analyses plus at least a 25% counterpart contribution by the sub-borrower in the form of equity. This implies a total contribution by entrepreneurs of $2,930,000 during the life of the project under this Fund.

USAID eligibility criteria for the private bank credits will require that agribusiness sub-projects directly benefit small farmers and/or rural poor (especially in the Western Highlands), and that they not finance traditional agricultural products. 7/ Nonetheless, sub-projects may draw on production supplied by large landowners provided that

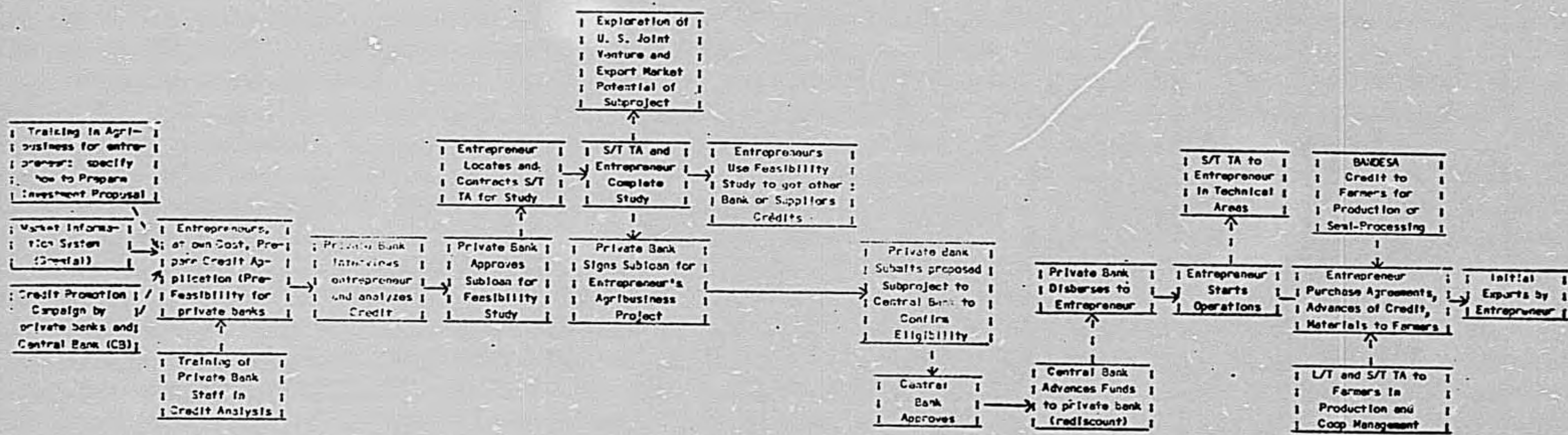
6/ Annual interest rates will be pegged at 4 points below the commercial rate existing at the time of the sub-loan. The sub-loan will be amortized in 3 years.

7/ Guatemala's traditional agricultural products include coffee, cotton, bananas, beef and sugar cane. However, cooperatives may qualify for financing of these products if a definite, small-farmer impact is clearly identified.

Figure No. 1

Promotion, Selection and Implementation of

Agribusiness Subprojects



predominant quantities of the production handled by these agribusinesses are provided by small farmers. Increased supplies available from larger producers will help agribusinesses operate at closer to full capacity and help assure viability of processing companies. Also, larger and steadier supplies to shipping companies will permit more favorable freight rates.

Sub-loan funds may be used by the entrepreneur in such fixed investments such as buildings, equipment and vehicles, as well as working capital needs. Most short-term working capital requirements will be financed by the entrepreneur or by commercial banks. Sub-loans may also be extended on a limited basis to small farmers for production credit as part of a larger financing package.

Beginning in the third year of the project, sub-loan repayments (on the private bank's portion of the sub-loan) will be available for relending by the banks for additional agribusiness ventures. Covenants in AID's Loan Agreement with the Bank of Guatemala will assure that the central bank continues to invest such repayments in agribusiness sub-projects during the life of the AID Loan.

(3) Operation of the Rediscount System of the Central Bank

With the US$7,000,000 million Loan provided by AID Loan, the Bank of Guatemala will establish a credit line to finance up to 80% of a sub-loan request which the private banks will channel to the agribusiness venture. This will assure that the banks provide at least 20% of each sub-loan venture from their own funds. This will amount to $1,750,000 million over the life of the project for the private banks under this Fund. It will be the responsibility of each private bank to screen sub-projects in light of the eligibility criteria, as well as to adequately assess the credit risk which they will be assuming. If a sub-borrower defaults on his payments to a private bank, the latter must absorb the loss. However, the foreign exchange risk of repaying AID's dollar-denominated Loan will be assumed by the Bank of Guatemala.

The Bank of Guatemala will rediscount the private banks' sub-loans in one of two ways: either it will reimburse the private bank for a credit which it has already disbursed with its own funds, or it will advance funds to the bank which in turn will disburse them to the sub-borrower. The Bank of Guatemala will be repaid by charging the private bank's reserve account in accordance with the amortization schedule for that particular sub-borrower. Dollar credit needs will be met by issuing letters of credit to U.S. suppliers drawn under an AID letter of commitment. Quetzal sub-loan requirements will be funded through local USAID Mission advances to the Bank of Guatemala.

The Bank of Guatemala will provide all necessary forms on which the private banks submit their rediscount applications. It will also act within a maximum period of eight days on the applications submitted. Subsequently, the Bank will sign a contract with the private bank for each credit rediscount so authorized. The nature of the review that the Bank of

Guatemala will perform in each case will be to fully confirm compliance with the eligibility criteria, leaving analysis of credit risk to the private bank. Consequently, the Bank will not engage in a lengthy and redundant credit analysis of each sub-project submitted by the private bank for rediscounting.

The Bank of Guatemala will monitor the loans accepted for rediscount and will inform the private banks, on a monthly basis, on the availability of resources, so that they may plan the credits to be provided during the ensuing months. Credits will be rediscounted by the Bank of Guatemala to the private banks on a first-come-first-serve basis.

(4) BANDESA Credit Lines to Small Farmer Groups

Under this activity, BANDESA will receive $1,500,000 in AID Loan Loan funds through a line of credit with the Bank of Guatemala. An estimated $750,000 of these funds will finance production credit while roughly $750,000 will finance long-term credits for investments in semi-processing, packaging and/or storing facilities of non-traditional agricultural products by small farmer groups.

In most cases, the credits to groups for semi-processing will be linked to that groups' supplying produce to an agribusiness entrepreneur financed under the project. However, the credit line may also be used to finance direct exports by such groups, with no connection with a local processor. Likewise, BANDESA production credits will normally help support groups in supplying an agribusiness financed under the project; alternatively, such credits might also support direct exportation of fruits and vegetables by the group.

It should be noted that USAID is aware of BANDESA's past difficulties in providing timely credit to small farmers in Guatemala. We anticipate that many of these difficulties will be reduced due to technical assistance and training provided to BANDESA under the project. Furthermore, we view BANDESA as a necessary alternative financing source for small farmers given the private banks' general unwillingness to lend to groups. BANDESA credit will also meet a need to diversify small farmers' source of production credit away from sole reliance on the good will of agribusiness buyers.

Guatemala has more than 700 cooperatives of which over half are dedicated exclusively to agricultural pursuits and more than 80% are rural. Their size ranges from fewer than 20 members to over 4,000. The relative success of the individual cooperatives varies, with some being very successful thanks to qualified management while others exist only in name. Due to the varied nature, size, financial strength, technical preparation, location and especially the generalized lack of collateral of these cooperatives, it is difficult for the private banking system to provide adequate [illegible] to these cooperatives under traditional banking conditions and procedu[illegible]

A few cooperatives have already made advances in fruit and vegetable export markets. In 1983, the Cuatro Pinos Cooperative with 250 members exported 920,000 lbs. of snow peas, broccoli and cauliflower to U.S. markets, while the Kato-ki Cooperative with over 1,000 participating members exported well over 2,000,000 lbs. of temperate climate fruits and vegetables to the U.S. Kato-ki is perhaps the country's most advanced cooperative serving small farmers. Thanks to technical assistance from the Berhorst Foundation in the 1970s plus outside credit lines (e.g. the current $500,000 credit from IDB), Kato-ki offers a wide variety of services to its members, from providing production credit and technical assistance to provision of farm inputs at a reasonable price.

The opportunity for small-farm producers to build and own their own collection, storage and processing facilities through organized groups provides them with greater bargaining power to "make" prices rather than to "take" them. With this production-marketing integration, the producers will have broader marketing options thus resulting in producer-led investment and development.

Therefore, this activity will provide credit through BANDESA to at least 10 cooperatives and/or groups for the construction and/or expansion of their physical facilities for collection, grading, storing and semi-processing of agricultural products. An estimated $750,000 in AID Loan funds will be on-lent by the Bank of Guatemala to BANDESA who will sub-lend to farmer groups for engineering and consultant services, construction of required plant facilities, acquisition of related plant equipment, purchase of vehicles and provision of working capital. These groups will submit detailed project proposals to BANDESA for review and approval and will then procure, construct and install required facilities in accordance with an implementation schedule to be presented to BANDESA and approved by USAID. BANDESA currently requires that small farmer borrowers show a land title as a condition for receiving credit. In practice, this requirement is often waived. Nonetheless, USAID will negotiate a provision in the credit regulation to be prepared by BANDESA (in satisfaction of a condition precedent to disbursement) which will waive land titling requirements for BANDESA borrowers under the project.

BANDESA will lend these investment funds to cooperatives and small farmer groups at commercial market rates of interest, currently at 12%. These terms are in accordance with already established BANDESA lending policies and with financial requirements supported by the groups' credit proposals. Of this amount 3% will be used to service the AID Loan to the Bank of Guatemala, 1% will cover the Bank's cost of administering the AID Loan, and 8% will go to BANDESA to cover sub-loan administrative costs and bad debt reserves. Maximum sub-loan size will be $100,000, with the groups required to provide at least 25% of the total sub-project financial requirements. This implies a total group contribution of around $250,000 (largely in-kind) over the life of the project for such credit for semi-processing. In addition, BANDESA will prepare detailed credit regulations which will specify terms and conditions of proposed financial assistance under the project.

Finally, this activity will make an estimated $750,000 of AID Loan funds available for production credit for agricultural cooperatives and small farmer groups, many of which will supply agribusinesses to be funded under the project. These funds will be used to finance direct production costs (labor and inputs) of small farmer members. BANDESA will sub-lend, based on crop plans provided by the groups, at established annual interest rates of 12%. Small producers will provide a matching counterpart contribution of around $250,000 worth of land, labor, and local inputs.

b. Financial Management Improvement Activity

It is anticipated that the four private financieras and participating commercial banks and BANDESA will take an active role in sub-lending and monitoring of project loan funds. The two largest financieras -- FIASA and FIGSA -- have had the greatest experience in credit analysis, principally due to their participation in the earlier ROCAP-CABEI Agribusiness Project. In general, neither the Guatemalan financieras nor the commercial banks perform comprehensive feasibility studies. Therefore, availability of borrower guarantees and security have played the preponderant role in the decision to grant credit. In order to remedy this situation, short-term technical assistance and training will be provided to build up the capacity of each private bank to review and analyze agribusiness credit requests, to interview entrepreneurs and to appraise their existing business operations. This assistance will be contracted by USAID in concert with the financieras and participating commercial banks with AID Grant funds. The Mission considers such assistance necessary in order to expand the private banks' evaluation of agribusiness projects beyond their current narrow frame of reference which is heavily oriented toward collateral. The availability of AID dollar Grant funds for this purpose will also allow the contracting of foreign experts in the project finance field which would not be possible if only private banks' local currency were available. Correspondingly, it is anticipated that each financiera and participating commercial bank will expand its present analysis staff by one professional in business administration and/or industrial engineering to be hired at the beginning of the project with its own funds to strengthen its analysis and review capabilities. A total of $80,000 in AID Grant funds will finance the technical assistance and training, while $300,000 of private bank funds will be used to contract additional professionals.

A total of $160,000 of AID Grant funds will finance a foreign advisor for two years to work with BANDESA technicians in the development and application of appropriate techniques for credit analysis and loan appraisal of cooperatives, including simplified yet comprehensive application forms, reduced BANDESA review and approval procedures, means of refinancing delinquent loans, and improving loan monitoring and collection procedures.

A total of $80,000 of Grant funds will finance a local hire advisor, with background in central bank discount systems and project analysis, to assist the Bank of Guatemala in establishing, monitoring and evaluating its credit fund with the financieras. He will work closely during his two-year contract with the other long-term and short-term technical advisors.

c. Entrepreneurial Development and Assistance Activity

Training and technical assistance support requirements of a particular agribusiness applying for credit under the Agribusiness Development Fund will be identified and assessed by the entrepreneur and the specific private bank. Based upon limited experience it is estimated that approximately 10% of total project costs will be required for this type of technical assistance. 8/ Loans to entrepreneurs for this purpose will be made available at "soft" interest rates by the private banks.9/

All technical assistance and training to entrepreneurs will be Loan funded and, when necessary, USAID may collaborate with the entrepreneurs and the private banks in the identification and selection of qualified personnel. The decision as to the type of technical assistance to be used will be left to the individual entrepreneur and the participating financiera or commercial bank. Actual contracting of technical assistance will be the responsibility of the sub-loan recipient and will be conducted along AID-accepted procedures.

Although it is difficult to specify the types of training and technical assistance which will be required, four general types are suggested as follows, of which the first three will be Loan funded by the private banks from $500,000 made available under the AID Loan for 50 person-months of assistance.10/

(1) Enterprise Establishment

AID Loan funds will be made available to enterprises for technical assistance in the selection and procurement of equipment/material, design of plant layout, determination of personnel and financial requirements, marketing, management and bookkeeping practices. It is anticipated that this type of technical assistance will be of short-term duration and will be available locally. Likely sources of this assistance will be local private consultants, as well as organizations such as the Guild or the Foundation for Entrepreneurial Development and External Trade (FUNDECOEX) which may offer entrepreneurs specialized advice in preparing the necessary documentation for exporting produce and importing machinery and other agribusiness inputs.

---

8/ ROCAP "Regional Agribusiness Development PID", AID/ROCAP 1976.

9/ Annual interest rates will be pegged at 4 points below the commercial rate existing at the time of the sub-loan. The sub-loan will be amortized in 3 years with a one-year grace period.

10/ The project will also draw heavily on Grant financed foreign technical assistance to be provided by ROCAP's new $8.0 million FY 1985 Non-Traditional Agricultural Export Support Project.

(2) Research and Development

AID Loan funds will be made available for the development of appropriate processing and packaging technology. The research will be of an applied nature addressing specific technical problems encountered during the development of a given project and could include such areas as product quality control, sizes, types and designs of containers and new products in response to market demands. This technical assistance will also be short-term but may require foreign as well as national expertise.

(3) Enterprise Management

In the case of new industries it is expected that short-term, on-site assistance will be required in the initial stages of operation to develop inventory and production control systems, accounting systems, personnel management and to train local managers. This type of technical assistance will be provided by foreign and national experts. AID Loan funds may also be made available to new and existing ventures to finance the provision of their own technical assistance to participating growers in order to establish/maintain product quality and scheduling.

(4) In-Country Seminars and Conferences

The Non-Traditional Products Exporters Guild will have access to $80,000 in AID Grant funds to provide training for pre-selected entrepreneurs (primarily those with credit applications approved by the private banks) in such general areas as plant and personnel management, grading and standards, shipping to and selling in foreign markets, etc. Private sector entities such as chambers of commerce or trade organizations will provide approximately $50,000 of counterpart funding for these events in the form of conference hall space, audio-visual equipment, conference organization, publicity, and supplies. Domestic institutions such as the National Institute for Technology and Productivity (INTECAP), Rafael Landivar University, and Francisco Marroquin University's Graduate School of Management (ESEADE) will be drawn upon to teach courses of between two and four weeks duration.

U.S. agencies and institutions (such as the U.S. Department of Commerce, Department of Agriculture or universities) will also be utilized to provide instruction in specialized areas. The training provided to these groups of entrepreneurs will complement the more individualized, Loan-funded technical assistance as may be required under each sub-project. The Guild will carry out this training in conjunction with its other programs under the Market Information and Export and Investment Promotion Activities. In fact, foreign investors, brokers, and other sources contacted under these other activities will be invited to participate in seminars and conferences sponsored under the project.

d. Evaluations and Audits Activity

Of the $250,000 available from AID Grant funds for this activity, approximately $150,000 will be reserved for project evaluations and $50,000 will be allocated for audits of agribusiness firms and farmer groups. Baseline information will be obtained from ongoing surveys conducted under other projects. Specific information will also be obtained from BANDESA loan documents and as possible from documentation supplied by the financieras.

The first project audit/evaluation will be held at the end of the second year of the project's implementation activities. The audit portion of this review will examine the financial solvency of both lending institutions and sub-borrowers under the project. The evaluation portion will assess USAID's and the implementing agencies' progress in attaining overall project objectives. Audits will be held bi-annually following this initial review. Additional evaluations will be carried out in the third year of the project's implementation activities and at the PACD. The final evaluation will assess the project's success in meeting the end-of-project status indicators.

A U.S. technical assistance team consisting of one agricultural economist, one banking and finance expert, and one marketing expert will be drawn upon for a total of 18 person months to conduct the evaluations. When possible, these consultants will also participate in training activities for financieras, entrepreneurs, and farmers financed elsewhere in the project. The initial audit of individual agribusinesses and cooperatives and/or farmer groups financed under the project will be designed by the evaluation team in cooperation with a local accounting firm. This firm will then carry out the initial audit and will design the subsequent bi-annual audits to be completed during the project life. Evaluation and audit findings will be used to fine tune project implementation as discussed further in Section IV, Project Implementation.

Table 2

BANK OF GUATEMALA COMPONENT BUDGET
(U.S. $000)

| Activity | AID Loan | AID Grant | Private Capital | Total |
|---|---|---|---|---|
| A. Agribusiness Development Fund Activity | | | | |
| 1. Bank of Guatemala Discount Facility | | | | |
| a. Sub-loans for feasibility studies | 300 | --- | 50 | 350 |
| b. Sub-loans for fixed assets and working capital | 7,000 | --- | 4,700 | 11,700 |
| 2. BANDESA Credit Line | | | | |
| a. Sub-loans to farmer groups for production credit | 750 | --- | 250 | 1,000 |
| b. Sub-loans to farmer groups for semi-processing, packing and storage | 750 | --- | 250 | 1,000 |
| Activity Sub-Total | 8,800 | --- | 5,250 | 14,050 |
| B. Financial Management Improvement Activity | | | | |
| 1. *Financiera* Training and Support | | | | |
| a. Training in credit analysis and invitational travel | - | 80 | 20 | 100 |
| b. Hiring of 4 local credit analysts and 2 credit supervisors | - | - | 300 | 300 |
| 2. Banking and finance advisor to BANDESA(24 p.m.) | - | 160 | 20 1/ | 180 |

| Activity | AID Loan | AID Grant | Private Capital | Total |
|---|---|---|---|---|
| 3. Advisor to Bank of Guatemala for implementation of discount mechanism (24 p.m.) | - | 80 | 10 1/ | 90 |
| Activity Sub-Total | - | 320 | 350 | 670 |
| C. Entrepreneurial Development and Assistance Activity | | | | |
| 1. Technical assistance to entrepreneurs in enterprise establishment, research and development and enterprise management (50 p.m.) | | 500 | --- | 550 |
| 2. Seminars and conferences | --- | 80 | 50 | 130 |
| Activity Sub-Total | 500 | 80 | 100 | 680 |
| D. Evaluation and Audits Activity | | | | |
| a. Project evaluation | - | 150 | - | 150 |
| b. Project audits | - | 50 | 50 1/ | 100 |
| Activity Sub-Total | - | 200 | 50 | 250 |
| Inflation and Contingency | 200 | 200 | 1,800 | 2,200 |
| COMPONENT TOTAL | 9,500 | 800 | 7,550 | 17,850 |

1/Additional costs attributed directly to the GOG.

2. Cooperative Improvement Component

In order to help participating local cooperatives improve their management and marketing efforts, $1,450,000 in AID Grant funds will finance a cooperative agreement with a U.S. cooperative organization or firm to provide foreign and local management expertise, as well as paying training and counterpart local management of the participating cooperatives on a declining basis. Six person-years of long-term U.S. cooperative management assistance and twelve person-months of short-term, problem-specific assistance will be provided under this contract.

This technical assistance will supplement over $1.5 million in credit being lent to fruit and vegetable cooperatives for semi-processing, production credit, and storage under the ongoing Small Farmer Marketing Project. It will also greatly expand upon the few instances of ad hoc technical assistance to individual cooperatives (e.g. the Swiss sponsored technical assistance to the Cuatro Pinos Cooperative), and will work together with the GOG National Cooperative Institute's (INACOP) cooperative strengthening program at the national level. The latter program has already been funded with $1.0 million in local currency generations from the ESF Project. Despite the existence of these programs, grant-funded technical assistance to fruit and vegetable cooperatives is especially necessary in order to assure these cooperatives' effective integration into agribusiness operations to be funded under the project.

A pre-requisite for this management assistance to a borrowing cooperative shall be the hiring (if not already hired) of a local professional manager and accountant by the cooperative with AID Grant funds or their own resources. Because the cooperative will pay increasingly larger portions of the local professional staff's costs with the passage of time, it is expected that by project termination the cooperative will have assumed the total financing of these costs, thereby institutionalizing high-level Guatemalan management. $120,000 of AID Grant funds will be provided to the cooperatives on a declining basis over four years, while the cooperatives themselves will be required to provide $280,000 on an increasing basis over four years to pay for these salaries. Detailed scopes of work for the long and short-term foreign technical assistance will be developed jointly by the cooperatives and USAID.

Since the project will support the expansion of several agricultural cooperatives and/or farmer groups and the purchase of needed equipment, an additional $240,000 in AID Grant funds will be used to provide training to the leaders of the involved cooperatives in the areas of business management, marketing, equipment operations and maintenance, production and accounting. This training will take the form of short courses in Guatemala and observational travel to third countries. The individuals will be selected by the participant farmer groups with approval by USAID.

Table 3

COOPERATIVE IMPROVEMENT COMPONENT BUDGET
(U.S. $000)

| Activity | AID Loan | AID Grant | Private Capital | Total |
|---|---|---|---|---|
| A. Long-term Technical Assistance (72 p.m.) | --- | 600 | --- | 600 |
| B. Short-term Technical Assistance (12 p.m.) | --- | 130 | --- | 130 |
| C. Local Cooperative Management Staff | --- | 120 | 280 | 400 |
| D. Training | | | | |
| 1. Short courses | --- | 200 | --- | 200 |
| 2. Observational travel | --- | 40 | --- | 40 |
| Inflation and Contingency | --- | 360 | 80 | 440 |
| COMPONENT TOTAL | --- | 1,450 | 360 | 1,810 |

### 3. Non-Traditional Products Exporters Guild Component

#### a. Market Information System Activity

The Non-Traditional Products Exporters Guild, a private branch of the Guatemalan Chamber of Industry, is the leading interest group in the country backing the promotion of non-traditional exports. It has exercised this leadership role through promotion of a number of high-level, public-private sector conferences and commissions concerning international transportation and other issues related to exports. It also has taken a lead role in funding, organizing, and implementing Guatemala's successful participation in the C/CAA Conference on the Caribbean on December 3-7, 1984. USAID believes that the high calibre of its leadership, its demonstrated ability to influence national export promotion policy, and its strong interest in expanding market information and other services to non-traditional exporters make the Guild the logical choice to implement the Market Information and Export and Investment Promotion Activities as well as to coordinate the training discussed in the previous Entrepreneurial Development and Assistance Activities. In order to enable the Guild to carry out these activities, USAID will sign a separate Grant agreement with the Guild for $700,000. A full administrative analysis of the Guild is contained in the Administrative Analysis, Section V. Part D.

Experience gained in international marketing indicates that the timely availability of reliable, up-to-date information on price levels and fluctuations, origins and quality of products, and early notice of arrivals of shipments to the importing markets, have an immediate and direct impact on incomes of individual exporters in terms of increased values as well as overall earnings. This, in turn, has significantly benefitted individual exporters and producers, having prevented losses in sales revenues by enabling exporters to channel their shipments (re-directing them in many cases) to more remunerative markets, thus correcting previous practices whereby products were often sent to already over-supplied markets. Improved commercial information will facilitate the establishment of new commercial contacts between importers and Guatemalan exporters, resulting in more profitable diversification of export markets. Likewise, the availability of accurate and up-to-date price information through the Guild will enable Guatemala to ensure an optimum repatriation of foreign currency earnings.

Longer-term analysis of trends and export potential will allow such Guatemalan Ministry of Agriculture's dependencies as its Sectoral Planning Office, the Institute for Agricultural Marketing (INDECA), the Institute for Agricultural Science and Technology (ICTA), the Guatemalan Directorate for Agricultural Services (DIGESA), and farmer groups, to more accurately determine the types of crops to be grown, the most appropriate varieties, the type of internal marketing infrastructure required to support expanded exports, and the kind of marketing contracts and farmer organizations best suited to the specific export crop.

When discussing an agricultural market information system, it is necessary to understand the principal action points of the system and how they work (or should work) in an integrated fashion to enable the growing, harvesting, packing, shipping, marketing and consumption of agricultural products in the most efficient manner possible. Although the purpose of this project does not include an in-depth study of the structure and performance of the agricultural marketing system, it is herein assumed that by the provision of improved, up-to-date marketing information through all the points in the system, produce will be delivered in the size, shape, color, quality and time that consumers demand, resulting in a more favorable price for the producer and exporter. The principal points in the system are: the grower, the processor, the exporter/transporter, the broker, the wholesaler/retailer, and the consumer. An information system which does not draw upon and feed back information from each of these points will be an inefficient system. Thus, this project will attempt to provide some degree of service to each of these points. This project will deal with the concept of information through the following mechanisms:

(1) <u>Statistical data system.</u> The operation to be established in Guatemala under this component will tie into the new ROCAP FY85 Non-Traditional Agricultural Export Support Project, which is aimed at efficiently collecting, organizing, analyzing and disseminating market and technical information from a multitude of sources to all ROCAP countries

including Guatemala. A central computerized data base will be created and maintained by ROCAP at a mutually satisfactory data center and communications linkages will be established with each CA/P country to facilitate immediate access to information.

In order to tie into the ROCAP system, the Guild will install telex equipment in its offices and a mini-computer will be purchased and installed in the Guild for processing, tabulating and storing data. This telex-computer hook-up will also allow the Guild to tie into other sources of up-to-date information such as: The International Trade Center (ITC) of UNCTAD/GATT which presently covers weekly quantity and price information on agricultural products imported into nine European countries; the U.S. Produce Marketing Association (PMA) and its Information Center which stores data on any product in the U.S. fresh fruit and vegetable, flower, and plant categories available to any member (presently there are nearly 2,000 companies and promotional groups worldwide) upon request by telex; the USDA's Agri-Markets Data Service which provides a computerized network of daily and weekly statistics on various agricultural commodities traded in principal U.S. wholesale markets; the CBI Information Network which provides data to the Caribbean and Central American nations on prices and quantities of products imported, shipping arrivals, and listings of brokers and exporters, etc.

Consulting Services will be contracted to assist the Guild in establishing a telex terminal interconnected to an international system, as well as to provide instruction on the establishment of a dissemination system to various users in Guatemala. In addition to the weekly dissemination of up-to-date data and statistics, the computerized data bank within the Guild will provide search and retrieval information services at the request of paying customers in Guatemala including, but not limited exporters/transporters, processors, growers, the public agricultural sector, and potential investors.

(2) Documentation center. In addition to the provision of price data, it is probably more important that non-price information such as import regulations, product grades and sizes and transport timing, be gathered, catalogued and made available to interested Guatemalan institutions and individuals dealing with the growing/processing/exporting aspects of agricultural products. Therefore, a documentation center shall be established within the Guild with library facilities such as photocopying equipment, a microfiche machine, an indexed catalogue system, and document storage capacity. Examples of documents which should be maintained by the Center are: market demand forecasts for agricultural products; U.S. and European grades and standards for exporting; inspection requirements; technical requirements for sizing and packing; lists of brokers and wholesalers; location and capacity of importing countries' port facilities; comparative international transportation costs and schedules; trade agreements; seasonal price fluctuations; catalogues. The use of the center will be free to the

public, although document reproduction and publications subscriptions for individuals will carry a charge. Guild subscriptions for weekly and monthly publications will be maintained, while special studies and analyses will be purchased separately. Memberships in various organizations such as the United Fresh Fruit and Vegetable Marketing Association, American Frozen Food Institute, and the Produce Marketing Association will provide the Guild with additional bulletins and analyses such as the Directory of International Trade, Produce Marketing Almanac, Labeling Requirements Book, and Equipment Bulletin. These catalogues, bulletins, and studies will be catalogued by the center and a list of available materials shall be prepared and updated every six months for distribution to Guatemalan users.

(3) Internal Distribution System. The mere existence of data and information in a centralized place does not assure that it will be used or be useful. Certain international statistics will be of great utility to exporters/transporters and processors and it is expected that these interested parties will automatically take advantage of the existence of the documentation center and statistical data system in the Guild since most or all are already members of this organization. However, growers and development planners will not have easy access to these resources unless a complementary distribution system is established. Formal linkages will therefore be established between the Guild and the GOG Ministries of Agriculture and Economy and the Bank of Guatemala through the existing National Commission for Promotion of Fruit and Vegetable Exports, of which the Guild is also a member. This commission will assist the Guild in determining the kinds of information which would be of greatest utility and priority for the public agricultural sector and the format that this information should take (e.g. descriptive vs. tabular). Subsequently, these public sector institutions, especially the Ministry of Agriculture through its Sectoral Planning Office and INDECA and DIGESA, shall be responsible for this information being supplied to producer groups and individual farmers. Before the service is established, an in-depth survey will be done by the Guild of all potential users, both public and private, to determine the demand for and frequency of documents and statistical information and appropriate fee schedules. In addition to using the public sector for information dissemination, the Guild will establish a branch office of its own in Quezaltenango for the two-fold purpose of distributing information and developing closer contacts between processors/exporters and small-farmer fruit and vegetable producers in the Western Highlands.

