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

GUATEMALA

PROJECT PAPER

TRADE AND LABOR RELATIONS DEVELOPMENT PROGRAM

AID/LAC/P-828

PROJECT NUMBER: 520-0403

UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

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

DOCUMENT CODE: 3

2. COUNTRY/ENTITY: Guatemala

3. PROJECT NUMBER: 520-0403

4. BUREAU/OFFICE: Latin American/Caribbean (LAC) 05

5. PROJECT TITLE (maximum 40 characters): Trade & Labor Relations Development Program

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 08 DD 31 YY 98

7. ESTIMATED DATE OF OBLIGATION (Under 'B.' below, enter 1, 2, 3, or 4)
A. Initial FY 93 B. Quarter 3 C. Final FY 94

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

A. FUNDING SOURCE	FIRST FY 93 B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant)	(1,652)	(3,548)	(5,200)	(1,708)	(4,292)	(6,000)
(Loan)	( )	( )	( )	( )	( )	( )
Other U.S. 1.						
Other U.S. 2.						
Host Country	–	3,586	3,586	–	4,138	4,138
Other Donor(s)						
TOTALS	1,652	7,134	8,786	1,708	8,430	10,138

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	2. Loan	D. OBLIGATIONS TO DATE 1. Grant	2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	2. Loan	F. LIFE OF PROJECT 1. Grant	2. Loan
(1) DA				–		3,500		3,500	
(2) ESF				–		2,500		2,500	
(3)									
(4)									
TOTALS						6,000		6,000	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

11. SECONDARY PURPOSE CODE

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

A. Code

B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

To promote the growth of the Guatemalan economy through increased two-way trade and to expand the participation of the labor force in the benefits of growth.

14. SCHEDULED EVALUATIONS
Interim MM 06 YY 96 MM YY Final MM NA YY

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

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

I certify that the methods of payment and audit plans are in compliance with the payment verification policy.

Gary Byllesby, Controller

17. APPROVED BY
Signature: Terrence J. Brown
Title: Mission Director
Date Signed: MM 08 DD 10 YY 93

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

AID 1330-4 (8-79)

CLASSIFICATION:

AID 1120-1

PAAD

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE APPROVAL DOCUMENT

1. PAAD NO. 520-0403

2. COUNTRY Guatemala

3. CATEGORY Cash Transfer

4. DATE

5. TO: Terrence J. Brown, Director, USAID/Guatemala

6. OYB CHANGE NO. N/A

7. FROM: Thomas Delaney, PDSO

8. OYB INCREASE None

TO BE TAKEN FROM: Economic Support Fund

9. APPROVAL REQUESTED FOR COMMITMENT OF: $ 3,000,000.

10. APPROPRIATION

11. TYPE FUNDING: ☐ LOAN ☒ GRANT

12. LOCAL CURRENCY ARRANGEMENT: ☐ INFORMAL ☒ FORMAL ☐ NONE

13. ESTIMATED DELIVERY PERIOD: FY 1994

14. TRANSACTION ELIGIBILITY DATE

15. COMMODITIES FINANCED

16. PERMITTED SOURCE	17. ESTIMATED SOURCE
U.S. only:	U.S.:
Limited F.W.:	Industrialized Countries:
Free World:	Local:
Cash: 3,000,000	Other:

18. SUMMARY DESCRIPTION

The purpose of this $3 million cash transfer is to support policy and regulatory reforms designed to promote the growth of the Guatemalan economy through increased two-way trade. Separate project grant agreements will be signed to implement project activities to support and complement the sectoral reform agenda through policy reform support, training and technical assistance, activities to expand two-way trade and assistance in the area of labor rights and labor relations. A single disbursement will be made upon evidence that, among other things, the GOG has achieved certain objectives in the following two areas of policy and regulatory reform: protection of intellectual property rights and the investment approval process. The substance of the conditions precedent to disbursement are outlined in Section VII B of the attached PAAD and will be included in a side letter to the Grant Agreement. The achievement of objectives in the remaining two areas of policy and regulatory reform, effective dispute settlement through arbitration and non-tariff barriers to trade, will be included as covenants to the Agreement. The dollars under the cash transfer will be placed in a separate account in a U.S. bank to be disbursed for import transactions which follow the basic guidelines for and are of a nature similar to those authorized under the Trade Credit Insurance Program (TCIP). Following disbursement of the dollars, the GOG will deposit an equivalent amount of local currency in a special account with Bank of Guatemala to be used to support the trade and labor relations activities of specific public sector entities and for the USAID O.E. Trust Fund.

19. CLEARANCES	DATE
A/RLA:MVelasquez (in draft)	6/16 & 7/8/93
EAPRI:KDelaney	8/4/93
EAPRI:TTruong	8/4/93
CONT:GByllesby	8/4/93
DDIR:LKlassen	8/6/93

20. ACTION

☒ APPROVED ☐ DISAPPROVED

AUTHORIZED SIGNATURE — DATE: Aug. 10, 19

Terrence J. Brown
Director, USAID/Guatemala

TITLE

CLASSIFICATION:

PROJECT AUTHORIZATION

Name of Country/Entity: Guatemala

Name of Project: Trade and Labor Relations Development Project

Number of Project: 520-0403

1. Pursuant to Sections 103, 106 and 531 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Trade and Labor Relations Development Project for Guatemala, involving obligations not to exceed SIX MILLION U.S. DOLLARS (US$6,000,000) in grant funds over a five-year period from the date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help finance foreign exchange and local currency costs for the Program. The planned life of project is until August 31, 1998.

2. The Project Purpose is to promote the growth of the Guatemalan economy through increased two-way trade and to expand the participation of the labor force in the benefits of growth. The Project is an integral part of the overall Trade and Labor Relations Development Program which will consist of both policy-based assistance and project activities, to include support for policy reform, non-traditional export development and improved labor relations.

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

   a. <u>Source and Origin of Commodities, Nationality of Services</u>

      Commodities financed by A.I.D. under the Project shall have their source and origin in the United States (Country Code 000), except as A.I.D. may otherwise agree in writing or as provided in paragraph b below.

      The suppliers of commodities or services under the Project shall have the United States as their place of nationality, except as A.I.D. may otherwise agree in writing or as provided in paragraph b below.

Ocean shipping financed by A.I.D. under the Project shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States.

Air transportation services financed under the Project shall be on U.S. flag carriers except to the extent such carriers are not "available" as such term is defined by the U.S. Fly America Act.

b. Local Cost Financing

Local cost financing, totaling approximately $4.3 million, is authorized only to the extent permitted by the Agency's Buy America Policy as outlined in 90 State 410442 and in HB 1B, Chapter 18. If necessary, individual waivers may be processed for procurement of goods or services which are outside the exemptions to the Buy America Policy but necessary to Project implementation, under the criteria stated in HB 1B, Chapter 5.

Terrence J. Brown
Director, USAID/Guatemala

Aug. 10 1993
Date

Drafted by:	PDSO, MAlban		6/10/93
Cleared by:	PDSO, TDelaney		6/4/93
	A/RLA, MVelasquez		6/16/93
	TIO, KDelaney		6/11/93
	OEPA, TTruong		6/11/93
	CONT, GByllesby		6/5/93
	DDIR, LKLASSEN		6/5/93

PDSOPUB\DOCS\403AUTH

Trade and Labor Relations Development Program
No. 520-0403

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GLOSSARY OF ABBREVIATIONS AND ACRONYMS

BOG:	Bank of Guatemala
CACM:	Central American Common Market
CAEM:	Guatemalan Enterprise Chamber
CBI:	Caribbean Basin Initiative
CENIVACUS:	Bank of Guatemala Bonds
CONAPEX:	National Export Council
CUTRIGUA:	Council of International Transportation Users of Guatemala
DIGECOMEX:	Directorate of External Trade
EAI:	Enterprise for the Americas
EEC:	European Economic Community
GATT:	General Agreement on Tariffs and Trade
GDP:	Gross Domestic Product
GNP:	Gross National Product
GEXPRONT:	Guild of Non-Traditional Product Exporters
GOG:	Government of Guatemala
GSP:	Generalized System of Preferences
GTZ:	German Development Organization
HADS:	Highlands Agricultural Development Support Project
ICSID:	International Court for the Settlement of Investment Disputes
IDB:	Inter-American Development Bank
IMPs:	Impact Information System
LOP:	Life of Project
MOE:	Ministry of Economy
MOL:	Ministry of Labor
NTE:	Non-Traditional Exports
PACD:	Project Assistance Completion Date
PED:	Private Enterprise Development Project
PID:	Project Identification Document
PLIMs:	People Level Impact Studies
PP/PAAD:	Project Paper/Program Assistance Authorization Document
RIG:	Regional Inspector General
SAL:	Structural Adjustment Loan
SEGEPLAN:	General Secretariat for Planning
UNDP:	United Nations Development Program

I. SUMMARY AND RECOMMENDATIONS

A. Executive Summary

The five-year, $9 million Trade and Labor Relations Development Program is designed to promote continued growth in the Guatemalan economy through increased bilateral trade and expanded participation of the labor force in the benefits of growth. This will be accomplished by promoting an open trade regime, creating a sound investment environment, increasing the production and marketing of non-traditional exports and improving labor relations. The Trade and Labor Relations Development Program combines both project and non-project assistance. The program has two principal components: (1) the Sectoral Reform Agenda; and, (2) Trade and Labor Relations Project Activities.

The Sectoral Reform Agenda (SRA) targets policy and regulatory reform in the following two areas deemed critical to increasing trade and improving the investment environment: intellectual property rights protection and improving the investment approval process. In addition to these two areas of policy conditionality, the policy agenda will also include covenants requiring Guatemala to: 1) remain eligible for CBI and GSP benefits in order for disbursement to occur under the Sectoral Reform Agenda, 2) present legislation designed to improve the dispute resolution process and 3) reduce non-tariff barriers.

Three million dollars in Economic Support Funds (ESF) will be disbursed against these policy reforms. These dollar funds will be used to support exports from the United States by making dollar financing available to the local banking system for eligible import transactions encompassing raw materials, spare parts, construction materials, intermediate goods and equipment required for production or services related to production. The local currency generated from these dollar transactions will be used to support activities of the Bank of Guatemala and the Ministry of Economy (MOE) related to liberalizing the trade regime, to support decentralization of the Ministry of Labor (MOL) and implementation of new labor code reforms and to provide additional funding for the Mission's operational trust fund.

The Trade and Labor Relations Project Activities, totalling $6 million, will support and complement the Sectoral Reform Agenda by providing targeted interventions in the following areas: policy reform support for two-way trade expansion, non-traditional export development and labor relations. The policy reform support activities will be implemented through a grant to the Ministry of Economy and cooperative agreements with the Guatemalan Enterprise Chamber (CAEM) and the Guild of Non-Traditional Product Exporters (the Gremial). Non-traditional export development activities will be implemented by the Gremial,

Ministry of Labor, with complementary training and technical assistance provided by the Gremial, CAEM and the Ministry of Economy. Project assistance to the private sector entities will be completed by the fourth year of the program, but will be continued for a fifth and final year to the public sector (the MOL and the MOE) to allow adequate time for implementation of policy reforms and decentralization of the MOL.

By the end of this program, it is expected that, among other reforms, internationally acceptable intellectual property rights legislation will have been enacted, that mechanisms for effective settlement of investment disputes will exist, that Guatemala will be in compliance with the terms of its accession to the General Agreement on Tariffs and Trade (GATT), that the investment approval process will have been streamlined from 360 days to approximately one week, and that value added in the nontraditional export sector attributable to USAID support will have increased.

B. Summary Project Costs

The following table provides the cost of project components over the five-year LOP.

COMPONENT	LOP COST (USD 000's)
Sectoral Reform Agenda	3,000
Trade and Labor Relations Project Activities	
Policy Reform Support	1,828
Non-Traditional Export Development	2,635
Labor Relations	850
Program Management	432
Program Monitoring, Evaluation and Audits	255
TOTAL	9,000

C. Recommendation

This Project Paper/Program Assistance Document recommends approval of the Trade and Labor Relations Development Program. Authorization is requested for a $9 million ESF and DA Grant. The proposed obligation for FY 93 is $9 million. The Project Assistance Completion Date (PACD) is scheduled to be June 30, 1998.

D. Summary Project Findings

This program is ready for implementation and is financially, economically, technically, institutionally and environmentally sound.

E. DAEC Concerns and Design Guidelines

The concerns and issues raised at the DAEC review of the Trade and Labor Relations Development Program Concept Paper (formerly called the Trade and Investment Sector Program) are included in full in Annex A, and summarized below as follows:

1. The Concept Paper and the POD/AP describe conflicting plans in the event of reduced resource levels for Guatemala.

The Mission Director indicated that under a reduced funding scenario, the Mission plans to keep a limited policy-based program coupled with reduced projectized activities. In keeping with this statement, the PP/PAAD design has maintained the same balance of priorities as indicated in the DAEC review. Approximately thirty-three percent of total Trade and Labor Relations Development Program funding will go for policy reform, with the remainder to be used for project activities supportive of the policy agenda and strategic thrust. This ratio of project and non-project assistance is considered the best strategy for addressing the constraints identified as impeding increased trade and investment in Guatemala.

2. The Mission will narrow the scope of efforts in financial markets reform to concentrate technical support on standardized accounting regulations and developing procedures for bank failure.

The Mission has decided not to pursue any activities related to financial market reform, although they were originally included in the Trade and Labor Relations Development Program concept paper. A closer analysis of the sector, along with the more focused formulation of the IDB's policy agenda, indicated that these policy issues were significant enough that they had to be addressed prior to any USAID or other donor assistance in this area. Furthermore, the substantially reduced resource levels for the Trade and Labor Relations Development Program negated the possibility of working in this critical, but resource-intensive sector.

3. The Mission will take care to ensure that they coordinate conditionality in specific policy areas with the Agencies of the USG which have primary responsibility for them.

The Mission has made a concerted effort to coordinate with other USG agencies via the LAC/TI office. Specifically, the results of all the analyses have been shared with LAC/TI who, in turn, will present the conclusions in summary form to relevant USG agencies. In response to Ambassador Michel's comment, first, the Mission does not propose to include the proposed reduction to a 5-20% tariff range since this is included as conditionality in the World Bank SAL negotiations, and has already been accomplished. Second, as politically feasible, improvements in communications sector are and will continue to be an element in the Mission's policy dialogue. Due to the political sensitivity of this issue, as well as its fiscal importance, this is not an element in the Sectoral Reform Agenda. It will be dealt with under the Policy Reform Support sub-component. Third, the corruption issue may be addressed under the same sub-component in coordination with ODDT and LAC/DI.

4. If resources are available, the endowments proposed by the Mission may be the best way to ensure the sustainability of private sector activities in the area of trade and investment.

Under the Trade and Labor Relations Development Program, an endowment was originally envisioned for the Gremial to support those developmental trade activities for which full cost recovery is unlikely due to the nature of the activities and the limited amount of Gremial resources. However, because of actions being taken under other projects to ensure the Gremial's sustainability, this endowment is no longer required.

5. Policy-based dollars will not be disbursed until an agreement with the IMF is in place.

This issue is no longer relevant because Guatemala has signed an agreement with the IMF.

6. The Mission should send a reporting cable describing the final design of the program, including total budget, benchmarks to be used for disbursements, a discussion of how dollars will be used and managed, and a description of dollar and local currency funded project activities (including endowments).

A continuing dialogue has been maintained with the Bureau regarding the design and negotiation of this program. A cable covering the points described above will be drafted and sent to A.I.D./W before project authorization.

Section 599

In addition to the issues described above, the Trade and Labor Relations program was designed taking into account new guidance on trade and investment related activities provided in Section 599 of the FY 1993 Appropriations Act. Section 599 prohibits U.S. Government assistance from being used to induce U.S. firms to relocate overseas, from assisting in the establishment or development of free trade zones and from assisting any activity that contributes to the violation of internationally recognized workers rights. Following the enactment of this legislation, the program was redesigned, eliminating all planned active investment promotion activities and all assistance to the maquila sector, and strengthening activities relating to improving labor relations and safeguarding workers rights. Consistent with this new legislation, the HB 13 agreements with both CAEM and the Gremial will include a certification that they are not contributing to violations of internationally recognized workers rights.

F. Contributors to the Project Paper/Program Assistance Document

The following individuals contributed to the development of this PP/PAAD:

A.I.D. Project Design Committee
Donald Boyd, Chief, PDSO
Tully Cornick, Chief, TIO
Kim Delaney, Trade and Investment Officer
David Hoelscher, Chief, OEPA
Alfred Nakatsuma, USAID Environment Officer
Elizabeth Warfield, Chief, PDSO

A.I.D. Project Review Committee
Terry Brown, Director
Steve Wingert, Deputy Director
Bambi Arellano, Chief, ODDT
Gary Cook, Chief, OHE
Paul Novick, Chief, ORD
Ana Vilma Pocasangre, Acting Chief, OEPA
John McAvoy, Regional Contracting Officer
Gary Byllesby, Regional Controller

Institutional Contractors
Development Alternatives, Inc. (DAI)
Louis Berger International
Interamerican Management Consulting Corporation
Rodriguez, Castellanos and Solares
Americas Group International
CARANA Corporation

II. MACROECONOMIC OVERVIEW

A. Economic Performance

1. Background

Guatemala is the largest Central American country in terms of both population and economic activity. The climate is varied and the wide distribution of soils allows cultivation of a variety of agricultural crops including coffee, tropical crops, fruits and vegetables. During the 1960s and 1970s, Guatemala's economy enjoyed steady growth, reflecting the impact of high prices for the country's export goods, the growth of exports within the Central American Common Market (CACM) and significant inflows of foreign resources. At the same time, prudent financial policies, including low fiscal deficits, moderate monetary expansion and flexible wage policies all contributed to low inflation rates, low external debt and maintenance of exchange rate stability.

These conditions were reversed during the first half of the 1980s. The external position of the country deteriorated as the country's terms of trade deteriorated and trade channeled through the CACM collapsed. The negative impact of these external factors was compounded by expansionary fiscal and monetary policies, adopted to counter the deteriorating external developments. The overall deficit of the nonfinancial public sector rose sharply as overall outlays increased and tax collections collapsed. Bank of Guatemala credit to the nonfinancial public sector expanded rapidly, outpacing the growth in the demand for financial holdings of the private sector.

The GOG tried to mitigate the effects of this deterioration by closing the economy and imposing restrictions on international trade. Non-tariff barriers were tightened, restrictions were placed on the purchase of foreign exchange and the exchange rate system was modified. In 1984 the fixed parity of the quetzal with the dollar was abandoned and replaced with a three-tiered exchange rate system (the official, banking and auction markets).

In practice, however, macroeconomic conditions continued to deteriorate. The operation of the exchange rate system became disorderly and involved large subsidies by the Bank of Guatemala. The increase in BOG losses added additional pressure to the money supply growth. As a result, the overall balance of payments registered deficits in excess of 3.0 percent of GDP compared with the small surpluses registered in the second half of the 1970s.

2. Initial Stabilization

Upon taking office in 1986, the new Government changed dramatically the orientation of public policy by reducing the role of the state. The objective of this change in orientation was to first control inflationary pressures and second reduce constraints on international trade. Measures initially adopted included (1) a radical simplification of the exchange rate system, (2) a temporary export tax, (3) reduction of exchange rate subsidies, and (4) a reduction in the number of items under price controls from 490 to 25. The GOG also began to ease customs restrictions, streamline export procedures, drop all fiscal incentives to export to the CACM countries, and reduce import tariffs on apparel and textiles.

The immediate impact of this stabilization program was positive and resulted in broad improvements in a number of areas. The decline in economic growth was halted and inflation decelerated sharply. The combined public sector deficit--including the losses of the Bank of Guatemala--was cut in half to 2 1/2 percent of GDP in 1986, primarily through a significant reduction in Bank of Guatemala losses.

3. Frustrated Structural Adjustment

Following the initial stage of stabilization, the GOG began to institute wide-ranging structural reforms aimed at expanding the role of market forces in the determination of economic activities. Their impact, however, was partially offset by an inability to maintain consistent monetary and fiscal policies. Given the fixed exchange rate system, that slippage in demand management policies did not affect prices or domestic growth. A serious external disequilibria developed, however, and a severe foreign exchange crisis emerged in 1989.

A variety of policy adjustments were introduced between 1987 and 1989. Among the most important measures adopted were a revamping of the Guatemalan tax program (1987), opening of the "bolsa de valores" (the rough equivalent to the U.S. securities and exchange market) to trade Guatemalan public and private sector financial instruments (1987), unification of all commodity trade into the regulated exchange market (1987), the unification and depreciation of the exchange rate (1988) and the subsequent adoption of a floating exchange rate (1989).

The private sector responded quickly to these policy changes. Private investment increased from 8.0 percent of GDP in 1986 to almost 11.0 percent of GDP by 1989 and private sector capital repatriation accelerated. As a result, real economic growth averaged almost 4.0 percent between 1987 and 1989. At the same time, inflation steadily declined from almost 40 percent to

only 13 percent in 1989. Overall demand management policies of the government, however, continued to slip. The deficit of the nonfinancial public sector slowly increased as expenditure growth outpaced tax revenues. Monetary policy also eased as the Bank of Guatemala redeemed special BOG bonds ("bonos de estabilizaçion") in 1988 and incurred growing exchange rate losses in 1988. As the BOG had few monetary instruments, it was unable to moderate the growth in the BOG's net domestic assets and subsequent monetization of the economy.

These developments led to a loss in the BOG's net international reserves position of $130 million in 1988 and of an additional $88 million in 1989. By late 1989, dollar holdings of the BOG were exhausted and a serious foreign exchange crisis emerged. The GOG adopted a freely floating exchange rate, freed controls on domestic interest rates, authorized the use of open market instruments by the BOG and increased utility rates and gasoline prices. The Monetary Board also halted provision of new exchange guarantees on exports.

The economic situation deteriorated sharply in 1990 as the BOG failed to offset the impact of either the remaining exchange guarantees on the money supply or the increase in domestic liquidity created in late 1989. The impact of the poor economic policies was aggravated by the growing uncertainty surrounding the elections held in late 1990. The recently floated exchange rate rapidly depreciated and inflation accelerated. Accumulated inflation in 1990 was almost 60 percent compared with only 18 percent in 1989.

B. Stabilization and Structural Adjustment

The government that took power in 1991 moved quickly to stabilize prices and bring monetary policy under control. Net credit of the BOG was reduced by almost 140 percent and reserve requirements were increased. At the same time, interest rates on BOG bonds (CENIVACUS) were kept extremely high.

The immediate impact was a reduction in the domestic money supply, a slowdown in inflationary pressures and a sharp increase in net dollar inflows into the BOG. Dollar holdings, for example, increased from only $53 million at the beginning of the year to $580 million by December. The slowdown in inflation and the reserve gain helped improve private sector confidence. Private sector investment rates increased and non-traditional exports -- produced by small-scale farmers traditionally excluded from the monetized economy--boomed.

Having stabilized the economy, the GOG began to address the structural limitations that could restrict economic growth. The GOG joined the General Agreement on Tariffs and Trade (GATT) and agreed to abide by international trade agreements. Agreement

was reached with the USG on a bilateral framework agreement for a potential free trade agreement and the first bilateral Trade and Investment Council meetings was held in January 1992. The GOG also initiated tariff reform. The range of tariffs was reduced from 0-150 percent to 3-37 percent, and in March, 1993 reduced again to 5-20 percent. Non-tariff barriers are also under examination with the aim of eliminating the most binding constraints to trade. Finally, a new fiscal package was approved that should significantly increase government revenues. As part of this package, the 3% surcharge on imports was also removed.

The stabilization that emerged in 1991 has permitted the GOG to address seriously the broader issues surrounding constraints to trade and investment. These "second-generation" issues are difficult and require a prolonged period of negotiation both within the government and between the government and the private sector. Nevertheless, the time is ripe for supporting the GOG in its effort at addressing these issues.

C. ESF Program Status

The FY 1990 ESF Program Agreement was amended in FY 1991 to add an additional $20 million. These funds were combined with $30 million remaining under the FY 1990 ESF Agreement to provide for a total 1991 ESF agreement of $50 million. These resources were disbursed in November, 1992 to help eliminate external debt service arrears to the International Financial Institutions (IFIs). Full disbursement of the $50 million was conditioned upon satisfactory completion of the following measures:

1. implementation of the GOG's economic program;

2. a signed letter of intent with the International Monetary Fund (IMF); and,

3. acceptable arrears-clearing package to ensure renewed lending by the IMF, the World Bank, and the InterAmerican Development Bank.

Since the 1991 ESF agreement was signed, the GOG has made good progress in implementation of its economic program. It continued implementation of the stabilization program, resulting in a sharp reduction in inflation and its subsequent maintenance at an annual level of 10%, until recently, when some slippage has occurred. A fiscal reform package was submitted to Congress and approved, increasing revenue generation for the medium term. The new package represents the implementation of a broad-based Tax Modernization and Reform program including administrative changes in the tax system. This new tax revenue system is broad-based, equitable, simple and administratively feasible. The GOG also implemented a series of reforms in the trade regime, including removal of import and export licenses and restrictions,

harmonization of its tariff schedule, and a reduction in the tariff range from 0-150 to 5-20%.

III. Analytical Framework for Trade, Investment and Labor Relations

A. Rationale

1. Present Conditions

Guatemala's economy--the largest in Central America--is dominated by the private sector, which generates nearly 90 percent of the gross domestic product. The Government's participation in the productive process is limited largely to public utilities, several development-oriented financial institutions, and a variety of regulatory activities. After a significant decline in growth of Gross National Product (GNP) in the early eighties, the economy rebounded in the last 6 years, growing at a annual estimated rate of 3.2 percent. In 1992, Gross Domestic Product (GDP) attained its highest growth rate in fourteen years, reaching 4.8%.

Despite the increased significance of non-traditional exports within the overall economy, the overall composition of the Guatemalan economy has not changed since the 1950s. The major economic sectors are agriculture and commerce, each generating about a quarter of total GDP (25 and 24 percent, respectively). Industry is next with 15%, followed by transportation (8%) and public administration and defense (7%).

Agriculture is the principal economic activity, directly contributing one quarter of GNP; it also provided for more than two-thirds of 1992 export earnings and approximately 50 percent of employment. The agricultural sector continues to be dominated by traditional export crops, particularly coffee, sugar, and bananas. However, in the past five years, the growth of non-traditional agricultural products has expanded at an average annual rate of approximately 20 percent, becoming clearly the most dynamic export sector within agriculture (see Figure 1). Within the non-traditional export sector, agricultural commodities, such as vegetables, fruits, shrimp, and cut flowers have gained important shares of the international market.

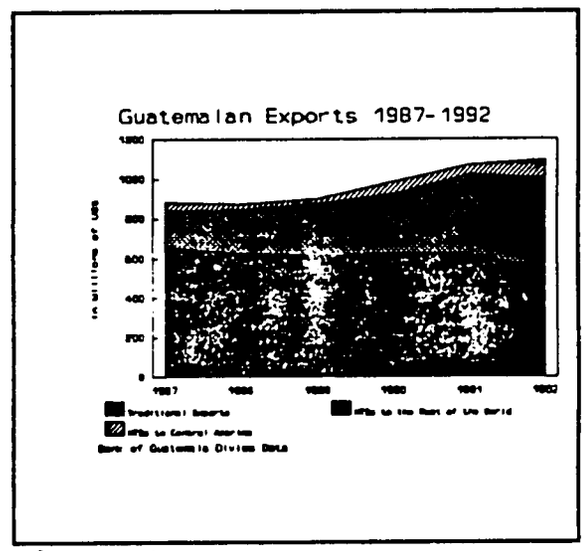

Figure 1

In 1990, industrial production was estimated at $3.35 billion; an amount that breaks out into 58% in agroindustry, 36% in manufacturing and 6% in chemical and non-metallic mineral products. There is no heavy industry. Most manufacturing is devoted to light

assembly and food processing operations, and is still geared largely to the domestic market. Factoring out agroindustry, the remainder of the manufacturing sector contributed 14.8 percent of GNP in 1990. The textile assembly industry or *maquila* is the most dynamic industry of this sector, growing during the last three years to over 500 firms and 70,000 jobs. In general, Guatemalan manufacturing operates at relatively low rates of capacity. The industrial sector generates some 390,000 jobs with a strong participation of women (170,000 or close to 40% of total jobs created in this sector). Local industrialists are now actively engaged in shifting production from domestic to Central American and world markets.

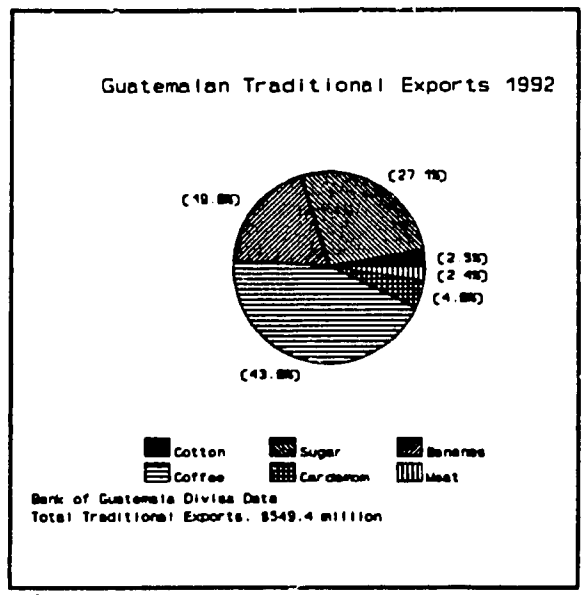

Figure 2

Tourism has once again become an important sector of the economy, recovering from a sharp decline in the early to mid-1980's when the security and political situation had seriously deteriorated. Particularly important for its foreign-exchange earnings, tourism accounted for foreign exchange earnings of $152 and $186 million in 1989 and 1990, respectively. In 1991, there were 600,000 tourists, resulting in more than $212 million in hard currency. By 1992, tourism had replaced coffee as the largest generator of foreign exchange. It is projected that by the year 2000, tourism will have doubled both in number of tourists and in foreign exchange earnings.

a. <u>Trade:</u>

The relative openness of the Guatemalan economy is reflected in the strong performance of overall trade as a share of GNP (exports and imports amounted to 15% and 14% of GNP in 1992). The United States is Guatemala's largest trading partner, purchasing 37 percent of Guatemala's exports and supplying 41 percent of the nation's imports in 1991. For calendar year 1992, Guatemala's total imports reached $2.945 billion, up 59 percent from last year's levels; total exports rose to $1.093 billion, an increase of 2.2 percent over 1991. This rapid growth in imports combined with the minimal growth in exports led to one of Guatemala's largest trade deficits ever of $1.852 billion.

The export performance of traditional agricultural commodities was weak in 1992 (See Figure 2). Only export earnings from sugar and bananas increased; sugar grew by 3.9 percent for a

total of $148 million, and bananas increased by 44 percent to $108 million. Export earnings declined for cotton ($13 million, down 30 percent), cardamon ($25 million, down 13 percent), coffee ($239 million, down 27 percent), and meat ($13 million, down 49.5 percent). Low international commodity prices, combined with a severe drought in 1991, contributed to this poor export performance of the traditional agricultural export sector.

The significant growth in non-traditional exports (NTEs) at the same time compensated for the poor performance of traditional exports (see Figure 3). Total NTE earnings surpassed coffee export revenues (Guatemala's past number one foreign exchange earner) for the second time in a row, generating $448.7 million last year. This represents the seventh year of robust NTE expansion, with average annual growth rates of approximately 20 percent. This continued growth substantiates the widespread belief that the non-traditional export sector offers the best hope for future economic growth and job creation. In addition to the export of fresh and processed fruit and vegetables, cut flowers and apparel are major non-traditional exports.

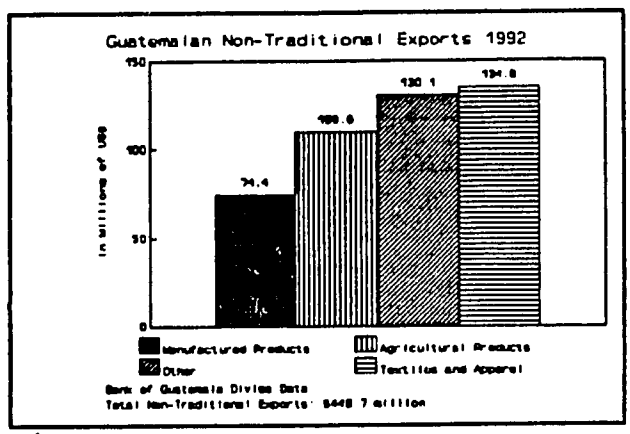

Figure 3

b. **Investment:**

Guatemalan investment has historically been led by the private sector, contributing more than 77% of total investment spending. In 1992, both private and public investment increased in nominal terms by 30 and 30.5 percent respectively, with total investment as a share of GDP increasing by 3 percent. Although Guatemalan public spending in infrastructure and social services has traditionally lagged behind that of other Central American countries, overall public sector expenditures increased by 5.8% in 1992, reversing a two year declining trend, due to investments in telecommunications, higher public sector salaries and increases in service delivery.

The growth in public spending was partially financed by an increase in tax revenues as a result of tax reform legislation passed early in 1992. These revenues are projected to result in an annual increase of nearly 1 percent of GNP, which will be targeted for investment spending over the next five years.

For 1992, private investment was largely concentrated in the purchase of imported capital goods (60% of the total, or $752 million) or in domestically manufactured capital goods (22% of the

total, or $277 million). The remaining 18% of private investment was allocated to private construction (13.9%), permanent crops (2.5%) and capital improvements in land (1.6%). Virtually all investment was urban focused and concentrated in the capital city.

The GOG attempted during 1991 and early 1992 to control credit by raising interest rates payable on a newly issued series of government bonds (CENIVACUS). The response was an increase in the inflow of foreign capital. The net flow of private sector funds to the Guatemalan financial markets (i.e. not linked to imports, exports or direct investment) was of $899 million, roughly equal to half the value of imports for the year, and foreign exchange reserves grew by $536 million in 1991 at a time the trade balance registered a $649 million deficit [1].

c. Labor Relations

The Guatemalan labor force, which is defined as the economically active population over the age of 18, is estimated to be nearly 3 million people. The majority of workers are between the ages of 18 and 30 and male. Half of the labor force is found in the agricultural sector, followed by the service (14.6%), manufacturing (13.6%) and commercial (13.1%) sectors. For 1992, open unemployment was estimated at 6.1% (a decrease of 6.2% from 1991), with underemployment estimated at an additional 33.3%, resulting in a total unemployment rate of nearly 40 percent.

Although labor statistics for the sector are sketchy, it is estimated that between 120,000 to 150,000 workers are directly involved in the production of non-traditional export products, with an additional amount indirectly involved in the sector through the processing, marketing and distribution of these products. The rapid increase in non-traditional exports has led to a concomitant increase in the number of jobs in this sector, growing from 14,300 in 1980 to 144,000 in 1990, a 906 percent increase. Many of the jobs created by non-traditional export production are in rural areas and connected to small farms producing high-value non-traditional products.

Relations between labor and management have historically been marred by violence and conflict. Organized labor is weak and splintered, comprising approximately 7% of the labor force. A smaller percent, approximately 3.5%, are members of solidarity

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[1] Additional data supporting the theory that the CENIVACUS mostly absorbed transfers from overseas is presented below. Money supply was of Q 9 billion early 1991 and Q 15 billion by the end of the year. Inflation (35%) and GDP growth (3.2%) would explain an increase in money supply to Q12.5 billion. The Q2.5 billion is equal to US$500 million which is in the same order of magnitude of the financial transfers from abroad estimated by the Mission's economic office.

associations. Other more informal labor organizations designed to resolve disputes are also found in the private sector.

The acceptance of a petition to review the workers rights situation in Guatemala in July, 1992 under the United States' Generalized System of Preferences (GSP) has focused increased attention on workers rights conditions. The petitions alleged that workers rights were not effectively protected through legislation, that legislation in place was not being enforced, and that certain basic internationally recognized rights (right of association, right to organize and bargain collectively, prohibition of compulsory or forced labor, minimum age for the employment of children, and acceptable conditions of work) were being violated.

Largely in response to the threat of the application of sanctions and the resulting loss of GSP and CBI eligibility, the Government of Guatemala, in a historic collaborative effort encompassing the labor, private and public sectors, amended the labor code for the first time in several decades to provide enhanced protection for workers rights. Other positive actions taken by the Government since the acceptance of the GSP petition include the establishment of seven new labor courts, approving the hiring of seventy-five new labor inspectors, increasing the budget of the Ministry of Labor, approving the operation of two new unions in the maquila sector and formation of a tripartite group composed of the labor, public and private sectors, set up to work together on improving labor relations.

2. Constraints

In FY 91, the Mission prepared a study entitled "Constraints to Trade and Investment in Guatemala", which assessed the progress made by the GOG in reforming trade and investment policies and identified those areas still requiring attention. In mid - 1992, the Mission conducted more in-depth studies of specific issues (i.e. financial markets, the trade regime, and the legal and regulatory environment for trade and investment). In 1993, an additional study was done on the labor relations situation in Guatemala, encompassing the public, private and labor sectors, and highlighting areas for improvement.

The results show that the many reforms already taken by Guatemala are significant, and represent the country's emerging commitment to free trade and improved labor relations. The strong growth in non-traditional exports is evidence of the effectiveness of the past reform program. At the same time, the investment climate continues to be a major impediment to further economic growth as does the inequitable distribution of benefits among the labor force. Provided below are the remaining policy, regulatory and institutional constraints which must be addressed in order to maintain an open trade regime, provide for a sound investment climate and improve the distribution of economic benefits among the

labor force. Removal of these constraints will permit further opening of the economy to competition from abroad as well as to fairer competition within.

a. The Legal and Regulatory Environment

The Guatemalan economy, like the U.S. economy, is remarkably free of legal and regulatory constraints to investment, except in the area of public utilities. Yet, although the legal and regulatory structure does not place explicit restrictions on either foreign or domestic investments in most areas, it does create a climate of investor uncertainty that has resulted in stagnant levels of private investment over the last decade. This climate of uncertainty has been attributed to deficiencies in legislation regulating intellectual property rights, international dispute resolution, and the lack of transparency and administrative efficiency in processing investment approvals. Moreover, the maintenance of inefficient public monopolies, particularly in electricity generation (until this last year), in transportation, and in telecommunications has prevented private sector investment in these areas, and has impeded the efficient operation and allocation of resources within the rest of the economy.

Perhaps the most serious issue facing Guatemala now is that of workers rights and the failure of the GOG to adequately enforce internationally recognized standards of **labor relations**. Not only could international sanctions be placed on Guatemala, resulting in the withdrawal of preferential access to the U.S. market under CBI and GSP and negatively affecting Guatemala's international competitiveness and export growth, but poor labor relations and inadequate protection of workers rights could also lead to increasing domestic production costs as workers move from firm to firm seeking better working conditions and benefits, entailing high firm-level training costs.

Although the labor code was amended in November, 1992 to address a number of concerns, the real test will come in the implementation and enforcement of this new legislation. A history of labor/management conflict and distrust further complicates efforts to improve labor relations and to encourage cooperation beyond the highest levels of both sectors, where a new realization of the need to work together has encouraged first steps toward formal coordination. If improvements are not made, this problem could draw international sanctions that would dampen both current and future investment, particularly in the industrial sector where labor violations are allegedly occurring, and result in a significant loss of jobs, especially in the rural areas.

Regarding **intellectual property rights**, significant deficiencies exist in the laws regulating patent protection, trademarks, and copyright protection. Currently excluded from patent protection, for example, are computer programs, chemical

compounds (but not the related processes), vegetable varieties and animal breeds, and foods and drinks. These exclusions are inconsistent with international and world class intellectual property right protection; while they exist, investors will continue to be reticent to invest in these areas as long as their investment is unprotected. Similar deficiencies under trademark registration leave "notorious trademarks", such as "NIKE", "ADIDAS", and "LEVI's" unprotected, while copyright protection fails to cover satellite program transmissions and computer chip design. These shortcomings in intellectual property rights protection have recently resulted in Guatemala's being placed on the U.S. Special 301 watch list, threatening eventual loss of significant trade benefits if sanctions are applied.

The lack of clearly defined and transparent procedures in dispute resolution through **arbitration and award enforcement** creates tremendous uncertainty for foreign investors. Although Guatemala is signatory to the New York Convention, Guatemalan law nonetheless permits recourse to local courts to slow down the arbitration process or to impugn an arbitration award settlement. Given the lack of transparency of the Guatemalan legal system, the absence of internationally accepted arbitration rights and procedures makes the risk of foreign investment in Guatemala unacceptably high for many.

