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**U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT  
ROCAP**

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REGIONAL OFFICE FOR CENTRAL AMERICAN PROGRAMS

September 28, 1990

FEDEPRICAP  
Apartado 539-1002  
San Jose, Costa Rica

Subject: Cooperative Agreement No. 596-0149-A-00-9278-00  
Amendment No. 5

Gentlemen,

Pursuant to the authority contained in the Foreign Assistance Act of 1961, as amended, A.I.D. hereby amends the Cooperative Agreement in order to obligate an additional sum of \$78,747.00, changing the total obligation to date from \$1,530,000.00 to \$1,608,747.00 as outlined in Attachment 2.

Accordingly cover letter and wherever else it appears, total obligation amount is changed from \$1,530,000.00 to \$1,608,747.00.

Attachment No. 2, Program Description, is amended to add the Program Description in Attachment No. 1 to this Amendment No. 5.

This Amendment is effective and obligation is made as of the date of this letter and shall apply to commitments made by the Recipient in furtherance of program objectives during the period beginning with the effective date and ending February 15, 1992.

Please sign the original and five copies of this letter to acknowledge your receipt of this Amendment No. 5, and return the original and four copies to USAID/Guatemala.

Sincerely,

John P. McAvoy  
Regional Agreement Officer

Amendment No. 5  
FEDEPRICAP  
Page 2

RECEIVED:

By: \_\_\_\_\_



Title: Executive Director

Date: October 26, 1990

FISCAL DATA

Appropriation No.:	72-1101021 & 72-11X1021
Budget Plan Code:	LDSA-90-25596-KG13 & LDSX-90-25596-KG13
PIO/T No.:	596-0149-3-00130 & 596-0149-3-00131
Project No.:	596-0149
Total Estimated Agreement Amount:	\$1,608,747
Amount Obligated Prior to this Amendment:	\$1,530,000
Amount Obligated by this Amendment:	\$ 78,747
Total Obligated Amount:	\$1,608,747

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/cme

**ATTACHMENT I**  
**SCOPE OF WORK**

I. After almost one year of operation under its Cooperative Agreement with ROCAP, FEDEPRICAP has implemented successfully several important activities. It has formulated both a strategic and detailed operation plan, conducted seminars and workshops addressing a range of economic issues, and helped to negotiate agreements conducive to private sector development. It has conducted a comprehensive review of securities markets in Costa Rica, El Salvador, Honduras and Guatemala, is currently conducting a Port Tariff Study on several ports, and has recently completed air cargo studies at selected airports where proposed recommendations for increasing efficiency are being carried out. It has also played the key role in negotiating a reduction in shipping rates, and has taken the lead at the regional level in promoting such capital mobilization strategies as debt for equity swaps and privatization.

FEDEPRICAP's experience during the past several months has revealed a need to modify and expand the original project design. The initial areas of focus have validated the demand for the kinds of services and activities offered by FEDEPRICAP. However, there exists a necessity for FEDEPRICAP both to strengthen current activities as well as engage in two additional areas with greater specificity. At the same time, it will be necessary to alter slightly some project logistics, especially with respect to the provision of technical assistance in the transportation field.

The changes proposed in this amendment will strengthen FEDEPRICAP's ability to carry out its mandate effectively, responding to a growing demand for its services. Moreover, recent changes in Central America, particularly in Panama and Nicaragua, present new opportunities for private sector development. The proposed amendment will permit the organization to meet its goals and expand its impact.

Under the existing delegations of authority, the Mission Director approved a Project Paper Amendment on April 11, 1990, which builds on program activities described in the original Project. A New Project Description (NPD) cable was sent to AID/W and approved on February 23, 1990.

II. Description of Amendment

The specific areas for modification include:

- o Women in Development
- o Drugs
- o Capital Mobilization

- o Trade
- o Transportation
- o Information Systems

1. Women in Development (WID)

While women have experienced gains in the business community in Central America, a great deal more needs to be achieved. A particularly important arena in which FEDEPRICAP should be working is in the development of female business people leadership. Women still have not penetrated the upper echelons of professional development. FEDEPRICAP intends to underwrite studies and training courses to help develop greater leadership skills among female entrepreneurs. It is especially important to conduct relevant research on the actual situation of women in the regional economy. While a great deal of impressionistic evidence and anecdotal material exists, there is little empirical information on which to develop workable strategies and specific programs to promote greater female participation in private sector-led development. FEDEPRICAP's activities in WID will constitute a pioneering effort in the region, are timely, and address a major developmental issue. As an initial activity in this program, FEDEPRICAP recently supported a "brainstorming" conference to help chart the directions in which FEDEPRICAP can be instrumental in assisting women achieve greater prominence in the private sector. Conference participants identified areas of concern which require empirical analysis. Key businesswomen from both Central America and the U.S. attended the meeting.