Initially, this project component will finance the expansion of the Guild's paid staff to include an information systems specialist and a documentation specialist. The salaries of these individuals will be paid on a declining basis with AID Grant funds totalling $60,000, with the balance over the five-year period of $100,000 to be paid by the Guild from income generated from the operation of the market information systems center. Due to fees received by the Guild from exporters and producers for newsletters, telex market inquiries, and data base searches for product specific information, USAID expects that the Guild's market information activities will be self-financing before the end of the project. Another revenue source will be for the Guild to charge admission to expert presentations on topics of interest to exporters similar to the seminar series currently sponsored by the National Managers Association.

AID Grant funds in the amount of $50,000 will be provided to the Guild to purchase equipment (minicomputer, mocrofilm machine) and lease a telex and photocopy machine. An additional $20,000 of AID Grant funds will be used by the Guild over the five-year period for subscriptions to periodicals, membership fees in trade organizations, and preparation and publication of the Guild's directories and studies. Space for the information center in Guatemala City and for the branch office in Quetzaltenango will be paid by the Guild as will the branch office manager's salary, which would amount to $50,000. The ROCAP Non-Traditional Agricultural Export Support Project will provide additional support to the Guild in the development of their documentation center.

b. Export and Investment Promotion Activity

The market information systems described above provides a one-way flow of data and documentation from external sources to Guatemala growers, investors, planners, processors and exporters. Although it does not directly result in a return flow of domestic information to foreign countries, it facilitates contacts of Guatemalan institutions and individuals with foreign investors, transporters, brokers and wholesalers which is so important in developing a dynamic, export-oriented operation. There is no GOG institution in charge of promoting exports. Only the Guild, which is a non-profit, private sector organization responsible for encouraging export and investment promotion, is presently making a limited attempt in this field. Based on the implementation of the CBI programs and the resulting dynamism of many competitive Central American and Caribbean countries to capture the newly-available U.S. fresh and frozen fruit and vegetable markets, this activity will fully develop and fund the export and investment promotion actions of the Guild.11/ This will take the form of three specific activities.

(1) Systematic Market Searches. This will be accomplished through a series of visits by Guild personnel and interested institutional and individual producers/investors/exporters to potential wholesale markets, trade shows and conferences. These visits would include the terminal market in Miami, New York, New Orleans, Los Angeles, and some European ports, personal contacts with brokers and importers in the U.S., Canada, and Europe and attendance at conferences and trade shows such as the Produce Marketing Association's annual produce exposition and convention and the annual CBI marketing seminar.

(2) Investment Promotion. As contacts are made through systematic market searches and the purchasing of memberships in specialized

11/ This will be undertaken in coordination and collaboration with similar activities to be initiated at the Central American regional level by the upcoming ROCAP Non-Traditional Agricultural Export Support Project.

trade associations, an excellent opportunity exists for using these contacts to promote investment opportunities in Guatemala among U.S. agribusiness ventures. This project will assist the Guild in preparing audio-visual presentations and materials which clearly explain in English the advantages of investing in Guatemalan packing and/or processing agro-industries. It will also finance domestic workshops for foreign investment and trade missions, thereby providing a stimulus for foreign investors to see with their own eyes Guatemalan investment potential.

(3) Policy Analysis. In order to make the domestic situation more conducive to fruit and vegetable exports and foreign investment, the project will finance a series of policy studies on such topics as: restrictive transportation, taxes on investment, accessibility of foreign exchange for imports of inputs (boxes, packing materials, etc.), length of time to repatriate dollars, investment credit and pricing mechanisms. These studies will presumably provide both the public and private sectors with sufficiently reliable information to determine whether a present policy is conducive to growth and, if not, push to have the policy changed to improve these incentives.

Policy analysis funded under the activity will be but one part of a general USAID strategy to urge the GOG to ease air transport, foreign exchange, and other bureaucratic strictures on non-traditional exports. The Mission Director has already launched a series of meetings and briefings with the Ministers of Finance, Transport and Communications, Economy, Agriculture, and the Bank of Guatemala to encourage GOG movement on these issues. This policy dialogue will continue during the life of the project.

Given current pressures on the GOG by the Guild and other private groups concerning the "open skies" issue, it is possible that the air transport constraint may be eased prior to signature of a project agreement. In fact, as of October AVIATECA had made available through December 1984 an additional cargo plane for non-traditional exports as a response to pressures exerted on it by the Guild. Nevertheless, in view of the cautious attitude of the present military government before the presidential elections scheduled for next year, the GOG is unlikely to approve any special measures to aid non-traditional exports prior to signature of the project agreement. Given this situation, and given that many non-traditional product exporters are able to operate under current policy constraints, USAID strongly recommends that no such conditions precedent to authorization, or to disbursement following agreement signature, be included in AID/Washington's authorization of the Project. Such conditions were suggested in the PID guidance cable (See Annex 2).

In order to implement these systematic market searches and export and investment promotion activities, the Guild will be provided with $350,000 of AID Grant funds to carry out at least 10 seminars in Guatemala, to prepare appropriate materials on Guatemala for presentation to potential investors, and to undertake systematic market searches through attendance at technical conferences and trade fairs. This funding also covers the cost of approximately 10 person-months of a marketing consultant firm to work with the Guild. An additional $80,000 of AID Grant funds will be made available to the Guild to contract the undertaking of the series of policy studies mentioned above. The Guild, its members, and other entrepreneurs will finance at least 25% (or $50,000) of the cost of attendance at trade shows and conferences. Also, $100,000 will be provided by the private sector to host domestic trade and investment missions.

Table 4

NON-TRADITIONAL PRODUCTS EXPORTERS GUILD COMPONENT BUDGET
(U.S. $000)

| Component | AID Loan | AID Grant | Private Capital | Total |
|---|---|---|---|---|
| A. Market Information System Activity | | | | |
| 1. Statistical Data System | | | | |
| a. Microcomputer, telex and data base services | --- | 50 | 50 | 100 |
| 2. Documentation Center | | | | |
| a. One Information and one documentation specialist | ---- | 60 | 100 | 160 |
| b. Periodicals, and trade Assoc. Memberships | --- | 20 | - | 20 |
| 3. Internal Distribution System | --- | --- | 50 | 50 |
| Activity Sub-Total | --- | 130 | 200 | 330 |
| B. Export and Investment Promotion Activity | | | | |
| 1. Systematic Market Searches (visits to brokers, attendance at trade shows, and contracting of marketing firm) | --- | 160 | 50 | 290 |
| 2. Investment Promotion (supplies and equipment for export promotional presentations, plus in-country workshops | --- | 190 | 100 | 290 |
| 3. Policy Analysis (6 p.m. of consultancies, plus travel, per diem, and office support cost) | --- | 80 | --- | 80 |
| Activity Sub-Total | --- | 430 | 150 | 580 |
| Inflation and Contingency | --- | 190 | 120 | 310 |
| COMPONENT TOTAL | --- | 750 | 470 | 1,220 |

## III. Cost Estimate and Financial Plan

The purpose of the project is to provide small farmers with profitable outlets for their fruit and vegetable production, and to increase rural employment through new or expanded agribusiness enterprises in rural areas and through more intensive use of family and hired labor for high value crops. The project will carry out this purpose through three components - Bank of Guatemala, Cooperative Improvement, and Non-Traditional Product Exporters Guild - as detailed in the Illustrative Budget in Table 5. The Bank of Guatemala component constitutes the largest component under the project, largely due to the large Loan-funded credit lines for individual entrepreneurs and Farmer groups, while the other two smaller components consist mainly of Grant-funded technical assistance and training. Table 5 as well as the subsequent tables in this section reflect approximately a 20% inflation and 5% contingency factor on Grant and host country costs and on Loan-funded technical assistance. It is also noteworthy that only $80,000 of the $8,380,000 host country contribution is GOG funded, the rest coming from private sources.

Table 6 provides the breakdown of foreign exchange and local currency costs under the project. Table 7 indicates the relative distribution of Loan, Grant and host country expenditures by input; credit again figures as the most prominent input, followed by technical assistance.

Table 8, projected annual expenditures, shows the expected flow of Loan, Grant and host country expenditures during the five-year life of project. Increasing local revenue generation and diminishing Grant-funded support for the statistical data system and documentation center activities reflect growing financial self-sufficiency by the Non-Traditional Products Exporters Guild as it charges for its new services under the project. Table 9 illustrates the methods to be employed in implementing and financing project activities. An AID letter of commitment for dollar costs under the Agribusiness Development Fund and host country reimbursement to the Central Bank for local currency costs under the Fund will be the two principal financing mechanisms, followed in importance by a direct Cooperative Agreement with a U.S. PVO to provide technical assistance under the Cooperative Development Improvement Component.

Recurrent costs are not an issue for this project since once AID project Loan and Grant funds are exhausted, private banks, farmer groups, cooperatives, agribusiness and the Guild are expected to have adequate experience and financial resources to continue to support agribusiness development activities beyond the PACD.

Financial viability of the private banks and BANDESA as credit intermediaries is examined in Part D., Section V., Administrative Analysis, and Annex 5, The Guatemalan Financial System.

Table 5

TOTAL PROJECT ILLUSTRATIVE BUDGET
(U.S. $000)

| Component/Activity | AID Loan | AID Grant | Private Capital | Total |
|---|---|---|---|---|
| A. Bank of Guatemala Component | | | | |
| 1. Agribusiness Development Fund Activity | | | | |
| a. Bank of Guatemala Discount Facility | | | | |
| i. Sub-loans for feasibility studies | 300 | --- | 50 | 350 |
| ii. Sub-loans for fixed assets and working capital | 7,000 | --- | 4,700 | 11,700 |
| b. BANDESA Credit Line | 1,500 | --- | 500 | 2,000 |
| Sub-Total | 8,800 | --- | 5,250 | 14,050 |
| 2. Financial Management Improvement Activity | | | | |
| a. *Financiera* Training and Support | | | | |
| i. Foreign advisors | --- | 80 | 20 | 100 |
| ii. Local staff | --- | --- | 300 | 300 |
| b. BANDESA Technical Assistance | --- | 160 | 20 1/ | 180 |
| c. Bank of Guatemala Technical Assistance | --- | 80 | 10 1/ | 90 |
| Sub-Total | --- | 320 | 350 | 670 |

| Component/Activity | AID Loan | AID Grant | Private Capital | Total |
|---|---|---|---|---|
| 3. Entrepreneurial Development and Assistance Activity | | | | |
| a. Technical assistance in enterprise establishment, research and development, and enterprise management | 500 | --- | 50 | 550 |
| b. Seminars and conferences | --- | 80 | 50 | 130 |
| Sub-Total | 500 | 80 | 100 | 680 |
| 4. Evaluations and Audits Activity | --- | 200 | 50 1/ | 250 |
| Sub-Total | --- | 200 | 50 | 250 |
| Inflation and Contingency | 200 | 200 | 1,800 | 2,200 |
| COMPONENT TOTAL | 9,500 | 800 | 7,550 | 17,850 |
| B. Cooperative Improvement Component | | | | |
| 1. Foreign and Local Advisors | --- | 730 | --- | 730 |
| 2. Local Staff | --- | 120 | 280 | 400 |
| 3. Training | --- | 240 | --- | 240 |
| Inflation and Contingency | --- | 360 | 80 | 440 |
| COMPONENT TOTAL | --- | 1,450 | 360 | 1,810 |
| C. Non-Traditional Products Exporters Guild Component | | | | |
| 1. Market Information System Activity | | | | |
| a. Statistical data system | --- | 50 | 50 | 100 |
| b. Documentation center | --- | 80 | 100 | 180 |
| c. Internal distribution system | --- | --- | 50 | 50 |
| Sub-Total | --- | 130 | 200 | 330 |

| Component/Activity | AID Loan | AID Grant | Private Capital | Total |
|---|---|---|---|---|
| 2. Export and Investment Promotion Activity | | | | |
| a. Systematic market searches and investment promotion | --- | 350 | 150 | 500 |
| b. Policy studies | --- | 80 | - | 80 |
| Sub-Total | --- | 430 | 150 | 580 |
| Inflation and contingency | --- | 190 | 120 | 310 |
| COMPONENT TOTAL | --- | 750 | 470 | 1,220 |
| TOTAL COMPONENTS A, B AND C | 9,500 | 3,000 | 8,380 | 20,880 |

1/ These figures quantify additional GOG costs (e.g. office space, secretarial support) directly attributable to supporting technical assistance to BANDESA and the Bank of Guatemala, plus project evaluations. The above budget does not quantify expected support for the farmer group credit line by BANDESA's existing nation-wide network of credit agents, nor the Bank of Guatemala's support in processing discount facility loans. The latter function will be carried out by the Bank's Project Unit which will draw upon existing Credit Department personnel or technicians reassigned from elsewhere in the Bank.

Table 6
SUMMARY COST ESTIMATE AND FINANCIAL PLAN
(U.S. $000)

| Component/Activity | AID Loan FX* | AID Loan LC* | AID Grant FX | AID Grant LC | Host Country FX | Host Country LC | TOTAL |
|---|---|---|---|---|---|---|---|
| A. Bank of Guatemala Component | | | | | | | |
| 1. Agribusiness Development Fund Activity | | | | | | | |
| a. Bank of Guatemala Discount Facility | | | | | | | |
| i. Sub-loans for feasibility studies | 100 | 200 | - | - | - | 50 | 350 |
| ii. Subloans for fixed assets and working capital | 5,000 | 2,000 | - | - | - | 4,700 | 11,700 |
| b. BANDESA Credit Line | 300 | 1,200 | - | - | - | 500 | 2,000 |
| Sub-Total | 5,400 | 3,400 | - | - | - | 5,250 | 14,050 |
| 2. Financial Management Improvement Activity | | | | | | | |
| a. Financiera Training and Support | | | | | | | |
| i. Foreign advisors | - | - | 80 | - | - | 20 | 100 |
| ii. Local staff | - | - | - | - | - | 300 | 300 |
| b. BANDESA Technical Assistance | - | - | 160 | - | - | 20 | 180 |
| c. Bank of Guatemala Technical Assistance | - | - | - | 80 | - | 10 | 90 |
| Sub-Total | - | - | 240 | 80 | - | 350 | 670 |
| 3. Entreprenurial Development and Assistance Activity | | | | | | | |
| a. Technical Assistance in Enterprise Establishment, Research and Development, and Enterprise Management | 350 | 150 | - | - | - | 50 | 550 |
| b. Seminars and Conferences | - | - | 40 | 40 | - | 50 | 130 |
| Sub-Total | 350 | 150 | 40 | 40 | - | 100 | 680 |

Page No.

7

| Component/Activity | AID Loan FX* | AID Loan LC* | AID Grant FX | AID Grant LC | Host Country FX | Host Country LC | TOTAL |
|---|---|---|---|---|---|---|---|
| 4. Evaluations and Audits Activity | - | - | 80 | 120 | - | 50 | 250 |
| Sub-Total | - | - | 80 | 120 | - | 50 | 25[illegible] |
| Inflation and Contingency | 200 | - | 200 | - | - | 1,800 | 2,2[illegible] |
| COMPONENT TOTAL | 5,950 | 3,550 | 560 | 240 | - | 7,550 | 17,85[illegible] |
| B. Cooperative Improvement Component | | | | | | | |
| 1. Foreign and Local Advisors | - | - | 584 | 146 | - | - | 73[illegible] |
| 2. Local Staff | - | - | - | 120 | - | 280 | 400 |
| 3. Training | - | - | 80 | 160 | - | - | 240 |
| Inflation and Contingency | - | - | 300 | 60 | - | 80 | 440 |
| COMPONENT TOTAL | - | - | 964 | 486 | - | 360 | 1,810 |
| C. Non-Traditional Products Exporters Guild Component | | | | | | | |
| 1. Market Information System Activity | | | | | | | |
| a. Statistical Data System | - | - | 50 | - | - | 50 | 100 |
| b. Documentation Center | - | - | 80 | | | 100 | 180 |
| c. Internal Distribution System | - | - | - | - | - | 50 | 50 |
| Sub-Total | | | 130 | | | 200 | 330 |
| 2. Export and Investment Promotion Activity | | | | | | | |
| a. Systematic Market Searches and Investment Promotion | - | - | 350 | | | 150 | 500 |
| b. Policy Studies | - | - | 80 | - | - | - | 80 |
| Sub-Total | - | - | 430 | | | 150 | 580 |
| Inflation and Contingency | - | - | 190 | - | - | 120 | 310 |
| COMPONENT TOTAL | - | - | 750 | - | - | 470 | 1,2[illegible] |
| TOTAL COMPONENTS A, B, and C | 5,950 | 3,550 | 2,354 | 646 | - | 8,380 | 20,8[illegible] |

* FX = Foreign Exchange (Dollar) costs, and
LC = Local Currency (Quetzal) costs.

0060C

Table 7

SUMMARY COST ESTIMATES BY INPUTS
(U.S. $000)

| Activity | AID Loan | AID Grant | AID Total | Host Country | Total |
|---|---|---|---|---|---|
| Credit and equity investment in agribusiness plants, production credit and semi-processing 13,700 | 8,500 | - | | 8,500 | 5,200 |
| Technical Assistance | 800 | 1,150 | 1,950 | 100 | 2,050 |
| Personnel | - | 120 | 120 | 680 | 800 |
| In-Country Training Costs | - | 320 | 320 | 200 | 520 |
| Office Equiment and supplies | - | 280 | 280 | 150 | 430 |
| Evaluations, Audits and Policy Studies | - | 280 | 280 | 50 | 330 |
| International Travel and Per Diem | - | 100 | 100 | - | 100 |
| Contingency and Inflation | 200 | 750 | 950 | 2,000 | 2,950 |
| Total | 9,500 | 3,000 | 12,500 | 8,380 | 20,880 |

0061C

Table 8

PROJECTED ANNUAL EXPENDITURES
(U.S. $000)

| Component/Activity | YEAR 1 AID Loan | YEAR 1 AID Grant | YEAR 1 Host Country | YEAR 1 Total | Year 2 AID Loan | Year 2 AID Grant | Year 2 Host Country | Year 2 Total | YEAR 3 AID Loan | YEAR 3 AID Grant | YEAR 3 Host Country | YEAR 3 Total | YEAR 4 AID Loan | YEAR 4 AID Grant | YEAR 4 Host Country | YEAR 4 Total | YEAR 5 AID Loan | YEAR 5 AID Grant | YEAR 5 Host Country | YEAR 5 Total | TOTALS LIFE OF PROJECT AID Loan | TOTALS LIFE OF PROJECT AID Grant | TOTALS LIFE OF PROJECT Host Country | TOTALS LIFE OF PROJECT Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Bank of Guatemala Component | | | | | | | | | | | | | | | | | | | | | | | | |
| 1. Agribusiness Development Fund Activity | | | | | | | | | | | | | | | | | | | | | | | | |
| a. Bank of Guatemala Discount Facility | | | | | | | | | | | | | | | | | | | | | | | | |
| i. 20 Sub-loans for feasibility studies | 50 | - | 5 | 55 | 100 | - | 20 | 120 | 100 | - | 20 | 120 | 50 | - | 5 | 55 | - | - | - | - | 300 | - | 50 | 350 |
| ii. 20 Sub-loans for fixed assets and working capital | 500 | - | 300 | 800 | 1,500 | - | 900 | 2,400 | 3,500 | - | 2,500 | 6,000 | 1,500 | - | 1,000 | 2,500 | - | - | - | - | 7,000 | - | 4,700 | 11,700 |
| b. 20 BANDESA sub-loans to cooperatives (10 for production credit and 10 for semi-processing) | 200 | - | 50 | 250 | 400 | - | 150 | 550 | 300 | - | 100 | 400 | 300 | - | 100 | 400 | 300 | - | 100 | 400 | 1,500 | - | 500 | 2,000 |
| 2. Financial Management Improvement Activity | | | | | | | | | | | | | | | | | | | | | | | | |
| a. Financiers Training and Support | | | | | | | | | | | | | | | | | | | | | | | | |
| i. Foreign Advisors (8 pm) | - | 40 | 10 | 50 | - | 40 | 10 | 50 | - | - | - | - | - | - | - | - | - | - | - | - | - | 80 | 20 | 100 |
| ii. Local staff (360 pm) | - | - | 60 | 60 | - | - | 60 | 60 | - | - | 60 | 60 | - | - | 60 | 60 | - | - | 60 | 60 | - | - | 300 | 300 |
| b. BANDESA Technical Assistance (24 pm) | - | 80 | 10 | 90 | - | 80 | 10 | 90 | - | - | - | - | - | - | - | - | - | - | - | - | - | 160 | 20 | 180 |





40

| Component/Activity | YEAR 1 AID Loan | YEAR 1 AID Grant | YEAR 1 Host Country | YEAR 1 Total | Year 2 AID Loan | Year 2 AID Grant | Year 2 Host Country | Year 2 Total | YEAR 3 AID Loan | YEAR 3 AID Grant | YEAR 3 Host Country | YEAR 3 Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| c. Bank of Guatemala Technical Assistance (24 pm) | - | 40 | 5 | 45 | - | 40 | 5 | 45 | - | - | - | - |
| 3. Entrepreneurial Development and Assistance Activity | | | | | | | | | | | | |
| a. Short-term technical assistance (50 pm) | 100 | - | 10 | 110 | 100 | - | 10 | 110 | 100 | - | 10 | 110 |
| b. 10 Seminars/Conferences | - | 30 | 20 | 50 | - | 30 | 20 | 50 | - | 20 | 10 | 30 |
| 4. Evaluations and Audit Activity (2 evaluations and 2 audits) | - | - | - | - | - | 25 | 20 | 45 | - | 75 | 10 | 85 |
| Inflation and Contingency | 40 | 40 | 360 | 440 | 40 | 40 | 360 | 440 | 40 | 40 | 360 | 440 |
| COMPONENT TOTAL | 890 | 230 | 830 | 1,950 | 2,140 | 255 | 1,565 | 3,960 | 4,040 | 135 | 3,070 | 7,245 |
| 5. Cooperative Improvement Component | | | | | | | | | | | | |
| 1. Long-term Foreign Advisors (72 pm) | - | 120 | - | 120 | - | 120 | - | 120 | - | 120 | - | 120 |
| 2. Short-term Foreign Advisors (12 pm) | - | 25 | - | 25 | - | 25 | - | 25 | - | 25 | - | 25 |
| 3. Local Staff (144 pm) | - | 40 | 40 | 80 | - | 30 | 50 | 80 | - | 20 | 60 | 80 |
| 4. Training (30 courses) | - | 50 | - | 50 | - | 50 | - | 50 | - | 50 | - | 50 |
| Inflation and Contingency | - | 70 | 15 | 85 | - | 70 | 15 | 85 | - | 70 | 15 | 85 |
| COMPONENT TOTAL | - | 305 | 55 | 360 | - | 295 | 65 | 360 | - | 285 | 75 | 360 |

| Component/Activity | YEAR 4 AID Loan | YEAR 4 AID Grant | YEAR 4 Host Country | YEAR 4 Total | YEAR 5 AID Loan | YEAR 5 AID Grant | YEAR 5 Host Country | YEAR 5 Total | TOTALS LIFE OF PROJECT AID Loan | TOTALS LIFE OF PROJECT AID Grant | TOTALS LIFE OF PROJECT Host Country | TOTALS LIFE OF PROJECT Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| c. Bank of Guatemala Technical Assistance (24 pm) | - | - | - | - | - | - | - | - | - | 80 | 10 | 90 |
| 3. Entrepreneurial Development and Assistance Activity | | | | | | | | | | | | |
| a. Short-term technical assistance (50 pm) | 100 | - | 10 | 110 | 100 | - | 10 | 110 | 500 | - | 50 | 550 |
| b. 10 Seminars/Conferences | - | - | - | - | - | - | - | - | - | 80 | 50 | 130 |
| 4. Evaluations and Audit Activity (2 evaluations and 2 audits) | - | - | - | - | - | 100 | 20 | 120 | - | 200 | 50 | 250 |
| Inflation and Contingency | 40 | 40 | 360 | 440 | 40 | 40 | 350 | 440 | 200 | 200 | 1,800 | 2,200 |
| COMPONENT TOTAL | 1,990 | 40 | 1,535 | 3,565 | 440 | 140 | 550 | 1,130 | 9,500 | 500 | 7,550 | 17,850 |
| 5. Cooperative Improvement Component | | | | | | | | | | | | |
| 1. Long-term Foreign Advisors (72 pm) | - | 120 | - | 120 | - | 120 | - | 120 | - | 600 | - | 600 |
| 2. Short-term Foreign Advisors (12 pm) | - | 25 | - | 25 | - | 30 | - | 30 | - | 130 | - | 130 |
| 3. Local Staff (144 pm) | - | 20 | 60 | 80 | - | 10 | 70 | 80 | - | 120 | 280 | 400 |
| 4. Training (30 courses) | - | 50 | - | 50 | - | 40 | - | 40 | - | 240 | - | 240 |
| Inflation and Contingency | - | 70 | 15 | 85 | - | 80 | 20 | 100 | - | 360 | 80 | 440 |
| COMPONENT TOTAL | - | 295 | 75 | 360 | - | 290 | 90 | 370 | - | 1,450 | 360 | 1,810 |

Best Available Document

41

| Component/Activity | YEAR 1 AID Loan | YEAR 1 AID Grant | YEAR 1 Host Country | YEAR 1 Total | Year 2 AID Loan | Year 2 AID Grant | Year 2 Host Country | Year 2 Total | YEAR 3 AID Loan | YEAR 3 AID Grant | YEAR 3 Host Country | YEAR 3 Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| n-Traditional Products Exporters Guild omponent | | | | | | | | | | | | |
| Market Information System Activity | | | | | | | | | | | | |
| a. Procurement of equipment and supplies for statistical data system | - | 20 | 5 | 25 | - | 10 | 5 | 15 | - | 10 | 10 | 20 |
| b. Procurement of equipment, supplies for documentation center, and short-term technical assistance | - | 30 | 10 | 40 | - | 20 | 10 | 30 | - | 20 | 20 | 40 |
| c. Personnel for internal distribution system (60 pm) | - | - | 10 | 10 | - | - | 10 | 10 | - | - | 10 | 10 |
| Export and Investment Promotion Activity | | | | | | | | | | | | |
| a. 10 Seminars, travel, per diem, materials for systematic market searches and investment promotion, and short-term technical assistance | - | 100 | 50 | 150 | - | 100 | 50 | 150 | - | 100 | 50 | 150 |
| b. Policy Studies | - | 40 | - | 40 | - | 40 | - | 40 | - | - | - | - |
| Inflation and Contingency | - | 35 | 24 | 59 | - | 35 | 24 | 59 | - | 35 | 24 | 59 |
| COMPONENT TOTAL | - | 225 | 99 | 324 | - | 205 | 99 | 304 | - | 165 | 114 | 279 |
| TOTAL COMPONENTS A, B, AND C | 890 | 760 | 984 | 2,634 | 2,140 | 755 | 1,729 | 4,624 | 4,040 | 585 | 3,259 | 7,884 |

| Component/Activity | YEAR 4 AID Loan | YEAR 4 AID Grant | YEAR 4 Host Country | YEAR 4 Total | YEAR 5 AID Loan | YEAR 5 AID Grant | YEAR 5 Host Country | YEAR 5 Total | TOTALS LIFE OF PROJECT AID Loan | TOTALS LIFE OF PROJECT AID Grant | TOTALS LIFE OF PROJECT Host Country | TOTALS LIFE OF PROJECT Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| n-Traditional Products Exporters Guild omponent | | | | | | | | | | | | |
| Market Information System Activity | | | | | | | | | | | | |
| a. Procurement of equipment and supplies for statistical data system | - | 5 | 10 | 15 | - | 5 | 20 | 25 | - | 50 | 50 | 100 |
| b. Procurement of equipment, supplies for documentation center, and short-term technical assistance | - | 5 | 20 | 25 | - | 5 | 40 | 45 | - | 80 | 100 | 180 |
| c. Personnel for internal distribution system (60 pm) | - | - | 10 | 10 | - | - | 10 | 10 | - | - | 50 | 50 |
| Export and Investment Promotion Activity | | | | | | | | | | | | |
| a. 10 Seminars, travel, per diem, materials for systematic market searches and investment promotion, and short-term technical assistance | - | 50 | - | 50 | - | - | - | - | - | 350 | 150 | 500 |
| b. Policy Studies | - | - | - | - | - | - | - | - | - | 80 | - | 80 |
| Inflation and Contingency | - | 35 | 24 | 59 | - | 50 | 24 | 74 | - | 190 | 120 | 310 |
| COMPONENT TOTAL | - | 95 | 64 | 159 | - | 60 | 94 | 154 | - | 750 | 470 | 1,220 |
| TOTAL COMPONENTS A, B, AND C | 1,990 | 420 | 1,674 | 4,084 | 440 | 480 | 734 | 1,654 | 9,500 | 3,000 | 8,380 | 20,880 |

4113C



42



42

Table 9

METHODS OF IMPLEMENTATION AND FINANCING

| | Method of Implementation | Method of Financing | Approximate Amount (U.S. $000) |
|---|---|---|---|
| 1. | Agribusiness Development Fund | Bank/L/COM | 5,400 |
| | | HC Reimbursement in Quetzales to Central Bank | 3,400 |
| 2. | Financial Management Improvement Technical Assistance | | |
| | a. BANDESA and *Financiera* Technical Assistance | Direct pay (per direct AID Contract) | 240 |
| | b. Central Bank Technical Assistance | Direct pay (per direct AID contract) | 80 |
| 3. | Entrepreneurial Development and Assistance | | |
| | a. Technical Assistance | HC Reimbursement (per entrepreneur - TA Contracts) | 500 |
| | b. Seminars and Conferences | Direct Pay (per direct AID Contract) | 80 |
| 4. | Evaluations and Audits | Direct pay (per direct AID contract with TA) | 200 |
| 5. | Cooperative Improvement | Direct Pay (per AID-PVO Cooperative Agreement) | 1,090 |
| 6. | Market Information System | HC Reimbursement (per HC procurement by Non-Traditional Products Exporters Guild) | 160 |
| 7. | Export and Investment Promotion | HC Reimbursement (per HC procurement by Non-Traditional Products Exporters Guild) | 400 |
| | Contingencies and Inflation | | 950 |
| | TOTAL AID FUNDING FOR PROJECT | | 12,500 |

## IV. Implementation/Monitoring Plan and Evaluation Arrangements

### A. Illustrative Implementation Plan[1/]

| Activity | Date |
| --- | --- |
| 1) AID and Bank of Guatemala (BG) complete negotiations concerning Loan/Grant Agreement........................ | 02/02/85 |
| 2) Grant Agreement signed with Non-Traditional Products Exporters Guild (Guild) | 02/01/85 |
| 3) GOG Monetary Board approves Agreement and BG signs | 03/01/85 |
| 4) Guild meets C.P.s | 03/03/85 |
| 5) Bank of Guatemala meets C.P.s | 08/01/85 |
| 6) BANDESA meets C.P.s | 10/01/85 |
| 7) Private banks receive initial applications for sub-loans under Project | 06/25/85 |
| 8) BANDESA receives initial sub-loan applications | 08/12/85 |
| 9) Cooperative agreement signed with U.S. cooperative organization or firm | 03/26/85 |
| 10) Initial disbursements to private entrepreneurs | 10/30/85 |
| 11) Statistical Data System and Documentation Center established in Guild | 08/02/85 |
| 12) Initial disbursements to cooperatives and small farmer groups by BANDESA | 10/30/85 |
| 13) Documentation center staffed in Guild | 08/30/85 |
| 14) BANDESA technical assistance contracted | 08/30/85 |
| 15) Foreign and local cooperative technical assistance initiate activities | 06/27/85 |
| 16) First audit/evaluation | 3/86 |
| 17) Mid-project evaluation | 3/88 |
| 18) Bi-annual audit | 3/88 |
| 19) Final evaluation | 3/90 |

---

1/ Complete implementation plans will be developed by each implementing organization as part of conditions precedent to disbursement for each component.