Unduly burdensome and unclear **investment approval and registration procedures**, combined with difficulty in obtaining access to information on laws and regulations governing investment, increase both the cost and time required for making an investment compared with other Latin American and Caribbean countries. A total lack of legal provision for provisional registration of foreign branches, as well as lengthy approval requirements (up to a year) for corporation registration are just a few of the examples of the type and magnitude of constraints that investors encounter once they have taken the decision to invest. Many investors become frustrated with the process and withdraw before the process is complete.

At present, the Government of Guatemala operates a number of **public monopolies**, including specialized banking and credit institutions, communications and transport companies, grain storage and trading, and electrical power facilities. With few exceptions, these enterprises represent a substantial drain (an estimated 50% of public expenditures) on the GOG's fiscal resources. As government corporations, their activities are generally unresponsive to market signals with neither prices nor product distribution reflecting market demand. Perhaps the most serious problem with state-owned monopolies is that they limit further expansion within these sectors by prohibiting private sector investment.

Although the above areas represent the most significant constraints posed by the current legal and regulatory framework, there are many others that are also important. These include deficiencies in sales and contract law, unclear procedures for expropriation of land, government procurement, fiscal incentives for exports that many feel may be in violation of the GATT, and administratively difficult customs procedures.

Finally, an overarching complaint about **the general legal and regulatory system** is that it fails to provide greater certainty and structure to business. According to many, there exists a gulf between the written and the practiced (enforced) law that is mainly a problem of an ineffective judicial system (a right that cannot be enforced is not a right).

One apparent cause of the problem is procedural in nature - litigants have access to numerous procedural mechanisms which can be used to delay a proceeding. Other problems may relate specifically to civil legal systems where injunctions are not favored and judges are generally less willing to provide remedies for wrongs. There appears to be a general unwillingness on the part of the judiciary to interpret and apply the law.

As with the judicial system, the administrative law system is replete with delays, confusion, inaction, and irrationality. Not infrequently, companies are subjected to ambiguous requirements, applied inconsistently by the agency. It is not unusual for regulations to contain few or no criteria for limiting the discretion of the decision maker, creating a ripe environment for corruption. Regulations are often promulgated behind closed doors, at times without input from the person charged with enforcement and implementation. That, coupled with the fact that many final determinations are made by political appointees, can lead to significant bureaucratic delays and potential for political meddling.

b. Financial Markets

Exporters and export associations indicate that the most binding constraint that remains to export activity is the weak and fragmented financial structure. The legal framework regulating banking, weakness in the Superintendency of Banks, and inadequate financial reporting systems are seen as major problem areas.

The basic legal and regulatory framework governing banking activities in Guatemala is characterized by the excessive limitations it imposes on the development of formal financial sector activities. It attempts to minimize risks and instability in the banking sector by limiting or prohibiting certain activities rather than establishing prudential standards and effective supervision. As a result, banks are forced to provide services through parallel businesses operating outside of the existing legal

framework. This has produced a **lack of transparent accounting and financial information** resulting in the uncertain quality of bank portfolios and assets, the ineffectiveness of credit limits established by the law and an unacceptably high concentration of affiliated business activities.

One of the principal problems associated with the Guatemalan banking system is the widespread practice of using banks as a source of financing for the ownership group's business interests. The lack of adequate information, aggravated by the practice of using corporations with bearer shares, makes it extremely difficult to provide adequate supervision. The weakened condition of some banks, together with the **limited regulatory authority of the Superintendency of Banks**, could portend a repeat in Guatemala of the experience of other countries that have liberalized their financial systems: the rapid deterioration of the sector to the point of becoming a national crisis.

c. <u>The Trade Regime</u>

Although **tariff barriers** have been sharply reduced to a present range of 5-20 percent, there is still room for further reductions and harmonization; significant levels of effective protection can exist when even small differences in tariff levels exist. Along with the other Northern Tier countries of El Salvador and Honduras, Guatemala has moved to a four tier tariff structure of 5, 10, 15 and 20%. The maintenance of four different tariff rates will leave opportunities for arbitrary decisions and corruption at customs and will contribute to inefficiency and trade distortions. Not only will great care need to be taken to avoid distortions created by the new tariff structure, but further reduction in the range of tariffs will also have to be undertaken before free trade becomes a reality in Guatemala.

Other constraints arise from a series of **non-tariff barriers** such as export and import licensing. The licensing requirements for the export of thirteen products including rice, beans and corn and for the import of twelve products including fertilizers, herbicides and insecticides have now been removed. However, the GOG has decided that some licenses will still be maintained on exports of scrap metal, animal hides, and cattle fodder. While the importation of certain environmentally dangerous herbicides and insecticides should be prohibited, restrictions such as quotas and export licensing on all other products should be eliminated.

Because Guatemala, in the past, has not heavily utilized non-tariff barriers as a means of restraining trade, the recent threat to use discriminatory anti-dumping legislation and phytosanitary regulations to restrict imports of U.S. chicken parts is of particular concern. There is a growing consensus that as tariff barriers are reduced, new non-tariff barriers will be

erected, unless clear guidelines are quickly established that incorporate international standards for regulations such as anti-dumping and phytosanitary controls.

Fiscal incentives have been eliminated for rubber and poultry development and for industrial decentralization, but lengthy tax holidays have been maintained as significant benefits under the *maquila* and free zone promotion laws. There is considerable concern that the 10-15 year tax holidays provided for under this legislation are in violation of the GATT agreement covering export subsidies.

d. Inadequate Infrastructure

The lack of adequate infrastructure seriously constrains trade and investment in Guatemala. These constraints increase production and marketing costs, reduce product quality, and increase the time required for export. The Guild of Non-Traditional Product Exporters reports that more that 40 percent of the value of total Guatemalan non-traditional exports is comprised of marketing costs. As exports expand, current infrastructural deficiencies in roads, air and seaport facilities, telecommunications, energy and water availability, and storage and processing facilities will become, if they have not already become, major bottlenecks. Both public and private sectors can play larger roles in providing investment for infrastructural expansion and more efficient service delivery.

e. Technical, Human Resource and Institutional Constraints

While a benign policy environment is a necessary condition to increased trade and investment, institutional, technological and human resource constraints impeding higher levels of investment and exports also exist. A.I.D.'s experience in trade and investment has shown that companies in developing countries often lack information and skills necessary to engage in profitable trading and investment activities. Local firms need training in increasing production and product quality while at the same time improving human resource management; they require help in reorganizing product lines and guidance on how best to expand present operations and incorporate new products, and they frequently lack information about foreign markets, trading practices, and modern labor relations techniques. These obstacles must be overcome if Guatemalan businesses are to perform competitively in global markets.

3. Opportunities

The immediate opportunities for future economic growth will continue to be in the area of non-traditional exports, both agricultural and industrial, as current export lines continue to increase their international market share and as efforts at diversification of non-traditional export activities bear fruit and new export products develop. These developments will continue, in the near term, to benefit from Guatemala's comparative advantage in microclimates ideally suited for production of high-value vegetables on a year round basis, and from its supply of hard working, low cost labor. Recent developments in the transportation of Guatemalan NTAEs and in value-added processing of non-traditional agricultural exports should also allow for continued growth of product lines. As non-traditional exports increase, so too will employment opportunities, especially in rural areas, which will help to more equitably distribute the benefits of this sector's growth. With increased growth will come increased competition for skilled workers, leading to more value being placed on the labor force and more attention paid to improving working conditions and ensuring basic workers rights.

Major non-traditional agricultural commodities - snow peas, broccoli, baby squash, french beans, asparagus, cut flowers, and some of the berries - will benefit by increased international market diversification from the new airway routes recently authorized from Guatemala to Chicago and onward to Canada. Until recently, little or no fresh fruit, vegetables, or cut flowers from Guatemala were able to enter the enormous markets of Chicago and the midwestern states, let alone the Canadian market. With these new air routes, Guatemala is ideally suited to exploit these new markets in addition to maintaining market share in the traditional Miami and Los Angeles brokerage houses. Additional Lufthansa routes between Europe and Guatemala will also increase access to the European market for fresh vegetable and fruit shipments, allowing Guatemala to establish a greater presence and sales there. Products such as fresh mangos, which saw a loss of market share in the European markets during the Gulf War, when direct European-Central American routes were curtailed, will also be able to regain market share.

Finally, initial trial runs of bulk-loaded products, such as melons, shipped from Guatemala and El Salvador out of Puerto Barrios, offer the possibility of shipping directly into the Philadelphia and northeastern U.S. markets, cutting out expensive overland shipping from Miami. Should the returns under this trial project materialize as expected, reducing freight cost by more than $2 a crate in the case of melons, Guatemala will have gained direct access to new markets and a significant reduction in freight costs.

Value-added processing of fruit and vegetables will further enable Guatemala to increase market share in the United

States for its commodities. Several food processors have successfully broken into the "up-scale" institutional market (i.e., large hotel, grocery store, and restaurant chains) with individual one-pound and single-serving packs, and some with micro-waveable wrappings. This is a major new market that is virtually unexploited. Niche markets for dried and sugared fruits, as well as organic products are being developed as well.

Industrial non-traditional exports, particularly in the *maquila* sector, should continue to grow at the significant rates of past years. The United States is considering permitting the cutting of U.S. textiles shipped abroad under draw back ("807") legislation to be carried out in Guatemala. In the three years that Guatemala has been developing the textile assembly industry, it has moved from reliance on the easier-to-assemble products such as shirts and blouses into the more sophisticated assembly products of finished women's coats, skirts and suits. As the textile assemblers and their work force increase skill levels and the sophistication of assembly lines, growth in the *maquila* area will increasingly occur in higher quality and more complex product lines such as finished suits.

The potential to increase market share, develop new NTE product lines, and diversify markets which will lead Guatemala's non-traditional export growth in the next several years is complemented by supportive government attitudes that recognize that sectoral level policy reforms must also occur to further stimulate this growth and to permit the development of new non-traditional productive activities. Both public and private sector groups recognize that long term growth potential requires not only maintaining the productive viability of the well established non-traditional enterprises, but also the elimination of constraints to new investment and improved labor relations, if new non-traditional export endeavors are to occur. Thus, non-traditional exports in Guatemala should prosper in the near future because it already has a well established position in the export market, and the GOG and private sector are willing to make the necessary policy changes to further improve that position in the long term.

4. Rationale for Assistance

Reforms taken by the Government of Guatemala in the late 80's to improve the macroeconomic environment and support the productive capacity of the export sector provided the basis for the current move toward open trade by re-establishing a sound policy framework. However, to continue economic growth, Guatemala must now address the essential second-generation sectoral policy, regulatory and institutional issues constraining further growth in trade and private investment. Because resource levels and comparative advantages can be changed only in the long term, Guatemala's economic growth can only come from fundamental improvements in the domestic incentive structure determined by

policies and regulations, and their enforcement. Moreover, this is the only area where it can improve the incentive structure rapidly.

Although an "outward", global market orientation is important, the recent history of traditional export products, such as coffee, sugar, cotton and beef, has shown that the potential for future growth of these products is limited; exceedingly competitive traditional commodity markets, frequent global oversupply of product, and declining real prices for traditional export crops mean that reliance on these commodities for future economic growth is both risky and unwise. The clearest case of this is seen in coffee, where real prices have fallen to levels not seen in the last four decades and improvements in the world coffee market are not expected for the next several years.

The rapid growth of non-traditional exports during the last six years has demonstrated that when the macroeconomic policy environment is sound, the private sector will quickly respond with new "non-traditional" exports. But even here, the initial growth was relatively easy, taking advantage of Guatemala's microclimates and its comparative advantage in off-season vegetable production; continued growth must come from further diversification within the non-traditional export sector and increased productive capacity, a process heavily reliant upon the introduction and diffusion of new technology and financial and human capital. This requires open markets permitting the free flow of not only goods, but also of capital, technology and ideas and an understanding of how improved labor relations can lead to increased productivity and growth.

At the same time that its need for foreign capital- and the accompanying technological innovation that it brings with it - is growing more critical, Guatemala can no longer depend solely on foreign resources to maintain economic growth. International capital to finance investments remains in short supply, a situation made more constraining by the host of new claimants (Eastern Europe and the New Independent States (NIS)) on international financial capital. Foreign commercial banks continue to reduce their exposure in developing countries, forcing developing countries to rely more heavily on the generation of domestic resources to finance critical investment spending. If domestic resources are not forthcoming, Guatemala will face decades of low per-capita growth and will fall far behind its Central American neighbors in trade and development.

If Guatemala is to successfully compete in the global marketplace for capital and technology, it must continue to improve the incentive structure of its business environment. This will permit it to successfully attract scarce foreign capital and ensure local capital can be more profitably invested at home rather than abroad. Through the promotion of a more liberalized trade regime and an open investment environment, the Trade and Labor Relations Development Program will help create a healthy climate for

enterprise, deregulating restrictions to market entry and exit, eliminating government intervention in pricing, and ensuring adequate infrastructure and institutions. In promoting further openness and deepening of the strong market orientation of the Guatemalan economy, this program will lead to reductions in non-tariff restrictions on trade and investment, in lower tariffs, and in a move away from discretionary forms of market control. By moving away from conflictive models of labor/management relations and encouraging dialogue and cooperation among the public, private and labor sectors to jointly increase the protection of workers rights and improve labor relations, this program will provide greater participation of workers in the benefits of economic growth. These are the specific goals that the Trade and Labor Relations Development program is designed to accomplish.

5. Relationship to GOG Strategy

The goal and purpose of the Trade and Labor Relations Development Program is to support and assist the Government of Guatemala's program of economic and social development, as laid out in the Serrano administration's position paper, **"Politica Economica y Social-Gobierno de Guatemala periodo 1991-1996"**. The Serrano government will promote economic development and a more equitable distribution of the benefits of this growth through the modernization of its economy, achieved though stimulating investment and increasing its competitiveness in the market.

Major components of the GOG's economic strategy include maintaining a sound macroeconomic climate and modifying commercial policy to increase direct foreign investment and trade. The GOG has already taken the first steps in a program of tariff reform and reduction, and is pursuing further reductions and harmonization in conjunction with other Central American countries as part of the larger policy of Central American integration. The government has identified financial modernization and the creation of a clear, stable and certain business climate as their major short term goals. It has also demonstrated its political will to promote improved labor relations and rights through its recent reform of the labor code. The Trade and Labor Relations Development Program, through its policy agenda and project assistance components, directly contributes to the Government's efforts to open up the economy, improve the investment climate and enhance labor relations.

6. Relationship to A.I.D. Strategy

The Mission's goal is to support the achievement of broad-based, sustainable economic growth within a stable, democratic society in Guatemala. Expanded trade in globally competitive markets and increased private investment are considered the engines for achieving sustained economic growth and development. The achievement of short-term economic stabilization

and an improved macroeconomic policy environment have resulted over the past five years in increased trade flows and investment in Guatemala as well as enhanced employment opportunities. Continuation of this strong economic performance will depend upon ensuring a competitive environment that provides proper incentives, encourages the free flow of technology and market information, and offers opportunities to all.

The Mission's strategy over the past five years has been to strengthen and expand the Guatemalan private sector. However, interventions designed to strengthen the private sector are of limited utility if the policy environment is not conducive to increased trade and investment due to market failures and imperfections. Hence, USAID's strategy for the 1993-1998 planning period will focus on correcting these market imperfections by eliminating the remaining policy, regulatory and institutional obstacles to increased trade and investment, while encouraging a vigorous response by the private sector to a more favorable, market-oriented policy environment. Paralleling these efforts is the promotion of improved labor relations to enhance productivity and firm level competitiveness through increased worker participation and satisfaction. The impact of these reforms will be felt throughout the economy, promoting sustainable economic growth and increased participation on a broad base. Only then can real employment be generated and benefits realized by a significant portion of the population.

USAID's in-country presence gives it a distinct advantage over other major donors in influencing policy reforms critical to developing an open trade regime and providing a sound investment climate. Moreover, USAID is able to provide institutional and analytical support for trade policy reform. The timing of the Trade and Labor Relations Development Program is opportune for supporting the liberalization of Guatemala's trade and investment regimes, given the favorable policy orientation of the Serrano government, the present linkage and dialogue between the public and private sectors, and the USG's interest in promoting hemispheric free trade under the Enterprise for the Americas (EAI).

In the latter instance, the Trade and Labor Relations Development Program will facilitate Guatemala's accession to the "docking" provision of the North American Free Trade Agreement (NAFTA) by promoting critical steps toward a Bilateral Investment Treaty, an Intellectual Property Rights Agreement, and an improved labor relations regime, all of which are considered important aspects of any free trade agreement negotiated with the U.S. The prospect of accession to a Bilateral Investment Treaty (BIT) and to NAFTA's "docking" provision will provide critical leverage to achieving the policy reforms in the SRA, since the policy items included in the Trade and Labor Relations Development Program's policy agenda are integral steps to acceding to either a BIT or to NAFTA.

7. Relationship to Other Donors

During the design of Trade and Labor Relations Development Program, the Mission has worked closely with the World Bank and the Inter-American Development Bank (IDB) as they develop jointly a $175 million Economic Monetization Loan (EML) for Guatemala, to coordinate policy agendas and assistance strategies. In overall resource levels, the World Bank and the Inter-American Development Bank will be the major donors influencing policy change in the macroeconomy and in sectoral developments related to trade and investment during the planning period. However, the Mission will continue to play an important role in providing input on policy reform progress and program status to the World Bank and the IDB as their programs are developed. Because the policy reform agenda of the Trade and Labor Relations Development Program includes required first steps to accede to a BIT or to a Free Trade Agreement with the United States, it will be important for close donor collaboration to continue to ensure complementary policy agendas. Other donors such as the United Nation's Development Program (UNDP), the European Economic Community (EEC), and the German Development Organization (GTZ) are expected to play secondary roles in this sector.

Under the EML, the World Bank will be focusing on reducing the public sector deficit through increasing tax revenues and strengthening customs administration, improving services of the electric utility and agricultural marketing association, reducing non-tariff barriers, eliminating price controls, and reducing infant mortality. The Trade and Labor Relations Development Program policy agenda and policy reform support components will promote the reduction of non-tariff barriers and overall trade liberalization measures. Strengthening customs administration will be the domain of the World Bank.

As its contribution to the EML, the IDB is developing a $75 million Financial Sector Reform Program to support modernization of the financial sector relating to monetary policy, the regulatory framework and banking supervision and operations. The Mission has decided not to pursue any activities related to financial market reform, although they were originally included in the concept paper for this program. A closer analysis of the sector, along with the more focused formulation of the IDB's policy agenda, indicated that these policy issues were significant enough that they had to be addressed prior to any USAID or other donor assistance in this area.

Following the negotiation of the Financial Sector Reform Program, the IDB will begin developing an Investment Sector Loan Program (ISLP) for Guatemala. The Trade and Labor Relations Development Program will lay the groundwork for further liberalization of the trade and investment environment under the ISLP. The Mission will continue to maintain a close and active

dialogue with these major donors regarding the content and status of their policy negotiations.

The UNDP is implementing a two and a half year $332,000 program with the Ministry of Labor, focusing on improving the Ministry's efficiency through reorganization, decentralization and improvement of internal control systems. The program's six local full-time advisors have been crucial players in the development and implementation of the Ministry's decentralization plan and improving the Ministry's efficiency. The Mission has been and will remain in close contact with these advisors as the program is developed to ensure complementarity of activities.

Both the European Economic Community (EEC) and the German Development Foundation (GTZ) have proposed small programs ($275,000 and $130,000 respectively) with the Gremial as part of region-wide efforts to encourage Central American exports. The EEC program will support technical assistance, participation in European trade fairs and training for 35-40 enterprises producing furniture and wood products. The GTZ program will focus on upgrading and monitoring the quality of fresh and frozen fruit and vegetable exports to Europe. In designing Gremial technical assistance activities, the Mission will take into account the sectors which are already targeted for assistance by the EEC and the GTZ.

B. Program Structure

1. Program Objectives

The Goal of the Trade and Labor Relations Development Program is **to support the achievement of broadly-based, sustainable economic growth in Guatemala through the stimulation of greater private investment and trade.**

The Purpose of the program is **to promote the growth of the Guatemalan economy through increased two-way trade and to expand the participation of the labor force in the benefits of growth.** Increased two-way trade will be achieved by promoting further liberalization of the trade regime through the reduction of tariff and non-tariff barriers to imports and exports. The climate for private investment in the productive sectors will be improved through the removal of major policy impediments. Increased exports will result from the increased flow of marketing information and technology and more stable labor relations. Finally, as more jobs are created from an increase in exports, workers will be able to participate more fully in the benefits of this growth.

Accomplishment of this purpose assumes the existence and stability of sound macroeconomic policies on the part of the Government of Guatemala, especially its monetary, exchange rate and fiscal policies. It also assumes continuation of the Caribbean Basin Initiative and General System of Preferences (GSP) trade

preferences and successful entry into a free trade agreement or its equivalent with the United States. Finally, it assumes that there will be no significant phytosanitary or other tariff or non-tariff barriers to entry to the U.S. market during the life of the program.

Measures of program success will include: 1) compliance with the terms of its accession to the GATT agreement; 2) enactment of internationally accepted Intellectual Property Rights legislation; 3) reduction in the processing time for foreign investments from 360 days to approximately 1 week by 1998; and 4) increased value added in the NTE sector attributable to USAID support (baseline to be established in FY 1993). The objective tree and performance indicators for this program and the Trade and Investment Strategic Objective are presented in Table 1. The logframe is found in Annex D. The program's goal will be accomplished when there is self-sustaining growth in Guatemala which is led by a vital private sector and which provides opportunities for a broad range of the population.

2. Program Components

There are two principal components to the **Trade and Labor Relations Development Program:** a) the **Sectoral Reform Agenda** which will support policy and regulatory reforms through policy-based cash transfer assistance and which will result in local currency generations; and, b) **Trade and Labor Relations Project Activities** to complement and enhance the Sectoral Reform Agenda through policy reform support for two-way trade expansion, non-traditional export development and improved labor relations.

The Trade and Labor Relations Development Program combines two assistance modalities: project and non-project assistance. This two-pronged approach has been identified as the most effective way for addressing the policy, regulatory and institutional constraints to increasing trade and investment in Guatemala. A discrete set of policy reforms will be implemented through the Sectoral Reform Agenda during the first year of the program. The policy agenda will, in turn, be reinforced through the Trade and Labor Relations Project Activities which are designed to support the successful passage and implementation of the policy reforms. In addition, the Trade and Labor Relations Project Activities will improve the production and marketing capability of firms poised to take advantage of the improvements in the policy environment. Finally, the Trade and Labor Relations Project Activities will support increased cooperation and sharing of information among the public, private and labor sectors to more fully protect workers rights and improve overall labor relations.

TABLE 1

Bureau Objective: Support the achievement of broadly-based, sustainable economic growth
Bureau Sub-objective: Encourage the adoption of and continued adherence to economic policies that promote investment, productive employment and outward-oriented diversification
Mission Strategic Objective: Increased Private Investment and Trade

Strategic Performance Indicators
- Increase private investment as share of GDP from 10.1% in 1991 to 11.5% in 1998 - Increase non-traditional export earnings from $399.8 million in 1991 to $887 million in 1998 - Increase in value of U.S.-Guatemala trade from $1842 million in 1991 to $3886 million in 1998

Sound Investment Environment	**Open Trade Policy**	**Increased production and marketing of non-traditional exports**
Foreign direct investment increased from $60.3 million in 1989 to $105 million in 1994	Reduction in the number of commodities subject to quantitative restrictions/licensing from 30 to 25 by 1998	Light manufactured exports increased from $67.6 million in 1991 to $126.6 million in 1998
	Compliance with GATT resulting in 0 GATT panel findings against Guatemala	Non-traditional agricultural exports increased from $97.2 million in 1991 to $197.4 million in 1998
		Apparel and textile exports increased from $108.6 million in 1991 to $247.5 million in 1998

Projects Contributing to the Strategic Objective		
PED Project (520-0341)	PED Project (520-0341)	PED Project (520-0341)
Trade and Labor Relations Development Program (520-0403)	Trade and Labor Relations Development Program (520-0403)	Trade and Labor Relations Development Program (520-0403)
	APERTURA (596-0170)	HAD Project (520-0274)
		Farm to Market Access Roads (520-0332)
		Small Farmer Coffee (520-0381)
		EXITOS (596-0165)

a. Sectoral Reform Agenda

Since 1985, the U.S. country team, through the use of Economic Support Funds (ESF), has provided support for the Government of Guatemala's stabilization program and the development of the private sector. With the success of the broad-based stabilization program and rapid response of the private sector, especially in the area of non-traditional product development and exports, the focus of the U.S country team discussions with the GOG have turned from the macroeconomic level to the joint discussion and analysis of sectoral constraints to increased trade and investment. These discussions have concentrated on the current state of financial markets, the trade regime, and the legal and regulatory framework informing trade and investment.

As part of the Handbook (HB) 4 agreement obligating ESF program funds, the GOG will submit a side letter that clearly identifies a series of policy reforms to be enacted as presented in detail in Annex C. The agreement will contain the following areas in which sectoral level policy changes will be made:

o **Protection of Intellectual Property Rights:** Sections of the Guatemalan Patents, Trade Mark, and Copyright Laws will be modified to bring them into compliance with world class standards regulating intellectual property rights. The principal indicators of the achievement of the policy objectives in the area of intellectual property rights are accession to the Paris and Berne Conventions and submission to the Guatemalan Congress of a legislative package designed to bring Guatemalan intellectual property rights legislation to world class standards, including modifications to the patent, trademark and copyright laws.

o **Investment Approval Process:** Under this policy objective, the One Stop Investment Window (Ventanilla Unica de Inversiones) will be established to provide a "one-stop" office to consolidate all investment clearance and approval requirements and all information (laws, regulations, and interpretations) pertaining to investment in Guatemala will be compiled and translated for distribution by the Ventanilla Unica.

In addition to these two areas of policy conditionality, the policy agenda will also include three covenants. The first covenant will require Guatemala to be eligible for CBI and GSP preferences in order to receive assistance under this program, in acknowledgement of petitions that have been accepted relating to workers rights and intellectual property rights against Guatemala under GSP. If Guatemala loses GSP/CBI benefits for failure to respond adequately to workers rights or IPR issues, funds under the policy component of the program will be withheld until Guatemala has taken the necessary corrective measures and GSP/CBI benefits are restored.

The second and third covenants will require the GOG to present legislation designed to more effectively resolve disputes and to reduce non-tariff barriers. Specifically, sections of present laws covering dispute settlement and arbitration will be strengthened to correct deficiencies in enforcing foreign and domestic arbitration agreements and awards. Indicators of achievement of the policy objective are presentation to congress of legislation designed to bring Guatemalan domestic legislation on arbitration into conformity with the New York Convention on the enforcement of Foreign Arbitral Awards and the Interamerican Convention on Commercial Arbitration to which it is signatory.

In addition, Guatemala will present to Congress a safeguards law and legislation that provides for adherence to the anti-dumping and countervailing duties code to avoid international friction, legal challenges, and unnecessary burdens on its economy and to ensure compliance with GATT norms.

1. Tranching Strategy

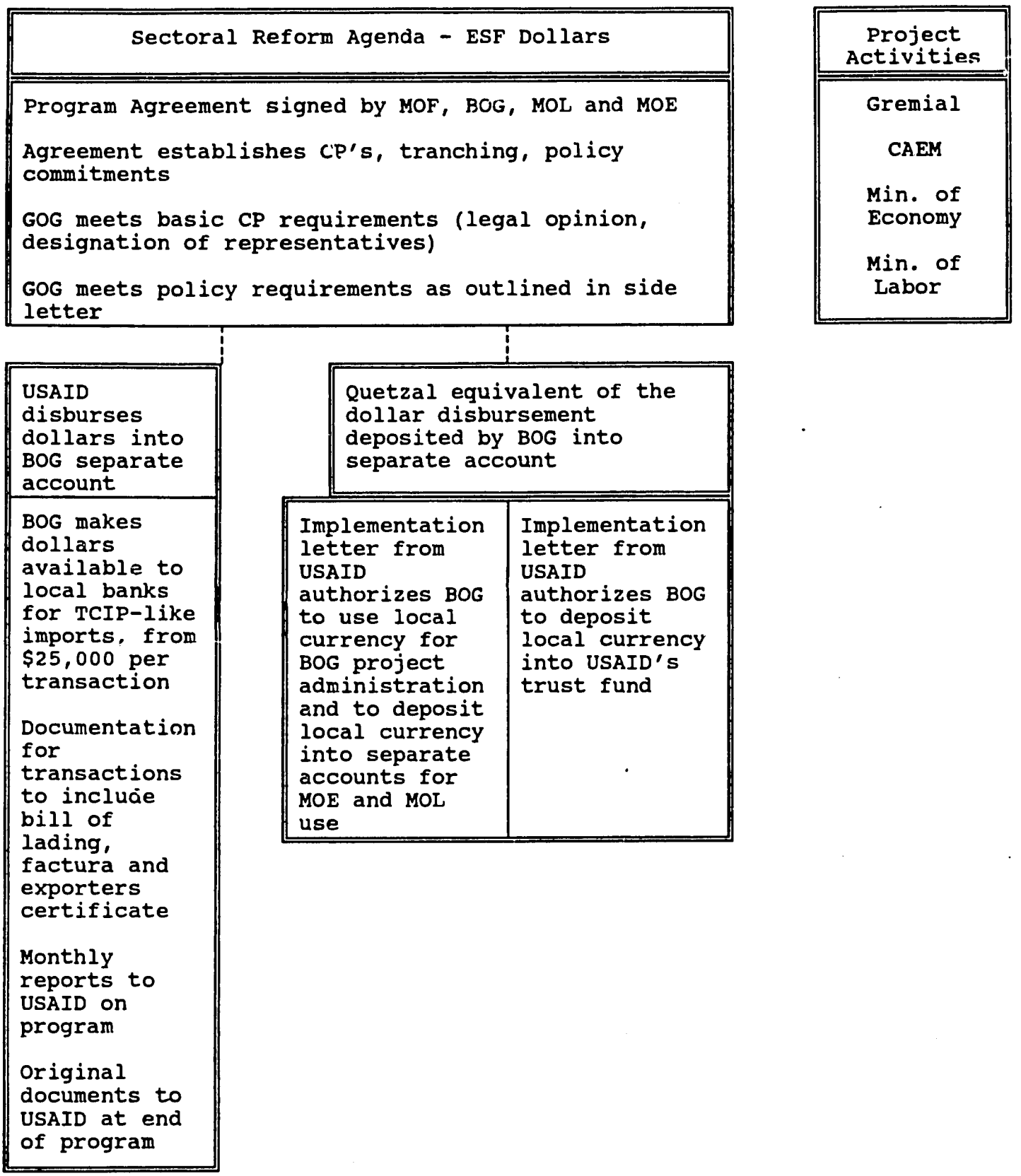
The cash transfer will be made through a one-time disbursement upon receipt from the GOG of a letter transmitting the legislation presented by the GOG for Congressional action and indicating the GOG has submitted the legislation to the Congress as defined above as evidence of progress towards the attainment of policy objectives in the areas of investment processing procedures and intellectual property rights protection.

The Mission acknowledges that the submission of appropriate legislation to the Congress does not ensure full attainment of the program's policy objectives. Full attainment would require two additional steps: 1) the passage of the legislation by the Congress as submitted and 2) the issuance of appropriate implementing regulations by the GOG. However, given the GOG's expressed willingness to adopt a liberal trade regime and that some draft legislation has already been presented by the GOG to Congress for informal review, the Mission is confident that the conditionality of the one-time disbursement will facilitate and expedite the full attainment of the program's policy objectives.

2. Local Currency Programming

Local currency generated under the sectoral program cash transfer will be programmed as general budgetary support for the **Ministry of Economy, the Ministry of Labor and the Bank of Guatemala** in areas related to trade and labor relations and to provide operational support for USAID through its operating expense trust fund. Funding for the operating expense trust fund will be contingent upon receiving full funding for the sectoral reform component of the program. Table 2 provides an outline of the flow of funds.

Table 2
Trade and Labor Relations Program Funds Flow



In the first case, approximately $2.0 million in local currency equivalent will be jointly programmed by A.I.D. and the Government of Guatemala as general budgetary support for the **Bank of Guatemala**, the **Ministry of Economy** and the **Ministry of Labor** in areas related to trade and labor relations. Of this, it is anticipated that the **Bank of Guatemala** will receive approximately $100,000 for project administration, for support for their training program, particularly in the area of international commerce, and for the statistics department to improve the analysis of trade and investment data and distribute it to a wide range of nonbank users, including the international donor community.

It is expected that approximately $900,000 in local currency equivalent will be available to the **Ministry of Economy** to assist it in its efforts to strengthen its information management system through computerization of existing data bases and development of new data bases, to help it undertake technical studies of real protection rates offered under the new and proposed tariff structures, and to promote greater institutional responsiveness among its various registries involved in trade and investment.

An additional $1 million will be provided to the **Ministry of Labor** to support a reorganization and decentralization of the Ministry designed to improve the delivery of services on a national scale and improve overall enforcement of the labor code. Training, technical assistance and operational support will be provided with these local funds to help address some of these issues.

Finally, approximately $1 million in local currency equivalent will be provided to USAID for operational expenses. These local currencies will be deposited in USAID's operating expense trust fund.

b. Trade and Labor Relations Project Activities

The Trade and Labor Relations Project Activities will consist of three subcomponents: **support for policy reform; non-traditional export development;** and **labor relations.** These activities build upon experience gained and lessons learned under the Private Enterprise Development (PED) project. Activities yielding successful results such as the institutional support, technical assistance and training provided to the Guild of Non-Traditional Exporters (the Gremial) will be continued albeit on a declining basis to reinforce current efforts by the Gremial to achieve sustainability. Support for policy reform efforts by both the private and public sector has been made an explicit activity under this design with the recent policy "audit" of the legal and regulatory environment for trade and investment as well as the analysis of tariff and non-tariff barriers serving as the framework

for articulating the policy agendas of both sectors and as a baseline against which the progress of the relevant institutions can be measured.

Both the Guatemalan Enterprise Chamber (CAEM) and the Gremial have emerged in recent years as leaders in representing interests of private sector exporters, investors, and business groups committed to market-oriented policies. During the Trade and Labor Relations Development Program, USAID will continue tc provide CAEM and the Gremial with institutional support on a diminishing basis over the first four years of Trade and Labor Relations Development Program to ensure their continued ability to carry out policy negotiations with the government on behalf of their private sector membership. USAID will phase out direct assistance to both organizations by the end of year four of the program, putting to the test both institutions' strategies for financial sustainability. Both institutions are expected to continue operating the last year of the program, and thereafter, without further A.I.D. direct assistance.

1. Policy Reform Support

The objective of this sub-component is to design and implement laws, policies, regulations and procedures that support growth in trade and investment. As noted above, USAID/Guatemala contracted the preparation of a policy "audit" of the domestic laws, regulations, policies and procedures relating to trade and investment to assist the Government of Guatemala and the private sector to understand how current policies constrain trade and investment growth and help them set priorities and an agenda for change. Hence, this analysis has served not only as the basis for defining the Sectoral Reform Agenda, but also as the blueprint for action under this Policy Reform Support sub-component and the framework for more detailed reform initiatives. Activities under this subcomponent are designed to support policy dialogue, improve the GOG's capacity to implement appropriate policy changes, and build consensus for change.

As the lead GOG institution involved in designing and implementing the country's trade and investment regimes, the **Ministry of Economy** (MOE) is charged with analyzing, designing and implementing the specific policy reforms contained in the Sectoral Reform Agenda as well as the other priorities identified in the policy "audit". Short-term technical assistance will be provided to the MOE to prepare analyses and conduct seminars to provide decision-makers with information and factually-supported recommendations for appropriate policy reforms. The assistance will range from studies by economists to analyze and refine the tariff reform package currently being prepared for the Central American region to legal advice to draft effective legislation and regulations in such areas as anti-dumping, anti-trust and countervailing duties, and will include analyses and formation of

policy in labor relations and environmental issues related to current negotiations of free trade agreements.

The analyses carried out in preparation for this program pointed to the need for the Ministry of Economy to strengthen its technical capability to analyze and implement policy, legal and regulatory changes. This enhanced capability is important if Guatemala is to comply with present and proposed commitments entered into under international accords such as the General Agreement on Tariffs and Trade (GATT), the Northern Tier Free Trade Agreement, the Mexico-Guatemala Free Trade Agreement, and the North American Free Trade Agreement. In addition, the lack of timely and valid statistical data upon which to base these policy decisions further complicates the GOG's ability to prepare informed analysis and present sound policy positions. Short-term technical training, will be provided, as appropriate, to MOE staff in the Foreign Trade Directorate. Finally, resources for data collection and management information systems, and for trade and investment policy analysis and implementation will be provided to the MOE to address the shortcomings cited above.

Finally, in order to build consensus among the Guatemalan private sector for changes in the legal and regulatory environment for trade and investment, USAID will continue to support **CAEM** and the **Gremial** in their efforts to develop and support trade and investment policy analysis and dialogue capabilities. This assistance will allow the private sector to play a constructive role in the design and implementation of trade and investment policies and to ensure that private sector concerns are fully taken into consideration. Funding for institutional development as well as short-term technical assistance and training will be provided to CAEM to further its efforts to promote regional integration, demonopolize and privatize state-owned enterprises, improve labor relations and remove policy constraints to increasing trade and investment in Guatemala. Institutional support and short-term technical assistance will be provided to the Gremial to assist it in its ongoing efforts to eliminate the policy, regulatory and infrastructural impediments to increased exports, and to begin to address the environmental and labor concerns that are closely tied to international trade.

2. Non-Traditional Export Development

The objective of this sub-component is to assist Guatemalan firms to engage in productive international trade. Activities under this sub-component are designed to provide market information to interested exporters, improve local firms' business skills, and provide guidance to meet government regulatory requirements.

The Gremial will continue to receive institutional support to further develop its capabilities in providing market

information to its non-traditional exporter members. The Gremial will be responsible for helping local businesses to penetrate new markets by advising them on the specific requirements for exports to U.S. markets such as pesticide residue levels for agricultural products and labelling requirements as well as general market trends. In addition, the institution will help its members monitor international markets by providing them with up-to-date information on market conditions, including prices and quotas, in order to improve local decision making. General information will be provided through a monthly magazine and bulletins, while specific information will be gathered in response to requests with fees collected for this service. Finally, the Gremial will assist local exporters in locating financing by providing them with information on local and international sources of credit.

Short-term technical assistance and short-term technical training will be provided to local export firms to improve their business skills, production techniques and quality control standards and procedures. The Gremial's successful in-house training program will also continue to receive USAID support. Local firms will be required to put up an average of 50% of the cost of the technical assistance provided, with the proceeds from the TA contract to be used by the Gremial as program income. Assistance will also be provided for participation in trade shows, allowing the Gremial staff and member firms to continue to participate in and organize appropriate trade shows, seminars, and conferences in order to sell Guatemala's exports. Fees will continue to be charged to the trade show participants to recoup some of the costs.

USAID will continue to support the Applied Agricultural Research Fund (ARF) and the Integrated Agricultural and Environmental Protection Program (PIPAA) managed by the Gremial. ARF addresses a variety of crop and commodity specific problems related to increasingly strict quality and safety standards required by export markets. Particular emphasis is placed on pest and pesticide management and phytosanitary problems. Local firms and producer groups are required to provide 50% of the research costs under the program. The research results are widely disseminated through publications and outreach activities of the program to public and private extension services. PIIPA focuses on finding solutions to specific pesticide residue and phytosanitary problems, functioning as the Guatemalan liaison with the Environmental Protection Agency and the Agriculture, Plant and Health Inspection service on U.S. market entry regulations. PIPAA has recently worked with Guatemalan snow pea producers to establish an in-country lab facility to test for pesticide residues and with melon producers to establish a pre-inspection mechanism to reduce the presence of insects on the exported product.

4. Labor Relations

The objective of this sub-component is to improve labor relations and the participation of the labor force in the benefits of growth. Assistance, mainly channeled through the Ministry of Labor, will focus on improving the implementation and enforcement of the reformed labor code, labor/management mediation and negotiation skills and techniques, awareness of national and international labor code legislation and the trade implications of this legislation not being enforced, enhanced productivity and competitiveness based upon improved labor relations and analysis of modern industrial labor relations models.