As a result of the meeting, specific activities FEDEPRICAP intends to undertake include:

- o Support of specific surveys designed to generate empirical data on the status of women in the regional economy. Specific research questions will be formulated in part based on the results of the brainstorming conference.
- o Using the findings of the research, FEDEPRICAP will work to develop a strategic plan to promote activities designed to foster the interests of women entrepreneurs and their greater participation in leadership positions within the member organizations of FEDEPRICAP.
- o Based on the plan, FEDEPRICAP will underwrite important initiatives to promote women in development in Central America including leadership and other types of training, technical assistance to relevant women's groups and organizations, and necessary policy analyses.

FEDEPRICAP activities in WID would stem from a successful if modest beginning, as exemplified in the LACSA/Sheraton tourism package deal promoted by the D.C. Women of Hemisphere Meeting. It is clear that women in the region represent a valuable and still untapped resource to achieve greater economic growth and development. To assist in this effort, FEDEPRICAP will contract a part-time advisor from the support services line item to manage the WID program. The candidate selected will require prior ROCAP approval.

## 2. Drugs

Illicit drugs are causing increasingly serious problems for the legitimate business community in Central America. For example, drugs are hidden in shipments of licit products, causing excessive delays in passing through customs checkpoints. This is especially damaging to perishables, which represent a large percentage of Central American exports to the U.S. Identification of specific problems and ways to deal with them, such as in packaging of products, shipping and export procedures, is essential knowledge for exporters in the region. FEDEPRICAP will sponsor an integrated program of seminars and workshops in this vital area, working closely with the private sector and government authorities to devise regionally based strategies for dealing with the problem. It is anticipated that efforts in this area will also include contact and cooperation with U.S. authorities and businesspersons, particularly exploring ways in which legitimate products can be readily identified for expediting the customs clearing process.

Additionally, FEDEPRICAP will seek technical assistance and training support from the DEA. DEA officials have expressed great interest in assisting FEDEPRICAP and can be made available to work with FEDEPRICAP and its members to provide training courses in specific drug-related topics, and suggest alternative methods for identifying illicit shippers and cargo, installing effective warehouse and port security measures, and sharing vital information to help protect against further penetration of drugs into the movement of legitimate products. The importance of the impact of drugs on licit commerce cannot be underestimated, and the most effective way to deal with the problem is through the kind of regional cooperation and action only FEDEPRICAP is structured to promote.

## 3. Capital Mobilization

Mobilization of capital and trade constitute FEDEPRICAP's largest project portfolio. A great deal of work has gone into formulation of strategies to develop the larger capital base and increase trade in the region. The elections of presidents supportive of the private sector in El Salvador, Honduras and Guatemala, coupled with the installation of a democratic government in Panama and Nicaragua, represent a singular opportunity in the region to reform, if not eliminate, policies heretofore restricting liberalization of financial markets. At the same time, such reforms would lay the policy groundwork to help democratize the marketplace

and promote greater small investor participation. FEDEPRICAP's recent study on the prospects of developing a regional market is encouraging. Yet much more needs to be done to identify specific constraints on mobilizing capital and deal successfully with them. Capital flight, lack of foreign investment, and exchange rates continue to be problems which require development and application of effective solutions.

At this juncture, it is essential that the Director of Economic Programs of FEDEPRICAP employ an assistant to help him manage a rapidly expanding set of critical activities. The assistant would be responsible for providing overall support to the Director, drafting scopes of work and managing consultants, maintaining relevant data bases, arranging for seminars and workshops, and representing FEDEPRICAP as may be necessary.

The addition of a staff member in the capital mobilization component of the project will also permit FEDEPRICAP to pursue an aggressive strategy of debt/equity swaps as a major mechanism for raising needed capital. Most of the Central American countries are at a critical stage in developing their incipient capital markets, and require the kind of close technical assistance which can be provided by FEDEPRICAP. Given the scale of the national economies of the Central American countries, it is especially important for stock exchanges, for instance, to be uniformly structured in order to eventually form a regional market. Work in this area is difficult and requires substantial interaction with key private and public sector officials. For example, the Director of Economic Programs has been invited by the new Government of Honduras to provide advice on economic policies, including developing the national stock exchange which has recently been approved by the government. In order for FEDEPRICAP to expand its activities in capital mobilization and trade, and to have a tangible impact, it is vital to expand relevant staff.