## B. Monitoring and Procurement Plan

The Bank of Guatemala will be a fiduciary agent in the execution of this project as described in Section II. This project will therefore be implemented as detailed by the financieras, commercial banks and one private entity, the Non-Traditional Exporters Guild.

The Office of Rural Development (ORD) within USAID/Guatemala will be responsible for the monitoring and implementation of project activities. ORD will be assisted by the Mission's Project Development and Support Office (PDSO) on matters relating to general project monitoring and implementation as well as energy use and conservation, environmental issues, and proper documentation of project agreement requirements. The Office of the Controller and the Administrative Office will also assist ORD in the monitoring of the project. In addition, PDSO will implement the private banking discount mechanism portion of the project.

ORD and PDSO will use a combination of three methods to closely oversee the completion of project activities. Quarterly progress reports prepared by all agencies with assistance from project-funded technical assistance will help the ORD and PDSO in obtaining data on the status of project activities. Second, routine field trips and visits to executing agency offices and project sites will help verify and confirm the validity of quarterly reports. Third, Grant-financed audits and evaluations will assist the project officer. A mid-term evaluation is scheduled to aid the Mission to assess the progress toward achieving project objectives and the development of inter-institutional relationships. The results and recommendations of this evaluation will aid the Mission in adjusting project activities, if needed. Bi-annual audits of each institution will be required and will assist in identifying any potential problems.

Due to the nature of this project, a very limited amount of equipment will be procured. $50,000 of Grant funds will be provided to the Non-Traditional Products Exporters Guild for the purchase of a mini-computer, a microfilm reader, and other equipment and supplies. Because of the expense of these items on the local market, the Guild will procure these items directly from the United States in accordance with AID procurement guidance and regulations.

## C. Evaluation Plan

Evaluation of the project will be undertaken at both the goal and purpose levels. At the goal level, the evaluation will attempt to determine Project impact on the target group. These evaluations will occur at the midpoint and at the end of the project. They will focus on the two distinct activities of the project which contribute to the attainment of the stated goals: credit lent by private banks to private entrepreneurs for establishing or expanding agribusiness plants and loans supplied to cooperatives and/or farmer groups by BANDESA for the construction or upgrading of produce handling facilities. In addition, these evaluations will attempt to determine the impact of the market information and credit promotion system which will be established within the Guild.

Since it is not yet known which firms or farmer groups will receive loans nor is it known where the installations will be constructed, it will be impossible to conduct a general baseline survey at the beginning of the project for agribusiness plants. Instead, for the credit portion of the project, baseline data will be gathered on a "rolling" basis as plants are established. This baseline data will then be evaluated following establishment and operation of these plants. A U.S. PVO to be contracted under a Cooperative Agreement for the Cooperative Improvement Component will collect such baseline data and evaluate subsequent results.

In conducting the mid-term project goal evaluation, general baseline data will be used from a variety of sources: general farmer income and production data will be obtained from evaluations under existing projects 520-0255 (Small Farmer Diversification Systems), 520-0274 (Highlands Agricultural Development) and from information obtained by the USDA/PASA Technical Assistance team currently working with the Diversification project. Specific production and financial information regarding individual farmer groups will be obtained from BANDESA loan documents. Information regarding entrepreneurs will be gathered from the surveys conducted during intensive review for this project, from interviews with the recipient businesses and, as possible, from loan applications. Baseline information regarding levels of activity from the Guild will be obtained from its past records. $150,000 in project Grant funds will be utilized for these evaluations and consultants will be contracted to develop a framework for this activity.

At the purpose level, during the course of the project, bi-annual audits/evaluations will assist in monitoring implementation and in determining whether project purposes are being met. These evaluations will be conducted by Mission personnel with assistance from a Grant-funded technical assistance team consisting of one agricultural economist, one banking and finance expert and one marketing expert for a total of 18 person-months. This team will conduct the initial audit/evaluation and design the subsequent audits.

## D. Gray Amendment Opportunities under the Project

The principal Gray Amendment opportunities under the project will be for minority and small business consulting firms to provide short-term engineering, marketing, and general management technical assistance to private banks and companies in Guatemala.. First consideration will be given to small business and minority firms for the following consultancies: 10 pm under the Bank of Guatemala Discount Facility Activity; 8 pm under the Financiera Training and Support Activity; 35 pm under the Entrepreneurial Development and Assistance Activity; 10 pm under the Market Information System and Export and Investment Promotion Activities; and 18 pm for project evaluations.

For the short-term technical assistance requirements under the first three activities, the private bank or entrepreneur involved with a particular agribusiness sub-project will contract the consultant. For the marketing and export promotion activities, the Guild will contract the technical assistance. Project evaluation consultants will be directly contracted by USAID. Given the functionally specific nature of this technical assistance, USAID believes that it will be especially appropriate for minority and small business firms possessing business management and operations skills in the agribusiness area.

The project also includes three Grant-funded long-term technical assistance contracts, one to provide an advisor to BANDESA, another to provide technical assistance to agricultural cooperatives, and a third to provide advice to the Bank of Guatemala. Given the challenge involved in providing pragmatic advice to the first two areas, USAID considers that consulting firms must possess a great deal of prior experience in rural development, and especially in agricultural development lending and third world cooperatives, in order to qualify for one of these two long-term contracts. Some minority or small business firms may possess such qualifications and are welcome to compete for these contracts. However, the Mission would not wish to set aside such technical assistance under the Gray Amendment, since such a move would prohibit considering other consulting firms, PVOs or universities who might possess the strong kind of previous overseas development experience necessary for these contracts. The third technical assistance contract (to the Bank of Guatemala) will be awarded to a local consultant, given the need for an in-depth knowledge of the central bank and the Guatemalan banking system in order to adequately carry out such a consultancy.

Approximately $5,300,000 in U.S. commodities (machinery, equipment, and raw materials for agribusiness) will be procured by agribusiness enterprises financed under the Agribusiness Development Fund. At this time, however, it is not known exactly what types of commodities will be purchased under this credit line since specific agribusiness credits and enterprises have yet to be approved under the project. Consequently, it is inappropriate to set aside minority or small businesses as commodity suppliers under the project.

## E. Conditions, Covenants, and Negotiating Status

Three agreements will be signed in order to carry out activities under the project: a Loan/Grant Agreement with the Bank of Guatemala to carry out the Agribusiness Development Fund, Financial Management Improvement, Entrepreneurial Development and Assistance, and Evaluation/Audit Activities; a Cooperative Agreement with a U.S. consulting firm or PVO to carry out activities under the Cooperative Improvement Component; and a Grant agreement with the Non-Traditional Products Exporters Guild to implement the market information system and export and investment promotion activities. Proposed conditions precedent and covenants for the Bank of Guatemala and the Guild are contained in the Draft Project Authorization in Annex 10.

It is anticipated that the Cooperative Agreement will require no specific conditions or covenants apart from the requirement for an initial implementation plan, plus quarterly reports concerning the technical assistance team's progress in working with agricultural cooperatives and other small farmer groups.

4128C

V. Summaries of Analyses

A. Technical Analysis Summary

The following summary analysis and referenced attachments in the Annex review Guatemala's agricultural production potential for the project, specific marketing problems which the project must address, and the feasibility of the economic relationship between small farmers and agribusiness entrepreneurs. Discussion of the technical assistance required to assist farmers as well as entrepreneurs in using the variety of production, processing and marketing technologies expected to be funded under the project is contained in Section II, Project Description.

1. Agricultural Potential and Productivity

The ten political units or departments which make up what is commonly known as the Guatemalan Highlands contain 46% of the country's population but only 19% of soils are capable of high to moderate yields. Of approximately 18,000 hectares available for cash crop fruit and vegetable cultivation in the Highlands (after discounting for marginal lands or those devoted to subsistence agricultural), only about 22% or 4,000 hectares are producing fruits and vegetables for local or foreign markets. Technical Assistance, training and credit provided to small farmers under the Project will help maximize productivity of these scarce land resources for cash crops. In addition to fruits and vegetables, this area, however, produces about 35% of the country's foodstuffs, including corn, beans, potatoes and wheat. The soils are mostly alluvial, medium sandy loams suitable for the growth of vegetables and temperate climate fruit. Water supplies are abundant and complemented by frequent rainfall. The climate is ideally suited for the production of vegetables and is favorable for other types of crops presently not under cultivation. While tools, supplies and materials are limited and expensive, there exists an abundance of hand labor that has demonstrated an ingenuity in developing and adapting more advanced cultural practices. A Mission financed study has demonstrated that local production costs frequently make Guatemalan produce less expensive than comparable U.S. produce (See Table 10).

This study also detected great production and export potential for a wide variety of crops from the Highlands (see table of crops, recommended degree of processing, and overseas markets in Table 11). Particularly attractive export crops include snow peas, brussell sprouts, cauliflower, and onions (with the Chimaltenango area being a strong producer of these crops); dried fruits such as apricots, prunes and apples (especially in the Quetzaltenango area), and garlic (Aguacat@n). Most of these crops are currently grown in Guatemala, but suffer from low productivity and poor quality due to inadequate cultural practices. Fresh apples, for example, which are grown in the Totonicap@n area, are not of sufficient size and attractive appearance to compete with U.S. or Chilean apples, be it in the Guatemalan or American markets. However, the local apples have an excellent taste, and if processed into puree or dehydrated form would find an excellent export market. The hot Aguacatan Valley in the Quiché is a major supplier of garlic to the Guatemalan and Central American market. However, the variety of garlic grown in Guatemala is totally unsuitable for the demands of the world market. Technical assistance and credit under the project would enable farmers to switch to more exportable varieties, or to process the existing variety into more marketable dehydrated, puree, juice, or oil form. Opening of export markets outside the CACM region would also alleviate the current oversupply of garlic (as high as 200 tons) in Aguacat@n. Onions, such as those grown in Chimaltenango, present another potentially excellent export crop. However, the principal variety grown in Guatemala is of a soft type, poor for storage, and unsuitable for export. In addition, small farmer's agricultural techniques in transplanting, disease control, and general cultural practice need to be improved to raise onion productivity. Technical advisors and production credit provided by the project will assist in increasing production of export quality onions in this area.

The above discussion illustrates a few crops where great increases in exportable produce can be attained with support of the project. The feasibility of realizing this potential is borne out by a number of existing successful fruit and vegetable exporters. The present dominant exporter of Highland vegetables, ALCOSA, currently ships about 11 million lbs. per year of broccoli, cauliflower, Brussels sprouts and snow peas per year. The Cuatro Pinos Cooperative in Chimaltenango last year directly exported some 920,000 lbs. of snow peas, broccoli and cauliflower. In addition, two new fruit and vegetable processing plants are under construction which will process a total of 17 million lbs. of produce per year, while only last year a new plant near to Antigua, INEXSA, began operations and is processing 2.4 million lbs. tons per year. The success of these operations to date plus the great potential for increased fruit and vegetable production in the Highlands to supply additional agribusiness plants should generate a wide variety of agribusiness ventures oriented toward temperate Highland crops under the project.

In addition to temperate climate production, the potential for tropical crops in Guatemala was also investigated. The following is a summary of the findings of the study:

a. Essential oils, fruit concentrates

Oils derived from citrus fruits are in constant demand as flavors or for aromas in the cosmetic industry. Lemon oil is commonly used in large quantities in soaps and cleansers. Juice concentrates from tropical fruits for beverages are in continuous worldwide demand. Concentrates are usually shipped in bulk and later mixed with water and packed for consumer markets.

b. Spices:

Due to the instability in the traditional growing areas of the Middle East and Africa, several companies have developed experimental plantings in less volatile areas. There are currently commercial plantings of cummin, sweet basil, lemon tea and marigold in Mexico, while Ecuador has become an important producer of pyrethrum (a flower used as a condiment). Guatemala has favorable soils and climate for a wide variety of spice production.

c. <u>Sesame</u>

This product is of importance in world trade and is shipped to the consuming nations in two forms: (a) natural with various degrees of purity used for oil or sesame butter (consuming countries: Japan, Korea, Taiwan, all Arab countries); and (b) hulled with various degrees of purity used in baking by most Western countries. Guatemalan sesame has not been a significant factor in world trade but local conditions favor greatly expanded sesame cultivation and processing. As indicated in the table in Annex 7, in 1981 sesame figured among the country's growing non-traditional exports with $15.6 million shipped to overseas markets.

TABLE 10

COSTS OF PRODUCTION

(The following data is presented for comparative purposes only).

| Commodity | Harvest Periods | Approx. Local Yield (Lbs./ Hect.) | Approx. U.S.A. Yield (Lbs. Hect.) | Approx. Cost per Hectare | Approx. Local Cost ($/CWT) | Approx. U.S.A. Cost ($/CWT) | |
|---|---|---|---|---|---|---|---|
| Broccoli | Nov. May | 16,000 | 21,000 | 812 | 5.00 | 10.00 | Harvest can be extended to longer periods. Although initial costs are higher than USA, final costs are lower due to the amount of hand labor required for preparation. Freezing companies pay over $10 per CWT for same product in Mexico. |
| Snow Peas | Oct. March | 12,000 | 16,000 | 4,000 | 33.33 | 90.00 | Local market price fluctuates between $35-$76 CWT. Present price $61 per CWT. Price differential due to amount of hand labor in both countries. |
| Brussels Sprouts | Jul. Nov. | 19,500 | 26,000 | 1,200 | 6.15 | 20.00 | High labor item for preparation and harvest sales price Guatemala $12 CWT. |
| Potatoes | July, Sept. Feb. | 47,000 | 80,000 | 1,300 | 2.76 | 2.25 | Crop completely mechanized in the USA. |
| Cauliflower | Nov. May | 24,000 | 25,000 | 920 | 3.80 | 9.60 | Local color defect correctable by proper tying of leaves. Market price approximately same as California costs. |
| Carrots | All year | 70,000 | 145,000 | 1,400 | 2.00 | 0.62 | Processing carrots have even smaller costs. In the U.S. fully mechanized cultivation. |
| Onions | March | 20,000 | 80,000 | 1,300 | 6.50 | 2.25 | Onion planted by direct seed in US instead of transplanting as in Guatemala. |
| Garlic | March | 10,000 | 32,000 | 1,250 | 12.50 | 13.00 | Improvements will make this Guatemalan crop very competitive. |

4089C

TABLE 11
RECOMMENDED PRODUCTS FOR CULTIVATION

| Product | Preparation | Final Destination | Comments |
|---|---|---|---|
| Snow Peas | Fresh | U.S.A. | Local cost of production low. Possible to expand to other oriental greens and vegetables for same market. |
| Brussels Sprouts | Fresh<br>Frozen | U.S.A. | Expensive due to high labor costs. Expand growing season. |
| Broccoli | Frozen | U.S.A. | Attractive due to low preparation cost. Potential for sales in Venezuela and Brazil; expand growing season. |
| Red Beets, Cabbage | Fresh | U.S.A. | Limited Market |
| Green Onions | Fresh | U.S.A. | A very large market in the US. Attractive potential for good quality produce. Dehydrated chives from leftover. |
| Radishes, Parsley | Fresh | U.S.A. | Demand limited but steady. |
| Strawberries | Fresh<br>Frozen<br>processed | U.S.A.<br>Japan | Planting lasts over 5 years. Steady demand. |
| Miscellaneous berries (e.g. blueberries | Fresh<br>frozen | U.S.A.<br>Japan<br>Europe | Steady demand. Fresh difficult to find in markets away from origin. High labor cost. |
| Artichokes | fresh<br>canned<br>frozen | U.S.A.<br>Europe | Excellent possibility for winter months Dec.- March, no production in U.S. Price high most of the year. Plantings last many years. |

Continuation of Table 11

| Product | Preparation | Final Destination | Comments |
|---|---|---|---|
| Asparagus | fresh<br>frozen<br>canned | U.S.A.<br>Europe<br>S. America | Cultivation easy. A high amount of hand labor to harvest, grade and pack |
| Flower bulbs | dried | U.S.A.<br>Japan<br>S. America | Gladiolus, Lillies, Tulips. High amount of labor for harvest. Easy to grow. |
| All fruit | fresh<br>frozen<br>canned<br>preserved | U.S.A.<br>Far East<br>Central and S. America | Good prospect with low cost of production and shipping. |
| Nursery stock | prepared with roots for planting | U.S.A. | High labor to prepare and ship. |
| Garlic shallots | Fresh<br>processed | U.S.A.<br>Far East<br>Europe<br>Australia<br>Brazil<br>Venezuela | Proper seed will increase sales potential, also preparation in consumer packages and brands. |
| Lemon Tea, Chamomile, Sweetbasil, Cummin | Dried | U.S.A.<br>Europe<br>Japan | Only grown under contract with reliable companies. Not easy to sell in open markets. |
| Mint | Dried | U.S.A.<br>Europe<br>Japan | Plantings last many years. |
| Flower seeds | Dried | U.S.A. | Easy to grow. Labor intensive. Easy to obtain contracts after sucessful trials for production. |

2. Marketing Issues

Guatemala's main potential for export marketing of fruits and vegetables is both naturally and economically based. International demand exists for numerous agribusiness products which can be produced locally. Many temperate weather crops cannot be produced in other Central American or Caribbean countries thus limiting competitive pressures from other regional exporters. Guatemala's rich natural resource base, proximity to U.S. markets and low labor rates reflect the principal marketing advantages for the country. In addition, Guatemala's coverage under the Caribbean Basin Economic Recovery Act allows for duty-free imports for all the anticipated agribusiness investment areas envisioned under the project. This provides an added incentive and marketing edge for the country.

The primary obstacle to developing and promoting an export program in Guatemala is the lack of internal capacity to effectively market products overseas. Current non-traditional exports in all but a few cases do not match quality requirements in demanding U.S. markets. To improve quality, specific export varieties of products must be introduced; packaging must ensure product protection and freshness; and post-harvest storage and handling capacity must be installed. Technical assistance and credit for production and semi-processing to be provided under the project will help address these constraints.

Distributional obstacles also serve to impede marketing potential. Transportation by air freight is limited and too expensive and unreliable to be a viable option for many exporters. Sea shipment at present is the only other alternative but also posesses constraints. Shipping rates are the highest in the region. Shipments lack reliability of departures and reportedly deviate from advertised routings thus creating unacceptable delays. Limited contacts with reputable importers also thwart increased exports. Close, personal contact between buyers and sellers is essential for smooth transactions but is especially important as the primary linkage for communicating pertinent market information between buyer and seller. Development of an information exchange system could be a useful service for inexperienced or new exporters but it is not a perfect substitute for developing close interactions between exporters and importers. Encouragement of public-private sector dialogue on transportation issues, and support for face-to face contacts among producers, exporters and brokers are among the project-financed activities designed to address these constraints.

Guatemala does have the potential to expand its agribusiness sector for export. If the process is approached with a long-term development perspective, then promoting the initial capacity building components will help establish the necessary basis for export marketing. Technical assistance and training provided to entrepreneurs under the project will help lay this marketing foundation. In addition, international market information and export promotion activities to be sponsored by the Guild under the project will help address these marketing challenges. A full discussion of marketing issues associated with the project is provided in Annex 8.

3. Producer-Processor Relations

In bringing together largely Indian small farmers and *Ladino* entrepreneurs in a given agribusiness, the project will address a number of ethnic, class, and technological disparities in such a relationship. However, these gaps are not as formidable as they first seem. The leading exporter of processed fruits and vegetables, ALCOSA, depends upon Highland small farmers for over 90% of its production. The company has managed to achieve a stable, quality supply of produce through a network of buying stations situated throughout the Highlands. These stations in turn provide seeds and quality control advice to farmers, and sign contracts to buy stipulated amounts of various crops for processing. Other new entrants into the export processing field, such as INEXSA and CIUSA, also buy over two-thirds of their produce from small farmers, and have forged good relationships with these producers. Often, the presence of an organized producer cooperative (Cuatro Pinos being perhaps the most successful example) helps the agribusiness rationalize its produce purchasing from one source, as well as conferring greater bargaining power to an organized group of small farmers. Such examples of successful small farmer-entrepreneur relationships will be bolstered under the new project. Funds will be provided to strengthen both ends of the agribusiness chain, from financing agribusiness plants to supporting producer cooperatives. Eligibility criteria under the project will also be flexible enough to allow participation by large farmers in supplying agribusiness plants to assure sufficient produce to processors thus assuring viability for operations.

## B. Social Analysis

This section summarizes the conclusions of the Social Soundness Analysis performed during intensive review of the project. Further details of this Analysis are in Mission files.

### 1. Beneficiaries

The original direct beneficiaries of the project will be the small-scale Guatemalan producers of fruits and vegetables (defined as individuals farming areas of approximately one hectare or less in size), a group amounting to about 15,000 families. Principal indirect beneficiaries of the project will be the landless agricultural laborers who reside in the Guatemalan Highlands. The labor intensive activities generated by the project (production, transportation, processing and marketing) will expand employment opportunities for this group.

#### a. Small-Scale Farmers

In Guatemala over 78 percent of all farms containing 10 percent of all farm land were considered small-scale. The majority of these farm owners are indigenous who are in the lowest socio-economic classification. Many are not, however, traditional subsistence farmers; rather, they are small capitalists who operate in a market economy. In addition to the traditional crops of corn, beans and squash which are grown for on-farm consumption, many small-scale farmers reserve a portion of their land for cash-generating produce (fruits and vegetables). Furthermore, out of a need to increase farm production, an ever-increasing number are applying modern farming techniques such as multiple cropping, terracing, irrigation, fertilizers and other chemical products. Finally, many small farmers supplement their income by migrating to the Pacific coast plantations as seasonal labor.

#### b. Landless Laborers

An estimated 500,000 individuals in Guatemala make at least a portion of their livelihood performing seasonal labor on commercial farms. They travel moderate distances from their homes located in population centers to areas where large-scale commercial agriculture predominates, typically the south coast, or to the coffee-growing regions in the interior. Seasonal employment opportunities also exist for these individuals in zones of extensive large-scale irrigation. These individuals, both ladino[1/] and

---

1/ An Indian is one who speaks some non-Hispanic mother tongue, speaks Spanish generally with phonological and syntatic interference from the indigenous language, wears clothing which is distinctive (especially the woman), and adheres to numerous group-specific domestic, social and religious patterns. A Ladino, in contrast, speaks accent-free Spanish as sole (or dominant) language, wears western style clothing, and adheres to the generalized Hispanic domestic, social and religious institutions relevant throughout Latin America.

Indian, are landless but frequently own a modest home and may even have other non-agricultural sources of income. Migrant laborers in Guatemala often earn less than the minimum wage of Q3.50/day and are exposed to harsh working conditions, tropical diseases and substandard living arrangements. In addition, family units often disintegrate due to the prolonged absence of one or more persons who, by necessity, migrate to seasonal jobs. In instances where family members accompany the male to seasonal jobs, they share in the poor living conditions in coastal plantations. These substandard conditions also adversely affect the stability of family life, and reduce the opportunity for migrant workers' children to receive education.

## 2. Project Benefits

### a. Agricultural Impacts

Small-scale farmers growing produce for firms involved with this project are expected to shift away from traditional corn and beans to a more diversified cropping pattern. However, due to prevailing cultural and religious patterns in the Guatemalan Highlands, it is expected that only a small percentage of the small-scale farmers will completely eliminate the cultivation of traditional crops. The use of agricultural credit and more sophisticated inputs are expected to increase. Farmers participating with agricultural processing firms under this project will acquire additional knowledge in crop processing requirements, better seed, and often improved agricultural practices.

### b. Non-Agricultural Employment Impacts

Based on past experience and tradition, most of the employment opportunities created by this project in the processing of agricultural goods will be held by women. However, service industries will spontaneously develop for each processing facility which will utilize both male and female labor. The supporting services will include transportation, inputs and marketing. These positions will be held in part by landless agricultural laborers. Increased employment opportunities in the immediate vicinity of the agricultural processing plants is expected to cause wages in other employment sectors to rise to compete for resultant scarcer labor.

### c. Incomes

The incomes of all individuals directly or indirectly involved with this project are expected to rise due to increased contact with and reliance on free market systems. Poorest families are expected to use increased incomes to meet basic needs and to permit children to attend school.

The upper stratum of poor families are expected to use increased incomes for major improvements, such as starting community stores, purchasing more land or pick-up trucks. Families at all levels will improve and vary their diets due to expanded food purchases. As a result of increased incomes and improved standards of living, participating individuals will no longer accept the past cycles of subsistence but will strive for greater levels of economic gain.

4114C

## C. ECONOMIC ANALYSIS SUMMARY 1/

### 1. Introduction

The methodology for the following economic analysis is based in part upon a credit survey of 61 non-traditional agribusinesses carried out by a contract consulting team in September-October 1984. This survey indicated a need for $22.4 million in credit by agribusiness entrepreneurs. Of this amount, 48% ($10.8 million) was desired in the form of working capital, 32% ($7.2 million) for equipment purchases and 20% ($4.7 million) for new construction. Average requested sub-loan size among private firms seeking loans was $486,000. Interviewed cooperatives, on the other hand, indicated a need for $1.6 million in Loan funds. The demand for credit among brand new firms is difficult to estimate precisely. However, the country's four financieras have received feasibility studies from prospective entrepreneurs totaling more than $18 million. This total estimated credit demand for expansion of existing agribusinesses and creation of new firms amounts to over $40.0 million, well over the amount of the credit lines available under the AID Agribusiness ($8.8 million) and IBRD Industrial Credit ($18.0 million) Projects.

The credit demand detected by the survey will not become effective unless it is supported by adequate demand from national, regional, and especially international markets. Analysis carried out by consultants to USAID indicates strong potential export demand for a variety of fruits, vegetables, spices and essential oils. Healthy prospective demand for this produce is also supported by a strong compounded historical growth rate of around 38% annually for fruits and vegetables during 1975-1981. A detailed discussed of prospective volume and price characteristics of non-traditional market demand is contained in Annex 8. A review of marketing constraints which will be addressed by the project is included in the Technical Analysis in Section A.

Although the present analysis reviews the general prospects for international demand for Guatemalan non-traditional exports, it does not calculate a specific dollar value of exports expected to be generated by each agribusiness under the project. Such a projection is difficult if not impossible given the often volatile nature of prices and quantities of fruits and vegetables demanded by international markets. Therefore, based on a generally favorable market outlook for the types of products discussed in Annex 8, USAID has instead chosen to analyze the potential economic impact of the project based upon anticipated loan demand as measured by a local credit survey. The following sections analyze the local investment, foreign exchange, value added, direct employment, and backward linkage effects of the project. Based on these analyses, the section then includes a cost/benefit analysis.

---

1/ See Annex 7 for Economic Tables referred to in this Section.

## 2. Local Investment

Private sector enterpreneurs must contribute approximately 25 percent of the value of their total sub-project investment. Financieras must contribute 20 percent of their own funds to the total subproject loan amount. Thus for an investment of $100,000, $25,000 would come from the entrepreneur, $60,000 from the AID discount fund in the Bank of Guatemala and $15,000 from the financiera's own resources. Each dollar of Loan funds thereby generates $.67 in local investment.

If the $7 million of AID monies in the Development Fund rolls over only once, a minimum of $4.67 million in local investment will be generated. Entrepreneurs will invest at least $2.92 million and private banks will be obligated to provide $1.75 million. Since much of this local investment will require complementary dollar financing and given the current shortage of foreign exchange as discussed in Section I, most of this local capital would not be forthcoming without the stimulus of the proposed AID Loan. Cooperatives and small farmer groups are obligated to contribute 25 percent of their own funds towards new investments. The investment effect of BANDESA's $1.5 million line of credit, therefore, would be $500,000.

