

(BEFORE FILLING OUT THIS FORM, READ THE ATTACHED INSTRUCTIONS)

69386

IDENTIFICATION DATA

A. REPORTING A.I.D. UNIT:
 USAID / GUATEMALA
 (Mission or AID/W Office)
 (ES# 9C-C8)

B. WAS EVALUATION SCHEDULED IN CURRENT FY ANNUAL EVALUATION PLAN?
 yes allped ad hoc
 Eval. Plan Submission Date: FY 91 0

C. EVALUATION TIMING
 Interim final ex post other

D. ACTIVITY OR ACTIVITIES EVALUATED (List the following information for project(s) or program(s) evaluated; If not applicable, list title and date of the evaluation report)

Project #	Project/Program Title (or title & date of evaluation report)	First PROAG or equivalent (FY)	Most recent PACD (mo/yr)	Planned LOP Cost (000)	Amount Obligated to Date (000)
520-0341	Private Enterprise Development	1987	8/1992	10,000	9,478

ACTIONS

Action(s) Required	Name of officer responsible for Action	Date Action to be Completed
1. Logframe will be reviewed to create sublogframes for each component, and revised logframe for the project.	J. Philpott	Jan.31, 1991
2. Prepare justification for Project extension for two more years:		
a. Conduct a series of discussions/negotiations with counterpart organizations to determine scope and content of Project activities during the extended life of the Project.	J. Philpott	Jan.31, 1991
b. Revise Project Paper to extend the PACD two years, reflect revised objectives and Project activities and adjust Project funding requirements accordingly.	J. Philpott	April 30, 1991
3. Strengthening and possible restructuring of the Project Management Unit.	J. Philpott, and F. Manteiga	Dec.15, 1990
4. The roles, duties and reporting relationships of the project advisors, will be revised.	J. Philpott	Dec.31, 1990
5. Intensive review of the Management Information System:		
a. Evaluation of the MIS project component.	F. Manteiga, and J. Philpott	Aug.31, 1990
b. Strategic Information Technology Planning Workshop.	R. Gálvez, and F. Manteiga	Sept.15, 1990
c. Continuous monitoring process to be carried out by special task force.	G. Smith, and J. Philpott	Dec.31, 1991

(Attach extra sheet if necessary)

APPROVALS

F. DATE OF MISSION OR AID/W OFFICE REVIEW OF EVALUATION: mo 9 day 26 yr 90

G. APPROVALS OF EVALUATION SUMMARY AND ACTION DECISIONS:

Project/Program Officer	Representative of Borrower/Grantee	Evaluation Officer	Mission or AID/W Office Director
Signature Typed Name: Felipe Manteiga Date: 1/22/91	Signature Typed Name: Otto Becker, CAEM Date: 30/12/90	Signature Typed Name: Gary Smith Date: 10/13/91	Signature Typed Name: Terrence J. Brown Date: 11/9/90

CLEARANCES:

- 1. PRM:TKellermann In draft
- 2. CONT:AAngeles In draft
- 3. ORD:TCornick In draft

5. DDIR:Swingert S. L.

ACTION(S) REQUIRED	NAME OF OFFICER RESPONSIBLE FOR ACTION	DATE ACTION TO BE COMPLETED
5. d. Freeze of purchase/acquisition of computer equipment.	F. Manteiga	Sept.01, 1990
6. Redefine CEDE/AGG roles within the project.	F. Manteiga, and J. Philpott	Dec.31, 1990
7. Improvement of the Non-Traditional Exporters' Guild system for monitoring economic performance.	J. Philpott	March 31, 1991
8. Full implementation of the Investors Service Center.	F. Manteiga, and J. Philpott	June 30, 1991
9. Strengthen and improve working relationships with the Ministry of Economy.	J. Philpott, and F. Manteiga	March 31, 1991
10. Complete the transfer of the Guaranty Fund to the Bank of Guatemala	F. Manteiga, and G. Matta	Nov.30, 1990
11. Cancellation of the agreement with the Chamber of Finance.	F. Manteiga	Oct.31, 1990

A.I.D. EVALUATION SUMMARY PART II

J. SUMMARY OF EVALUATION FINDINGS, CONCLUSIONS AND RECOMMENDATIONS (Try not to exceed the 3 pages provided) Address the following items:

- Purpose of activity(ies) evaluated
- Purpose of evaluation and Methodology used
- Findings and conclusions (relate to questions)
- Principal recommendations
- Lessons learned

Mission or Office: Private Ent. Development

Date this summary prepared: September 28, 1990

Title and Date of Full Evaluation Report: PED Project Evaluation, USAID/Guatemala

1. Purpose of Private Enterprise Development Project:

To strengthen the economic and policy role of private enterprise in Guatemala, resulting in improved access for small and medium size firms to technical and managerial knowledge and financial resources; improved ability of private sector support institutions to meet the needs of private enterprise; an improved policy environment responsive to private sector needs within the context of national economic development.

2. Purpose of Evaluation and Methods Used:

This was a mid-term evaluation undertaken to determine progress of the Project to date, including the status of implementation, funding, management, and coordination, with special reference to the structure and activities of the Guatemalan counterpart institutions and impacts detected to date upon participating small and medium enterprises.

Two factors lent importance to this particular evaluation: (1) The large scale of the Project, verging upon a program in its scope, and (2) the innovative nature of the Project, focusing upon the private sector for the first time for USAID/Guatemala, and focusing upon high level policy initiatives among a variety of private and public sector support institutions. Additionally, specific areas were specified for particular attention, given their intrinsic importance and/or problems having been encountered during the initial phases of the Project: management information systems, small and medium enterprise loan guaranty fund, the role of the Guatemalan Chamber of Finance, coordination and management issues.

Four evaluators were provided by Management Systems International in the areas of (1) Training and institutional development, (2) International trade and marketing, (3) Banking and financial markets, and (4) Business management. The team undertook initial meetings prior to arrival in Guatemala and were provided advance materials relating to the Project. Following a review of basic documents and files, interviews were conducted with key staff of the component organizations and with key USAID personnel. As appropriate and as time permitted, interviews were also conducted with public sector individuals and members of beneficiary firms. Interviewing and reporting followed the outlines of the four principal components of the Project.

Prior to the evaluation, the USAID Project Implementation Committee (PIC) identified principal areas for evaluation and key questions relating to them. The MSI team addressed the latter systematically.

3. Findings and Conclusions:

- a. Has the PED Project been appropriate for the current status of Guatemala's private sector? Yes. The team sees the Project as "a skillful leveraging of AID resources which is making good progress..."
- b. Are the original assumptions underlying the Project still valid? Yes, with the exception of economic conditions (high inflation, low financial liquidity), receptivity of banking community with respect to the loan guaranty fund provided under the Project,

SUMMARY

K. ATTACHMENTS (List attachments submitted with this Evaluation Summary; always attach copy of full evaluation report, even if one was submitted earlier)

- Private Enterprise Development Project Evaluation

ATTACHMENTS

L. COMMENTS BY MISSION, AID/W OFFICE AND BORROWER/GRANTEE

1. Mission believes that the mid-term evaluation of the PED Project has provided a very useful management tool which is being and will be utilized by the Office of Private Enterprise Development, the Project Manager and implementing institutions to carry out the necessary changes, and adjustments required.
2. The MSI evaluation team performed a good job in this particular task. The team followed the scope of work and the recommendations of the USAID Project Implementation Committee in a very professional and systematic approach. The meetings held, review of basic documentation and interviews proved to be very positive. The evaluation report, following the basic organization of the project, was very well organized and descriptive.
3. Upon the receipt of the final evaluation report, the Mission started working on the evaluation recommendations. Following is a list of the major actions taken between the evaluation and the date of this report:
 - a. Management Information System:
 - Following specific evaluation recommendations on this matter, the Mission, through AID/W, contracted Information Resources Management - IRM to carry out an evaluation of the MIS project component. The study was completed on July 30, 1990.
 - Following this report, the Mission put a freeze on the procurement of all computer equipment.
 - A Workshop on Strategic Information Technology Planning was carried out in country between September 11 and 13. All implementing institutions under the project, attended the workshop.
 - b. Agreement with the Chamber of Finance:

The evaluation report called for a possible cancellation of the sub-agreement between CAEM and the Chamber of Finance. On May 4, 1990, OPED officials met with the President of COF to discuss the status of this project component. At the meeting a 90 day deadline was given to the COF, to prepare an Action Plan and a budget. Unfortunately, no action was ever taken. Finally, on September 19, 1990, the COF sent a letter requesting the cancellation of the sub-agreement. On September 30, 1990, all actions conducive to the cancellation had been taken. We believe that the final closure of this component will be done by October 31, 1990.
 - c. Restructuring of the PMU:

Various meetings with the Board of Directors of CAEM and AGG have been held. Discussions are underway to strengthen and possibly restructuring the PMU. It has been suggested by the Board of Directors of CAEM to change the title of the PMU to read: Project Support Unit. Mission agreed with the suggestion.

MISSION COMMENTS ON FULL REPORT

C/

4. k. the future of the Chamber's role under PED.

5. Lessons Learned:

- a. Positioning USAID in a support role for preexisting private and public sector support institutions can be a viable way of strengthening institution management, decision making, services to client firms, and, ultimately, maximum privatization of essential services.
- b. Small and medium size enterprise performance can be significantly improved via coordinated and concerted action by support institutions providing training, technical assistance, and market information.
- c. Public and private institutions can work fruitfully together when skill and attention are devoted to dialogue, information exchange, and mutually perceived benefits.
- d. Good communications, diplomacy and tact are essential if each participating support institution is to have both freedom and willingness to provide innovative services to small and medium enterprises. If private support institutions are strong, USAID can play a stronger support role and a lesser directing role than is usually the case with other kinds of projects and programs.
- e. Financial systems in countries like Guatemala retain strong conservative tendencies. Inducements for lending to riskier, small and medium size enterprises may require more than loan guaranties.
- f. Private sector oriented projects require both conceptual and operational flexibility in order to cope with volatile conditions affecting the sector, including changing economic and political conditions.
- g. Good and shared information is a sine qua non for effective collaboration among support institutions, close monitoring of key institutions' activities, and impacts upon client firms.
- h. Carefully orchestrated policy dialogue can lead to collegiality among public and private sector institutions and willingness to depart from tradition in streamlining legislation, regulations, and procedures affecting access to market opportunities.
- i. Fundamental change requires a lot of time; USAID missions should demonstrate flexibility in estimating the length of large scale private sector support programs.

3. d. Transfer of the Guaranty Fund:

- The Guatemalan Congress passed the appropriate legislation, on September 19, 1990.
- The Project Implementation Letter to authorize the transfer to the Bank of Guatemala has been discussed and will be approved by October 15, 1990.
- The project coordinator for the fund has been hired and started working on September 24, 1990.
- We expect to start operations around November 15, 1990.

e. Role of the Project Advisors:

Mission started the review process, the project advisors are presently working in their revised scopes of work.

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FINAL REPORT

**PED PROJECT EVALUATION
USAID/GUATEMALA**

March - April, 1990

Submitted to:

Gary H. Smith
Program Office
USAID/Guatemala

MANAGEMENT SYSTEMS INTERNATIONAL

600 Water Street S.W., NBU 7-7
Washington, D.C. 20024

telephone: (202) 484-7170
telex: 499C321MANSY fax: (202) 488-0754

ABBREVIATIONS/ACRONYMS

AGG	Guatemalan Management Association
BANEX	Export Bank
BCIE	Central American Economic Integration Bank
BID	Interamerican Development Bank
BOG	Bank of Guatemala
CAEM	Chamber of Entrepreneurs
CF	Chamber of Finance
CIS	Core Information System
CONACOEX	National Export Coordinating Commission
CONAPEX	National Export Promotion Council
DGA	General Customs Directorate
DPI	Directorate for Industrial Policy, Economics Ministry
EPZ	Export processing zone
FODEX	Export Promotion Fund
FTPF	Free Trade Production Facilities
GOG	Government of Guatemala
Gremial	Nontraditional Product Exporters Guild
IBRD	The World Bank
IDB	Interamerican Development Bank
MOE	Ministry of Economy
PED	Private Enterprise Development project
PMIS	Project Management Information System
PMU	Project Management Unit
ROCAP	Regional Office for Central America and Panama
SME	Small and Medium Enterprises

ABBREVIATIONS/ACRONYMS

AGG	Guatemalan Management Association
BANEX	Export Bank
BCIE	Central American Economic Integration Bank
BID	Interamerican Development Bank
BOG	Bank of Guatemala
CAEM	Chamber of Entrepreneurs
CF	Chamber of Finance
CIS	Core Information System
CONACOEX	National Export Coordinating Commission
CONAPEX	National Export Promotion Council
DGA	General Customs Directorate
DPI	Directorate for Industrial Policy, Economics Ministry
EPZ	Export processing zone
FODEX	Export Promotion Fund
FTPF	Free Trade Production Facilities
GOG	Government of Guatemala
Gremial	Nontraditional Product Exporters Guild
IBRD	The World Bank
IDB	Interamerican Development Bank
MOE	Ministry of Economy
PED	Private Enterprise Development project
PMIS	Project Management Information System
PMU	Project Management Unit
ROCAP	Regional Office for Central America and Panama
SME	Small and Medium Enterprises

EXECUTIVE SUMMARY

This study covers the mid-term evaluation of the USAID/Guatemala Private Enterprise Development project (PED), #520-0341. Initiated in 1987, the project is an ambitious five-year private sector effort to broaden participation international socio-economic development through a multi-faceted strengthening of small and medium enterprise, export expansion, enhancement of private sector institutions, and promotion of a policy and institutional environment congenial to private enterprise development. The PED implements USAID/Guatemala's private sector strategy, which seeks to improve the climate for economic growth by reducing constraints to the private sector.

The PED is unique to the mission in that it is the first large private sector effort undertaken by USAID/Guatemala; it involves, through sub-agreements, a number of important sectoral institutions; it places primary responsibility for management of the program-sized "project" in a specially created, counterpart managed Project Management Unit (PMU), within one of the component private sector institutions; it includes a computerized project monitoring system that links the component counterparts. These "firsts," and others, have provided challenges and opportunities for learning on the part of all components in the project, as well as the USAID mission.

A.I.D. contracted with Management Systems International (MSI) to conduct the evaluation in order to "assess the present status of project implementation, funding, management, and coordination, with special reference to the structure and activities of the Guatemalan counterpart institutions and impacts upon the small and medium enterprise sector," comparing actual results with those intended in the original project design. MSI provided a four person team to accomplish this task.

Given the original 14-day in-country time frame for data gathering, the team identified priority areas to examine, synthesized in six basic questions to be addressed. These were approved by the PED team, including the director of the Office for Private Enterprise Development. A subsequent amendment to the MSI contract provided 18 in-country days for the team.

The evaluation methodology included assignment of team members to specific counterpart institutions according to their areas of expertise, review of project documents, interviews with key staff of the component organizations, with USAID, with selected members of public sector agencies, and, where appropriate and feasible, with project beneficiaries, in addition to observation of selected activities (i.e. training classes for SMEs, meeting of export sector constituency groups, etc.).

In assessing the PED, the evaluators took into account that many of its expected outcomes could only be measured within a five to ten year post-project time frame, and would be difficult to identify as direct results of the project, i.e. a stronger non-traditional export sector, increased participation of SMEs in the economy, an improved policy environment for private sector development, etc. Also considered was that the PED breaks new ground for USAID/Guatemala in the concept and complexity of its design, as well as the private sector area of emphasis.

The evaluation includes detailed analyses of each of the PED components, with respective findings, conclusions and recommendations, all of which have important implications for the success of the project. This summary presents major conclusions and recommendations with respect to the total project.

Major Conclusions:

1. It is the unanimous conclusion of the evaluation team that while there have been some difficulties in getting under way, the overall assessment of PED is that it is a skillful leveraging of A.I.D. resources which is making good progress in implementation:

- The PED has performed well, according to outputs in three out of four component areas (training and technical assistance, export promotion, policy dialogue). The project's achievements to date are quite positive, except for the Chamber of Finance and the Loan Guaranty Fund components (see Chapter V).
- The PED project has opened a new avenue of influence for USAID to promote constructive change within a beneficiary country.
- PED has strengthened policy articulation with the private sector, thus promoting the concept of policy dialogue with the government.
- The private sector organizations supported by PED have been strengthened in their ability to articulate member interests. Using PED funds, they have acquired technical assistance to research policy questions, and have been instrumental in opening new areas of non-traditional exports. These accomplishments have won them recognition by the government as responsible and competent partners in the policy formulation process.

2. The PED should have been launched as a program, and not as a project. As a result, assumptions guiding the development, implementation and dates projected on both the critical path and life of project did not allow for a more realistic estimate of the time required for accomplishing tasks. Contributing to the inability to perform on schedule is the fact that the PED is the first major private sector effort for USAID/Guatemala, implying a longer learning curve to absorb and manage new characteristics and elements.

3. Given that project components received initial disbursements at different times, the current drawdown experience is appropriate for their stages of implementation. The greater rate of quetzal expenditures to date is a prudent strategy on the part of the component institutions in light of the current inflationary trend. Dollar drawdowns have begun to catch up and are expected to be expended by the end of the project.

4. While more remains to be accomplished, progress has been made in the area of institution building. Implementation of recommendations for the project components should result in strengthening the sustainability of key PED elements.

5. A key element of the project, that of supporting, but not directing private sector initiatives, has proven well founded. Project components have, with the exception of the Chamber of Finance and the Guaranty Fund, functioned well, in spite of poor performance of the Project Management Unit, (discussed in Chapter VII). The indirect approach promotes "ownership" of project elements on the part of component institutions, and contributes to post-project sustainability.

6. The cooperative agreement with CAEM and sub-agreements with component institutions have functioned well. Those problems that have arisen are attributable to management deficiencies within given institutions as well as with the Project Management Unit (PMU).

7. The PMU has not been formed as intended in the cooperative agreement. In spite of this it has facilitated program achievements through an informal system of management, which should not, however, continue.

8. While the team of USAID program advisors attached to the project's component institutions has performed well, the complexity of the project at this stage requires a more formal organization of their roles, duties and reporting relationships.

9. Given that the projected completion date of the Project Management Information System, which has both project monitoring and private sector data base network functions, coincides with the 1992 PACD, questions are raised as to the cost effectiveness of proceeding with its implementation as currently designed (See Chapter VIII).

10. Project assumptions have by and large held, with the exception of economic conditions (high inflation/low liquidity), lack of receptivity on the part of financial institutions with respect to the Guaranty Fund, and an unrealistic PACD.