Additional planned activities in the capital mobilization area include:

- o With the bi-lateral USAID Missions in the region, particularly in El Salvador and Honduras, assist in developing national capital markets.
- o A study on the role of small investors in the region focusing on the necessary conditions for their enhanced participation in securities markets.
- o An analysis of the development and integration of stock exchanges in the Caribbean to identify possible strategies and mechanisms to achieve regional securities market integration in Central America.
- o Determination of the necessary conditions for development of a futures market in the region, with particular emphasis on Guatemala.

- o Production of a detailed report on establishing a regional securities market - the second phase of the first report on current national markets and attitudes toward a regional exchange.

#### 4. Trade

As individual countries, the nations of Central America are at a clear international trade disadvantage. Acting as a regional bloc, however, they could generate several benefits. First, they would be able to achieve economies of scale. Second, they would be able to attain greater product volume and hence more competitiveness. Third, they could negotiate trade and related agreements from a position of greater power, as was the case recently between the Asociacion Centroamericana de Usuarios in their deliberations with the U.S. Central American Liner Association. As the world moves increasingly toward the creation of trading blocs (e.g., the European Community and Gulf States Cooperation Council), Central America will find itself at a growing disadvantage if it does not begin now to seek ways in which to promote greater regional cooperation and integration. FEDEPRICAP is keenly aware of this situation, and has planned the following tasks:

- o Detailed review of a regional trade development strategy to lay out ways in which FEDEPRICAP can move rapidly and effectively to build on existing cooperative arrangements and create new ones.
- o Updating of the Central America and Panama Industrial Sector Assessment, prepared in January 1988. This will help FEDEPRICAP to identify those industrial sub-sectors which have a high potential for a comparative advantage. This exercise would allow FEDEPRICAP to target those sub-sectors for development of regional cooperation and integration.
- o Conduct of detailed in-country industrial sector analyses which focus on the textile and apparel, metal mechanical, plastics and electronics sub-sectors. These sub-sectors are known already to represent substantial potential for profitable exports. For example, a major U.S. manufacturer has been exploring the possibility of moving its entire operation to Central America. FEDEPRICAP will be commissioning studies on the relative benefits of such a move with respect to U.S. apparel quotas, wages, work source capacities and transportation.
- o FEDEPRICAP intends to replicate this example by formulating a strategy to promote business deals with short-term payoffs, particularly those which will result in moving from present conventional maquilas to full-packaging, as in the Far East. This will require strategies, funds, promotion and training. Special emphasis will be on bringing such deals to closure.

- o Consolidation of linkages with the IDB to expand the funding base for the above activities. As FEDEPRICAP expands its activities, and demand for its service grows, it will have to seek additional financial support. The IDB has already expressed strong interest in FEDEPRICAP and has supported a series of workshops on GATT. Similarly, the UNDP sponsored a workshop on trade for FEDEPRICAP.
- o Conduct of preliminary non-U.S. market studies, including Europe and Latin America. Given the region's historical ties to the U.S., other world markets have been relatively ignored. However, Europe, Mexico and South America represent new potential market opportunities, the feasibility of which needs to be explored. This is particularly important in light of U.S. quotas and tariffs on such regional products as sugar, textiles and beef. Expanding to non-U.S. markets would permit the region to achieve its export goals without running afoul of competing U.S. interests.

#### 5. Transportation

FEDEPRICAP began its work as an organization in dealing with regional transportation issues. While this component of the project has achieved significant successes, a wide range of transportation problems continues to exist. This includes, inter alia, the need to: 1) maintain constant vigilance over and negotiate rates; 2) update schedules; 3) promote cooperation among users; 4) seek policy reforms to promote more efficient intra-regional transportation; and 5) work to effect solutions to new problems, such as the case with the introduction of illicit drugs into shipments of legitimate goods.

FEDEPRICAP has undertaken a broad spectrum of activities in the transportation field. These include successful negotiations with the ports of Miami and New Orleans for receipt of Central American products, initiation of the privatization of ports in Guatemala and El Salvador, promotion of port infrastructure improvements in Guatemala and Costa Rica, formation and support of private sector technical committees to work on a regional basis in improving transportation systems, legislation and practices, creation of a monthly information bulletin to keep FEDEPRICAP members current with respect to developments in transportation affecting the region, conduct of various training courses, and coordination with other regional entities.

The Director of Transportation is in urgent need of staff support, given the size of his workload and expanding demand for technical assistance in the transportation area. An additional transportation specialist will have several responsibilities, including: maintenance of relevant data bases, consultant management, follow-up on specific activities, preparation of the Monthly Bulletin, legislative analysis, market analysis, and general support to the Director.