## 3. Foreign Exchange

Survey results indicate that 30 export businesses willing and able to estimate sub-loan impact, expect financing to increase their combined annual sales by $54,525,000; the average increase per firm is $1,817,500. If this were to pass, then current sales on the average would increase by 87 percent. Since firms, in general, are operating at 50 percent of capacity (largely due to contracted local and regional markets, as well as lack of foreign exchange to import needed inputs to meet existing demand), sub-loans would enable them to expand production and sales. Since average sub-loan size was calculated as $488,620, the ratio of net sales increase to sub-loan size is 3.7. If all sales are exported, then $8.5 million in project Loan funds would generate about $30 million in additional foreign exchange each year.

## 4. Value Added

Value added is defined as the difference between each firm's sales and the value of all inputs purchased from outside the firm. Since labor and capital are treated as internal inputs, value added reflects the difference between sales and raw materials and services purchased from others.

As shown in Table III-2, the food processing industry has an average value added of 29 percent The value added of all 48 surveyed firms was calculated to be 37 percent; however this figure is an overestimate as only raw materials and not other externally purchased services such as utilities and insurance were subtracted. A more exact definition of value added could not be pursued due to difficulties in obtaining financial data from the surveyed firms.

Survey results based upon responses from 30 firms currently seeking credit indicate that the average firm's value added was expected to increase by $830,000. This figure would suggest that each dollar of sub-loan funds will generate about $1.70 in value added, and a total annual addition of gross domestic product of about $14.5 million per year. These estimates are somewhat overstated, however, again due to the difficulty of estimating value added for the surveyed firms.

5. Direct Employment Effects

A total of 6555 full-time employees held jobs with the 61 surveyed firms, or an average of 107.5 employees per firm. (see Table III-3). This includes seasonal and part-time employees who have been converted into full-time job equivalents. Although males predominate in administrative jobs, almost 50 percent of full-time blue collar jobs are held by females. Without foreign exchange and working capital loans, some plants may have to reduce operations, and thereby reduce the number of employees. The $8.5 million AID Loan fund should help to sustain about 1,850 jobs (assuming a ratio of $4,545 in Loan funds per existing job).

Entrepreneurs estimated that loans would create an average of 50 jobs per firm (see Table III-4). Not surprisingly, 63 percent of additional jobs would be given to women, since they predominate in food processing and packaging. On average, $9,851 of sub-loan funds would create an additional job, resulting in about 863 new direct jobs.

However, as shown in Table III-5, capital/labor ratios in some branches of the food processing industry are substantially lower than for manufacturing as a whole. A great diversity exists within the food processing industry itself, with the bottling/canning of fruits and vegetables having a relatively low capital to labor ratio of $11,650.

6. Raw Material Purchases: Backward Linkages

Firms who were able to estimate the impact of a sub-loan on their raw material purchases said that, on average, they would purchase $987,300 more raw materials each year due to the sub-loan. Each dollar of Loan funds would generate $2.00 of additional raw material purchases ($17 million in total), if exporters' optimistic projections are fulfilled. This assumes that exporters will be able to find sufficient quantities of high quality agricultural products. This assumption, at present, is not true for many export products.

About 15 percent of the firms said that they purchased exclusively from small-scale farmers. (See Table III-6). This included broccoli, snow peas, cauliflower, strawberries and other crops primarily grown by small-scale farmers in the Highlands. Cardamom exporters said that the overwhelming majority of suppliers had small fields, but that they also purchased from larger-scale farmers. Most of those listed as purchasing from larger farmers grew their own produce.

Small and medium-scale farmers can be expected to benefit from the project through increased income and acquisition of technical skills through agricultural extension services. Demand for landless labor to assist agricultural production should be expected to increase as well. Lack of reliable data makes it impossible to estimate with precision the number of raw material suppliers expected to benefit from this project, nor can indirect employment effects be quantified.

7. Benefit/Cost Analysis

Surveyed firms' estimations of net increase in sales and costs that would result from sub-loans indicate that the project has a benefit/cost ratio of 1.44, assuming a 15% percent assuming a 15% opportunity cost of capital. Acknowledging that firm estimates are highly optimistic, the benefit-cost analysis was recalculated with a 25% reduction in the sales levels predicted by the interviewed enterprises. Even with this modification, the estimated benefit cost ratio is 1.08 and the internal rate of return to the project exceeds 30%.

The general assumptions behind this calculation depend upon survey data and project costs as estimated in the consultant's report. These assumptions conclude that:

(a) Sales and raw materials purchases will increase as predicted by surveyed firms, as described previously in this section. The growth in sales and costs will be phased over the first four years of the project, with 25% of the predicted increase occurring in the first year, 50% in the second year, 75% in the third year and the 100% of the predicted levels in years 4-10.

(b) All loan funds are distributed during the first two years of the project, with 50% during the first year.

(c) Utility costs, on average, are 0.5% of sales.

(d) Labor costs on average, conform to industrial standards at about 14% of sales.

(e) Equipment purchases and construction will require half of loan funds;

(f) The useful life of the purchased equipment and technical assistance is 10 years, with no salvage value.

(g) Foreign exchange earnings are shadow-priced at Q1.2=$1.00. Three-quarters of projected sales are assumed to be exported. Equipment and construction investments are assumed to be entirely imported. The foreign exchange components of other project costs are estimated to be:
-Financial Management - 50%,
-Entrepreneurial Development - 25%
-Cooperative Improvement - 50%
-Market Information Systems - 80%
-Export and Investment - 25%

This analysis does not include indirect multiplier effects resulting from firm expansion nor does it estimate the indirect effect of technical assistance and training. Such unquantifiable benefits can be presumed to be high.

The benefit-cost calculations are summarized in Table III-7, of Annex 7.

8. Conclusion

Survey results indicate that the Agribusiness Development Project can generate significant foreign exchange earnings, increase gross domestic product, provide additional net income to small and medium-scale farmers and create new jobs at the firm level. As discussed previously, more than credit is needed to accomplish these goals. An integrated program that involves production and financial assistance to farmers; credit, market information and packaging/handling assistance to firms; and develops linkages between importers and Guatemalan exporters is necessary for these positive economic effects to occur.

## D. Administrative Analysis

### 1. The Bank of Guatemala (BG)

The country's central bank, the Bank of Guatemala, will play a key role in the project by channeling Loan-funded credit to private agribusinesses through the private banks, and by providing credit to cooperatives and small farmer groups through BANDESA. It will administer Grant funds to strengthen management of the private banks, BANDESA and the central bank itself. Finally, it will administer Loan and Grant funds to provide technical assistance and training to agribusiness entrepreneurs and will oversee a grant fund for evaluations and audits of agribusiness sub-projects.

Following authorization by the GOG Monetary Board, the BG will sign one Loan/Grant Agreement for the project activities mentioned above. Since only the Monetary Board must approve the BG President's signature, USAID expects that the Agribusiness Project Agreement will be signed much more rapidly than is the case with the normal Planning Council/Ministry of Finance route followed by most of our projects. On the other hand, although the BG will sign the agreement for these project activities, it will play a relatively passive role since actual implementation will be the responsibility of private banks, BANDESA, cooperatives and agribusinesses. During negotiation of the agreement, USAID will require that the BG restrict its review of private bank sub-loan proposals to examination of eligibility criteria, without "second-guessing" the credit analysis already performed by the private banks.

The BG has a variety of separate departments dealing with exchange control, sector economic studies, foreign trade agreements and other areas concerning administration of the money supply and the country's financial system. (See organization chart in Annex 5.) To date, USAID has worked with the Bank's Credit Department in organizing and implementing discount credit lines under the Rural Enterprises (520-0245) and Small Farmer Marketing (520-0238) Projects. Apart from these projects and the World Bank's Industrial Credit Project, the bulk of this Department's experience has been in management of import lines of credit with Taiwan, Korea, Argentina and other countries.

As of December, 1984, the BG had reviewed and approved $300,000 worth of projects under AID Project 520-0245, and $850,000 under AID Project 520-0238. AID Loan funds will finance these credits through AID Bank Letters of Commitment for dollar letter of credit costs and through Mission quetzal advances to the BG for local business costs. The BG and USAID have agreed to use the same advance/liquidation mechanism to finance credits approved by the BG and private banks under the Agribusiness Development Project.

The staff of the Credit Department, presently comprising 9 analysts under one senior supervisor, will be reorganized as a special project unit to help implement the IBRD's Industrial Credit Project. Following USAID consultations with both the BG and the IBRD, this Unit will also monitor implementation of the AID Agribusiness Project. A long-term advisor, to be Grant-funded under the project, will work closely with the Credit Department and with private banks in promoting knowledge and use of the credit line among private banks and borrowers, and in expediting BG approval of credits.

2. Participating Financieras and Commercial Banks

The country's four financieras - FIASA, FIGSA, FINSA and FISA - are expected to use the great majority of credits to be made available under the BG discount line. Given their greater interest in short-term lending, commercial banks are expected to account for a smaller share of project lending. The following analysis discusses the institutional capacity of those financieras and banks who have expressed interest in intermediating funds under the project. Additional information concerning the Guatemalan financial system is appended in Annex 5.

FIASA is Guatemala's largest financiera, having begun operations in 1969. USAID played a large role in supporting the financiera's growth by giving it two loans for $5 million each in 1967 and 1972 for agroindustrial sub-lending. As of September 30, 1984 it had almost $74 million in total assets. It is also a very profitable institution, with its net earnings increasing by a yearly average of 30% during the 1979-1982 period, and with net profit for the nine months ending September 30, 1984 amounting to over $1.5 million. FIASA has been able to maintain this enviable profitability due to a favorable spread between its bond vs. sub-loan interest rates, its sound lending policies, and lean operating costs.

FIASA currently has a staff of 18 employees, 6 of whom occupy professional positions. Its manager is a young, dynamic professional who recently served as the private banking representative on the GOG Monetary Board. He has also cooperated with USAID in presenting $300,000 in small business credits for funding under the Mission's Rural Enterprise Project (520-0245) and $850,000 in fruit and vegetable processing ventures for financing under the Small Farmer Marketing Project (520-0238).

FIASA's loan portfolio is distributed roughly 54% to industry, 33% to agriculture, and 13% to commerce, service and other activities. It draws many of its clients by referral from the companies represented on its Board, but also entertains outside business, at times in competition with the second largest financiera, FIGSA. Firms interested in obtaining credit from the financiera must first discuss their project with a member of FIASA's 3-man credit analysis staff (one of whom was hired recently in order to process additional credits with the BG under AID projects 0245 and 0238). If the borrower and credit appear of interest to the Credit Department, they provide the client with an outline of financial, market and other analyses (see Format in Annex 9) to be included in a formal loan application by the entrepreneur.

After receiving the borrower's completed loan application, the Credit Department analyzes it and presents its review along with the loan application for review by the Manager, and then by a bi-weekly session of FIASA's Board of Directors. If approved, the Board issues a credit resolution detailing terms and conditions of the credit. The borrower then signs a legal contract (escritura publica) with the financiera indicating pledged collateral, repayment schedule and other conditions. The loan is then disbursed to the borrower either in a lump sum or by installments in accordance with a pre-approved procurement schedule. The loans are usually priced around 3 points above the maximum commercial bank lending rate, though this rate may vary depending on the project, the terms, and the borrower's reputation. Most of FIASA's credits are heavily secured, with preference for mortgages.

Given its active participation in placing credits under AID's ongoing Rural Enterprises and Small Farmer Marketing Projects, FIASA is expected to be a major user of funds under the present project. It has already financed or is in the process of financing over $1.0 million in export-oriented agribusinesses under these two ongoing projects. It is also planning on opening a commercial bank by early next year to complement its financiera operations with short-term deposits and credit, and more comprehensive international trade services. This new venture will also better enable FIASA to attract borrowers under the new project with such full-service banking.

FIGSA, Guatemala's second largest financiera, began operations in 1965. As of December 31, 1983, it possessed around $69 million in total assets. Its current loan portfolio of some $40 million is divided 28% to agriculture, 70% to industry, and 2% to utilities and other activities. Like FIASA, FIGSA operates out of a suite of small offices in Guatemala City, with a lean staff of 22 (9 of whom occupy professional positions). Its manager is a very capable man in his early 40s, and the deputy manager is a former employee of the Latin American Agribusiness Development Corporation (LAAD).

FIGSA's credit approval and disbursement process is similar to FIASA's. It also relies heavily on security, with loans commercially backed by a mixture of fiduciary guarantees, mortgages (up to 50% of appraised value), warehouse receipts (up to 70%), and equipment pledges (up to 70%). FIGSA was an active user of the ROCAP agribusiness line funded through CABEI, and is expected to be an equally strong promoter of loans under the present project. It has also organized a new commercial bank which should open to the public by February of next year.

The other two financieras are much smaller in size and loan activity. FISA is expected to participate actively in promoting credits under the project due to its linkage to the powerful commercial bank, Banco Industrial, and due to the dynamism of its recently appointed manager who was formerly president of the Bank of Guatemala. FISA has a small staff of only six, relying on Banco Industrial for most of its analytical and secretarial support. The other financiera, FINSA, is the smallest of the four financieras in terms of total assets (around $6.0 million) and financial backing on its

Board of Directors. Its staff of ten also operates out of offices in Guatemala City. Despite, or perhaps because of its small size, FINSA is extremely eager to rely on credits financed under the project to expand its loan portfolio. It also is the only financiera which has expressed any interest in financing cooperatives under the project.

The country's commercial banks are expected to be modest participants in placing credits under the project. Banco Industrial is expected to provide short-term financing to complement long-term credits proposed for BG discount by its subsidiary, FINSA. Banco del Cafe and Banco de Granai Townson, two of the more progressive and younger banking institutions, are also expected to present projects for funding under the discount facility. Banco del Cafe, for example, has been a heavy user of short-term pre-export credit under ROCAP's BLADEX project, and is currently preparing $300,000 in credits for discounting under the Rural Enterprises Project. Further analysis of the commercial banking sector is provided in Annex 5.

3. Non-Traditional Products Exporters Guild

The Non-Traditional Products Exporters Guild, founded in 1982, represents the interests of Guatemala's exporters of non-traditional products with the GOG, other private sector groups, and overseas exporters and importers. It has over 163 members whose products range from wicker furniture to processed food products. Its main sources of revenue are annual membership fees of $360 per member. It also draws on the ad honorem services of a seven-man Board of Directors. With a small, five-man professional and administrative staff, the Guild receives telexed buyer inquiries from abroad, and then tries to link the buyers with appropriate Guatemalan exporters. The Guild also works to obtain GOG support for non-traditional exports, and helps organize members in displaying their products at international trade shows. USAID will build upon the Guild's ability in this area under the proposed project's Market Information System activities.

The Guild functions both as an interest group and lobby with the GOG and as a technical support service for its member exporters. Given its small staff, the Guild has tended to concentrate on the former function. It has cooperated with the Ministry of Economy in obtaining trade treaties with Colombia, Mexico, and other countries. It also brings pressure to bear on the GOG concerning sensitive export issues such as taxation, and the cost and space availability of international air transport (the latter the focus of a current Guild public relations campaign). Lobbying efforts by the Guild were a major factor in inducing the GOG to pass CAT and drawback legislation late last year. It has also played a key role in soliciting and then coordinating a small training program in exportation (plus participation in the Frankfurt Trade Fair) with the German-Guatemalan Chamber of Commerce. Moreover it has sponsored international marketing and business administration trainees for a short course at Indiana University in cooperation with AID and the National Managers Association.

The Guild's experience in helping to manage activities with the German-American Chamber and the AID/LAC Training Program will prove valuable preparation for its implementing role under the proposed project. However, the technical support role to members and non-members will have to be greatly expanded under the project. The Guild has held a number of discussions with both USAID and ROCAP staff and consultants concerning its strong interest in building up its organization to carry out the training, export search, and market information activities envisioned under the project. One sign of its interest in these areas was its key role in organizing Guatemala's participation in the December 1984 C/CAA Conference on the Caribbean. The Guild's leadership in obtaining funding, preparing exhibits, and coordinating private and public sector participants in the exhibit was the determining factor in its success. With experiences such as these, as well as the help of its new manager (the former manager of the National Export Promotion Agency, GUATEXPRO), USAID expects that the Guild will be an able implementer of private sector activities under the project. In addition, its Chamber of Industry and Commerce connections will enable it to draw upon other private sector organizations such as the National Managers Association in order to help them carry out project activities.

4. Overview of BANDESA

a. Dual Character

BANDESA is a public sector financial institution that was established in 1970 as a result of a restructuring and consolidation of the government's agricutural credit institutions. The Bank has a dual character. Its primary role is that of a development bank, designated to work mostly with the nation's medium- and small-sized farmers. Secondarily, BANDESA is constituted as a commercial bank and is expected to carry out normal commercial banking operations, especially in rural areas. As a development bank BANDESA plays an important and coordinated part in the government's sectoral development programs--the Minister of Agriculture and Food chairs its Board of Directors--by providing financing for targeted objectives. In this role, BANDESA has been the focal point for most government and foreign assistance agricultural credit programs.

Since BANDESA was established, its credit programs have been increasingly concentrated in loans made from trust funds, which have been placed with BANDESA. Financing for the trust funds has been almost equally divided between foreign donors--AID and IDB have been the most important--and the government. By 1984, the number of trust funds had risen to twenty-two, and lending from these funds had come to completely dominate the Bank's credit. In 1983, 99.7 and 98.3 percent of BANDESA's loans and amount lent came from this source.

b. Role in Guatemalan Rural Financial Markets

In 1983, BANDESA's lending, from both trust funds and its own funds, accounted for only 17.8 percent of the amount lent to the sector by the banking system. The principal lenders were the fourteen private commercial banks, which lent 71.4 percent of the total, concentrating their lending among the larger commercial farmers. Financieras and other state development banks were the other banking system lenders.

Between 1977 and 1983, BANDESA's relative participation declined. In the former year, the Bank accounted for nearly 30 percent of the banking system's loans to the sector. The reason for the decline was the relatively slow growth of BANDESA lending, an average annual real rate of 2.2 percent over the period, compared to 11.6 percent for the banking system as a whole.

When measured in terms of numbers of loans, BANDESA's participation looms much more significant and impressive. In 1983, the Bank accounted for a very large majority of the loans to the sector. This reflects the Bank's lending concentration among the small- and medium-sized farmers and its relatively small average loan size compared to the other banks. BANDESA clearly is meeting its mission of serving its targeted clientele, and does not appear to be using its credit to finance large-size farms. It is noteworthy that the numbers of borrowers served by BANDESA virtually has not changed since 1977. This reflects the slow growth in its lending activity over this period.

The other side of financial markets is the mobilization of savings. In this respect, BANDESA's role has been considerably less important than in extending credit. In 1983, BANDESA held only 1.7 percent of the banking system's savings and fixed-term time deposits. The private commercial banks were the most important, with 90.7 percent of the total. The lack of importance of savings within BANDESA is shown by the ratio of the sum of savings and fixed-time deposits to the loan portfolio for the Bank's own funds which was .7. In contrast, the ratio for private commercial banks was 1.12.

c. Infrastructure and Personnel

BANDESA has an extensive infrastructure that spreads across the nation. In 1984, there were eight districts, thirty-seven agencies and thirty branch offices (cajas rurales). Each of the agency offices carries on both commercial and development banking operations while the cajas rurales only engage in credit. Between 1974 and 1984, BANDESA had an input department that sold fertilizers at favorable prices. In 1984, the decision was made to discontinue this department because its operating losses were a financial drain on the Bank. At the end of 1983, BANDESA had 1,158 employees. Of this number, 58 percent were working in the field.

d. Credit Portfolio

Between 1977 and 1983, the annual real flows of all credit extended by BANDESA, including loans from their own funds and trust funds, grew at an average annual rate of 2.2 percent. The number of loans made per year remained about the same, about 20,000.

BANDESA extends credit for four major lines of activities: crop, livestock, housing and small industry and artisanry. Crop loans account for about four-fifths of the total. In this category, loans for export/industrial crops are the most important, with basic grains and vegetables accounting for most of the rest. Most crop credit is for financing annual operating expenses. Livestock and housing loans, which are for longer-terms, account for the large bulk of the rest of the lending. The housing credit programs were developed as emergency measures following the devastating 1976 earthquake. Some credit is extended for artisanry and small industry. However, BANDESA has shown a growing interest in this sector through a recent agreement to lend up to $500,000 in counterpart funds to small business under the ongoing AID Rural Enterprises Project (520-0245).

BANDESA's lending is concentrated in the important commercial agricultural regions of the country. It is particularly important to realize, however, that much of the credit for basic grains goes to the small farmers of the densely-populated Highlands, a clientele that is not served by other banking instututions. The large majority of BANDESA credit is directed to individual medium and small-sized farmers who are owners, sharecroppers, and renters. A limited amount goes to cooperatives, federations of cooperatives, and organized groups.

Although the size of BANDESA loans depends mostly on the activities financed, most loans are quite small in size, reflecting the fact that they serve small-sized farming units. In 1983, 89.9 percent of the trust funds lent were loans for Q5,000 or less, and 31.6 percent were for Q500 or less. Loans made from the Bank's own funds tended to be larger, but not exceedingly so.

e. Credit Delivery System

BANDESA has made important innovations to develop a credit delivery system that is reasonably efficient for both the Bank and the borrowers in terms of direct costs for loans made to individual farmers. A major innovation has been an increasing decentralization of decision making, giving more authority to the field offices. As of June 1984, loans up to Q8,000 are approved at the agency level. By this standard, 99 percent of the loans made from trust funds in 1983 would fall under this limit. Decentralization has expedited the loan approval process such that borrowers can reasonably expect to receive their first disbursement about two weeks after initiating credit application procedures. Another innovation was the standardization of loan application forms for all loans, no matter the source of funds. Another is the flexibility in required documentation, especially documents showing the borrower's right to farm the land. Finally, the introduction of simplified procedures for previous borrowers who have a record of prompt repayment of loans significantly reduces both the Bank's and borrower's transactions costs for these clients and should provide an incentive for repayment. In spite of these innovations there appear to be means to further simplify the system, especially for the borrower. One example is the requirement for a legal loan document prepared by a lawyer, which is costly for the borrower to obtain.

For loans to cooperatives and individuals seeking larger loans, the delivery system is not as efficient. Since these loans are larger, they must be approved in the central office, and, as such, encounter delays as they go through the bureaucracy, which can lead to untimely loan disbursements. Loans to cooperatives require considerable paperwork by the cooperative, a factor that increases borrower costs and can contribute to delays in timely disbursement of credit. Technical assistance to BANDESA under the present project will devote a major portion of its time in expediting BANDESA approval of cooperative credits under the Agribusiness Development Fund.

f. Interest Rate Structure

The BANDESA interest rate structure is conditioned by the overall structure for the nation's banking system established by the Monetary Board. The interest rates charged by BANDESA are typically less than the maximum rates established by the Board. In 1984, the maximum loan rate was 12 percent. BANDESA charged this rate only on loans to medium-sized farmers in its commercial banking operations. Most loans made with the Bank's own funds carried a 9 percent rate, the Bank's rate for medium and small-sized farmers from this source of funds.

Loans from trust funds made to individual farmers normally have an 8 percent rate. Loans made to cooperatives carry rates from 0 to 4 percent depending on the purpose of the loan and whether or not the organization is a cooperative or a federation. The lower BANDESA rates are designed to allow sufficient spread to each of the intermediary organizations such that the final borrower pays 8 percent for regular loans and 4 percent for housing reconstruction loans. In some cooperative loans, however, the final borrower is charged more than 8 percent. This may reflect the cooperatives' inefficiency in handling the credit as well as the members' willingness to pay a higher rate.

The BANDESA interest rate structure is clearly concessionary. The government and the Bank have considered subsidized interest to be an important part of development policy for credit to small and medium-sized farmers. It is clear, however, that this policy creates a number of distortions in financial markets with important impacts on the allocation of real and financial resources, the financial viability of BANDESA, the potential political use of credit, and on savings mobilization. The latter comes about because a concessionary loan rate virtually dictates a lower interest rate on savings and time deposits because of the spread factor. This holds true for BANDESA, since the Monetary Board has set 9 percent as the maximum interest rate on savings and time deposits but the Bank only pays 6 percent.

Another factor is that few adjustments for inflation are made in the interest rate either by the Monetary Board or the Bank. Over the 1977-1983 period, the real rates were shown to fluctuate considerably. At some times both loan and savings deposit rates were negative. These fluctuations only serve to create changing incentives to both borrowers and savers and lead to instability in the financial markets and the misallocation of resources.

A recently contracted study discusses the high loan delinquency of BANDESA. For example, on loans made from trust funds (the bulk of BANDESA's lending activity) at the end of 1983, 24.8 percent of the number of loans and 16.8 percent of the loan volume had not been repaid by the time the last installment was due, and 51.3 percent of the loan volume was affected by delinquency. Such delinquency, combined with subsidized interest rates and inadequate savings mobilization has contributed to substantial losses for BANDESA, increasing at an average annual rate of 38.0 percent between 1977 and 1983.

The present project will be providing two years of technical assistance to the Bank to improve its credit approval, administration and collection procedures. USAID will require that the $1.5 million for semi-processing and production credit under the project be lent at rates of 12%, thus affording a wider spread to BANDESA. The Mission is aware that a long-term effort will be required before BANDESA can achieve financial solvency while at the same time carrying out its development task in rural areas. Despite its shortcomings, USAID views BANDESA as the only real alternative financial intermediary to provide funds to small farmers and rural cooperatives under the project.

Provision of BANDESA production credit to farmers will allow them to avoid having to rely solely on the credit (and interest rates) provided by agribusiness entrepreneurs. The availability of the BANDESA credit should also hold down the cost of the financing offered to small farmers by agribusinesses. Small farmers' independence from agribusiness entrepreneurs will also be strengthened by the former's access to BANDESA credit for semi-processing, thus enabling farmers to process their produce for direct export to the U.S. and Europe.

5. The Agricultural Cooperative Movement

The cooperative movement in Guatemala was initiated by the "Ley de Sociedad de Cooperativas" on January 20, 1903. In fact, cooperatives were largely dormant until 1945 when the Guatemalan Congress created the "Departamento de Fomento Cooperativo" to promote the creation and development of cooperatives. By 1948 due largely to the efforts of the "Departamento de Fomento de Cooperativas," fifty cooperatives and related credit agencies had been formed. While many Guatemalans during this time realized that cooperatives could be an important aspect of economic development, these organizations suffered from insufficient credit and the lack of adequate supervision, orientation, and education. During the 1950s, changes in the

Guatemalan government resulted in decreased emphasis on cooperatives and as a result the movement in general suffered a decline. In 1965 the Inter-American Committee for Agricultural Development published a report which stated that credit for small farmers was generally unavailable and that marketing services or cooperatives were inadequate. As a response to their need, USAID assisted in the establishment of a national credit cooperative foundation, the Federacion Nacional de Cooperativas de Ahorro y Credito, R.L. (FENACOAC). The purpose of FENACOAC was to promote and advise the Guatemala credit cooperative movement. Since that time, nine other cooperative federations have been established. The federations assist various segments of the global Guatemalan sector but they all exist to: a) serve as a channel for technical information, b) provide inputs, c) organize marketing and in many cases, d) provide production credit. These ten federations represent 310 individual cooperatives and 142,667 members.

Many of the cooperatives are small, rural and isolated and for this reason are not associated with any federation. While 50% of all cooperatives are not federated (477), they represent only 18% of all cooperative members (31,643).

Even though the cooperative movement in general suffers from common problems of a lack of managerial skills and limited marketing opportunities, Guatemala has developed one of the largest and strongest cooperative movements for small farmers of any Latin American country of comparable size.1/ In addition, Guatemalan rural cooperatives supported by USAID are reaching almost exclusively individuals who fall within the category generally referred to as the low-income target group.

The Project Description, Section II, cites a number of successful cooperatives, including Cuatro Pinos and Kato-Ki in Chimaltenango, and the Almolonga vegetable cooperative near Quetzaltenango. These cooperatives engage in a number of semi-processing activities such as sorting and grading, storing, and transporting produce. The Cuatro Pinos Cooperative, with Central American Nutrition Institute (INCAP) financial support, even operates a pilot dehydration plant for fruits and vegetables. Based on these cooperatives' experience, the project will finance trucks, warehouses, packing materials, conveyor belts and other semi-processing inputs under the $1.5 million in credit made available through BANDESA.

E. Environmental Analysis

USAID has received a negative environmental determination for the project (see Annex 11), providing that the project assures that technical assistance will be made available to farmers concerning the use of pesticides, and

---

1/ "Rural Cooperatives in Guatemala," General Research Corporation, 1980 p. 39.

assure that these pesticide management activities be coordinated with ROCAP's Integrated Pest Management Project. Both of these provisos will be carried out in the course of implementing the proposed project.

4064C

# AGRIBUSINESS DEVELOPMENT PROJECT LOGICAL FRAMEWORK

| Narrative Summary | Verifiable Indicators | Means of Verification | Important Assumptions |
|---|---|---|---|
| **Program Goal:**<br>- Increase rural family incomes through improved production, storage, processing, marketing, and employment opportunities for high-value crops. | **Measure of Goal Achievement:**<br>- Incomes of small farmers supplying produce to project agribusinesses are 20% higher than those of non-participant small farmers. | - Statistically-designed surveys financed under project evaluations.<br>- Export records of Ministry of Economy. | - Political situation in the Highlands will not deteriorate.<br>- Other small farmers and entrepreneurs copy success of those benefited by the project. |
| **Subgoal:**<br>- Expand and diversify Guatemala's export of non-traditional agricultural products. | - A $150 million increase during 1985-1990 in the volume of Guatemalan exports of fruits and vegetables produced by small farmers and processed by agribusiness plants. | | - Continuation of favorable relationship between export market prices and local production costs.<br>- Private investors and banks can be attracted and will invest in rural Guatemala. |
| **Project Purpose:**<br>- Provide small farmers with profitable outlets for their fruit and vegetable production through new or expanded agribusiness in rural areas. | **Conditions that will indicate Purpose has been Achieved: End of Project Status:**<br>- 12,000 small farmers benefited by Central Bank discount facility and 5,000 by BANDESA credit to cooperatives.<br>- Institutionalization of improved credit and feasibility analysis in four *financieras*, BANDESA and participating commercial banks.<br>- At least two thirds of | - Surveys before and after Project.<br>- Export statistics.<br>- Firms' and banks, financial records (e.g. showing initial timely payback of AID financed sub-loans, plus 10% general decrease in bad debt write-offs due to improved *financiera* credit analysis). | - Small farmers with TA can produce quality export crops in necessary quantities, and in cooperation with urban agribusiness entrepreneurs.<br>- U.S. does not change import policies (e.g. tariffs and quotas) to adversely affect Guatemalan exports. |

agribusiness sub-borrowers reach financial break-even point.