Technical assistance and training activities will promote improved cooperation and consensus formation among a tripartite group of labor, management and public sector representatives by involving all three sectors when appropriate. Delivery mechanisms for this technical assistance and training neutral enough to be acceptable to each group will need to be found, but could include the Department of Labor, U.S. university centers of labor relations or local organizations.

It is expected that the private sector (CAEM and the Gremial) will provide training in this area as well, focusing on the new labor code and on technical analyses related to increasing productivity through improved labor relations and internationally recognized workers rights standards. The Gremial already has some experience in this sector, having given courses to its members in the maquila sector on the requirements of the new labor code. CAEM, as the development arm of CACIF, the policy-making umbrella organization of the private sector which has been involved in all tripartite labor/private/public sector negotiations, has an important role to play in providing objective analysis of labor relations issues.

In recognition of its role in preserving Guatemalan access to GSP and CBI trade preferences and of its presence on the GOG committee on workers rights and labor relations, the Ministry of Economy will also receive support for training and technical assistance designed to improve the workers rights system and maintain Guatemala's currently competitive position in global markets through increased production and competitiveness.

IV. COST ESTIMATE AND FINANCIAL PLAN

A. Component Cost Summary

The total cost of the **Trade and Labor Relations Development Program** is **$9 million** divided between the Sectoral Reform Agenda component and the Trade and Labor Relations Project Activities. Each major project component cost within the Trade and Labor Relations Development Program is estimated as follows:

Table 3
Trade and Labor Relations Development Program Cost Summary

(In U.S. Dollars)

Sectoral Reform Agenda	$ 3,000,000
Policy Reform Support	$ 1,828,000
Non-Traditional Export Development	$ 2,635,000
Labor Relations	$ 850,000
Program Management	$ 432,000
Program Monitoring, Evaluation and Audits	$ 255,000
TOTAL:	$ 9,000,000

B. Financial Plan

Table 4 estimates the level of expenditures by project year over the five year life of project. Expenditures are presented by program activity and then by the individual institutions that will be carrying out those activities. This is further disaggregated to the level of the inputs that will be provided to each institution by USAID to assist in carrying out the given activity.

The level allocated for disbursements for policy reforms under the **Sectoral Reform Agenda** totals **$3 million**. This will be disbursed in one tranche. It is anticipated that these funds will be disbursed no later than twelve months after the signing of the project agreement. The local currency generated from sales of the dollars for productive U.S. imports will be deposited in a separate account and used for activities supportive of the program purpose. These include the administrative costs of the Bank of Guatemala for managing the dollar tracking system, support for such activities as expansion of the Bank of Guatemala's training program and strengthening of its trade and national account statistics, the analysis and implementation of policy reforms related to the program purpose by the Ministry of Economy, the decentralization of the Ministry of Labor and implementation of the new labor code reforms, and funding for the annual audits of these local currency activities. The remainder of the local currencies will be used for the USAID Operating Expense Trust Fund.

Table 4
SUMMARY OF PROGRAM COSTS BY PROGRAM COMPONENT AND EXPENSE CATEGORY
(in $000)

PROGRAM COMPONENT/YEAR	FY 94	FY 95	FY 96	FY 97	FY 98	TOTAL
1. SECTORAL REFORM AGENDA	0	3000	0	0	0	3000
Sub-Total	0	3000	0	0	0	3000
2. PROJECT ACTIVITIES						
A. POLICY REFORM SUPPORT FOR TWO-WAY TRADE EXPANSION						
1. Ministry of Economy						450
a. Short-term TA	0	50	100	100	100	350
b. S/T Tech. Training	0	25	25	25	25	100
2. CAEM						875
a. Institutional Support	105	117	131	188	0	541
b. Short-term TA	57	57	57	57	0	229
c. S/T Tech. Training	26	26	26	26	0	105
3. GREMIAL						503
a. L/T Tech. Advisor	70	140	0	0	0	210
b. Short-term TA	0	70	70	70	0	210
c. Short-term Training	0	28	28	27	0	83
Sub-Total	258	514	438	494	125	1828
B. NON-TRADITIONAL EXPORT DEVELOPMENT						
1. GREMIAL						
a. Institutional support	0	434	313	192	0	939
b. S/T Training - Staff	0	50	50	50	0	150
c. Trade Development	0	112	80	48	0	240
d. Technical Assistance	0	211	151	96	0	458
e. Short Term Training	0	46	33	20	0	98
f. Agri. Research Fund	200	140	100	60	0	500
g. PIPAA	100	70	50	30	0	250
Sub-Total	300	1063	777	495	0	2635
C. LABOR RELATIONS						
1. MINISTRY OF LABOR						
a. Technical Assistance	40	40	40	40	40	200
b. Training	60	60	60	60	60	300
2. CAEM						
a. Technical Assistance	28	24	24	24	0	100
3. GEXPRONT						
a. Training	21	21	21	21	0	82
b. Technical Assistance	30	30	30	30	0	118
4. MINISTRY OF ECONOMY						
a. Technical Assistance	10	10	10	10	10	50
Sub-Total	188	184	184	184	110	850
3. PROGRAM MANAGEMENT						
A. Financial Analyst	50	80	0	0	0	130
B. Program Assistant	7	17	20	23	26	93
C. Program Secretary	6	6	7	8	9	34
D. Program Manager	26	30	34	39	45	175
Sub-Total	88	133	61	70	80	432
4. PROGRAM MONITORING, EVALUATION & AUDITS						
A. Special Studies	59	19	51	19	0	149
B. Mid-term Evaluation	0	0	56	0	0	56
C. Audits of HB 13 Agreements	13	13	13	13	0	50
Sub-Total	72	32	120	32	0	255
GRAND TOTAL	906	4925	1579	1274	315	9000

Under the **Policy Reform Support** sub-component of the Trade and Labor Relations Project Activities, three institutions will receive **$1.828 million** in financial assistance: the Ministry of Economy, CAEM and the Gremial. The funding provided to the Ministry of Economy reflects the Mission's estimate of the demand for external assistance and training combined with its capacity to plan for and effectively utilize these funds. Grant funds provided to CAEM for institutional support, technical assistance and training will enable it to continue its efforts to analyze and implement policy reforms conducive to a market-oriented economy. The Gremial will receive a limited amount of institutional support and technical assistance on a declining basis (70% of their total budget in year one, 50% in year two year, and 30% in the third and final year of assistance) over three years in this area.[2]

Under the **Non-Traditional Export Development** sub-component, the Gremial will receive approximately **$2.635 million** to provide market information to interested exporters, improve local firms' business skills, and provide guidance to meet government regulatory requirements. The funding will cover institutional support, short-term technical assistance and training.

The institutional support to the Gremial for its export development activities, including its in-house training program, will be provided on a declining basis (70% of their operational costs in the first year, 50% in the second year and 30% in the third year) over three years. The Gremial will provide short-term technical assistance and training for local exporters as well as training for Gremial staff. It is expected that on average 50% of the costs of the technical assistance provided will be financed by the recipient firms with the proceeds allocated to program income or to capitalize the program endowment.

Approximately **$ 850,000** will be provided under the Labor Relations sub-component for technical assistance and training related to improving labor relations and strengthening the tri-partite consensus on labor issues. Assistance will be provided to the Ministry of Labor, Ministry of Economy, CAEM and the Gremial.

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[2] Due to the unexpended funds which CAEM and the Gremial have under the Private Enterprise Development (PED) project to carry out some of the policy reform and export development activities, CAEM and the Gremial in the first year of the program will only expend funds for those activities which are either currently not budgeted for or have been fully expended under PED.

Funding for **Program Management ($432,000)** will provide for a financial analyst, a program assistant, a FSN PSC project manager and a program secretary. Finally, under **Program Monitoring, Evaluation and Audits, $255,000** will be provided to support the development of USAID/G's in-house monitoring and evaluation system for the Trade and Investment Strategic Objective which will track performance not only under Trade and Labor Relations Development Program, but also under other USAID projects included under this strategic objective for which sufficient funding is not available under their respective project budget. Funding is provided under this component for annual recipient contracted audits of the Gremial and CAEM cooperative agreements.

C. Total Contributions to the Trade and Labor Relations Development Program

USAID funds will be used to leverage additional resources from private sector organizations such as CAEM, the Gremial, private businesses, and the Government of Guatemala. Conservative estimates indicate that Trade and Labor Relations Development Program activities will generate an additional $7.1 million in counterpart contributions -- resulting in a total program budget of $16.1 million. These calculations include the $3 million in local currency that will be generated under the Sectoral Reform Agenda, as well as additional contributions, in cash and in kind, from implementing institutions.

Tables 5 and 6 estimate the total investments that will support Trade and Labor Relations Development Program activities. Table 7 provides a breakdown of A.I.D. program funding by funding type. Major counterpart contributions to the program include:

- Ministry of Economy: It is expected that approximately $1 million of the local currency generated as a result of the disbursements under the Sectoral Reform Agenda component of Trade and Labor Relations Development Program will be provided as general budgetary support to the MOE to finance activities related to trade liberalization. The MOE will also provide an additional $200,000 in counterpart contributions for their project activities.

- Ministry of Labor: The Ministry of Labor will also receive approximately $1 million in local currency generations under the Sectoral Reform Agenda, which will be used to finance the decentralization of the Ministry and implementation of the new labor code. It is expected that the MOL will provide an additional $200,000 in counterpart contributions for their project activities.

Table 5
TRADE AND LABOR RELATIONS DEVELOPMENT PROGRAM
FUNDING FROM ALL SOURCES
(IN US$000)

ACTIVITY	TOTAL USAID	GOG*	COUNTERPART CAEM	GREMIAL	TOTAL COUNTERPART	TOTAL LOP FUNDI
SECTORAL REFORM AGENDA	3000	1000	0	0	1000	4000
POLICY REFORM SUPPORT	1828	1200	400	503	2103	3931
NTE EXPORT DEVELOPMENT	2635	0	0	2635	2635	5270
LABOR RELATIONS	850	1200	0	200	1400	2250
PROGRAM MANAGEMENT	432	0	0	0	0	432
PROGRAM MONITORING/EVALUATION	205	0	0	0	0	205
AUDITS	50	0	0	0	0	50
TOTAL	9000	3400	400	3338	7138	16138

* This total includes $3 million generated in local currency under the Sectoral Reform Agenda, plus an additional $200,000 each from the MOE and the MOL to support project activities.

Table 6
TRADE AND LABOR RELATIONS PROJECT ACTIVITIES
FUNDING BY INSTITUTION
(IN $000)

	AID	COUNTERPART	TOTAL
MINISTRY OF ECONOMY	556	1,200	1,756
MINISTRY OF LABOR	500	1,200	1,700
CAEM	1,000	400	1,400
GREMIAL	3,512	3,338	6,850
USAID PROGRAM STAFF	432	0	432
TOTAL FUNDING	6,000	6,138	12,138
PERCENTAGE	49.43%	50.57%	

* GREMIAL AND MOE TOTALS HAVE BEEN INCREASED TO REFLECT ADDITIONAL FUNDS FOR MONITORING, EVALUATION AND AUDITS

Table 7

Table 7
Trade and Labor Relations Development Project Activities
Expenditures by Type of Funding
(in $000)

	FY 94		FY 95		FY 96		FY 97		FY 98		TOTAL		GRAN
	FX	LC	FX	LC	FX	LC	FX	LC	FX	LC	FX	LC	TOTA
inistry of Economy	5	5	20	65	35	100	35	100	35	100	130	370	5
inistry of Labor	100	0	100	0	100	0	100	0	100	0	500	0	5
remial	70	350	262	889	216	757	169	625	0	0	717	2621	33
AEM	25	191	50	180	50	193	50	237	0	0	175	801	9
ogram Management	50	38	80	53	0	61	0	70	0	80	130	301	4
onitoring/Evaluation	0	59	0	19	56	51	0	20	0	0	56	149	2
udits	0	13	0	13	0	13	0	13	0	0	0	50	
otal	250	656	512	1218	457	1174	354	1064	135	180	1708	4292	60
FX and LC	28%	72%	30%	70%	28%	72%	25%	75%	43%	57%	28%	72%	
otal FX + LC		906		1730		1631		1418		315		6000	

- The Gremial: The Gremial will contribute $3.338 million or 50% of the total cost of their participation in Trade and Labor Relations Development Program. This funding will be provided through membership dues, income generated from program activities such as promotional events, training and fees for services delivered to member firms, and in-kind support. All technical assistance provided through the Gremial will be provided on a matching basis, with the firms contributing an average 50% of the total cost of assistance provided. As USAID funding for the Gremial's operational and program costs declines over a three year period from 70% of their costs to 50% to 30%, the Gremial will be increasing its support proportionally.

- CAEM: CAEM will contribute $400,000 or 28% of the total cost of their policy reform activities under the Trade and Labor Relations Development Program. This support will be provided through membership contributions and in-kind support.

D. Methods of Implementation and Financing

Activity/Method of Implementation	Method of Financing	Amount ($000)
1. Sectoral Reform Agenda		
- HB 4 grant	Direct Payment	$ 3,000
2. Project Activities		
a. CAEM-HB 13 agreement	30 day advances	$ 975
b. Gremial-HB 13 agreement	to not-for-profit implementing agencies	$ 3,338
c. MOE/MOL-HB 3 grant	Direct Payment	$ 1,000
3. Project Management		
A.I.D. Direct Contracts	Direct Payment	$ 432
4. Monitoring and Evaluation		
a. Special Studies Gremial HB 13 agreement	Gremial Direct Payment	$ 149
b. Mid-term Evaluation HB 3 Agreement	Direct Payment	$ 56
c. Audits HB 13 Agreement	HB13 Grantees Direct Payment	$ 50
TOTAL		$ 9,000

Funding for the Sectoral Reform Agenda will be obligated under a Handbook 4 Agreement, signed by the Ministry of Economy, the Ministry of Labor, the Ministry of Finance, SEGEPLAN and the Bank of Guatemala. Upon compliance with the mutually agreed upon policy reforms, funds will be disbursed to a special account in the Bank of Guatemala (BOG). The administrative expenses of the Bank of Guatemala for managing this special dollar account and the account into which local currency generations are deposited will be reimbursed for an agreed upon sum from the local currency generations.

As noted above, the Trade and Labor Relations Project Activities component will be implemented through two HB 13 cooperative agreements with two private, non-profit organizations and one HB 3 agreement with the Ministry of Economy and Ministry of Labor. In the case of the Ministry of Economy and the Ministry of Labor, the purchase of all goods and services will be paid directly by the Mission to the supplier since the MOE and MOL's financial accounting systems have not been certified by the Mission.

Part of the Special Studies and Evaluation component will be obligated under the HB 13 Cooperative Agreement with the Gremial. The rest will be obligated under the HB 3 grant with the GOG and will be implemented through purchase orders with local or U.S. firms. Financing will be via direct payment to the individual firms. The financial analyst, program manager, program assistant and program secretary will be contracted through A.I.D. Direct Contracts with direct payment. The audits will be implemented under the two HB 13 agreements, and contracted directly by the Gremial and CAEM.

V. IMPLEMENTATION PLAN

A. Implementation Analysis

The Trade and Labor Relations Development Program is a five-year program, with a PACD of June 30, 1998. The program is divided into two components: the Sectoral Reform Agenda, and Trade and Labor Relations Project Activities.

1. Arrangements for Implementing the Sectoral Reform Agenda

Upon final negotiation of the Sectoral Reform Agenda, USAID/Guatemala will sign a HB 4 agreement with the Ministry of Finance, Ministry of Economy, Ministry of Labor, the Bank of Guatemala and SEGEPLAN. The agreement will describe the objectives of the program, responsibilities of the parties to the agreement, and procedures for disbursement of the dollar and local currency resources. The agreement would contemplate a one-time dollar disbursement which would be based upon the GOG's satisfactory compliance with policy conditionality.

Based on the terms of the final agreement, the GOG will submit a side letter describing in detail the policy agenda objectives to be accomplished, as described above in the Sectoral Reform Agenda. Specifically, the side letter will contain:

a. A description of the policy agenda objectives to be attained and a description of the indicators of attainment of the objectives against which disbursement will be made.

b. A commitment to jointly monitor and evaluate progress in attainment of the policy objectives laid out in the side letter. This will ensure an amicable resolution of differences of opinion and a joint analysis of issues. Given that most indicators of progress involve presentation to Congress of proposed legislation, the legislative proposals **(Anteproyectos de Ley)** will be submitted to USAID for its approval in form and substance prior to formal submission to Congress.

c. A best-efforts commitment to ensure the passage of the legislative proposal, as presented to Congress, without significant changes.

Prior to the disbursement of the funds, the GOG and USAID will jointly review and agree on the form and content of proposals presented to Congress. Upon submission of this proposal to Congress, the GOG will notify USAID of this action and request it to authorize the disbursement of $3 million of ESF

dollars slotted against the attainment of the policy objectives. Once the conditions precedent have been met, USAID/Guatemala will request transfer of these dollars into a separate, uncommingled account to be established and managed by the Bank of Guatemala. Prior to actual disbursement, the GOG will present evidence to support establishment of a separate account for the dollar cash transfer funds by providing the account number, the name of the bank account, and address of the bank to USAID/Guatemala.

a. Utilization of ESF Dollar Resources

When policy conditionality has been satisfied and USAID authorizes the tranche of ESF dollar financing, disbursement will be made into an uncommingled separate account to be established and managed by the Bank of Guatemala. This ESF dollar cash transfer will be subject to an audit by the Regional Inspector General (RIG) or by an audit firm that they choose, funded by the HB 3 GOG grant. The basic purpose of these ESF dollar funds will be to support exports from the United States which are, in turn, supportive of the basic objectives of the program. Specifically, the BOG will make dollar financing available to the local banking system for import transactions which follow the basic guidelines for and are of a nature similar to those authorized under the Trade Credit Insurance Program (TCIP).

TCIP expires in FY 92 and serves as a guarantee fund. Under the proposed program, there is no guarantee mechanism nor would it fall under the authority of TCIP. Nevertheless, following the principal features of TCIP allows USAID to take advantage of a proven set of eligibility standards, with which the Guatemalan banking system has had successful experience, an easily auditable system to track transactions and verify source and origin, and a means of directly promoting trade relationships between the U.S. and Guatemala.

Eligible products imported under the TCIP-like program by the Guatemalan private sector, including the agricultural sector, will encompass raw materials, spare parts, construction materials, intermediate goods and equipment required for production or services related to production. Short-term transactions (no greater than 360 day term) with a value of $25,000 and up per transaction would be eligible. The BOG would review each request for a letter of credit or **orden de pago** to determine eligibility and require a bill of lading, invoice and exporters certificate to support the transaction. USAID will receive monthly reports from the BOG on the utilization of the dollars. It is expected that these dollar funds will be exhausted within 6-8 months from the point of original disbursement.

It should be noted that some of the ESF dollar resources will be projectized for Trade and Labor Relations Project activities, and not be used for program/cash transfer assistance.

b. Utilization of ESF Local Currency

When the ESF dollars are disbursed by USAID into the BOG separate account, the BOG will provide a like amount of local currency based upon the legal exchange rate at the time of disbursement into a special account. Allocation of this local currency will be based upon joint programming by A.I.D. and the Government of Guatemala. It is expected that local currency will be devoted to financing two categories of assistance:

1. Strengthening Public Sector Entities

Funding for the selected public sector institutions will be in the form of general sector support to these entities. Possible uses of the local currency resources include technical assistance and training outlined in the program description in Section III.B. for the BOG, Ministry of Economy and Ministry of Labor.

2. USAID/Guatemala Operating Expenses

The HB 4 grant agreement with the GOG will include a provision for the transfer of approximately $1 million in local currency equivalent to the Mission's Operating Expense trust fund account. These funds will be used to cover local operating costs of the Mission and will be the final deposit of local currency into this fund.

c. End-Use Monitoring of ESF Program Funds

With respect to the use of program assistance (ESF) dollars, the provision of monthly transaction reports by the BOG and a final audit will provide USAID with the wherewithal to verify the eligibility, flow and use of funds. The management and monitoring by the USAID Mission of the local currencies provided under the program will be in accordance with A.I.D. and LAC Bureau policies.

The capacity of the Bank of Guatemala and Ministry of Finance to adequately manage dollars and local currencies has been tested under prior USAID projects, as well as under Balance of Payments programs through the administration of the Core Development Budget. USAID will require quarterly reports on activities under the local currency special account and will require an annual audit of the funds by a qualified local audit firm under a scope of work approved by USAID. The Financial Analysis section of the Mission will review the transfer of funds from the Bank of Guatemala to the individual local currency

accounts, when this occurs, as well as be responsible for reviewing the monthly transaction reports related to the TCIP-like program to ensure that the individual transactions are being properly recorded and the correct amount of local currency is being deposited.

2. Trade and Labor Relations Project Activities

The Trade and Labor Relations Project Activities are three-fold: Policy Reform Support, Non-Traditional Export Development and Labor Relations. These activities will be implemented via four separate mechanisms:

a. CAEM: The private sector leader in policy reform support related to the Trade and Labor Relations Development Program, CAEM will sign a cooperative agreement in June 1993 with USAID to carry out the activities outlined above. In addition to establishing CAEM's expected accomplishments related to the program objectives and performance indicators over the four year term of this HB 13 agreement, the agreement will call for CAEM to submit an annual workplan laying out its policy agenda for that year, how it will be implemented, and the level of resources required to implement it. CAEM's financial management capability has been certified by USAID's Controller's Office, and therefore will be able to continue to receive advances.

With the unexpended funds remaining under the PED project, CAEM will complete those activities authorized under that project for financial market reform and privatization. These funds are expected to be expended by December, 1993. Hence, CAEM will only use Trade and Labor Relations Development Program funds in the first year for activities authorized under the Trade and Labor Relations Development Program that do not fall within the scope of the PED project, such as Central American integration, trade policy reform and labor relations. Assistance to CAEM will be completed by the end of June 1997.

b. The Gremial: USAID will sign a cooperative agreement with the Gremial in June 1993. The Gremial is currently engaged in a four phase development of a self-sufficiency plan which began in April 1992 and is expected to be completed by July 1993. The results of this exercise will include a self-sufficiency plan, a long term (4-5 year) strategic plan, and a detailed plan for the Gremial activities under the Trade and Labor Relations Development Program. Presentation of the self-sufficiency plan and the detailed plan for utilization of Trade and Labor Relations Development Program resources will be included in the cooperative agreement as special provisions with which the Gremial must comply prior to the initial disbursement of Trade and Labor Relations Development Program funding to the Gremial. The Gremial's expected accomplishments related to the program objectives and performance indicators over the remaining three

years of this HB 13 agreement will also be established at this time. Subsequently, the Gremial will be requested to submit an annual workplan laying out its Trade and Labor Relations Development Program activities for that year, how they will be implemented, and the level of resources required to implement them.

During this transition period, the Gremial will continue to finance its activities with the remainder of its PED funding, to the extent that it is able to do so. Activities that do not explicitly fall within the scope of the PED project, such as labor relations activities, will be funded out of the Trade and Labor Relations Development Program. By the middle of CY 1993, it is expected that the Gremial will have complied with the special provisions mentioned above and will have drawn down on Trade and Labor Relations Development Program funds. The Gremial's financial system has been certified by USAID's Controller's Office, allowing them to continue to receive advances. Assistance to the Gremial will be phased out by the end of June 1997, under a 70%-50%-30% funding scenario.

c. Ministry of Economy

The HB 3 Agreement with the Government of Guatemala, to be signed in June, 1993, will include the dollar resources to be provided to the MOE to carry out Trade and Labor Relations Project Activities. The agreement will call for the MOE to submit an annual workplan detailing the Policy Reform Support activities to be carried out that year, how they will be implemented, and the level of resources required to implement.

The MOE will complete its draw down of PED resources prior to gaining access to the projectized dollar resources under the Trade and Labor Relations Development Program. The local currency resources under the Trade and Labor Relations Development Program will become available as policy disbursements occur and will be used to supplement the dollar resources. Assistance to the Ministry of Economy will be completed by June, 1998.

d. Ministry of Labor

Resources for the MOL's activities will also be provided in the HB 3 Agreement with the GOG. The MOL will be required to submit an annual workplan detailing the Labor Relations activities to be carried out that year, how they will be implemented, and the level of resources required to implement. It is likely that implementation will require entering into a PASA agreement with the Department of Labor and possibly a contract with a U.S. university with expertise in labor relations or other similarly qualified contractor. The Mission will contract for all of these services directly. Exact contracting

mechanisms will be driven by the needs of the project and the necessity to provide assistance through an entity that can be perceived by all parties involved as neutral.

The local currency resources under the Trade and Labor Relations Development Program will become available as policy disbursements occur and will be used to support the reorganization and decentralization of the Ministry. Assistance will be completed by June, 1998.

3. Monitoring and Evaluation

A program planning, management and implementation workshop will be held in the fourth quarter of FY 1993 to review the objectives of the Trade and Labor Relations Development Program, to discuss the Sectoral Reform Agenda and the steps involved in its implementation, to review the objectives, performance targets and major activities for each of the four institutions participating in the program, and to present the Monitoring and Evaluation System for this program as well as for the Trade and Investment Strategic Objective.

In order to improve the management capabilities of the participating institutions and enhance their ability to work together as a team toward the clearly defined objective of increased trade and improved labor relations in Guatemala, the workshop will also include sessions on management skills and team-building. This workshop will be repeated annually in the final quarter of the fiscal year to review actual versus planned program performance for the previous year, review program plans for the coming year, and enhance management skills gained from previous sessions.

Table 8
Trade and Labor Relations Development Program
Implementation Schedule

June 93	- Program Authorized by USAID/Guatemala. - HB 4 Agreement with GOG Signed. - HB 3 Agreement with GOG Signed. - HB 13 Agreement with CAEM Signed. - HB 13 Agreement with the Gremial Signed.
July 93	- First Annual Workplans for Trade and Labor Relations Project Activities Submitted to USAID/G.
Aug 93	- Trade and Labor Relations Development Program First Planning, Management and Implementation Workshop Conducted. - Contracts for Program Assistant and Financial Analyst Signed.
Dec 93	- Trade and Labor Relations Development Program Monitoring and Evaluation System in Full Operation.
Aug 94	- Second Planning, Management and Implementation Workshop.
Nov 94	- Funds under Sectoral Reform Agenda (SRA) Disbursed.
Jan 95	- Private Sector Endowment Established. - PED Project completed.
May 95	- Mid-Term Evaluation Conducted.
Aug 95	- Third Planning, Management and Implementation Workshop.
Aug 96	- Fourth Planning, Management and Implementation Workshop.
June 97	- CAEM Activities under Trade and Labor Relations Development Program Completed. - Gremial Activities under Trade and Labor Relations Development Program Completed.
Aug 97	- Final Wrap-Up Workshop on Program Results Focusing on Private Sector
June 98	- MOE Activities under Trade and Labor Relations Development Program Completed. - MOL Activities under Trade and Labor Relations Development Program Completed. - PACD.

B. Procurement Plan

A detailed procurement plan is presented in Table 9. The following technical assistance/training procurements will be made under Trade and Labor Relations Development Program:

- The Gremial will procure 42 person-months of long-term technical assistance and approximately 36 person-months of short-term technical assistance and training over four years. A long-term advisor will be contracted who will be responsible for providing technical guidance and support to the Gremial.

- CAEM will procure approximately 55 person-months of short-term technical assistance and training over four years. These person-months will provide expertise in privatization, Central American integration, improving labor relations, legal and regulatory reform related to trade and investment, and the private provision of public infrastructure. These services will be provided through locally competed and U.S. contracts.

- USAID/G will procure for the Ministry of Economy approximately 92 person-months of short-term technical assistance and training over five years. These person-months will be used to prepare analyses, conduct seminars and draft legislation related to trade and investment policy reform, to strengthen the technical capability of MOE staff, and to improve data collection and analysis related to trade. This assistance will be provided through locally competed and U.S. contracts.

- USAID/G will procure for the Ministry of Labor approximately 35 person-months of short-term technical assistance and training over five years. This assistance will be used to improve conflict resolution and mediation skills of MOL staff, encourage dialogue between the public, private and labor sectors, provide statistical training to MOL staff and develop courses on productivity and its relationship to economic growth, human resource management and modern concepts and techniques of labor relations. Assistance will be provided through a PASA with the Department of Labor, a contract with a U.S. university or other center of expertise in labor relations, and other locally competed or U.S. contracts or purchase orders. Flexibility will be required to allow rapid response to needs as they are defined during program implementation.

TABLE 9

TRADE AND LABOR RELATIONS DEVELOPMENT PROGRAM PROCUREMENT PLAN

Program Element	Description	Agency	Contract Method	Estimated Cost	Estimated Start Date	Number of Contracts	Source/ Origin
Policy Reform	TA/Training for MOE	USAID	A.I.D. Direct	$450,000	3rd Quarter/94	Multiple	Local/US
	CAEM TA/Training	CAEM	HB13	$334,000	2nd Quarter/94	Multiple	Local/US
	L/T Tech Advisor	Gremial	HB13	$210,000	1st Quarter/95	Single	US
	Gremial TA	Gremial	HB13	$293,000	1st Quarter/95	Multiple	Local/US
NTE Development	Gremial TA/Training	Gremial	HB13	$706,000	3rd Quarter/94	Multiple	Local/US
Labor Relations	TA/Training- MOE	USAID	A.I.D. Direct	$ 50,000	3rd Quarter/94	Multiple	Local/US
	TA/Training- MOL	USAID	A.I.D. Direct /PASA	$500,000	4th Quarter/93	Multiple	Local/US
	TA/Training- CAEM	CAEM	HB13	$100,000	4th Quarter/93	Multiple	Local/US
	Gremial TA/Training	Gremial	HB13	$200,000	4th Quarter/93	Multiple	Local/US
Program Management	Financial Analyst	USAID	A.I.D. Direct	$130,000	4th Quarter/93	Single	Local
	Program Secretary	USAID	A.I.D. Direct	$ 34,000	4th Quarter/93	Single	Local
	Program Manager	USAID	A.I.D. Direct	$175,000	4th Quarter/93	Single	Local
	Program Assistant	USAID	A.I.D. Direct	$ 93,000	4th Quarter/93	Single	Local
Monitoring and Evaluation	Special Studies	Gremial	HB13	$149,000	2nd Quarter/94	Multiple	Local/US
	Mid-term Evaluation	USAID	A.I.D. Direct	$ 56,000	3rd Quarter/95	Single	US
Audits	Gremial	Gremial	HB13	$ 25,000	2nd Quarter/94	Multiple	Local
	CAEM	CAEM	HB13	$ 25,000	2nd Quarter/94	Multiple	Local

VI. SUMMARY ANALYSES

A. Technical Analysis

Two critical characteristics underlie most successful trade and investment activities: a supportive policy and regulatory environment; and well focused informational activities in the following three areas, (1) business assistance, (2) promotional activities, and (3) policy and regulatory information. Past USAID/Guatemala activities in trade and investment, such as the PED project, focused almost exclusively on the informational category. Much of our constraints analysis has demonstrated, however, that continued expenditures on trade and investment promotional activities of an informational nature can have significantly enhanced returns, if the policy and regulatory environment can be improved.

After careful consideration among three alternatives--(1) an exclusive focus on improving the policy and regulatory environment, (2) an exclusive focus on further informational activities, or (3) a combination of the first two--the Mission chose the third alternative. Consequently, the Trade and Labor Relations Development Program combines nonproject assistance with projectized assistance to address identified constraints within the legal and regulatory framework that currently impede the introduction of new investment and new export lines, while continuing to support an established nontraditional export sector. The decision to adopt a combined program and project assistance modality recognizes that, while Guatemala has clearly earned its place in the international market in areas where its comparative advantage is high, such as nontraditional vegetables and textile assembly, future investment and new export growth will require improvements in the country's still imperfect domestic incentive structure.

1. Definition of the Policy Agenda

Of the several determinants of the incentive structure - human and natural resources, comparative advantage, and economic and regulatory policies - only the last, the economic, legal and regulatory environment, is subject to rapid modification producing a quick increase in benefits. At the same time, our analyses identified the legal and regulatory environment as a critical constraint to new trade and investment in Guatemala. The Mission has targeted the legal and regulatory environment for policy reform; this complements and reinforces the activities of the World Bank in the reform of the trade regime and the Interamerican Development Bank in the reform of financial markets. Improvements in legal and regulatory policy resulting from the program assistance will directly improve the trade and investment climate, and will indirectly leverage and increase the

returns to trade development and expansion activities supported under the program.

The Mission's analyses of the legal and regulatory environment identified a large number of constraints to trade and investment (see Annex G for a complete inventory of legal and regulatory constraints), many more than can be effectively addressed within the scope and time frame of this program. All constraints were assessed in terms of the importance of their effect on trade and investment and how easily they might be modified. This allowed the Mission to prioritize and identify a reduced number of constraints that are manageable under the program and that, once addressed, will permit a significant improvement in the trade and investment climate.

The Mission's decision to include both trade and investment in the same nonproject assistance program was determined by Guatemala's state of development and openness of its economy. As noted above, Guatemala has already developed a significant nontraditional export sector. However, the easy gains in this area have already been made; further growth in nontraditional exports will require new investment and the new technology that investment brings with it. Thus, for Guatemala, trade and investment are inextricably linked, if it is to both maintain current export levels and increase investment and develop new export lines. A singular focus on either trade or investment, in the present Guatemalan situation, would not permit the same program impact on rate and magnitude of economic growth that addressing them simultaneously does.

2. Selection of the Project Interventions

In designing the project activities, the Mission identified three basic areas requiring assistance: increasing the ability of the public sector to make informed policy decisions, improving local exporter and investor access to U.S. technology and market information, and encouraging improved labor relations. Increasing public and private sector capacity, expanding trade and enhancing labor relations will be accomplished through technical assistance and training.

Program resources for policy reform support aimed at two-way trade expansion will be channeled through CAEM and the Gremial in the private sector, which are widely recognized as being dynamic, effective and representative of private sector interests and responsive to their needs. The Ministry of Economy will receive a smaller amount of assistance to increase its capacity to implement trade and investment related policy reforms.

The provision of assistance for non-traditional export development, primarily through technical assistance and training

programs under the Gremial, will emphasize increasing the quality and diversity of non-traditional exports. Where direct technical assistance is provided, local firms will be expected to contribute, on average, 50% of the cost of the assistance, minimizing the level of subsidized support and helping to institutionalize sources of business assistance. If firms are accustomed to paying for most of the assistance they receive, once USAID funding to the private sector is completed in 1997, the Gremial will be in a better position to continue providing these services from their own resources.

No consistent increases in trade and investment in Guatemala can occur while Guatemala is not in compliance with internationally recognized workers rights standards, since this carries with it the threat of sanctions under the Generalized System of Preferences review system and the withdrawal of preferential access to the U.S. market under GSP and CBI. If GSP and CBI benefits were withdrawn, conservative estimates show that approximately $200 million in Guatemalan exports would cease to be competitive on the world market. No matter how open the trade regime was, it would not compensate for a loss of this magnitude.

Non-compliance with or lack of enforcement of workers rights has other detrimental effects on the economy, though not quite so dramatic and obvious as those found if sanctions were applied. When workers rights are not protected and labor relations are poor, productivity decreases as workers move from job to job in search of better working conditions. In an increasingly competitive global economy, not only will there be pressure for greater productivity and higher quality but also an increased demand for technological skills as well, which will create further competition for workers. Without adequate protection of workers rights and improved labor relations, and therefore greater value being placed on the worker, Guatemala will not be able to meet these changing conditions.

An extensive analysis of the current labor relations situation was conducted in April, 1993, highlighting the constraints and needs of the labor, public and private sectors, both in the immediate (1-2 years) and medium term, and what actions were required to meet those needs and improve overall labor relations and workers rights protection. Three main areas of assistance were highlighted that USAID could support under the Trade and Labor Relations Development Program:

1. Increasing compliance with and enforcement of labor laws;

2. Increasing cooperation between unions and management; and

3. Improving overall labor relations by examining alternative methods to support economic development.

Increasing compliance with and enforcement of labor laws will be achieved by providing local currency generated under the Sectoral Reform Agenda to the Ministry of Labor to strengthen their labor inspection capacity, decentralize their operations to the interior of the country (the majority of labor inspectors are currently located in Guatemala City), and coordinate with UNDP efforts to improve the Ministry's management information and internal control systems, allowing increased oversight related to compliance with the reformed labor code. To combat other weaknesses, the Ministry recently received a 100% budget increase from 1991 levels, hired an additional 75 labor inspectors, increased labor inspectors' salaries to limit the possibility of corruption and initiated training programs.

Increasing cooperation between unions and management will be accomplished through encouraging activities of the tripartite group on improving labor relations, composed of CACIF, the Ministry of Labor and four labor union confederations, and through technical assistance and training geared to presenting modern concepts of labor relations to both the private and labor sectors. In order to build trust among the public, private and labor sectors, it is necessary to establish a forum where moderate elements of all three groups can participate in discussion, analysis and resolution of mutual problems. Current relations, at all but the highest levels, continue to be marred by a history of conflict and distrust. Activities will focus on changing this combative relationship to a more modern labor relations model, relying on cooperation and techniques such as bargaining and negotiation, mediation and updated methods of human resource management. Improving the knowledge base of all three sectors - public, private and labor - will allow increasing cooperation and understanding and equal footing in addressing labor relations issues.

Improving overall labor relations by looking at alternative models to support economic development will be achieved through technical assistance and training on methods of increasing productivity and the relationship of productivity to international competitiveness and on alternative labor relations models. Because of the historically conflictive relationship with labor unions, much interest was expressed by the private sector in learning about other methods of labor relations that have been successful, both in improving working conditions and in increasing productivity.

B. Financial Analysis

CAEM and the Gremial have received Mission certification of their financial management and internal control procedures, making them eligible to receive advances. Since CAEM and the Gremial have both been successfully managing components of the PED project for the last five years, and since, in both cases, the amount of funds granted under the PED project will exceed that envisioned under the new Trade and Labor Relations Development program, the Mission does not have any doubts that both organizations have the financial capacity and ability to absorb and manage the proposed funding under the new program. Under the Trade and Labor Relations Development Program, the Mission will contract a financial analyst, who will work closely with all implementing institutions to ensure compliance with A.I.D. procedures and sound financial practices.

1. CAEM

USAID funds have supported, and will continue to support under the Trade and Labor Relations Development Program, a large percentage of CAEM's activities. Since the PED project began in 1987, approximately 10% of CAEM's revenues have been generated from membership fees, with the remaining funds coming from the PED project. Under the new program, USAID will continue to fund a high percentage of CAEM's operating and program costs, with current estimates showing USAID support of 75%. CAEM's past record of counterpart contributions combined with projections of future membership revenue, assure that CAEM will be able to provide, in-cash and in-kind, 28% of total program and operational costs.

Under the Trade and Labor Relations Development Program, CAEM will receive $1 million over four years, a significantly lower level of support than that received under PED. Because CAEM has successfully executed a higher level of project funds, there is no question that existing staff and computer resources are adequate to manage funds under the Trade and Labor Relations Development Program. In addition, in August, 1992, CAEM received formal Mission certification of its financial management and internal control procedures.

Due to the developmental and often intangible nature of CAEM's activities (such as policy reform support and analysis), it is difficult, if not impossible, for the organization to attain greater cost recovery through fees for services; therefore attaining greater self-sufficiency will not be an explicit goal of our activities with CAEM, although they will be encouraged to improve the efficiency of their program operations and collect fees for services whenever feasible.

2. Gremial

From the PED and Highlands Agricultural Development Support (HADS) projects, Gremial has received $6.8 million in funding over the past five years. The Trade and Labor Relations Development Program will provide approximately $3.5 million over four years, on a declining annual basis, to cover the Gremial's basic operational and program costs. Since the Gremial has successfully executed higher levels of USAID funding in previous years, it is not expected that the Gremial will have any problems in managing the level of resources proposed under the Trade and Labor Relations Development Program.

The Gremial has steadily been executing approximately $1 million of funds from USAID projects over the past four years, while at the same time increasing cost recovery. In 1991, Gremial had a cost recovery rate of 13% of total program costs; in 1992, this rate climbed to 38%. 1993 projections show an even higher rate of cost recovery. To build upon this positive trend, assistance under the new program will be based upon the Gremial achieving greater self-sufficiency by the end of project assistance in 1997.