A second need for additional project support is in the provision of technical assistance to the Asociacion Centroamericana de Consejos de Usuarios (USUARIOS) to help it develop a permanent institutional capacity to represent private sector exporters at the regional level. USUARIOS has already negotiated one successful agreement with the U.S./Central American Liner Association, resulting in a savings of 13.3 million dollars to exporters.

Third, a growing need exists for FEDEPRICAP assistance in addressing the problems posed by the introduction of illegal drugs into shipments of legitimate products from Central America to the U.S. This is an issue which has grown in importance since the drafting of the operational plan. FEDEPRICAP will have to devote more resources and time to dealing with the drug dilemma, making additional project support imperative. Specific activities will include:

- o Meetings with U.S. customs officials to explore effective ways in which to expedite clearance of shipments of legitimate products, especially perishables. (This will be coordinated with the Director of Economic Programs.)
- o Development of region-wide measures for identifying legitimate producers and signalling potentially illicit cargo in order to expedite passage of legal goods.
- o Development and promotion of necessary security arrangements for cargo to prevent insertion of illicit drugs into legal products and containers.
- o Sponsorship of relevant training for shippers, producers and warehouses to improve effectiveness of security and other anti-drug measures.

In addition, technical assistance and training will be sought from the DEA, as described in the earlier section on Drugs.

The original project design called for one principal consultant to provide technical assistance intermittently to the transportation component over the life of the project. Experience has shown that a more effective way in which to provide TA is by using short-term consultants representing a broad spectrum of skills. It is clear that one expert cannot possess the range of specialized expertise required. The work involved in drafting numerous scopes of work and managing several consultants is another important reason for this amendment.

## 6. Information Systems

One of the keys to greater private sector integration and development at the regional level is efficient communications. FEDEPRICAP has already begun

the successful installation of an electronic mail system among its affiliate member organizations. In order to complete a Local Area Network (LAN) for effective interactive transmission of data and other communications, additional resources will be required. These would underwrite LAN installation costs, increased computer capacities of affiliates, and training. An initial report on the existing systems in FEDEPRICAP's member associations has been completed, and the draft of a plan and recommendations for completing the LAN presented (see Annex D). Using this blueprint, FEDEPRICAP will work with their local counterparts in installing the necessary equipment. They will also host required training workshops.

The information systems will provide multiple benefits to FEDEPRICAP. First, it will allow for rapid and accurate communication between FEDEPRICAP and its members. Second, similar communication will be possible with organizations of importance to FEDEPRICAP. Third, expansion of the present system will give FEDEPRICAP the capacity to develop and maintain a complete data base for transportation, capital markets and trade. Fourth, FEDEPRICAP will be able to access important data banks such as DIALOG. Fifth, FEDEPRICAP will be able to offer a set of six information products for sale. This, in turn, will permit the federation to help offset operating costs and become partially self-financing. These products are:

- o A regional analogue to the Thomas Directory of Companies
- o A transportation information data base, providing information on schedules, routes, fees, etc.
- o An investment and trade opportunities bulletin.
- o External markets data providing information on product standards, customs regulations, tariffs, etc.
- o Macro level economic, social and political data on the region for use in research on policies, markets, project feasibility and investment.
- o Bibliography of all FEDEPRICAP member association documents.

Part of the revenues from the provision of information services eventually can be used to play for equipment maintenance and expansion.

III. AMENDED FINANCIAL PLAN

The amended Cooperative Agreement Budget will be as follows:

<u>Components</u>	<u>Original</u>	<u>Amendment</u>	<u>Revised</u>	<u>FEDEPRICAP</u>
<b>I. Cooperative Agreement</b>				
Personnel	\$ 565,245	\$ 93,551	\$ 658,796	\$182,455
Support	110,844	95,760	206,604	4,200
Operating	402,402	88,790	491,192	105,102
Training	362,440	151,899	514,339	-
Contingencies	89,069	70,000	159,069	-
<b>Total</b>	<b>1,530,000</b>	<b>500,000</b>	<b>2,030,000</b>	

IV. OBLIGATION SCHEDULE

	<u>FY 89</u>	<u>FY 90</u>	<u>FY 90 (Amdt. 2)</u>	<u>TOTAL</u>
1. FEDEPRICAP Personnel	\$227,344	\$337,901	\$60,000	\$625,245
2. Support Services	\$89,600	\$110,313		\$199,913
3. Operating Expenses	\$197,000	\$205,402		\$402,402
4. Training	\$166,056	\$196,384	\$18,747	\$381,187
5. Contingency	_____	\$_____	_____	\$_____
<b>TOTAL</b>	<b>\$680,000</b>	<b>\$850,000</b>	<b>\$78,747</b>	<b>\$1,608,747</b>
	=====	=====	=====	=====