11. The PED log frame is based on a project, rather than on the program that really is; consequently it is too broad, with inadequate detailing of the component segments.

Major recommendations:

1. The PED is a program, and should be re-named to reflect this reality. It is recommended that the basic organization and management structure be retained, in order to preserve key positive elements of the PED, namely programmatic linkages between the component institutions, as well as the advantages of the indirect management approach.

2. The PMU should be retained under CAEM; recommendations outlined in the evaluation for bringing it into conformance with the project paper and the cooperative agreement should be implemented immediately.

3. The roles, duties and reporting relationships of the USAID program advisors assigned to the PED's component institutions should be clarified and more formally organized with respect to the institutions and to each other.

4. The PACD for this program should be extended for two years. It is important to give sufficient time for the sub-projects within PED to be fully implemented. The cooperative agreement with the Ministry of the Economy, due to end shortly, should be extended, and additional funding provided for its continued participation in the program.

5. USAID/Guatemala should begin planning for a follow-on program to continue the initiatives put in motion through the PED.

6. Given the questions raised with respect to the PMIS, it is recommended that its implementation be reviewed in line with the issues identified in the report. The review should be carried out through a short-term consultancy that addresses the following issues:

- does the current system design reflect the pre-and post-program requirements of the PED;
- should the project monitoring functions be retained, considering the projected 1992 completion date for installation of the PMIS;
- does the proposed system require the amount of data base capability it is now designed to have;
- is the system, as now designed, cost effective; and
- is a modified MIS system now appropriate; if so, what should its goals and characteristics be.

7. If it is determined that the PMIS does not provide the needed monitoring system for the PED, an alternate system, simple in design, application and administration, should be designed and put in place at an early date, and cooperative agreements amended to reflect this change.

8. The system of cooperative and sub-agreements have worked well, and should continue. Periodic reviews of the sub-agreements with the component institutions will strengthen project performance.

9. The PED log frame should be revised to reflect the fact that it describes a program, not a project. Individual log frames should be prepared for each component "project." The log frame units should have vertical and horizontal consistency, and greater specificity with respect to criteria for measurement.

PED PROJECT MID-TERM EVALUATION

I. INTRODUCTION

In 1987 USAID/Guatemala initiated an ambitious five-year private sector project to broaden participation in national socio-economic development through a multi-faceted strengthening of small and medium enterprise, export expansion, enhancement of private sector institutions, and promotion of a policy and institutional environment congenial to private enterprise development. The Private Enterprise Development Project, PED, implements the USAID/Guatemala mission's private sector strategy, which seeks to improve the climate for economic growth by reducing constraints to the private sector.

The PED is unique to the mission in a number of aspects. It is the first large private sector effort undertaken by USAID/Guatemala; it involves, through sub-agreements, a number of important sectoral institutions, such as the Chamber of Entrepreneurs (CAEM), the Guatemalan Management Association (AGG), the Nontraditional Product Exporters Guild (Gremial), and the Chamber of Finance; it places primary responsibility for management of the program-sized "project" in a specially created, counterpart-managed Project Management Unit (PMU), within one of the component private sector institutions; it includes a computerized project monitoring system that links the component counterparts. These "firsts," and others, have provided challenges and opportunities for learning on the part of all components in the project, as well as the USAID mission.

Purpose of the Evaluation

AID has contracted with Management Systems International (MSI) to conduct a mid-point evaluation of the PED in order to determine progress to date. The specific objective of the evaluation is to "assess the present status of project implementation, funding, management, and coordination, with special reference to the structure and activities of the Guatemalan counterpart institutions and impacts upon the small and medium enterprise sector," comparing actual results with those intended in the original project design. (See Annex 1 for the complete PIOT).

To this effect MSI provided the following evaluation team:

Hortense Dicker (Training and Institutional Development) - Team Leader.
Mark Connell (International Trade and Marketing)
Edgar Pereira (Banking and Financial Markets)
David Schrier (Business Management)

Methodology

A primary task of the evaluation team during the corporate team planning meeting at MSI, carried out in Washington prior to leaving for Guatemala, was to identify priority areas in the scope of work that, in the team's estimation, could reasonably be accomplished in the original 14-day in-country time frame. These areas were synthesized in a series of questions to be addressed in the evaluation (See Annex 2). This approach was later presented for approval to the USAID/Guatemala PED team, including the OPED Director, together with a proposed outline of the evaluation report. A subsequent amendment to the MSI contract added four working days in country, but it was generally recognized that the time frame did not permit any substantive expansion of the evaluation team's approved work plan.

In order to ensure maximum effectiveness and efficiency, the tasks outlined in the work plan were assigned among the evaluation team members according to the areas of expertise noted above. This meant that individual members concentrated on the particular institutions within the project related to those areas, in addition to interaction with the USAID mission.

The team's approach included review of basic project documents, (the USAID mission as well as the component PED institutions were generous in opening project files), interviews with key staff of the component organizations, with USAID officers, with selected members of public sector agencies, and, where appropriate and feasible, with project beneficiaries, in addition to observation of selected activities (i.e. training classes for SME's, meetings of export sector constituency groups, etc.).

The substantive sections of the evaluation report are organized according to the major components of the PED. These are: Small and Medium Enterprise Technical Support (Chapter III); Export Promotion (Chapter IV); Financial Market Development (Chapter V), and New Private Enterprise Initiatives (Chapter VI). Since project management, monitoring and data bases comprise a major and unique element of the PED, the report includes separate chapters on the Project Management Unit (Chapter VII) and the Project Management Information System (Chapter VIII).

II. PROJECT PURPOSE AND ORGANIZATION

The purpose of the PED project is to strengthen the economic and policy role of private enterprise in Guatemala, leading to improved access by small and medium size firms to technical and managerial knowledge and financial resources; expanded export production of nontraditional products; improved capability of private sector firms and support institutions to meet the needs of private enterprise; and an improved policy environment responsive to private sector needs within the context of national economic development.

The project is organized around four principal components:

1. Small and medium enterprise technical support, to support the development of an SME Development Center in the Guatemalan Management Association (AGG), for the purpose of providing training and technical assistance; facilitating the development of other SME training and technical assistance resources, and establishing a permanent section within AGG to be an SME constituent organization to support policy dialogue with government and large private organizations, operate an information network for SMEs, and provide constituent services to SME membership.

2. Export promotion, to address the principal areas of concern in this area: (1) conditions in the country affecting exports, such as transportation, finance, fiscal incentives, bureaucratic procedures, etc. (2) access to external markets; (3) improved access to training and technical assistance with respect to the export process. These activities are implemented in the PED through the Nontraditional Products Exporters Guild (Gremial), the Chamber of Entrepreneurs (CAEM), and the Ministry of Economy, through the National Export Promotion Council (CONAPEX).

3. Financial Market Development Component, to address the key constraints affecting private sector access to credits, e.g. conservative lending policies of financial institutions, lack of competition, limiting the availability of financial products and services, etc. These are addressed in the project through (1) a Guaranty Fund, administered by CAEM, to promote lending to small and medium size enterprises; and (2) financial market research, development and promotion, and policy dialogue, implemented by the private sector Chamber of Finance.

4. New Private Enterprise Initiatives, a component directed to complementary activities in support of private enterprise development, including research, analysis of practical policy concerns, building of constituencies for policy change, implementation of regulations supporting new policies, privatization studies, etc. This component is implemented by the Ministry of Economy.

Direct management of the private sector components has been delegated by USAID, via a cooperative agreement, to CAEM, through a specially created Project Management Unit (PMU), and implemented through sub-grants to and sub-agreements with participating institutions. The PMU provides quarterly reports to the USAID Private Sector Programs Office on progress of the project components. Additional indirect management is provided through PED-funded advisors attached to the component institutions.

CAEM is also responsible for another key management function, that of information assistance through the Project Implementation Information System (PMIS). The PMIS is designed to monitor project activities, impacts and cost effectiveness, and to serve a networking function with respect to business information useful to implementing organizations and USAID.

Figures 1 and 2 provide a graphic representation of the PED. The following chapters provide detailed discussions of each project component.

III. MAJOR FINDINGS REGARDING SMALL AND MEDIUM ENTERPRISE TECHNICAL SUPPORT

This chapter examines the SME training and technical support component of the PED Project, as implemented by the Guatemalan Management Association (AGG).

I. BACKGROUND

The small and medium enterprise sector in Guatemala is estimated to be 65% of the entrepreneurial population of the country, creating 90,000 jobs, in the areas of industry, commerce and service sub-sectors, according to studies of the Guatemalan Management Association (AGG). While this statistic would seem to indicate a robust SME sector, in fact the rate of SME demise is high. Constraints have been identified as:

- Inadequate management capability;
- Inadequate access to current technology;
- Limited access to financing;
- Lack of sufficient information on legal structures and regulations, and their management.
- Lack of adequate SME guild associations to support and represent the sector.

The PED project has sought to address these constraints through a cooperative agreement with the AGG in order to achieve the following goals and specific outcomes:

II. COMPONENT GOAL AND OBJECTIVES

The purpose of this component is to improve the role of small and medium enterprises in the economic and policy activities of the national economy through improved managerial capacity, and enhanced ability to articulate and negotiate their policy concerns within the private sector, as well as with the GOG. The end of project status for the component should be:

1. A viable private enterprise-based training industry for SME's is established.
2. The AGG SME section is institutionalized as a permanent service.

III. EXPECTED OUTPUTS

A. Training and Technical Assistance

- (1) AGG develops and implements a training program to benefit 1,000 SME managers.

FINDINGS

1. Institutional Development

As called for under the terms of its sub-agreement with CAEM, AGG has organized an SME development center, CEDE, (Centro de Desarrollo Empresarial) that is currently providing training and technical assistance to SMEs in Guatemala City. The Center, located in a separate site, is functioning as a semi-independent adjunct of the AGG. Authority for management of the CEDE flows from the AGG Board of Directors through a special CEDE committee of the Board, which includes the AGG Executive Director, to the Executive Director of the CEDE (see Figure 1).

The AGG signed a sub-agreement with CAEM on March 15, 1988, with its first drawdown of funds requested in the second quarter of FY'89. An executive director for the CEDE was hired in October of 1988, and a market study to determine training and technical assistance needs for SME's was completed in the same quarter. An initial training curriculum was completed in the third quarter of FY89, and CEDE opened its doors to the public in April 1989, exactly one year ago.

The CEDE is fully staffed, although it has found difficulty in filling both administrative and professional positions due to salary limitations (the center has been unsuccessfully seeking a messenger for the past four months; a receptionist experienced in registering trainees recently left for a better paying position. The problem is apparently the consequence of a salary structure which must be compatible with that of AGG, coupled with the recent sharp inflationary trend in Guatemala).

A full-time international advisor is located at the CEDE, providing consultation and technical assistance to the director and other staff, as well as to the AGG/CEDE Committee. (See below).

The training and technical assistance staff consists of a coordinator, five full-time instructor/advisor-consultants¹ and approximately eight part-time instructors, many of whom also teach in the AGG. (The number of part-time instructors varies with the number and type of courses being given in any month). The full and part-time staff have varied but well-credentialed management, entrepreneurial and teaching backgrounds, and appear to be enthusiastic about their work at CEDE.

¹ The differentiation between "advisors" and "consultants" at CEDE is vague. In principle the "advisors" are to provide long-term technical assistance to entrepreneurs, and "consultants" short-term assistance. Additionally, the position description of the "advisors" indicates a supervisory relationship to the "consultants." In practice, the roles appear to be interchangeable, with the possible exception of supervision. It is probable that the latter function is more a formality than based on any experiential differences among this staff. All appear to be equally qualified and to maintain a relationship of considerable collegiality.

The physical setting for the CEDE is a pleasant two-story building that contains space for administrative offices as well as two spacious training rooms. An attractive inner patio serves as an area for coffee breaks as well as consultations for participants receiving technical assistance. The latter arrangement is required because there is inadequate space for the technical assistance staff to meet clients in private. The current building is in fact inadequate for the CEDE's growing needs, and alternative arrangements are being explored.

2. Delivery of Services

CEDE's initial strategy for achieving project objectives was the development of a core curriculum of seven courses which trainees would cover in 112 hours, leading to "graduation" and a certificate of completion. This would be followed by technical assistance provided by CEDE advisors. The initial core curriculum included courses such as: Accounting, Fundamentals of Management, Administration, Interpretation of Financial Statements, Human Resources Management, Management of Bank Loans, Entrepreneurial Strategies, Marketing, Sales, etc. This has now been expanded to 21 courses from which potential trainees can choose (See Figure 2). The new courses were added as surveys of trainees indicated needs and/or interests.

As of March 30 of this year, 1,760 persons have received training in CEDE. Of these, 46 have completed the seven-course training/technical assistance package.

Trainee Profile:

The AGG has identified its SME target population as those entrepreneurs employing from 10 to 70 persons, with small enterprises employing from 10 to 20 persons. While exact data on characteristics for the total number of persons trained was difficult to obtain, it was estimated that 50% of the trainees represent small enterprises. This was based on extrapolation from precise data available for the period July - September 1989. Those figures also showed that 27% of the enterprises represented had ten or fewer employees. The same data base indicates that 55% of participants are entrepreneurs. The remainder are persons in upper or middle management positions, generally sent to the program by entrepreneur/owners, many of whom have already been to one or more courses.

The above profile is generally consistent with data available on those participants who have taken the complete training package. Interestingly, 67% of this group represents small enterprises, with 37% of the total having fewer than 10 employees. In a significant departure from the general profile, however, 89% of the "graduates" were entrepreneurs.

While only two of the 46 persons who have taken the complete training package have been women, approximately one quarter of all trainees are in this category. Observation at a number of classes confirms that this is so. CEDE is interested in promoting greater participation of women entrepreneurs in its program and is planning a number of special activities in order to attract them.

Technical Assistance

The technical assistance component of CEDE's program has, to date, been considerably less successful than the training component, in quantity, if not in quality. Although efforts are made to promote technical assistance services, only about 10% of trainees have availed themselves of it. A number of reasons are advanced to explain this: (1) To all intents and purposes, the service really only became available late in the fall of 1989, since the advisors, most of whom were hired in the summer of 1989, were in a "training" mode themselves, attending all courses to become familiar with their contents, in order to better assist participants with their applications; (2) SME entrepreneurs are not accustomed to the concept of technical assistance and are reluctant to share confidential information about their enterprises with strangers, for fear that it might reach competitors, or worse, the government; (3) technical assistance is viewed by trainees as too expensive - a cost, rather than an investment (participants are given one free hour of consulting time, after which they are charged 20 Quetzales an hour); and (4) technical assistance is time consuming. The influence of the latter two factors as possible constraints to accepting technical assistance was confirmed in evaluation interviews with a representative group of CEDE participants. While a number of them valued technical assistance highly, others commented that it was too expensive for them, particularly at this difficult economic juncture in Guatemala, and since they did not know how long the process would take, they were reluctant to commit themselves to an open-ended investment of finances and time.

It is probable that all of these factors are contributing in some way to the low acceptance of CEDE's technical assistance services. Another important obstacle, however, may be the fact that CEDE is not marketing an entrepreneurial development program in its advertising. Newspaper ads only offer individual courses, and do not mention the broader training/technical assistance package. Participants learn of CEDE's target program when they register for a given course. They are received by an advisor or consultant, who then explains the total concept and attempts to interest the new client in buying it. The approach used is a preliminary analytic discussion of the client's enterprise, based partially on the results of a short questionnaire the applicant is asked to complete as part of the registration process.

It is quite possible that participants who are initially attracted to CEDE by the significantly lower price of the advertised courses, feel that the attempt to then interest them in a broader commitment of seven courses and technical assistance is a type of "bait and switch" operation. The impression may be heightened by the fact that once a participant has taken a course, he/she not only receives periodic mailing announcing new courses, but is called by an advisor, urging continuance of the program.

The CEDE training and technical assistance staff is concerned over the low response to "asesoria" and is experimenting with new approaches. The latest is to include technical assistance automatically and gratis for those who take courses. The objective is to gradually accustom the target group to the concept and utility of technical assistance, and to build a market that will ultimately be willing to seek and pay for it.

Effectiveness of Training and Technical Assistance

1. Program Impact

It is too early to measure any long-term impact of CEDE's training and technical assistance component, a task that would in any case be complicated by the fact that a tracking and evaluation system is still not in place (see discussion below, under "Management"). Nor is the component yet functioning as originally designed. A more serious problem is the inherent difficulty of attributing long-term economic gains to a particular program, where many other variables influence outcomes.

What can be said at this stage is that the results of interviews of a representative pool of 18 participants resulted in uniformly glowing assessments of the training component. Comments indicated that the major reasons for satisfaction were:

- Excellent quality of the teaching, supported by the AGG imprimatur; teachers have had work experience in their areas of teaching, and have "fresh" information.
- Immediate applicability of the training (not "theoretical", as in university courses); courses are appropriate to the SME level.
- Moderate cost of the training.
- The CEDE environment is receptive to and comfortable for the SME; enrollment doesn't require a special educational background.

Most of the interviewees were able to identify concrete impacts of training such as:

- More effective relations with employees;
- Development of a business plan; (only a few trainees have accomplished this).
- Improved ability to take risks.
- Better financial and accounting control of the enterprise.
- Increased productivity. Etc.

Those interviewees who had or were receiving technical assistance commented favorably on it, though the question of cost was clearly a barrier for some.

2. Approach to component

Has the training and technical assistance strategy been successful? The answer depends on the definition of "success." Given the numbers who have taken courses in one year and the positive reactions presented above, it would be easy to say that the program has been a resounding success so far. However, in terms of the EOP target of 1,000 SME managers "trained," this would require 200 "graduates" per year. (While the log frame for this component does not define a "trained" entrepreneur, a reading of the project paper, as well as the original AGG proposal, makes it plain that it refers to persons who have taken a cycle of courses and have received technical assistance). To date, only 46 of the 1,760 persons trained have completed the training and technical assistance cycle.

CEDE management seems confident that with the population of trainees who have taken one or more courses, they now have a "critical mass" of persons who will eventually complete the cycle, and they expect to meet project goals for this component. However, an analysis of the pattern of participation in the training and technical assistance program shows that the number enrolling in additional courses after the first experience drops sharply. The following is a breakdown of the number of courses taken by the total participant pool as of March 31, 1990:

No. of courses taken	No. of trainees
1	1,329
2	235
3	83
4	39
5	20
6	8
7	46 *

* Indicates total number of graduates.