- Strengthen management of 20 cooperatives.
- Institutionalization of market information system in the Non-Traditional Exporters Guild.

- Project evaluations and audits.
- Financiera records
- Consultant reports to USAID Project Manager.
- Financial reports from USAID Controller's Office.

Outputs:

- Establish or expand a significant number of fresh and processed agribusiness enterprises, with most such firms serving export markets outside Central America.

Magnitude of outputs necessary and sufficient to achieve purpose:

- 20 agribusiness plants established.
- 75 trained entrepreneurs and plant managers.
- 20 financiera and commercial bank managers and staff trained in credit analysis and feasibility study techniques.
- 15,000 small farmers producing crops for agribusiness or cooperatives and 1,500 workers employed by private agribusinesses trained.

- Vouchers.

| Inputs: Activities and Types of Resources | Level of Effort/Expenditure (US$000) | AID Loan | AID Grant | Private Sector | GOG | Total | |
|---|---|---|---|---|---|---|---|
| 1. Provide agribusiness and production credit to entrepreneurs and cooperatives through four financieras participating commercial banks and BANDESA. | 1.Credit | 8,800 | - | 5,250 | - | 14,050 | - Availability of local entrepreneurs' equity capital and bank and suppliers' credits. |
| 2. Provide technical assistance and training to Bank of Guatemala, BANDESA, Financieras, and participating commercial banks. | 2.TA & Trng. to BANDESA BG & private banks | - | 320 | 320 | 30 | 670 | - Availability of AID funds. |
| 3. Provide technical assistance and training to entrepeneurs. | 3.TA & Trng. to Entrepreneurs | 500 | 80 | 100 | - | 680 | |
| 4. Provide technical assistance and training to cooperatives. | 4.Coop TA & Trg | - | 1,090 | 280 | - | 1,370 | |
| 5. Establish market information system in Guild. | 5.Market Info. System | - | 160 | 200 | - | 360 | |
| 6. Guild carries out export investment and promotion activities. | 6.Export & Investment | - | 400 | 150 | - | 550 | |
| 7. Complete project evaluations and audits of funded agribusiness. | 7.Audits & Evaluations | - | 200 | - | 50 | 250 | |

| | | | | | |
|---|---|---|---|---|---|
| 8.Contin-gency & Inflation | 200 | 750 | 2,000 | - | 2,950 |
| TOTAL | 9,500 | 3,000 | 8,300 | 80 | 20,880 |

PDSO:GLVaughan - 11/19/84 - 1477C-1480C

ACTION AID INFO AMB DCM POCAP ECON CHRON/12

VZCZCGT0929
PP RUEHGT
DE RUEHC #8242/01 1320523
ZNR UUUUU ZZH
P 112453Z MAY 84
FM SECSTATE WASHDC
TO AMEMBASSY GUATEMALA PRIORITY 8340
BT
UNCLAS STATE 138242

11-MAY-84
TOR: 00:00
CN: 00002
CHRG: AID
DIST: AID

ACTION. ORD
INFO. PDSO
PROGRAM

AIDAC

E.O. 12356: N/A
TAGS:
SUBJECT: AGRIBUSINESS DEVELOPMENT PROJECT (520-0276) PID

1. THE AGRIBUSINESS DEVELOPMENT PID WAS REVIEWED BY THE DAEC ON APRIL 12, 1984. THE PID WAS APPROVED, AND THE INTENSIVE REVIEW MAY PROCEED SUBJECT TO THE FOLLOWING GUIDANCE.

2. POLICY CONSTRAINTS. THE MISSION'S INTENT TO, DURING INTENSIVE REVIEW, IDENTIFY AND PRIORITIZE ALL POLICY CONSTRAINTS AFFECTING AGRIBUSINESS DEVELOPMENT AND RAISE THEM IMMEDIATELY WITH GOG, WAS ENDORSED.

PP SHOULD SET FORTH A DETAILED, EXPLICIT, STRATEGY SHOWING HOW AND WHEN CORRECTIVE ACTIONS WILL BE TAKEN. AS MANY OF THESE CONSTRAINTS AS POSSIBLE, (AND ALL CONSTRAINTS WHICH ARE CRITICAL TO PROJECT SUCCESS) SHOULD BE DEALT WITH DURING PROJECT DEVELOPMENT AND IMPLEMENTATION. FOR EXAMPLE, PROJECT AUTHORIZATION AND OR LOAN DISBURSEMENTS COULD BE CONDITIONED ON GOG ACTIONS TO RELIEVE CRITICAL CONSTRAINTS IN A NECESSARY TIME-FRAME.

MAIL ROOM
USAID/GUATEMALA
MAY 11 2 38 PM '84

3. PROJECT DESIGN. (A) ROLE OF B.O.G. VIS A-VIS FINANCIERAS. WE TAKE ISSUE WITH A MAJOR THRUST OF THE PROJECT WHICH APPEARS TO PLACE B.O.G. IN A POSITION TO MAKE DECISIONS FOR, OR TO SECOND-GUESS ~~DECISIONS OF~~, FINANCIERAS. AS WE UNDERSTAND IT, FINANCIERAS ARE COMPETENT, QUITE SUCCESSFUL AND FINANCIALLY STRONG. THEY WILL ASSUME FULL COMMERCIAL RISK ON ALL LOANS THEY MAKE AS PART OF THE PROJECT. THEY, THEN, SHOULD BE IN THE BEST POSITION TO EVALUATE THESE LOANS, AND TO DETERMINE THE INSTITUTIONAL ASSISTANCE, IF ANY, THEY REQUIRE TO PARTICIPATE IN THIS PROGRAM.

FOR THIS REASON: (I) WE SEE NO REASON TO HAVE B.O.G. REVIEW AND PRE APPROVE EVERY PROJECT. THIS ADDITIONAL BUREAUCRATIC HURDLE OFFERS DELAY, BUT NO APPARENT COMPENSATING BENEFITS. B.O.G. SHOULD, OF COURSE, ESTABLISH CRITERIA WHICH WILL GOVERN LOAN PROGRAM (E.G., SIZE OF LOAN; BENEFICIARIES), AND B.O.G. SHOULD REFUSE TO DISCOUNT ANY LOANS NOT MEETING THIS CRITERIA. BUT, B.O.G. IS IN NO POSITION TO MAKE JUDGMENTS RE QUOTE BANKABILITY



80

UNQUOTE.

(II) WE CANNOT ACCEPT THE IDEA OF PROVIDING GRANT-FUNDED T.A. TO THE FINANCIERAS. IN THE FIRST PLACE, THE NEED FOR T.A. SHOULD NOT BE DETERMINED AND IMPOSED FROM OUTSIDE PARTIES. IF A FINANCIERA BELIEVES IT NEEDS NONE, -- SO BE IT. THEY ARE TAKING THE RISK. OR, IT MAY THINK IT NEEDS MORE THAN ANTICIPATED IN THE PID, AND, IF SO, IT SHOULD OBTAIN IT IN THE WAY IT THINKS BEST.

IN THE SECOND PLACE, WE DO NOT SEE HOW WE CAN JUSTIFY USING GRANT FUNDS TO ASSIST THESE FINANCIALLY VIABLE PRIVATE INSTITUTIONS. AS EXPLAINED IN PARA 4, BELOW, THE INTEREST SPREAD OFFERED THE FINANCIERAS UNDER THE PROGRAM MAY BE ADJUSTED TO COVER, ADEQUATELY, ALL REASONABLE COSTS OF THIS KIND.

(B) SMALL FARMER CREDIT: IN ORDER TO STRENGTHEN LINKAGES BETWEEN INDEPENDENT PROCESSORS AND SMALL FARMERS, FINANCIERAS SHOULD INCLUDE SMALL FARMER CREDIT AND TECHNICAL ASSISTANCE AS PART OF LOAN PACKAGES TO PROCESSORS WHENEVER POSSIBLE.

(C) AGRO-PROCESSOR FEASIBILITY STUDIES: WE ARE CONCERNED THAT REQUIRING THESE STUDIES TO BE LOAN FUNDED MAY BE A SERIOUS DISINCENTIVE. AS AN ALTERNATIVE, WE SUGGEST THESE BE GRANT FUNDED, WITH THE PROVISO THAT, WHERE THE PROJECT IS PURSUED AND A LOAN MADE AS A RESULT OF THE STUDY, THE FEASIBILITY STUDY COSTS THEN BE ADDED AS PART OF THE LOAN.

(D) BENEFICIARY DEFINITION: WHILE SMALL FARMERS SHOULD BE THE MAIN BENEFICIARIES OF THE PROJECT, THE BENEFICIARY GROUP SHOULD BE BROADENED TO PERMIT THE PARTICIPATION OF LARGER CULTIVATORS. FREQUENTLY, FOR EXAMPLE, PARTICIPATION OF LARGER CULTIVATORS AS SUPPLIERS TO AGRO-PROCESSORS IS NECESSARY TO ACHIEVE STABLE OR SUFFICIENTLY LARGE INPUTS TO GUARANTEE BALANCED PLANT OPERATION, AND THUS PROTECT SMALL FARMER MARKETS.

4. INTEREST RATES

(A) THE TERMS OF A.I.D.'S LOAN TO THE GOG SHOULD BE AT THE USUAL CONCESSIONAL RATE, -2 PERCENT DURING THE GRACE PERIOD AND 3 PERCENT THEREAFTER.

THESE RATES REFLECT, INTER ALIA, GUATEMALA'S DEVELOPMENTAL STATUS AND BOP CONCERNS, AND SHOULD NOT BE AFFECTED BY LOAN PURPOSE OR ULTIMATE BENEFICIARY.

(B) INTEREST RATES TO BE CHARGED BY THE FINANCIERAS TO AGRO-PROCESSORS SHOULD BE AT MARKET RATES, RATHER THAN MORE CONCESSIONAL ONES PROPOSED IN THE PID. IT HAS BEEN



81

OUR POLICY TO AVOID SUBSIDIZED RATES WHENEVER POSSIBLE.

(C) ALTERED RATES DESCRIBED IN (A) AND (B) WILL INCREASE INTEREST SPREAD AVAILABLE TO BOG AND/OR FINANCIERAS. THIS COULD BE USED, FOR EXAMPLE, AS FOLLOWS:

--PART OF SPREAD TO FINANCIERAS COULD BE USED TO PAY FOR THEIR NECESSARY T.A., IN LIEU OF PROJECT GRANT FUNDS AS PROPOSED IN PID.

-PART OF SPREAD COULD BE CAPTURED FOR OTHER PROJECT PURPOSES, OR PLACED IN A SPECIAL ACCOUNT FOR POST-PACD CONTINUATION OF PROJECT ACTIVITIES.

(D) BANDESA

PROPOSED LOANS AT 8 PERCENT ARE DIFFICULT TO JUSTIFY. IF BANDESA CANNOT ACCEPT MARKET RATES OF INTEREST AT THIS TIME, THERE SHOULD AT LEAST BE A CONSIDERABLE MOVE IN THAT DIRECTION. BANDESA CAN OFFER A T.A. PACKAGE TO INTEREST RATES.
INTEREST RATES.

5. EXPORT AND INVESTMENT PROMOTION: THE ACTIVITIES DESCRIBED IN THE PID SHOULD BE EXPANDED TO INCLUDE A BROADER INVESTMENT AND EXPORT PROMOTION COMPONENT, THAT

COULD FINANCE, INTER ALIA, SYSTEMATIC MARKET SEARCHES FOR THE GUATEMALAN AGRICULTURAL SECTOR AND FOR U.S. AGRIBUSINESS PEOPLE WHO WOULD BE INTERESTED IN INVESTING ON THEIR OWN OR IN JOINT VENTURES WITH GUATEMALAN INVESTORS.

6. OTHER DECISIONS. (A) COUNTERPART CONTRIBUTION: THE MISSION WILL SEEK AN ADDITIONAL DOLLARS 170,000 IN PRIVATE CAPITAL CONTRIBUTIONS TO BRING THE COUNTERPART CONTRIBUTION TO THE MINIMUM 25 LEVEL.

(B) INTEREST RATES: THE MISSION WILL INCLUDE IN THE PP A DISCUSSION OF THE INFLATION RATE IN GUATEMALA, AND THE CONSEQUENT REAL RATES OF INTEREST FOR VARIOUS LOAN COMPONENTS.

(C) GRAY AMENDMENT: THE PP WILL DESCRIBE IN DETAIL OPPORTUNITIES FOR PARTICIPATION BY GROUPS COVERED BY THE GRAY AMENDMENT. IF THIS MATERIAL IS READY EARLIER THAN THE DATE OF SUBMISSION OF THE PP, IT SHOULD BE TRANSMITTED TO AID/W FOR DISTRIBUTION IN ADVANCE OF THE PP.

(D) COMPETITION FOR TECHNICAL ASSISTANCE CONTRACTS: THE MISSION SHOULD CONSIDER COMPETITION FOR ANY TECHNICAL ASSISTANCE ACTIVITIES, ESPECIALLY AS THEY PERTAIN TO HELPING COOPERATIVES, WHEN THE DETAILS OF THIS ASSISTANCE HAVE BEEN WORKED OUT.

(E) PAYMENT VERIFICATION: THE MISSION IS REMINDED THAT ALL PROJECT PAPERS MUST FOLLOW THE PAYMENT VERIFICATION POLICY IMPLEMENTATION GUIDANCE PROVIDED ON DECEMBER 30,

1983 BY AA/M ROLLIS TO MISSION DIRECTORS. YOUR ATTENTION IS DRAWN PARTICULARLY TO PAGES 6-8, WHICH DEAL SPECIFICALLY WITH PPS AND PAADS. (COPY POUCHED TO G. VAUGHN ON 4/30/84).

7. APPROVAL AND AUTHORIZATION OF PROJECT: GIVEN THE COMPLEX ISSUES IMPLICIT IN THE MISSION'S PROPOSAL, THE PP SHOULD BE REVIEWED IN AID/W.
SHULTZ
BT
#8242

NNNN



ACTION COPY
THIS COPY MUST BE RETURNED TO CENTRAL FILE INDICATING THE ACTION TAKEN AND DATE.
ACTION TAKEN ____________

| DATE | INITIALS |
|---|---|
| | |

43

# 5C(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable generally to FAA funds, and criteria applicable to individual fund sources: Development Assistance and Economic Support Fund.

## A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FAA Sec. 481; FY 1985 Continuing Resolution Sec. 528. Has it been determined or certified to the Congress by the President that the government of the recipient country has failed to take adequate measures or steps to prevent narcotic and psychotropic drugs or other controlled substances (as listed in the schedules in section 202 of the Comprehensive Drug Abuse and Prevention Control Act of 1971) which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully?

   Guatemala does take adequate steps to prevent narcotics traffic.

2. FAA Sec. 620(c). If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) the debt is not denied or contested by such government?

   No.

84

| | |
|---|---|
| 3. FAA Sec. 620(e)(1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities? | No. |
| 4. FAA Sec. 620(a), 620(f), 620(D); FY 1985 Continuing Resolution Sec. 512 and 513. Is recipient country a Communist country? Will assistance be provided to Angola, Cambodia, Cuba, Laos, Syria, Vietnam, Libya, or South Yemen? Will assistance be provided to Afghanistan or Mozambique without a waiver? | No. |
| 5. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action of U.S. property? | No. |
| 6. FAA Sec. 620(l). Has the country failed to enter into an agreement with OPIC? | N/A |
| 7. FAA Sec. 620(o); Fishermen's Protective Act of 1967, as amended, Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters? (b) If so, has any deduction required by the Fishermen's Protective Act been made? | N/A |

85

8. FAA Sec. 620(q); FY 1985 Continuing Resolution Sec. 518. (a) Has the government of the recipient country been in default for more than six months on interest or principal of any AID loan to the country? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the appropriation bill (or continuing resolution) appropriates funds?

No.

9. FAA SEC. 620(s). If contemplated assistance is development loan or from Economic Support Fund, has the Administrator taken into account the amount of foreign exchange or other resources which the country has spent on military equipment? (Reference may be made to the annual "Taking Into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)

The Administrator is expected to approve the FY 1985 Operational Year Budget soon; in doing so will take into account the relevant questions regarding military expenditures as presented in the "Taking into Consideration" memorandum. The "Taking into Consideration" memorandum has been prepared and it includes no information that would cause the Administrator to question the assistance contemplated.

10. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

No.

| | |
|---|---|
| 11. FAA Sec. 620(u) What is the payment status of the country's U.N. obligations? If the country is in arrears were such arrearages taken into account by the AID Administrator in determining the current AID Operational Year Budget? (Reference may be made to the Taking into Consideration memo.) | Country is not delinquent. |
| 12. FAA Sec. 620A; FY 1985 Continuing Resolution Sec. 521. Has the country aided or abetted, by granting sanctuary from prosecution to, any individual group which has committed an act of international terrorism? Has the country aided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed a war crime? | No. |
| 13. FAA Sec. 666. Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA? | No. |
| 14. FAA Sec. 669, 670. Has the country, after August 3, 1977, delivered or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.) | No. |

15. ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. of Sept. 25 and 28, 1981, and failed to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the Taking into Consideration memo.)

Guatemala was not represented at the meeting.

16. FY 1985 Continuing Resolution. If assistance is from the population functional account, does the country (or organization) include as part of its population planning programs involuntary abortion?

No.

17. FY 1985 Continuing Resolution Sec. 530. Has the recipient country been determined by the President to have engaged in a consistent pattern of opposition to the foreign policy of the United States?

No.

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria

FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy?

No determination has been made of gross violations of human rights.

2. Economic Support fund Country Criteria

| | |
|---|---|
| FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the country made such significant improvements in its human rights record that furnishing such assistance is in the national interest? | No determination has been made of gross violations of human rights. |

## 5 C (2) - PROJECT CHECKLIST

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A includes criteria applicable to all projects. Part B applies to projects funded from specific sources only. B.1 applies to all projects funded with Development Assistance Funds, B.2 applies to projects funded with Development Assistance loans, and B.3 applies to projects funded from ESF.

| | |
|---|---|
| CROSS REFERENCES. IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT? | The updated Country Checklist is attached. The Project Checklist has been reviewed. |

## A. GENERAL CRITERIA FOR PROJECT

1. FY 1982 Appropriation Act Sec. 523, FAA Sec. 634 A; Sec. 653 (b).

| | |
|---|---|
| (a) Describe how authorizing and appropriations committees of Senate and House have been or will be notified concerning the project; | This project was presented in the Mission's FY-85 Annual Budget Submission and in its FY-85 Congressional Presentation under the title of Agribusiness Development as part of its Development Assistance OYB. |
| (b) Is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than $1 million over that amount)? | Yes. |

| | | |
|---|---|---|
| 2. | <u>FAA Sec. 611 (a) (1).</u> Prior to obligation in excess of $100,000, will there be: (a) engineering, financial or other plans necessary to carry out the assistance and (b) A reasonably firm estimate of the cost to the U.S. of the assistance? | Yes. |
| 3. | <u>FAA Sec. 611 (a) (2).</u> If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance? | Upon the signing of the Bilateral Loan Project the Government of Guatemala must ratify the Agreement. Prior to expending Project funds within the current governmental structure this process takes about 4 months. |
| 4. | <u>FAA Sec. 611 (b); FY 1982 Appropriation Act Sec. 501.</u> If for water or water-related land resource construction, has project met the standards and criteria as set forth in the Principles and Standards for Planning Water and Related Land Resources, dated October 25, 1973? (See AID Handbook 3 for new guidelines.) | Not applicable. |
| 5. | <u>FAA Sec. 611 (e).</u> If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed $1 million, has Mission Director certified | Not applicable. |

and Regional Assistant Administrator taken into consideration the country's capability effectively to maintain and utilize the project?

6. FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral projects? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs.

No.

7. FAA Sec. 601 (a). Information and conclusions whether project will encourage efforts of the country to:

(a) Increase the flow of international trade;

(b) Foster private initiative and competition; and

(c) Encourage development and use of cooperatives, and credit unions, and savings and loan associations;

(d) Discourage monopolistic practices;

(e) Improve technical efficiency of industry, agriculture and commerce; and

(f) Strengthen free labor unions.

This Project will increase exports and will augment private sector initiative through the support and utilization of cooperatives and producers associations. It supports the private sectors by providing financing and assisting them find export markets via the Guild of Non-Traditional Exporters. This Project improves technical efficiency and competitiveness of small and medium producers in Guatemala. The project will not directly strenghten free labor unions. However, it will strengthen agricultural cooperatives and other small farmer groups in dealing with private agribusiness.

UV

8. FAA Sec. 601 (b). Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the service of U.S. private enterprise).

The U.S. private sector has a strong role in the Guatemalan industrial and agricultural sectors. This Project seeks to stimulate their participation and investment through strengthening communication channels and through policy channels, business tours, and marketing avenues with the Guatemalan private sector. A major portion of technical assistance will be procured from U.S. sources.

9. FAA Sec. 612 (b), 636 (h); Fy 1982 Appropriation Act Sec. 507. Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

The Government of Guatemala has consistently supported all A.I.D. financed developmental projects with counterpart necessary to achieve project objectives, and will continue to do so for the present project. Most counterpart funding will come from the private sector in the form of matching local equity or loans to loan-funded credit under the project.

10. FAA Sec. 612 (d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

No.

11. FAA Sec. 601 (e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

Yes.

12. FY 1982 Appropriation Act Sec. 521. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world

No. The project will promote primarily fruit and vegetable export to the U.S., many of which will enter the U.S., in the winter months when the U.S. cannot supply enough produce internally. Consemarkets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?

quently, it is not anticipated that exports will either be in surplus on world markets or injure U.S. producers.

13. **FAA 118 (c) and (d).** Does the project comply with the environmental procedures set forth in AID Regulation 16? Does the project or program take into consideration the problem of the destruction of tropical forests?

**Yes.**

14. **FAA 121 (d).** If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (dollars or local currency generated therefrom)?

**Not applicable.**

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FAA Sec. 102 (b), 111, 113, 281 (a). Extent to which activity will (1) effectively involve the poor in development, by extending access to economy at local level, increasing labor--intensive production

Not Applicable.
(i.e. project is funded under ESF account).

94

and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (2) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (3) support the self-help efforts of developing countries; (4) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (5) utilize and encourage regional cooperation by developing countries?

b. <u>FAA Sec. 103, 103 A, 104, 105, 106.</u> Does the project fit the criteria for the type of funds (functional account) being used? — Not Applicable.

| | | |
|---|---|---|
| c. | <u>FAA Sec. 107.</u> Is emphasis on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)? | Not Applicable. |
| d. | <u>FAA Sec. 110 (a).</u> Will the recipient country provide at least 25% of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)? | Not Applicable. |
| e. | <u>FAA Sec. 110 (b).</u> Will grant capital assistance be disbursed for project over more than 3 years? If so, has justification satisfactory to Congress been made, and efforts for other financing, or is the recipient country "relatively least developed"? (M.O. 1232.1 defined a capital project as "the construction, expansion, equipping | Not Applicable. |

96

or alternation of a physical falcility or facilities financed by AID dollar assistance of not less than $100,000, including related advisory, managerial and training services, and not undertaken as part of a project of a predominantly technical assistance character".

f. <u>FAA Sec. 122 (b).</u> Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

Not Applicable.

g. <u>FAA Sec. 281 (b).</u> Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the contry's intellectual resources to encourage institutional development; and supports civil education and training in skills required for effective participation in government processes essential to self-government.

Not Applicable.

2. Development Assistance Project Criteria (Loans Only)

| | |
|---|---|
| a. FAA Sec. 122 (b). Information and conclusion of capacity of the country to repay the loan, at a reasonable rate of interest. | Not Applicable. |
| b. FAA Sec. 620 (d). If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan? | It is anticipated that the Guatemalan productive enterprises will be competing with other foreign exporters to the U.S. and not with U.S. enterprises. |
| c. ISDCA of 1981, Sec. 724 (c) and (d). If for Nicaragua, does the loan agreement require that the funds be used to the maximum extent possible for the private sector? Does the project provide for monitoring under FAA Sec. 624 (g)? | Not applicable. |

3. Economic Support Fund Project Criteria

| | |
|---|---|
| a. FAA Sec. 531 (a). Will this assistance promote economic or political stability? To the extent | This assistance will strengthen the private sector's role in Guatemala's national economy by providing a basis for a more stabilized economic environment, and by |

gb

| | | |
|---|---|---|
| | possible, does it reflect the policy directions of FAA Section 102? | diversifying the country's export base. |
| b. | <u>FAA Sec. 531 (c).</u> Will assistance under this chapter be used for military, or paramilitary activities? | No. |
| c. | <u>FAA Sec. 534.</u> Will ESF funds be used to finance the construction of the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such use of funds is indispensable to non-proliferation objectives? | No. |
| d. | <u>FAA Sec. 609.</u> If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? | Not applicable. |

4105C
4106C

BANCO DE GUATEMALA

CARLOS H. GONZALEZ A.
GERENTE

Guatemala,
22 de noviembre de 1984

**11261**

Señor
Charles E. Costello
Director de la Agencia para el
Desarrollo Internacional -AID-
Misión para Guatemala
Ciudad

Apreciable señor Costello:

Atentamente me refiero a su solicitud por medio de la cual desea conocer la opinión de esta Institución con respecto al uso de los recursos que por US$12.5 millones otorgará la -- AID, para el Proyecto de Desarrollo Agroindustrial, la que inclu ye una donación por US$3.0 millones.

Al respecto, y complementariamente a las observaciones que le transmitiera en nota del 9 de noviembre del corriente año, deseo manifestarle que la Gerencia del Banco de Guatemala está anuente a canalizar dichos recursos a través del sistema bancario, utilizando los mecanismos necesarios a fin de colaborar en forma efectiva con el Proyecto de Desarrollo indicado. Sin embargo, no está demás indicarle que será la honorable Junta Monetaria quien en definitiva apruebe la participación del Banco de Guatemala en el proyecto.

Aprovecho la oportunidad para suscribirme atento y deferente servidor,

PDSO
ORD
Draft
reply for Dir's sig.
12-7-84
11-23-84

**Gremial de Exportadores de Productos no Tradicionales**

ADSCRITA A LA CAMARA DE INDUSTRIA DE GUATEMALA

Guatemala, 23 de noviembre de 1984.-

Señor
Gary Vaughn
Misión AID
Guatemala
Ciudad.

Estimado Señor Vaughn:

Por este medio, me permito reconfirmarle el interés de la Gremial de Exportadores de Productos No Tradicionales en colaborar con AID , en la ejecución del Proyecto de Desarroyo de Agroindustrias, cuyo anteproyecto fué sometido a nuestra consideración.

Como es de su conocimiento, la Gremial considera que la creación de un Centro de Información y Documentación Comercial en el país, es una necesidad imprecindible para apoyar el incremento de las exportaciones guatemaltecas y estimamos que en el documento que se nos ha presentado, este componente ha sido muy bien concebido y por lo tanto estamos totalmente de acuerdo con la forma en que se ha planteado su creación y ejecución.

Asimismo, vemos con mucho entusiasmo las actividades del componente de promoción de exportaciones e inversiones, el cual consideramos que estamos en capacidad de ejecutar.

Por lo anterior esta Gremial solicita a la Agencia Internacional para el Desarrollo -AID-, se le asignen los , setecientos cincuenta mil dólares ($750,000.00) de los fondos que le han sido asignados en el documento del Proyecto, para lo cual estamos en toda la disposición de firmar un convenio de ejecución con esa Agencia.

Esperando poder iniciar las actividades previstas, en un corto plazo me suscribo de usted muy atentamente,

GREMIAL DE EXPORTADORES DE
PRODUCTOS NO TRADICIONALES

Ing. Eduardo Sperisen Yurt
Presidente

ES/lv
c.c:Archivo
nov-27

# THE GUATEMALAN FINANCIAL SYSTEM[1/]

## A. The Banking System

The banking system in Guatemala is comprised of the central bank, Banco of Guatemala (BG), 14 commercial banks, including 1 official and 1 semi-official bank, 10 Guatemalan private banks, and 2 foreign banks, 4 private financieras, Financiera Guatemalteca S.A. (FIGSA), Financiera Industrial y Agropecuaria S.A. (FIASA), Financiera Industrial S.A. (FISA), and Financiera de Inversion (FINSA); and 3 specialized credit institutions, the Corporacion Financiera Nacional (CORFINA), Banco Nacional de Desarrollo Agricola (BANDESA), and the Banco Nacional de Vivienda (BANVI). Of these entities, all except BANDESA and BANVI, are presently involved in financing industry. The remainder of the financial system comprises a variety of non-bank financial intermediaries, mainly insurance companies and savings and loan cooperatives.