In April 1992, an analysis was carried out to determine if it was realistic to assume that the Gremial could indeed become self-sufficient in this time frame. For this analysis, self-sufficiency is being defined as executing an acceptable level of quality activities, with diversified funding sources. In the Gremial's case, sources would include membership fees, service charges for training, technical assistance and other activities, donor support or other outside funding, and interest generations from an institutional endowment. The analysis concluded that the Gremial had the necessary prerequisites for greater self-sufficiency: orientation to its constituency, an active membership expansion program, a strong role in the private sector and institutional will and commitment.

Before receiving funding under the new program, the Gremial will be required to present a self-sufficiency and financial plan to support their efforts to achieve greater self-sufficiency. The Mission will provide funding to the Gremial on a declining basis (70% of total program costs the first year; 50% the second year and 30% the third year). At the same time, it is anticipated that a local currency endowment will be generated from some of the ESF policy reform disbursements, the interest of which will be available to cover part of the Gremial's program and operational costs. With the implementation of its plan for self-sufficiency and the interest from this endowment, the Gremial will be able to sustain its operations by year four of the Trade and Labor Relations Development Program, albeit at a slight reduction from its current level of operations.

3. Ministry of Economy (MOE)

The Ministry has received $940,000 under the PED project. Implementation of this project component has historically been very slow, due mainly to personnel turnover in the MOE, but the rate of execution has improved dramatically in recent months. After five years of project execution, only about half of this funding has been committed or expended.

Since the MOE's financial management and procurement procedures have not been certified by the Mission, the Mission has been directly handling procurement of all goods and services under this grant agreement. The MOE participates in the procurement through drafting terms of reference; actual drafting, execution and payment of the contracts has been handled by the Mission. It is expected that these same procedures will be followed for the funds provided to the MOE under HB3 agreement of the Trade and Labor Relations Development Program.

The MOE has committed to the provision of $710,000 in counterpart contributions under the PED project. The Ministry of Finance annually allocates these counterpart funds to the MOE for program execution. With more than a year left under the PED project, the Ministry of Economy has exceeded its required counterpart contribution. Under the Trade and Labor Relations Development Program, the $1 million from local currency generations related to ESF policy disbursements plus an additional $200,000 will represent the GOG's counterpart contribution to this program. USAID project funding will be used, for the most part, to support program costs, such as technical assistance and training, and not operational costs. The MOE contributions will cover these recurrent costs.

4. Ministry of Labor (MOL)

The Ministry of Labor has never received direct funding from USAID. Since the MOL's financial management and procurement procedures have not been certified by the Mission, the Mission will directly handle procurement of all goods and services under this grant agreement, as it is now doing for the Ministry of Economy. The MOL will draft terms of reference, but the actual drafting, execution and payment of the contracts will be handled by the Mission.

Under the Trade and Labor Relations Development Program, the $1 million from local currency generations related to ESF policy disbursements plus an additional $200,000 will represent the GOG's counterpart contribution to this program. USAID project funding will be used to support program costs, such as technical assistance and training, and not operational costs, which will be covered by the MOL contributions and the local currency generations under the program.

C. Economic Analysis

One of the direct results of the Sectoral Reform Agenda and the Trade and Labor Relations Development project activities will be increased non-traditional exports. To be economically justified, a program investment of $9 million would need to create an additional $1.1 million of exports per year, for an internal rate of return of approximately 12%.

Non-traditional exports have been growing at an annual rate of approximately $50 million, a trend that is projected to continue. Based on the policy changes undertaken in the Sectoral Reform Agenda and supportive policy reform activities implemented by the Gremial, CAEM and the Ministry of Economy, a more open trade environment will result, stimulating further exports. Technical assistance and training to non-traditional exporters will also enhance this growth. Taking current trends of growth of approximately 10% a year in the value of non-traditional exports, the internal rate of return for a $9 million investment will be 436%, well over the 12% required to economically justify the program.

Basing the analysis only on project activities contemplated under the Trade and Labor Relations program for a total of $6 million, if Gremial members maintain the same annual level of exports (now conservatively estimated at $269 million per year), the internal rate of return would be 4479%. The $269 million estimate of exports for Gremial members is conservative both because it does not take into account any growth in non-traditional exports, nor does it take into account all Gremial members. This figure was calculated based upon a 1992 sample of 50% of the Gremial's members, which showed that they were responsible for producing more than 60% of the non-traditional exports directed outside of Central America in 1992, equivalent to $269 million.

This measure alone, with only 50% of the Gremial's members (equal to 400 firms or 11% of the total number of non-traditional product exporters in 1992), shows a rate of return of 26700% for an A.I.D. investment of a little over $1 million in Gremial activities in 1992. If all Gremial members were included in the survey, the rate of return would be much higher.

If other factors were taken into consideration in determining the internal rate of return and economic benefits of the program, such as increased U.S.-Guatemala bilateral trade and increased foreign private investment in Guatemala, the rate of return would be much higher. Since all estimates only based on non-traditional export growth show rates of return far exceeding any calculations of interest rates, these rates of return are not calculated.

D. Political Feasibility

GOG political support has already been shown for the Trade and Labor Relations Development Program through their willingness to negotiate a preliminary Sectoral Reform Agenda. Overall, the political feasibility of the GOG continuing to support the Trade and Labor Relations Development Program through actual compliance with the policy reform agenda is quite good. Both the policy agenda and the projectized trade and investment activities fit well within the government's own program of economic and social development, as laid out in their own position piece, "*Politica Economica y Social: Gobierno de Guatemala, periodo 1991-1996*". Market liberalization, modernization of financial markets, harmonization of tariff schedules, export promotion and the attraction of foreign investment are the cornerstone of the government's economic program.

A frank assessment of the GOG's actions since taking office will show that its platform is more than rhetoric. The GOG has undertaken a series of measures to open its markets and establish a place for Guatemala in international markets. Last year it became a signatory to the GATT. It has signed multilateral agreements with Honduras and El Salvador reducing and harmonizing tariff schedules. The GOG is poised to enter into a free trade agreement with Mexico, and has already done so with both Venezuela and Colombia. It has also signed a framework agreement with the U.S. and is moving forward with negotiations under the Trade and Investment Council. All of the above are concrete indications that the political will to promote trade liberalization and attract foreign investment is there.

When the need has arisen, the GOG has confronted politically sensitive issues, opposed the popular will, and passed legislation strengthening its overall economic program. It pushed for and gained a new fiscal reform package; at the same time, it reformed antiquated labor legislation that was a clear disincentive to attracting new investment, either domestic or international.

Recently, the GOG has twice confronted measures and policies being promoted by protectionist-oriented segments of the industrial and business sector and headed off or overturned legislation that would have signified a slippage in their position. In the same vein, when confronted by international pressure to correct illegal and unauthorized use of satellite cable television transmissions, both the GOG and the private sector organized to develop and pass corrective legislation.

With the signing of NAFTA, international pressure is once again being brought to bear on Guatemala. The Guatemalan fear that their neighbor to the north will draw off all new foreign investment that might have gone to Guatemala and will take over

market share for much of Guatemala's current exports to the U.S. is salient. Many Guatemalans themselves articulate that the only defense that they have in the short term is a further freeing of the economy and the removal of the remaining constraints to attracting foreign investment and promoting trade.

Given this recent period of market liberalization and investment promotion policies undertaken by the incumbent government, there is little reason to think that the GOG will reverse direction at this time and oppose the policy reforms proposed under the Trade and Labor Relations Development Program since they fit so closely with the general trend of economic development that it has followed in the last 29 months. The more real risk is that, in the context of possible international labor rights sanctions, difficult benchmarks set by the IMF, and the conditionality associated with the World Bank and Interamerican Development Bank's programs, their attention will be focused on other issues. However, given the complementarity of the various international donor programs, close coordination with the other donors in conjunction with continued analysis and dialogue with the GOG should keep the GOG focused on the Trade and Labor Relations Development Program.

Based on the foregoing, A.I.D. believes it is reasonable to expect that the legislative actions needed to fully comply with program conditionality will be completed.

E. Institutional Analysis

1. Public Sector

a. Ministry of Economy (MOE)

Below the Ministerial level, responsibility for the various functional areas (composed of 13 directorates) of the MOE are divided among two Vice-Ministers, both of whom are political appointees, with one controlling directorates related to international and Central American issues and the other controlling the domestically-related and administrative directorates. The MOE currently has approximately 450 employees.

Activities with the MOE under the new Trade and Labor Relations Development Program are derived from the role it plays in defining national trade and commercial policy as well as its position as the chair of the National Export Council (CONAPEX). CONAPEX is composed of five public sector entities (MOE, Ministry of Agriculture, Ministry of Finance, Bank of Guatemala and Ministry of Foreign Affairs) and five leading private sector institutions nominated by CAEM, and is designed to promote Guatemalan export growth through a public-private partnership. The Gremial has played an active role in the Council.

New Trade and Labor Relations Project Activities will support the MOE directorates that play important roles in promoting exports, employment, and investment. These will include, but are not limited to, the Directorate of Industrial Policy, the Directorate for Economic Integration, the Directorate for Foreign Trade, the Directorate of Commerce and the Commerce and Industry Registration Offices. Since the MOE is currently going through, with USAID support, a personnel and organizational restructuring, to increase its efficiency, it is difficult to define what the final organizational structure will be and precisely which directorates will be receiving assistance. However, it is likely that the MOE will be reorganized into three functional areas: 1) science and technology, 2) industrial development and foreign trade and 3) regional integration, with the bulk of Trade and Labor Relations Development Program assistance targeting area number 2. The MOE has also played a pivotal role in the creation of the One-Stop Investment Window, which is designed to reduce processing time for registration from over 360 days to less than 5 and in the operation of the One-Stop Export Window, both of which will also receive support under the new program.

After an initially slow rate of implementation due to staff turnover in the Ministry, assistance to the MOE under the Private Enterprise Development (PED) project has begun to show results over the past few months, with a number of studies in progress. These include studies to improve the efficiency of Ministry operations, to streamline applications processing under the Free Trade Zone Law and Maquila Law, to assess legal changes required to bring Guatemala's intellectual property rights legislation in line with world class standards, and to define the steps necessary to sign a Bilateral Investment Treaty with the U.S. Although the MOE has begun emphasizing export development and the creation of a more liberalized trade regime, existing staff are not well qualified to carry out the trade reforms and new administrative procedures that will permit free trade and investment in Guatemala. Training and technical assistance will be provided to MOE staff to strengthen their capacity to conduct trade negotiations, address international pressure on Guatemala's position on intellectual property rights and worker's rights legislation, meet Guatemala's commitments under the GATT and formulate and implement other policy reforms related to a liberalized trade environment. Staff turnover is an ever-present risk in the MOE and has often slowed project implementation. The Mission will attempt to establish contacts and working relationships, to the extent possible, with career Ministry employees to encourage program continuity.

b. Ministry of Labor

The Ministry of Labor has historically been one of the weakest and least powerful government institutions in Guatemala. It has, until this year, always received the lowest budget allocation of any other ministry and has been marked not only by a lack of budgetary resources but of qualified human resources as well. The Ministry is charged with three basic responsibilities: 1) providing direction and administration of Guatemalan labor policy, 2) enforcing labor laws, especially those aspects related to relations between employers and employees and 3) coordination, enforcement and improvement of social welfare.

Based on a recognition that the Ministry as it was structured had not been able to meet these responsibilities and that improving labor legislation, labor relations and enforcement of the labor code were crucial elements to the continued overall economic growth of Guatemala, the GOG increased the Ministry's budget, doubling it from 1991 levels and the Ministry itself has begun, with UNDP assistance, to modernize, reorganize and decentralize its operations to increase efficiency, improve staff capabilities and expand national coverage.

The Ministry is organized into four departments: Department of General Labor, Labor Inspection, Social Welfare and Department of Recreation. The Department of Recreation, although currently housing more than half or about 330 of the Ministry's employees, is not substantively connected to activities under the Trade and Labor Relations program, since its function is to maintain national recreation areas. The Department of General Labor is responsible for employer/employee relationships, setting of salaries, protection of workers, employment and employment programs. The Labor Inspection Department is responsible for managing the labor registry, investigation and inspection programs, resolving individual employee/employer disputes, approval of company employment policies and prosecution of violations of the labor code. The Department of Social Welfare is responsible for programs to improve the safety of the workplace and to protect the health of workers and for the implementation of pilot projects for the social welfare of rural communities.

c. The Bank of Guatemala (BOG)

The Bank of Guatemala, which functions as the state-owned Guatemalan central bank, has responsibility for the design and implementation of monetary, credit, financial and exchange rate policies. In addition to ensuring the solvency and functioning of the national banking system, the BOG is responsible for curbing domestic inflation, maintaining the external value and convertibility of the local currency, administering foreign

reserves and safeguarding Guatemala's competitive position in the international market.

Although the analytical capability of the BOG is better than that of most other public sector institutions in Guatemala, additional technical training is warranted, especially in financial analysis and accounting, to bring the BOG up to date in how to operate in a progressively deregulated environment. As the commercial banking sector expands and becomes more complex, the quality and type of analysis carried out by the bank will have to improve as well.

The BOG currently offers a well-regarded financial training program for its employees, non-bank employees and other Central American central bankers. Although it recognizes the need for expanded training, budgetary constraints prohibit the BOG from expanding and upgrading its training program on its own. If agreed to in the joint programming by USAID and the GOG, assistance to the BOG using local currency generations under the new Trade and Labor Relations Development program should allow it to develop training courses relevant to a more open financial environment and an increasingly liberalized trade regime.

2. Private Sector

a. Guatemalan Enterprise Chamber (CAEM)

CAEM is a non-political, nonprofit organization formed by the chambers and associations of the Guatemalan private sector in 1981 to capitalize on the benefits under the Caribbean Basin Initiative and to promote policies that accelerate economic development. Membership currently includes the Chamber of Industry, the Chamber of Commerce, Chamber of Finance, Agricultural Association and Association of Sugar Growers, representing more than 75 different trade groups and thousands of individual private sector businesses and agricultural operations. The Chamber of Tourism is currently considering rejoining CAEM as well.

CAEM's operations are run by a general manager with a staff of 15, who reports to a ten-member Board of Directors. The Board is comprised of two representatives from each of the member chambers and associations, and is elected annually. CAEM is supported by membership dues, shared on a 30/70 basis with CACIF, the political lobbying arm of the private sector. As a representative of private sector interests, CAEM functions as a think tank and liaison organization between the GOG and the business community, focusing on policy analysis and advocacy. Issues CAEM has been involved with include privatization, financial market development and regional economic integration. CAEM also has been supporting the Investor Services Center, which

provides information to potential investors, produces promotional material and hosts trade delegations.

Under the ongoing Private Enterprise Development (PED) project (520-0341) and the prior Private Sector Coordination project (520-0337), CAEM has proven that it can effectively meet the needs of the private sector and efficiently manage resources. To meet its more focused role in policy analysis and formulation under the new program, CAEM plans to strengthen the technical capabilities of its in-house staff by hiring a lawyer/policy reform advisor and an economist, and reducing the number of administrative support personnel. CAEM's administrative staff had been increased under the PED project, due to its anticipated role as the channeler of PED resources to the private sector. It will not have this responsibility under the Trade and Labor Relations Development Program. The new program will assist CAEM to definitively establish itself as the voice of the private sector in trade and investment and economic development policy issues.

b. Guild of Non-Traditional Product Exporters (Gremial)

Hierarchically, the Gremial is one of many private sector organizations under CAEM. The Gremial is a nonprofit trade association of the Chamber of Industry, founded in 1982 to develop and promote non-traditional exports in the agricultural and manufacturing sectors. The Gremial's promotional activities target both the micro and macro level. On the micro level, the Gremial provides services directly to exporters to develop and promote products through sector-specific Commissions. On the macro level, the Gremial works with the GOG to encourage more favorable export policies and to encourage better infrastructure development. The Gremial serves as a voice for the collective opinions of its approximately 800 members.

Gremial operations are managed by a general manager and executive director, who report to a biannually elected ten-member Board of Directors, made up of representatives from each of the six sector-specific commissions and from the Western and San Pedro Sacatepequez branch operations. The six sector-specific commissions include Agriculture, Furniture and Wood Products, Textile Assembly, Manufacturing, Aquaculture and Handicrafts. The 55 staff members of the Gremial are divided into three units: an operational unit, an administrative unit and a strategic unit. The operational unit provides support to the product specific commissions, in trade promotion, training and technical assistance, trade information and investment promotion, while the strategic unit works with the National Export Council (CONAPEX), houses the Transport Rate Negotiating Office, and coordinates Guatemalan trade offices in the U.S. and in Germany, represented by a trade promoter in Miami as well as by the commercial attaches in the Guatemalan embassies.

The Gremial has successfully managed a range of USAID projects, including currently the Private Enterprise Development (PED) project, and the international marketing component of the Highlands Agricultural Development (HADS) project (520-0274). In addition to providing institutional support, HADS project assistance supported the creation of a unique agricultural research fund requiring matching funds from the private sector and the creation of a cooperative unit within the Ministry of Agriculture to disseminate information on phyto-sanitary regulations. In the mid-term evaluation of the PED project, the Gremial emerged as the best performing and best managed organization supported under the project.

In April, 1992, Gremial underwent a sustainability analysis to determine how the organization could become self-sufficient by the end of new Trade and Labor Relations Development program assistance in 1997. One of the conditions for disbursement under the new program will be the presentation of this self-sufficiency plan, as well as a revised budget. The Trade and Labor Relations Development Program will support the continuation of the Gremial's service provision to its members, including training, technical assistance, and promotion, as well as encourage overall institutional development to ensure the sustainability of the Gremial after program assistance is completed.

F. Social Soundness Analysis

1. Socio-Cultural Context

Guatemala has long engaged in export-oriented production with traditional products including cotton, coffee, cacao, and sugar cane. Because of declining demand, the production of traditional exports can no longer absorb the labor force available, leading to increasing unemployment and underemployment in most regions of the country. The market for coffee, for example, is the lowest it has been in thirty years in real terms. In addition, employment opportunities associated with these products are highly seasonal and may be available for periods as short as a month, but rarely exceed more than six months of a year.

Over the last two decades, per capita income levels have been dropping as well. For example, using wages from 1980 as the base value, the real value of 1988 minimum wages declined 10%. When 1970 wages are used as the standard, in 1980 Guatemalans were earning a minimum wage that was worth approximately 85% of that value, but by 1988 had declined to 62%. Rural unemployment and underemployment are contributing to a continuing influx of labor from rural to urban areas. Estimates from 1988 indicate that approximately 40% of the population of Guatemala now lives

in urban settings. In comparison with 1950, this figure represents a 13% increase in the urban population, as a percentage of the total population.

As the Trade and Labor Relations Development Program achieves its purpose, investment in Guatemalan industries and export is expected to expand. Concomitantly, the number of employees needed to produce and market those exports, as well as the skills they master, is expected to increase along with rising sales and profits. Employment opportunities generated through the processing of fresh agricultural products have been and are likely to continue to be located in rural areas, though transportation and communications will remain a factor limiting the regional dispersion of such activities. Much the same can be said for the *maquila* operations. Each of the non-traditional export options potentially addresses the issues of unemployment and underemployment, dissuades urban migration, may direct capital into rural areas, and contributes to the generation of foreign exchange.

2. Direct Project Beneficiaries

Direct beneficiaries can be identified at several levels, each associated with different Trade and Labor Relations Development Program components. Foreign and domestic investors will have greater confidence in the system in which their investments are made as a result of the reformed policy environment. Because the trade and regulatory reform includes the reduction of tariff barriers, the population-at-large will be able to purchase products at greatly reduced prices. The proposed removal of licensing practices will enable producers to sell their products more competitively in international markets, and consumers will benefit from a wide array of choices.

Finally, the workforce should benefit in a number of ways. First, as their basic and specialized skills are upgraded, workers should find themselves in ever greater demand and therefore able to negotiate higher wages. Wages are about twice as high for men in manufacturing as opposed to agriculture and 50% higher for women. Because non-traditional exports tend to favor female employment, the program will contribute to reducing the salary gap between genders. Second, firms interested in protecting their investment in their workers' training and experience and unwilling to further escalate wage rates should turn to expanded worker benefits. Access to basic health and medical services should be standard, but additional fringes such as family members' access to those services, transportation to and from work, subsidized food services, day care, and worker credit unions and savings programs should become increasingly available.

3. Indirect Project Beneficiaries

Indirect beneficiaries include families and dependents of the export production, marketing, and trade and investment workforce. The surest strategy to ensure that family members, and especially children, are indirect beneficiaries is to hire women with children as participants in the labor force. Businessmen and their workforce who are "indirect" exporters, that is, those who produce goods used by those firms actually engaged in export production, will also benefit. Examples of such indirect exporters include agricultural producers, and manufacturers of cans, glassware, and pulp for packaging material. The society-at-large will also benefit. Increased economic resources will be available as more and more persons are employed on a full-time permanent basis, thus contributing to increased stability in the country.

4. Socio-Cultural Feasibility

The Trade and Labor Relations Development Program is a feasible and timely program. The timing is opportune to support the liberalization of Guatemala's trade and investment regimes, given the favorable policy orientation of the current government, the present linkage and dialogue between the public and private sectors, and the United States Government's interest in promoting hemispheric free trade under the Enterprise for the Americas.

From an institutional perspective, the endowment provides the basis for the Gremial to provide producers with continuing access to development programs and services. At the entrepreneurial level, production for export is a high-risk challenge for national and international business leaders. This project can help reduce the risk and increase the likelihood for success of agricultural and industrial export production. Unless the production focus expands to target new international markets, unemployment and underemployment are likely to intensify and social unrest is likely to increase, particularly in the face of macroeconomic policy adjustments.

5. Impact

First, the Trade and Labor Relations Development program will promote sustainable domestic export production by insuring a favorable trade and investment regulatory policy environment and reducing non-tariff barriers.

Second, with the expansion of production and marketing of non-traditional products, increased rural industrialization will increase employment opportunities in rural areas, thus ebbing the flow of both more skilled and less skilled migrants to urban areas. To the extent that export production opportunities

provide challenging, permanent employment to those with better access to resources and higher levels of education, it could encourage persons with those characteristics to remain in rural areas rather than migrate. Conversely, because of the labor-intensive nature of agro-industrial production, it should provide increased opportunities to those with scarce material or human resources and few employment options to draw upon.

Third, increased employment opportunities in light manufacturing, and agricultural and raw materials-based processing can be expected to provide a substantial number of employment opportunities for women. Depending on the location of the workplace, increasing employment options for women is important for different reasons.

In short, a program whose purpose is to expand two-way trade and improve labor relations will generate increased employment opportunities that are likely to pay at least the minimum wage, and be full-time permanent positions, provide heretofore unavailable options for women seeking employment and reduce urban migration.

6. Labor Issues

Much attention has recently been focused on Guatemalan export industries, particularly the textile assembly or *maquila* industry, because of charges of alleged labor code violations. Alleged abuses include below minimum wage salaries, demands for unremunerated overtime, and the employment of children under 14 years of age without their parents' consent. Some of these charges are probably true, although the Guatemalan private sector feels that they reflect conditions found in a minority of enterprises, or are otherwise condoned by the society-at-large as a necessary requirement for survival of marginal population in developing countries.

The Trade and Labor Relations Development Program will limit the occurrences of abuses in four ways. First, the program addresses labor issues through both its policy dialogue with the GOG and through the local currency resources proposed for the Ministry of Labor to assist it in improving worker rights protection in Guatemala. Second, the presence of foreign advisors on factory floors will make it more difficult for companies committing abuses since they are more likely to be reported. Third, the program will make law abiding firms more competitive, thereby diminishing the necessity for abuse as a cost cutting device. Finally the program will increase the awareness of the negative impact of labor abuse, for companies and countries, in the international market and what it signifies in terms of lost sales.

VII. CONDITIONS PRECEDENT, COVENANTS AND WAIVERS

A. Negotiating Status

USAID/Guatemala has negotiated the details of the Trade and Labor Relations Development Program with the Government of Guatemala, CAEM and the Gremial. While the Ministry of Economy, the designated negotiating ministry regarding trade and investment policy reform, agrees with the general thrust of the policy agenda, they are currently working with USAID to review and revise, as appropriate, the details of the Sectoral Reform Agenda. Agreement has been reached with the MOE and the MOL regarding the Trade and Labor Relations Project Activities to be funded with dollar and local currency funds. USAID and the BOG have also negotiated the dollar disbursement mechanisms, the requirements for separate accounts for both the dollar and local currencies, and the activities to be funded with local currency. Agreement has also been reached on the general framework for CAEM and the Gremial's participation in the Trade and Labor Relations Development Program.

B. Conditions Precedent

1. Conditions Precedent to Disbursement to the Government of Guatemala

Prior to disbursements for Trade and Labor Relations Development Program activities, or to the issuance by USAID of documentation pursuant to which disbursement will be made for Trade and Labor Relations Development Program activities, the Government of Guatemala will, except as the Parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D.:

a. An opinion of counsel acceptable to A.I.D. that the Project Agreement has been duly authorized and/or ratified by, and executed on behalf of, the GOG, and that it constitutes a valid and legally binding obligation of the GOG in accordance with all of its terms; and,

b. A statement of the name of the person holding or acting as representative of the GOG and of any additional representatives, together with a specimen signature of each person specified in such statement.

2. Conditions Precedent to Disbursement for the Sectoral Reform Agenda

Prior to disbursement for the Sectoral Reform Agenda, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made for the Sectoral Reform Agenda, the Government of Guatemala will, except as the Parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D.:

a. A side letter from the GOG defining the actions it will take to achieve specific objectives in the following four areas of policy and regulatory reform: protection of intellectual property rights; effective dispute settlement through arbitration; investment approval process; and, non-tariff barriers.

b. Evidence that the Grantee has established the Separate Account for dollar grant funds and a letter describing the mechanism by which the funds will be disbursed from the account. The disbursement mechanism should include requirements for supporting documentation to permit monitoring of disbursement and requirements for monthly reporting to A.I.D. on the disbursement from the Account.

c. A letter from the Grantee describing the mechanism for disbursement of local currencies from the Special Account, requirements for supporting documentation to permit monitoring of disbursements, and requirements for periodic reports to A.I.D. on disbursement and uses of funds from the Special Account.

d. Evidence the Grantee has achieved the objectives related to intellectual property rights and the investment approval process outlined in the side letter cited above. An illustrative list of the specific objectives against which disbursement will be made is found in Annex C.

C. Special Covenants

The Special Covenants included in the HB 4 Agreement with the GOG are as follows:

1. The Grantee will not rescind or materially reverse any action taken in satisfaction of the conditions precedent to disbursement discussed in section B above.

2. It will maintain its eligibility for General System for Preferences (GSP) and Caribbean Basin Initiative (CBI) benefits. A.I.D. will not disburse funds while the Grantee is ineligible for GSP or CBI benefits.

3. It will undertake the necessary analyses of its domestic legislation designed to bring Guatemalan domestic legislation on arbitration into conformity with the New York Convention on the enforcement of Foreign Arbitral Awards and the Interamerican Convention on Commercial Arbitration signed in New York on June 10, 1958 and in Panama on January 30, 1987, and present it to Congress for approval.

4. It will carry out the necessary analyses of the respective domestic legislation, and based upon those studies, present to Congress: 1) a safeguards law in compliance with GATT norms and 2) legislation that provides for adherence to the anti-dumping and countervailing duties codes, in compliance with GATT norms.

5. The Ministry of Economy will hold periodic joint review sessions with USAID/Guatemala beginning one month from the date of this Agreement and not less than every month thereafter in order to share information about the performance of the Trade and Labor Relations Development Program, and especially progress made toward the objectives of the program in the four critical areas discussed in Section B above.

D. Special Provisions

The following special provision will be included in the HB 13 cooperative agreement with the Gremial:

1. Prior to the first disbursement for the Trade and Labor Relations Project Activities under the Gremial, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made for these activities, the Gremial will, except otherwise agreed to in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

(a) A self-sufficiency plan and a detailed plan for utilization of Trade and Labor Relations Development Program resources, including expected accomplishments and performance indicators and benchmarks.

E. Waivers

No source/origin waivers are required. All local procurements of professional services will be under $250,000 per contract, and all procurement of local office supplies will also be under $5,000 per transaction.

VIII. MONITORING, EVALUATION AND AUDIT

This five-year program will have an ongoing monitoring and evaluation system for the Trade and Investment Strategic Objective which will include an impact information system, five special studies (three of which will be funded under Trade and Labor Relations Development Program), and a mid-term evaluation, as appropriate. In addition, annual financial audits of the grant and local currency recipients will be conducted.

A. Strategic Objective Monitoring and Evaluation Plan

1. Defining Performance Indicators

As the flagship project for the trade and investment strategic objective, the Trade and Labor Relations Development Program is responsible for tracking the impact of all USAID/Guatemala project and non-project assistance related to this objective. During the design of the Trade and Labor Relations Development Program, members of the strategic objective team met and received assistance to: 1) analyze and revise, as appropriate, the set of performance indicators, program output indicators, and end-of-project status indicators currently available for measuring the impact of T&I initiatives; 2) determine the types and quality of data required to measure progress; 3) prepare a monitoring and evaluation plan for monitoring progress against established performance benchmarks and development impact targets; and, 4) develop an information system for the collection, maintenance, analysis and use of data for the evaluation of program progress and impact.

Table 1 presents a summary of the Trade and Investment Objectives and Indicators that emerged from this analysis. Three strategic level performance indicators and thirteen program output performance indicators were identified. The performance indicators and annual benchmarks for monitoring achievement of the T&I strategic objective are found in Annex L. Three program outputs have been identified as direct measures of the accomplishment of the Trade and Labor Relations Development Program purpose as well as other projects related to the T&I objective. As a subset of the third program output, nine project level performance indicators have been identified as impact measures for several projects which are included under the T&I objective, but which do not directly contribute to this program output and hence can not be measured by the set of indicators identified for this program output.

Annex L provides a detailed presentation of the performance indicators, conceptual and methodological issues and assumptions relating to the choice of specific indicators, any data gaps that may exist with regard to specific indicators, the

data set(s) required for monitoring and evaluation and their source(s), special study requirements that may exist which would facilitate more accurate measurement of the impact of the projects and programs under the Trade and Investment strategic objective, and the Mission Office responsible for data collection and funding source(s) for the Program's monitoring and evaluation activities.

2. The Impact Information System

In preparing the monitoring and evaluation plan, the Mission reviewed the Management Information Systems developed under the PED project and housed in CAEM to determine whether it would be appropriate to use as the information system for the Trade and Investment strategic objective. Given that this system promised more than it could deliver in terms of output and impact monitoring, combined with the implicit reluctance of the participating governmental and nongovernmental entities to share information among themselves, it was decided that the information system should be maintained within USAID/Guatemala since it has the leverage to solicit and acquire information from all quarters.

The Impact Information System (IMPs) will be designed to provide an ongoing measure of the impact at the micro and macro level of all USAID interventions included under the Trade and Investment Strategic Objective. Within six months of program initiation, it is expected that the collection of the baseline data will be completed and the reporting format for IMPs designed.

3. Special Studies

The special studies undertaken during the Trade and Labor Relations Development Program will complement the IMPs and will be designed to provide more accurate measurement of the impact of specific activities included under the Trade and Investment Strategic Objective. Data collected from the Special Studies will be incorporated in to the IMPs as program level indicators as appropriate. These studies will enable project managers to assess the relative efficacy of alternative actions to orient and reorient resources to the most successful interventions, measure the impact of program actions specific to particular components that may be at an important turning point, and measure the impact of interventions in terms of meeting key indicator targets.

Five special studies have been identified as important for measuring program impact, with two of these to be funded under Trade and Labor Relations Development Program and the remaining three financed under the respective projects identified below. The three studies measuring the impact of the HADS project, the Farm-to-Market Roads Project and the Small Farmer

Coffee project are described in Annex L and will be financed from the respective projects. The two studies to be funded under Trade and Labor Relations Development Program - the People Level Impact Studies and the Value Added Study - are described below:

a. People Level Impact Studies

Trade and Labor Relations Development Program involves both macro and micro interventions related to increasing trade and investment in Guatemala. In order to relate the two components and demonstrate their impact on employment, incomes and consumption at the grass-roots level, a series of People Level Impact Studies (PLIMs) will be conducted at a subsectoral level under this program and the findings will be incorporated in to the IMPs. The two subsectors targeted for study under the PLIMs are the non-traditional agricultural export subsector and the nontraditional clothing and textile export subsector since these are the largest subsectors within NTEs and the focus of a lot of attention on a variety of issues. Urbanization and industrialization resulting from a more open trade regime and sound investment climate may also be the subject of a cross-sectoral PLIM.

The PLIM focused on non-traditional agricultural exports will look at the impact of this production system on employment, income and consumption of a relevant sample of NTAE producers in 35-40 km radius in the Altiplano. The participation of women in NTAE production will also be analyzed. In addition, this study will look at the relationship between NTAE production and social and physical infrastructure at the community, municipal and regional level. Finally, the study will address the relationship between NTAE and sustainable natural resources management through its examination of changing land use patterns and production intensity, thereby enabling the Mission to analyze the linkage across strategic objectives of its program impact.

The baseline data for this study has already been collected under a contract with ASIES. What remains to be completed is the data analysis. This will be finished this fall. A follow-up to this study will be conducted in year three of this program. Completion of the initial study will require a statistician and approximately one person-months time. The follow-on study team will require an agricultural economist and a statistician and will entail about four person-months time.

The PLIM for the nontraditional clothing and textile export subsector will be designed to measure the impact of this growing industry on income, employment and consumption, especially as it relates to the participation of women in the *maquila* industry. This study will look not only at the larger *maquila* producers, but more importantly will analyze the market chain developed along the Pan American highway corridor from

Guatemala City to Quetzaltenango and the backward linkages established with mini-*maquilas* providing inputs of traditional products for the larger producer/exporters. An important focus of the study will be the development impact of *maquila* in the rural areas. The study will be carried out in conjunction with the Gremial's *Maquila* Commission, and will require a microeconomist, a sociologist and a statistician and will take approximately six person-months time. A follow-up study will be conducted in year three of Trade and Labor Relations Development Program. Both studies, taken together, will provide an approximation of the employment levels in the non-traditional export sector.

b. Value Added Study

Domestic value added, the difference between the value of goods and the cost of domestically produced (as opposed to imported) materials or supplies that are used in producing them, is the best money gauge of the relative economic importance of an industry (or sector) because it measures that industry's contribution to the economy rather than its gross sales. Measurement of changes in domestic value added over time also offers insight into the efficiency with which a firm or group converts domestic raw materials, domestic intermediate goods, electric energy, labor and other inputs into final products and thus would serve as an indicator of Guatemala's increasing (or decreasing) comparative advantage in the production of specific non-traditional exports. An increasing comparative advantage would be indicative of Guatemala's ability to produce specific non-traditional products relatively more cheaply than other products thus increasing its competitiveness vis-a-vis other countries in the production of that same non-traditional product or products.

The only current source of production data are the yearly estimates of the Bank of Guatemala based on interviews with a number of business and GOG entities. Little primary information is available to the BOG, and as a result, some of the methods used in the development of the data are erroneous. In particular, the BOG calculates the value added of agricultural and industrial production on the basis of coefficients derived for 1958, the Central Bank's base year, which cannot possibly have any relevance today. Hence, no reliable baseline currently exists with regard to domestic value added in the non-traditional agriculture, *maquila* and other non-traditional export subsectors.

USAID's Office of Rural Development has demonstrated the feasibility of measuring domestic value added at the product level with relatively minimal resource requirements. The same methodology employed to calculate value added in the agricultural sector can be easily applied to the industrial sector. An initial sample survey of Gremial membership and non-

Gremial membership is currently being conducted to establish a baseline of the value-added for a range of non-traditional products. Once completed, the Gremial will use this information and the methodology to conduct annual follow-up surveys to measure progress.

4. Evaluations

The IMPs, supplemented by the special studies, are designed to measure the impact of USAID activities contributing to the Trade and Investment Strategic Objective on an ongoing basis. Hence, a final evaluation to measure Trade and Labor Relations Development Program impact is not included in the design. If necessary, a mid-term evaluation will be conducted during the third year of the program. The purpose of this evaluation would be to examine: (a) the adequacy and efficiency of implementation arrangements; (b) the timeliness of the disbursement of program inputs; and, (c) the progress made towards achieving program outputs. It would be expected to recommend whatever modifications are necessary to (a) assure Trade and Labor Relations Development Program's meaningful contributions to the achievement of the Mission's overall goals and objectives and (b) to improve program implementation.

B. Program Audits

1. ESF Cash Transfer

An audit will be required of the ESF dollar cash transfer to the Bank of Guatemala once all conditions precedent are met and the one-time disbursement is made. This audit will either be conducted by the RIG or by an A.I.D.-approved auditing firm. Funds for this audit will be provided from the HB 3 agreement with the GOG.

The use of the ESF dollars under the TCIP-like program with the Bank of Guatemala will be monitored through monthly import transaction reports prepared by the Bank of Guatemala and reviewed by the Mission's Controller's Office. The local currency funds generated under this program will be subject to audit by the Guatemalan Controller General.

When the ESF dollar cash transfer is made, the Bank of Guatemala will deposit an equal amount of local currency into a separate account. Following agreement on programming of resources, these funds will be disbursed to accounts for the Ministry of Economy, the Ministry of Labor and to USAID's Operating Expense Trust Fund. These funds will be subject to an annual audit at the end of each institution's fiscal year by a local certified public accounting firm subject to A.I.D. approval of the firm and authorization of the scope of work. The

recipients of the local currency will be responsible for contracting these audits, which will be funded from the local-currency generations.

2. Project Funds

Under the recipient contracted audit program, CAEM and the Gremial will each contract an annual audit of A.I.D. project funds, following the standard RIG guidelines to ensure compliance with A.I.D. procedures. CAEM and the Gremial will select an auditor from the A.I.D. approved list of audit firms, who will then conduct a financial audit of project funds in accordance with the "Guidelines for Financial Audits Contracted by Foreign Recipients" and the 1988 version of Government Auditing Standards. Funds have been included in the proposed budgets, at an annual cost of $12,500, for CAEM and the Gremial to cover the A.I.D.-percentage of these recipient audit costs.

Dollar funds provided to the Ministry of Economy and the Ministry of Labor are not subject to recipient audit procedures, since neither Ministry will directly manage more than $25,000 of USAID funds annually. The Mission will continue to contract for the bulk of the Ministry of Economy and the Ministry of Labor's dollar-financed goods and services.

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TAGS:
SUBJECT: LAC REVIEW OF USAID/GUATEMALA TRADE AND INVESTMENT CONCEPT PAPER

1. A DAEC REVIEW OF THE GUATEMALA FY 1992 TRADE AND INVESTMENT SECTOR PROGRAM CONCEPT PAPER WAS HELD ON FEBRUARY 24, 1992. THE REVIEW WAS CHAIRED BY AA/LAC, AMBASSADOR MICHEL AND WAS HELD IN CONJUNCTION WITH THE GUATEMALA POD/ACTION PLAN REVIEW. THE MISSION DIRECTOR, TERRENCE BROWN, CHIEF OF PROJECT DEVELOPMENT, DONALD BOYD, AND CHIEF OF THE PROGRAM OFFICE, DAVID ADAMS, REPRESENTED THE MISSION IN THE REVIEW. IN ATTENDANCE WERE REPRESENTATIVES FROM STATE, TREASURY, PEACE CORPS AND RELEVANT OFFICES OF A.I.D. FOLLOWING THE DISCUSSION, THE CONCEPT PAPER WAS APPROVED SUBJECT TO THE GUIDANCE PROVIDED IN THIS CABLE, AND DELEGATION OF AUTHORITY TO APPROVE THE PROGRAM WAS GRANTED TO THE MISSION DIRECTOR.

2. IN HIS OPENING STATEMENTS, AMB. MICHEL CHARACTERIZED THE LAC STRATEGY IN TRADE AND INVESTMENT AS A QUOTE ONE-TWO PUNCH UNQUOTE. THIS STRATEGY TARGETS THE SECTOR AT TWO LEVELS - FIRST BY ENSURING THE RIGHT POLICIES ARE IN PLACE AND SECOND BY INVOLVING THE PRIVATE SECTOR TO STIMULATE THE FLOW OF RESOURCES AND JOB CREATION. THE PROPOSED TRADE AND INVESTMENT PROGRAM REPRESENTS THE MISSION'S EFFORTS AT THIS ONE-TWO PUNCH.