Given this pattern, and the number of graduates to date, it is doubtful that the goals of 1,000 participants who complete the training/technical assistance package will be reached by the end of the project at the current rate of graduation.² Is it important that this goal be reached? One could argue that on the anecdotal evidence gained from the above interviews, the training and technical assistance program as it currently functions appears to be meeting a definite SME need. Other training programs are available for this group, but do not offer the quality or conditions that have made the AGG/CEDE program attractive to many participants. It is apparently having a beneficial impact on some of the enterprises represented, although that impact is, for the most part, undocumented in quantifiable terms, except in a minority of cases. If the program were to continue as is, with participants taking courses buffet style rather than committing to a total program, CEDE might simply become one more training resource for SMEs in Guatemala, albeit a high quality one. The program as originally designed, however, and as described in the project paper, proposes a far more ambitious goal, that of providing a unique integral support service to SMEs to ensure that they not only survive, but flourish.

² Additionally, a review of the rate of participants per month indicates that the numbers have been dropping since November of last year. This may be a cyclical phenomenon, as CEDE management believes it to be, it may reflect the current economic situation, which especially impacts the SME, or it may indicate a more serious problem. The trend will need to be carefully monitored, and appropriate corrective actions taken, if indicated.

An impediment to effective pursuit of CEDE's training and technical assistance goal is the fact that there does not appear to be a clear vision at any staff level of what that goal is or should be, and consequently it is difficult to design an overarching strategy to achieve it. There is considerable questioning among staff of whether CEDE should only accept entrepreneurs, and then only those who are willing to commit to the total package, or whether the target group should also include managers or other employees of SMEs; whether they should be allowed to choose random courses according to their immediate interests or needs, without reference to the broader option of training and technical assistance. The issue of whether technical assistance should be free, involve a cost, be given to all comers or only those who commit to the total package, etc. is still unresolved. (In current practice anyone who takes a course can receive technical assistance).

At the same time CEDE is expending considerable energy, time and resources in an anxious effort to meet the project log frame target numbers for persons "trained." Technical assistance staff spends part of its time calling former participants urging them to take additional courses, a practice that cannot enhance their professional image, but on a more important level begs the question of goal clarity and appropriateness of the strategy for this component.

Management of Training and Technical Assistance

CEDE's ability to monitor, evaluate and improve the training and technical assistance component is seriously hampered by the lack of a tracking and evaluation system. This has been partially due to a first year emphasis on organizing and initiating the component, as well as to the lack of a computer during the first year of operation, which made development and upkeep of a data base extremely difficult, although individual staff members have contributed their own equipment and data processing systems from time to time. There have been periods, however, when data collection has been carried out "by hand, paper and pencil." A computer has finally arrived and its installation is anxiously awaited by the staff, since it is key to a number of CEDE's current and proposed activities.

Of greater relevance, however, is the fact that CEDE does not have an integrated system currently in place to not only establish a data base, but to monitor progress and evaluate training and technical assistance impacts. Staff is painfully aware that this is needed, but is not certain how to develop such a system.

A key CEDE staff member, and one who to a great degree is responsible for CEDE's accomplishments during the past year, is the coordinator of training and technical assistance. His responsibilities have increased considerably since he came to CEDE in February of 1989, in the effort to make the program a reality. With the growth of that program to its current level, however, it is apparent that the multiple responsibilities of the coordinator's position are creating an organizational bottleneck and detracting from effective management of this important department.

CONCLUSIONS

1. AGG/CEDE has achieved a credible initiation of its technical assistance program, but is still in an experimental mode, seeking to clarify its goals and to identify a strategy that will successfully meet the project objectives and ensure post-project sustainability. AGG has the opportunity to create in CEDE a unique entrepreneurship institute for SMEs in Guatemala. The concept implicit in the original design of the PED project has not yet been fully realized.

2. The CEDE program is reaching SMEs, and a fair number of the upper range of micro-entrepreneurs, suggesting that its potential may be wider than originally targeted. It also suggests that possible linkages should be explored with USAID/Guatemala's Informal Sector Micro-Enterprise program.

3. CEDE's organizational structure and its management systems at the level of the training and technical assistance program have not kept pace with program growth over the past year. Both structure and systems, which might have been appropriate at an earlier phase, are no longer serving CEDE efficiently or effectively.

4. CEDE does not presently have the staff capacity to develop, unaided, an urgently-needed tracking and evaluation system for its training and technical assistance program, and should be provided with short-term external assistance to develop one.

RECOMMENDATIONS

CEDE is going through organizational growing pains and needs help in determining what and where it wants to be "when it grows up," as well as the best route(s) for getting there. A number of technical assistance interventions are therefore recommended:

1. A team of experts in entrepreneurial education and development to conduct an inventory and content analysis of CEDE's courses and technical assistance services, to determine the relationship between the training and services being delivered, and the private sector program outputs.

The recommended technical assistance would include two expert consultants for approximately 32 days: 3 days of corporate staging in the U.S., 24 days in country, and five days of report writing. Outputs for the consultation would be a written analysis, evaluation and recommendations for modification of CEDE's program, presented to CEDE and the PMU.

2. When the above consultation is completed, a second one should be provided to assist CEDE in determining the entrepreneurial pool to be targeted, and to then develop a market penetration strategy.
3. CEDE should be provided with short-term technical assistance to help it develop a tracking, monitoring and evaluation system for its training and technical assistance program. While this

system will need to relate to the MIS, it need not wait for the latter system to be "on line" in order to be designed and implemented.

4. CEDE's training and technical assistance section should be reorganized, separating some functions from the coordinator's current over-loaded responsibilities, and delegating others to competent subordinates.
 5. AGG should review all output targets relating to its portion of the PED with A.I.D. for their current relevance and contribution to project purposes and goals, modifying them as indicated. This process should take place after Recommendations 1 and 2, above, have been completed.
- (2) AGG develops a training referral service to provide 1,000 SME managers and technical staff with training from AGG and other Guatemalan organizations.

FINDINGS

AGG has not yet developed a training referral service, but can easily do so once its SME information network is established, (see below).

- (3) AGG assists outside groups in the development of at least three additional training programs available in Guatemala, benefitting 200 people within five years.

FINDINGS

CEDE has begun to explore expansion of its program to "Guatemala II," or the interior of the country. A market study to determine the feasibility of such an expansion, commissioned by CEDE, has recently been completed, and implementation of the expansion is included in CEDE's 1990 Action Plan, as is development and delivery of special training for specific professional groups, e.g. the Guatemalan Tourist Association. The study indicated a potential market for CEDE's services in the interior of the country, supported by the prestige of AGG's name, at the same time that it showed no need for CEDE to establish any "regional" centers. It can easily implement its expansion program through collaboration with local chambers of commerce, specialized guild associations, etc., where, again, AGG's prestige is sufficient to ensure collaboration.

The development of specialized programs for specific groups presents opportunities for CEDE to expand its SME training and technical assistance program, and fine tune it to the needs of a given SME sector. The planned project for the Guatemalan Tourist Association is apparently the result of interest on the part of the latter group in CEDE's services. When a member of the evaluation team inquired as to whether this association represents CEDE's SME target group, the reply was affirmative.

CONCLUSIONS

1. CEDE's expansion plans at this stage appear to result more from the need to meet PED program requirements than as a natural progression of its growth and development. Given the basic issues raised earlier in this assessment, i.e. the need to clarify goals, focus and strategies, as well as to strengthen management of its current program, any major expansion at this point, before its primary program is consolidated, will place undue burdens on a young institution, and may well jeopardize gains made to date.

RECOMMENDATIONS

2. CEDE should proceed slowly with implementation of its expansion activities, possibly postponing them until it consolidates its basic program in Guatemala City and strengthens its organizational structures and management systems.

B. POLICY DIALOGUE

- (1) An SME policy dialogue agenda is developed.
- (2) Formal arrangements for presentation of an SME agenda to the GOG are established.
- (3) Better communications between SMEs and larger-scale business interests, particularly the financial community, are established.

FINDINGS

To date there has been little or no movement in the area of policy dialogue on the part of AGG, except through its relationship with the CAEM role in the larger project, nor does it appear to have much enthusiasm for an independent role in this area. The issue of whether it should have a role and what that role should be can be approached from two perspectives:

1. Given the fact that AGG has, through its sub-agreement with the PED program, committed to promote the development of the SME sector, it should be the logical voice to represent and advocate for SME policy and regulatory changes with respect to the GOG, within the PED program, as well as promote interchange with large private sector interests. If this is accepted, however, it can be argued that CAEM has been assigned the role as lead agency for policy dialogue and lobbying with the GOG within the PED program, that the private sector should speak with one voice in this regard, and that voice should be CAEM's, nourished by inputs from the other implementing private sector agencies, i.e. AGG and Gremial. Within this scenario, AGG can very well fulfill its commitment by establishing a special SME constituency section within AGG, or more directly in CEDE (see below), and taking the views and needs of the SME sector, as they evolve from this section, to CAEM, through active participation in the Consejo Consultativo and other joint activities under PED. This has not yet happened.

2. There is a basic issue here, however, and that is, does AGG feel comfortable being identified as an advocate for SME's, in view of its traditional large business sector membership base? The project paper itself recognizes that the interests of the two sectors are not necessarily convergent. There may be an inherent contradiction in expecting AGG to represent both sectors. AGG may not, in spite of honest intentions, be able to do this effectively, or want to do it at all. Its performance to date in the area of policy dialogue initiatives would seem to indicate the latter alternative. Or it may be that the first-year effort to implement the training and technical assistance program relegated policy dialogue to a second priority, and that it will be implemented in the future. It is not however indicated in the AGG/CEDE 1990 work plan.

Interestingly, among CEDE's plans is the formation of an "alumni" group of participants in its training and technical assistance program, for which formal and informal activities/events would be organized in support of the program (see Section "C", below). A number of participants interviewed by the evaluation team expressed great interest in the development of such a group, the outgrowth of strong identification with CEDE that was observed among the interviewees, and presumably representative of the many other CEDE "alumnae." Such a group could form the basis of an SME constituency section as envisioned in the project design.

CONCLUSIONS

1. The prospect of developing a more integral relationship with the SME sector undoubtedly challenges the AGG to break new ground, and move into what, for it, is comparatively uncharted territory. The PED program has, in fact, required changes in many of the component agencies, and change generally provokes some level of uncertainty and discomfort. The AGG must be credited with moving impressively ahead with initiating an important portion of its commitment to the SME sector. It is understandable if other parts of the original commitment are proving less amenable to implementation, at least from AGG's viewpoint.

RECOMMENDATION

1. The PMU should have a frank review of the policy dialogue issue with AGG to determine AGG's position on the matter, as well as alternatives for ensuring representation of SME interests in policy dialogue with the GOG and within the private sector.

C. INSTITUTION BUILDING

Establishment of an SME section within AGG as a constituency organization for SMEs, which will:

- (1) support CAEM in policy dialogue with government and larger private sector organizations;
- (2) operate an information network for SMEs; and
- (3) provide other constituent services to SME membership.

FINDINGS

(1) As already noted, AGG has not established a separate constituency section for SMEs. It currently plans that CEDE "graduates" will become members of AGG, and will benefit from its general services, mingling with AGG's traditional medium to large business managers. As also previously noted in Section B, the proposed "alumni" group of CEDE's training and technical assistance program could form the nucleus of an SME constituency section, since "graduates" and other participants already tend to see CEDE as catering to their special needs and interests.

(2) CEDE expects to formally initiate its data base and information network system as soon as its computer is installed, hopefully by the second quarter of 1990. The system will also act as an adjunct to CEDE's resource service for program participants. In addition to the information network, a newsletter directed to CEDE participants and alumni is planned.

(3) CEDE is also planning a series of special events for trainees and alumni within the context of the group described in (1) above, and hopes to add services as participants identify interests and needs

CONCLUSIONS

1. AGG has a number of attractive options for broadening services to its SME client group, making CEDE a true SME "center." As these options are operationalized, they will require additional staff. Certainly an "alumni" center, even if it does not become a formal "constituency section," has enough potential for strengthening the CEDE program that it will merit specific staff to manage it.

RECOMMENDATIONS

1. CEDE should proceed to develop the ancillary services called for in the project paper.

GENERAL CONSIDERATIONS

The PED Advisor

The role of the PED Advisor in AGG/CEDE is to provide technical assistance and guidance for the SME component as a whole, including cross-fertilization efforts with other components of the PED. The incumbent has had experience in the SME area and has the background to make a constructive contribution to the CEDE program. The perception of his role in AGG, however, is principally that of A.I.D.'s representative, a necessary if not particularly appreciated adjunct that is a condition of AGG's participation in the PED program. Under the circumstances the effectiveness of the PED advisor has been circumscribed. The advisor has tried to make the best of an imperfect situation, making those contributions that are possible, many of them, indeed, quite useful, but the full potential of the PED advisor's role is not being realized.

CONCLUSIONS

1. The long-term PED advisor's role is a delicate and sometimes difficult one. The advisor is in a sense serving two clients, A.I.D. and the private sector agency to which he is attached, and must walk a fine but clear line in order to serve both effectively. In such a situation it is relatively easy for perceptions to become distorted, particularly in the context of the private sector agency, where the advisor is located and should have most impact. Success depends on clarity of expectations and guidelines for their implementation mutually arrived at early in the relationship, and reviewed periodically to confirm their continued usefulness or the need for modification. In the case of AGG/CEDE this does not appear to have happened.

RECOMMENDATIONS

1. The role of the PED advisor attached to AGG/CEDE should be clarified, with the assistance of the PMU, to the mutual agreement and satisfaction of all concerned.

Sustainability

The question of whether CEDE can be self-sustaining in the long term depends to a great extent on whether it can provide the kind of services that will bring sufficient SMEs to its door to allow it to function with little or no subsidy. It is doubtful that its present strategy can be self-sustaining, since the cost of operations, once the A.I.D. subsidy is no longer available, will remove an important attraction for many of the current class of trainees. (Most of the trainees are attending CEDE classes at the subsidized rate). While the trust fund that has been created will cushion the post-project shock to a certain extent, it is not realistic to expect that it will sustain CEDE for very long.

It may be that the type of program envisioned for CEDE can not be totally self-sustaining, given its target group. The answer requires an exploration beyond the scope of the present evaluation. However if CEDE can be developed into an effective entrepreneurial institute, and can demonstrate a credible track record in this area, it should have little difficulty in attracting support from other international donors. The PED advisor has been making informal explorations in this regard and has received indications of interest from the EEC as well as the Netherlands Institute for Management Development, RVB. Other potential donors can undoubtedly be identified.

RECOMMENDATIONS

1. A study should be initiated to determine the long-term sustainability for the CEDE, based on the experience to date, and a review of the experience of other entrepreneurship training models, e.g. the Carvajal program in Colombia, etc., in order to identify strategies to ensure that the program will continue after PED.

IV. EXPORT DEVELOPMENT

This segment of the PED project has as its objective the broad stimulation of the export sector in Guatemala, through improvements in 1) conditions in the country affecting exports, 2) external market access, and 3) internal problems of enterprises. To support these improvements assistance was provided to three organizations: the Gremial, CAEM and the MOE/CONAPEX.

These three organizations interact at different levels with the economic actors of Guatemala. The Gremial is a grassroots organization, which maintains close member contact through its sector specific Comisiones. It provides services directly to businesses and acts to aggregate their opinions and voice them through its Strategic Unit. CAEM, while technically a "chamber of chambers", has in practice functioned as a think tank/lobbying organization. It is a source of provocative comment in public policy debates and an effective ombudsman for the interests of the private sector. Finally, CONAPEX (which incorporates both Gremial and CAEM along with other government and private sector actors) is the arena in which public policy debates find their resolution and action is decided upon. The grassroots input of Gremial, together with the commentary of CAEM are tempered by the reality of government in Guatemala.

A. GREMIAL

1. **OBJECTIVE:** The Gremial has committed to perform the following functions: 1) develop and promote products so as to increase exports of non-traditional products, and 2) negotiate in conjunction with CAEM to obtain policy and strategy reforms which will provide incentives to exporters of non-traditional products. The Gremial agreed to produce the following specific outputs:

- a. Export expansion in 18 targeted product areas
- b. Improved export performance by 400 firms
- c. Effectiveness of Gremial in tech support improved
- d. Guild income raising capacity improved

2. **FINDINGS:** The Gremial addresses the two functions noted above through its Operational Unit and its Strategy Unit.

a. Operational Unit

The Gremial serves the needs of its members through a matrix structure. All members participate in one of the five commissions (Agriculture, Furniture/Wood Products, Assembly, Manufacturing, and Aquaculture), and each commission can draw upon specialized assistance from the functional units (Promotion, Training and Technical Assistance, Information, and Projects). Each commission is assisted within the Gremial by a Coordinator, who provides support, conducts research, coordinates meetings, and arranges for the necessary assistance from Gremial's functional units.

PED support has made it possible to expand and strengthen the scope of operations of the commissions and functional units through the contracting of experts to provide targeted technical assistance, hiring of local consultants, feasibility studies for new products and techniques, and participation in trade shows (domestically and internationally). The funds spent in these efforts are highly effective because they can be programmed quickly to respond to the needs articulated by the commission members.

In addition to this sector targeted support, PED funds also support three major programs discussed below. These programs are the Commercial Attaches, the Transport Rate Negotiator (discussed under Strategic Unit) and the Demand Analysis Study (by Ernst & Young, discussed under the PED advisor).

One measure of the success of Gremial (and the PED project) is that its membership has increased from 400, when the PED project was in the PP stage, to a present total of 700. Of this number, over half are members of non-agricultural commissions (see Figures 1 and 2).

FIGURE 1

GREMIAL MEMBERSHIP, BY COMMISSION

COMMISSION	MEMBERS
Agriculture	250
Furniture/Wood Product	50
Assembly	200
Manufacturing	150
Aquaculture	50

Source: Interview with David Almengor, GREMIAL.

1) Commercial Attaches. The Gremial has responsibility for coordinating 6 commercial attaches (New York, Washington, Miami, Los Angeles, Hamburg and Mexico) who should all be in place by mid-1990. The attaches will be jointly paid by Gremial and the GOG, and will enjoy diplomatic status. Gremial's portion will be paid with funding from PED; after three years the GOG will take over full support. The public/private cooperation with respect to field representatives began in CONAPEX.

PED support has been key here, facilitating the dialogue within CONAPEX which lead to this cooperation, in addition to the direct support of the attaches.

2) Attendance at several Comisiones and site visits to member factories demonstrated that Gremial is fulfilling its goals in the areas noted above. It is interesting that several participants are not currently exporting (and some are not even in operation); they have affiliated with the Gremial to help them achieve these goals.