The Bank of Guatemala was established in 1945 as the government's central bank and fiscal agent, with responsibility for formulating and implementing monetary policy, ensuring the efficient operation of the banking system, and controlling Guatemala's international reserves. BG is administered by the Monetary Board, consisting of the Ministers of Finance, Economy, and Agriculture, representatives of the University of San Carlos (the national university), the state banks, the private banks, and the commercial, industrial and agricultural associations. BG is generally well regarded both within and outside Guatemala as a professional, well-managed and adequately staffed organization. Under the World Bank's Livestock Development Project (Loan 722-GU) a special fund was created in BG for the discounting of livestock subprojects presented by qualifying financial intermediaries. BG has also managed other government funds (i.e., for guaranteeing loans to small enterprises, housing, and small farmers) and export credit lines extended by other governments, as well as discount lines under the ongoing AID Rural Enterprises and Small Farmer Marketing Projects. Since BG would be the executing agency for the project, the experience it has gained will be useful in carrying out its responsibilities.

The Financieras. The 1962 Decree 208 "Ley de Sociedades Financieras" provided the basis for establishing private financieras. FIGSA was established in 1965, FIASA in 1968, and FISA and Financiera de Inversion in 1981. FIGSA and FIASA with total assets of U.S. $65 million and U.S. $60 million, respectively, as of June 30, 1983, are the largest private

---

1/ This section is based upon the World Bank's Staff Appraisal Report, Guatemala, Industrial Credit Project, January 26, 1984, pp. 8-11.

102

financieras. FISA's total assets are much less (U.S. $18 million) but FISA's main shareholder is Banco Industrial, the largest private commercial bank in Guatemala. In just two years of operation, Financiera de Inversion has acquired total assets of U.S. $6 million. The basic objective of the financieras is to invest in, promote and/or channel domestic and foreign resources to industrial, agricultural and livestock enterprises. The law allows them to subscribe shares in private firms, issue securities, guarantee issues of other enterprises, and obtain domestic and foreign loans (the latter with authorization of the Junta Monetaria). By law, financieras have to lend for a minimum of 3 years to investment subprojects, but they are allowed certain exemptions which enable them to provide some short-term credit mainly for financing acceptances, letters of credit and technical assistance services. They must have a minimum authorized capital of U.S. $0.5 million (or more if required by the Junta Monetaria), and they are subject to a maximum earning assets/equity ratio of 20:1.2/ Financieras are prohibited from obtaining deposits, and are subject to reserve requirements on their obligations (35% for obligations with maturities up to 30 days, and 10% for over 30 days). Like commercial banks, they cannot grant loans to a single firm for more than 20% of their equity. Financieras are also limited to financing not more than the equivalent of 25% of the paid-in capital of any single enterprise, except those they promote. In such case, for a period not exceeding two years, their share capital participations can reach up to 50%.

By mid-1983, financieras held 5.8% of the banking system's assets 3/ of U.S. $2.6 billion and accounted for 5.7% of total industrial credit at June 30, 1983, in comparison with 2.7% and 2.0%, respectively, at the end of 1975 Financieras' assets increased in nominal terms 23% on average p.a. during 1975-1983. Growth was faster during 1977-1980, as a result of increasing credit demand fueled by the post-earthquake reconstruction program and the coffee boom, but it decreased considerably during 1981 and stagnated in 1982-83, reflecting the sharp decline in credit needs and availability resulting from the country's current problems. The financieras' portfolio is mainly medium and long-term, with about 60% of their term portfolio having maturities of up to three years, and the other 40% of five years or more, with one-half of these loans going to industry.

During the period 1975-1983, the financieras experienced a considerable change in their liabilities' structure, substituting domestic for foreign resources as the main source of funds. During the period, foreign resources

---

2/ As of mid-1983, the financieras maximum earning assets were 8.2 times their equity.

3/ Defined as including all financial institutions listed in para 2.01 except BG, BANDESA and BANVI.

107

decreased from U.S. $9.7 million to U.S. $7.8 million, and local resources increased from U.S. $5.7 million to U.S. $125.3 million. Bonds have been increasingly the most important source of local resources, 4/ representing about 83% of financieras' total liabilities by mid-1983. Factors which help to explain these trends are the increasing availability - particularly during the coffee boom - of generally lower cost local resources, and the increasing difficulties in obtaining foreign loans. Financieras'portfolio in arrears (as percentage of total portfolio) was 3.7% at the beginning and of the period, it varied considerably in 1976-1977 (part of the coffee boom years) was 3.9% at the end of 1981, and rose to 8.0% by mid-1983. The government is presently taking steps to deal with this problem. In addition, like commercial banks, financieras' liquidity has increased sharply during 1981-82, and clients who accumulated cash surpluses were able to repay some of their arrears. The financieras' average return on assets (before taxes) varied between 2.1% and 3.9% p.a., averaging 3.0% p.a. during 1975-82. However, the average has been declining in the last five years, to 2.1% in 1983,5/ mainly as a result of a decreasing financial spread (onlending interest rates have not kept up with the increased cost of borrowings), increased competition (i.e., two new financieras were established in 1981) and the reduced credit demand of the last two years. However, as the financieras have substantially increased their leverage in recent years, average return on equity has actually increased sharply, rising from 8% in 1975 to 34% in 1982, before dropping to 24% in 1983. 5/

The Commercial Banks. Fourteen commercial banks form the core of the financial system and account for about 85% of the banking system/s assets. The largest and most important is Banco Industrial, with total assets of U.S. $394.7 million (as of June 1983). Banco Granai & Townson is the next largest bank, followed by Banco de Occidente, Banco Inmobiliario and Banco Agricola-Mercantil, with total assets ranging from U.S. $202 to U.S. $231 million. The remaining banks are somewhat specialized, relatively new, or are branches of foreign banks. After growing from U.S. $385 million in 1975 to U.S. $1.0 billion in 1980, commercial banks' loan portfolios grew much more slowly, reaching U.S. $1.2 billion in 1982. About 90% and 97% of commercial banks' total and industrial portfolio, respectively, is in short-term loans of up to one year. Lending rates are fixed and there is a maximum permitted rate. Since there is also a prohibition against adjusting the rates on existing loans when the maximum rate is increased, banks find it more profitable to lend at the shortest term possible, as this increases their effective

---

4/ Bonds are issued with maturities between 3 and 10 years, some of them with a repurchase agreement, and yielding on average about 10% (ranging from 8%-12%) but effective yields are higher as the interest on the bonds is tax free.

5/ Annual rate based on 10 months' earnings.

104

yield.[6] Commercial banks loans made since 1975 are concentrated in industry (34%), commerce (21%), and agriculture (16%). Portfolio in arrears of commercial banks has increased considerably since 1975, particularly during 1979-81 (from 8% to 19% of total portfolio), but they declined somewhat in 1982 to 16%. Arrears were actually understated because renewals of overdue loans amounted to 27% in 1979 and 30% in 1981.

Since 1975, commercial banks, like the financieras, have been receiving a steadily increasing flow of local private funds, which amounted to U.S. $1.7 billion by mid-1983. The structure of such deposits has changed slightly during the period, with the share of savings and time deposits increasing from 73% in 1975 to 79% in 1983. Commercial banks' equity also increased from U.S. $56 million in 1975 to U.S. $147 million in 1983, primarily because commercial banks are subject to a maximum earning assets/equity ratio of 10:1. In order to keep pace with expanding operations, additional capital had to be raised. Commercial banks' return on assets (before taxes) of about 1% during 1975-1983, [5] was low, because of increasing administrative costs, (i.e., recently around 4% of assets), and additionally, during the last 2-3 years, reduced earnings due to portfolio arrears and idle assets. Because borrowing is limited to 10 times equity, return on equity has been less than for the financieras but has averaged between 9%-14% since 1975.

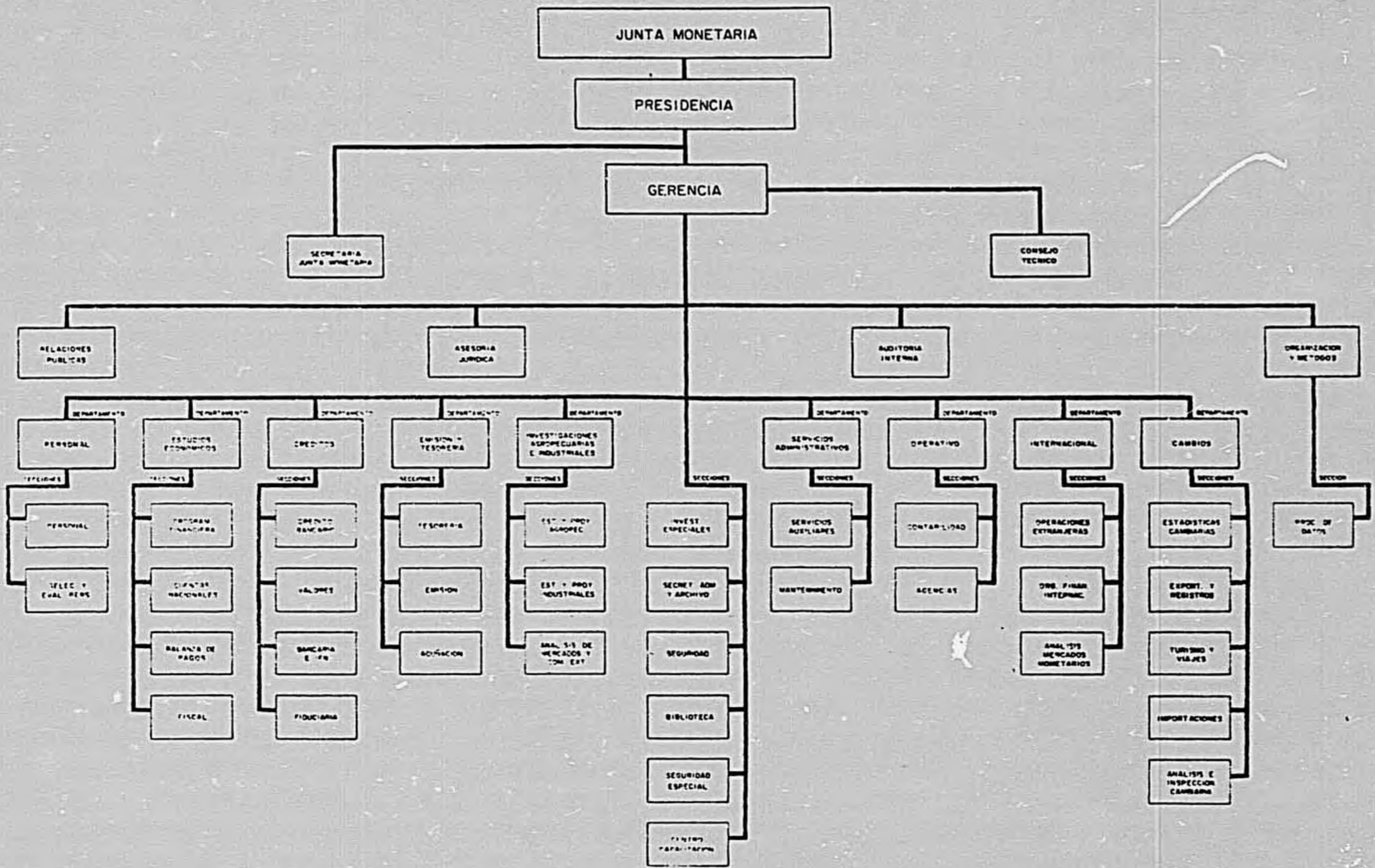
---

6/ Although Banks are allowed to apply adjustable onleanding rates for loans with foreign funds, such loans have comprised only a small share of their portfolio.



105

# ORGANIGRAMA BANCO DE GUATEMALA



## ECONOMIC ANALYSIS ANNEX

### Agribusiness Demand Prospects

The Agribusiness Project, proposes to address a prevailing condition of limited markets for fruit and vegetable production. Creation of profitable outlets through the agribusiness project are intended to benefit small farmers to gain rural family income and increase employment opportunities. Both backward and forward linkages would result by stimulating employment at the producer level, processing or packing plants in addition to increasing the manufacture of raw material inputs. This section examines the demand prospects for specific fruits and vegetables in the United States market and the national-regional market.

### A. International Demand

The United States fruit and vegetable market can be characterized as a highly sophisticated yet extremely fragmented system. There are many small operators and few large companies that dominate market activity. The actual movement of produce in the U.S. involves complicated interplays from the producer level to the final consumer. Prices may change many times in route to the product's destination. Destinations may abruptly change in response to supply and price conditions. Added into this equation are the obviously uncontrollable conditions of nature which can create an enormous amount of demand for a product instantly. In addition a high level of functional overlap exists among market participants such that wholesalers and retailers can be the same or importers and wholesalers combine roles. The effect of these characteristics causes market unpredictability and volatile interactions between every level of the productions marketing chain. As a result, defining demand for agribusiness products becomes nearly impossible to measure. Only a few crude indicators can be used and monitored to reveal trends.

Imported agribusiness supplies have been gaining larger U.S. market shares at unprecedented rates since the early 1970's. This situation has occurred in response to several distinct reasons. The major factors are:

* increases in U.S. labor costs
* increases in transportation costs
* declines in the availability of suitable land.

What U.S. producers gain in technological efficiencies, competitive raw materials and high yields can often be offset by a foreign producer with an abundant and cheap labor force, or climatic variations which allow for off-season shipments. Guatemala has the potential to identify and use their areas of comparative advantage to produce, package or otherwise process and

107

export agricultural products to U.S. markets. The cost of labor in Guatemala for instance is on average $3.00 per day compared to a minimum of $5.00 per hour in California. It is uncertain however, whether Guatemala has an advantage or is at least competitive in transportation with the U.S. and other importing countries. While Guatemala is producing only small quantities of export quality fruits and vegetables, it appears that the country has sufficient agronomic resources to undertake an export production program given adequate technical control over the process from inception to shipping.

For illustrative purposes, three products have been identified with U.S. market potential. While the growth in shipments was used as the principal indicator of demand, project specific and other qualitative factors were also considered in the assessment. Specific factors consisted of the following:

* Products suited to fresh or processed (frozen) exports.
* Products with the potential for high labor intensity.
* At least one product which could be exported year-round and the others with specific seasonal demand.
* Products which require no special sanitation treatments or port-of-entry restrictions due to the Mediterranean-fruit fly.
* Products which could be grown in sufficient quantity to fulfill a standard minimum order of one 40,000 lb. container load at a time.
* Products which could be shipped by boat without significant loss of quality.

The table on the following page provides demand information on three products broccoli, snow peas and cantaloupes. Table II-A is followed by a listing of several other potential Guatemalan products which may have strong export potential given proper quality development.

For nearly every funded enterprise under the agribusiness project, it would be desirable to combine inasmuch as possible, both fresh and processed operations. The main reason would be to maximize productive utilization of the product. Processing for certain products increases value-added but it also is a method to use second level, top quality produce which otherwise must be dumped into a small domestic market. Processing also helps to stabilize prices. For example, California growers are able to produce broccoli all year with minimal fluctuations in price. They can control the quantities on the market at any time by switching between freezing and fresh operations. Guatemala could profitably take advantage of broccoli exports as a relatively stable price opportunity by supplying East Coast markets where transportation costs from Guatemala would be theoretically lower than from the West Coast.

## Table II-A

### PRODUCT DEMAND

| | Annual Compound Growth in Consumption 1978-1983 | 1983 Volume of Shipments (1000 CWT) | High Price Months 1978-83 | Market Shares 1983 |
|---|---|---|---|---|
| Broccoli | 15.2% | 5,290 | Minimal Fluctuations<br>Dec.-April best | California 93%<br>Texas 6%<br>Arizona .007<br>Mexico .003 |
| Snow Peas | 45.3% | 149 | June-September | Mexico 42%<br>Guatemala 23%<br>Florida 20%<br>Dom. Rep. 13%<br>Texas 2% |
| Cantaloup | 1.94% | 14,670 | December-May | U.S. (Calif., Arizona, Texas) 88%<br>Mexico 11%<br>Honduras<br>Chile 1%<br>Costa Rica |

Source: R.L. Simmons, North Carolina State University

## Table II-B

## POTENTIAL FRUIT AND VEGETABLE EXPORTS

### Vegetables

Asparagus
Okra
Cauliflower
Cucumbers
Bell Peppers

### Fruits

Mangos (Problems with chemical treatments)
Strawberries
Honeydew melons
Pineapple
Berries
Grapes

### Other

Garlic
Parsley
Nut Crops
Spices
Sesame
Shallots
Leeks

Snow peas are comparative newcomers to the marketplace. While the U.S. market for snow peas in absolute terms is very small, growth in consumption has increased tremendously. Snow peas moreover, are high value items. Most supplies originate from foreign sources with Mexico emerging as the primary competition. Most of these supplies are destined for West Coast markets but given strong apparent demand, it is likely that all areas of the U.S. could absorb additional supplies. Currently, Guatemala supplies 23 percent of the U.S. market, second only to Mexico. Guatemala should build upon existing channels of distribution to increase its market share for this product. Frozen snow peas are another possibility which has not yet been exploited in Guatemala.

Cantaloupes are cited as a good demand prospect not because of market growth but because of well-defined months of the year when supplies are scarce and prices predictably high. Melons are hot climate crops and suited to the climate and soils of Zacapa. Melons can be easily shipped by sea freight and are not subject to high perishability when compared to many other fruits.

Guatemala's major foreign competition is and will likely continue to be Mexico. However, one major advantage Guatemala has compared to Mexico is its coverage under the Caribbean Basin Economic Recovery Act (CBERA) duty-free preferential treatment for most products. All of the agribusiness enterprises envisioned under this project would fall under the CBERA duty-free purview until September 30, 1995. Mexico does however enjoy the benefits of Generalized System of Preferences status (GSP). Even so, there are some qualifying factors that must be mentioned with regard GSP limitations. Firstly, GSP is due to expire on January 3, 1985 and its proposed 10 year extension is uncertain. Secondly, GSP beneficiary countries may not ship more than $50 million of merchandise annually of a single category of item without incurring loss of duty-free status. In addition, GSP status is lost within one year if the quantity of merchandise shipped to the U.S. exceeds 50 percent of all imports on that item. It is possible that Mexico has incurred these limits on some fruit and vegetable products. Nevertheless, in many product areas, Guatemala will not be competing with other CBI or GSP beneficiary countries, particularly in highland crops due to its unique climate and soils. Competition in hot-weather crops though can be expected to be strong from other Central American and Caribbean countries. Guatemala can expect to have difficulty competing with these countries because of its higher transportation costs.

The potential demand for certain fruits and vegetables from Guatemala is great. A thorough cost analysis would be needed to determine the level of competitive advantage. However, given the comparative labor rates between Guatemala and the U.S. many agribusiness opportunities could be financially profitable. Guatemala has limited competition from other Caribbean or Central American countries for temperate weather crops. The major obstacles will be to improve quality conditions and be able to provide minimum quantities (usually one unmixed trailer load).

B. Domestic - Regional Demand

The analysis of domestic and regional demand for fruits and vegetables is a complex and imprecise endeavor in most developing countries. The kind of rigorous examination and statistical census needed to reflect trends accurately about consumption are usually unavailable and at best, inadequate. Guatemala is no exception. Nevetheless, one method of making general observations about the demand for particular products is to review import data to identify local consumption patterns. Often obvious overlaps exist between imports and domestic production and with added technical assistance or working capital the domestic industry can be strengthened sufficiently to overcome import dependence. This is a rather crude method of demand estimation but the best alternative available, coupled with discussions with enterprises producing for the local and regional markets. The tables on the following pages illustrate imports of selected fruits and vegetables, fresh and processed as well as exports to other Central American countries. Unfortunately, there are very few corresponding data categories for imports and exports which makes it difficult to classify many specific opportunities.

Tomato juice emerges as one possible investment area. Imports have increased at nearly 31 percent annually from 1977-1983. Conversely Guatemalan exports of tomato juice have declined at a compound rate of over 17 percent for the same period. This trend indicates an established capacity to process tomato juice domestically yet a very strong increased reliance on foreign sources.

Coincidentally, fresh tomatoes were exported from 1977-1982 at about 27 percent per year reflecting no lack of raw materials. Onions are another product area where imports have come into Guatemala at an astounding 140.2 percent compounded annually (1977-82). In addition, exports of onions to other Central American countries since 1981, have been large and increasing rapidly.

Typically, the process of exporting is residual. That means that exports generally commence once domestic consumption is satisfied. Yet the example of tomato juice represents imperfections in the marketing system. Strengthening domestic market capacity is an important consideration, especially when imports serve to reduce hard currency balances. Nevertheless, some exports do not serve the residual market. Many of the product groups anticipated for the agribusiness project are targeted to overseas market tastes. However, funding for domestic or regional agribusiness enterprises face several serious constraints, particularly in processed foods. Guatemala's largest supermarket chain, Paiz, has very little demand for processed foods and perhaps moderate interest in canned fruits and prepared salad dressings. Paiz does however, import several fresh food items on a regular basis that could be purchased locally given technical assistance with specific varieties. These products are: carrots, celery, lettuce, onions and

112

potatoes. Moreover, these products can feasibly be cultivated in the highlands. The major constraint with expanding the domestic processing industry is that the base of consumers is just too small to economically justify the needed financial investment. Currently only an estimated 100,000 Guatemalans have disposable income commensurate with processed food expenditures. If per capita income were to increase in Guatemala, then perhaps the demand for processed foods would also increase.

A major obstacle has surfaced with regional exports from Guatemala. An annual quota system exists for intra-regional trade among the Central American Common Market countries. If the minimum trade balance is not maintained, the difference must be payed to the deficit country in hard currency. In mid-1984, for example, Costa Rica, Guatemala's second largest trading partner after El Salvador, closed its border to Guatemalan products because it fell into arrears and was unable to maintain its trade quota. Guatemala has closed itself to Nicaraguan products for the same reason. This temporary or long-term demise of CACM regionalism does not bode well for the maintenance of hard currency reserves or trade equilibrium, nor does it provide the necessary secure markets necessary to attract investment of export promotion projects.

Another key issue in regional export trade is the lack of refrigerated trucks. Presently, only the sea shipping companies operate a refrigerated fleet. The quality of perishables deteriorates rapidly under environmentally uncontrolled transport, causing financial losses.

In conclusion, the demand for fruits and vegetables on national and regional levels is at best inadequate. Specific opportunities seem to exist domestically for products such as tomato juice and onions which are currently being imported but could be produced and marketed in Guatemala. Agribusiness funding of these types of enterprises can help to reduce dependence on foreign goods while creating additional sources of producting employment. On a regional basis, a preliminary analysis yields evidence of highly unstable market prospects for most Guatemalan products. However, some products such as nut crops could be suitable due to tremendous apparent demand, in concert with low perishability.

Table II-C

GUATEMALA - SELECTED IMPORTS 1977-1982

| Item | Annual Compounded Growth* |
| --- | --- |
| Fruits and Vegetables Processed, Fresh-total | 8.1% |
| Vegetables, Processed, Fresh-total | 28.7% |
| Dried Fruits | 12.4% |
| Onions | 140.2% |
| Tomatoe Juice | 30.7% |

Source: Anuario Estadistico Centroamericano de Comercio Interior, 1977-1982 SIECA

*Calculated on Metric Tonnage Shipments

Table II-D

GUATEMALA - SELECTED EXPORTS TO CENTRAL AMERICAN COUNTRIES 1977-1982

| Item | Annual Compounded Growth* |
|---|---|
| Nuts | 181% |
| Tomatoes | 26.9% |
| Avocadoes | 26.6% |
| Strawberries | 18.1% |
| Apples & Grapes | 13.4% |
| Tomato Juice | (17.5%) |

Source: Anuario estadístico Centroamericano de Comercio Interior, 1977-1982 SIECA

*Calculated on Metric Tonnage Shipments.

## Table II-E

## GUATEMALA VEGETABLE EXPORTS 1981-1983

| Item | 1981 | 1982 | 1983 | Importing Countries |
|---|---|---|---|---|
| Cabbage | 4,375 | 4,510 | 10,12 | El Salvador, Costa Rica, Honduras, Nicaragua |
| Carrots | 618 | 3,259 | 3,733 | Salvador, Honduras, Costa Rica |
| Garlic | 134 | 1,333 | 2,030 | Nicaragua, Costa Rica, Panama, Honduras, Belize |
| Onions | 1,472 | 3,587 | 5,416 | Costa Rica, Honduras, El Salvador, Nicaragua |
| Potatoes | 4,986 | 9,795 | 10,624 | El Salvador, Honduras, Nicaragua, Costa Rica, Panama |

Source: Agricultural Extension Service of Guatemala.

4070C

ANNEX 7

ECONOMIC TABLES REFERRED TO IN SECTION I, PROJECT BACKGROUND AND RATIONALE AND SECTION V.C. ECONOMIC ANALYSIS

TABLE I-2

TABLE II-2

TABLE II-3

TABLE III-1

TABLE III-2

TABLE III-3

TABLE III-4

TABLE III-5

TABLE III-6

TABLE III-7

117

CUATEMALA: PRINCIPAL AGRICULTURAL EXPORTS
(VALUE IN MILLION DOLLARS: VOLUME IN THOUSAND TONS:
PRICE IN CENTS PER KILO)

| ITEM | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| TRADITIONAL | | | | | | | | | | | | |
| BANANAS | | | | | | | | | | | | |
| VALUE | 17.2 | 18.8 | 21.4 | 17.1 | 21.7 | 21.1 | 24.0 | 19.1 | 45.4 | 51.4 | 63.0 | 40.0 |
| VOLUME | 274.7 | 266.9 | 303.1 | 243.6 | 302.8 | 286.1 | 285.9 | 265.4 | 397.4 | 354.1 | 463.3 | 255.5 |
| PRICE | 6.0 | 7.0 | 7.0 | 7.0 | 7.0 | 7.0 | 8.0 | 11.0 | 14.0 | 15.0 | 14.0 | 16.0 |
| BEEF | | | | | | | | | | | | |
| VALUE | 18.0 | 25.1 | 21.5 | 16.9 | 14.4 | 27.9 | 10.7 | 41.4 | 29.1 | 29.3 | 15.3 | 15.0 |
| VOLUME | 15.4 | 17.5 | 13.9 | 12.5 | 9.9 | 18.9 | 6.9 | 15.7 | 11.1 | 13.0 | 7.3 | 8.4 |
| PRICE | 117.0 | 146.0 | 157.0 | 137.0 | 148.0 | 147.0 | 158.0 | 264.0 | 261.0 | 225.3 | 210.0 | 177.0 |
| COFFEE | | | | | | | | | | | | |
| VALUE | 105.3 | 145.6 | 173.0 | 164.2 | 243.0 | 525.9 | 475.3 | 432.0 | 436.9 | 294.8 | 358.8 | 350.7 |
| VOLUME | 115.3 | 116.5 | 122.0 | 137.2 | 120.0 | 134.9 | 134.3 | 142.6 | 128.3 | 108.9 | 141.5 | 137.9 |
| PRICE | 93.0 | 124.0 | 146.0 | 116.0 | 183.0 | 385.0 | 376.0 | 303.0 | 361.0 | 361.0 | 254.0 | 254.0 |
| COTTON | | | | | | | | | | | | |
| VALUE | 40.9 | 47.9 | 71.0 | 75.9 | 87.8 | 154.8 | 141.7 | 192.4 | 166.1 | 130.9 | 78.7 | 46.4 |
| VOLUME | 85.1 | 98.2 | 126.2 | 108.5 | 117.8 | 142.1 | 142.4 | 171.4 | 135.0 | 94.4 | 65.9 | 38.3 |
| PRICE | 48.0 | 49.0 | 56.0 | 70.0 | 74.0 | 109.0 | 100.0 | 112.0 | 123.0 | 139.0 | 119.0 | 121.0 |
| SUGAR | | | | | | | | | | | | |
| VALUE | 16.1 | 21.9 | 49.6 | 115.6 | 106.7 | 84.9 | 44.2 | 53.5 | 69.3 | 85.2 | 26.5 | 126.8 |
| VOLUME | 91.2 | 126.2 | 134.2 | 203.5 | 314.2 | 305.2 | 153.3 | 156.8 | 212.1 | 199.6 | 127.2 | 444.4 |
| PRICE | 18.0 | 17.0 | 37.0 | 57.0 | 34.0 | 28.0 | 29.0 | 34.0 | 33.0 | 43.0 | 21.0 | 29.0 |
| SUBTOTAL (VALUE) | 197.5 | 259.3 | 336.5 | 389.7 | 473.6 | 814.6 | 695.9 | 738.4 | 746.8 | 591.6 | 542.3 | 578.9 |