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3. AS AN OVERVIEW, THE MISSION DIRECTOR DESCRIBED THE PARAMETERS UNDER WHICH THE TRADE AND INVESTMENT (T&I) PROGRAM IS WORKING. UNDER AN OVERALL ASSUMPTION THAT THE MACROECONOMIC SITUATION WILL REMAIN STABLE IN GUATEMALA, THE PROGRAM IS DESIGNED TO DO TWO THINGS. FIRST, THE PROGRAM WILL ADDRESS REMAINING CRITICAL POLICY CONSTRAINTS TO TRADE AND INVESTMENT WITH AN AGENDA DIRECTLY TIED TO THE ACTION AGENDA OF THE TRADE AND INVESTMENT COUNCIL. THE POLICY FRAMEWORK WILL ALSO REINFORCE THE EFFORTS OF THE INTERNATIONAL FINANCIAL INSTITUTIONS. SECOND, THE PROGRAM WILL PROVIDE THE LAST TRANCHE OF A.I.D. RESOURCES TO PRIVATE SECTOR ORGANIZATIONS INVOLVED IN T&I IN GUATEMALA. THEREFORE, SUSTAINABLE ACTIVITIES WILL BE OF PARAMOUNT CONCERN.

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4. THE DAEC ADDRESSED THE FOLLOWING ISSUES:

4A. PROGRAM PRIORITIES WITH DIMINISHING RESOURCES - THE CONCEPT PAPER AND POD/AP DESCRIBED CONFLICTING PLANS IN THE EVENT OF REDUCED RESOURCE LEVELS FOR GUATEMALA. THE DIRECTOR CLARIFIED THAT UNDER A REDUCED FUNDING SCENARIO THE MISSION PLANS TO KEEP A LIMITED POLICY-BASED PROGRAM COUPLED WITH REDUCED PROJECTIZED ACTIVITIES. AT A MINIMUM, THE MISSION PLANS TO USE DOLS 2-5 MILLION FOR POLICY REFORM TO ENSURE THE POLICY AGENDA IS FORMALLY INCORPORATED IN AN AGREEMENT WITH THE GUATEMALAN PUBLIC SECTOR. ON THE PROJECT SIDE, IESC ACTIVITIES ARE ON THE TOP OF THE LIST OF ACTIVITIES TO CUT IF FUNDING IS REDUCED.

4B. FINANCIAL MARKETS REFORM - IN AN ATTEMPT TO FOCUS THE POLICY AGENDA, THE MISSION WILL NARROW THE SCOPE OF EFFORTS IN FINANCIAL MARKETS REFORM TO CONCENTRATE TECHNICAL SUPPORT ON STANDARDIZING ACCOUNTING REGULATIONS AND DEVELOPING PROCEDURES FOR BANK FAILURE. CUTTING BACK IN THIS AREA MAKES SENSE, AS FINANCIAL MARKETS REFORM IS INCLUDED IN THE WORLD BANK SAL CURRENTLY BEING NEGOTIATED AND IS THE CENTRAL THEME OF THE IDB FINANCIAL SECTOR PROGRAM ALSO UNDER NEGOTIATION WITH THE GOG.

4C. LEGAL AND REGULATORY REFORM - PROGRAM CONDITIONALITY WILL FOCUS ON TECHNICAL, SHORT-TERM, LEGAL AND REGULATORY REFORMS. THE MISSION WILL TAKE CARE TO ENSURE THAT THEY COORDINATE CONDITIONALITY IN SPECIFIC POLICY AREAS WITH THE AGENCIES OF THE USG WHICH HAVE PRIMARY RESPONSIBILITY FOR THEM. FOR EXAMPLE, IPR ISSUES WILL HAVE TO BE

COORDINATED WITH THE COMMERCE DEPARTMENT AND USTR. IN ADDITION, AA/LAC MADE THREE POINTS CONCERNING THE DEVELOPMENT OF CONDITIONALITY IN THIS AREA. FIRST, ATTEMPTING TO MOVE GUATEMALA TO A UNIFIED TARIFF IS PROBABLY NOT REALISTIC, AND THE MISSION SHOULD NOT CONSIDER SUCH A CONDITION IN THE PROGRAM. A MORE REASONABLE GOAL WOULD BE A 10/20 SPLIT TARIFF, WHICH IS CONSONANT WITH REGIONAL TARIFF REDUCTION OBJECTIVES. SECOND, THE MOST CRITICAL INFRASTRUCTURE BOTTLENECK TO TRADE AND INVESTMENT IS IN THE COMMUNICATIONS SECTOR, SO THIS SECTOR MERITS A PLACE IN MISSION DIALOGUE. FINALLY, THE MISSION MAY WANT TO CONSIDER INCLUDING A FOCUS ON CORRUPTION ISSUES. THIS SHOULD BE COORDINATED WITH IAC/DI.

4D. SUSTAINABILITY - IF RESOURCES ARE AVAILABLE, THE ENDOWMENTS PROPOSED BY THE MISSION MAY BE THE BEST WAY TO

INSURE THE SUSTAINABILITY OF PRIVATE SECTOR ACTIVITIES IN THE AREA OF T&I. AS THE GREMIAL AND CAEM APPEAR TO BE THE MOST APPROPRIATE PRIVATE INSTITUTIONS IN GUATEMALA SUPPORTING T&I ACTIVITIES, THE BUREAU SUPPORTS THE MISSION'S PROPOSAL TO INITIATE TWO LOCAL CURRENCY ENDOWMENTS FOR THESE INSTITUTIONS.

4E. IMF PROGRAM - THE QUESTION OF THE IMPORTANCE OF AN IMF AGREEMENT TO THE MISSION'S T&I STRATEGY WAS DISCUSSED UNDER THE CONTEXT OF THE POD/AP REVIEW. IT WAS DECIDED THAT WHILE THE MACROECONOMIC PERFORMANCE OF GUATEMALA HAS BEEN GOOD DESPITE THE LACK OF AN IMF STANDBY, IT IS IMPORTANT THAT THE USG DOES NOT SEND A MIXED MESSAGE TO THE GOG. THEREFORE, POLICY-BASED DOLLARS WILL NOT BE DISBURSED UNTIL THE SUCH AN AGREEMENT IS IN PLACE.

4F. DELEGATION OF AUTHORITY - THE BUREAU EXPECTS A CONTINUING DIALOGUE WITH THE MISSION AS THEY FINALIZE THE DESIGN AND NEGOTIATION OF THE PROGRAM. THE MISSION SHOULD SEND A REPORTING CABLE DESCRIBING THE FINAL DESIGN OF THE PROGRAM, INCLUDING TOTAL BUDGET, BENCHMARKS TO BE USED FOR DISBURSEMENTS, A DISCUSSION OF HOW DOLLARS WILL BE USED AND MANAGED, AND A DESCRIPTION OF DOLLAR AND LOCAL CURRENCY FUNDED PROJECT ACTIVITIES (INCLUDING ENDOWMENTS). FOLLOWING SUCH A REPORTING CABLE, THE MISSION DIRECTOR IS DELEGATED THE AUTHORITY TO APPROVE THE PROGRAM IN THE FIELD. BAKER
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5C(2) - PROJECT ASSISTANCE CHECKLIST
TRADE AMD LABOR RELATIONS DEVELOPMENT PROGRAM (520-0403)

Listed below are statutory criteria applicable to the assistance resources themselves, rather than to the eligibility of a country to receive assistance. This section is divided into three parts. Part A includes criteria applicable to both Development Assistance and Economic Support Fund resources. Part B includes criteria applicable only to Development Assistance resources. Part C includes criteria applicable only to Economic Support Funds.

CROSS REFERENCE: IS COUNTRY CHECKLIST UP TO DATE?

Yes

A. CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUNDS

1. **Host Country Development Efforts** (FAA Sec. 601(a)): Information and conclusions on whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve

The Mission views the Program as a necessary condition to (a), (b), (d), (e) and (f).

technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

2. **U.S. Private Trade and Investment** (FAA Sec. 601(b)): Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

The Program goal is to support the achievement of broadly-based, sustainable economic growth in Guatemala through the simulation of greater private investment and trade, essential to improved prospects for U.S. private trade and investment in Guatemala.

3. **Congressional Notification**

a. **General requirement** (FY 1993 Appropriations Act Sec. 522; FAA Sec. 634A): If money is to be obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified (unless the Appropriations Act notification requirement has been waived because of substantial risk to human health or welfare)?

A Congressional Notification was sent to the Congress on March 31, 1993 and expired without objection on April 15, 1993.

b. **Notice of new account obligation** (FY 1993 Appropriations Act Sec. 514): If funds are being obligated under an appropriation account to

N/A

which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures?	
c. **Cash transfers and nonproject sector assistance** (FY 1993 Appropriations Act Sec. 571(b)(3)): If funds are to be made available in the form of cash transfer or nonproject sector assistance, has the Congressional notice included a detailed description of how the funds will be used, with a discussion of U.S. interests to be served and a description of any economic policy reforms to be promoted?	Yes
4. **Engineering and Financial Plans** (FAA Sec. 611(a)): Prior to an obligation in excess of $500,000, will there be:	
(a) engineering, financial or other plans necessary to carry out the assistance; and	Yes
(b) a reasonably firm estimate of the cost to the U.S. of the assistance?	Yes

5. **Legislative Action** (FAA Sec. 611(a)(2)): If legislative action is required within recipient country with respect to an obligation in excess of $500,000, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance?	GOG political support has already been shown for the Program through their willingness to negotiate a preliminary sectoral reform agenda. Both the policy agenda and the projectized activities fit well within the Government's own program of economic and social development. However, the conditionality for the cash transfer is the presentation of legislation to Congress not its passage.
6. **Water Resources** (FAA Sec. 611(b); FY 1993 Appropriations Act Sec. 501): If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See A.I.D. Handbook 3 for guidelines.)	N/A
7. **Cash Transfer and Sector Assistance** (FY 1993 Appropriations Act Sec. 571(b)): Will cash transfer or nonproject sector assistance be maintained in a separate account and not commingled with other funds (unless such requirements are waived by Congressional notice for nonproject sector assistance)?	Yes

8. **Capital Assistance** (FAA Sec. 611(e)): If project is capital assistance (e.g., construction), and total U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively?	N/A
9. **Multiple Country Objectives** (FAA Sec. 601(a)): Information and conclusions on whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.	See item (1) above.
10. **U.S. Private Trade** (FAA Sec. 601(b)): Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private	See item (2) above.

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trade channels and the services of U.S. private enterprise).

11. Local Currencies

a. Recipient Contributions (FAA Secs. 612(b), 636(h)): Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.	Total counterpart of $8,600,000 represents 46% of total Program costs and will cover most of the in-country costs associated with the activities under this program.
b. U.S.-Owned Currency (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?	No.
c. Separate Account (FY 1993 Appropriations Act Sec. 571). If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies:	
(1) Has A.I.D. (a) required that local currencies be deposited in a separate account established by the recipient government, (b) entered into an agreement with that government providing the amount of local currencies to be	Yes.

generated and the terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of A.I.D. and that government to monitor and account for deposits into and disbursements from the separate account?	
(2) Will such local currencies, or an equivalent amount of local currencies, be used only to carry out the purposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government?	Yes.
(3) Has A.I.D. taken all appropriate steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes?	Yes.
(4) If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government?	Yes.
12. **Trade Restrictions**	
a. **Surplus Commodities** (FY 1993 Appropriations Act	No. Assistance will be targeted to increasing exports

Sec. 520(a)): If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?	of non-traditional products, the demand for which is projected to also increase. Program assistance is not likely to cause substantial injury to U.S. producers of the same, similar or competing products.
b. **Textiles (Lautenberg Amendment)** (FY 1993 Appropriations Act Sec. 520(c)): Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel?	No. The Program does not contain any investment promotion activities (both passive and active), nor assistance to the Maquila Sector.

13. **Tropical Forests** (FY 1991 Appropriations Act Sec. 533(c)(3)(as referenced in section 532(d) of the FY 1993 Appropriations Act): Will funds be used for any program, project or activity which would (a) result in any significant loss of tropical forests, or (b) involve industrial timber extraction in primary tropical forest areas?	No.
14. **PVO Assistance**	
a. **Auditing and registration** (FY 1993 Appropriations Act Sec. 536): If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.?	Yes.
b. **Funding sources** (FY 1993 Appropriations Act, Title II, under heading "Private and Voluntary Organizations"): If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government?	N/A

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15. **Project Agreement Documentation** (State Authorization Sec. 139 (as interpreted by conference report)): Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision).	N/A
16. **Metric System** (Omnibus Trade and Competitiveness Act of 1988 Sec. 5164, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance activity use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically	Yes, to the extent practical.

available and technically adequate?

Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

17. **Women in Development** (FY 1993 Appropriations Act, Title II, under heading "Women in Development"): Will assistance be designed so that the percentage of women participants will be demonstrably increased?

Yes. Increased employment opportunities in light manufacturing, and agricultural and raw materials-based processing can be expected to provide a substantial number of employment opportunities for women. People level impact studies will be conducted to measure the impact of subsectors within NTEs on income, employment and consumption, espec. as it relates to participation of women.

18. **Regional and Multilateral Assistance** (FAA Sec. 209): Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in

No.

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regional development programs.	
19. **Abortions** (FY 1993 Appropriations Act, Title II, under heading "Population, DA," and Sec. 524):	
a. Will assistance be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization?	No.
b. Will any funds be used to lobby for abortion?	No.
20. **Cooperatives** (FAA Sec. 111): Will assistance help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life?	Yes. Cooperatives are potential recipients of technical assistance provided under the program to increase non-traditional exports.
21. **U.S.-Owned Foreign Currencies**	
a. **Use of currencies** (FAA Secs. 612(b), 636(h); FY 1993 Appropriations Act Secs. 507, 509): Are steps being taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services.	N/A

b. **Release of currencies** (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?	No.
22. **Procurement**	
a. **Small business** (FAA Sec. 602(a)): Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?	Yes.
b. **U.S. procurement** (FAA Sec. 604(a) as amended by section 597 of the FY 1993 Appropriations Act): Will all procurement be from the U.S., the recipient country, or developing countries except as otherwise determined in accordance with the criteria of this section?	Yes.
c. **Marine insurance** (FAA Sec. 604(d)): If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?	N/A.
d. **Non-U.S. agricultural procurement** (FAA Sec. 604(e)): If non-U.S. procurement of agricultural	N/A

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commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)	
e. **Construction or engineering services** (FAA Sec. 604(g)): Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.)	N/A
f. **Cargo preference shipping** (FAA Sec. 603)): Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers)	No.

financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates?	
g. **Technical assistance** (FAA Sec. 621(a)): If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?	Yes. U.S. Institutional contractors, the Department of Labor, and possibly a U.S. university with expertise in labor relations will participate.
h. **U.S. air carriers** (International Air Transportation Fair Competitive Practices Act, 1974): If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available?	Yes.
i. **Termination for convenience of U.S. Government** (FY 1993 Appropriations Act Sec. 504): If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such	Yes.

contract for the convenience of the United States?	
j. **Consulting services** (FY 1993 Appropriations Act Sec. 523): If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)?	Yes.
k. **Metric conversion** (Omnibus Trade and Competitiveness Act of 1988, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance program use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate?	Yes, to the extent practical.

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Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?	
1. **Competitive Selection Procedures** (FAA Sec. 601(e)): Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?	Yes.
23. **Construction**	
a. **Capital project** (FAA Sec. 601(d)): If capital (e.g., construction) project, will U.S. engineering and professional services be used?	N/A
b. **Construction contract** (FAA Sec. 611(c)): If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable?	N/A
c. **Large projects, Congressional approval** (FAA Sec. 620(k)): If for construction of productive enterprise, will aggregate	N/A

value of assistance to be furnished by the U.S. not exceed $100 million (except for productive enterprises in Egypt that were described in the Congressional Presentation), or does assistance have the express approval of Congress?	
24. **U.S. Audit Rights** (FAA Sec. 301(d)): If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights?	N/A
25. **Communist Assistance** (FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries.	N/A
26. **Narcotics**	
a. **Cash reimbursements** (FAA Sec. 483): Will arrangements preclude use of financing to make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated?	Yes.

b. **Assistance to narcotics traffickers** (FAA Sec. 487): Will arrangements take "all reasonable steps" to preclude use of financing to or through individuals or entities which we know or have reason to believe have either: (1) been convicted of a violation of any law or regulation of the United States or a foreign country relating to narcotics (or other controlled substances); or (2) been an illicit trafficker in, or otherwise involved in the illicit trafficking of, any such controlled substance?	Yes.
27. **Expropriation and Land Reform** (FAA Sec. 620(g)): Will assistance preclude use of financing to compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President?	Yes.
28. **Police and Prisons** (FAA Sec. 660): Will assistance preclude use of financing to provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs?	Yes.

29. **CIA Activities** (FAA Sec. 662): Will assistance preclude use of financing for CIA activities?	Yes.
30. **Motor Vehicles** (FAA Sec. 636(i)): Will assistance preclude use of financing for purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained?	Yes.
31. **Military Personnel** (FY 1993 Appropriations Act Sec. 503): Will assistance preclude use of financing to pay pensions, annuities, retirement pay, or adjusted service compensation for prior or current military personnel?	Yes.
32. **Payment of U.N. Assessments** (FY 1993 Appropriations Act Sec. 505): Will assistance preclude use of financing to pay U.N. assessments, arrearages or dues?	Yes.
33. **Multilateral Organization Lending** (FY 1993 Appropriations Act Sec. 506): Will assistance preclude use of financing to carry out provisions of FAA section 209(d) (transfer of FAA funds to multilateral organizations for lending)?	Yes.

34. **Export of Nuclear Resources** (FY 1993 Appropriations Act Sec. 510): Will assistance preclude use of financing to finance the export of nuclear equipment, fuel, or technology?	Yes.
35. **Repression of Population** (FY 1993 Appropriations Act Sec. 511): Will assistance preclude use of financing for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights?	Yes.
36. **Publicity or Propaganda** (FY 1993 Appropriations Act Sec. 516): Will assistance be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress?	No.
37. **Marine Insurance** (FY 1993 Appropriations Act Sec. 560): Will any A.I.D. contract and solicitation, and subcontract entered into under such contract, include a clause requiring	Yes.

that U.S. marine insurance companies have a fair opportunity to bid for marine insurance when such insurance is necessary or appropriate?

38. **Exchange for Prohibited Act** (FY 1993 Appropriations Act Sec. 565): Will any assistance be provided to any foreign government (including any instrumentality or agency thereof), foreign person, or United States person in exchange for that foreign government or person undertaking any action which is, if carried out by the United States Government, a United States official or employee, expressly prohibited by a provision of United States law? No.

39. **Commitment of Funds** (FAA Sec. 635(h)): Does a contract or agreement entail a commitment for the expenditure of funds during a period in excess of 5 years from the date of the contract or agreement? No.

40. **Impact on U.S. Jobs** (FY 1993 Appropriations Act, Sec. 599):

(a) Will any financial incentive be provided to a business located in the U.S. for the purpose of inducing that business to relocate outside the U.S. in a manner that would No.

likely reduce the number of U.S. employees of that business.	
(b) Will assistance be provided for the purpose of establishing or developing an export processing zone or designated area in which the country's tax, tariff, labor, environment, and safety laws do not apply? If so, has the President determined and certified that such assistance is not likely to cause a loss of jobs within the U.S.?	No.
(c) Will assistance be provided for a project or activity that contributes to the violation of internationally recognized workers rights, as defined in section 502(a)(4) of the Trade Act of 1974, of workers in the recipient country?	No.
B. CRITERIA APPLICABLE TO DEVELOPMENT ASSISTANCE ONLY	
1. **Agricultural Exports (Bumpers Amendment)** (FY 1993 Appropriations Act Sec. 521(b), as interpreted by conference report for original enactment): If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such	(1) No. (2) No.

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activities: (1) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (2) in support of research that is intended primarily to benefit U.S. producers?	
2. **Tied Aid Credits** (FY 1993 Appropriations Act, Title II, under heading "Economic Support Fund"): Will DA funds be used for tied aid credits?	No.
3. **Appropriate Technology** (FAA Sec. 107): Is special emphasis placed on use of appropriate technology (defined as relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?	Yes.
4. **Indigenous Needs and Resources** (FAA Sec. 281(b)): Describe extent to which the activity	The Program has been designed based on extensive public and private sector input. It will encourage institutional and

recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.	human resources development required to sustain project activities beyond the PACD.
5. **Economic Development** (FAA Sec. 101(a)): Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?	Yes.
6. **Special Development Emphases** (FAA Secs. 102(b), 113, 281(a)): Describe extent to which activity will:	
(a) effectively involve the poor in development by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, dispersing investment from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using appropriate	The purpose of the Program is to promote growth of Guatemalan economy through increased two-way trade and to expand the participation of the labor force in the benefits of growth. With the expansion of production and marketing of non-traditional products, increased rural industrialization will increase employment opportunities in rural areas, thus ebbing the flow of both skilled and less

U.S. institutions;	skilled migrants to urban areas. U.S. institutional contractors, the Department of Labor, and possibly a U.S. university with expertise in labor relations will participate.
(b) encourage democratic private and local governmental institutions;	N/A
(c) support the self-help efforts of developing countries;	The timing is opportune to support the liberalization of Guatemala's trade and investment regimes and the present linkage and dialogue between public and private sectors.
(d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and	Because non-traditional exports tend to favor female employment, the Program will contribute not only to increased employment opportunities for women but also to reducing the salary gap between genders.
(e) utilize and encourage regional cooperation by developing countries.	Project activities will support Central American Economic integration.
7. **Recipient Country Contribution** (FAA Secs. 110, 124(d)): Will the recipient country provide at least 25 percent of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)?	Yes. Counterpart will contribute 46% of total program costs.

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8. **Benefit to Poor Majority** (FAA Sec. 128(b)): If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority?	Yes. An important element of Program purpose is to expand the participation of the labor force in the benefits of growth.
9. **Abortions** (FAA Sec. 104(f); FY 1993 Appropriations Act, Title II, under heading "Population, DA," and Sec. 534):	
a. Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions?	N/A
b. Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations?	N/A
c. Are any of the funds to be made available to any organization or program which, as determined by the President, supports or participates in the	N/A

management of a program of coercive abortion or involuntary sterilization?	
d. Will funds be made available only to voluntary family planning projects which offer, either directly or through referral to, or information about access to, a broad range of family planning methods and services?	N/A
e. In awarding grants for natural family planning, will any applicant be discriminated against because of such applicant's religious or conscientious commitment to offer only natural family planning?	N/A
f. Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?	N/A
g. Are any of the funds to be made available to any organization if the President certifies that the use of these funds by such organization would violate any of the above provisions related to abortions and involuntary sterilization?	N/A
10. **Contract Awards** (FAA Sec. 601(e)): Will the project utilize competitive	Yes.

selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

11. **Disadvantaged Enterprises** (FY 1993 Appropriations Act Sec. 563): What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, colleges and universities having a student body in which more than 40 percent of the students are Hispanic Americans, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)?

Although funds will not be specifically set aside for participation of these enterprises, the technical assistance and training contracts will be competitively bid, allowing for participation of economically or socially disadvantaged firms.

12. **Biological Diversity** (FAA Sec. 119(g): Will the assistance: (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other wildlife habitats; (c) support efforts to identify and survey ecosystems in

N/A

recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas?	
13. **Tropical Forests** (FAA Sec. 118; FY 1991 Appropriations Act Sec. 533(c) as referenced in section 532(d) of the FY 1993 Appropriations Act):	
a. **A.I.D. Regulation 16:** Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16?	Yes.
b. **Conservation:** Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent feasible: (1) stress the importance of conserving and sustainably managing forest resources; (2) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (3) support training programs, educational efforts, and the establishment or strengthening of	N/A

institutions to improve forest management; (4) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (5) help conserve forests which have not yet been degraded by helping to increase production on lands already cleared or degraded; (6) conserve forested watersheds and rehabilitate those which have been deforested; (7) support training, research, and other actions which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (8) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (9) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate

protected areas; (10) seek to increase the awareness of U.S. Government agencies and other donors of the immediate and long-term value of tropical forests; (11) utilize the resources and abilities of all relevant U.S. government agencies; (12) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land; and (13) take full account of the environmental impacts of the proposed activities on biological diversity?

c. **Forest degradation:** Will assistance be used for: (1) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; (2) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas; (3) activities which would result in the conversion of forest lands to the rearing of livestock; (4) the construction, upgrading, or

N/A

maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undergraded forest lands; (5) the colonization of forest lands; or (6) the construction of dams or other water control structures which flood relatively undergraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development?	
d. **Sustainable forestry:** If assistance relates to tropical forests, will project assist countries in developing a systematic analysis of the appropriate use of their total tropical forest resources, with the goal of developing a national program for sustainable forestry?	N/A
e. **Environmental impact statements:** Will funds be made available in accordance with provisions of FAA Section 117(c) and applicable A.I.D. regulations requiring an environmental impact statement for activities	N/A

significantly affecting the environment?	
14. **Energy** (FY 1991 Appropriations Act Sec. 533(c) as referenced in section 532(d) of the FY 1993 Appropriations Act): If assistance relates to energy, will such assistance focus on: (a) end-use energy efficiency, least-cost energy planning, and renewable energy resources, and (b) the key countries where assistance would have the greatest impact on reducing emissions from greenhouse gases?	N/A
15. **Debt-for-Nature Exchange** (FAA Sec. 463): If project will finance a debt-for-nature exchange, describe how the exchange will support protection of: (a) the world's oceans and atmosphere, (b) animal and plant species, and (c) parks and reserves; or describe how the exchange will promote: (d) natural resource management, (e) local conservation programs, (f) conservation training programs, (g) public commitment to conservation, (h) land and ecosystem management, and (i) regenerative approaches in farming, forestry, fishing, and watershed management.	N/A

16. **Deobligation/Reobligation** (FY 1993 Appropriations Act Sec. 515): If deob/reob authority is sought to be exercised in the provision of DA assistance, are the funds being obligated for the same general purpose, and for countries within the same region as originally obligated, and have the House and Senate Appropriations Committees been properly notified?	Yes.
17. **Loans**	
a. **Repayment capacity** (FAA Sec. 122(b)): Information and conclusion on capacity of the country to repay the loan at a reasonable rate of interest.	N/A
b. **Long-range plans** (FAA Sec. 122(b)): Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities?	N/A
c. **Interest rate** (FAA Sec. 122(b)): If development loan is repayable in dollars, is interest rate at least 2 percent per annum during a grace period which is not to exceed ten years, and at least 3 percent per annum thereafter?	N/A

d. **Exports to United States** (FAA Sec. 620(d)): If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20 percent of the enterprise's annual production during the life of the loan, or has the requirement to enter into such an agreement been waived by the President because of a national security interest?	N/A
18. **Development Objectives** (FAA Secs. 102(a), 111, 113, 281(a)): Extent to which activity will: (1) effectively involve the poor in development, by expanding access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (2) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local	(1) See 6 (a) (2) N/A (3) See 6 (c) (4) See 6 (d) (5) See 6 (e)

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governmental institutions; (3) support the self-help efforts of developing countries; (4) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (5) utilize and encourage regional cooperation by developing countries?

19. **Agriculture, Rural Development and Nutrition,** and **Agricultural Research** (FAA Secs. 103 and 103A):

a. **Rural poor and small farmers:** If assistance is being made available for agriculture, rural development or nutrition, describe extent to which activity is specifically designed to increase productivity and income of rural poor; or if assistance is being made available for agricultural research, has account been taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made.

Assistance will be provided to improve the production and marketing of non-traditional agricultural exports.

Assistance may also be provided for agricultural research, which will take into account the needs of small farmers.

b. **Nutrition:** Describe extent to which assistance is used in coordination with efforts carried out under FAA Section 104 (Population and Health) to help improve nutrition of the people of developing countries through encouragement of increased

N/A

production of crops with greater nutritional value; improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration programs explicitly addressing the problem of malnutrition of poor and vulnerable people.	
c. **Food security:** Describe extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.	N/A
20. **Population and Health** (FAA Secs. 104(b) and (c)): If assistance is being made available for population or health activities, describe extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young	N/A

children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems, and other modes of community outreach.

21. **Education and Human Resources Development** (FAA Sec. 105): If assistance is being made available for education, public administration, or human resource development, describe (a) extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, and strengthens management capability of institutions enabling the poor to participate in development; and (b) extent to which assistance provides advanced education and training of people of developing countries in such disciplines as are required for planning and implementation of public and private development activities.

N/A

22. **Energy, Private Voluntary Organizations, and Selected Development Activities** (FAA Sec. 106): If assistance is being made available for energy, private voluntary

organizations, and selected development problems, describe extent to which activity is:	
a. concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and facilitative of research on and development and use of small-scale, decentralized, renewable energy sources for rural areas, emphasizing development of energy resources which are environmentally acceptable and require minimum capital investment;	N/A
b. concerned with technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations;	The Program will support increased self-sufficiency of Guatemalan private voluntary organizations engaged in trade promotion and expansion.
c. research into, and evaluation of, economic development processes and techniques;	N/A
d. reconstruction after natural or manmade disaster and programs of disaster preparedness;	N/A
e. for special development problems, and to enable proper utilization of	N/A

infrastructure and related projects funded with earlier U.S. assistance;	
f. for urban development, especially small, labor-intensive enterprises, marketing systems for small producers, and financial or other institutions to help urban poor participate in economic and social development.	N/A
23. **Capital Projects** (Jobs Through Export Act of 1992, Secs. 303 and 306(d)): If assistance is being provided for a capital project, is the project developmentally sound and will the project measurably alleviate the worst manifestations of poverty or directly promote environmental safety and sustainability at the community level?	N/A
C. CRITERIA APPLICABLE TO ECONOMIC SUPPORT FUNDS ONLY	
1. **Economic and Political ability** (FAA Sec. 531(a)): Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA?	Yes.

2. **Military Purposes** (FAA Sec. 531(e)): Will this assistance be used for military or paramilitary purposes?	No.
3. **Commodity Grants/Separate Accounts** (FAA Sec. 609): If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? (For FY 1993, this provision is superseded by the separate account requirements of FY 1993 Appropriations Act Sec. 571(a), see Sec. 571(a)(5).)	N/A
4. **Generation and Use of Local Currencies** (FAA Sec. 531(d)): Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106? (For FY 1993, this provision is superseded by the separate account requirements of FY 1993 Appropriations Act Sec. 571(a), see Sec. 571(a)(5).)	Yes.

5. **Cash Transfer Requirements** (FY 1993 Appropriations Act, Title II, under heading "Economic Support Fund," and Sec. 571(b)). If assistance is in the form of a cash transfer:	
a. **Separate account:** Are all such cash payments to be maintained by the country in a separate account and not to be commingled with any other funds?	Yes.
b. **Local currencies:** Will all local currencies that may be generated with funds provided as a cash transfer to such a country also be deposited in a special account, and has A.I.D. entered into an agreement with that government setting forth the amount of the local currencies to be generated, the terms and conditions under which they are to be used, and the responsibilities of A.I.D. and that government to monitor and account for deposits and disbursements?	Yes.
c. **U.S. Government use of local currencies:** Will all such local currencies also be made available to the U.S. government as the U.S. determines necessary for the requirements of the U.S. Government, or to carry out development assistance (including DFA)	Yes. Part of the local currency generated will be transferred to the USAID O.E. trust fund.

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or ESF purposes?	Yes.
d. **Congressional notice:** Has Congress received prior notification providing in detail how the funds will be used, including the U.S. interests that will be served by the assistance, and, as appropriate, the economic policy reforms that will be promoted by the cash transfer assistance?	
6. **Capital Projects** (Jobs Through Exports Act of 1992, Sec. 306, FY 1993 Appropriations Act, Sec. 595): If assistance is being provided for a capital project, will the project be developmentally-sound and sustainable, i.e., one that is (a) environmentally sustainable, (b) within the financial capacity of the government or recipient to maintain from its own resources, and (c) responsive to a significant development priority initiated by the country to which assistance is being provided. (Please note the definition of "capital project" contained in section 595 of the FY 1993 Appropriations Act.)	N/A

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SECTORAL REFORM AGENDA

Illustrative Policy Agenda
(not to exceed U.S.$ 3,000,000)

1. **Transparent Investment Processes**

   a. Laws, regulations and interpretations related to investment should be compiled at one location and translated into English, and other target languages for distribution through the Ventanilla Unica para Inversionistas.

   b. Establish and ensure the effective operation of the Ventanilla Unica para Inversionistas.

2. **Protection of Intellectual Property Rights**

   Specific Indicators of Progress:

   a. Accede to the Paris Convention and present it to congress for ratification.
   b. Accede to the Berne Convention and present it to congress for ratification.
   c. Guatemala will carry out the necessary analyses of domestic legislation, and based upon those studies, present to congress a legislative package designed to bring Guatemalan intellectual property rights legislation to world class standards, including modifications to the patent, trademark and copyright laws.

ANNEX D: **LOGFRAME**

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Program Goal: To support the achievement of broadly-based sustainable economic growth in Guatemala through the stimulation of greater private investment and trade	Expand production and marketing of Non-Traditional Exports (NTEs) from $399.8 million in 1991 to $887 million in 1998	BOG/GOG records and statistics; GEXPRONT and Ventanilla Unica de Exportaciones records	Continued favorable economic environment Political will to adopt policy changes
	Increase private investment share of GDP from 10.1% in 1991 to 11.8% in 1998	BOG records and statistics	
	Increase value of US-Guatemala bilateral trade from $1,820.9 in 1991 to $3,886 in 1998	U.S. Department of Commerce statistics; BOG records and statistics	
Program Purpose: To promote growth of the Guatemalan economy through increased two-way trade and the participation of the labor force in the benefits growth:	End of Program Status:		Continued willingness of GOG and private sector to collaborate and carry out activities
1. Promotion of an open trade and investment regime,	1a. Compliance with terms of GATT agreement resulting in no ruling against Guatemala	Records of United States Trade Representative	Lack of significant phytosanitary or other tariff/nontariff barriers to entry to U.S. market

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
	1b. Reduce number of commodities subject to quantitative restrictions or licensing from 30 in 1992 to 25 in 1998	BOG and private sector (GEXPRONT, CAEM) records and statistics	Continuation of CBI and GSP trade preferences Private sector confidence in new policies and regulations
	1c. Reduce processing time for foreign investments from 360 days to 1 week by 1998	Data from Ventanilla Unica de Inversiones	Continued GOG commitment to liberalizing the trade environment
	1d. Presentation of internationally accepted Intellectual Property Rights legislation	Ministry of Economy records	Increasing demand for NTEs
2. Increased production and marketing of non-traditional exports (NTEs)	2a. Increased value-added in NTE sector (baseline and increment to be determined in FY1993) attributable to USAID support by 1998	Annual value-added survey conducted of GEXPRONT and non-GEXPRONT members	
	2b. Value of NTEs for manufactured products increased from 1991 levels of $67.6 to $125.6 million, agricultural products from $97.2 to $197.4 million and textiles from $108.6 to $247.5 million by 1998	BOG divisa data	

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
3. Improved labor relations and greater freedom to form labor associations	3a. Employment in the NTE sector increased from to by 1998 (baseline to be determined in 1993)	Gremial survey	
	3b. Labor association membership increased from to by 1998	Ministry of Labor statistics	
<u>Program Outputs:</u>			
POLICY REFORM 1. Improved technical ability of the MOE to implement policy reforms and adhere to international trade agreement commitments	1a. 14 policy studies completed 1b. 20 persons trained	Quarterly project reports (MOE)	GOG continues its commitment and support to liberalizing the trade environment Private sector confidence in new policies and regulations
2. Private sector support for public sector policy reforms	2. 8 policy studies completed on required legislative reforms	Quarterly project reports (CAEM)	

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
NTE DEVELOPMENT			
1. Increased technical capacity of local NTE exporters who are Gremial members	1a. 150 firms receive targeted technical assistance	Quarterly project reports (Gremial)	Continued demand for NTEs
	1b. 5,000 exporters trained in 100 events	Quarterly project reports (Gremial)	
	1c. Percentage of NTEs exported outside of Central America attributable to Gremial members increased from 60% in 1992 to 75% in 1998	Ventanilla Unica de Exportaciones data	
LABOR RELATIONS			
1. Increased awareness among public, private and labor sectors of modern labor relations techniques	1a. 500 peopled trained in 25 events	Quarterly project reports (Gremial, CAEM, MOE, MOL)	Continued cooperation among labor, private and public sectors
	1b. 10 studies conducted on labor relations issues	Quarterly project reports (Gremial, CAEM, MOL, MOE)	Continued focus on importance of improving labor relations

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<u>Inputs</u> See program budget	Obligation reports, quarterly project reports	USAID Controller's reports BOG/GOG, private sector records	Participating institutions fulfill financial support commitments GOG counterpart contributions provided on a timely basis Endowment fund completed

LAC-IEE-92-16

USAID
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

IEE DETERMINATION

Project Location	:	Guatemala
Project Title	:	Trade and Investment Sector Program
Project Number	:	520-0403
Funding	:	$25 million
Life of Project	:	Five Years (FY 92-96)
IEE Prepared by	:	Alfred Nakatsuma, Environmental Officer, USAID/Guatemala
Recommended Threshold Decision	:	Categorical Exclusion
Bureau Threshold Decision	:	Concur with Recommendation
Comments	:	Approval of categorical exclusion is granted on the condition that program agreements include the following restriction on the use of program funds: (1) no pesticides will be procured or used, nor (2) will there be support of activities or procurement or use of materials or equipment for commercial timber harvesting in primary forests under program without first completing an Environmental Assessment and having it approved by the LAC Bureau Environmental Officer.
Copy to	:	Terrence J. Brown, Director USAID/Guatemala
Copy to	:	Elizabeth Warfield, USAID/Guatemala
Copy to	:	Alfred Nakatsuma, USAID/Guatemala
Copy to	:	Wayne Williams, REA/CEN
Copy to	:	James Hradsky, LAC/DR/CEN
Copy to	:	James Vandenbos, LAC/CEN
Copy to	:	IEE File

320 TWENTY-FIRST STREET, N.W., WASHINGTON, D.C. 20523

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James S. Hester Date AUG 14 1992

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

USAID
U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

LAC-IEE-93-25

ENVIRONMENTAL THRESHOLD DECISION

Project Location	:	Guatemala
Project Title	:	Trade and Labor Relations Development Program - Improved Labor Relations Component (previously titled: Trade and Investment Sector Program)
Project Number	:	520-0403
Activity Funding	:	$850,000 new component, $10 5 million (LOP)
Life of Project	:	5 years (FY 92-96)
IEE Prepared by	:	Edgar Pineda, Environmental Officer USAID/Guatemala
Recommended Threshold Decision	:	Categorical Exclusion
Bureau Threshold Decision	:	Concur with Recommendation
Comments	:	Categorical exclusion under 22 CFR 216.2(c)(2)(i). Concurrence subject to condition that program agreements include the following restrictions on the use of program funds: (1) there will be no procurement nor use of pesticides, (2) nor will there be support of activities or procurement or use of materials or equipment for commercial timber harvesting in primary forests without first receiving LAC Bureau

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Environmental Officer's approval of an appropriate Environmental Assessment.

James S. Hester Date June 10, 1993
James S. Hester
Chief Environmental Officer
Bureau for Latin America
and the Caribbean

Copy to : Terrence Brown, Director USAID/Guatemala

Copy to : Edgar Pineda, Environmental Officer, USAID/Guatemala

Copy to : Wayne Williams, REA/SA

Copy to : John Walls, LAC/DR/CEN

Copy to : James Vanderbos, LAC/CEN

Copy to : IEE File

Cámara Empresarial de Guatemala
CAEM

FILE

ANNEX F
Page 1 of 26

3130

Guatemala, 11 de mayo de 1993
267-93/CAEM

T+IO
PDSO
DUE DATE
5/21/93
ACTION TAKEN
5/13/93
NAN KD

Señor
Tully Cornick
Jefe de la Oficina de
Comercio y Promoción
Agencia para el Desarrollo Internacional
1a. Calle 7-66, Zona 9
Edificio Plaza Uno, 10o. nivel
Ciudad de Guatemala

Estimado Señor Cornick:

De acuerdo a lo platicado en la reunión de fecha 4 de los corrientes, con la presencia del Licenciado Juan Mauricio Wurmser, Presidente de CAEM con relación a las actividades que CAEM desarrollará al ser aprobado y suscrito el nuevo programa de "Comercio y Promoción", tengo el gusto de enviarle adjunto a la presente, una descripción de las actividades discutidas.