FIGURE 2

GREMIAL'S MEMBER SERVICE MATRIX

GREMIAL's Commissions	GREMIAL FUNCTIONAL AREAS			
	PROMOTION	TRAINING	INFORMATION	PROJECTS
Agriculture				
Furniture/Wood Products				
Assembly				
Manufacturing				
Aquaculture				

b. Strategic Unit

Works to transmit the policy concerns of members into action either through consultation with the public sector or through direct action:

1) CONAPEX/CONOCOEX. Gremial participates directly in CONACOEX as a member and indirectly in CONAPEX through CAEM - see section I.C. for further discussion.

2) Transport Negotiating Office. This effort within Gremial had as its initial scope negotiations with shipping conferences to obtain more favorable rates for Guatemalan shipments. This has been accomplished. Gremial is working on three further transport initiatives, which have the added benefit of being able to provide an income stream to Gremial:

- Operation of an export warehouse at La Aurora airport - scheduled to begin operation shortly.
- Development of a freight consolidation center to provide service for Puerto de Santo Tomas - under study.
- Development of a concession to operate two piers, a warehouse and a crane within the Puerto de Santo Tomas - under study.

c. The PED advisor

Gerry Lamberty, joined Gremial late in 1989, and is just now beginning to get settled. Gremial does a very good job of giving its senior managers substantial autonomy, and Lamberty has similarly been given freedom to build a niche for himself.

One of the major roles taken on is the specification, contracting and coordinating of short-term consultants. The major active contract is with Ernst & Young to research specific sectors of supply in the Guatemalan economy and demand in the U.S. economy, and then match specific firms with buyers/joint venture partners.

Another task taken on by the advisor (in conjunction with the Executive Director) is the resolution of a difficult procedural matter concerning withholding tax payable by consultants hired by the counterparts. The result has been that Gremial has had to delay or reprogram several consultancies (e.g., the Ernst & Young work noted above) while this issue is resolved. It is frustrating to note that the quality of Gremial's management is responsible for this holdup while other counterparts (eg, CAEM) are proceeding with contracts. The problem lies in an opinion which Gremial has received from their accountants indicating that they must withhold tax. The others, who are presumably subject to the same tax code have simply chosen to ignore this issue.

Because of his short time with the project, it is difficult to evaluate impact or effectiveness. However, based on the good working relationships which appear to be in place and the early progress in project areas this should be an effective consultancy.

d. A specific concern mentioned separately by both the Executive Director and the PED Advisor is the management structure of the project. The present management structure, which combines a semi-functioning PMU and direct access to A.I.D. for assistance in resolving difficulties was seen as cumbersome, but workable. The ProExAg management structure was proposed for its efficiency. There was concern that a strengthened PMU in the PED project would put them further out of a direct loop with A.I.D., and complicate their administrative process.

The vehemence of this concern, coming as it did from two of the most effective managers at the best managed participant in the PED project, impressed this evaluator.

e. Quantitative Progress Toward PED Outputs

Export expansion in 18 targeted product areas. The 18 targeted areas referred to here are non-traditional agricultural products. Information manuals on growing, processing and exporting these products have been prepared and distributed to interested farmers. A selection of 8 of these have been selected for further follow-up based on member response. Timely export data have been difficult to obtain in Guatemala. The Ventanilla Unica de Exportaciones (using PED support for its computer system) is now producing current statistics. The table below shows the export performance of several areas where Gremial is working. Of particular interest is the six-fold increase in furniture exports and the three-fold increase in maquila exports.

FIGURE 4
EXPORT PERFORMANCE OF SELECTED
NON-TRADITIONAL EXPORTS (IN US\$ MILLIONS)

	1984	1985	1986	1987	1988	1989
AJONJOLI	11.46	10.15	11.93	12.48	14.14	
(AJONJOLI)					13.65	16.09
(ARVEJA CHINA)					5.72	8.16
CAM, PESC & LANG	10.91	9.14	8.06	12.86	14.53	
(CAMARON)					12.73	17.98
(MARISCOS)					<u>0.97</u>	<u>1.02</u>
TOTAL					13.7	19
FLR, PLNT, RCS & SEM	10.79	10.43	9.11	11.3	12.16	
(FLORES)					1.37	1.4
(PLANTAS)					5.39	5.4
(SEM DE FLORES)					<u>0.81</u>	<u>2.8</u>
TOTAL					7.57	9.6
FRUTAS Y PREP	2.24	3.25	6.08	11.65	11.8	
(FRUTOS)					3.63	13.45
(MAQUILA)					40.32	137.53
(MUEBLES DE MAD)					0.25	1.69

Source: Left margin: BANCO DE GUATEMALA
 In parens: VENTANILLA UNICA DE EX

Improved export performance by 400 firms. Based on the statistics (in the table above) and the growth of Gremial membership it appears that there has been an improvement in the export performance of Gremial members. Quantitative verification at the firm level was beyond the scope of this evaluation. One of the recommendations is to undertake a baseline study which will provide data for making this measurement over the long term.

Effectiveness of Gremial in tech support improved. The resources for technical support provided under PED have been targeted as described under the Operational Unit section of this chapter. This direct programming of support via Commissions is highly effective because it can focus on self defined needs of businesses and it can be acted on quickly.

Guild income raising capacity improved. Gremial has made progress toward this goal in two ways. First, its increase in membership provides an almost doubled base of support within the Guatemalan business community. Second, the three projects noted under the discussion of the Transport Negotiating Office

offer equity positions to Gremial. There is potential for substantial revenue to be produced in these projects.

3. RECOMMENDATIONS:

- a. Increase Funding for Transport Activities - Due to the enlarged scope of these activities (see discussion above under Strategic Unit), Gremial is looking for additional funds to support feasibility studies, and potentially development of the three projects identified. Support is strongly recommended.
- b. Proceed Cautiously with Development. Of the three transport projects, Gremial is an independent entity, and has the ultimate responsibility to proceed or not with these projects. The three projects (a warehouse at La Aurora Airport, a freight consolidation center near Santo Tomas, and a port concession inside Santo Tomas) are all major activities in their own right. Gremial has good advice on these matters through their transport consultant. A.I.D.'s role should be to council caution, and urge a phased rather than simultaneous development of these projects.
- c. Undertake a Baseline Survey of Economic Performance at the Firm Level. The ultimate indicator of the PED program's success is whether the private sector is healthier (ie, are there more firms making more profits?). This indicator can only be measured by a time series of data over a minimum five to ten year period. Even at five years the ceteris paribus assumption predominates so strongly so as to render any judgements merely qualitative - i.e., you can say the export sector improved or did not, but any attempt to tie project inputs to results on a quantitative basis is hopelessly overshadowed by noise. This survey could be undertaken equally well by either Gremial or CAEM.

B. CAEM

1. **OBJECTIVE:** CAEM has committed to establish and administer an FTPF Investors Service Center which will:

- a. Provide support services to investors, such as orientation materials, seminars and domestic and international promotion
- b. Direct preinvestment services, including analysis, partner matching, general marketing assistance, and network development
- c. Provide ombudsman/trouble-shooting services on customs procedures, work visa approvals, and investor responses to FTPF activities
- d. Research, develop and promote an FTPF strategy

- e. Although not specifically committed in the Cooperative Agreement, the PP anticipated passage of Free Zone and Maquila legislation, improved customs procedures, 10 seminars/workshops organized, and the establishment of 1 Free Zone with 2 more in advanced negotiation stage

CAEM has played an instrumental role in the following tasks:

- a. Free Zone and Maquila legislation, along with implementing regulations, have been passed.

CAEM and the PED project have played a critical role in shaping the drafting and passage of this legislation. Under a PED consultancy, The Services Group (a US firm) organized a 2-week program comprised of a one week site visit to free zones in the Dominican Republic, and a one week workshop in Guatemala. The workshop analyzed free zone legislation from different countries and produced at the end a draft free zone law for Guatemala.

Still to be accomplished is the actual implementation of the regulations, and authorization of enterprises to operate under these laws. CAEM will play a role here as the ombudsman for comments from enterprises and negotiator with the DPI and DGA.

Had there been no PED project there would probably still be a free zone program, however, it would be a much different one and it would likely still be only in the idea stage. The influence of PED has lead to a stronger articulation of policy in the private sector (ie, the think tank role), which in turn has produced pressure on the government to move much more quickly than would otherwise be the case. In addition, PED has provided technical assistance (eg, the seminar mentioned above, or the current assistance being provided to the DPI in the implementation of regulations) which has the effect of giving these policy decisions a better likelihood of success upon implementation.

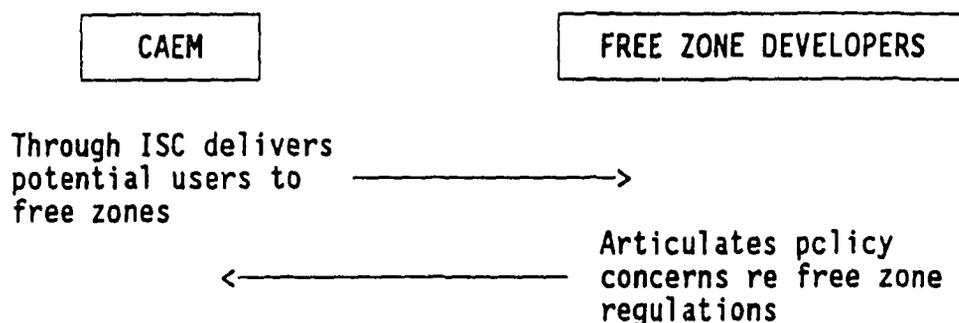
- b. Three free zone projects are in construction or advanced preparation with a total investment of US\$60 million:

- 1) Zeta/Union - 41.5 HA area, US\$25 million investment, application submitted 4/9, buildings already exist on site.
- 2) Aceros Prefabricados/Aurora - 28 HA area, US\$17 million investment, prefeasibility study complete, no development.
- 3) Villa Nueva - US\$20 million investment, land preparation begun.

CAEM has an important role to play here in the development of free zones. As mentioned above, CAEM will be a focal point for the interests of the free zone developers and the articulation of their interests into public policy formation. CAEM also through its role as the Investor Services Center will be directing a large number of potential free zone users to the zones.

FIGURE 5

CAEM/FREE ZONE INTERACTIONS



- c. Investor's Service Center was established 10/89, but aggressive promotion has not yet begun. The Center presently functions in a reactive mode, responding to specific inquiries. It does not yet target prospective investors and attempt to convince them to start a venture in Guatemala.
- d. FTPF Strategy - Neither a formal FTFP strategy, nor an official FTFP Development Council have been created. Nevertheless, positive results are being obtained, as demonstrated by the first three points above.
- e. CONAPEX - CAEM, in the person of Willy Rodriguez, plays a central role in CONAPEX as the leader of the private sector participants - Ing. Rodriguez is the Chair of CONACOEX, which functions as the implementation committee of CONPEX.

3. RECOMMENDATIONS:

- a. Fully Implement the Investors Services Center - This development should be coordinated with the promotional efforts of Gremial. These efforts are somewhat distinct in that Gremial is promoting exports, while ISC is promoting investment, but there is substantial overlap. Increasingly, Gremial's efforts address new investment (cf, the commercial attaches, the firm specific matchmaking being directed by Gerry Lamberty, and efforts by the Sub-Comision de Electronicas y Informatica). The existing cooperation between these organizations should facilitate this process.

- b. Lobby for Regulations Permitting Free Zone Companies to Hold Accounts in Foreign Exchange - As noted above the Free Zone Law has mobilized real estate developments with a value of US\$60 million. The next step in mobilizing further investment from Guatemalans with resources outside the country is to create the security for them to invest in manufacturing enterprises and retain their earnings in a stable currency. Full absorption of the proposed zones would represent another US\$40 million in investment.

C. MOE/CONAPEX

1. **OBJECTIVE:** Within this section of the PED project the MOE has committed to the broad goals of the establishment and administration of the technical unit for the National Export Promotion Council (CONAPEX), and the establishment of FODEX in the Central Bank. Specific outputs include:

- a. Development of a National Export Plan through CONAPEX;
- b. Revision of the laws for free trade production facilities and drawback operations;
- c. Review of financial and trade policies related to exports, investment and small/medium entrepreneurs; and
- d. Support of the public-private dialogue process to promote the development of the productive sectors.

2. **FINDINGS:** On paper CONAPEX sounds like a formula for inaction. Much to the surprise of this evaluator, CONAPEX in practice is a dynamic forum for debate and action on policies central to the vitalization of the private sector in Guatemala.

As used in the following discussion CONAPEX refers both to the Consejo Nacional de Promocion de Exportaciones (CONAPEX proper), but also to the Comision Nacional Coordinadora de Exportaciones (CONACOEX). The Consejo meets monthly, involving members at the ministerial level to review policy. The Comision meets weekly at the sub-ministerial level and is responsible for implementation of the decisions of the Consejo (although it is often the member institutions or their constituents who make the final implementation). The Consejo is chaired by the Minister of the Economy, while the Comision is chaired by CAEM; one public, the other private (see Figure 6).

PED's influence on CONAPEX has occurred at three levels: 1) Internally, through the formation of the technical secretariat; 2) Public sector responsiveness, through the support provided under "New Private Enterprise Initiatives;" and 3) Private sector interest articulation, principally through the support provided to CAEM and Gremial. Detailed findings on the second and third points are discussed elsewhere in this report. At this point it is important to note that these capabilities are crucial to the emerging public/private dialogue occurring in Guatemala.

The technical secretariat at CONAPEX provides both a coordinating office for the topics being addressed by CONAPEX and an institutional memory. What is very important is that it is perceived as a trustworthy neutral party by both the public and private sectors (it is housed in offices next to DIGECOMEX, and funded through the MOE). This perception of neutrality is confirmed by the fact that it has been given responsibility for maintaining the minutes of the Comision meetings (the MOE retains responsibility for the minutes of the Consejo meetings).

- a. Attendance at CONAPEX' 4/3/90 session demonstrated a vibrant forum. Items discussed include:
 - 1) Master Plan for La Aurora Airport - report presented by Gremial highlighted concerns regarding future airport expansion, and the possibility of a hindrance to this from the reactivation of a race track adjacent to La Aurora
 - 2) Proposal from the private sector concerning the creation of a Central American Council for Foreign Trade - This would be a Central American version of CONAPEX which would include a ministerial level representative from each country and the President of the each country's private sector organization - This is a very important point; PED is not only facilitating national private sector policy articulation but, the scope has been enlarged to include regional private sector policy articulation. (A similar regional initiative is also underway with some transport concerns).
- b. The CONAPEX secretariat, together with CONOCOEX, appear to be functioning well to research and implement decisions coming out of CONAPEX.
- c. FODEX appears to be stalled at least until after the elections. Informal discussions with the World Bank prior to leaving Washington indicate that the Board will likely not act in the next two months, and very probably not act until after the elections. Approval of the World Bank's "fast disbursing loan facility" which will fund FODEX depends on successful completion of policy reform negotiations. It is very possible the government might choose to postpone these negotiations until after the election.
- d. Relations with the new Minister of the Economy are still being developed, leading to several difficulties. A.I.D. has been unable to place an advisor with CONAPEX as was originally planned, and several of the counterparts have mentioned similar problems.

3. RECOMMENDATIONS:

- a. Persevere in Working with the MOE. Despite the difficulties noted above, most items in this process are progressing. To the extent possible, take cues for action from the private sector organizations, and from the MOE itself. The PED project philosophy of "facilitating private sector dialogue with the public sector" should operate here

and allow the actors involved to work toward their own resolution. This is not an ESF negotiation where A.I.D. is an active participant in the dialogue.

FIGURE 6

ORGANIZATION OF CONAPEX/CONACOEX

CONAPEX - monthly meetings at Ministerial level

PUBLIC SECTOR

Min. de Economia
Min. de Finanzas Public
Min. de Relaciones Exteriores
Min. de Agricultura
Banco de Guatemala

PRIVATE SECTOR

Camara de Comercio
Camara de Industria
Camara Empressarial
Union Nacional Agropecuaria
Assoc. de Azucareros de Guat.

CONOCOEX - weekly meetings

PUBLIC SECTOR

Min. de Economia
Min. de Finanzas Public
Min. de --- Estrangeiro
Min. de Agricultura
Banco de Guatemala

PRIVATE SECTOR

Camara de Turismo
Camara Empressarial
Gremial de Exportadores de
 Productos No-Tradicionales
Camara de Finanzas
Confederacion de Federaciones
 Cooperativas

V. FINANCIAL MARKET DEVELOPMENT

A. BACKGROUND

Until recently, in Guatemala, the financial markets were organized and managed by the business class. This characteristic coupled to a very conservative and strong Central Bank had severely limited the development of financial institutions and instruments beyond those of the traditional commercial bank.

As a result of market growth, the limited success of Central Bank policy in containing inflation and devaluation, and the pressures of smaller businesses in newly developed activities, particularly export related, newer and smaller financial institutions were organized.

However, the slow response of the Central Bank in adapting its policies to the new environment and of the government in modernizing the financial laws of the country, have impeded the expanded banking and financial system to develop modern financial instruments to penetrate new markets.

Against this background the Financial Market Development component of the USAID PED project was designed to address the key constraints to more efficient financial markets, namely:

- (a) Obsolete financial laws and regulations.
- (b) Conservative commercial bank lending and collateral policies effectively restricting access to credit to all but the well capitalized companies.
- (c) A bank management style that analyzes new lending opportunities in function of the wealth, political, social and economic power of the applicant.
- (d) Absolute power of the Central Bank to control interest rates, portfolio growth and liquidity, effectively limiting competition.
- (e) Absence of asset/liability management by the financial institutions, limiting the opportunities to finance long-term investment requirements because of excessive dependence on demand deposits for capitalization.

B. PROJECT GOAL AND ORIGINAL COMPONENT OBJECTIVES

Project goal was "to broaden participation in national socio-economic development". The PP defines the goal "as more enterprises with more employees prospering in a vigorous economy", as well as a more open private enterprise system which provides "access to financial (and technical) services". It also means an opportunity for the many as well as the few "to influence government policy and private sector practices" through representative constituency groups.

Increased financing for small and medium enterprises would fuel an expansion of the export sector and correspondingly create employment and generate economic growth. Increased economic activity would result in greater demand for financial services that would stimulate "financial markets to respond more effectively to the legitimate financial requirements of SMEs"; and, the penetration of financial institution to new markets would generate more business increasing services and profits.

The component's dual purposes were:

- (a) Development of a Guaranty Fund to promote lending to small and medium enterprises; and,
- (b) Financial market research, development and promotion, and policy dialogue.