## GUATEMALA: PRINCIPAL AGRICULTURAL EXPORTS
(VALUE IN MILLION DOLLARS: VOLUME IN THOUSAND TONS: PRICE IN CENTS PER KILO)

| ITEM | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| NON-TRADITIONAL | | | | | | | | | | | | |
| CARDAMOM | | | | | | | | | | | | |
| VALUE | 2.3 | 4.6 | 7.8 | 10.1 | 15.4 | 27.1 | 27.4 | 49.2 | 55.6 | 34.3 | 29.7 | 31.4 |
| VOLUME | 0.6 | 1.2 | 1.5 | 1.7 | 1.9 | 3.7 | 4.7 | 3.4 | 5.0 | 4.4 | 4.1 | 4.4 |
| PRICE | 346.0 | 385.0 | 527.0 | 592.0 | 817.0 | 740.0 | 588.0 | 1,429.0 | 1,110.0 | 779.0 | 729.0 | 716.0 |
| COCOA | | | | | | | | | | | | |
| VALUE | 0.2 | 0.3 | 0.9 | 0.7 | 1.0 | 12.2 | 7.7 | 5.2 | 3.3 | .6 | .9 | 1.9 |
| VOLUME | 0.4 | 0.4 | 0.7 | 0.6 | 0.7 | 3.9 | 3.1 | 1.6 | 1.1 | .3 | .6 | 1.3 |
| PRICE | 49.0 | 70.0 | 143.0 | 110.0 | 139.0 | 316.0 | 352.0 | 319.0 | 298.0 | 204.0 | 144. | 152.0 |
| ESSENTIAL OILS | | | | | | | | | | | | |
| VALUE | 2.3 | 2.2 | 4.8 | 1.0 | 1.9 | 2.1 | 1.9 | 2.2 | 2.7 | 2.5 | 2.5 | 2.0 |
| VOLUME | 0.7 | 0.7 | 0.8 | 0.3 | 0.5 | 0.6 | 0.5 | 1.0 | .4 | .8 | .5 | .3 |
| PRICE | 329.0 | 320.0 | 609.0 | 344.0 | 357.0 | 385.0 | 387.0 | 217. | 640. | 308. | 528. | 752. |
| FRUITS & PREPARATIONS | | | | | | | | | | | | |
| VALUE | 2.1 | 2.8 | 3.9 | 3.0 | 4.3 | 8.3 | 11.6 | 13.9 | 19.2 | 21.8 | 11.20 | 7.8 |
| VOLUME | 32.9 | 35.8 | 45.3 | 30.1 | 42.2 | 56.6 | 56.0 | 46.5 | 68.0 | 101.9 | 41.61 | 29.8 |
| PRICE | 6.0 | 8.0 | 9.0 | 10.0 | 10.0 | 15.0 | 21.0 | 30.0 | 32. | 21. | 27. | 26. |
| GUMS (CHICLE) | | | | | | | | | | | | |
| VALUE | 2.1 | 1.9 | 1.6 | 0.8 | 2.9 | 4.9 | 4.5 | 2.1 | 0.3 | - | .7 | .7 |
| VOLUME | 1.3 | 1.1 | 0.8 | 0.4 | 1.2 | 1.2 | 1.2 | - | .7 | - | .2 | .2 |
| PRICE | 158.0 | 165.0 | 207.0 | 200.0 | 246.0 | 418.0 | 367.0 | 184.0 | 402.0 | - | 415.0 | 406.0 |
| HONEY | | | | | | | | | | | | |
| VALUE | 1.2 | 2.0 | 2.3 | 1.9 | 2.5 | 2.1 | 2.5 | 2.5 | 2.6 | 2.8 | 2.1 | 2.9 |
| VOLUME | 2.6 | 2.6 | 2.9 | 2.7 | 3.6 | 3.1 | 3.4 | 2.8 | 2.6 | 3.5 | 2.5 | 3.7 |
| PRICE | 45.0 | 77.0 | 79.0 | 68.0 | 69.0 | 68.0 | 74.0 | 89.0 | 98.0 | 82.0 | 82.0 | 80.0 |

119

TABLE I-2
GUATEMALA: PRINCIPAL AGRICULTURAL EXPORTS
(VALUE IN MILLION DOLLARS: VOLUME IN THOUSAND TONS:
PRICE IN CENTS PER KILO)

| ITEM | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| RUBBER | | | | | | | | | | | | |
| VALUE | 0.9 | 2.9 | 4.5 | 3.8 | 4.5 | 5.5 | 5.6 | 6.6 | 6.0 | 6.5 | - | - |
| VOLUME | 1.4 | 3.9 | 5.0 | 5.4 | 5.0 | 6.3 | 5.6 | 5.1 | - | - | - | - |
| PRICE | 69.0 | 75.0 | 90.0 | 71.0 | 91.0 | 87.0 | 100.0 | 130.0 | - | - | - | - |
| SESAME | | | | | | | | | | | | |
| VALUE | 2.8 | 3.6 | 4.8 | 3.3 | 8.2 | 5.8 | 9.4 | 11.8 | 10.0 | 15.6 | - | - |
| VOLUME | 6.7 | 11.6 | 9.9 | 4.5 | 15.3 | 9.2 | 14.4 | 13.2 | - | - | - | - |
| PRICE | 42.0 | 31.0 | 48.0 | 73.0 | 54.0 | 63.0 | 65.0 | 89.0 | - | - | - | - |
| TOBACCO (RAW) | | | | | | | | | | | | |
| VALUE | 2.2 | 5.2 | 8.2 | - | - | 6.5 | 11.7 | 12.3 | 14.6 | 15.9 | - | - |
| VOLUME | - | - | - | - | - | - | - | 7.3 | - | - | - | - |
| PRICE | - | - | - | - | - | - | - | 169.0 | - | - | - | - |
| VEGETABLES | | | | | | | | | | | | |
| VALUE | 3.4 | 3.4 | 5.7 | 5.6 | 7.2 | 10.5 | 12.9 | 16.4 | 37.0 | 30.6 | 36.7 | 26.7 |
| VOLUME | 42.8 | 36.0 | 44.1 | 52.0 | 57.8 | 57.7 | 64.1 | 57.5 | 102.5 | 81.3 | 109.5 | 90.9 |
| PRICE | 8.0 | 10.0 | 13.0 | 13.0 | 12.0 | 18.0 | 20.0 | 28.0 | 36.0 | 38.0 | 33.0 | 29.0 |
| SUBTOTAL | 19.5 | 29.8 | 44.5 | 30.1 | 47.9 | 8.5 | 95.2 | 102.6 | 151.3 | 185.7 | 83.8 | 73.4 |
| TOTAL | 217. | 288.2 | 381. | 419.8 | 521.5 | 823.1 | 791.1 | 841. | 898.1 | 777.3 | 626.1 | 652.. |

Source: Statistics for 1972 - 1978 from
Statistics for 1979 - 1983 from Boletin Estadistico January - March 1984 .
Prices in cents per Kilo rounded to nearest cent for 1982 - 1983



120

TABLE II-2
PRODUCTS EXPORTED BY SURVEYED FIRM: DESTINATION, SALES TREND AND QUALITY

| No. of Firms | | DESTINATION | | | | SALES | | | | QUALITY | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Central America | USA | Europe | Middle East | High | Same | Low | Don't Know | 1 | 2 | 3 | 4 |
| 2 | Jellies and marmalades | X | | | | 1 | 1 | | | 1 | | | 1 |
| 1 | Baby Corn | | X | | | 1 | | | | 1 | | | |
| 1 | Honey | X | X | X | | | 1 | | | 1 | | | |
| 3 | Caramels | X | X | | | 1 | 2 | | | | 2 | | 1 |
| 1 | Sausages | X | | | | | | 1 | | | | 1 | |
| 1 | Chewing Gum | | X | | X | | 1 | | | | 1 | | |
| 9 | Cardamom | | X | X | X | 7 | 1 | | 1 | 6 | 2 | | 1 |
| 1 | Catsup | X | | | | 1 | | | | 1 | | | |
| 1 | Mayonaise | X | | | | | | 1 | | 1 | | | |
| 6 | Chinese snow peas | | X | X | | 5 | 1 | | | 4 | 2 | | |
| 5 | Sesame seed | | X | X | X | 2 | | 1 | 2 | 2 | 1 | 1 | 1 |
| 1 | Spicy Oils | X | X | X | | 1 | | | | 1 | | | |
| 3 | Fruit Juices & Nectars | X | | | | 2 | 1 | | | 2 | | | 1 |
| 1 | Bread | | X | | | | 1 | | | | | | 1 |
| 1 | Hot peppers | X | | | | | | 1 | | 1 | | | |
| 1 | Marshmallows | X | | | | | | 1 | | | 1 | | |
| 4 | Mango | | X | X | | 4 | | | | 2 | 2 | | |
| 4 | Cantaloupe | | X | X | | 2 | 1 | 1 | | 2 | 2 | | |
| 1 | Spices | X | X | X | | 1 | | | | 1 | | | |
| 1 | Ham | X | | | | | | 1 | | | | 1 | |
| 4 | Coffee* | | X | X | X | 2 | 1 | | | 3 | | 1 | |
| 1 | Dehydrated Pineapple | | | X | | 1 | | | | | 1 | | |
| 1 | Pickles | | X | X | | 1 | | | | 1 | | | |
| 1 | Noodles | X | | X | | | | 1 | | | 1 | | |
| 3 | Fruits | X | X | | | 1 | | 2 | | 3 | | | |
| 1 | Fresh yeast | X | | | | 1 | | | | 1 | | | |
| 1 | Sour canned goods | X | | | | 1 | | | | 1 | | | |
| 1 | Cauliflower | X | | | 4 | | | | 4 | | 1 | | |
| 4 | Small bead | | X | | | | 1 | | | | | | 1 |
| 1 | Achiote | X | X | | | 1 | | | | 1 | | | |
| 1 | Cashew nuts | | X | | 1 | | | | | | 1 | | |
| 1 | Linter | | | | | 1 | | | | | 1 | | |
| 5 | Broccoli | | X | | 3 | | 2 | | 1 | | | | |
| 1 | Plantain | | X | | | 1 | | | | | 1 | | |
| 1 | Cacao Oil | X | | | | | 1 | | | | | | |

* Exported along with as firm's non-traditional products



121

TABLE II-2 (Cont'd)
PRODUCTS EXPORTED BY SURVEYED FIRM: DESTINATION, SALES TREND AND QUALITY

| No. of Firms | | Destination: Central America | USA | Europe | Middle East | Sales: High | Same | Low | Don't Know | Quality: 1 | 2 | 3 | 4 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Glue | X | | | | | | 1 | | 1 | | | |
| 1 | Yuca | | X | | | | 1 | | 1 | | | | |
| 1 | Dry yeast | X | | | | | 1 | | | 1 | | | |
| 1 | Baking powder | | X | | | | 1 | | | 1 | | | |
| 1 | Pears | X | | | | | 1 | | | | | 1 | |
| 1 | Asparagus | X | | | | 1 | | | | | 1 | | |
| 1 | Fruit Nectar | X | X | | | 1 | | | | 1 | | | |
| 1 | Flour | X | | | | 1 | | | | 1 | | | |
| 2 | Fresh pineapple | | X | X | | 2 | | | 1 | 1 | | | |
| 1 | Peruvian bark | X | | X | | | | | 1 | | | | |
| 1 | Apples | X | | | | | | 1 | | | 1 | | |
| 1 | Hearts of Palm | X | | X | | | | 1 | | 1 | | | |
| 1 | Fruits w/Almibar | X | | | | 1 | | | | | | | |
| 1 | Tomato Juice | X | | | | 1 | | | | | | 1 | |
| 2 | Cane Honey | X | | | | 2 | | | 1 | | | 1 | |
| 2 | Tomato Paste | X | | | | 2 | | | 1 | | 1 | | |
| 1 | Cookies | | X | | | | | 1 | | | | 1 | |
| 1 | Candies (Gomitas) | X | | | | | 1 | | | | 1 | | |
| 1 | Macadamia Nuts | | X | | | 1 | | 1 | | 1 | | 1 | |
| 1 | Cashew Nuts | X | | | | 1 | | | 1 | | | | |
| 1 | Royal Jelly | | X | | | | 1 | | | 1 | | | |
| 2 | Vegetables (assorted) | X | | | | | 1 | 1 | 1 | | | 1 | |
| 1 | Broad Bean | X | | | | | | 1 | | | 1 | | |
| 1 | Zapota | | X | | | 1 | | | 1 | | | | |
| 1 | English Sauce | X | | | | 1 | | | 1 | | | | |
| 1 | Aromatic Essences | | X | X | | 1 | | | | 1 | | | |
| 1 | Fricasse | | X | X | | 1 | | | | | 1 | | |
| 1 | Pepper | | X | X | | | 1 | | 1 | | | | |
| 2 | Onion | | X | | | | | 2 | | | 2 | | |
| 2 | Mustard | X | | | | | 2 | | 2 | | | | |
| 1 | Cacao | X | X | X | | | 1 | | 1 | | | | |
| 1 | Peanut | X | X | | | | 1 | | | 1 | | | |
| 1 | Chocolate | X | X | | | | | 1 | 1 | | | | |
| 1 | Nance | | X | | | | | 2 | | | | | |
| 2 | Celery | X | | | | | 1 | | | | 2 | | |



122

## TABLE II-3

### Financial Characteristics of Surveyed Firms

(n= number of responding enterprises)

| | | |
|---|---|---|
| Sales Revenue: | Q. | 2,082,043 (n=50) |
| Cost of Raw Materials | Q. | 1,316,053 (n=48) |
| Value Added* | Q. | 765,990 |
| Salaries | Q. | 150,376 (n=48) |
| Total Assets | Q. | 1,204,089 |
| Current and Long-Term Liabilities | Q. | 833,022 (n=48) |
| Equity* | Q. | 371,867 |
| <u>Ratios:</u> | | |
| Value Added/Sales | | .37 |
| Salaries/Sales | | .07 |
| Debt/Equity | | 2.24 |

*: Extrapolated from survey data

TABLE III-1
GUATEMALAN EXPORTS/IMPORTS VALUE PER PRODUCT[1/]
1981

| Section and Chapter | Description of Product | External Trade Exports FOB | Imports CIF |
|---|---|---|---|
| | TOTAL | 1,109,240,665 | 1,623,611,801 |
| 0 | Food Products | 563,501,756 | 104,088,461 |
| 00 | Live Animals, (especially those destined for food) | 13,761,543 | 1,373,826 |
| 01 | Meat and Meat Products | 50,392,543 | 3,140,032 |
| 02 | Dairy Products, Eggs and Honey | 6,309,894 | 13,075,979 |
| 03 | Fish, Crustaceans, Mollusk, and their Products | 7,319,052 | 2,229,888 |
| 04 | Cereals and Cereal Products | 6,071,093 | 52,101,441 |
| 05 | Fruits and Vegetables | 95,785,957 | 13,816,520 |
| 06 | Sugar and Sugar Products | 97,596,078 | 2,048,769 |
| 07 | Coffee, Tea, Cacao, Spices and their Products | 276,359,663 | 2,953,270 |
| 08 | Products for Feeding Animals (except whole cereals) | 3,249,482 | 10,201,177 |
| 09 | Miscellaneous Food Products | 6,655,636 | 2,238,559 |
| 1 | Beverages and Tobacco | 17,221,193 | 4,623,521 |
| 11 | Beverages | 386,443 | 3,156,447 |
| 12 | Tobacco and Tobacco Products | 16,834,750 | 1,467,074 |

1/ In accordance with the classification of "Nomenclatura Arancelaria Uniforme Centroamericana (NAUCA).

124

| Section and Chapter | Description of Product | External Trade Exports FOB | Imports CIF |
|---|---|---|---|
| 2 | Raw Materials, Non Edible, Except Fuels | 180,284,005 | 40,422,208 |
| 21 | Leather and Untanned Fine Furs | 26,868 | 486,814 |
| 22 | Oil Seeds, Nuts and Almonds, Crushed or Ground, Edible or Non Edible | 15,616,549 | 1,771,764 |
| 23 | Raw Rubber, including Synthetic and Reprocessed Rubber | 10,681,150 | 5,347,313 |
| 24 | Wood, Board and Cork | 2,987,084 | 1,083,773 |
| 25 | Pulp and Waste Paper | 12,383 | 8,284,162 |
| 26 | Textile Fibers (Unmanufactured, such as Yarn ,Thread or Tissue) and Waste | 111,062,415 | 12,075,611 |
| 27 | Raw Fertilizers and Minerals, except Charcoal, Petroleum and Precious Stones | 2,102,569 | 7,396,078 |
| 28 | Metallic Minerals and Scrap Metal | 778,188 | 1,527,190 |
| 29 | Raw Animal and Vegetable Products, Non Edible | 37,016,799 | 2,449,503 |
| 3 | Mineral Fuels and Lubricants and their Products | 21,821,677 | 373,551,011 |
| 31 | Mineral Fuels and Lubricants and their Products | 21,821,677 | 373,551,011 |
| 4 | Animal and Vegetable Oils and Lards | 242,096 | 16,637,790 |
| 41 | Animal and Vegetable Oils (Except Essential Oils), Lards, Fats and their Products | 242,096 | 16,637,790 |
| 5 | Chemical Products | 125,037,288 | 321,092,006 |
| 51 | Chemical Elements and Preparations | 3,382,867 | 112,791,418 |

125

| Section and Chapter | Description of Product | External Trade Exports FOB | Imports CIF |
|---|---|---|---|
| 52 | Coal Tar and Chemical Products Extracted from Charcoal, Petroleum and Natural Gas | 761 | 911,200 |
| 53 | Materials for Dying and Tanning | 2,112,903 | 11,301,980 |
| 54 | Medical and Pharmaceutical Products | 45,939,694 | 48,191,842 |
| 55 | Essential Oils and Manufacture Products, Perfume Products, Toilet, Polishing and Cleaning Articles | 28,405,757 | 28,265,620 |
| 56 | Manufactured Fertilizers | 5,174,492 | 50,721,727 |
| 57 | Explosive Materials and Miscellaneous Chemical Products | 40,020,814 | 68,908,219 |
| 6 | Manufactured Products, Mainly Classified by their Material | 141,055,988 | 314,112,885 |
| 61 | Leather, Leather Manufactures, and Tanned Furs | 2,486,698 | 4,292,085 |
| 62 | Rubber Manufactures | 22,017,657 | 15,614,742 |
| 63 | Wood and Cork Manufactures, except furniture | 1,078,741 | 4,397,560 |
| 64 | Paper, Cardboard and their Manufacture | 18,981,016 | 53,212,059 |
| 65 | Yarns, Knitting Goods and Articles made of Textile Fibers and their Products | 49,927,035 | 58,277,238 |
| 66 | Non Metallic Mineral Manufactures | 21,697,415 | 31,026,183 |
| 67 | Silver, Platinum, Gems and Jewels | 11,723 | 839,266 |
| 68 | Common Metals | 15,237,060 | 87,874,417 |

1260

| Pages<br>Section and Chapter | Description of Product | External Trade<br>Exports FOB | <br>Imports CIF |
|---|---|---|---|
| 69 | Manufactured Metals | 9,618,624 | 58,579,335 |
| 7 | Transportation Machinery and Materials | 19,855,422 | 317,454,212 |
| 71 | Machinery, Except Electrical Machinery | 872,994 | 152,534,988 |
| 72 | Machinery, Electrical Instruments and Devices | 15,155,097 | 79,063,154 |
| 73 | Transportation Materials | 3,827,331 | 85,856,070 |
| 8 | Miscellaneous Manufuctured Products | 40,218,690 | 131,353,357 |
| 81 | Prefabricated Buildings, Bathroom Fixtures, Accesories and Devices for Sanitary Installations, Heating and Lighting Systems | 1,794,740 | 8,073,922 |
| 82 | Furniture and their Accessories | 1,143,734 | 5,555,610 |
| 83 | Travel Items, Handbags and Similar Products | 237,442 | 1,356,464 |
| 84 | Apparel | 6,670,215 | 22,723,071 |
| 85 | Footwear | 9,379,064 | 7,883,573 |
| 86 | Professional Scientific and control Instruments, photographic and Optical Devices, Watches | 51,779 | 36,550,665 |
| 89 | Miscellaneous Manufactured Products | 18,941,716 | 49,210,052 |
| 9 | Live Animals | 2,550 | 276,350 |
| 92 | Animals not Destined as Food Products | 2,550 | 276,350 |

SOURCE: October 1984 Consultant's Report by Development Associates Inc.

0057C

## GUATEMALA: INDUSTRIAL CREDIT PROJECT

### Table 4: SECTORAL COMPOSITION OF GROSS PRODUCTION (1977)

| | Composition of Production (Figures in Percentages of Value of Production) | | | | | | | | Gross Production by Sub-sector | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Inputs | | | | | | | | | | | | |
| | Domestic | CACM | Third Countries | Total Inputs | Wage Bill | Profits | Total Value Added | Gross Production | in Qm | % of Total Mfg. Production | % of Total Manufacturing Value Added | % of Total Employment | % of Total Fixed Assets |
| 31 Food, Beverages, Tobacco | 55.8 | 1.9 | 7.6 | 65.4 | 6.6 | 22.4 | 29.0 | 100.0 | 691.2 | 46.4 | 40.2 | 32.9 | 43.4 |
| 311 Food | 63.5 | 1.6 | 5.5 | 70.6 | 5.8 | 18.8 | 24.5 | 100.0 | 536.0 | | | | |
| 313 Beverages | 22.8 | 2.1 | 10.3 | 35.1 | 10.7 | 45.6 | 56.3 | 100.0 | 83.5 | | | | |
| 314 Tobacco | 28.5 | 5.3 | 8.6 | 42.4 | 12.1 | 32.6 | 44.6 | 100.0 | 22.4 | | | | |
| 32 Leather, Textiles, Clothing | 30.2 | 5.3 | 22.6 | 58.2 | 14.1 | 20.8 | 34.9 | 100.0 | 160.8 | 10.8 | 11.2 | 22.0 | 15.3 |
| 321 Textiles | 30.4 | 4.6 | 26.3 | 61.3 | 11.3 | 20.5 | 31.8 | 100.0 | 109.5 | | | | |
| 322 Clothing | 25.5 | 6.8 | 15.8 | 48.1 | 19.9 | 24.6 | 44.4 | 100.0 | 29.7 | | | | |
| 323 Leather, except shoes | 43.9 | 2.8 | 21.3 | 68.0 | 13.3 | 14.7 | 28.0 | 100.0 | 7.5 | | | | |
| 324 Footwear | 31.8 | 8.0 | 10.6 | 50.4 | 24.1 | 17.7 | 41.8 | 100.0 | 14.1 | | | | |
| 33 Wood and Furniture | 48.6 | 0.4 | 3.3 | 52.3 | 19.1 | 24.4 | 43.5 | 100.0 | 26.2 | 1.8 | 2.3 | 6.1 | 2.4 |
| 331 Wood | 53.9 | – | 2.7 | 56.6 | 17.1 | 22.4 | 39.5 | 100.0 | | | | | |
| 332 Wooden Furniture | 32.4 | – | 4.4 | 36.8 | 26.3 | 29.8 | 56.1 | 100.0 | | | | | |
| 34 Paper | 11.0 | 1.3 | 38.3 | 50.6 | 16.7 | 26.8 | 43.4 | 100.0 | 65.4 | 4.4 | 5.7 | 7.0 | 5.6 |
| 341 Paper | 8.0 | 2.1 | 61.0 | 71.1 | 8.2 | 11.9 | 23.2 | 100.0 | | | | | |
| 342 Printing | 10.2 | .5 | 15.8 | 26.6 | 24.9 | 42.2 | 67.1 | 100.0 | | | | | |
| 35 Chemicals | 8.7 | 4.7 | 49.6 | 63.0 | 8.7 | 21.1 | 29.8 | 100.0 | 311.9 | 21.0 | 18.6 | 12.1 | 14.2 |
| 351 Industrial and Agricultural | 4.5 | 6.4 | 55.5 | 66.3 | 6.9 | 20.6 | 27.5 | 100.0 | | | | | |
| 352 Chemical Products | 13.2 | 6.0 | 26.1 | 45.4 | 13.4 | 29.0 | 42.5 | 100.0 | | | | | |
| 355 Rubber | 20.8 | 2.7 | 38.5 | 61.9 | 15.9 | 17.1 | 32.9 | 100.0 | | | | | |
| 356 Plastic | 12.8 | 11.0 | 35.6 | 59.4 | 11.6 | 23.3 | 34.9 | 100.0 | | | | | |
| 36 Non-Metallic Minerals | 27.9 | 1.3 | 14.0 | 43.3 | 13.8 | 38.5 | 52.3 | 100.0 | 92.0 | 6.2 | 9.6 | 7.9 | 10.6 |
| 37 Basic Metals | 4.1 | .6 | 68.7 | 73.4 | 6.8 | 14.4 | 21.2 | 100.0 | 36.8 | 2.5 | 1.6 | 1.5 | 2.9 |
| 38 Metal Products | 8.7 | 2.7 | 32.0 | 43.5 | 12.9 | 36.5 | 49.4 | 100.0 | 96.4 | 6.5 | 9.5 | 9.7 | 5.0 |
| 381 Cutlery, furniture, structures | 9.7 | 2.0 | 26.1 | 37.8 | 15.3 | 41.9 | 37.2 | 100.0 | 7.4 | .5 | 1.2 | .9 | .5 |
| 383 Electrical Machinery | 7.1 | 5.9 | 34.7 | 47.6 | 10.0 | 33.9 | 43.9 | 100.0 | | | | | |
| 384 Transportation | 7.2 | – | 56.2 | 63.4 | 9.9 | 18.9 | 28.7 | 100.0 | | | | | |
| 39 Other | 2.3 | .6 | 5.2 | 8.1 | 13.5 | 70.3 | 83.8 | 100.0 | | | | | |
| 3 | 34.2 | 2.8 | 23.3 | 60.3 | 9.5 | 24.1 | 33.5 | 100.0 | 1,488.2 | 100.00 | 100.0 | 100.0 | 100.0 |

SOURCE: Direccion General Estadistica: V Censo de la Industria Manufactuera, Fabril, 1977, Guatemala

Note: The difference between the sum of value added plus industrial inputs and gross output is due to other inputs (general expenditures).

LCPI2
January 1984



ICP

TABLE III-3

CURRENT EMPLOYMENT OF SURVEYED FIRMS
(n = 61)

| | ADMINISTRATION | | | WORKERS | | | TOTAL | | |
|---|---|---|---|---|---|---|---|---|---|
| | Male | Female | Total | Male | Female | Total | Male | Female | Total |
| Full-time jobs | 471 | 223 | 694 | 1851 | 1786 | 3637 | 2322 | 2009 | 4331 |
| Part-time jobs calculated as full-time job equivalents | | | | 1483 | 741 | 2224 | 1483 | 741 | 2224 |
| TOTAL | 471 | 223 | 694 | 3334 | 2527 | 5861 | 3805 | 2750 | 6555 |
| Average per firm | 7.7 | 3.7 | 11.4 | 54.7 | 41.4 | 96.1 | 62.4 | 45.1 | 107.5 |
| Number of part-time employees | | | | 3205 | 1814 | 5019 | 3205 | 1814 | 5019 |

129

III-4

PROJECTED EMPLOYMENT INCREASES PROJECTED BY SURVEYED FIRMS

| | ADMINISTRATION | | | LABOR | | | TOTAL | | |
|---|---|---|---|---|---|---|---|---|---|
| | Male | Female | Total | Male | Female | Total | Male | Female | Total |
| Full-time jobs | 87 | 46 | 123 | 763 | 1449 | 2212 | 850 | 1495 | 2345 |
| Part-time jobs calculated as full-time job equivalent | | | | 146 | 236 | 382 | 146 | 236 | 382 |
| TOTAL | 87 | 46 | 123 | 909 | 1685 | 2594 | 996 | 1731 | 2727 |
| Average per firm | 1.6 | .8 | 2.2 | 16.5 | 30.6 | 47.2 | 18.1 | 31.4 | 49.6 |

## TABLE III-5

## ECONOMIC CHARACTERISTICS OF INDUSTRIES

| | Sales (000) | Salaries & Wages (000) | Value Added (000) | Capital & Debts (000) | No. of Workers | Average Capital/ Labor | Average Wage | Value Added/ Sales |
|---|---|---|---|---|---|---|---|---|
| 3113 Bottling/ canning of fruits & vegetables (n=14) | 30,690 | 4,395 | 11,644 | 18,914 | 1,623 | 11,654 | 2,708 | .38 |
| 3115 Fabrication of Vegetable oils and animal fats (n=9) | 36,970 | 1,896 | 8,413 | 31,113 | 1,050 | 29,631 | 1,806 | .22 |
| 3116 Milling Operations (n=56) | 245,246 | 4,757 | 63,733 | 89,992 | 2,605 | 34,546 | 1,826 | .26 |
| 3119 Fabrication of Chocolate & Candy (N=23) | 11,375 | 2,058 | 3,974 | 9,252 | 1,192 | 7,762 | 1,726 | .35 |
| 3121 Production of Various food products (n=46) | 28,682 | 3,004 | 10,607 | 17,140 | 1,326 | 12,926 | 2,265 | .37 |
| Average - All Manufacturing (n-2009) | | | | 1,178,607 | 77,631 | 15,182 | | |

Censo de la Industria Manufacturera Feb.-Abril 1977.