Esperando que el documento adjunto le sea de utilidad, aprovecho la ocasión para saludarlo.

Atentamente,

O. E. Becker

Ing. Otto Ernesto Becker M.
Gerente General

Adjunto: Lo indicado.

c.c.: Sra. Kim Delaney, AID

OEBM/Idem

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PROGRAMA DE EJECUCION

CONVENIO DE "COMERCIO Y PROMOCION"

DE JULIO DE 1993 A JUNIO DE 1997

1.- ANTECEDENTES

Con anticipación a la terminación del Convenio de Cooperación identificado como Proyecto 520-0341 "Desarrollo de la Empresa Privada",se discutió y preparó con funcionarios de la misión local de la Agencia para el Desarrollo Internacional - AID, los términos y alcances de un nuevo programa que debería haber arrancado en el mes de octubre de 1992.

Por determinadas razones, el nuevo programa fue postergado y por otra parte, algunas actividades y alcances que se había discutido anteriormente fueron cambiados por AID y con estas modificaciones, se ha vuelto a iniciar el trámite que se espera lleve a la Cámara Empresarial y a la Agencia para el Desarrollo Internacional, a la suscripción del Programa sobre Comercio y Promoción a muy corto plazo.

Dentro de las actividades que bajo el Programa de Comercio y Promoción se le asignan a CAEM están las siguientes:

a) Apoyo Institucional;
b) Políticas para Mejorar el Ambiente de Productividad; (Relaciones Laborales)
c) Integración Económica Regional y Libre Comercio;
d) Privatización;
e) Otra Asistencia Técnica y Capacitación.

2.- ACTIVIDADES BAJO LOS COMPONENTES DE CAEM

2.1 Apoyo Institucional

Bajo el rubro de Apoyo Institucional se considera la parte del Programa que está destinada a continuar dando la asistencia económica proporcional a CAEM, para cubrir gastos de sueldos y salarios, prestaciones y otros gastos y costos directos que ayuden a la entidad a fortalecerse, mientras logra alcanzar una mayor escala de autosuficiencia.

2.2 Políticas para Mejorar el Ambiente de Productividad

a) Políticas de Reforma Legal y Regulatoria

La actividad en políticas que llevará a cabo CAEM en el campo de reformas legales y regulatorias, incluirá esencialmente el cabildeo directo e indirecto con los Organismos Ejecutivo, Legislativo y Judicial, sobre tópicos básicos que atañen las reformas legales y regulatorias que obstaculizan la productividad, la competitividad y el libre comercio. Lo anterior comprende reformas en áreas tales como: derechos de propiedad intelectual e industrial; legislación laboral; regulaciones de calidad total; legislación corporativa y modernización del Registro Mercantil; reformas administrativas tendientes a reducir trámites engorrosos; gestionar la promulgación de nuevas regulaciones y legislación que mejoren la promoción del comercio exterior, a través de incentivos a la productividad.

En adición a la gestión personal de cabildeo, CAEM diseñará y hará publicaciones, seminarios, talleres y programas de intercambio internacionales, con la participación de representantes, tanto del sector público como privado. CAEM asi mismo, financiará la participación en foros regionales e internacionales que traten el tema de los obstáculos y soluciones al comercio y a la producción. En casos específicos y factibles, CAEM coordinará actividades de cabildeo y de investigación con otras entidades no gubernamentales.

b) Políticas para Mejorar las Relaciones Laborales

Esta actividad constituirá un nuevo campo de acción de CAEM y se enfocará esencialmente a un apoyo y reforzamiento de los acuerdos a los cuales se ha estado llegando tripartitamente, entre el sector empresarial, el sector laboral y el sector gubernamental. Se tendrá seminarios y foros de capacitación y de trabajo en equipo entre los sectores patrono-laborales, como base para una mejor productividad y competitividad, ante la apertura de los mercados internacionales.

Se organizará reuniones en las cuales se analice y evalúe las diferentes opciones de organización o agrupación laboral que se le presentan al trabajador, manteniéndole el derecho al trabajador de organizarse en la forma que opte como la mejor, a sus intereses. (Sindicalismo - Solidarismo - Cooperativismo). Se

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promocionará la participación del trabajador en el capital accionario de las empresas, sobre todo de aquellas que surjan de la privatización.

2.3 Integración Económica Regional y Libre Comercio

a) Integración Centroamericana

Las actividades en esta área estarán encaminadas a prestar el apoyo y asistencia a los seguimientos de los tratados y acuerdos bilaterales o multilaterales suscritos entre Guatemala y los países de la región. Efectuar el cabildeo posible para la promoción de reformas coordinadas sobre aspectos legales y judiciales regionales; mejoras administrativas tendientes a facilitar el libre comercio regional y coordinación de bloque en apoyo a las negociaciones de comercio inter-regional; coordinación de políticas macro-económicas; fortalecimiento de las instituciones regionales de integración; intervenciones técnicas cuando sea factible, para mejorar y normar las políticas regionales en finanzas, agricultura, industria, infraestructura, privatización, ciencia y tecnología, asi como en capacitación.

b) Tratados de Libre Comercio

Las actividades en este concepto, al igual que en el de la Integración Centroamericana, consistirán en dar todo el apoyo y la asistencia a los seguimientos de los Acuerdos Marco o Tratados para la implantación de un Libre Comercio, suscritos entre Guatemala y terceros países o bloque de países. Se coordinará con los representantes de las entidades del sector privado nombrados para dar seguimiento a los aspectos del libre comercio, reuniones conjuntas a manera de ofrecer lineamientos y acciones o toma de posiciones que reflejen el concenso del sector, ante los grupos negociadores del sector público.

Actividades específicas incluirán el patrocinio y la conducción de seminarios, talleres, publicaciones e investigaciones que tiendan a fortalecer la integración, tanto dentro como fuera de Guatemala.

2.4 Privatización

CAEM desarrollará actividades que comprendan la investigación y recomendaciones, para tomar iniciativas con entidades grandes, definidas en término de los montos

involucrados o con entidades de menos cuantía que tengan oportunidad de éxito inmediato, con relación a su privatización, descentralización o desmonopolización. Se elaborará publicaciones educacionales a nivel profesional y de público en general. La actividad comprenderá organizar seminarios, talleres y participación en foros locales e internacionales sobre estos temas. Se coordinará la comisión del sector privado integrada con los representantes nombrados por otras entidades para dicho fin, asi como con instituciones no gubernamentales, tales como el CIEN y ASIES en los esfuerzos hacia este mismo fin. Se prestará asistencia técnica a dependencias gubernamentales y municipales que lo requieran, para realizar privatización o concesionamiento de bienes y servicios.

2.5 Otra Asistencia Técnica y Capacitación

Bajo este componente se contempla actividades para la provisión de asistencia técnica y capacitación hacia la promoción de mejoras en los servicios públicos y en la infraestructura en general, incluyendo carreteras, transporte, puertos, aeropuertos, ferrocarriles, telecomunicaciones y energía eléctrica. La orientación de esta asistencia será básicamente técnica, dirigida a mejoras que favorezcan las posibilidades de privatización o desmonopolización exitosas en Guatemala. La acción a tomar bajo este componente estará enmarcado esencialmente en asesorías o consultorías a contratar, seminarios, foros y talleres de trabajo sea que éstos se realicen en el país o se participe en los llevados a cabo en el extranjero.

3.- PROYECCION PRESUPUESTAL

La proyección presupuestal para la vida del Programa -Julio de 1993 a Junio de 1997-, será elaborada al obtenerse el dato de la Agencia para el Desarrollo Internacional, sobre el monto de recursos que le sea asignado al Programa de Comercio y Promoción, asi como a cada una de los unidades ejecutoras que tendrán bajo su responsabilidad, el desarrollo de cada uno de los componentes del Programa.

Guatemala, 5 de mayo de 1993.

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GEXPRONT
Gremial de Exportadores de Productos No Tradicionales
adscrita a la Cámara de Industria

Guatemala,
12 de mayo de 1993

Señor
Terrence Brown
Director
MISION AID
Presente

Estimado señor Brown:

Adjunto a la presente carta encontrará el primer borrador del Proyecto de Desarrollo del comercio internacional y de las relaciones laborales, que tiene como propósito contribuir a la consolidación en Guatemala de la política de apertura económica, a través del mejoramiento de las condiciones del país para la generación de comercio y de las relaciones laborales que conlleven a un incremento de la capacidad competitiva de las empresas guatemaltecas. Este Proyecto contempla seis componentes:

Componente 1: Apoyo a las políticas que crean un ambiente favorable al comercio.

Componente 2: Programa integral de formación y fortalecimiento de las relaciones laborales.

Componente 3: Eficiencia y productividad del sector exportador.

Componente 4: Promoción comercial en el mercado internacional.

Componente 5: Protección del medio ambiente en el proceso de exportación.

Componente 6: Eficiencia y Autosuficiencia Financiera.

En tal sentido, sometemos a su consideración la posibilidad de que la MISION AID financie este Proyecto, en el entendido que haremos nuestro mejor esfuerzo para asegurar una excelente ejecución.

Atentamente,

Licda. Fanny de Estrada
Directora Ejecutiva

FdeE/cmr
Adjunto: Lo indicado

Edificio Cámara Industria - 6º Nivel, Ruta 6, 9-21, Zona 4 - Guatemala, Guatemala - Centro América
Tels.: (502) (2) PBX 346872, 318525, 315947 Telex: 3100 GREXPO - GU Fax (502) (2) 323590

TITULO:	PROYECTO DE DESARROLLO DEL COMERCIO INTERNACIONAL Y DE LAS RELACIONES LABORALES
UNIDAD EJECUTORA:	GREMIAL DE EXPORTADORES DE PRODUCTOS NO TRADICIONALES
UNIDAD QUE FINANCIA:	MISION AID
MONTO:	US$. 5,030,000.00
TIEMPO:	4 AÑOS

I. DESCRIPCION DEL PROYECTO:

Este proyecto tiene como propósito contribuir a la consolidación en Guatemala de la política de apertura económica, a través del mejoramiento de las condiciones del país para la generación de comercio y de la capacidad competitiva de la empresa Guatemalteca.

Comprende seis componentes: 1) Apoyo a las políticas que crean un ambiente favorable al comercio; 2) Programa integral de fortalecimiento y formación de las relaciones laborales; 3) Eficiencia y productividad del sector exportador; 4) Promoción comercial en el mercado internacional; 5) Protección del medio ambiente en el proceso de exportación; ; y 6) Eficiencia y autosuficiencia financiera.

II. JUSTIFICACION DEL PROYECTO:

Se ha demostrado a nivel mundial que la vía para generar crecimiento económico es el incremento del comercio. El comercio hace fuertes a los países, crea empleos y conduce al mejoramiento del nivel de ingresos y por ende, al nivel de vida de los pueblos. También se ha demostrado que el Sector Privado, cuando cuenta con condiciones adecuadas que le permiten desarrollar todo su potencial, es un gran generador de comercio. Por ello se busca fortalecer en Guatemala el clima para el incremento de la producción y las exportaciones como un medio de reforzar la capacidad de comercializar con otros países en beneficio de la producción, empleos y crecimiento de ambos. Asimismo, se busca que el desarrollo generado por este proyecto fortalezca las relaciones laborales como un elemento clave para que Guatemala tenga la capacidad de ser competitiva en el mercado mundial.

Un instrumento determinante en el proceso de generación de comercio, es la promoción y diversificación de las exportaciones como un medio para canalizar la producción resultante de un ambiente adecuado y como una forma de obtener las divisas para importar los bienes y tecnología necesaria para mantener la dinámica del proceso de crecimiento y desarrollo económico.

Es importante puntualizar que un programa de eliminación de obstáculos al comercio no es suficiente por sí, debe ir acompañado de un programa que permita a las empresas producir eficientemente para competir en el mercado internacional, contar con las facilidades necesarias para captar los cambios tecnológicos que conducen al incremento de la productividad, desarrollar capacidades de penetración del mercado mundial y relaciones armónicas entre empresarios y trabajadores. Asimismo, se requiere de hacer competitivos y eficientes los servicios que acompañan el proceso de las exportaciones, tales como el transporte, los servicios de asesoría, la infraestructura, los procedimientos, etc., y guardar el equilibrio entre el desarrollo y la protección del medio ambiente.

La Gremial de Exportadores de Productos no Tradicionales, como resultado del papel protagónico que ha jugado en el país en la tarea de desarrollar las exportaciones, ha logrado generar dos importantes capacidades: La primera consiste en una amplia interacción con las entidades del Sector Público que toman las decisiones en materia de política económica y comercial que le ha permitido influir en el transcurso de los años para que se hayan hecho importantes avances en materia de un ambiente adecuado para las exportaciones. Y la segunda, su capacidad de organización del Sector Exportador de Guatemala y el liderazgo ejercido para que se ejecuten programas de incremento de la producción, penetración de los mercados e involucramiento de muchos nuevos empresarios.

Aunque no se puede medir en forma precisa cuál ha sido el impacto específico de las acciones de la Gremial con el apoyo de los proyectos de AID, en el monto de las exportaciones, diversificación de productos, marcados y un número de nuevos exportadores, se puede asumir que ha dado una contribución significativa. Los resultados para 1992 indican una tasa promedio de crecimiento de las exportaciones de 12%, habiendo pasado de 107 millones en 1986 a 448 millones de dólares en 1992 de productos no tradicionales, de acuerdo con cifras del Banco de Guatemala. El número de exportadores miembros de la Institución ha pasado de 339 en 1986 a 900 en 1992; el número de productos exportados de 25 en 1986, a 150 en 1992; igualmente el número de mercados de 6 a 40.

Las cifras anteriores muestran que el país se encuentra por buen camino, sin embargo el proceso puede ser mejorado para acelerar el crecimiento por un lado, pero por el otro para permanecer en el mercado que cada vez más requiere de ser competitivo y eficiente.

III. COMPONENTES DEL PROYECTO:

El proyecto será ejecutado por la Gremial de Exportadores de Productos no Tradicionales en seis componentes:

1. APOYO A LAS POLITICAS QUE CREAN UN AMBIENTE FAVORABLE AL COMERCIO:

El objetivo de este componente es participar conjuntamente con las entidades del Sector Público y con otras entidades del Sector Privado, en aquellas actividades que tienden a eliminar los obstáculos y crear un ambiente favorable al comercio. Para ello, la Gremial apoyará con personal técnico capacitado y con análisis y estudios en las siguientes tareas:

1.1 Participación en la ejecución del Plan de Trabajo de Conapex/Conacoex

La Gremial, a través de la Unidad Estratégica de la Entidad, jugará un papel activo en la ejecución de actividades contenidas en el plan de Conapex.

1.2 Contribuir a los cambios de políticas del Gobierno de Guatemala a través de la participación en las negociaciones internacionales que conduzcan a las reducciones arancelarias y de obstáculos no arancelarios al comercio, tales como:

- Cumplir con los compromisos del GATT.
- Seguimiento resultados de la Ronda Uruguay.
- Incorporación a la iniciativa para las Américas y requisitos que implica
- Negociaciones con México, Colombia y Venezuela
- Negociaciones Centroamericanas

La tarea anterior persigue a lo largo de la vida del proyecto, ayudar al Sector Público a alcanzar las zonas de libre comercio con los países NAFTA, Colombia, Venezuela y Centro América, eliminación de restricciones a las importaciones y exportaciones (controles, licencias, cuotas, prohibiciones, etc.).

1.3 Análisis, estudios y presentaciones de:

Elementos que constituyen un sesgo antiexportador:

- Política cambiaria
- Política arancelaria, tasas de protección
- Costos financieros
- Transporte
- Trámites administrativos

La tarea anterior consiste en sustentar técnicamente el impacto en la neutralidad de la política económica de orientación hacia afuera de las variables antes citadas, los cuales serán presentados al Sector Público, Privado y Congreso, a través de seminarios, talleres y reuniones de trabajo.

1.4 Interrelación con el Congreso de la República

La Gremial desarrollará actividades que ayuden al Congreso de la República a tener información que les permita tomar las mejores decisiones en materia de la legislación de apoyo al comercio. Esto incluye:

- Realización de seminarios
- Visitas de campo
- Preparación de documentos técnicos como análisis estadísticos y documentos de impacto
- Reuniones de trabajo

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1.5 Desregulación de los procesos

Aún cuando ha habido un importante avance en la simplificación de los procesos, se requiere de un esfuerzo adicional en: Simplificación de los procedimientos para exportar, importar e invertir.

2. PROGRAMA INTEGRAL DE FORMACION Y FORTALECIMIENTO DE LAS RELACIONES LABORALES

La Gremial desarrollará actividades tendientes a formar una conciencia del papel que juegan las buenas relaciones laborales para mejorar la productividad y competitividad nacional. Ello incluye:

- Seminarios para ampliar el conocimiento de la legislación laboral tanto nacional como internacional.

- Capacitar al empresario sobre el mejoramiento de las condiciones laborales.

- Análisis de los modelos modernos de relaciones laborales, industriales sus puntos positivos y negativos y su aplicación a la cultura y ambiente guatemalteco.

- Preparar técnicos dentro de la institución y en el mejoramiento de relaciones laborales.

- Reuniones de trabajo con el sector laboral y el Ministerio de Trabajo para coordinar acciones en la búsqueda de la inserción en el mercado mundial.

3. EFICIENCIA Y PRODUCTIVIDAD DEL SECTOR EXPORTADOR

Como se explicó anteriormente, las reformas de política no son suficientes, deben ir acompañadas de un plan dirigido al sector productivo que le permita desarrollar sus capacidades para producir y comercializar con éxito. Constituyen estas actividades parte indispensable para generar crecimiento en las exportaciones.

3.1 Sistema de Información de Mercados

El propósito de este componente es poner a la disposición de los empresarios y de los negociadores de política, un sistema de recolección de información sobre las tendencias de los mercados y la economía internacional, precios, regulaciones, oportunidades de mercado, etc. Entre las informaciones a difundir y tareas a realizar están:

- Análisis de tendencias y potencial de los mercados a fin de determinar productos a cultivarse o fabricarse, tipos de contratos, regulaciones de ingreso a los mercados, etc.
- Análisis y evolución de los compromisos internacionales adquiridos por el país en materia de negociaciones internacionales.
- Tendencias de las negociaciones internacionales

- Oportunidades de mercados
- Fluctuaciones en los precios, normas de origen
- Clasificación y difusión de información
- Suscripción a Bancos de Datos y redes de información
- Computarización de la información

3.2. Transferencia de Tecnología

La nueva era de la competitividad como resultado de las políticas de liberalización del comercio exigen la ejecución de programas para desarrollar la eficiencia y competitividad de las empresas exportadoras para permanecer en el mercado internacional y para incrementar los porcentajes de penetración del mismo. Esta actividad incluye:

a) Asistencia Técnica Internacional

Se contratarán expertos internacionales que ayuden a las empresas a mejorar su eficiencia productiva y comercialización. Estos expertos serán para las Comisiones Agrícola, Manufacturas, Vestuario, Artesanías, Muebles y Recursos Hidrobiológicos y atenderán aspectos relativos a producción, mercadeo, tecnología nueva y áreas de control de calidad, empaque y embalaje, costos, selección y evaluación de tecnología extranjera, equipos, etc.

b) Capacitación y Formación de Recursos Humanos

La Gremial ejecutará un programa de seminarios, talleres, conferencias, convenciones que tienen como propósito capacitar a los empresarios y a los diferentes niveles dentro de las empresas, en las técnicas de producir y comercializar con eficiencia. También se realizarán actividades motivacionales para nuevos grupos de exportadores. Se incluye capacitación para funcionarios públicos, consultores, congreso, prensa y otros tendientes a crear los conocimientos necesarios para la toma de decisiones correctas en función del incremento del comercio.

Los seminarios serán de corta, mediana y larga duración. En el área de capacitación se incluyen programas específicos con las universidades y centros de investigación para capacitar recursos humanos y desarrollar tecnología que resuelva problemas o que desarrolle nuevos productos. En el Plan de Trabajo de este proyecto se presentará un detalle de los seminarios y programas a realizarse.

4. PROMOCION COMERCIAL EN EL MERCADO INTERNACIONAL

Incluye acciones que ayuden a los exportadores a penetrar el mercado internacional, a encontrar nuevos clientes, proveedores eficientes de insumos, identificar sus competidores y desarrollar mercados eficientes. Incluye tareas como:

- -Participación en ferias internacionales
- -Realización de convenciones internacionales en Guatemala, para sectores de producto
- -Recepción de misiones de compradores y realización de misiones de venta
- -Elaboración de material promocional
- -Contratación de estudios de demandas del mercado, etc.

5. PROTECCION DEL MEDIO AMBIENTE EN EL PROCESO DE EXPORTACION

La tendencia mundial hacia la protección del medio ambiente exige de parte de Gremial de Exportadores la implementación de una serie de acciones para que la producción de exportación no ocasione daño a los recursos naturales del país, así como evitar que el uso indebido de materiales y empaques no amenacen el ambiente y la salud de los consumidores de los países importadores.

Las acciones en éste componente se dividen en 2:

5.1 Investigación, es decir implementar actividades en favor de identificar los posibles daños ambientales ocasionados por algunas actividades productivas y de las acciones requeridas para solventarlos, utilizando para ello la Metodología de Investigación Aplicada. Esta actividad también conlleva toda la investigación necesaria para mejorar la calidad de los productos de exportación, haciéndo un uso apropiado de plaguicidas y desarrollando tecnología de manejo integrado de plagas.

5.2 Controles Pre-embarque, de manera que previo al envío de productos de exportación éstos hayan tenido la oportunidad de haberse sometido a procesos de eliminación de residuos tóxicos, plagas, enfermedades y otros contaminantes que amenacen el ambiente y la salud en el país importador.

6. EFICIENCIA INSTITUCIONAL Y AUTOSUFICIENCIA FINANCIERA:

La Gremial de Exportadores tiene muy clara su misión dentro de Guatemala y dentro del Sector Privado organizado. Su misión y filosofía de trabajo se enmarca en la Declaración de Propósitos establecida el día de su fundación en 1982 y durante los diez años que lleva funcionando, estos propósitos han dirigido su estrategia de funcionamiento.

Es una Institución técnica que analiza permanentemente la problemática del Sector Exportador y a través del intercambio de opiniones, propone soluciones con argumentos claros a funcionarios públicos o privados, lo que le ha llevado a tener una imagen muy positiva dentro de todos los ámbitos del país. Ello le permite en la actualidad tener dos habilidades fundamentales para implementar cualquier proyecto de exportación:

- Capacidad de influencia
- Alta capacidad de organizar al Sector Exportador

La primera, como Institución reconocida como especializada en la materia de exportaciones, le permite opinar e influenciar sobre políticas, medidas, leyes, acuerdos, normas y otras acciones que pretenden favorecer o afectar las exportaciones.

La segunda, porque el empresario ha identificado una Institución diferente que le permite participar y expresar sus opiniones, problemas y necesidades y que, a la vez, le provee de cooperación en los distintos campos de su empresa. Desde que un empresario ingresa a la Gremial se le hace una conciencia de que en la medida en que participe en las Comisiones, en esa medida se verá beneficiado en lo particular. Todos los empresarios que participan en forma ad-honorem y el promedio de tiempo que un empresario asigna a la Gremial es de 6 horas a la semana.

Este componente incluye el apoyo por parte del Proyecto para fortalecer la capacidad de la Institución de coordinar los esfuerzos del Sector Exportador para que en forma organizada ejecuten los programas de desarrollo de exportaciones, a través del financiamiento de recurso humano. Asimismo, proveerse de los equipos de computación necesarios para un trabajo más eficiente. Incluye además insumos y equipos para el desarrollo del Proyecto en su totalidad.

La Gremial por otra parte se compromete a desarrollar un programa de autosuficiencia financiera que le permita dentro de 5 años, al concluir el Proyecto, continuar prestando servicios a los exportadores e influyendo en el ambiente para los ajustes de política necesarios.

Un programa de autosuficiencia en forma decreciente, se elaborará para los efectos de este Proyecto. Incluye la generación de ingresos propios por conceptos tales como:

- Incremento de cuotas
- Incremento de costo por servicios
- Desarrollar servicios nuevos eficientes
- Canalización de fondos de otras instituciones
- Realizar inversiones
- Otros.

La Institución tiene claro que la cooperación de AID ha contribuido en forma significativa al desarrollo de los servicios de la Institución, pero que esa contribución debe ir disminuyendo hasta que la Gremial sea totalmente financiable sin reducir la calidad de sus servicios.

IV.- PRESUPUESTO GENERAL

El presupuesto fue diseñado para cada uno de los componentes del proyecto y alcanza la suma de US$ 5 030,000.00 y su integración se describe en el anexo 1.

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A N E X O 1

GREMIAL DE EXPORTADORES DE PRODUCTOS NO TRADICIONALES
PRESUPUESTO PROYECTADO 1994/1997

DESCRIPCION	1,994	1,995	1,996	1,997	TOTAL	%
COMPONENTE 1: Apoyo de Politicas y reformas para el establecimiento de un adecuado clima para el desarrollo de las exportaciones.	92,500	145,000	145,000	145,000	527,500	10
COMPONENTE 2: Programa de formacion y fortalecimiento de las relaciones laborales	50,000	50,000	50,000	50,000	200,000	4
COMPONENTE 3: Eficiencia y Productividad del Sector Exportador Guatemalteco	70,000	160,000	160,000	160,000	550,000	11
COMPONENTE 4 Promocion Comercial en el mercado internacional	55,000	160,000	160,000	160,000	535,000	11
COMPONENTE 5: Programa de actividades para la Proteccion del Medio Ambiente	320,000	320,000	320,000	320,000	1,280,000	25
COMPONENTE 6 Administracion, Funcionamiento General, Adquisicion de mobiliario y equipo, Incremento de la eficiencia y Programa de Autosuficiencia	167,500	590,000	590,000	590,000	1,937,500	39
TOTAL 6 COMPONENTES	755,000	1,425,000	1,425,000	1,425,000	5,030,000	100

NOTA: La sumatoria de todos los componentes exceptuando el componente 5 que se refiere a los Programas de Proteccion del Medio Ambiente asciende a US$ 3,750,000.00. La fuente de recursos para las actividades del componente 5 son de otra naturaleza.

A N E X O 1

GREMIAL DE EXPORTADORES DE PRODUCTOS NO TRADICIONALES
PRESUPUESTO PROYECTADO 1994/1997

DESCRIPCION	1,994	1,995	1,996	1,997	TOTAL	%
COMPONENTE 1: Apoyo de Politicas y reformas para el establecimiento de un adecuado clima para el desarrollo de las exportaciones.	69,000	176,000	45,000	45,000	335,000	10
COMPONENTE 2: Programa de formacion y fortalecimiento de las relaciones laborales	50,000	50,000	50,000	50,000	200,000	6
COMPONENTE 3: Eficiencia y Productividad del Sector Exportador Guatemalteco	0	160,000	129,000	97,500	386,500	11
COMPONENTE 4 Promocion Comercial en el mercado internacional	0	140,000	112,000	80,000	332,000	10
COMPONENTE 5: Programa de actividades para la Proteccion del Medio Ambiente	310,000	205,000	190,000	175,000	880,000	26
COMPONENTE 6 Administracion, Funcionamiento General, Adquisicion de mobiliario y equipo, Incremento de la eficiencia y Programa de Autosuficiencia	0	530,000	403,500	312,500	1,246,000	37
TOTAL 6 COMPONENTES	429,000	1,261,000	929,500	760,000	3,379,500	100

NOTA: La sumatoria de todos los componentes exceptuando el componente 5 que se refiere a los Programas de Proteccion del Medio Ambiente asciende a US$ 2,499,500.00. La fuente de recursos para las actividades del componente 5 son de otra naturaleza.

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GREMIAL DE EXPORTADORES DE PRODUCTOS NO TRADICIONALES
PRESUPUESTO PROYECTADO 1994/1997

	1,994	1,995	1,996	1,997	TOTAL
COMPONENTE 1: Apoyo de Politicas y reformas para el establecimiento de un adecuado clima para el desarrollo de las exportaciones y la inversion					
1.1. Estudios macroeconomicos	0	35,000	35,000	35,000	105,000
1.2. Asesor de largo plazo	69,000	131,000	0	0	200,000
1.3. Gastos de organizacion de giras, cursos y otros eventos de concientizacion de grupos y personalidades que toman decisiones de politicas y reformas.	0	10,000	10,000	10,000	30,000
	69,000	176,000	45,000	45,000	335,000

GREMIAL DE EXPORTADORES DE PRODUCTOS NO TRADICIONALES
PRESUPUESTO PROYECTADO 1994/1997

	1,994	1,995	1,996	1,997	TOTAL
COMPONENTE 2: Programa de formacion y fortalecimiento de las relaciones laborales					
2.1 Seminarios de Form. en rel. laborales	10,000	10,000	10,000	10,000	40,000
2.2 Programa de dinamicas para el desarr. de habilidades obrero/patronales	7,500	7,500	7,500	7,500	30,000
2.3 Estudios y diseno de modelos de relaciones obrero/patronales	7,500	7,500	7,500	7,500	30,000
2.4 Ejecutivo encargado de asuntos laborales	22,000	22,000	22,000	22,000	88,000
2.5 Encuentros sector laboral y empresarial	3,000	3,000	3,000	3,000	12,000
	50,000	50,000	50,000	50,000	200,000

GREMIAL DE EXPORTADORES DE PRODUCTOS NO TRADICIONALES
PRESUPUESTO PROYECTADO 1994/1997

	1,994	1,995	1,996	1,997	TOTAL
COMPONENTE 3: Eficiencia y Productividad del Sector Exportador Guatemalteco					
3.1. Asistencia Tecnica empresas de exportacion.	0	75,000	64,000	45,000	184,000
3.2. Programa de Seminarios y Dias demostrativos especializados.	0	50,000	35,000	25,000	110,000
3.3. Programas de formacion conjuntos con Universidades e Institutos tecnicos	0	15,000	10,000	7,500	32,500
3.4. Programas de Formacion permanente para personal.	0	20,000	20,000	20,000	60,000
	0	160,000	129,000	97,500	386,500

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GREMIAL DE EXPORTADORES DE PRODUCTOS NO TRADICIONALES
PRESUPUESTO PROYECTADO 1994/1997

	1,994	1,995	1,996	1,997	TOTAL
COMPONENTE 4 Promocion Comercial en el mercado internacional					
4.1 Ferias, misiones comerciales, materiales promocionales y otros que permitan posicionar los productos guatemaltecos en el mercado internacional.	0	80,000	63,000	45,000	188,000
4.2 Fortalecimiento del Centro de Informacion Comercial.	0	50,000	42,000	30,000	122,000
4.3 Programa de desarrollo de contactos comerciales	0	10,000	7,000	5,000	22,000
	0	140,000	112,000	80,000	332,000

GREMIAL DE EXPORTADORES DE PRODUCTOS NO TRADICIONALES
PRESUPUESTO PROYECTADO 1994/1997

	1,994	1,995	1,996	1,997	TOTAL
COMPONENTE 5: Programa de actividades para la Proteccion del Medio Ambiente					
Agricultural Research Fund -ARF-	200,000	110,000	100,000	90,000	500,000
Programa Integral de proteccion Agricola/abniental -PIPA/A-	90,000	75,000	70,000	65,000	300,000
Estudios especificos por sector de beneficios y danos ambientales.	10,000	10,000	10,000	10,000	40,000
Promocion Internacional de Programas de Proteccion del Medio Ambiente.	10,000	10,000	10,000	10,000	40,000
	310,000	205,000	190,000	175,000	880,000

GREMIAL DE EXPORTADORES DE PRODUCTOS NO TRADICIONALES
PRESUPUESTO PROYECTADO 1994/1997

	1,994	1,995	1,996	1,997	TOTAL
COMPONENTE 6 Funcionamiento General, Incremento de la eficiencia y Programa de Autosuficiencia					
4.1. Recurso humano	0	325,000	250,000	200,000	775,000
4.2. Instalaciones y su mantenimiento.	0	40,000	28,000	20,000	88,000
4.3. Comunicaciones y servicios en general	0	90,000	70,000	50,000	210,000
4.4. Materiales y Suministros	0	40,000	28,000	20,000	88,000
4.5. Otros gastos generales	0	10,000	7,000	5,000	22,000
4.6 Programa de Implementacion de acciones de Autosuficiencia	0	10,000	10,000	10,000	30,000
4.7 Nuevos equipos y sistemas de control.	0	15,000	10,500	7,500	33,000
	0	530,000	403,500	312,500	1,246,000

GREMIAL DE EXPORTADORES
Presupuesto Proyecto ARF.
1994/1997

descripcion	1,994	1,995	1,996	1,997	TOTAL
Inversion en Proyectos					
Arveja china III	40,000				40,000
Brocoli III	10,000				10,000
Frambuesa	20,000				20,000
Camaron	25,000				25,000
Mosca Blanca	25,000	30,000	30,000	30,000	115,000
Mosca Minadora	10,000	15,000	15,000	15,000	55,000
Otros Proyectos	30,000	25,000	20,000	15,000	90,000
subtotal	160,000	70,000	65,000	60,000	355,000
Administracion del Proyecto	40,000	40,000	35,000	30,000	145,000
subtotal	40,000	40,000	35,000	30,000	145,000
TOTAL	200,000	110,000	100,000	90,000	500,000

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GREMIAL DE EXPORTADORES
Presupuesto Proyecto PIPA/A
1994/1997

descripcion	1,994	1,995	1,996	1,997	TOTAL
Proyectos especificos					
Implementacion Base de datos	10,000	5,000	5,000	5,000	25,000
Programas de capacitacion	15,000	10,000	10,000	10,000	45,000
Campana de divulgacion	15,000	10,000	10,000	10,000	45,000
Prog. de precertificacion	10,000	10,000	10,000	10,000	40,000
subtotal	50,000	35,000	35,000	35,000	155,000
Administracion del Proyecto	40,000	40,000	35,000	30,000	145,000
subtotal	40,000	40,000	35,000	30,000	145,000
TOTAL	90,000	75,000	70,000	65,000	300,000

NUM.
REF.
AL CONTESTAR SIRVASE MENCIONAR EL NUMERO Y REFERENCIA DE ESTA NOTA.

MINISTERIO DE ECONOMIA
PALACIO NACIONAL
GUATEMALA, C. A.

Guatemala,
5 de agosto de 1992

Señora
Elizabeth Warfield
Jefe de la Oficina
de Inversión
- A I D -
C i u d a d

Señora Warfield:

Tengo el agrado de dirigirme a usted, para confirmarle nuestra solicitud de asistencia financiera bajo el nuevo Convenio de Cooperación entre la Agencia Internacional de Desarrollo -AID- y el Ministerio de Economía.

El departamento correspondiente está realizando la elaboración de los contenidos del proyecto que será financiado con el Convenio, cuyo borrador (draft) será presentado a esa oficina el día viernes siete (7) del presente mes.

Sin otro particular, me es grato reiterarle las muestras de mi consideración y alta estima.

LIC. JUAN LUIS MIRON AGUILAR
MINISTRO DE ECONOMIA

MINISTERIO DE ECONOMIA REPUBLICA DE GUATEMALA

c.c. Kim Delaney
Programa para la
Empresa Privada AID

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Ministerio de Trabajo y Previsión Social

Guatemala, C. A.

3107

REF.
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USAID

5 de mayo de 1993

Sr. Terrence J. Brown
Director USAID
Presente

Señor Director:

La Agencia para el Desarrollo Internacional de los Estados Unidos de América ha propuesto al Gobierno de la República de Guatemala el "Programa de políticas de comercio y promoción", que incluye un componente relacionado con el sector trabajo y previsión social.

Este Despacho ha analizado la propuesta general inicial de AID y, en lo que atañe al área sociolaboral, considera que la cooperación ofrecida serviría para acelerar el proceso de modernización del Ministerio de Trabajo y Previsión Social de conformidad con las prioridades y políticas definidas y con el propósito de que se esté en condiciones de reforzar el cumplimiento de las funciones, atribuciones y servicios que por ley le compete desempeñar y proporcionar.

Se considera también favorable la iniciativa de AID de proponer dentro del programa un componente relacionado con el afianzamiento de la paz a través del fomento de las más armónicas relaciones laborales, la suscripción y cumplimiento de pactos sociales, así como la mediación y cumplimiento de la legislación laboral.

MINISTERIO DE TRABAJO Y PREVISIÓN SOCIAL
GUATEMALA

Ministerio de Trabajo y Previsión Social
Guatemala, C. A.

REF.
NUMERO

Con el propósito de formalizar la solicitud de cooperación de AID, para coadyuvar en la modernización de este Ministerio, así como las actividades complementarias a este fin, solicito al señor Director se proporcione al mismo financiamiento no reembolsable de AID por un monto de 1 500,000.00 dólares de EUA (un millón quinientos mil dólares de los Estados Unidos de América)

Sobre esta solicitud se está informando también al Presidente del Banco de Guatemala, al Ministro de Finanzas Públicas y al Secretario de Planificación Económica.

Desde ya este Despacho ofrece la colaboración que conduzca a una rápida elaboración del proyecto definitivo y a la oportuna y adecuada utilización de los recursos de todo tipo.

Fraternalmente,

TECHNICAL ANALYSIS

A. Background

Two critical characteristics underlie most successful trade and investment activities: a supportive policy and regulatory environment and well focused informational activities in the following three areas, (1) business assistance, (2) promotional activities, and (3) policy and regulatory information. Past USAID/Guatemala activities in trade and investment, such as the PED project, focused almost exclusively on the informational category. Much of our constraints analysis has demonstrated, however, that continued expenditures on trade and investment promotional activities of an informational nature can have significantly enhanced returns, if the policy and regulatory environment can be improved.

After careful consideration among three alternatives--(1) an exclusive focus on improving the policy and regulatory environment, (2) an exclusive focus on further informational activities, or (3) a combination of the first two--the Mission chose the third alternative. Consequently, the Trade and Labor Relations Development Program combines nonproject assistance with projectized assistance to address identified constraints within the legal and regulatory framework that currently impede the introduction of new investment and new export lines, while continuing to support to an established nontraditional export sector. The decision to adopt a combined program and project assistance modality recognized that, while Guatemala has clearly earned its place in the international market in areas where its competitive advantage is high, such as nontraditional vegetables and textile assembly, future investment and new export growth requires improvements in the country's still imperfect domestic incentive structure.

The analyses identified the legal and regulatory environment as a critical area of constraint to new trade and investment in Guatemala. Improvements in legal and regulatory policy resulting from the program assistance will directly improve the trade and investment climate, and will indirectly leverage and increase the returns to direct trade and investment promotional activities supported under program.

The Mission's analyses of the legal and regulatory environment identified a large number of constraints to trade and investment, many more than can be effectively addressed within the scope and time frame of this program. All constraints were assessed in terms of the importance of their effect on trade and investment and how easily they might be modified. This allowed the Mission to prioritize and identify a reduced number of constraints that are manageable under the program and that, once addressed, will permit a significant improvement in the trade and investment climate. The policy and regulatory

environment constraints that were identified in the Study, "Analysis of Guatemala's Legal and Regulatory Framework for Trade and Investment are presented below.

B. POLICY AND REGULATORY CONSTRAINTS

Guatemala is a nation that has made substantial progress toward improving the climate for trade and investment. In recent years, the Government of Guatemala ("GOG") has implemented macroeconomic policies which, for the most part, have resulted in economic stability and expansion. To sustain the progress made to date and facilitate additional expansion, it is essential that obstacles to trade and investment in the existing legal and regulatory framework be identified and eliminated.

This report identifies obstacles in the legal and regulatory framework and classifies them according to the following criteria. Specific recommendations for the removal of each obstacle are also provided. Obstacles are classified according to the following criteria:

Urgent includes problems which require **immediate action** to prevent **a substantial decline in current levels of trade and investment.**

Priority includes those legal and regulatory constraints which should be removed to provide the **greatest incremental benefit** to trade and investment in the country or which **will severely limit Guatemala's ability to expand trade and investment in the future.**

Important differs from Priority Category by degree, includes those constraints which will provide **substantial benefits** to the economy and/or which will **limit future expansion** of trade and investment.

Valuable constraints which **should be removed from the legal and regulatory framework to conform to modern legal principles**, but if continued will not markedly affect levels of trade and investment in the country.

I. SPECIFIC OBSTACLES AND RECOMMENDATIONS

URGENT

Protection of Workers' Rights

Guatemala's preferred trade status with the U.S. is threatened by failure to adequately protect internationally recognized workers' rights standards. Loss of Caribbean Basin

Initiative (CBI) and General System of Preferences (GSP) status would result in immediate and significant declines in exports, and a resulting drop in economic activity.