C. COMPONENT INPUTS, OUTPUTS AND BENEFICIARIES

The component's inputs were expected to be:

1. By USAID:
 - a. \$5.5 million in ESF local currency plus \$50,000 in ESF local currency for initial support and promotion of the fund, and training for SME loan officers in participating financial institutions. Additionally \$50,000 in grant funds for financing the foreign exchange costs associated with the training activity.
 - b. A U.S. \$2.0 million trust fund to be established by PRE in a U.S. bank.
 - c. Technical assistance funds for financial market research, development, and promotion studies. A total of \$200,000 and \$50,000 in local currency is budgeted in the PP for this activity.
 - d. A long-term financial markets advisor to assist the Chamber of Finance in implementing this element of the PED component. A total of \$300,000 is budgeted in the PP for this activity.
2. By the Guatemalan Private Sector:
 - a. Organization, promotion and administration of the fund by CAEM, the project grantee.
 - b. Participation of private financial institutions in credit granting activities according to the fund's operating procedures.
 - c. Organization, promotion and administration of the Financial Market Research, Development, Promotion and Policy Dialogue element of the component, by the Chamber of Finance, a project sub-grantee.

3. By the Guatemalan Public Sector:

- a. A favorable policy environment encouraging private sector financial institutions and small and medium enterprises to take the lead in policy dialogue on issues essential to remove impediments to the development of efficient financial markets.
- b. A representative in the steering committee of the Guaranty Fund.
- c. Support of the proposed activities, which were expected to reach out to a broad sector of the population engaged in small and medium size business activities, particularly in the non-traditional export sector.

The component's outputs were expected to be:

1. For the Local Currency Guaranty Fund:

- a. A minimum of 500 loans to SMEs which otherwise would have been denied but for Guaranty Fund, in 5 years.
- b. A minimum of Q35 million of credit guaranteed in 5 years.
- c. No less than three financial institutions participating in the program.

2. For the Financial Market Research, Development, Promotion and Policy Dialogue element of the component:

- a. An improved policy dialogue process
- b. An improved information base on the financial system.
- c. The initial steps in developing a strategy to accomplish these outputs were as follows:
 - (1) Develop a data base to assist USAID and other donor agencies in deciding on the kinds of assistance needed and the priority in which assistance should be given in order to strengthen Guatemalan financial markets.
 - (2) Develop a catalogue of laws and policies which govern the financial markets.
 - (3) Develop an action plan to influence the legal and legislative changes that must take place to strengthen, diversify and foster financial markets in Guatemala.
 - (4) Engage in policy dialogue objectives, which will be determined by USAID and participating PED organizations.

The beneficiaries were expected to be:

1. Primary beneficiaries:
 - a. Owners and employees of 500 SMEs which will receive credit that would not have been granted without the guaranty program.
 - b. Exporters and Free Trade Production Facilities developers and clients.
2. Secondary beneficiaries of this component will include the entire Guatemalan society through improved access to credit facilities and availability of new financial instruments.

D. FINDINGS

1. General

The first of the component's two purposes (i.e., "the development of a Guaranty Fund to promote lending to small and medium enterprises") has been only partially met. The recent decision to transfer administration of the Fund to the Bank of Guatemala is sound in view of the difficulty of managing a financial instrument outside of the framework of the financial system. The delay in implementing the Guaranty Fund has damaged the credibility of the facility. However, the increased credit demand of SMEs and the financial incentives planned by the Bank of Guatemala to enhance the fund, are indicators of renewed interest in its implementation and utilization.

On the other hand, no meaningful information was found on the progress of achieving the second component purpose (i.e., "financial market research, development and promotion, and policy dialogue") under the responsibility of the Chamber of Finance.

The financial sector has not yet been willing to extend its loans to the small and medium enterprise business sectors defined in the Project. Whether the granting of such loans is or is not yet "practical" in Guatemala's economic and political environment is open to argument and a discussion of the relevant issues involved is contained in Paragraph IV-C, -The LC Guaranty Fund.

The Chamber of Finance has not yet developed the skills to conduct research, development and promotion in legal and financial matters. No evidence was found that this organization is making progress toward their acquisition. The Chamber's ability to engage in policy dialogue is constrained by the larger role played by one of its components, the Banker's Association, through its membership in the Monetary Board. Further discussion of the topic is contained in Paragraph IV-D, - The Chamber of Finance.

2. Goals vs. Accomplishments

Because of the delay in its implementation and the less than anticipated receptivity among bankers to participation in the LC Guaranty Fund, a comparison of its actual performance with its expected utilization is misleading. If we take the date of the Implementation Agreement PED 520-0341 Guarantee Fund between USAID and CAEM, March 7, 1989, the Fund has been available for utilization for one year (actually 13 months). Only four guarantees were issued, for a total value of Q180 thousands. Thus, 1.3% of the nominal guaranty authority of Q14.2 million has been allocated. The PP projected that 55 loans for a total value of \$0.9 million (guarantee value \$0.45 million), 8.2% of the nominal guaranty authority, would be granted during the first year of operation of the fund.

Even though the Cooperation Agreement between USAID and CAEM had been signed on August 31, 1987, the sub-agreement between CAEM and the Chamber of Finance was not signed until January 18, 1989.

If we consider only the 10 months since funds became available, out of a possible 39 until PACD or 25.6%, the percentage of funds expended in Quetzales 19.05% is consistent with the reduced life of the activity. However, most of the Quetzal expenditures can be traced to office installation and administrative salaries paid to the Project Manager and its staff. A technical assistance contract has also been awarded to a local firm.

On the other hand, expenditures of 4.67% of the U.S. Dollar portion indicates that the activity has not really commenced.

A review of the latest quarterly report available to the evaluation team (Fourth Quarter 1989) reveals little substantive activity or progress toward the achievement of the second purpose of the component.

3. The LC Guaranty Fund

The Implementation Agreement signed between USAID and CAEM on March 7, 1989, named the latter administrator of the LC Guaranty Fund and gave this institution responsibility for promoting the fund to financial institutions and to potential beneficiaries of credit guarantees, namely SMEs.

The local currency set aside for the fund was Q14.2 million. In addition, the equivalent of \$50,000 in ESF local currency was to be used to promote the fund, and \$50,000 in D.A. Grant resources were programmed to cover foreign exchange costs associated with training related to the fund's operation.

The history of credit guaranty facilities in Guatemala is ample and well documented. The Bank of Guatemala currently manages Q74.3 million in government funds in eight different guaranty and/or direct lending facilities. Additionally, external direct lending facilities are available from IADB, A.I.D. and CABEI totalling more than \$50 million.

A case to illustrate the point is the "Fondo de Garantía para la Actividad Agrícola y Pecuaria" used to guarantee the working capital needs of agricultural and cattle producers during the product cycle. This fund of Q12.8 million has supported a maximum of Q117.8 million in loans, mostly to producers of yearly

crops like cotton and sugar cane. This total includes Q4.9 million in loans to multi-year activities like coffee, cattle, rubber and cardamon. The fund was established by government decree in 1982 and it has not yet received any claims for non-payment of the guaranteed loans.

Often cited unsuccessful experiences with guaranty facilities for the reactivation of the industrial sector and/or to promote micro-enterprise were difficult to document.

The technical design of the facility contained in the document PEF Credit Guaranty Facilities: Start-up, Operations, Interface by Arthur Young was done according to the current state-of-the art for similar facilities in developing countries. The document contains an adequate level of information permitting the implementation of the facility without difficulty.

Extensive interviews with the banking community revealed that, although CAEM and A.I.D. promoted the fund among private banks, they refrained from signing implementation agreements for the following reasons:

- (a) The Bank of Guatemala had imposed a cap on commercial portfolio growth of 8% over the December 31, 1988 levels.
- (b) They were concerned with the possible bureaucratization of the steering committee and with the excessive auditing requirements of their operations apparently placed by the program.
- (c) The de-obligation of the PRE-940 Credit Guaranty Line and the decision of A.I.D. to cease promotion of the LC Guaranty Fund until certain legal problems were resolved, created some concerns about the availability of the funds.

In November 1988 and prior to initiating implementation, the idea of the steering committee was dropped. In January 1989 USAID decided to operate and manage the GF directly. This arrangement allowed the fund to begin operations by March 1989. Agreements with two financial institutions were signed before the end of the year. However, A.I.D. direct management of the fund presented legal and logistics problems that forced the suspension of negotiation of new agreements with banks until a decision had been reached concerning the future of the GF.

In early 1990 the Mission decided to continue promoting the GF at a reduced level of Q10.0 million conditioned with strict performance criteria and deadlines. The conditions are: (1) Fund agreements must be signed with at least three banks and financieras within 90 days of the re-activation date and with another three within six months; (2) a minimum of Q1 million in loans (i.e., Q500,000 in guaranty commitments) is to be made by September 30, 1990; and (3) management of the Fund is to be transferred to the Bank of Guatemala by June 30, 1990. The remaining balance of the Fund (approximately Q4.2 million) was assigned to Microenterprise program of the Private Sector Office.

A project of Agreement between USAID and the Bank of Guatemala was prepared and approved by the Monetary Board on April 10, 1990.

Interviews with members of the private banking community revealed that they are willing to accept the BOG as manager of the Fund provided that it assures a rapid

response to application for loan guaranties and to possible claims on the Fund because of loan defaults.

A reading of the agreement being negotiated by USAID and BOG, indicated that sensible steps have been taken to address the bankers' concerns.

The Legislative Decree that will operationalize the Fund will further facilitate its utilization because of the implied suspension of Articles 20 and 89 of the Banking Law (Ley de Bancos - Decree No. 315, as reformed by Decree No. 1315). These two articles, the former referring to Collateral and the latter to Capital and Reserve Requirements, have been major obstacles to the utilization of Guaranty Funds in Guatemala.

The above mentioned Legislative Decree will recognize the guarantee issued by a Guaranty Fund as valid collateral for a loan. Previously, Article 20 of the Banking Law limited valid forms of collateral to mortgages, to liens on personal property and to the fiduciary collateral of real property owners.

The Legislative Decree will also permit banks to exclude loans given under this program from their minimum Capital and Reserve requirement computation.

It is expected that the removal of these two obstacles will make lending to SMEs attractive to private bankers.

4. The Chamber of Finance

The Chamber of Finance is a nonprofit, apolitical, autonomous, private entity with legal capacity formed by Guatemalan private financial institutions. The Chamber was established in 1975 and is affiliated with CAEM. The Chamber has as its basic goal to represent the financial sector in aspects of general nature or pertaining to financial institutions. The following financial sectors are represented in the Chamber: commercial banks, finance companies and investment banks, insurance companies, bonded warehouses and guarantee companies.

The presidency of the Chamber rotates among the financial sectors represented. The incumbent President represents the insurance companies.

The Chamber of Finance basic purpose is the coordination of actions and efforts under the policy guidance of the various financial institutions represented in it. Its power derives from the influence of one of its members, the Banker's Association.

The Banker's Association, not the Chamber of Finance, represents the private sector on the Monetary Board.

Having so little power by itself, the Chamber of Finance has been relatively ineffective in carrying out the mandate established in the sub-agreement with CAEM.

According to the sub-agreement, the project's PMU had the authority of approving all reports, plans, time-tables, studies or other technical submissions required under the program. However, there is little evidence that the PMU, that was never staffed as intended, ever exercised its authority under the sub-agreement.

The CF established and staffed the PED project office, but little activity took place. Although there was clear definition of the program to be developed, neither CF nor CAEM took the initiative to develop channels of communication with each other. The Chamber submitted a request for the Guaranty Fund administration, a subject not mentioned in the sub-agreement but actively sought by the institution. No record of CAEM or USAID response was found.

Given the logistical and human problems in staffing the PMU and keeping it going in the absence of one of its members, the Chamber program was the element that overloaded the system.

The Bank of Guatemala is planning the implementation of a financial market research program with the objective of re-writing Guatemala's major financial laws and regulations and of modernizing the banking sector by automation, the introduction of new financial instruments and the improvement of customer service. This activity will be financed by European donors.

E. CONCLUSIONS

1. For the Local Currency Fund:

Given the number of players and competing interests involved, the LCGF is a difficult activity to implement. CAEM, the original fund administrator, placed a lower priority on its promotion than other components because: (1) it correctly perceived it as a difficult and time consuming activity; (2) the PMU was overloaded and inadequately staffed; and (3) it perceived the fund's benefits as long-term (although important), whereas the benefits of the other components would be felt immediately.

The banking community also contributed to the fund's implementation delay. There was less than anticipated receptivity on their part to participation in the Guaranty Fund because of the following reasons:

- (a) The steering committee was seen as the major obstacle in issuing the guarantees. Its role as a second loan approving mechanism, after the bank's own, was perceived as time consuming and bureaucratic.
- (b) The banks were having difficulties complying with the limitation on portfolio expansion imposed by the Bank of Guatemala. Having to choose among competing lending opportunities, they obviously chose the less risky and less time consuming.
- (c) The banks did not feel comfortable with the reporting and inspection requirements imposed on them by the agreement. The bankers felt that the confidentiality of the transaction could be lost.
- (d) In view of previous experiences, they were very suspicious of the ability of the fund administrator to pay a defaulted loan guarantee in a timely manner.

The recent decision to transfer administration of the Fund to the Bank of Guatemala is sound, in view of the difficulty of managing a financial instrument outside of the framework of the regulated financial system. The Bank of Guatemala, although a public sector institution acting as fund administrator, does not violate the non-negotiable character of private sector management of the Fund imposed by the PP. In its role as regulatory entity, the BOG acts as representative of the predominantly private financial system. The exclusion of government-owned banks from fund participation protects the Fund from political lending decisions, an important consideration in the coming electoral period.

Furthermore, the BOG, being the financial agent of the Government of Guatemala, can assume contingent liabilities. This fact can be translated into the ability of the BOG to leverage the fund based on its actuarial experience. Studies available show that loan delinquencies in the Guatemalan banking systems have never been greater than 10% (loan losses even less) of the combined loan portfolio.

Using the above mentioned experience as guideline, the BOG will leverage the fund by a ratio of 10:1. With the Q10.0 million in guaranty funds, Q100.0 million in loan guaranties can be issued. At 0.5 guarantee/loan ratio, the GF can support Q200.0 million in new lending.

2. For the Financial Market Research, Development, Promotion and Policy Dialogue element of the component:

Although, the specific areas of research, development, promotion and policy dialogue interventions were clearly defined in the sub-agreement, no detailed work-plan, with specific goals and time-frames, was set up either previously to or immediately after its signing.

The activities carried out by the Chamber of Finance were for the purpose of establishing the project's office and hiring the personnel. Four persons were hired: the secretary general, an assistant, a consultant and a secretary.

The initial effort of selecting computer equipment and trying to agree on the contents of a large financial data base is of questionable value. Since the members of the Chamber of Finance have not agreed on the contents of the financial data base, the equipment requirements cannot be justified. USAID has, with reason, stopped the purchase of the equipment pending clarification of the task.

The time and expense of collecting documentation on the financial laws and regulations of Guatemala, once classified and referenced, will be a valuable contribution to financial research.

The Chamber of Finance has not yet developed the skills to conduct research, development and promotion in legal and financial matters. No evidence was found that this organization is making progress toward this goal. However, no impediment was found to the potential acquisition of those skills by carefully selected CF personnel under the guidance of competent project management and experienced technical assistance.

The Chamber's ability to engage in policy dialogue is constrained by the larger role played by one of its members, the Bankers' Association, through its membership in the Monetary Board and as representative of the private financial interests.

F. RECOMMENDATIONS

1. For the Local Currency Guaranty Fund:

Continue until satisfactory conclusion the present negotiation to transfer the administration of the Fund to the Bank of Guatemala. Particular care should be taken to make sure that a Legislative Decree is obtained from the Guatemalan Congress. Special emphasis is made here that without the Legislative Decree the Fund cannot legally operate.

It is further recommended that the detailed work-plan, with specific goals and time-frames presently authorized for the transfer to BOG, be strictly adhered to. Furthermore, a calendar for internal evaluations should be agreed upon as appropriate to determine the performance of the Fund.

Given the advanced state of the negotiation between A.I.D. and BOG, it would be inappropriate to recommend dropping the Fund immediately. However, A.I.D. should make clear to BOG that if the milestones mentioned in the authorization document signed by the A.I.D. Director are not met, the funds will be re-allocated and the Fund dropped from the PED project.

A local short term advisor could be asked to undertake "promotional and technical assistance" activities on behalf of the Fund. In such case, the advisor will be held accountable for the success of his/her enterprise. He/she could also be the A.I.D. representative in the Fund's administrative council.

To eliminate possible misunderstandings that might delay the Fund's implementation, the Chamber of Finance's interest in acting as fund administrator, expressed by letter of October 1989 and renewed by a second letter in December, should be discouraged.

It is important to develop linkages between training/technical assistance to SMEs and access to credit. This can be accomplished through the CEDE program.

2. For the Financial Market Research, Development, Promotion and Policy Dialogue element of the component:

In view of the slow progress toward goal achievement, an early termination of the sub-agreement between CAEM and CF is justified and recommended. However, to save the activity, important to the overall objectives of the project, and to minimize the negative repercussions of terminating one of the sub-grantees, the following course of action is suggested:

- (a) Frank discussions about the results of the evaluation should be held as soon as possible with the President of the Chamber of Finance and its Director of the PED Project. Representatives of CAEM, USAID should attend the meetings. The Chamber's

representatives should have the right to a hearing; they should have ample opportunity to explain the reasons for the poor performance of the element.

- (b) A pilot program of research, development, promotion and policy dialogue interventions, that could be implemented in a period of 90 days, should be identified immediately.
- (c) An agreement should be reached with The Chamber of Finance to undertake this pilot program to develop the skills of the Chamber in this type of work. The PED Project Director hired by the Chamber should be made accountable for the success of this task.
- (d) Internal reviews, to monitor the progress of the work, should be scheduled at 30 day-intervals.
- (e) It should be made absolutely clear to the Chamber of Finance that if this pilot program is not satisfactorily completed, USAID and CAEM will replace the Chamber as sub-grantee of the element.

CAEM could also assume the implementation of the element through the PMU.

Future participation in this element by CAEM, CF, or a new sub-grantee should be made contingent upon a detailed work-plan, with specific goals and time frames set up prior to the resumption of the activity. A calendar for internal reviews should be agreed upon as appropriate, to determine the continuing effectiveness of the assistance being rendered. Thus, it should be made perfectly clear how and when particular tasks should be performed, when given systems and procedures should be fully operational, when new programs should be implemented, and who should be personally accountable for each task.