TABLE III-6

CHARACTERISTICS OF AGRICULTURAL PRODUCT SUPPLIERS TO SURVEYED FIRMS

Small: less than 7 hectares
Medium: 7 - 40 hectares
Large: More than 40 hectares

| | Percentage of Firms (n=61) |
|---|---|
| Exclusively from Small-scale Farmers | 15 |
| Exclusively from Medium-Scale Farmers | 3 |
| Exclusively from Large-Scale Farmers | 8 |
| Unknown | 18 |
| Small- and Medium-Scale Farmers | 26 |
| Small- and Large-Scale Farmers | 2 |
| Medium- and Large-Scale Farmers | 5 |
| Small-, Medium- and Large-Scale Farmers | 23 |
| TOTAL | 100 |

13V

TABLE III - 7
ANNEX 7

BENEFIT/COST CALCULATIONS
(Q.000's)

| | YEAR | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 |
| **Benefits** | | | | | | | | | | |
| SALES: | 4,521 | 15,384 | 27,126 | 36,167 | 36,167 | 36,167 | 36,167 | 36,167 | 36,167 | 36,167 |
| **Costs** | | | | | | | | | | |
| PRODUCTION COSTS: | | | | | | | | | | |
| (Raw Materials) | 2,125 | 8,500 | 12,750 | 17,000 | 17,000 | 17,000 | 17,000 | 17,000 | 17,000 | 17,000 |
| (Salaries) | 551 | 2,202 | 3,302 | 4,403 | 4,403 | 4,403 | 4,403 | 4,403 | 4,403 | 4,403 |
| (Utilities) | 20 | 79 | 118 | 157 | 157 | 157 | 157 | 157 | 157 | 157 |
| (Equipment) | 4,102 | 4,102 | --- | -- | -- | -- | -- | -- | -- | -- |
| (Maintenance) | 342 | 342 | 342 | 342 | 342 | 342 | 342 | 342 | 342 | 342 |
| PROJECT COSTS: | | | | | | | | | | |
| (F.M.T.A.) | 220 | 220 | --- | -- | -- | -- | -- | -- | -- | -- |
| (Entrep.Dev.) | 105 | 105 | 105 | 105 | 105 | 105 | -- | -- | -- | -- |
| (Coop.Imp.) | 319 | 317 | 317 | 317 | 317 | 317 | -- | -- | -- | -- |
| (Mkt.Info) | 145 | 143 | 142 | -- | -- | -- | -- | -- | -- | -- |
| (Exp.&Inv.) | 210 | 210 | 105 | 105 | 53 | 53 | -- | -- | -- | -- |
| (Contingencies | 100 | 200 | 200 | 100 | 50 | 50 | -- | -- | -- | -- |
| (Proj.Eval.) | -- | -- | 200 | -- | -- | -- | -- | -- | -- | -- |
| **TOTAL COSTS** | 8,239 | 16,420 | 17,581 | 22,529 | 22,427 | 22,427 | 21,902 | 21,902 | 21,902 | 21,902 |

With sales levels anticipated by firms in credit survey:
Benefit/Cost Ratio (15%) = 1.44
Benefit/Cost Ratio (30%) = 1.35
Benefit/Cost Ratio (50%) = 1.25

With sales levels at 75% of those predicted by firms in credit survey:
Benefit/Cost Ratio (15%) = 1.08
Benefit/Cost Ratio (30%) = 1.02

(17)

# TECHNICAL ANALYSIS ANNEX

This analysis focuses on the key issues affecting current and potential agribusiness enterprises in Guatemala. Even though demand for a product may exist, certain constraints can effectively limit market exploitation by constructing barriers to competition. For Guatemala several issues emerge which must be evaluated. The emphasis of this discussion covers export operations to the United States but are applicable for the most part to domestic and other export endeavors. The technical issues presented are as follows:

- Sanitation and Quality Control
- Transportation
- Regulatory Policy
- Purchasing Arrangements
- Distribution Channels

## A. Sanitation and Quality Control

Sanitation, quality control, and packaging issues are interrelated in the sense that improvements made in one area will usually alleviate deficiencies in another. Quality is the most difficult variable of the production process to fully control because its definition is highly subjective. When we speak of quality we are referring to grading standards that are required in the export market. This involves uniform sizing, coloration, taste and outward appearance of the product. The United States Department of Agriculture has a grading service, for fee, at most terminal markets, to help the exporter maintain acceptable quality standards. However, in practice, the importer is the locus of information on quality. In many cases, Guatemalan products need only improve the quality of their products by changing the varieties.

For example, white stemmed cauliflower should be substituted for the green variety. Reliable importers will provide the exporter with this information as well as technical advice and raw materials in many instances.

The USDA, FDA and PPQ branches of the U.S. government have representation in Guatemala to assist the exporter in securing the necessary information about quality and sanitation requirements to the U.S. Moreover, these agencies can pre-inspect export shipments which will facilitate entry to the U.S. Such inspection is necessary given the generally lax sanitation requirements and their inadequate enforcement by the GOG's Food Control Department. The exporter however, must request this USG service and most Guatemalan exporters are unaware of this service. Although this service does not eliminate the possibility of being inspected upon entry, most pre-inspected shipments are not inspected in the U.S. In any case,

134

distribution efficiencies at terminal ports are maximized. Another advantage of pre-inspection procedures is that the risk of loss is decreased. If quality and sanitation standards are found unacceptable in Guatemala, then the exporter does not have to wait until after incurring shipping and handling costs to absorb rejected shipments. Apart from the U.S. Government, other available inspection facilities include LUCAM, a government run laboratory, ICAITI, and private laboratories in Florida.

Again, the major constraint to marketing sanitary and export quality products is a general lack of knowledge about information sources and poor communication with importers or brokers. Under the agribusinesss project, AID/Guatemala will promote better linkages between the Guatemalan exporters and in-country information sources through training, export search and market information activities sponsored by the Non Traditional Exporters Guild.

Packing is another important consideration in marketing. Each food product has its own particular packaging requirements which take into account standard volume, contents protection and preservation. In standard practice, reliable importing businesses provide this information and, if necessary, the actual material to the exporters. The more experienced Guatemalan exporters import their packaging materials either from the U.S. or El Salvador due to the poor quality of local materials. "Cajas y Empaques", the primary Guatemalan packaging company, imports its raw materials and produces a slightly more expensive product than if an exporter were to import a finished good. It is only beginning to produce boxes for fruit and vegetable export but lacks the technical know-how for most packaging which is product specific. The company is trying to update its knowledge in this area but it will also need to produce a competitive product. However, as an example of how local packaging could be improved, it should wax all fresh fruit and vegetable cartons. "Cajas y Empaques" currently only waxes its snow peas cartons. Support service companies such as "Cajas y Empaques" will be included in training sessions for entrepreneurs under the project so they can learn how to serve their agribusiness clients better. Packaging firms may also be eligible for direct credit and technical assistance under the Agribusiness Development Fund.

Post-harvest handling is probably the greatest constraint to producing an exportable quality product. Presently, Guatemala does not have the necessary infrastructure and technical know-how to deliver the product to the market with any degree of consistent quality. Lack of facilities and technical knowledge on cold treatment storage is the cause of this problem. Products once harvested, must be stored immediately in temperature-controlled rooms. Few of these facilities exist and not every product can be stored in mixed loads such as broccoli with onions. Storage temperature and humidity are always product-specific. Currently, because post-harvest handling is inadequate, the ripening process continues unabated. When the product arrives at the market even for domestic consumption, it must be rejected because it no longer has saleable freshness.

Cold storage rooms and other post harvest handling and sorting equipment will be financed under the project, mainly through the $1.5 million credit line available to small farmers and cooperatives through BANDESA. A public refrigerated storage factility at Guatemala's international airport may also be funded as a separate project under the $7.0 line of credit to the private banking sector.

B. Transportation

Lack of adequate transportation is another constraint to marketing exports from Guatemala. Aviateca, the Guatemalan national airline, operates the only allowable air cargo company in the country. The high rates for this service, plus additional charges such as export tariffs and landing fees has limited the expansion of air-shipped non-traditional exports, especially perishables. Nonetheless, one local freight forwarder is shipping over 500,000 lbs. of freight to the U.S. and Europe per week by making agile use of other available carriers such as Mexicana, KLM and Iberia. Many fruits and vegetables from Guatemala, however, have to be shipped by sea thus to remain competitive. Indeed, ALCOSA ships the vast bulk of its frozen vegetables by sea. Pan Am has air cargo shipments, on a space available basis, on its passenger flights but its service is being reduced. In addition, payment must be in U.S. dollars thus reducing potential foreign exchange earnings from exports.

Sea shipment, the only other alternative, also presents constraints to the exporter. Although container rates in Gulf of Mexico countries are set by a mandated rate convention, charging rates that are competitive with other countries under this rate agreement depends upon extensive trade between origin and destination countries. It appears that the shipping lines do not enter Guatemala with sufficient loads to lower the rates for outgoing goods. Under the tariff schedule, shippers can legally pass on these added costs to the exporters. As a result, Guatemala has the highest average shipping costs in the region, as shown below:

| | | |
|---|---|---|
| Guatemala | $3000 | 40 foot container |
| Honduras | $2200 | 40 foot container |
| El Salvador | $2800 | 40 foot container |
| Costa Rica | $2600 | 40 food container |

In an attempt to lower such rates some companies, such as ALCOSA, obtain substantial freight discounts (as high as 38%) for regular, large volume shipments. Smaller companies may obtain similar discounts by consolidating shipments.

176

Although Guatemala has four shipping companies, only one has a guaranteed departure date (Sealand). However, it only sails once per week. In addition, its routings and arrivals are reportedly inconsistant. The next largest shipper, CCT, also ships once a week, but cannot guarantee its departure day. From a marketing perspective, however, importers require a guaranteed delivery date to plan and fulfill their commitments.

Apparently sufficient cargo space is available but not necessarily refrigerated or freezer compartments. Unlike air transport, cold storage space is available at the port; the shipping lines operate their own refrigerated fleet of trucks with roll-on-roll-off capability at the Atlantic port. Roll-on-roll-off is the capacity to use the same containers on the ship as used on the truck without repacking. Exporters needing refrigerated shipments should avoid sending mixed container loads since post-harvest storage temperatures vary by product and the margins of temperature fluctuations is very slight. One prominent concern is that none of the shipping companies has the reputation for maintaining the proper cold storage point or humidity levels.

It is anticipated that the freight lines will have an incentive to improve the quantity, quality, and pricing of their services in response to a greater volume of non-traditional exports stimulated by the project. In addition, the Non-Traditional Exporters Guild and other private sector groups will continue to meet with shippers in an attempt to negotiate improvements in service at a more reasonable cost.

C. Regulatory Policy

Primarily because of Guatemala's deteriorating trade balance, several recent laws have been enacted to promote exports as to increase economic growth. As with any new legislation, it remains unclear how well these policies will achieve increased levels of exports or significantly improve Guatemala's trade position. The two principal laws discussed in this section are the Incentives to Export Enterprises or "Drawback" law, and Tax Credit Certificate (CATs) law.

The drawback law's main feature is the duty-free import of raw-materials or inputs for export-oriented industries. This law replaces an earlier, similar incentives decree that was under-utilized because of government administrative inflexibility. The changes made in the law have attempted to expand the eligibility of beneficiaries and in particular, to benefit smaller firms. Under this law firms may export to CACM and non-Central American markets. Earnings from exports will be exempt from Guatemalan income tax for 10 years. However, this benefit does not apply to mixed foreign and Guatemalan enterprises.

The CAT law is a system of tax credits available to non-traditional exporters as an incentive to seek or expand international markets. The credits will amount to 10 or 15 percent of the F.O.B. value of the export. The determination of the credit rate depends on whether the government classifies the item as "new" (15%) or "not-new" (10%). Specific criteria for GOG credit elegibility has not been prescribed yet. CATs will only be issued to exports marketed to non-CACM countries and countries which do not maintain bilateral trade agreements with Guatemala. Although no special interpretation has been made regarding CBI on GSP beneficiaries, it is likely that an amendment to CAT will allow for preferential treatment to these countries. A final consideration on the ability to promote exports with these tax credits is that an exporter must file for credits within 30 days after export with a proof of sales. Payment for exports often extends beyond 60 days which would necessitate a modification to the 30 day procedure.

The intention of both drawback and CATS decrees is an important step in promoting exports. A likely role for an AID supported information exchange system will be to monitor and analyze laws pertaining to exporters, and assist exporters in taking advantage of the incentives afforded by such legislation.

D. Purchasing Arrangements

An integral marketing issue among exporters is how to negotiate purchasing agreements with importers. Unfortunately, agribusiness sales place the most risk at the producer level closely followed by the exporter. The exporter is ill-favored in almost all cases of negotiating the purchase arrangement. Much of agricultural marketing depends on building linkages between buyer and seller and leveraging areas of risk where there is more control, such as producing superior quality and freshness in order to maximize high prices and low losses. Within the industry, those exporters most likely to run profitable operations are those who have established and maintained close personal relations with importers or produce marketing firms.

Shown below is an estimated breakdown of type of purchasing agreements and frequency of use.[1/]

- 70% - Consignment sales. The importer handles and pays for all fees, inspections, storage and then deducts the total from the sales. The importer will charge in addition 10-15 percent commission on the transaction.

---

1/ Estimates an based upon interviews with exporters and importers in Guatemala and the United States.

178

- 15% - Consignment sales with a minimum guarantee. The minimum usually covers little more than the exporter's fixed costs.

- 10% - Cash sales price is negotiated in advance but is typically low. This is a common arrangement with European buyers.

- 5% - Other arrangements. An example might be a minimum guarantee arrangement and when the price increases over the minimum guarantee, the difference is split between the buyer and seller.

These categories of purchasing arrangements are standard for all fresh products and some processed. Many processed products, however, rely on one-to-one contracts based upon a yearly fixed price, minimum volume and often exclusivity. Obviously this arrangement offers low risk but concurrently it places the exporting firm at a competitive disadvantage with little or no recourse to increase profits through extending contacts in the market. Contract arrangements, however, can be a leverage for entering new markets and Guatemalan producers may find the rigidness of this system preferable to the normal, higher risk, consignment sales option. The implications for making profits in contract arrangements suggest generally lower levels of profit but more stable and predictable returns.

E. Distribution Channels

Distribution channels for foreign agribusiness products to the U.S. can be directed through several flows. Market functions typically overlap and moreover, certain functions can be by-passed altogether. The whole process can appear convoluted, but by keeping distribution rigidities to a minimum, it helps to expedite the rapid flow of perishable products. An uncomplicated distribution system would appear as follows:

Grower - Exporter - Importer - Wholesaler - Retailer - Consumer

However, at an extreme, some retailers import and many importers are also wholesalers. There are other functions such as brokers, who do not take title to goods but are in a sense traffic directors. There are also produce marketing companies who serve a myriad of distribution functions including product promotion. There are re-packagers who usually import processed goods to repackage them under specifications for many larger companies under contract.

Successful relations between exporters and importers are characterized by extensive, personal, face-to face contact and trust. Seldom does any paper work precede produce shipments. A phone order is placed and payment is promised orally. The rapidity of market fluctuations drives such distribution practices. The downside of this is obvious. By the very nature of the

139

system, dishonesty is rife and difficult to control. Exporters can all recount their tales of non-payment or mysterious high losses. The Bluebook service is the only complete source of credit ratings on professionals in the industry. While consulting Bluebook ratings or Dun and Bradstreet evaluations is not foolproof, it is an important step for Guatemalans to take to facilitate their understanding of and entry to distribution channels. In addition, although Guatemalan output is small, it could still conceivably interest large, well-known foreign businesses with agribusiness concerns, particularly if the foreign company already has business interests in the country.

The main difficulty Guatemalan exporters seem to have is locating interested buyers, evaluating their honesty and maintaining close personal contact. These are however correctible problems which can be ameliorated through the market information system to be supported under the proposed project.

4109C

# GUIDELINES FOR PREPARING AND PRESENTING INDUSTRIAL PROJECTS

## 1. The Enterprise

Define and identify the enterprise promoting the project by its name, initials, address, nature of business, activities it carries out, and the name of its principal members or shareholders. Explain if it is dedicated exclusively to manufacturing or if it has departments or divisions dedicated to commercial, agricultural or other activities. Provide the enterprise's history, especially as it deals with its capital; the skills of its high ranking members and officers, and their experience and academic education.

## 2. General Aspects of the Project

Describe the project providing its location, origin and purpose, mention the products which will be produced, explain the origin of raw materials; kind of consumers, existing and future competition which could affect the course of the project; the production achieved previously, installed capacity, and principal purpose for which it is thought best to expand the business. Explain what the expansion consists of.

## 3. Markets

Include the market definition for an established period of time, who is going to buy the finished product, in what quantities and at what price, from what geographic market area. The degree of complexity of the market study depends on the nature of each project; in general, small and medium projects do not require the degree of detail that big projects do. It is appropriate that in this section common sense be exercised, as well as personal initiative and ingenuity. The necessary relation between price and volume and different alternatives must be remembered, and the alternative chosen should be justified.

The sections of a market study could be as follows:

a) Background: Product's characteristics (details); market area or zone; present producers; prices; national production statistics; imports and exports; consumers market characteristics; commercialization and marketing of the product.

b) Market Projections: Anticipated future demand related to quantity and price.

4. Production Process:

a) Industrial Aspects: This must include a detailed description of the various products manufactured, including size, weight and value. It must cover what is needed, its origin, degree of specialization, the required technical chiefs and supervisors, and the labor situation in terms of unions and legal labor responsibilities.

b) Facilities: Describe the factory's existing facilities and machinery, and the facilities to be installed.

5. Project Investments

Indicate the project's capital needs which could be classified among fixed investments, operating capital, and a reinvestment plan.

6. Application for Financing

Describe the source of assets; whether personally-owned, from the bank and suppliers, new shareholders contributions, or capitalization of reserves. In the case of the projected financing to be obtained, especially cover proposed amount, term, grace period and installments, and provide adequate information on guarantees offered. Provide a chronology of investments during the various phases of the project, including utilization of financed funds.

7. Production Costs - Budget for Income and Expenses

In general, the necessary information should be presented in detailed charts, according to the following breakdown:

- Manufacturing Costs
- Administrative Costs
- Sales Costs
- Financial Costs

Income and Expenses Projections:

- Annual Income and Expenses Projection or Budget to cover at least the loan's term.

8. Financial Statements

Financial Statements should be provided (General Balance Sheet, and Profit and Loss Statement), preferably for the last three years.

9. Eligibility Criteria

The applicant should also explain how the project will meet eligibility criteria (e.g., reliance on small farmers as principal suppliers, production of a non-traditional product) under the Agribusiness Development Fund.

0210R

## Project Authorization

| | |
|---|---|
| Name of Country: | Guatemala |
| Name of Project: | Agribusiness Development Project |
| Number of Project: | 520-0276 |
| Loan Number: | 520-T-039 |

1. Pursuant to Section 103 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Agribusiness Development Project for Guatemala involving planned obligations of not to exceed Nine Million Five Hundred Thousand Loan funds in United States Dollars ("Loan") and Three Million Grant funds in United States Dollars ("Grant") over a one year period from date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the Project. The planned life of the Agribusiness Development Project is five years from the date of initial obligation.

The Project ("Project") purpose is to provide small farmers with profitable outlets for their fruit and vegetable production through new or expanded agribusiness enterprises in rural areas. The Project will achieve this purpose by providing financing credit, technical assistance, training and a market information network in support of agribusiness development.

3. The Project Agreement(s), which may be negotiated and executed by the officer to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority, shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate.

a. Interest Rate and Terms of Repayment:

The Government of Guatemala (GOG) shall repay the Loan to A.I.D. in U.S. Dollars within twenty-five (25) years from the date of first disbursement of the Loan, including a grace period of not to exceed ten (10) years. The GOG shall repay to A.I.D. in U.S. Dollars interest from the date of first disbursement of the Loan at the rate of (i) two percent (2%) per annum during the first ten (10) years, and (ii) three percent (3%) per annum thereafter, on the outstanding disbursed balance of the Loan and on any due and unpaid interest accrued thereon.

b. Source and Origin of Comodities, Nationality of Services (Loan):

Commodities financed by A.I.D. under the Loan shall have their source and origin in countries which are members of the Central American Common Market (CACM) or countries included in A.I.D. Geographic Code 941, except as A.I.D. may otherwise agree in writing. Except for ocean shipping, the suppliers of commodities or services shall have countries which are members of the CACM or countries included in A.I.D. Geographic Code 941 as their place of nationality, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Loan shall be financed only on flag vessels of countries which are members of the CACM or countries included in A.I.D. Geographic Code 941, except as A.I.D. may otherwise agree in writing.

c. Source and Origin of Commodities, Nationality of Services (Grant):

Commodities financed by A.I.D. under the Grant shall have their source and origin in countries which are members of the CACM or in the United States, except as A.I.D. may otherwise agree in writing. Except for ocean shipping, the suppliers of commodities or services shall have countries which are members of the CACM or the United States as their place of nationality, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Grant shall be financed only on flag vessels of the United States, except as A.I.D. may otherwise agree in writing.

d. Conditions Precedent to Disbursements (Loan):

(1) Prior to any disbursement, or the issuance of any commitment documents under the Project Loan Agreement for the Bank of Guatemala Discount Facility, the Cooperating Country 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) Operational guidelines which describe the procedures (e.g. loan application, approval, disbursements, and collections), eligibility criteria and subloan terms and conditions for the $7,000,000 Bank of Guatemala Discount Facility.

(2) Prior to any disbursement, or the issuance of any commitment documents under the Project Loan Agreement for the BANDESA Credit Line, the cooperating country 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) An executed agreement between the Bank of Guatemala and BANDESA governing the implementation of the $1,500,000 BANDESA Credit Line. Such agreement will also contain operational guidelines which describe the procedures (e.g. loan application, approval, disbursements, collections), eligibility criteria and subloan terms and conditions for the $1,500,000 BANDESA Credit Line.

e. Covenants (Loan):

The Cooperating Country shall covenant that the Bank of Guatemala will deposit all interest and principal repayments for subloans made under the Bank of Guatemala Discount Facility or the BANDESA Credit Line to the Agribusiness Development Fund, and will relend these funds to eligible agribusiness or cooperatives under the terms of the Bank of Guatemala Discount Facility and the BANDESA Credit Line during the life of the Project.

f. Conditions Precedent to Disbursements (Grant)

Prior to any disbursement, or the issuance of any commitment documents under the Project for technical assistance, the Bank of Guatemala and the Non-Traditional Exporters Guild shall furnish to A.I.D., in form and substance satisfactory to A.I.D., a life of project implementation plan, covering Loan, Grant, and GOG financed Project activities.

g. Covenants (Grant)

The Bank of Guatemala and the Non-Traditional Exporters Guild shall covenant that, unless A.I.D. otherwise agrees in writing, it will establish an evaluation program satisfactory to A.I.D. as an integral part of the Project. Such program, except as the Parties shall otherwise agree in writing, will include evaluations during the implementation of the Project and at one or more points thereafter.

UNITED STATE NTERNATIONAL DEVELOPMENT COOF ATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523



LAC/DR-IEE-84-46

# ENVIRONMENTAL THRESHOLD DECISION

| | |
|---|---|
| Project Location | : Guatemala |
| Project Title and Number | : Agribusiness Development 520-0276 |
| Funding | : $9,500,000 (L), $3,000,000 (G) |
| Life of Project | : 5 years |
| IEE Prepared by | : Lawrence Odle USAID/Guatemala |
| Recommended Threshold Decision | : Negative Determination |
| Bureau Threshold Decision | : Concur with Recommendation |
| Comments | : Project will include formal links to ROCAP IPM project, and include short term TA to train people on safe use of pesticides. |
| Copy to | : Charles Costello, Director USAID/Guatemala |
| Copy to | : Lawrence Odle, USAID/Guatemala |
| Copy to | : Ron Bloom, LAC/DR |
| Copy to | : IEE File |

James S. Hester Date AUG 23 1984

James S. Hester
Chief Environmental Officer
Bureau for Latin America
and the Caribbean

## INITIAL ENVIRONMENTAL EXAMINATION

| | |
|---|---|
| PROJECT LOCATION: | Guatemala (primarily focused on the Highlands) |
| PROJECT TITLE: | Agribusiness Development |
| PROJECT NUMBER: | 520-0276 |
| LIFE OF PROJECT: | 5 years |
| IEE PREPARED BY: | Lawrence Odle/PDSO, Mission Environmental Officer |
| DATE: | March 23, 1984 |
| ACTION RECOMMENDED: | Negative Determination |

CONCURRENCE: Charles E. Costello
Director

Date: 3-27-84

1. Project Description:

The goal of the project is to improve small farmer incomes in Guatemala, primarily through increased processing and marketing of high-value fruit and vegetable crops and increased employment opportunities. The purpose of the project is to provide markets for small farmer production, and to increase rural employment by increasing private investments in agribusinesses in rural areas. Specifically the project will support the expansion and establishment of agribusiness enterprises, mainly in the areas of fresh and frozen fruits and vegetables. Other crop processing to be financed under the project includes spices, sesame seed and fresh flowers. In addition, the project will finance the production and provision of agricultural inputs such as seeds, implements, and packing materials. Though primarily oriented toward agribusiness production for export to the U.S. or Europe, the project will also support processing plants supplying local or Central American Common Market outlets.

By the end of the project: 1) 12,000 small farmer families will benefit from the project due to better product markets provided them by private agribusinesses, better access to and quality of agricultural inputs and credit, and timely and appropriate technical assistance; 2) 2,000 small farmer members of cooperatives will benefit from credit; 3) institutionalization of improved agribusiness credit and feasibility analysis in four financieras will have occurred; 4) attainment of financial breakeven points by two out of every three agribusiness sub-borrowers will have occurred and 5) 2,000 people will be directly employed by agribusiness plants.

2. Impact Identification and Evaluation:

Within the $9.5 million loan and $3.0 million grant project, all loan funds will be placed in an agribusiness development fund to expand or to start-up new agribusiness. These funds will finance mostly permanent working capital, plant and equipment. The $3.0 million in grant funds will finance technical assistance, training, market information systems, audits, evaluations, and contingencies. Per Section 216.2 (C) (2) (x) Categorical Exclusions of AID's environmental regulations, Initial Environmental Examination (IEE), Environmental Assessments (EA), and Environmental Impact Statements (EIS) are not generally required for projects for credit institutions when AID does not review and approve individual subloans made by the credit institutions. However the Mission has undertaken initial examination of environmental impacts to verify if a recommendation for a negative determination is appropriate.

As indicated above, the project will provide credit for physical expansion or development of agribusiness ventures. In general, the direct environmental impacts that could occur within this project should be non-existent or minimal and will be limited to a few specific sites. Due to strict environmental controls imposed, prior to firm's receipt of credit (such controls to be developed during Project Paper preparation), the agribusinesses which will be created or expanded should not cause significant environmental impacts on their surroundings. Only if the environmental controls are not followed by the agribusiness and are not enforced by the Bank of Guatemala, could potential environmental hazards exist. For these reasons, the Mission recommends that a negative determination be approved.

## 3. IMPACT IDENTIFICATION AND EVALUATION FORM

Impact Identification and Evaluation[1/]

Impact Areas and Sub-Areas

A. LAND USE

1. Changing the character of the land through:

| | |
|---|---|
| a. Increasing the population | N |
| b. Extracting natural resources | N |
| c. Land clearing | L |
| d. Changing soil characteristics | N |
| 2. Altering natural defenses | L |
| 3. Foreclosing important uses | N |
| 4. Jeopardizing man or his works | L |
| 5. Other factors | N |

B. WATER QUALITY

| | |
|---|---|
| 1. Physical state of water | L |
| 2. Chemical and biological States | L |
| 3. Ecological balance | L |
| 4. Other Factors | |

1/ Symbols are defined below:

N = No environmental impact
L = Little environmental impact
M = Moderate environmental impact
H = High environmental impact
U = Unknown environmental impact

UPDATED IMPACT IDENTIFICATION AND EVALUATION FORM

C. ATMOSPHERIC

| | | |
|---|---|---|
| 1. | Air additives | L |
| 2. | Air pollution | L |
| 3. | Land clearing | L |
| 4. | Other factors | |
| | | |
| | | |

D. NATURAL RESOURCES

| | | |
|---|---|---|
| 1. | Diversion, altered use of water | L |
| 2. | Irreversible, inefficient commitments | N |
| 3. | Other factors | |
| | | |

E. CULTURAL

| | | |
|---|---|---|
| 1. | Altering physical symbols | N |
| 2. | Dilution of cultural traditions | L |
| 3. | Other factors | |
| | | |
| | | |

F. SOCIOECONOMIC

| | | |
|---|---|---|
| 1. | Changes in economic/employment patterns | M |
| 2. | Changes in population | L |
| 3. | Changes in cultural patterns | L |
| 4. | Other factors | |

57

G. HEALTH

1. Changing a natural enviroment ______ L

2. Eliminating an ecosystem element ______ N

3. Other factors ______ N

______ ______

H. GENERAL

1. International impacts ______ N

2. Contraversial impacts ______ N

3. Larger program impacts ______ M

4. Other factors ______ ______

______ ______

I. OTHER POSSIBLE IMPACTS (not listed above)

1. Introducing of new plant species ______ N

2. Agricultural chemicals ______ N

3. Other Factors ______ ______

______ ______

4. Discussion of Impacts:

A. Land Use: Within this section three items (land clearing, altering natural defenses, and jeopardizing man or his works) may be minimally effected by the proposed project. Expansion of existing agribusiness plants or the development of new agribusiness may require the clearing of land, cutting down trees and the destruction of protective errosion cover. Also, if controls are not established, air, water, or land may become polluted with agribusiness waste material. This will be mitigated through strict environmental protection measures to be agreed upon by the subborrower prior to receiving project financed credit.

B. Water Quality: Waste materials generated by new or expanded agribusinesses could have negative impacts on the chemical and physical state of water, thereby altering its ecological balance. However, as mentioned in Section A above, rigorous lending criteria will prohibit the unregulated discharge of project financed pollutants into natural waterways without prior treatment.

C. Atmospheric: Depending on the type of agribusinesses to be financed under the project, it is possible that new or expanded agribusiness production could result in either increased atmospheric emission of industrial pollutants from existing point sources or the establishment of new point source emissions. However, stringent credit regulations governing the use of project funded lines of credit should minimize the potential negative impact.

D. Natural Resources: Although it is not known at this time what types of construction will be financed with project credit, it is conceivable that certain types of agribusinesses may required a source of water to clean, cool, or package farm produce. Prior to receiving project financed credit, feasibility studies will be required which will point out the need for and the resulting impact on local water resources, as well as recommend measures necessary to mitigate these impacts.

E. Cultural: If successful, this project will have a positive impact on small farmers selling produce to middlemen, who in turn sell to markets or agribusinesses. It should be realized that such beneficial changes for small farmers will be limited both in size and geographic area. However, project-financed changes may help to stimulate additional benefitial adjustments in the traditional marketing system.

F. Socio-Economic: Although changes in farm population will be minimal, with increases in population occurring at a few of the new or expanded agribusiness production plants, it is anticipated that the economic/employment patterns could be changed moderately within the areas of influence of the new or expanded agribusinesses. In these cases the small farmer may begin to deal directly with agribusinesses replacing the traditional methods of selling to middlemen.

G. <u>Health</u>: In the event that environmental regulations established for the use of agribusiness credit are not followed, the possibility exists that a local natural environment could be impacted upon by the discharge of solid, liquid or gaseous waste material thereby creating a health hazard. However, strict adherence to the environmental regulations is expected, since the Bank of Guatemala will have the option to recall loans when subborrowers and <u>financieras</u> do not comply with loan terms.

H. <u>General</u>: It is envisioned that a more developed, efficient, private agribusiness sector will provide support to the larger program goals of improving small farmer incomes through increased processing and marketing of high-value fruits and vegetables and increased employment opportunities.

2907C