Specific Recommendations:

To comply with internationally recognized standards related to workers' rights Guatemala should:

1. Amend the Labor Code to International Labor Organization ("ILO") Convention standards related to freedom of association and the right to organize, forced labor, minimum age, and minimum work conditions.
2. Establish strict inspection, investigation and enforcement standards to ensure compliance with the revised Code.
3. Improve the performance of the rights granted by law can be effectively enforced.
4. Accede to ILO Convention Nos. 148 and 155 and conform national health and safety laws to their standards.

PRIORITY

A. Protection of Intellectual Property Rights

Trade sanctions could be imposed on Guatemala under GSP/CBI legislation or Section 301 for failure to comply with international intellectual property standards, slowing the current level of exports from the country. Even if sanctions are not imposed, weakness of intellectual property laws could deter incoming investment and technology transfer.

Specific Recommendations:

Patents

1. Accede to the Paris Convention.
2. Extend the period for protection of patents.
3. Eliminate use requirements.

Trademarks

1. Accede to the Paris Convention.
2. Provide for protection to become effective by registration or use.

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3. Ensure protection of notorious trademarks.
4. Streamline registration requirements.

Copyright

1. Accede to the Berne Convention and the 1974 satellite transmission convention.
2. Amend the copyright law to extend protection to foreign and non-domiciled authors.
3. Extend copyright protection to software and semiconductor chip design.

B. Adherence to GATT Commitments

When Guatemala joined GATT, it subjected itself to applicable GATT rules. It also made a number of specific commitments with regard to reform of its trade regime, several of which carry time limits, and agreed to adhere (or initiate negotiations aimed at adhering) to additional agreements. The team found that Guatemalan officials lacked a detailed knowledge of what is required under these commitments, creating the possibility that Guatemalan could fail to capture the full range of GATT benefits, or worse, be penalized, for failure to comply with its commitments. Adherence to these GATT commitments will drive many other changes in trade policy.

Specific Recommendations:

1. Conform Guatemalan law to GATT standards in the following areas:
   a. Subsidies
   b. Quantitative restrictions on imports and exports
   c. Customs valuation procedures
   d. Import licensing procedures
   e. Product standards
   f. Anti-dumping and countervailing duties
2. Initiate a training program for government officials on the requirements of GATT.
3. Develop a national GATT compliance plan.

C. Transparent Investment Processes

The availability of a transparent process for investment is the keystone of attracting foreign investment. Investors that are unable to obtain relevant information or to foresee their ability to navigate the approval process will quickly become discouraged and look to other locations.

Specific Recommendations:

1. Laws, regulations and interpretations related to investment should be compiled at one location and translated into English, and other target languages. A booklet should be prepared which summarizes general and sector specific legal requirements.
2. Continue efforts to establish the Ventanilla Unica para Inversionistas. The Ventanilla should include expedited (1) registration of foreign branches, (2) access to tax identification number, (3) access to work permits and visas for foreign workers (including approval of foreign technician percentages), (4) environmental review, (5) customs approval for importing and machinery necessary for the investment.

D. Access to Financing

Financing is unavailable to large numbers of Guatemalan businesses with excellent production capabilities. Improving the financial system to make financing available would unleash dormant entrepreneurial opportunities and permit expansion of existing businesses.

Specific Recommendations:

1. Enhance and expand legal protections associated with security interests, including improved real property registry, expansion of freedom of contract, secured leases, and expedited enforcement procedures.
2. Prohibit the use of bearer shares.
3. Expand and improve regulation of the pagares and the securities market generally.
4. Improve judicial foreclosure and other legal procedures.

E. Closed and Partially-Closed Sectors

Guatemala can provide a broader opportunity for trade and investment by opening closed and partially closed sectors to the foreign and domestic investors. In the case of state-owned operations, the opening could reduce public capital outlays required for expansion and improvement of the national infrastructure, while improving the physical environment for further expansion of trade and investment.

Specific Recommendations:

1. Eliminate sectoral restrictions to invest in the transportation, insurance, banking, housing and professional services sectors.
2. Eliminate equity requirements in the airline, transportation, radio and television, forestry and mining sectors.
3. Consider privatizing certain state-owned industries, with appropriate safeguards.

F. **Effective Dispute Resolution**

The Guatemalan judicial system as it presently operates fails to provide the level of legal protection required to ensure a timely and predictable resolution to commercial disputes (see General Obstacles section). There is a critical need for alternative mechanisms, such as arbitration, through which investors can resolve disputes in a predictable and timely fashion without resorting to the courts.

Specific Recommendation:

Adoption of a special arbitration law (modeled on the UNCITRAL model law) for international commercial arbitrations.

G. **Investment Stabilization**

A stable investment environment lessens the risks to investors. Guatemala would be wise to take all necessary steps to provide maximum investment stability.

Specific Recommendations:

1. Continue the process of qualifying for MIGA.
2. Negotiate bilateral investment treaties with the U.S. and other key countries.

H. **Financial Systems**

The creation of a financial sector which efficiently delivers a broad range of services is a critical element of an attractive trade and investment climate.

Specific Recommendations:

1. Adopt modern banking laws which will authorize and regulate participation by banks and others in a broad range of financial services.
2. Establish a National Securities Commission and adopt a securities law.

3. Consider modifying the Economic Compensation Law to create a pension system for workers. Permit the establishment of pension funds and provide them regulated access to the securities and other financial markets.

I. **Customs**

a. Reduce the fiscal reliance on customs by implementing broader based taxes.
b. Assist customs with training and support to implement the Harmonized Tariff System.
c. Establish sound and effective valuation procedures.

IMPORTANT

A. **Real Property Limitations**

1. Permit foreigners to access property located near territorial borders, beaches and waterfronts through long term leases or other means.
2. Eliminate the 7% IVA tax from real property transfers.

B. **Commercial and Corporate Operations**

1. Eliminate the requirement that commercial contracts be written in the Spanish language.
2. Adopt the U.N. Convention on the International Sale of Goods.
3. Eliminate the existing agency law (at a minimum rescind Article 8).
4. Provide parity treatment for foreign branches.
5. Eliminate requirements that corporate books be kept in Spanish and Quetzales.
6. Eliminate guaranteed dividends to holders of preferred stock.
7. Establish more specific regulations regarding mergers.
8. Eliminate closing requirements for local branches.

C. **Bankruptcy**

1. Review the existing law and update for current and future business conditions.
2. Expedite judicial proceedings.

D. **Foreign Workers**

Expand percentages of foreign workers permitted by the Labor Code to provide maximum flexibility for attracting new investors from diverse sectors.

E. **Procurement**

Adopt a transparent process for procurement, based on the model GATT procurement code.

F. **Technology Transfer**

Eliminate limitations on the deductibility of royalty payments

G. **Maquila Operations**

Clarify the distinctions between categories authorized by existing law.

H. **Expropriation**

Clarify valuation and procedural problems with the existing provisions of the law.

VALUABLE

Other trade and investment recommendations found throughout the report and not discussed here would be valuable in facilitating increased trade and investment in Guatemala.

II. GENERAL OBSTACLES TO TRADE AND INVESTMENT

Several areas of general concern exist which were not squarely within the Scope of Work. These represent general, systemic obstacles which permeate the Guatemalan legal system, and the process of law reform. Specific, limited manifestations of these constraints were encountered in several areas of the study. To the extent possible, those have been incorporated into the report.

These general obstacles constitute priority barriers to trade and investment and their elimination is fundamental to improvement of the overall legal and regulatory climate in Guatemala. This discussion represents a preliminary scoping out of the obstacles and identifies some possible recommendations for further action.

A. Legal Infrastructure/Judicial Institutions

Repeatedly, and in many different contexts of the analysis, the team encountered areas where the law on the books and the law in practice were completely distinct. For example, labor laws contain minimum wage and age provisions but it was apparent

from our study that there are many underage persons working for less than minimum wage. According to many, this gulf between the written and the practiced (enforced) law is mainly a problem of an ineffective judicial system (a right that cannot be enforced is not a right).

One apparent cause of the problem is procedural in nature - litigants have access to numerous procedural mechanisms which can be used to delay a proceeding. Other problems may relate specifically to civil legal systems where injunctions are not favored (problem for intellectual property and unfair competition enforcement) and judges are generally less willing to provide remedies for wrongs. There appears to be a general unwillingness on the part of the judiciary to interprete and apply the law.

Additional study would be needed to examine how best to approach this problem. However, two main related areas must be addressed:

> Effective and streamlined procedures that can provide appropriately resolutions of disputes must be established. Cost should be kept to a minimum. Alternative dispute resolution mechanisms such as arbitration should be fully explored and integrated to the greatest extent possible into the system to reduce the judicial case load and expedite resolution of disputes.
>
> Judges, private attorneys and judicial administrators must receive adequate training to deal with commercial law and regulation issues. Given public sector constraints in this area, it may be appropriate to seek to privatize some of these functions through use of arbitration, establishment of private rights of action and establishment of self-regulatory functions.

B. Administrative Law

An antiquated and underdeveloped system of administrative law and procedures increasingly acts as a brake to expansion of Guatemalan trade and investment activities. A well-developed administrative law system should provide clear and transparent procedures for administrative rule and decisionmaking. Regulations should be clear, yet flexible to allow for the broadest range of circumstances. The judiciary should have a clear role in reviewing determinations made by agencies. An effective administrative law system can do much to provide predictability for investors and support business activity.

As with the judicial system, the administrative law system is replete with delays, confusion, inaction, and irrationality. Not infrequently, companies are subjected to ambiguous requirements, applied inconsistently by the agency. It is not unusual for regulations to contain few or no criteria for limiting the discretion of the

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decisionmaker, creating a ripe environment for corruption. Regulations are often promulgated behind closed doors, at times without input from the person charged with enforcement and implementation. That coupled with the fact that many final determinations are made by political appointees, can lead to significant bureaucratic delays and potential for political meddling.

Reform of the administrative law system, like judicial reform, would require additional study, a process of law reform and streamlining procedures, and training programs for public officials.

C. Law Reform/Regional Integration

As Guatemala becomes a more advanced and sophisticated economy, integrated into the international system, there will be a growing need to adopt new laws and revise existing laws to keep pace. Many of these legal changes will be of an increasingly technical nature (intellectual property, competition laws, etc.), requiring sound drafting and careful organization. A careful comparative law process will be needed to determine what rules--among its own, those previously implemented in other countries, and new formulations--will best allow it to achieve its objectives. This will require at times the use of teams of economists and lawyers to draft legislation that effectively will achieve the desired effect.

The sophisticated nature of this process favors utilization of a regional approach, since many of Guatemala's neighbors will be faced with the same challenge. The establishment of a regional professional research, comparative law and drafting institution (or utilize an existing institution such as INCAE) would provide invaluable support to this effort. The use of the regional technical group would facilitate the synchronization of the laws of the region and facilitate economic regionalization. Perhaps AID can play a role in providing technical assistance in regional integration, and by integrating its technical assistance efforts.

D. Competition

Competition is essential for the operation of a free and open market economy. The lack of real competition was evident in many economic sectors examined in this analysis. The basic problem with competition in Guatemala appears to be the insular, cooperative nature of the Guatemalan private sectors: 1) many economic sectors are controlled by one or two families, 2) Gremials play a major role, in effect, controlling economic activities in some sectors, and 3) Government/private relationships make it difficult to determine where public interest ends and private interest begins.

The problem of how to interject and enforce competition in the marketplace is a complex problem. International competition can be used to inject competition in certain sectors to the extent foreign investors are permitted to enter and compete in the economy. An open investment trade and investment regime would permit the entry of strong, well-financed international companies, creating competition through a market structure rather than legislation.

The use of competition law would be another alternative, but even if enacted, enforcement is likely to be a problem. Art. 130 of the Constitution currently prohibits monopolies, requires the state to limit monopolization, and to "protect the market economy and prevent those associations which tend to restrict market freedom or to cause prejudice to consumers." To the team's knowledge no effort has been made to enforce the law. Thus, additional laws, unless enforced, would be of no practical value.

III. TRADE POLICY REFORM

Following are more specific recommendations for tariff reform, nontariff reforms, trade-related economic policy reforms, and private sector adjustment.

A. TARIFF REFORM

1. Guatemala should carry out all future tariff reform in concert with the rest of Central America, including Costa Rica and Nicaragua, in order not to jeopardize subregional integration and preparation for an eventual free trade agreement with the United States.

2. Total free trade should be established within Central America for the following product categories: coffee, petroleum, sugar, and wheat. All restrictions on intra-area trade for these products should be removed, including all price controls and supports, subsidies, and incentives, and harmonize tax treatment in these product categories.

3. Equal external tariff rates should be established in all Central American countries by phasing out all exceptions for individual countries and by incorporating Part III product classifications into the unified Parts I and II of the proposed Harmonized Tariff System.

4. Pressures should be resisted from private sector groups to establish duty free imports of inputs to produce finished goods that compete against imports, because a 0 percent tariff confined to these inputs would raise again the effective rate of protection.

5. The introduction of tariff bands, that is, flexible tariff rates, against imports of yellow corn, rice, sorghum, and soybeans should be accepted as only a temporary measure replacing restrictive import licensing banned by GATT. Tariff bands are a device to protect local producers from wide swings in international prices. The increase in the basic tariff from 5 to 20 percent and the long lags built into the adjustment mechanism make the system rather insensitive to competitive market forces that will negatively affect the local food processing industry. The tariff bands should be removed as soon as feasible and the 20 percent tariff lowered again in order not to discourage nontraditional exports.

6. Wide differences in tariff rates for so-called "basket" classifications (*los demas* and *otros*) from those of defined products should be avoided in the new tariff schedule because they present opportunities for arbitrary decisions and bribes at customs.

7. An effort should be started to collect the data needed to calculate the effective rate of protection for highly protected industries in order to be able to accurately point out the extent of trade distortion under the tariff structure in force after January 1, 1993 and thus push for further trade liberalization. The likely industry candidates would be basic commodities, food processing, apparel, and textiles.

8. The next phase of external tariff liberalization should aim at reducing the four-tier to a two-tier tariff rate structure: a higher tariff to provide temporary, moderate protection and a lower tariff for all other imports.

9. The basic policy objective should be to move away from import restraints to export development by emphasizing production and marketing efficiency rather than direct or indirect protection.

10. The ultimate goal of import liberalization should be a uniform, single external tariff rate for all imports by the five Central American countries.

11. The governments should work closely with all local private sector organizations to gain their support for further trade liberalization by devising programs for wide

ranging trade-related reforms that will enable local companies to survive and to benefit from trade liberalization and eventual free trade.

12. To fully benefit, trade reform has to be accompanied by:

    a) Removal of diverse nontariff trade obstacles, including sweeping reforms of customs administration;

    b) Trade-related economic policy reforms, including changes in the exchange rate system;

    c) Programs of financially supported specialization and thorough modernization at industry, company, and plant levels to achieve economies of scale and a competitive marketing mentality.

13. Central America should pursue a free trade agreement with Mexico, possibly together with Colombia and Venezuela (G-3 countries), because it will:

    a) Further liberalize trade and stimulate private sector efficiency and;

    b) Encourage customs reforms and infrastructure development.

14. Guatemala or Central America as a whole should invite local private sector cooperation to develop carefully its agenda for discussions with the United States Trade Representative under the terms of the Framework Agreement. Topics should include:

    a) Removal of the type of U.S. trade barriers to Central American exports that Central America has already removed;

    b) The impact of Mexico's entry into NAFTA on the CBI and GSP benefits for Central America;

    c) Technical assistance and financing to set up effective health and phytosanitary testing procedures and facilities nd certification of domestic and imported products on a nondiscriminatory, transparent, scientific basis.

B. NONTARIFF REFORMS

1. The Government of Guatemala's program and plans to eliminate or phase out export and import licensing and prohibitions on all important products appears sound and no changes can be recommended. Remaining restrictions relate to national security, health, ecology, and archeological treasures.

2. Incentives for producers of nontraditional exports should be re-examined as to whether they create a competitive advantage in the United States and other foreign markets to an increasing number of Guatemalan exporters that do not export one of Guatemala's few traditional basic commodities. It should be analyzed whether a 10-year complete tax holiday is too long, whether duties should be clearly limited to drawbacks related to exports, and whether tax incentives should be offered only to pioneering companies that develop exports of a product never before exported or to all exporters of processed products and agricultural goods, other than coffee, sugar, cotton, and bananas.

3. Programs for removing nontariff trade restraints should be implemented before further duty reductions will cause local private sector groups to search for effective substitutes for tariff protection.

4. Sweeping reforms in the customs administration are needed to reduce corrupt practices, arbitrariness, and discrimination, and to improve efficiency and transparency in customs procedures. The following are some reforms deemed desirable:

   a) A national debate on corrupt practices at customs should be encouraged until a clear-cut commitment for sweeping reforms is elicited at the highest political levels in Guatemala.

   b) The profession of customs officials should be upgraded to a civil service career program with promotion to the highest level based on merit alone. Political appointments at customs should be phased out.

   c) A computerized regular schedule of frequent rotations of all customs officials to different customs posts should be introduced in order to reduce loyalty relationships from developing between customs officials and regular importers.

   d) Compensation scales and retirement programs for customs officials should be improved.

e) An ongoing technical training program should be developed to upgrade the technical capacity of customs officials.

f) The investment budget for customs should be increased to improve facilities and installations and to install computers and other modern equipment and materials.

g) An effective system of fines and dismissals for corrupt practices should be implemented.

h) The experiences of customs administrations in other countries should be studied in developing specific reform programs.

5. An analysis division should be created at customs and/or the Banco de Guatemala to ferret out corrupt practices and under-invoicing of imports or exports designed to minimize payments of tariffs and taxes or avoid return of foreign exchange proceeds. A bonus system, in addition to salary, could be established for analysts based on the number and value of irregular invoices they uncover.

   a) The experience in other countries in preventing under-invoicing could be evaluated.

   b) Information on imports from Guatemala recorded by other countries could be solicited.

   c) A system of up-dated international price guidelines for price determination could gradually be built up for more and more products and used to compare and to challenge prices recorded on invoices and permits by exporters and importers.

   d) A free exchange market and a single tariff should be pursued as the most effective way to reduce under-invoicing and corruption at customs.

6. Following the example of "Ventanilla Unica de Exportaciones," all paperwork required of an importer should be concentrated at one location. To further speed up processing, all import forms should be tested as to their essentiality and all of those eliminated that prove not to be essential or that duplicate information.

7. A study should be undertaken of the efficiency and feasibility of moving all inland customs warehouses and services to the entry locations of imports in order to

eliminate loss of in-bond shipments in transit from entry points to inland customs warehouses. In 1990 alone, about 1,800 such shipments disappeared en route, according to a reliable Guatemalan customs source.

8. Guatemala should consider setting up a nondiscriminatory, transparent system of product testing and certification that is clearly defined and scientifically. The system should be based on sanitary and phytosanitary standards. It should be applied equally to domestic as well as imported products with the intent to protect the population, not to restrict trade. Existing GATT guidelines should be adopted.

9. Establishing and administering the rules of origin of products will be needed when a preferential or free trade agreement is concluded with Mexico and other countries. The simplest rule to administer is one of declaring a Mexican import of national origin if the transformation (value added) there of raw materials or components from third countries is sufficient to place the final product into a different tariff classification.

10. Countervailing duties to offset anti-dumping practices should be established against imports clearly subsidized or exported at prices below those in the exporting country.

11. Disputes relating to unfair trade practices or countervailing duties could be settled by a panel of importers, exporters and producers from diverse industries with final authority to arrive at a settlement.

C. TRADE-RELATED ECONOMIC POLICY REFORMS

1. Trade-related economic policy reforms should be implemented in support of trade reforms to enable the private sector to confront more effectively increased competition from imports when protective barriers are reduced and to benefit from future free trade agreements.

2. Local private sector associations should develop workshops designed to identify specific government economic policies that contribute to the high costs of operations of their member companies and to formulate workable proposals for further economic policy reforms.

3. Some major reforms that need to accompany trade reform relate to reliable telecommunications, postal service, and electricity; an efficient, low-cost internal

transport system; adequate storage capacity and modern port and airport facilities; a credit system geared to satisfy the needs of the private sector; improved technical education of the work force; and an open door for technology transfers.

4. Privatization of port facilities and other state enterprises in a way that also stimulates competition, rewards improvements in efficiency, and that passes cost savings to clients could help advance efficient trade development.

5. Government revenue should not be pre-empted by public payroll and fringe benefits, deficits of state companies, and debt service, with little left for infrastructure investments.

6. Government deficits should not pre-empt local capital markets and drive up local interest rates.

7. New capital sources should be created for trade-related investments by considering the feasibility, among other issues, of eliminating all exchange controls and establishing a pre-announced rate of devaluation; by raising tax disincentives for real estate investments; by exempting re-invested corporate earnings from income taxes; and by creating a privately run social security system, similar to Chile's.

8. Exchange controls are an arbitrary, discriminatory measure equivalent to restrictive import licensing and should be abolished. Loss of foreign exchange and capital flight are usually the result of uncertainty about misguided economic policies, and not a consequence of remittance freedom.

9. Guatemala should re-examine its exchange rate system as to whether it helps to stimulate efficient trade development and preserves balance of payments equilibrium in the light of significant import liberalization.

10. A controlled, Mexican-style weekly devaluation rate of about 1 centavo per dollar announced for 12 months in advance would eliminate uncertainty and speculation about a possible devaluation. Coupled with an end of exchange controls, rationing, and auctions, such a devaluation rate would greatly eliminate the incentive for exporters to keep exchange proceeds illegally abroad. This revised system, applied with a continued anti-inflationary monetary and fiscal policy, would gradually eliminate any over-valuation of the exchange rate and act as an incentive for developing nontraditional exports. It would help local companies to absorb the competitive pressure from imports resulting from tariff reductions. If inflation and the trade balance improve, the rate of devaluation can be slowed down after 12

months; if the reverse trends materialize in 1992, the controlled rate of devaluation needs to be accelerated the next year.

D. PRIVATE SECTOR ADJUSTMENT

1. Constraints to trade development also exist within the private sector, within the local firms themselves. These restraints need to be removed to forestall a future backlash against trade liberalization in favor of a return to protectionism.

2. Many local businesses, faced with competition from imports, need to consider major reforms within their own firms in order to survive and prosper from trade liberalization in future years. They may need to change outmoded management styles; invest in training and upgrading their work force; search for lower-cost supply sources; upgrade and increase the budget for marketing and export promotion; improve product quality, design, and packaging; study competitors' strategies and changing consumer tastes; improve the financial strength of the company; and develop a quick response capability to new competitive inroads.

3. Local private firms and industries need to speed up programs of modernization and replace obsolete plant and equipment in step with progressive trade liberalization.

4. Local business associations could prepare industry-wide financing proposals and present them, with government support, to international financial institutions.

5. Faced with competition from imports, companies should review their operating strategies, whether to specialize in fewer lines and produce also for export in order to reduce unit costs through economies of scale, whether to give up production and switch to imports supplying the domestic distribution network, or whether to seek a foreign partner who can offer technology, capital, or markets abroad.

6. A great deal can be done to remove trade restraints even for small and medium-sized Guatemalan companies and overcome diseconomies of scale:

   a) Companies in the same industries in different Central American countries could form joint regional export marketing or trading companies.

   b) Guatemalan companies in the same industry producing complementary or differentiated products could form "export committees" following the Chilean

model and develop joint sales catalogues and finance jointly a salesman abroad, advertising and market research, and other marketing efforts.

c) An inexpensive, on-going training program can be set up for commercial attaches at Guatemalan embassies abroad to efficiently collect regularly relevant market intelligence, relay it speedily to appropriate private sector organizations at home, promote actively Guatemalan products abroad, inform appropriate Guatemalan firms of relevant future dates of trade fairs and public tender offers, and compile and update a local directory for arranging contacts for visiting Guatemalan businesses. The database and information system available at U.S. embassies can serve as useful guides.

7. The local private sector must benefit for trade liberalization to last and eventually to lead to free trade agreements.

b. Financial and Securities Markets

Exporters and export associations indicate that the most binding constraint that remains to export activity is the weak and fragmented financial structure. The legal framework regulating banking, weakness in the superintendency of banks, and inadequate financial reporting systems are seen as major problem areas.

The basic legal and regulatory framework governing banking activities in Guatemala is characterized by the excessive limitations it imposes on the development of formal financial sector activities. It attempts to minimize risks and instability in the banking sector by limiting or prohibiting certain activities rather than establishing prudential standards and effective supervision. As a result, banks are forced to provide services through parallel businesses operating outside of the existing legal framework. This has produced a **lack of transparent accounting and financial information** resulting in the uncertain quality of bank portfolios and assets, the ineffectiveness of credit limits established by the law and an unacceptably high concentration of affiliated business activities.

One of the principal problems associated with the Guatemalan Banking System is the widespread practice of using banks as a source of financing for the ownership group's business interests. The lack of adequate information, aggravated by the practice of using corporations with bearer shares, makes it extremely difficult to provide adequate supervision. The weakened condition of some banks, together with the **limited regulatory authority of the superintendency of banks**, could portend a repeat in

Guatemala of the experience of other countries that have liberalized their financial systems: the rapid deterioration of the sector to the point of becoming a national crisis.

The Guatemalan securities market is in the initial stages of development with the active participation of only a few players. Consequently, the market lacks the breadth, depth, and liquidity to qualify as a real securities market at this time. Instead, the market is principally a forum for issuing a single class of debt instruments, **pagarès**.

Because of its early stage of development, the Guatemalan **securities market lacks a regulatory framework and supervisory agency** to oversee existing and future market operations. The lack of a regulatory framework means that there are no regulations in place governing public offerings, requiring full public disclosure of pertinent financial information, or protecting shareholder rights.

Under these circumstances, the lack of a regulatory framework constitutes an obstacle to future development of the securities market. The absence of clear standards and regulations to establish the role of market participants and market operations are factors that inhibit and restrict the emergence of an active securities market. Until there are adequate standards and a specialized, autonomous regulatory institution to supervise the market, foreign and domestic investors will be reluctant to invest.

C. LABOR RELATIONS FRAMEWORK

No consistent increases in trade and investment in Guatemala can occur while Guatemala is not in compliance with internationally recognized workers rights standards, since this carries with it the threat of sanctions under the Generalized System of Preferences review system and the withdrawal of preferential access to the U.S. market under GSP and CBI. If GSP and CBI benefits were withdrawn, conservative estimates show that approximately $200 million in Guatemalan exports would cease to be competitive on the world market. No matter how open the trade regime was, it would not compensate for a loss of this magnitude.

Non-compliance with or lack of enforcement of workers rights has other detrimental effects on the economy, though not quite so dramatic and obvious as those found if sanctions were applied. When workers rights are not protected and labor relations are poor, productivity decreases as workers move from job to job in search of better working conditions. In an increasingly competitive global economy, not only will there be pressure for greater productivity and higher quality but also an increased demand for technological skills as well, which will create further competition for workers. Without adequate protection of workers rights and improved labor relations, and therefore greater value being placed on the worker, Guatemala will not be able to meet these changing conditions.

An extensive analysis of the current labor relations situation was conducted in April, 1993, highlighting the constraints and needs of the labor, public and private sectors, both in the immediate (1-2 years) and medium term, and what actions were required to meet those needs and improve overall labor relations and workers rights protection. Three main areas of assistance were highlighted that USAID could support under the Trade and Labor Relations Development Program:

1. Increasing compliance with and enforcement of labor laws;

2. Increasing cooperation between unions and management; and

3. Improving overall labor relations by examining alternative methods to support economic development.

Increasing compliance with and enforcement of labor laws will be achieved by providing local currency generated under the Sectoral Reform Agenda to the Ministry of Labor to strengthen their labor inspection capacity, decentralize their operations to the interior of the country (the majority of labor inspectors are currently located in Guatemala City), and coordinate with UNDP

efforts to improve the Ministry's management information and internal control systems, allowing increased oversight related to compliance with the reformed labor code. To combat other weaknesses, the Ministry recently received a 100% budget increase from 1991 levels, hired an additional 75 labor inspectors, increased labor inspectors' salaries to limit the possibility of corruption and initiated training programs.

Increasing cooperation between unions and management will be accomplished through encouraging activities of the tripartite group on improving labor relations, composed of CACIF, the Ministry of Labor and four labor union confederations, and through technical assistance and training geared to presenting modern concepts of labor relations to both the private and labor sectors. In order to build trust among the public, private and labor sectors, it is necessary to establish a forum where moderate elements of all three groups can participate in discussion, analysis and resolution of mutual problems. Current relations, at all but the highest levels, continue to be marred by a history of conflict and distrust. Activities will focus on changing this combative relationship to a more modern labor relations model, relying on cooperation and techniques such as bargaining and negotiation, mediation and updated methods of human resource management. Improving the knowledge base of all three sectors - public, private and labor - will allow increasing cooperation and understanding and equal footing in addressing labor relations issues.

Improving overall labor relations by looking at alternative models to support economic development will be achieved through technical assistance and training on methods of increasing productivity and the relationship of productivity to international competitiveness and on alternative labor relations models. Because of the historically conflictive relationship with labor unions, much interest was expressed by the private sector in learning about other methods of labor relations that have been successful, both in improving working conditions and in increasing productivity. Following is a listing of specific constraints to labor relations development and proposed solutions.

LABOR UNION PERSPECTIVE

I. GOVERNMENT

* Lack of political will on the part of the government to enforce existing labor legislation, and lack of resources for enforcement

  Labor groups cited the political weakness of the Labor Minister as a factor in the ineffectiveness of the ministry in enforcing labor law and resolving labor conflict. The Labor Ministry is

widely viewed as ineffectual and lacking in resources, the support of the President, and the respect of the private sector. Ministry officials and inspectors commonly urge workers to forge pursuit of legitimate claims against employers and accept settlements that are less than what the worker is entitled to by law. This is seen as an indication of the Ministry's lack of neutrality and favoring of the private sector.

* Slowness of union registration process; obstacles to union organizing and formation

In spite of recent changes in the Labor Code regarding the process of union recognition, labor groups expressed pessimism that such changes would speed up the process. They cited specific cases of request for union recognition that had been in process for more than the new limit of twenty days. Again, tho Ministry's inability to comply with new regulations was highlighted. Unionists also expressed concern over a new requirement that workers attempting to form a union present proof of employment. Labor groups feel that this requirement would identify workers attempting to organize a union and leave them vulnerable to dismissal by the employer. Labor groups also urge speedier resolutions of cases where workers are unjustly dismissed for union-related activity, so as to dissuade employers from using this tactic to prevent unions from forming in their plants.

* Slowness of labor courts/conflict resolutions process

One problem of special concern to labor is the immediate reinstatement of workers who have been unjustly fired, as called for by the law (Article 209); currently the process is too slow.

* Ineffectiveness and corruption of inspectors

Labor groups cited lack of vehicles, low salaries, little support from Labor Ministry, collusion with employers, and lack of authority to impose sanctions against offenders as key problems affecting inspectors. (Interview with Director General de Inspeccion del Trabajo confirmed paucity of personnel, budget, office equipment (photocopier and typewriters) and vehicles, although measures had been initiated to increase the number of inspectors and vehicles; inspectors' salaries had recently doubled -to Q.1,200-and education requirements for new had been raised).

Possible Remedies: Training courses for inspectors; assistance and training for improved data collection (especially labor statistics).

* Inadequate minimum wage and lack of enforcement of legal minimum

Labor groups complained that the minimum wage often treated as a maximum limit, and claimed that many employers paid below the minimum wage while claiming to pay the legal minimum. They also claimed that the minimum wage is insufficient to cover basic needs. One labor leader claimed average daily wage was Q.9 for a 16 hour day. Another stated that Q.45 were needed though average wage was Q.10.

COMMENT: In another interview, an employers' group stated that many workers are willing to work bellow the minimum wage. This seems to be the case in the rural agricultural sector where the alternative earnings potential is low. We were told that employers in the vegetable producing sectors do pay the minimum wage and that in some sectors (e.g., Coffee) this is constraining employers somewhat. However, the team found that wokers in the maquila apparel industry earn on average 25Q/day when the minimum wage was 14Q/day for that sector. Hence, a blanket statement about the level of the minimum wage cannot be accurate, given the number of different wages applied to different sectors. Perhaps a joint study by an outsider and the Ministry of Labor could be made on what is the "appropriate" level of the minimum wage in different sectors and what are the employemnt (and inflationary) effects of setting the wage too high. The results of this study could be disseminated to labor unions and workers.

II. EMPLOYERS

* Employer "attitudes" regarding labor law and union organization

Labor groups cited general employer disregard for labor legislation and the work of government inspectors. Employers attitudes regarding relations with labor were described as "feudal" and "intransigent". Strong anti-union attitudes and lack of respect for the collective bargaining process were seen as widespread, although labor organizations cited instances of "good" labor relations in several plants. (Employers in nontraditional exports and agricultural exports were seen as the worst violators).

Unionists also expressed concern that, although leaders of employers associations may express an interest in dialogue with labor and in improved relations, vigilance over smaller employers and plant management is also necessary. Employer associations need to exercise some kind of "moral suasion" with members who violate laws and worker rights. In general, the absence of employer interest in improving labor relations, combined with the Ministry's inability to enforce compliance with legislation, were viewed as the key obstacles to improvement of labor-management relations.

* Maquila sector

Labor groups stated that some of the worst violations of labor law and workers' rights occur in the maquila industry. They cited common violations of laws concerning child labor, overtime, employers' social security obligations, minimum wage, and the right to organize. Workers trying to organize a union are commonly fired, they claim. They also pointed to the facility with which maquila plants may relocate under a new "razon social" under current laws. Interview with Labor Ministry's Inspection office confirmed that many violations ("malos tratos") take place in the maquila industry; workers are forced to work extra hours, the minimum wage is not paid, workers are docked a day's wages if they need to go to the IGSS, etc.

* Solidarista associations

Labor organizations did no specifically mention "solidarismo" as a constraint on improved labor relations until we raised the issue. None of the individuals we spoke with in labor believed that solidarista associations and unions could co-exist peacefully within a particular workplace, and they provided examples of cases where the two conflicted until either the union or the solidarista association disappeared. While one labor leader admitted that in theory solidarista associations and unions might be able to co-exist, since they had different functions, all agreed that in practice solidarismo has largely been employed as an anti-union tactic. Solidarista associations are commonly initiated shortly after efforts to form a union have begun, and workers are often pressured into joining solidarista associations as a condition of employment.

Some background: Solidarista associations register with the Ministerio de Gobernacion; they are prevented from engaging in collective bargaining by Guatemalan law (Both the AFL-CIO and ICFTU condemn solidarismo as anti-union). Article 2 of ILO

Convention 98 calls for the authentic independence of workers' and employers' organizations. ICFTU filed a formal complaint at the 1989 ILO Committee on Freedom of Association alleging Costa Rican Government discrimination against unions in favor of Solidarismo. The ILO concluded that management use of solidarismo and solidarista involvement in trade union activities (such as collective bargaining) are violations of freedom of association. "The ILO referred to reports of employers threatening workers with dismissal in order to force them to shun unions and/or join Solidarista associations" (U.S. Department of labor, Bureau of International Labor Affairs, Foreign Labor Trends: Costa Rica, 1,991, p, 7).

Evidence of legal favoritism also came under scrutiny, restrictions on unions' abilities to engage in profitable financial activities, the number of members required to form an association vs. the number required to form a union, etc.

The ILO announced that the Costa Rican government had promised to push for legal measures which would keep the activities of Solidarista associations and unions separate and protect against antiunion discrimination. There is some indication that the ILO decision has tempered Costa Rican government support for the movement and strengthened friction between the two tendencies of the Costa Rican solidarista movement.

Solidarismo remains a highly controversial issue for labor organizations. As long as solidarismo is perceived by labor groups as a management tactic to preempt union formation or to bust existing unions, and as long as solidarista associations are not monitored for these and other kinds of abuses, it is very likely that labor group will view any attempt to support solidarista associations as a sign of bad faith and an attack on unions.

Possible Remedies: Seminars and workshops for employers on labor legislation, labor rights, and employer obligations; alternative conflict resolution procedures and labor mediation; collective bargaining agreements; alternative labor relations, work organization, worker participation and productivity; tripartism. Some courses should involve both labor and employer groups.

Incentives for employers to negotiate directly with workers rather than appeal to the courts, where they have traditionally benefitted from delays.

Greater vigilance over labor law violations in maquila sector; review of two-year provisional status to maquilas that may facilitate their relocation. Some labor interviewees

mentioned the need for a special law governing labor relations in the maquila sector and pointed to the existence of such a law in the Dominican Republic. (A Code of Conduct for Maquiladoras was also reportedly under consideration in the NAFTA negotiations on side agreements-- the U.S. -based Coalition for Justice in the Maquiladoras has developed this code of conduct).

Publicize cases of successful labor relations already operating in Guatemala: CUSG cites cases of collective agreement in GUATEL, in which commitment to consult with union and provide information regarding alternative and future course of company is written into contract; also cite cases of TEXMOSA (Textiles Modernos) and Arrow, both in the textile industry, in which relatively stable labor relations have obtained after rocky beginnings (two successive contracts have been negotiated in each without Ministry interference). FESTRAS also cited Coca-Cola, Chiclets (Adams) and Frigorificos de Guatemala (a seafood exporting company) as cases with improved labor-management relations.

III. LABOR

* Rivalries among labor organizations

Deep seated and personal rivalries between leaders of the various labor organizations may present an obstacle to efforts to provide technical assistance or training to the labor sector. Differences and tensions between labor organizations could also undermine consultation between labor, government, and business groups at the national level. These rivalries may also be fed by government or private sector perceptions of "radical" or "ideological" labor organizations. Efforts to exclude or marginalize some labor groups may serve to further radicalize them and undermine any national consultative process.

One example of the kinds of divisions afflicting labor organizations can be seen in the signing of the recent Tripartite Agreement. Although we were not able to determine what exactly happened, it appears that groups like UNSITRAGUA, FESTRAS, and FENASTEG may have been deliberately excluded from the negotiations leading to the signing of the agreement. It is not clear whether this exclusion was to the initiative of the labor groups that did sign, or of the government or private sector. In interviews, both FESEBS and CUSG acknowledged that the other labor organizations would be asked to participate in the tripartite process. However, CUSG stipulated as a condition of UNSITRAGUA's participation that it place a paid announcement in the newspapers stating its support for the

original tripartite pact. This is a condition which UNSITRAGUA is unlikely to agree to. If UNSITRAGUA's exclusion from the accord was the result of deliberate deception and manipulation, as some believe, then such a stipulation seems even more unfair. If UNSITRAGUA's absence was voluntary, CUSG's condition nevertheless indicates that it seems more concerned with embarrassing UNSITRAGUA politically or reducing the chances of its participation than with broadening the spectrum of labor groups involved in the tripartite dialogue.

Nonetheless, the labor organizations we interviewed shared many of the same concerns, identified many of the same constraints, and proposed similar solutions to problems in labor relations. They also agreed that they did not want to chase the maquila industry out of Guatemala, that they did not want GSP privileges suspended, that trade and investment were the key to economic growth, and that labor unions had to find new ways to respond to the management. Besides these points of agreement, it is also important to note that virtually all labor groups had been cooperating in determining a list of demands for the GSP review process. Despite their differences, there appear to be many points in common that could provide the basis for collaboration among labor organizations.

* Mistrust between private sector and labor; mistrust of U.S. government assistance

The mistrust that exists between sectors of the private sector and the labor movement is rooted in the country's recent political history and in the fact the outcome of the peace negotiations remains unclear. Although leaders of both CGTG and USG have had some experience talking with employers associations, such as CACIF. UNSITRAGUA is isolated from these talks by both the unions and managers. This mistrust is only likely to be alleviated over time, with good faith deeds on both sides to improve dialogue (perhaps with help of some mediator), and gradual efforts at inclusion.

Mistrust of U.S. government assistance may mean that training and educational assistance should be routed trough some "neutral" third party (i.e., not AIFLD) if possible.

* Lack of resources

Union and federations appear to have few self-generated resources and must rely on external assistance (AIFLD, International assistance). There is no automatic dues check-off, making it more difficult for unions to collect from their membership.

* Lack of information/training

Labor groups expressed a need for greater information and understanding of current political and economic changes affecting the region, especially privatization, regional integration, trade and investment, new forms of workplace organization and worker participation (CUSG has had some of these, but other organizations have not). Labor groups expressed a desire to be kept informed about company/workplace changes that may affect them, and an interest in finding ways to participate in the changes.