The Bank of Guatemala should be consulted when designing the work-plans for this element. BOG is working in some of the same areas contemplated in the scope of work of the activity.

The resident advisor, called for in the PP, could be asked to undertake the putting together of this element. In such case, the resident advisor will be held accountable for the successful implementation of the element.

G. ATTAINABLE OUTPUTS

Taking into consideration the renewed interest in the Guaranty Fund, and the pent-up credit demand of SMEs, the expected outputs called for in the PP can still be attained by PACD if the recommended areas of promotion, technical assistance and personal accountability are implemented.

If the PACD is extended, as is recommended by the evaluation team (see _____). It is reasonable to expect that the goal of applying a leverage of 10:1 to the Guaranty Fund can be met before the new PACD.

If the recommended restructuring of the Financial Research, Development, Promotion and Policy Dialogue element of the component is successful, under the original sub-grantee or under a replacement, it is reasonable to expect a substantial accomplishment of the second purpose by the new PACD.

VI. NEW PRIVATE ENTERPRISE INITIATIVES

This segment of the PED project has as its objective the creation of a supportive policy environment and effective implementation of the necessary regulations supporting these new policies. This segment is coordinated by the MOE. In addition, support is provided through CAEM for privatization studies with the goal of devolving some public enterprises to private sector operation.

A. PUBLIC SECTOR POLICY IMPROVEMENT/MOE

1. **OBJECTIVE:** Within this section of the PED project the MOE has committed to the broad goals of upgrading the performance of export-related institutions in the public sector, and to address policy, regulatory and implementation issues which bear upon productive private sector development (particularly the SME subsector). Specific outputs include the revision, implementation and administration of incentives to export through the following agencies:

- a. Direccion de Politica Industrial.
- b. Ventanilla Unica de Exportaciones,
- c. Direccion General de Aduanas,
- d. Direccion General de Comercio Exterior, and
- e. the Banco de Guatemala.

2. FINDINGS:

- a. Despite the upcoming change of management at DPI, the working level task of implementation seems to be proceeding well.
- b. Other institutions seem also to be proceeding well.

3. RECOMMENDATIONS:

- a. Encourage the Creation of a Process Where the Regulated Entities (Free Zones and Maquilas) Could Comment on the Implementing Regulations Before They Take Effect - The idea here is to encourage the creation of a process similar to the comment period offered by US regulating entities (eg, the FCC, the ICC) to concerned parties.
- b. Implement an Advisor at DPI to Support This Process - Similar support might also be required/welcomed at Customs when it comes time to implement both the Free Zone and Maquila laws.

B. PRIVATE SECTOR RESEARCH, DEVELOPMENT AND PROMOTION / CAEM

1. **OBJECTIVE:** The Cooperative Agreement does not speak to this component at all. The PP anticipated that CAEM would undertake privatization studies, hire 3 staff members to strengthen itself as an institution and finance short-term overseas training directly related to project objectives. Specific outputs include:

- a. At least two privatization studies completed, leading to one full or partial privatization by the end of project, and
- b. At least 40 participants benefiting from short-term international training programs.

2. FINDINGS:

- a. CAEM has given great importance to privatization initiatives, and has made them a significant item on the public policy agenda.
- b. The Board of ZOLIC has voted, in principal, to proceed with privatization.

3. RECOMMENDATIONS:

- a. No Specific Recommendation

VII. THE PROJECT MANAGEMENT UNIT

One might say that in spite of the fact that the PMU was never staffed as intended, either as required in the project paper, or according to attachments 1 and 2 of the agreement) it has surprisingly facilitated a substantial amount of its responsibilities regarding outputs and achievements. CAEM has still not staffed the PMU as an independent unit within CAEM. Instead, a carefully orchestrated system of triage and job-banding has substituted for the intended PMU organizational structure. What makes the accomplishments of the PMU even more remarkable was the untimely illness of the PMU director. Since November 1989, the PMU was managed by the Assistant Director and the principal advisor to the PED project.

Another hinderance in establishing the organizational structure of the PMU was the design of the network of components intended to guide the PMU and the late start of the PMIS. The three structural relationships of the PED component network that did not function as intended are:

- The Executive Committee (Consejo Consultivo);
- The PMU itself; and
- The relationship linking the private and public sectors, which was not sufficiently addressed in the project design that was to have united the public and private sector components.

The remainder of the report is organized by side-headings that are the primary concepts for the analysis of the PMU. Each concept is addressed as: findings; conclusions; and recommendations. The intended outputs of the program, as mentioned before, were achieved to a very large extent and are reported in separate chapters of the evaluation report. Intended program outputs regarding the PMU will only be addressed in the following section if the achievements were not satisfactory. Such comments will be presented within the Findings section's of each concept discussed below.

PRIVATE SECTOR VERSUS PUBLIC SECTOR USAID ORIENTATION

FINDINGS

The PED program is the first private sector program to be undertaken by the USAID mission. While other projects have involved the private sector historically, this is the first full-scale program to be launched and positioned in Guatemala. Private sector programs are more ambiguous than public sector programs with respect to goals, outputs and measurement of outcomes. For example, it is easier to measure literate children, vaccinations, miles of paved roads, potable water etc. than it is to measure the impact of dialogue between the public and private sectors. That does not mean that programs are any less serious or rigorous in the private sector.

One often hears "the private sector requires a different approach than the public sector." Issues such as quick response are mentioned; that the private sector is not accustomed to bureaucratic delays; entrepreneurs are action

oriented, etc. However, the PED does not really get involved directly with entrepreneurs.

The clients of the PED are the four program components: CAEM, AGG, Chamber of Finance and GREMIAL. While these organizations serve the needs of entrepreneurs, these program components are not themselves actually profit making enterprises. The components are buffers that bridge action to the "real" private sector. In this way they are not-for-profit organizations with bottom-line pressure from their members, the real entrepreneurs. The components feel pressure for closure on issues and decisions through their boards of directors, people who are hard-hitting, successful entrepreneurs.

Quite naturally, the components transfer the pressure to act quickly and decisively into the PED mechanism, the PMU. The roadblocks to quick action are unfortunately three-fold:

1. The PMU is not yet fully staffed and functioning as an independent unit within CAEM.
2. Decision makers in CAEM do their best to reach closure informally through the PMU/PED organizational structure. Through a system of triage, those decisions that are not put on hold are acted-on as quickly as possible, sometimes in CAEM, sometimes with the help of the PED.
3. Where a decision must be made in the PED, it is often perceived as not needing the advice of A.I.D. support staff outside of the PED and a decision is made without consulting this staff, in order to speed things up. However this often results in a slower decision, when support staff discovers what has happened.

A fundamental issue, in addition to the fact that the PMU is not operating as designed, is that the USAID mission has not learned how to involve support staff into PED decisions in a fluid way. Where learning curves have been established on procedure in the public sector programs; and where exceptions to the rule occur much more frequently in both private sector programs and in new programs in general, the Guatemala A.I.D. mission has not adapted with a fluid decision structure.

Decision-making that involves exceptions to the rule and an environment of uncertainty (with respect to establishing a new program) requires a much different model of organization than would be appropriate for an organization making programmed decisions. Jay Galbraith points this out in his classic book, Designing Complex Organizations. An assembly-line type of organization, one that is managing a "throughput" that is stable, would require a highly formalized and rigid organizational and decision structure. On the other hand, where decisions are related to outputs that vary, or where exceptions to the rule cannot be programmed in advance, such as in the case of the assembly line manufacturing system, a much more organic operating environment is required. An extreme example of this would be the fire department, a simple organization of slack resources ready to react to emergencies. The example of the OPED lies somewhere in between.

The comparison of the way USAID Guatemala manages its other programs and the way the PED is managed is an interesting one. The support staff complain that there has not been enough integration of support staff and program management. However it must be recognized that the PED has been in a problem solving and institution building mode, one that requires an organic organization structure-- definitely not one that would characterize the more stable decision-making environments in the other three USAID programs.

Examples above addressed bottom-up decisions from the components. Another category of public sector versus private sector orientation problem would refer to the decisions required by the PED program to establish and position itself in the private sector. These are often opportunities where the PED must make an unanticipated move based on changes in the environment. This sometimes involves the components and sometimes its just the PED.

DEALS

FINDINGS

The "deal" as used in the private sector has been a source of complaint by AID mission staff, both within the PED and throughout the support staff. Coming to grips with "deals" and their legitimacy in the private sector program still has a way to go in the mission, because the PED is still learning how to integrate a proper use of deals, one that is consistent with USAID's culture and the program's reporting relationships. The Private Sector Office has successfully established their program in the Guatemalan public and private sectors by adapting deal making to the traditional approach used by the A.I.D. mission for decision making. Unfortunately this has been achieved at great cost to the system of collegiality required throughout the mission.

The way deals are being made has caused related mission support staff to feel left out of decisions they think they should be included in. These staff members feel that a way must be discovered that includes them in this process. In same respect the A.I.D. private sector staff needs a legitimate approach for the kinds of deal-making characterized in the section above on "private sector versus public sector USAID orientation."

CONCLUSIONS

1. Problems in expediting decisions regarding components are largely based on the inability of the PMU to function as designed at this time
2. Even when the PMU functions well, the A.I.D. mission needs a more fluid decision process, one that involves the PED and mission support staff. This process may not be the same one that has been successful for public sector projects. It will require short-cuts and more flexibility than the process that has worked in its public sector arena.
3. It is likely that the components do not require such quick turnaround on decisions as is perceived or advertised. However a quicker response is possible.

RECOMMENDATIONS

1. Act on recommendations regarding improvements in the staffing and management of the PMU; and on recommendations for improving the organization and communication mechanisms in the PED component network
2. Begin team building activity between relevant USAID support staff and the PED staff regarding the need to build a quicker and more fluid decision mechanism, one acceptable to both groups. OPED will require meetings on short notice, fast response to phone calls and some slack from the support staff to follow-up on fast breaking developments, that is when compared to other A.I.D. programs. The support staff will require that decision-making relevant to the involvement of support staff would include them and compromises that potentially place at risk the integrity required of A.I.D. functioning will be presented and discussed in a timely way with support staff. Such a fluid decision process will require collegiality and empathy. This will require the help of an organization development consultant; it will not happen naturally.
3. Communicate to the components that many of the decisions they require are not so urgent, and that the PMU and A.I.D. mission are working to improve both the quality of decision and response time.

DELAYS

FINDINGS

The PED program is mid-way through the project and has spent only approximately 20% of its allocated budget. There has been considerable pressure to move funds, and for the period January through March 31, 1990 the pipeline has moved considerably. Traditionally in A.I.D., inability to move funds is a sign of failure. Such is not the case in the PED program. Actually the program is a success with respect to the accomplishment of its very ambitious goals, such as policy dialogue. If there has been a mistake it was not acknowledging the difficult tasks of building and positioning a new A.I.D. program in Guatemala; and, the complexity of institution building.

The PED program was challenged by creating an organization within A.I.D. and then positioning it in Guatemala's private sector. In addition, it's goals and purpose was an ambitious experiment, one that targeted the center of economic development in a country where the private sector was characterized by tight oligopoly and government controls. The PED program planners simply missed the boat on time forecasts. Nowhere did the planners take into consideration that the program was essentially structuring ambiguity, both in the program building sense and in the character of it's goal and purpose statement. Even if they did recognize the imposing nature of the task, it still would have been very difficult to predict how long it would take to move a pipeline.

The four components were already in place and three of them were very good at taking care of business. Unfortunately none of them were undertaking the kinds of tasks required by the PED program. In fact the intentions of the PED program challenged them to change the strategic orientation of their organizations.

These kinds of activities fall into the institution building rather than the institution strengthening categories.

Each of the components finds itself in a different developmental situation today. CEDE looks the best when compared to the indicators. After all it is an easier task to count people trained in entrepreneurial skills than to isolate and measure the impact that the GREMIAL has had on policy dialogue and legislation. CEDE held its first class in April, 1989, and one would be inclined to say that would mark the end of the institution building phase and the start-up of just doing the work. Unfortunately that is not the case, and as this report has indicated in the training section, many institutional issues still remain and will continue to be reflected on efficiency and effectiveness for some time to come.

The GREMIAL is another interesting case, perhaps the most successful one at the institution building task. The executive director, a founder of the GREMIAL, reports that she is now exclusively dedicating her time to the policy arena, and accomplishing quite a lot at that. She remarks that the PED has caused the emergence of this entirely new strategic direction for the GREMIAL. Their new graphic on the mission statement shows "collateral activities," activities that affect the environment of business in Guatemala. For example, the Executive Director was very pleased to explain that as a result of these efforts to affect the economic environment she was able to attract six new shipping lines to the Atlantic ports and three new lines to the Pacific ports. Those with an understanding of the history of problems facing non-traditional agricultural export in Guatemala would appreciate the strategic value of this victory. It would seem then that the GREMIAL has put the institution building phase behind them but there are other signs that they have not.

It would be difficult to establish exactly at what point the institution building phase of the PED program ended and when the "work" actually began. In fact, while much has been structured and is operational, parts of the institutional framework are still not in place or need fixing. Recommendations in the PMU section seeks to address these areas and the researcher is encouraged that enough of the institutional framework is in place to absorb these recommendations quickly and successfully.

CONCLUSIONS

1. The A.I.D. program planners did not recognize the task or time required for building a new A.I.D. program and positioning it in the Guatemalan private sector.
2. The PED program and component organizations are just now transitioning from the institution building phase into the operational phase. Once the recommendations are acted upon for improving the PMU and component network, the problems of pipeline will end and become part of the PED's early childhood history, and no longer be an issue

RECOMMENDATIONS

1. The PED program should extend it's ending date by two years.

2. The PED project should be recognized as a major program in the A.I.D. mission and receive the treatment and reporting relationships accorded to the other programs

PERCEPTIONS OF CHAOTIC AND POOR MANAGEMENT BY THE PMU

FINDINGS

The PMU has not yet been established as it was intended in either the project paper or in the agreement signed with A.I.D.. Yet in spite of this it has facilitated outputs and, to a very large extent, facilitated the management of the entire component system. It wasn't pretty but it has been effective. (Please see organization charts next two pages - Figures 1 and 2.)

Unfortunately the director of the PMU, who is also the executive director of CAEM, became ill in November 1989 and had to leave the country for treatment. He returned to the office in April 1990. It is hard to say what improvements would have been made in the PMU had he been well during this time; nevertheless, the situation and work ahead is quite clear. It is hard to say what improvements would have been made in the PMU had the Executive Director been well during this time, nevertheless, the situation and work ahead is quite clear.

Questions frequently asked are; was a Guatemalan organization really necessary for the management of the PED component network? And, was CAEM the right choice? The choice was really whether the PED office or a Guatemalan institution would manage the project. The PED office could have done it, however in that case, one would have had to accept the following:

- It would have been more expensive; the private sector intervention would have been less Guatemalan and more American;
- It would have generated less institutional development of Guatemalan institutions;
- It would have placed PED and the American government in the middle of many political decisions vis-a-vis the private sector;
- It would have increased Guatemalan dependency on the U.S. Government for managing improvements in the Guatemalan private sector and decreased the probability for sustainability;
- It would maintain the distance between Guatemalan contractors and USAID with respect to understanding how USAID works and how to participate and influence that process. When the PMU is staffed and functioning, the project will leave behind four or five Guatemalans who really understand the A.I.D. system and these people will be of extreme value in the future, outside of A.I.D., in Guatemalan organizations.

On the other hand PED would have increased the amount of direct control of the program. Not a very persuasive argument. Some have opened the possibility of resolving problems in the PMU, mentioned below, and reconsidering whether the full range of management functions should be undertaken as originally planned in the project paper. In this way USAID could pull-back control in a surgical way. The evaluator wrestled with the challenging idea of taking-back some management functions from the PMU and managing them in A.I.D.

The overall situation with the PMU is that it has not been staffed, and, due to the lack of institution building has not begun operating. Recommendations in this section will staff-up the PMU by four people (ten were called for in the project paper and attachments to the contract signed with CAEM) and a full time director who's duties will be totally separate from CAEM's. Together with the other recommendations in this section, the evaluator feels that the PMU has a good chance of providing adequate or quite possibly excellent management of the project. If however, when progress is checked in six months, the PMU has not acted on the very specific recommendations and is still not delivering services, that will be the time to reconsider whether A.I.D. should manage certain functions directly.

The only other Guatemalan organization capable of managing the PMU is the GREMIAL. There is no question that the GREMIAL is a well managed, first class organization. However, the GREMIAL is already quite large. Increasing its power and scale reminds one of FUSADES, not to mention that the GREMIAL is not interested in managing the PMU. They know what business they are in and what business they are not in--a characteristic of a well run organization. CAEM has established a solid and well respected niche in the private sector and is highly capable of managing the PMU. The problem in the PMU so far is partly the Executive Director's untimely illness and partly the fact that staffing has not occurred. These two factors have prevented splitting-off the PMU from CAEM. The PMU was intended to be a separate office within CAEM.

Perhaps it would be useful to present the following sections taken from the project paper and Attachments 1 and 2 of the CAEM/PED agreement. These are the sections where the PMU has so far not been in compliance:

- The PMU, staffed with personnel familiar with A.I.D. regulations, will provide the oversight necessary to ensure that grant funds are used in a manner consistent with the objectives of the project.
- It is expected that additional components will be added to the project by amendment when, as, and if other opportunities to strengthen private enterprise mature.

Note: Staffing for the PMU recommends the hiring of approximately ten full time positions. However the specific positions are different in the project paper, attachment one of the contract and attachment two. The following list is a composition of those staffing plans:

PED project manager

PED manager assistant

Procurement specialist

Executive assistant to procurement specialist

Impact monitors (two or more)

Senior information systems specialist to manage the PMIS

Information systems specialist

Administrative assistant and three secretaries.

Assess the quality and conformity to project objectives of services provided by contract technical assistance and by implementing organizations through the PMIS, gather data on project impact and evaluate the cost effectiveness of project inputs and activities on a continuing basis.

Develop a roster of technical advisors and services available from Guatemalan and foreign sources.

Gather business information of use to implementing organizations and to USAID (information networking function).

Develop a network with programs by other donors and the GOG.

Quarterly progress reports will be submitted to USAID by each implementing organization through CAEM, outlining accomplishments, problems and proposed solutions and a list of key activities to be carried out over the next quarter. An annual progress report will also be submitted by CAEM to USAID.

Specifically, CAEM will assure that the PMU carries out the following tasks:

- Oversee the administrative and financial activities of the sub-grantees and CAEM related to the procurement of: technical assistance and other technical support services; offshore training; and, commodities;
- Assess upon request of CAEM and the COTR, USAID/Guatemala the quality and performance of the project (note: it should be acknowledge that A.I.D. did not formally request such things);
- Through the PMIS, gather data on project impact and evaluate the cost-effectiveness of project inputs and activities on a continuing basis;
- Develop a roster of technical advisors and services available from Guatemalan and foreign sources;
- Gather business information to distribute to Guatemalan institutions and the network; AND
- Develop a network with programs by other donors and the GOG.

CAEM, and other implementing organizations through CAEM, shall submit quarterly progress reports to the USAID contracting office outlining accomplishments, problems, proposed solutions, and a list of key activities to be carried out over the next quarter. CAEM shall also submit to the COTR, annual progress reports covering each component and explaining any shortfall from project goals. All reports must be prepared in form and substance acceptable to the COTR.

The above mentioned program requirements were to have been accomplished by CAEM and so far have not been achieved. The most critical of these program intentions is the staffing issue because CAEM will be unable to accomplish the other program requirements without staffing key function areas. CAEM attempted to do the best it could on the project for the most part with staff pre-existing before the project began, particularly in managerial and decision roles. This bottleneck on program performance was further complicated by losing the Director's contribution these last six months, just as the component network was emerging from the institution building phase and beginning to accomplish program goals at a rapid pace.

That CAEM facilitated the performance of the component network without staff in the PMU is astonishing. In addition, CAEM managed to play a heroic role in building policy dialogue at unprecedented levels in the GOG. Not only were new policy dialogue channels initiated, but CAEM also established itself as a policy leader through the skillful work of its assistant director. Finally, and perhaps the most exciting accomplishment, was that this dialogue played a key role in achieving two major pieces of legislation: the maquila legislation; and, the free zone legislation. It is also anticipated that two new pieces of legislation will be forthcoming: a labor law that will facilitate employee buy-outs to strengthen privatization; and, privatization legislation. When completed, these new laws will satisfy CAEM's strategic plan establishing the legislative foundation for accomplishing the program's goal and purpose statement. When this legislation becomes law, it will be a very proud moment indeed for the PED program.

There should be no doubt regarding the skillful and powerful policy role played by the assistant director. He is constantly sought out by ministers for advice and counsel, and his performance in CONAPEX and other settings has been commented on in an earlier section of this evaluation. Policy is truly his strength, and his value to the program in this respect should not be underestimated.

One must wonder at the way CAEM has managed at once so badly at compliance, and yet so effectively in results. This complex orchestration of both good and bad management, however, should not be continued. It is really "living on the edge." Fortunately, the problems are easily repaired, one imagines that if CAEM can manage a PMU so well without a managerial staff, that the possibilities are quite bright, assuming that recruitment and hiring will soon occur.

There several instances where concerns have been raised about questionable procurement practices regarding the purchase of commodities by the component network. CAEM has not hired any personnel in this area as directed in the list of required personnel indicated in the project paper, and the agreement signed with A.I.D.. Fortunately, a procurement specialist has been hired on a short term basis to write a procurement manual for the PMU. This is however just the first step in addressing the problem.

A factor that has contributed to the appearance of chaotic management would include the following three structural relationships within the component network (please see the organization chart):

- The executive committee actually operates as two committees: one including presidents of the four components with the director of the PMU; and, one that convenes the managing directors of the four components with their A.I.D. advisors. The presidents have a tendency towards poor attendance and it is difficult for the PMU to coordinate results of both committees.
- The PMU has suffered because of poor staffing, and due to the shortage of managerial talent functions only informally and part of CAEM, not independently, as was intended in the project design.
- While the USAID advisors see each other frequently and are friendly and collegial, there is no formal organization of their roles within their component organization or vis-a-vis each other.

The USAID advisors on the public sector side were never hired. Perhaps the PED component system is now ready to absorb such talent now that policy dialogue with the private sector is standard operating practice. The organization chart for the PED project does not indicate a clear role for these advisors; however there is an emerging need for their role.

Turnover of staff in A.I.D. is something that missions and A.I.D. programs adjust to all over the world. However, turnover of PED USAID staff and advisors is particularly sensitive during the penetration and stabilizing stages of this new private sector program. Within the next eight months the evaluator predicts the program will be out of the "incubator" and be able to survive without heroic effort. This will depend to a large extent on the successful implementation of new staffing of the PMU and the structural improvement of the component network. An important ingredient for this stability to be projected into the next four years, assuming the recommendation to extend the program is accepted, will be some element of long term strategic control of the program through a subtle mechanism involving the continuity of A.I.D. staff. This would be a nice thread to connect the history of the program with the future.

Finally, the PED program is ready to make two important transitions, as was mentioned above. First there is a "program repair mode" based largely on the reactions and decisions stimulated by the evaluation. These should be completed within six months and stabilize soon thereafter. At that point, the program should at last be on a "cruise control mode." The intense hands-on role of the USAID private sector director was perhaps necessary during the crucial start-up and incubation stages. The need for transitioning his leadership role as the program evolves through the upcoming stages should now be considered.

CONCLUSIONS

1. The PMU has not been formed as intended in the agreement. There is no staff and management of the program has so far, hardly existed at all. In spite of this the PMU has facilitated program achievements to a surprising degree through an informal system of management by the CAEM staff. The PMU was to have been an office, staffed and operating within CAEM but through personnel working independently from CAEM's mission. This has not been done. Actually the CAEM staff manages the project and cannot differentiate their role in the PMU from their role in CAEM. The A.I.D. principal advisor's role is what has kept the PMU and the component network under control. The untimely and unfortunate illness of the PMU director may be responsible to some extent for problems related to the PMU.
2. The following areas are the specific intentions of the program under the agreement with CAEM where CAEM has not so far performed with respect to the PMU:

CAEM has not performed in key areas of project oversight, staffing to accomplish this, and development of an information network, as outlined in the project paper and Attachments 1 and 2 of the CAEM/PED agreement (See pp. ____, above).
3. The integrating mechanisms of the component network are not achieving their goals. Specifically these are the executive committee, the PMU and the public sector/private sector link by an A.I.D. advisor. These shortcomings are related to the design of the structural relationships and not the personnel.
4. The director of the OPED has managed the program very directly and personally during the start-up of the program. His management style should evolve with the transition of the program into it's institutionalization mode so that he can manage more indirectly through the staff as they are in place.
5. Turnover of A.I.D. PED program staff has just completed a major cycle and the complete new contingent should soon be in place. To insure consistency and program integrity some continuity of staff should be maintained in order to link the past to the future.
6. While the team of A.I.D. program advisors has performed well, the complexity of the program at this stage of its evolution requires formal organization of their roles, duties and reporting relationships.
7. The A.I.D. advisors in the public sector have not been hired. No doubt that was wise as it would have been difficult for the component network to have absorbed them previously. There is a role for them in the program however at this time.

RECOMMENDATIONS

1. The PMU must activate the director's role as one that is dedicated to the full time management of the program and that is not involved at all with the internal management of CAEM or it's member services. The director must acknowledge and respond to the performance deficiencies of the PMU described in the evaluation and create a plan that accomplishes all the intentions of the PMU as described in the project paper and agreement. This must be submitted to the A.I.D. program advisor no later than one month from the submission of the evaluation
2. All recommendations regarding the PMU in the evaluation will have been carried out no later than six months following the submission of the evaluation report to USAID.

The PMU must be in complete compliance by then with the intentions of the program. At that time, verification of it's performance will take place and be reviewed by the director of the PED program to be followed by a presentation of those achievements to the relevant USAID support staff and the executive committee

3. The executive committee will meet every two weeks until the PMU has proven that it is in compliance with the intentions of the PED program. There should only be one chamber of the executive committee where the president, managing director and A.I.D. advisor of each component are members. Only one vote from each component will be counted. The presidents of each component will have the vote. However if the president is not present the managing director will vote and if the managing director is not present the A.I.D. advisor will vote. There will be an open agenda for each meeting where the presidents, managing directors or A.I.D. advisors may place items on the written agenda. Minutes will be taken and circulated to the public/private sector integration committee and to the members of the PMU, and the USAID PED program director. The director of the PMU will be the chairman of the executive committee; the authority of the elective committee is only advisory.
4. The current organization of the PED program linking the public and private sectors is accomplished by a USAID advisor. Because the scope of this function requires a "buy-in" from all components in both the private and public sectors, a public/private sector integration committee should replace the historical function of the USAID advisor. The public/private integration committee will be formed by the managing directors of the four private sector components and the five public components and chaired by the director of the PMU. There will be an open, written agenda where members are free to enter agenda items. The public/private sector integration committee will meet once a month or whenever three members call a meeting. Minutes will be circulated to the PMU, executive committee and the USAID PED program director.
5. The PMU will be formed by the director of the PMU, the executive assistant, procurement specialist, program monitors, and A.I.D. advisor. It will meet formally every two weeks. Any member may place items on the written agenda and minutes will be circulated to the executive committee, the public/private sector integration committee and the USAID PED program

director. The PMU will review the minutes of meetings held by the executive committee and the public/private sector integration committee.

6. A formal staff recruiting effort will begin as soon as possible for the PMU. Positions to be filled are: executive assistant; procurement specialist; program monitor; and secretary. In principle, these positions should be filled by the most educated and able talent available. Because the procurement specialist is not yet on board, the PMU should arrange for the USAID procurement specialist to guide and review the recruitment effort at every stage of the process until these people are hired. This will insure that the PMU hires the best talent available. Except for the secretary, all positions should be filled by college graduates. In the case of the program monitor; it would be ideal to hire an industrial engineer. The PMU should expect to pay the executive assistant, procurement specialist and program monitor approximately 3,500 Quetzales per month indexed on April, 1990 Quetzales.
7. An office design that separates and clearly distinguishes the PMU staff from the CAEM staff should be implemented immediately and be completed before the new staff arrives. The current office arrangement would be extremely confusing with respect to the division of responsibilities and separate missions of these units.
8. The dates for the public sector advisor's role should be extended for two years as the public sector now appears ready to absorb the advisors work within the spirit of the project goals. This readiness is based on the learning curve established by the project with respect to its public sector dialogue outputs and overall accomplishments. It would be wise to consider the use of U.S. short-term technical consultants as well as Guatemalan nationals on the line items for advisors. The original concept only included full time U.S. technical advisors. If Guatemalan technical advisors are used, A.I.D. should be sure to determine that any Guatemalan national selected as a technical advisor would be able to represent A.I.D.'s point of view. There is a tendency for Guatemalan's who were once part of the GOG to have difficulty coming over to the A.I.D. side
9. The critical management component that will determine improvements in the PED project implementation and, ultimately of the PED program itself in terms of the accomplishment of its goals, is the PMU. The success of the PMU, in turn, will depend to a large degree on the management guidance, training, monitoring and support that the PMU receives from USAID Guatemala. In this connection, it is important that the A.I.D.-funded PED advisor to the CAEM/PMU component continue in his post for the remainder of the project. This will help to ensure the continuity and integrity of the PMU function as intended in the program design. Extension of this advisor's role for the remaining life of the project is made more important in this particular case because of losses and changes to date in A.I.D.-funded personnel working on the PED program.
10. The PMU should publish a monthly newsletter about the project where each component and program element would contribute, i.e. Investor Services Center, free trade zones, CEDE etc. Two types of articles should be presented in a balanced manner: information such as announcements, opportunities, achievements; and, short case examples of examples of

success as vignettes. Every effort should be made through a mail-merge feature of the CAEM computer to insure a permanent saturation of distribution throughout the public and private sectors. The distribution list should be cleared with the A.I.D. PED office.

MEASUREMENT

FINDINGS

The project paper addresses the concept of SME as one category of unit comprising the private sector. The output measures for the program however speak about the start-up of new enterprises, expansion of employment and export enterprises. There is no systematic conceptual link established between SME and these breakdowns of program outputs.

The evaluators discovered that very impressive achievements are occurring everyday in three out of four of the component's projects. Unfortunately however, very little of these achievements are being recorded. One only has to be in the components' offices to discover this. The problem is twofold: the PMU has not designed and required the tracking of achievements by the components; and, there is no one assigned in any of the component organizations to even attempt the capture of achievements. This shortcoming leads to the impression that nothing is being accomplished when quite the opposite is true. In fact it might be said that these valuable achievements are the best kept secrets in the development community.

The program monitor that is to be hired in the PMU will be a central figure in the turnaround of the achievement tracking problem. Additionally, new log frame indicators will help guide the development of this system.

CONCLUSIONS

1. A new framework is needed to divide the private sector SMEs into discrete categories that facilitate separate measurement of start-up and expansion of SMEs according to the output categories specified in the log frame of the project paper
2. The log frame of the PED program is written as a project rather than as a program. The log frame is too broad and does not permit the break-out of each project and project segment. Additionally, there is no adequate logical connection between the goal and purpose statement and the other categories of analysis such as outputs and means of verification
3. There is no tracking method in place within the components that records achievements. The program's achievements are not being captured.

RECOMMENDATIONS

1. Treat the project as a program with four projects, where each will have a log frame.

2. Re-write the log frame so that there is a logical connection between goal, purpose, objectively verifiable indicators, assumptions, means of verification and outputs. The new log frame should have enough dimension in each of the above mentioned categories to reflect program performance and be achievable in terms of capturing the measures required.
3. Develop and use a taxonomy for specifying type of SME that is consistent with specified program outputs. One such framework could be export oriented enterprises, enterprises targeting national markets and enterprises based on foreign investment. Export and national market focused enterprises should also be divided into start-ups and expansion of pre-existing enterprises.
4. A program tracking system should be developed as soon as possible for recording the achievements of the components. The job of tracking achievements should be assigned to the program monitor in the PMU as his/her primary assignment.

VIII. PROJECT MANAGEMENT INFORMATION SYSTEM

A. OBJECTIVE:

CAEM has committed to establish a PMIS to provide the data required for very close monitoring of project implementation by project managers. This monitoring is intended to result in regular fine-tuning of project resource management reflecting operating experience. In particular, the PMIS should:

1. Gather data on project impact and evaluate the cost effectiveness of project inputs and activities on a continuing basis;
2. Develop a roster of technical advisors and services available from Guatemalan and foreign sources;
3. Gather business information of use to implementing organizations in their efforts to promote private enterprise development in Guatemala;
4. Develop a network with programs by other donors and the GOG; and
5. Provide data required for monitoring of project implementation and evaluation.

B. FINDINGS:

1. Annex L of the PP provided the original concept for this system. It specified PC-ATs (based on the Intel 80286 processor) as the hardware platform (approximate cost = US\$2,000 each), and Lotus and D-Base as the software (approximate cost = US\$600 each). Implicit in this specification was the understanding that a considerable amount of application programming would be required to construct the appropriate system of databases and spreadsheets.
2. At some point in time, preceding the Derbes study, but accelerating rapidly thereafter, the complexity of the PMIS skyrocketed. What was intended as a management tool to "provide data required for monitoring of project implementation" became an end in itself. The absence of a strong manager making decisions about just what information was necessary (and cost effective to gather), permitted technicians to specify a system which if constructed will be very powerful, difficult to manage, costly, and not even fully implemented until early/mid 1992.
3. Development and installation of the Core Information System (CIS), which is "the center of the larger project management information system" began in 3/90 and is scheduled to require 16 months. The cost is approximately US\$350,000. Installation of the CIS within the public sector PED institutions is the subject of a separate open solicitation. Deadline for this solicitation is 5/30/90 and the A.I.D. Contracting office estimates this bid at approximately US\$100,000. Other portions of the PMIS have not yet been specified.

4. The hardware which CAEM will use to host this system is a Sun Microsystems SPARC station 1. This machine is currently in place at a cost of US\$43,000. The hardware which the other eight coordinating PED institutions will use is generally already in place, and generally follows the Derbes specifications (PC clones based on the Intel 80386 processor). The Xenix operating system used on these machines is not binary compatible with the SunOS operating system on the Sun (the software developer feels that this should not present a problem).
5. None of the nodes on this network (ie, the 9 PED institutions) are presently connected to each other via a telecommunications link. Guatel is installing a packet switching network which should be capable of handling communications between these machines, but caution would suggest skepticism regarding the implementation date and connection cost. Should this not be accomplished the alternatives would be either a custom microwave network, or physically transporting diskettes from one location to another. Either of the first two alternatives represents an investment/operating cost of \$75,000 to \$150,000. The third alternative would be acceptable in a less ambitious system, but would waste the capabilities being programmed into the current system.
6. The present status of this system is as follows:
 - a. Cost - US\$500,000 in software/hardware costs specific to this custom system, with significant expenditures still to come
 - b. Delivery - Scheduled for 10/91, but few systems of this complexity are ever delivered on time. Personnel generally require 6 months of system use before they become completely familiar, making the effective date for full implementation mid-1992.
7. Based on the limited time the evaluation team has had to examine this issue, the proposed PMIS seems to be overkill for management needs. The most basic principal of system design is that you must know what and how you want to manage, before you can write a computer program to assist you. In the absence of a strong PMU, these questions will remain unanswered for a while.
8. Again, based on the limited time the evaluation team has had to examine this issue, it appears that a simpler system, much closer to what was originally proposed, would be more suitable, and could be implemented relatively soon.

C. RECOMMENDATIONS:

The evaluator is aware that a recommendation such as follows is not to be made lightly, because it involves significant consequences. Major monetary and planning commitments have been made, and highly talented staff have been hired. Calling a halt (or even a pause) at this stage puts into question a major initiative of this project. Caution is particularly appropriate in this case given the time constraints emphasized in points 7 and 8 of the preceding section.

The primary concern of the evaluator is not the technical viability of the system. While there are some questions on system design; the technical team is a capable one. Rather, the concern is whether management is fully aware of what is being purchased, and the cost involved. In this regard the following issues should be flagged for further consideration:

First, the Cooperative Agreement governing CAEM's participation requires the construction of a PMIS performing the five functions noted in Section A above. The first and the last points there specifically relate to "monitoring" the project "on a continuing basis". It is hard to see how these functions can be performed by a system which will not be effectively in place until mid-1992. If it is desired to fulfill these requirements through other means, then this should be spelled out in an amendment.

Second, as the project management portions of the PMIS atrophied, the database portions underwent hypertrophy. The "roster of technical advisors", "business information" and "network with programs" became much more complex than originally anticipated. This is not to deny the potential utility of such a database, nor the value in learning how to specify and implement such a database development program. But, the utility and value need to be weighed against the costs and difficulties. This represents a major change from the original concept and if it is desired to make this change it should be done consciously via an amendment to the cooperative agreement.

Third, the total cost of this system is unknown. As detailed above, the cost to design and install the CIS and purchase the server for CAEM is \$500,000. This neglects the cost for computers at each of the PED affiliates, the cost of staff time at each of these institutions to assist in the design of the CIS, the cost of training people in the operation of the system, the cost of further additions beyond the CIS, the cost of communications links to tie the network together, a budget for system maintenance and some sort of contingency budget.

(Some of these costs are already accounted for, e.g. the computers and staff time; others, e.g. the telecommunications network and a system maintenance budget have not yet been factored in.) The telecommunications network was estimated above at \$75,000 to \$150,000. The system maintenance budget, using industry standard guidelines, was run from 12-45%, per annum of the total capital cost (i.e., hardware plus software). When totaled these costs will represent several hundred thousand dollars of additional investment. This is easily a million dollar project. A consolidated budget should be compiled for this effort.

Based on this reasoning the following actions are recommended:

1. A.I.D. should immediately freeze development of this system, and carefully re-evaluate whether the management needs of this project merit this investment. If the intention is to convert it from a "Project Management Information System" into a "Management Information System", then project management must be addressed in some other fashion and the MIS database must be evaluated based on a realistic budget.

2. Bring a consultant in for one/two weeks to review the issues raised in this section. While the consultant should understand the technical aspects of a management information system, the primary expertise required is a strong management background to evaluate the costs/benefits of the original specification, the existing system and any recommended modifications.

IX. MAJOR CONCLUSIONS

In assessing a private sector project as large and as multi-faceted as the PED at the mid term, the evaluator must take into account that many of its expected outcomes are diffuse: they can only be measured within a five to ten year post-project time frame, and they are difficult to identify as direct results of the project, i.e. a stronger non-traditional export sector, increased participation of SMEs in the economy, an improved policy environment for private sector development, etc. This contrasts with projects in the public sector, where progress on specific outcomes such as homes built, teachers trained, children vaccinated, energy systems installed, etc. can be easily measured in formative and summative evaluations, and directly attributed to project inputs. This is not to say that the PED cannot be evaluated, but that in projects where the sophistication of outcomes increases, the results become correspondingly abstract, and evaluation requires a greater degree of sophistication.

Evaluation of the PED must also necessarily take into account that it breaks new ground for USAID/Guatemala in the concept of its design as well as the private sector area of emphasis.

These factors comprise the framework within which the evaluation team has formulated its conclusions and recommendations.

General Accomplishments

There is a popular misconception that the PED project is somehow in trouble, or is not performing as well as it should. It is the unanimous conclusion of the evaluation team that this is emphatically not the case. While there have been some difficulties in getting under way, and difficulties with some components of the project, the overall assessment of PED is that it is a skillful leveraging of A.I.D. resources, which is making good progress in implementation.

In an important sense, the PED project has opened a new avenue of influence for A.I.D. to promote constructive change within a beneficiary country. PED has strengthened the policy articulation with the private sector, thus promoting the concept of policy dialogue with the government. A.I.D. is no longer a voice in the wilderness lobbying the government for "reforms," at the ESF negotiations. The private sector organizations supported by PED have been strengthened in their ability to articulate member interests. Using PED funds, they have acquired technical assistance to research policy questions, and have been instrumental in opening new areas of non-traditional exports. These accomplishments have won them recognition by the government as responsible and competent partners in the policy formulation process.

Project Outputs

The PED project has performed well according to outputs in three out of four component areas, although it is behind schedule and is widely perceived throughout the Guatemala USAID mission as chaotic and not well managed. Perhaps most important with respect to the evaluation are the project's achievements to date; they are quite positive overall, except for the Chamber

of Finance and the Loan Guaranty Fund component. The AGG/CEDE training and technical assistance component, while requiring some course correction, has performed well in what is effectively its first year of outputs. Non-traditional export development, promoted through the Gremial, has out-performed expected outputs to date, and is clearly a very successful area of the project. The area of policy dialogue has had some impressive accomplishments, with CAEM playing a key role in the passage of free zone legislation and in the development of free zones themselves.

Project Implementation Schedule

Hindsight would suggest that the PED should have been launched as a full-blown USAID program and not as a project. As a result, assumptions guiding the development, implementation, and dates projected on both the critical path and life of project did not allow for a more realistic estimate of the time required for accomplishing tasks. Sub-agreements with the counterpart institutions were implemented at different times, placing them in unsynchronized time frames with respect to the life of the project. The A.I.D. advisors attached to the components also began at different times, one as little as six months ago.

Largely driving the inability to perform on schedule is the fact that the PED was the first major private sector USAID effort launched in Guatemala since the mid-1950s, and that the mission did not understand the unique requirements of a private sector program. As a result, the time needed to position the new program was not acknowledged in the plan. Considered as a program, which it is, and the learning curve that inevitably has had to accompany this effort, for the reasons described, the PED is on target with respect to its stage of implementation. In light of current experience, however, the PACD has proven to be unrealistic.

Pipeline and Fund Reallocation Issues

Concern has been expressed at the mission level regarding rate of drawdown of both quetzales and dollars. This was to be expected in light of the delay in initial disbursements and the above-discussed stage of program implementation. While the drawdown of quetzales has exceeded those of dollars, this has been a logical and prudent strategy on the part of the component institutions, given the current sharp inflationary trend. Dollar drawdowns have begun to catch up. Counterparts are beginning to accelerate their drawdown of the pipeline funds. Some are anticipating a rapid depletion of their originally programmed funds, for example, CAEM expects to completely spend its dollar budget for the project by the end of 1990.

As a rough average, the project is in step with pipeline expenditures as a percentage of time elapsed, if time is counted from the first disbursement, rather than project obligation. Recommendations made for technical assistance, e.g. AGG/CEDE, will begin absorption of funds earmarked for this purpose..

With respect to the possible reallocation of PED funds, this will depend on the performance of the Chamber of Finance, the Guaranty Fund, and the PMU, as per recommendations made in previous chapters. Possible areas for reallocation are

the Investors Service Center, AGG/CEDE for expansion of its physical plant facilities, increased funding for Gremial transport activities, etc.

Institution Building

The institution building required for the PED program was, in all fairness, very difficult to predict. Because each of the four counterpart organizations had for years been respected Guatemalan institutions, it was apparently assumed that these organizations could "hit the ground running." Looking back, this assumption was not the case, particularly with respect to the Chamber of Finance and CAEM's role both as the headquarters for the PMU, and as the organization responsible for the Investor Services Center. Nonetheless, while more remains to be accomplished in this area, Gremial's ability to expand exports has been notably enhanced through strengthening of its Operational and Strategic Units; CONAPEX and CONOCOEX have achieved increased credibility as vehicles for policy dialogue; CAEM's role in this regard has been similarly strengthened; AGG has created a viable training and technical institute with favorable potential for growth and sustainability.

Private vs. Public Sector Orientation

The launching of this new private sector project and a concomitant adjustment USAID's approach has been slow to get started. Whereas a public sector project directly funds specific outputs, in this instance A.I.D. is funding the private sector's ability to articulate its own output. This has led to two major differences with public sector projects:

1. The longer wrap-up time for project implementation as the private sector goes through the process of articulating its desired output.
2. Less direct A.I.D. control of the project.

Differences between the mission's orientation towards development in Guatemala's public sector and the new challenges and requirements of positioning a new development program in the private sector have not been recognized; nonetheless this has had a very powerful impact on the program. Conflicting approaches within the mission in this regard have slowed the program down to some degree, particularly with respect to the process for decision making.

Project Management

A key and unique concept in the rationale for this project has been to support, but not direct private sector initiatives. This has informed the organization and management of the PED, which, despite the described weaknesses of some of its elements, the PMU in particular, has functioned reasonably well, testimony to the motivation, commitment and strength of the component institutions. The fact that the institutions were well established prior to the project, and represent private sector results-oriented values, undoubtedly accounts to a large extent for their creditable performance, and at the same time justifies the indirect management approach. To the extent that it promotes "ownership" in

policy and decision making on the part of the component institutions, it should strengthen post-project continuity of key elements of the PED, not the least of which is sustained interaction between the component institutions. The proposed strengthening of the PMU, if sensitively administered, should not undercut the advantages of USAID's indirect management approach.

Project Management Unit

The PMU has not been formed as intended in the cooperative agreement. In spite of this it has facilitated program achievements through an informal system of management by the CAEM staff. This arrangement has diminishing returns, however, and should not continue.

USAID Advisors

There is no formal organization of the roles of the USAID advisors attached to the component institutions, either with respect to the organizations themselves or vis-a-vis each other. The roles they have, have evolved informally. While they have performed well, the complexity of the program at this stage of its evolution requires a more formal organization of their roles, duties and reporting relationships.

PHIS

The issue of whether to proceed with the implementation of the Project Management Information System as planned has been raised in this evaluation, focusing on its cost/benefit, complexity, and a projected completion date of 1992. The issue, as posed, essentially looks at the system from two perspectives: (1) a project monitoring system whose major usefulness will end with the project or (2) a data-base/information network serving the project beneficiaries as an ongoing information resource to be institutionalized for post-project utility.

If it is assumed that the system's primary utility is in its project monitoring functions, then proceeding with its installation as currently planned raises legitimate questions of cost effectiveness, since it is projected to be completed in 1992, coinciding with the PACD. Even if the PED is extended for two years, as recommended, it is probable that different components of the project will end at different times, just as they began at different times, with varied funding streams. The monitoring function of the PMIS from that perspective would have limited usefulness, and an alternative should be substituted.

If it is assumed that an MIS has importance to the private sector as a data base information network, beyond the life of the PED, and should continue as such, (the conclusion of the evaluation team), cost/benefit issues are still raised in terms of its present design, which presumes both the monitoring and data base functions.

Cooperative Agreements

The cooperative agreements, per se, have functioned well, as project outcomes to date attest. A review of the agreements indicates clarity with respect to goals, required activities, management procedures, and expected outcomes. Problems that have arisen, particularly with respect to the Chamber of Finance and the Guaranty Fund, are attributable to management deficiencies within the Chamber itself as well as the PMU. These problems have been addressed in the evaluation.

An observed problem with respect to some of the sub-agreements is that current boards of directors and management personnel of the component institutions, who are responsible for the implementation of the agreements, are not necessarily the same persons who contributed to framing these documents and signing them, due to the normal changes in organizations over time. Incumbents are not as familiar with the agreements as they might be, resulting in less effective institutional performance to the degree that this applies.

Project Assumptions

Most of the important assumptions underpinning the PED have, to date, held, with the notable exceptions of present economic conditions (high inflation/low liquidity), the lack of receptivity of financial institutions with respect to the Guaranty Fund, for reasons outlined in Chapter IV., and the five-year time line to meet the project objectives.

The public and private sectors have proven able to work together, as evidenced by the collaboration of CONAPEX and CONACOEX to translate policy dialogue into action, liberalization of interest rates by the Bank of Guatemala and support for the recent financial package organized by the Bank.

Private sector firms have shown strong interest in availing themselves of the project activities, specifically those of the AGG and Gremial. There is no question that were the Guaranty Fund to function as originally planned, it would encounter an enthusiastic reception from SMEs, whose performance in the economy is severely limited by lack of adequate access to credit from the financial institutions.

While it is too soon to evaluate the long-term impact of the training and technical assistance component, based on selected participant interviews at CEDE and a review of courses finding the greatest receptivity among all participants, SMEs feel a strong need for improving their administrative capacity. An impressive number of those who have done so as a result of CEDE training, claim positive impacts in their enterprises, although, as discussed in Chapter II, there is little documentation of even short-term impacts.

Log Frame

While time did not permit an in-depth revision of the project log frame, the evaluation team did spend some time with it and found a number of problems, among them the fact that it is based on a project, rather than the program that the PED really is; consequently it is too broad, with inadequate detailing of the component segments. Some of the segments will need to be revised in terms of project outputs, related to changes in project strategy that may take place as a result of this evaluation.

X. MAJOR RECOMMENDATIONS

Specific recommendations regarding PED components have been made in Chapters III through VIII. The following recommendations concern the project as a whole:

1. The PED is a program, and should be renamed to reflect this reality. It is recommended, however, that the basic organization and management structure be retained, in order to preserve key positive elements of the PED, namely programmatic linkages between the component institutions as exemplified by CONAPEX, CONACOEX, and the Consultative Council, as well as the advantages of an indirect management approach, discussed earlier.
2. The PMU should be retained under CAEM; recommendations for its improvement should be implemented immediately.
3. The PACD for this program should be extended for two years. It is important to give sufficient time for the sub-projects within PED to be fully implemented. Even at what is an early stage in implementation, there are several major accomplishments, which demonstrate an impressive leveraging of A.I.D. resources to assist in policy goals. In line with this recommendation the cooperative agreement with the Ministry of the Economy, which is due to end shortly, should be extended and additional funding provided for its continued participation in the program.
4. The mission should begin planning for a follow-on program to continue the initiatives put in motion through the PED.
5. The PMU should respond to the performance deficiencies described in the evaluation and create a plan to conform with the intentions of the project paper and the cooperative agreement. All recommendations with respect to the PMU outlined in the evaluation should be carried out no later than six months following the submission of the evaluation report to USAID.
6. The roles, duties and reporting relationships of the USAID program advisors should be clarified and more formally organized within the organizations to which they are assigned, as well as in relation to each other.
7. Given the questions raised with respect to the PMIS, it is recommended that it be reviewed in line with the issues identified, specifically:
 - Does the current system design reflect the pre- and post-program requirements of the PED;
 - Should the project monitoring functions be retained, in light of the projected completion date of the PMIS;
 - Does the proposed system require the amount of data base capability it is now designed to have;
 - Is the system, as now designed, cost effective;

- Is a modified MIS system now appropriate; if so, what should its goals and characteristics be.

The review should be carried out by a short-term consultant brought in for this purpose, as per recommendations in Chapter VIII.

8. If it is determined that the PMIS does not provide the needed monitoring system for the PED, an alternate system, simple in design, application and administration, should be designed and put in place as quickly as possible, and cooperative agreements amended to reflect this change.
9. The cooperative and sub-agreements of the PED have worked well, and this system of administration should continue. Periodic reviews of the agreements with component institutions will strengthen project performance.
10. The PED log frame should be revised to reflect the fact that it is describing a program. Individual log frames should be prepared for each component "project," e.g. Gremial, AGG, Chamber of Finance, CAEM, etc. The log frames units should have vertical and horizontal consistency, and greater specificity with respect to criteria for measurement.

LIST OF PERSONS CONTACTED

USAID

Anthony Cauterucci, Mission Director

Office of Private Enterprise Development:

Felipe Manteiga, Director
William Rodgers, Section Chief, Exports and Enterprise Strengthening
Laura Lindskog, Microenterprise Specialist
Roberto Galvez, Development Intern
Guillermo Matta, Section Chief, Financial Services

Gary Smith, PRM
Joe Lombardo, PDSO
John McAvoy, Procurement Office
David Hoelzer, Economist
Tully Cornick, ProExAg

Gremial

Fanny de Estrada, Executive Director
Ricardo Santa Cruz, General Manager
Amador Carballido, Transport Consultant
David Almengor, Chief, Project Department
Jandira Elias, Chief, Promotion Department
Juan Alfredo Sandoval, Coordinator, Maquila Commission
Helga Roche, Coordinator, Furniture Commission
Hector Palacios Lima, Coordinator, Commercial Attaches
Gerry Lamberty, Ped Advisor
Polly de Arias, Training Department
Gordon Bremer, Consultant (Ernst & Young)
Andrew Hammerl, Hammerl-Davis International

Members, Gremial Commissions

Roberto Ibarra, General Manager, Vanguard, S.A.
Julio Sandoval, Zona Franca La Aurora, APSA
Jose Francisco Ovando, Vice President, Grupo Zeta
Guillermo Bran, General Manager, Quadri Guatemala, S.A.
Ricardo Zachrisson, Farmer, specialty vegetables
Carlos Porrás Monge, Famex

CAEM

Otto Becker, Executive Director
Guillermo Rodriguez, Assistant Director
Sonia Maria Gonzalez, Promotion Manager
Ernesto Mancía, Manager, Investors Service Center
Juan Osberto Mendez, Economist
Luis Roberto Baessa, Systems Analyst
Steve Lack, PED Advisor
Roger Cowen, Consultant (ISC)

Chamber of Finance

Mario Aguilar, President
Jose Conde, PED Advisor

Banco de Guatemala

Ricardo Curruchichi
Hugo Gomez Ramirez
Sergio Gonzalez
Jacoboj. Lopez
Edgar N. Cancinos

Banco del Cafe

Eduardo Gonzalez Castillo

Banco de la Construccion

Rolando Castillo

Ministry of the Economy

Carlos Rafael Tercero, Director, Ventanilla Unica
Erick R. Aguirre, Administrative Manager, CONAPEX/CONACOEX
Arnoldo Castillo, Director General, DIGECOMEX
Guillermo Reyes, Director, Customs
Danilo Cruz, Director, DPI
Irma Luz, Sub-Director, DPI
Sandra Dunlap, AID Consultant
Robert Lee Schuler, AID Consultant
Carlos Leiva, Advisor

World Bank (Washington)

Axel van Trotsenberg, Country Economist, Guatemala

AGG/CEDE

Estuardo Mendez, Head, AGG/CEDE Committee, AGG Board of Directors
Lucy Martinez Montt, Executive Director, AGG
Roberto Toledo, Director, CEDE
Jose Oromi, PED Advisor
Manuel Aguirre, Coordinator, Training and Technical Assistance
Gilberto Bolanos, Program Coordinator
Victor Hugo Sanchez, Assistant to the Director
Carlos Olivares, Advisor
Ruby Ortiz, Advisor
Luis Alberto Ruiz, Advisor/Instructor
Julio Contreras, Advisor
Luis Melgar, Advisor/Instructor
Julio de Leon, Advisor

SME participants in CEDE courses:

Patricia Estrada de Rivera (paging service)
Manuel Barillas (shirt production)
Lucrecia Crespo (beauty parlor)
Arturo Letona Martinez (chemical laboratory)
Monica Herrarte (exports of table linens; imports medical products)
Mario Antonio Meneses (industrial electronics service)
Abel Rivas (textile printing and clothes manufacture)
Haydee Lopez (book store)
Jose Dionisio Herrera (flag manufacturer)
Maria Odette de Sierra (children's clothes)
Edgar Munoz Galvez (fumigation service)
Francisco Mazariegas (architect)
Judith Quevedo Ramos (manager, agricultural enterprise)
Maria Teresa de Basterrechea (manager, real estate)