* Small size of unions/fragmentation

Unions are weak in Guatemala. The most optimistic reports put union density at 7% of the workforce. Typical signs of union strength (dues check-off, industry-wide unions, closed shops) do not exist in Guatemala. Unions tend to be very small in membership, and several unions may exist in one plant. This makes union collaboration difficult and reduces their bargaining gower.

Possible remedies: Support research and studies (trough trusted local NGO or research center) on labor issues, economic conditions, labor-management relations, etc., that labor movement could draw upon' courses for unionists (held in Guatemala and open to all labor groups) on labor law, collective bargaining, union organizing, free trade and regional integration, productivity and competitiveness.

EMPLOYERS PERSPECTIVE

* Mistrust of Labor Unions

All of the employers we talked with think it is counterproductive to work with unions. Given the historical experience in Guatemala, they see unions as ideologically driven and destructive (i.e., not interested in constructively solving problems with management). Some of the employers and the leaders of CACIF believe that at least one union confederations (CUSG) is showing signs of change which would lead to constructive relations.

Possible Solution: In order to build trust between management and unions, it is necessary to establish a forum where moderate elements of these two groups can participate in discussion, analysis and resolution of mutual problems. A director in CACIF has mentioned that such a forum -- in the form of a new institute -- is being discussed with the leader of CUSG. In

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order to de-politicize relationships, it would be useful to provide coures in modern concepts and techniques in union-management relations (e.g., bargaining, negotiation, arbitration, etc.)

* Problems with the Law regarding creation of Unions:

The current law allows unions to be created with only three employees. Employers believe this is making it too easy to create union and that such a small number cannot be representative of the employees of the firm. One employer suggests using the laws established in the U.S. that requires 50% plus 1 employee for union organization.

Possible Solutions: This constraint although verbalized by management is actually a constraint to the effectiveness and strength of the labor unions. Hence, this might be a topic of discussion in the tripartite commission discussions as it is unlikely to be resolved solely between labor and management.

* Lack of information about alternative forms of Labor-Management Relations

Several employers demonstated interest in learning about alternative forms of labor-management relations which could improve conditions for workers and at the same time increase productivity. Some employers asked about profit sharing and worker management schemes as ways to improve worker conditions and productivity.

Possible Solution: Hold seminars with experts in this field in GEXPORT. Implimentation of some of these schemes would truly democratize growth.

* Lack of Middle-Management Skills

The employers noted that the lack of managerial skills was a major constraint in motiviating workers and increasing producitivity and efficiency in the workplace. Although it is clear that increasing productivity would improve the worker prosperity, the the IMCC also noted that improving managers skills would also improve labor relations directly as there were many anecdotes of labor violence brought on by "unreasonable" supervisors and managers.

Possible Solution: Offer courses in training managers in management skills, motivation of workforce, how to improve effeciency and productivity in a firm in a positive way.

* Worker productivity is low

Managers often complained about the lack of skills and general educational level of its workers. They claimed that the low wages were justified by low producitivty.

Possible solution: Support existing training insititutions in Guatemala to increase the number of courses in technical occupations (seamstress, electrician, mechanics, etc.). Increasing the education and skill level (human capital) of an individual is one of the most effective ways of increasing income.

Constraints to Improved Administration of Justice

With the addition of one new LSWC and 177 JOP courts to assist in small labor disputes, the Government has taken the first step to increasing access to and expediting the process related to labor courts. The planned creation of an additional three LSWCs this year, and possible additional of two COLAs would be additional positive steps. However, the expansion of the court system does not of itself insure that delays will be reduced and that justice will be properly administered. Considerable support will need to be given to ensure that the expanded court system is efficiently administered and personnel are adequately trained, in particular, the JOPs to provide effective justice. Failure to provide this support will further erode already low local and international confidence in the labor court system.

* Administration of the Labor Court System

The Supreme Court should analyze whether an administrative system should be set up to maximize utilization of the expanded body of LSWCs in Guatemala City. The exact size and structure will depend on where the additional courts are housed but could include a central docketing office where all cases are filed, assigned and monitored. This would permit the administrator to spread the caseload evenly among the judges, and monitor and report the progress of cases through the system. This would provide an additional element of fairness in case assignment and transparency to the process which may act to speed resolution of pending cases.

* Training of Personnel

The addition of the JOP and other new courts means that there will be a considerable number of people participating in the administration of justice as it relates to labor. The immediate concern is with the JOPs who by all accounts have little or no knowledge or training in the Labor Code. We were unable to uncover any plan directed at training these new participants in the labor court system.

An additional concern regarding the quality of professional support personnel was raised by a judge and labor attorneys we interviewed. They indicated their views that the law students that act as professional staff for the judges in the LSWCs fail to provide sound professinal support for the system. Because of their inexperience, they often make errors which require the judges intervention to correct and lead to delays in the process.

Laws and Regulations Informing Labor Relations

Labor law in Guatemala is defined by local laws, such as the Constitution, the Labor Code, and other specialized laws, and international agreements to which Guatemala has acceded, such as the International Labor Organization ("ILO") Conventions. Under the Guatemalan Constitution, standards established in international or regional agreements or treaties executed by the GOG are incorporated automatically into the national laws of the country. Thus the legal framework governing Guatemalan labor matters incorporates both local laws and international standards, even though the latter may not be reflected in the text of the Labor Code or other local law.

Administrative law as it is known in the United States does not exist in Guatemala in that no government agency or ministry is empowered to make judicial determinations or impose sanctions. Thus, the MOL may be charged with the responsibility for ensuring that the laws and regulations are adhered to by inspecting and citing for noncompliance, but all proceedings and adjudications, other than initial attempts to settle are subject to the jurisdiction of the Guatemalan labor courts.

Domestic Laws and Regulations Affecting Labor Relations

The Guatemalan Constitution establishes the "minimal social rights" to which all Guatemalan workers are entitled. These include: (1) the freedom to choose one's work, (2) the right to fair remuneration, (3) the right to a minimum wage, (4) the right to a fixed workday (day shift - 8 hours per day/44 hours per week, night shift - 6 hours/36 hours, and mixed shift - 7 hours/42 hours), (5) right to a vacation, holiday and annual leave, (6) right to an annual bonus, (7) protection of minors (under fourteen years of age), (8) preference for Guatemalan workers over foreign workers, (9) dismissal rights, and (10) the right to join trade unions. The Constitution also states that worker standards established in international or regional agreements or treaties executed by the Government shall be considered part of minimal rights enjoyed by Guatemalan workers.

Right of Association

Guatemala's constitution guarantees workers the right to associate freely and to organize and bargain collectively. Those rights are reiterated more specifically in the Codigo de Trabajo which precludes derogation of the right by contract or law. Workers have traditionally organized as sindicatos, and more recently, asociaciones solidaristas in Guatemala. Recent changes to the Labor Code [and ILO decisions?] state clearly that the right to associate freely for the purpose of collective bargaining is reserved solely for sindicatos.

i. Sindicatos

Sindicatos are worker based organizations which have historically been organized for the purpose of engaging in collective bargaining on behalf of workers. The procedures for obtaining legal recognition of a sindicato are contained in Title VI of the Labor Code and were strongly criticized in petitions submitted to GSP Subcommitte in 1992 as being too complex. In addition, the MOL was criticized for unduly delaying the process of sindicato approval. There is evidence that the approval process has at times required several years. It is also alleged that employers use the delays created by the extended process to engage in campaigns to discourage organization. These alleged tactics include everything from direct threats against organizers to payoffs to employees who agree not to join the union.

The Ministry of Labor acknowledges the problem of delays in the approval process and selected the organization and freedom of unions as a major area for policy reform in 1991. During that year, the Ministry claims to have considerably reduced the time required to approve applications to organize unions. In late 1992, amendments to the Labor Code were adopted some of which were designed to facilitate the organization of sindicatos and protect workers engaged in the process. Article 209 as amended protects workers from being fired while a union is in the process of formation (from the time the filing is made with the MOL until 60 days after approval is granted). Article 217 has been amended to permit the Minster of Labor (formerly the signature of the President of the Republic was required) to approve the application to form a sindicato and requires him to do so within 20 days of receiving a properly completed application. The amended Code protects members of a union's executive committee from dismissal (Article 223) and modifies the procedures for approval (Articles 218 and 220).

In an apparent effort to permit freer competition between with solidarity associations, the Code was amended to permit unions to engage in for profit activities. Union members are also free to participate in politics.

The ILO Committee of Experts on Convention No. 87, the Freedom of Association and Protection of the Right to Organize Convention, had found in the past that there were at least eleven separate provisions of the then-existing Labor Code are inconsistent with Convention No. 87. Those inconsistencies related to excessive government interference in the supervision of the formation and operation of unions, the prohibition against foreign workers participating as trade union leaders, and the excessive delays in registering unions. It is unclear whether the recent changes to the Labor Code will affect the previous findings.

In supplements to their earlier petitions, labor groups assert that the changes to the Code, thought positive steps, will be meaningful only if they are effectively implemented by the government. Although it is still early, it appears that there may have been some improvement in the approval process [cite government statistics].

ii. Asociaciones Solidaristas

Asociaciones solidaristas are formed as non-profit associations pursuant to Article 15 of the Civil Code, the general law governing the formation of non-profit organizations. To establish an solidarity association, the applicant must submit a notarized copy of its constitution and by-laws to the Ministry of Government which examines the documents to ensure that they conform to all formalities required by law. When all is in order, the Public Minister prepares the necessary Acuerdo Gubernativo and forwards it and the application to the President of the Republic for his consideration and signature. The signed document is then published in the Diario Oficial after which time the association can be recorded in the Registro Civil.

As non-profit organizations, solidarity associations may provide services to their members (medical, dental, etc.) and hold shares in other for profit corporations.

Minimum Age Requirements

The Guatemalan Labor Code provides that persons under the age of 14 cannot enter into employment contracts but, does not preclude persons under that age from working. A person under age 14 may obtain legal employment, provided an employment agreement is signed by his/her parent or guardian and approval is obtained from the Ministry of Labor. The law contains no definitive minimum age below which a person may not work. The Ministry of Labor indicates that it only grants work approvals for persons 12 years and older. However, the Ministry of Labor appears to have no criteria, other than prudential considerations, for determining whether to grant approval for persons under 14 years old. The fines imposed by the

Labor Code for employers who hire underage persons were recently raised to [Q 200]. The fine may be doubled for repeat offenders.

The general standard established in the ILO Minimum Age Convention No. 138 is that the minimum age for admission to employment shall not be less than the age of completion of compulsory schooling or 14 years. However, special exceptions are made for developing countries whose economy and administrative facilities are insufficiently developed to fully implement the Convention. In such countries, children between 12 and 14 may be permitted to work in family and small-scale holdings producing for local consumption.

Petitions filed with the GSP Subcommittee in 1992 allege that many companies in Guatemala are using child labor (i.e., children under 14) in the maquila and other industries. These petitions allege that the majority of these underage workers do not have contracts signed by guardians or authorization from the Ministry of Labor. The Ministry has protection of underage workers as a focus in its current work plan but it is unclear how effective it is at enforcing the law.

Health and Safety

Health and safety in the workplace are governed by the Labor Code and Health and Safety Regulations adopted in [1956]. This vague nature of existing law is characterized by Article 197 of the Labor Code which requires every employer to take the necessary precautions to preserve the life and health of his workers. The Labor Code itself has only nine articles dealing with health and safety of workers.

The MOL through the General Labor Inspector and the Department of Social Welfare, together with the Guatemalan Institute of Social Security ("IGSS") are charged with improving health and safety in the workplace. The Department of Social Welfare has two inspectors which visit the workplace and provide employers with suggestions for improving the health and safety of the work environment, in accordance with standards developed jointly with IGSS. Labor inspectors may cite a company for failure to comply with the standards, but as a practical matter that is seldom done. The Ministry of Labor, in its 1991 study of the maquila industry, found such problems as lack of eating facilities for workers and inadequate ventilation.

Guatemala has not ratified the most significant ILO Conventions (ILO Convention Nos. 155 (Occupational Health and Safety) and 148 (Working Environment) related to occupational safety and work and the use of toxic substances and agents in the work place (ILO

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Convention Nos. 115 (Radiation), 136 (Benzene) and 139 (Occupational Cancer). The few Conventions which Guatemala has ratified are not completely incorporated into existing Guatemalan law.

The MOL is taking some steps to facilitate the improved the health and safety of workers. Currently, the MOL has a project to draft a new set of health and safety regulations which are more specific and current. In addition, they have planned joint training with Labor Inspectors, Social Welfare Inspectors and IGSS to provide uniform instruction on the standards and their application.

Compensation

Under Guatemalan law, there are several layers of compensation. First, workers are guaranteed a minimum monthly wage, currently Q 528.00 in urban areas. In addition, workers are entitled to an annual Christmas "bonus" equal to one month's wages. Under this system, the employer effectively pays an annual salary, to the employee and/or to his economic compensation account, equal to 14 months' wages. If a worker is terminated and the termination is determined to be unjust, the employer must pay an additional month's wages for every year of service rendered to the company.

Recent modifications to the Labor Code provide additional compensation and benefits to workers.

1. Paid days of for certain events: 3 days for spouse death, 5 days for marriage, 2 days (men) for birth of child, jury duty.
2. Six unpaid days for union directors to participate in union business.
3. Pay for seventh day.
4. 15 days of paid vacation per year

FINANCIAL ANALYSIS

CAEM and the Gremial have received Mission certification of their financial management and internal control procedures, making them eligible to receive 30-90 day advances. Since CAEM and the Gremial have both been successfully managing components of the PED project for the last five years, and since, in both cases, the amount of funds granted under the PED project will exceed that envisioned under the new Trade and Labor Relations Development program, the Mission does not have any doubts that both organizations have the financial capacity and ability to absorb and manage the proposed funding under the new program. Under the Trade and Labor Relations Development Program, the Mission will contract a financial analyst, who will work closely with all implementing institutions to ensure compliance with A.I.D. procedures and sound financial practices.

1. CAEM

USAID funds have supported, and will continue to support under the Trade and Labor Relations Development Program, a large percentage of CAEM's activities. Since the PED project began in 1987, approximately 10% of CAEM's revenues have been generated from membership fees, with the remaining funds coming from the PED project. Under the new program, USAID will continue to fund a high percentage of CAEM's operating and program costs, with current estimates showing USAID support of 75%. CAEM's past record of counterpart contributions combined with projections of future membership revenue make it fairly certain that CAEM will be able to provide, in-cash or in-kind, at least 25%, and more likely 30%, of total program and operational costs.

Under the PED project, CAEM has received $2 million to support office operations, technical assistance and training over the past five years. It is the only institution under the PED project that will have fully expended its funds by the original PACD of August, 1992. Funds originally targeted for the Financial Chamber (CAMFIN) under a sub-agreement with CAEM have been transferred back to CAEM as well, bringing the total amount of USAID funds that will be executed by CAEM under the PED project to $2.6 million.

Under the Trade and Labor Relations Development Program, CAEM will receive $1 million over four years, a significantly lower level of support than that received under PED. Because CAEM has successfully executed a higher level of project funds, there is no question that existing staff and computer resources are adequate to manage funds under Trade and Labor Relations Development Program.

CAEM has been receiving 90-day advances of project funds under the PED project. This system will be continued under Trade and

Labor Relations Development Program; as a non-profit organization with low cost-recovery potential, CAEM does not have adequate reserves to operate or carry out project activities without these advances. As far as audits of project funds, $25,000 has been set aside in the project financial plan to cover the USAID-percentage of costs associated with annual recipient-contracted audits for CAEM.

Due to the developmental and often intangible nature of CAEM's activities (such as policy reform support and analysis), it is difficult for the organization to attain greater cost recovery through fees for services. USAID will work with CAEM to potentially establish a small endowment from local currency generations from the ESF policy reform agenda to cover a portion of recurring costs. Ultimately, CAEM will continue to operate after the termination of Trade and Labor Relations Development Program funding, albeit at a reduced level of program activity.

2. Gremial

From the PED and Highlands Agricultural Development Support (HADS) projects, Gremial has received $6.8 million in funding over the past five years. The Trade and Labor Relations Development Program will provide approximately $ million over four years, on a declining annual basis, to cover the Gremial's basic operational and program costs. An additional $ million will be provided for a technical assistance and training contract. Since Gremial has successfully executed higher levels of USAID funding in previous years, it is not expected that the Gremial will have any problems in managing the level of resources proposed under the Trade and Labor Relations Development Program.

Gremial recently underwent a rigorous financial certification process, at the end of which the Gremial is expected to receive Mission certification on the adequacy of their financial management procedures (expected August, 1992). This analysis highlighted the existence of minor weaknesses in the timeliness of presentation of vouchers to USAID and oversight of financial and accounting staff. During the next year, the financial analyst will work closely with the Gremial to resolve these weaknesses; it is also expected that in the upcoming reorganization, the Gremial will strengthen the monitoring of the accounting and finance division.

Gremial has steadily been executing approximately $1 million of funds from USAID projects over the past four years, while at the same time increasing cost recovery. In 1991, Gremial had a cost recovery rate of 13% of total program costs. This year, cost recovery will reach nearly 38%. To build upon this positive trend, assistance under the new program will be based upon the Gremial achieving greater self-sufficiency by the end of project assistance in 1996.

In April of this year, an analysis was carried out to determine if it was realistic to assume that the Gremial could indeed become self-sufficient in this time frame. For this analysis, self-sufficiency is being defined as executing an acceptable level of quality activities, with diversified funding sources. In the Gremial's case, sources would include membership fees, service charges for training, technical assistance and other activities, donor support or other outside funding, and interest generations from an institutional endowment. The analysis concluded that the Gremial had the necessary prerequisites for greater self-sufficiency: orientation to its constituency, an active membership expansion program, a strong role in the private sector and institutional will and commitment.

Before receiving funding under the new program, the Gremial will be required to present a self-sufficiency and financial plan to support their efforts to achieve greater self-sufficiency, the Mission will provide funding to the Gremial on a declining basis. At the same time, the Mission will provide a local currency endowment, generated from ESF policy reform disbursements, the interest of which will be available for Gremial program and operational costs. With the implementation of its plan for self-sufficiency and the interest from this endowment, the Gremial will be able to sustain its operations by year four of Trade and Labor Relations Development Program, albeit at a slight reduction from its current level of operations.

As in the case of CAEM, the Gremial will continue to receive 90 day project advances. Funds for annual recipient contracted audits have also been included in the overall financial plan. Gremial will be required to contribute at least 25% of total operational and program costs. Projections based on the declining funding levels described above and on cost-recovery potential show that the Gremial in reality will contribute closer to 50% of total program costs.

For the technical assistance and training and IESC contracts, the Gremial will contribute, on average, 50% of overall program costs, or $1.3 million, for a total counterpart contribution overall of $3.7 million. This again is based on projections of future cost-recovery rates and an analysis of historically what Gremial members have been willing to pay for technical assistance services. It is expected that these projections will be substantiated and refined when a membership survey of the Gremial is conducted in the fall of 1992.

3. Ministry of Economy (MOE)

The Ministry has received $940,000 under the PED project. Implementation of this project component has historically been very slow, due mainly to personnel turnover in the MOE, but the rate of execution has improved dramatically in recent months. After five

years of project execution, only about half of this funding has been committed or expended.

Since the MOE's financial management and procurement procedures have not been certified by the Mission, the Mission has been directly handling procurement of all goods and services under this grant agreement. The MOE has been drafting terms of reference, handling informal competition of contracts for services and negotiating salaries, following AID procedures. Actual drafting, execution and payment of the contracts has been handled by the Mission. It is expected that these same procedures will be followed for the DA funds provided to the MOE under Trade and Labor Relations Development Program.

Because of these procedures, the MOE will not directly manage more than $25,000 annually, and therefore is not required to conduct an annual recipient-contracted audit. Under the PED project, the MOE is required to purchase and install accounting software to track program funds. This has not been done to date because the MOE does not have the appropriate computer hardware. It is expected that the MOE will use PED project funds to purchase the required hardware and software. Based on this assumption, the MOE has already designated a Ministry accountant to handle the management of USAID project funds and tracking of counterpart contributions.

The MOE is not currently receiving project advances, and will not receive advances under Trade and Labor Relations Development Program because it is Mission policy not to give advances to GOG public sector entities. Due to this policy, the MOE is not required to have its financial management procedures certified by the Mission; this is only required for organizations receiving project advances.

The MOE has committed to the provision of $710,000 in counterpart contributions under the PED project. The Ministry of Finance annually allocates these counterpart funds to the MOE for program execution. Under Trade and Labor Relations Development Program, the $1 million from local currency generations related to ESF policy disbursements plus an additional $200,000 will represent the GOG's counterpart contribution to this program. USAID project funding will be used, for the most part, to support program costs, such as technical assistance and training, and not operational costs. The MOE contributions will cover these recurrent costs.

4. <u>Ministry of Labor (MOL)</u>

The Ministry of Labor has never received direct funding from USAID. Since the MOL's financial management and procurement procedures have not been certified by the Mission, the Mission will directly handle procurement of all goods and services under this grant agreement, as it is now doing for the Ministry of Economy. The MOL will draft terms of reference and provide suggestions for

contractors in informal contract competition, but the actual drafting, execution and payment of the contracts has been handled by the Mission. As such, the MOL will not receive advances under the Trade and Labor Relations Development Program.

The MOL has committed to the provision of approximately $1.2 million in counterpart contributions under the PED project. The Ministry of Finance annually allocates these counterpart funds to the MOL for program execution. Under the Trade and Labor Relations Development Program, the $1 million from local currency generations related to ESF policy disbursements plus an additional $200,000 will represent the GOG's counterpart contribution to this program. USAID project funding will be used, for the most part, to support program costs, such as technical assistance and training, and not operational costs. The MOL contributions will cover these recurrent costs.

TRADE AND LABOR RELATIONS DEVELOPMENT PROGRAM
A.I.D. Contribution
Illustrative Budget
US Dollars

	FY 94	FY 95	FY 96	FY 97	FY 98	TOTAL
MINISTRY OF ECONOMY						
A. Policy Reform Support						
TA National						
40 days/yr, 3 consult @$200	0	48,000	96,000	96,000	96,000	336,000
$1000 misc costs/study	0	2,000	4,000	4,000	4,000	14,000
2 studies-FY95						
4 studies-FY96-8						
Training - U.S.						
$500u/course; 5 part	0	25,000	25,000	25,000	25,000	100,000
C. Labor Relations						
TA National						
25 days/yr, 2 consult @$200	10,000	10,000	10,000	10,000	10,000	50,000
Subtotal	10,000	85,000	135,000	135,000	135,000	500,000
MINISTRY OF LABOR						
C. Labor Relations						
TA International						200,000
20 days/yr, 2 consult @$330	13,200	13,200	13,200	13,200	13,200	66,000
Overhead @ 110%	14,520	14,520	14,520	14,520	14,520	72,600
Travel: 2 @ $900	1,800	1,800	1,800	1,800	1,800	9,000
Perdiem: 26 days*2*$152	7,904	7,904	7,904	7,904	7,904	39,520
Local travel: 2 trips*2*$100	400	400	400	400	400	2,000
Materials	2,176	2,176	2,176	2,176	2,176	10,880
Training - 10 courses/yr						300,000
Instructor @$330*5 days*10	16,500	16,500	16,500	16,500	16,500	82,500
Overhead @ 110%	18,150	18,150	18,150	18,150	18,150	90,750
Perdiem: 7 days*$152*10	10,640	10,640	10,640	10,640	10,640	53,200
Travel: $900*10	9,000	9,000	9,000	9,000	9,000	45,000
Materials @ $571/course*10	5,710	5,710	5,710	5,710	5,710	28,550
Subtotal	100,000	100,000	100,000	100,000	100,000	500,000
CAEM						
A. Policy Reform Support						
1. Institutional Support - USAID will cover 75% of total operational budget						541,000
General Manager	22,527	25,906	29,791	36,260	0	114,484
Policy Analyst	18,628	21,422	24,635	30,330	0	95,015
Economist	12,228	14,062	16,172	20,597	0	63,060
Computer Analyst	6,892	7,926	9,114	12,482	0	36,413
Secretary	7,483	8,605	9,896	13,380	0	39,363
Secretary	3,347	3,850	4,427	7,091	0	18,715
Controller	10,190	11,719	13,476	17,498	0	52,883
Messenger	1,925	2,213	2,545	3,267	0	9,951
Cleaning	1,359	1,562	1,797	2,066	0	6,784
Office Space	6,792	8,151	9,781	11,737	0	36,462
Office Support Costs	13,592	15,631	17,975	20,672	0	67,870

	FY 94	FY 95	FY 96	FY 97	FY 98	TOTAL
CAEM						
2. Short term TA						
TA: National						54,000
20 days/yr, 3 consult @$200	12,000	12,000	12,000	12,000	0	48,000
$1500 misc costs/study	1,500	1,500	1,500	1,500	0	6,000
TA: International						175,000
24 days/yr, 2 consult @$328	15,744	15,744	15,744	15,744	0	62,976
Overhead @ 110%	17,318	17,318	17,318	17,318	0	69,274
Travel: 2 @ $936	1,872	1,872	1,872	1,872	0	7,486
Perdiem: 29 days*2*$152	8,816	8,816	8,816	8,816	0	35,264
3. Technical Training - U.S.						
$5250/course*5 participants	26,250	26,250	26,250	26,250	0	105,000
C. Labor Relations						
TA: National						
40 days/yr, 3 consult @$200	24,000	24,000	24,000	24,000	0	96,000
$1000 misc costs/study	1,000	1,000	1,000	1,000	0	4,000
Subtotal	213,462	229,546	248,111	283,881	0	975,000
Gremial						
A. Policy Reform Support						503,000
Technical Assistance						
Long-term Advisor	70,000	140,000	0	0	0	210,000
Year 1: 1/2 time						
Courses/forums @$7,000 each	0	28,000	28,000	27,000	0	83,000
4/yr FY 95-97						
Macro-economic studies						
70 days, 5 consultants @$200	0	70,000	70,000	70,000	0	210,000
B. Non-Traditional Export Development						
Institutional Support		70%	50%	30%		
Salaries	0	280,000	200,000	120,000	0	600,000
Communications/general servic	0	70,000	50,000	30,000	0	150,000
Materials and Supplies	0	28,000	20,000	12,000	0	60,000
Equipment/control systems	0	10,500	7,500	4,500	0	22,500
Building maintenance	0	28,000	20,000	12,000	0	60,000
General costs	0	7,000	5,000	3,000	0	15,000
Self-sufficiency plan	0	10,000	10,500	11,500	0	32,000
Staff Training						
10 courses/yr @ $5,000	0	50,000	50,000	50,000	0	150,000
TA: International		70%	50%	30%		
$315*50 days*2 consultants	0	66,150	47,250	28,350	0	141,750
Travel @ $945*3	0	5,954	4,253	2,595	0	12,801
Per diem:40 days*$152	0	38,304	27,360	16,416	0	82,080
Overhead @ 120%	0	79,380	56,700	34,020	0	170,100
Materials and Supplies	0	22,400	18,000	10,869	0	51,269
3 consultancies/yr						

	FY 94	FY 95	FY 96	FY 97	FY 98	TOTAL
Gremial						
Training: Local $10,000/course*5/yr	0	35,000	25,000	15,000	0	75,000
University Training Programs $5,000/program; 3/yr	0	10,500	7,500	4,500	0	22,500
Trade Fair Participation $10,000/fair*9/yr	0	63,000	45,000	27,000	0	135,000
Trade Information Center	0	49,000	35,000	21,000	0	105,000
ARF	200,000	140,000	100,000	60,000	0	500,000
PIIPA	100,000	70,000	50,000	30,000	0	250,000
C. Labor Relations Training @ $10,000/course 3 courses/yr	30,000	30,000	30,000	30,000	0	120,000
Technical Assistance 50 days, 2 consultants@$200	20,000	20,000	20,000	20,000	0	80,000
Subtotal	420,000	1,351,188	927,063	639,750	0	3,338,000
PROGRAM MANAGEMENT						
A. Financial Analyst	50,000	80,000	0	0	0	130,000
B. Program Assistant	7,025	17,250	19,838	22,813	26,235	93,161
C. Program Secretary	5,500	5,750	6,613	7,604	8,745	34,212
D. Program Manager	25,900	29,785	34,253	39,391	45,299	174,628
Subtotal	88,425	132,785	60,703	69,808	80,279	432,000

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	FY 94	FY 95	FY 96	FY 97	FY 98	TOTAL
MONITORING, EVALUATION & AUDITS						
A. Mid-Term Evaluation						55,861
25 days, 2 consult @$300	0	0	15,000	0	0	15,000
Overhead @ 110%	0	0	16,500	0	0	16,500
Travel: 2 @ $900	0	0	1,800	0	0	1,800
Perdiem: 14*2*$152	0	0	4,256	0	0	4,256
Report Preparation Costs	0	0	4,500	0	0	4,500
G&A @ 5% * Total Costs	0	0	2,103	0	0	2,103
Fixed Fee @ 10% *Total+G&A	0	0	4,416	0	0	4,416
Misc. @ 15%*Total+Fees	0	0	7,286	0	0	7,286
B. Special Studies						
Value Added Study						
25 days, 3 consultants @$200	15,000	15,000	15,000	15,000	0	60,000
Local travel: 3*14 days*$100	4,200	4,200	4,200	4,200	0	16,800
Maquila Study						
45 days, 3 consultants @$200	27,000	0	0	0	0	27,000
Local travel: 3*30 days*$100	9,000	0	0	0	0	9,000
20 days, 3 consultants @$200	0	0	12,000	0	0	12,000
NTE Data Analysis						
20 days*$216/day	4,339	0	0	0	0	4,339
40 days, 2 consultants @$200	0	0	16,000	0	0	16,000
Local travel: 2*$100*20 days	0	0	4,000	0	0	4,000
C. Audits	12,500	12,500	12,500	12,500	0	50,000
Subtotal	72,039	31,700	119,561	31,700	0	255,000

TRADE AND LABOR RELATIONS PROGRAM TOTAL						TOTAL
MINISTRY OF ECONOMY	10,000	85,000	135,000	135,000	135,000	500,000
MINISTRY OF LABOR	100,000	100,000	100,000	100,000	100,000	500,000
CAEM	213,462	229,546	248,111	283,881	0	975,000
GREMIAL	420,000	1,351,188	927,063	639,750	0	3,338,000
PROGRAM MANAGEMENT	88,425	132,785	60,703	69,808	80,279	432,000
MONIORING, EVALUATION & AUDITS	72,039	31,700	119,561	31,700	0	255,000
GRAND TOTAL	903,926	1,930,218	1,590,437	1,260,139	315,279	6,000,000

TOTAL BY INSTITUTION						
MINISTRY OF ECONOMY	10,000	85,000	190,861	135,000	135,000	555,861
MINISTRY OF LABOR	100,000	100,000	100,000	100,000	100,000	500,000
CAEM	219,712	235,796	254,361	290,131	0	1,000,000
GREMIAL	485,789	1,376,638	984,513	665,200	0	3,512,139
PROGRAM MANAGEMENT	88,425	132,785	60,703	69,808	80,279	432,000
GRAND TOTAL	903,926	1,930,218	1,590,437	1,260,139	315,279	6,000,000

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ECONOMIC ANALYSLIS

Introduction and Summary

Foreword

This report presents the preliminary results of the ex-ante economic and social analysis of USAID's Guatemala Trade and Labor Relations Development Program proposed for the period 1992-1995. An innovative aspect of this evaluation is that it is conducted while the design takes place, which will permit to incorporate the results of the evaluation into the design rather than merely rubber-stamping a set design. Because some of the design aspects are still under definition, an interim report is presented at this stage. The report will be finalized as soon as the design process is concluded.

Overall Economic Return

One of the direct results of the Sectoral Reform Agenda and the Trade and Labor Relations Development project activities will be increased non-traditional exports. To be economically justified, a program investment of $9 million would need to create an additional $1.1 million of exports per year, for an internal rate of return of approximately 12%.

Non-traditional exports have been growing at an annual rate of approximately $50 million, a trend that is projected to continue. Based on the policy changes undertaken in the Sectoral Reform Agenda and supportive policy reform activities implemented by the Gremial, CAEM and the Ministry of Economy, a more open trade environment will result, stimulating further exports. Technical assistance and training to non-traditional exporters will also enhance this growth. Taking current trends of growth of approximately 10% a year in the value of non-traditional exports, the internal rate of return for a $9 million investment will be 436%, well over the 12% required to economically justify the program.

Basing the analysis only on project activities contemplated under the Trade and Labor Relations program for a total of $6 million, if Gremial members maintain the same annual level of exports (now conservatively estimated at $269 million per year), the internal rate of return would be 4479%. The $269 million estimate of exports for Gremial members is conservative both because it does not take into account any growth in non-traditional exports, nor does it take into account all Gremial members. This figure was calculated based upon a 1992 sample of 50% of the

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Gremial's members, which showed that they were responsible for producing more than 60% of the non-traditional exports directed outside of Central America in 1992, equivalent to $269 million.

This measure alone, with only 50% of the Gremial's members (equal to 400 firms or 11% of the total number of non-traditional product exporters in 1992), shows a rate of return of 26700% for an A.I.D. investment of a little over $1 million in Gremial activities in 1992. If all Gremial members were included in the survey, the rate of return would be much higher.

If other factors were taken into consideration in determining the internal rate of return and economic benefits of the program, such as increased U.S.-Guatemala bilateral trade and increased foreign private investment in Guatemala, the rate of return would be much higher. Since all estimates only based on non-traditional export growth show rates of return far exceeding any calculations of interest rates, these rates of return are not calculated.

The above clearly indicates that the overall economic return of the project is likely to be very high. The focus of the economic analysis has been therefore not to concentrate on obtaining a detailed estimate of the IRR of the program itself but rather to rank its components in order of economic return[1], and to discuss accompanying measures which may increase the economic and social impact of the proposed activities.

Economic Analysis of Policy Component

Statistical Information Base

Before proceeding to describe the relevant socioeconomic aspects of Guatemala which pertain to the project, it is necessary to discuss the quantity and quality of the data available to support the analysis. Socioeconomic estimates in Guatemala vary greatly between sources, a symptom of the overall poor quality of available information. USAID/OEPA developed its own estimates which have been generally used in this study. They are reproduced in Annex 1.

Economic series on production, international trade and financial information are compiled by the BOG. Production data and national accounts are generated by yearly estimates of the BOG, mostly on the basis of interviews with a number of business organizations and government entities. Little primary information is available to the BOG for this exercise In addition, some of the methods used in the preparation of tables are erroneous[2]. The overall quality of this data is therefore very dubious. Notwithstanding, its fluctuations seem to reflect the state of the economy.

Trade information is gathered by the BOG from two primary sources. The first is Customs which send to the BOG all export and import documentation on a daily basis. While unavoidable errors surely

occur[3] the information is generally acceptable. It is however incomplete because it doesn't include the maquila trade (companies active under decrees 443, 30-79, 80-82, 21-84 and 29-89) which is not recorded by customs, because both imports and exports are duty free[4]. Another source of trade information is the banking sector. Currently exporters have to surrender their foreign exchange proceeds to the BOG through the banking sector. To ensure compliance, exporters are requested to obtain an export permit before they are allowed to ship their goods. The exporter must later sell the hard currency earned from the sale to the BOG in accordance with the amount registered on the permit, or provide the BOG with a documented explanation of why the shipment did not generate the expected amount of foreign currency. Thus export sales can be measured through foreign currency income in the balance of payments. In this case maquila industry is included but not Central American trade which is apparently exempt from the export permit requirement. A combination of customs and banking trade statistics should therefore adequately describe export performance. Imports are presumably underestimated, since maquila purchases escape recording.

Balance of payments information is provided by the commercial banks to the BOG and by the BOG's own records. It generally does not coincide with IMF estimates. Since the latter have been used by AID/OEPA, they are also used in this analysis.

Guatemalan population is estimated based the last census which was conducted in 1981. The data supporting this estimation is poor and the conduct of a census could yield to substantial adjustment in the population estimate. The most comprehensive source of social indicators is the 1989 national sociodemographic survey. This survey presents some valuable information although the data processing often does not address adequately the needs of this analysis[5].

A large number of studies were consulted as listed at the end of this document. Given the time allocated to this analysis the results of these studies are generally accepted here unless specific contradictory information is obtained. In all cases sources are cited. Because of the above mentioned data limitations all figures used here have been rounded.

In summary this analysis unavoidably suffers from data deficiencies. It appears that the statistical data base does indicate the state of the country's economic and social progress to the extent that positive numbers reflect an increase in the perceived economic well being and business confidence in Guatemala while negative numbers the opposite. It is suspected however that rather than describing the underlying causes for these perceptions, the data in fact is generated to support them.

Overall Description

Guatemala's 1991 Gross Domestic Product (GDP) was estimated at 47 billion of Quetzals which at a Q5 per US$ exchange rate translate to US$ 9.4 billion. The population is estimated at 9.7 million so the GDP per capita is slightly under $1000 per capita, similar to Nicaragua, Honduras and El Salvador and roughly half of that of Costa Rica and Panama [OEPA estimates].

As was the case for all Latin American economies, Guatemala suffered severe setbacks in the early 1980s from which it hasn't totally recovered in the sense that the 1991 estimated GDP per capita is still lower than what it was in 1980 [1992 USAID/LAC Economic and Social Data p 110].

The major economic sectors are agriculture and commerce generating each about a quarter of GDP. Industry is next with 15% followed by transportation (8%) and public administration and defense (7%) [1990 BOG Memoria p 45]. The BOG does not report dramatic changes in the structural composition of GDP (figure 1) since 1951, but this could be more the result of the estimation technique than fact.

In 1990, private consumption, government consumption, private investment and public investment represented 84%, 7%, 10% and 3% of GDP respectively. Exports and imports amounted to 20% and 24% of GDP [1990 BOG Memoria p 41]. Guatemala is thus a relatively open economy.

Structure of the Agricultural Sector

Agricultural production (excluding livestock) was estimated at US$ 1.6 billion for 1990, 62% of which were the traditional export crops[6] (coffee, bananas, sugar, cardamon and cotton), 15% towards the production of basic crops (corn, beans and potatoes), 14% in horticultural products and the rest going to other products of internal consumption, either direct or industrial [1990 BOG Memoria p 47].

Livestock production for the same year was estimated at a little under US$ 790 million [1990 BOG Memoria p 46].

In 1991 exports of traditional agricultural products generated US$ 595 million; horticultural products US$ 39 million; meat exports US$ 26 million; sesame US$ 22 million; flowers, plants and seeds US$ 20 million; and fruit and derivatives US$ 17 million for a grand total of US$ 719 million (excluding exports to Central America). In 1987 these figures were of US$ 640 million for traditional crops; US$ 19 million for horticultural products; US$ 16 million for meat products; US$ 15 million for sesame; US$ 12 million for flowers, plants and seeds; and US$ 8 million for fruits and derivatives, amounting to US$ 710 million [1992 BOG International Trade Statistics cuadro 7]. Thus while overall exports from agriculture remain fairly constant, non-traditional exports are progressively gaining in importance through a very high growth rate. It should be noted that this growth did not take

place at the expense of traditional exports but in addition to them. Indeed the loss in value of traditional exports was more due to a deterioration in prices than decreases in production.

Exports of agricultural products to Central America for 1991 estimated at around US$ 35 million [estimated from 1992 BOG International Trade Statistics cuadro 16].

Because the value of exports includes items not produced in the agricultural sector (packaging, transportation to FOB, etc.) the export statistics cannot be directly compared with production statistics. It can be inferred from the above figure however, that around 30% of agricultural production in value is eventually exported.

In 1989 agriculture generated 1.4 million jobs, about 50% of the country's total, 1.3 million for men and 100 thousand for women [1989 Sociodemographic Survey Vol II, pp 58-59]. The median income for farmers was of about Q 100 per month or US$ 35. Available data is not detailed enough but it appears that women's median income in the same category was 25% lower [1989 Sociodemographic Survey Vol II p 63].

The major agricultural regions in Guatemala are the South Coast and the Highlands. The South Coast is characterized by an abundance a good land (42% of the country's class 1 and class 2 land is located in the south coast departments) [Land Tenure in Guatemala p 88], by large farms devoted to cattle farming, and cash crop production using hired labor on a seasonal basis. The Highlands are characterized with a large number of very small size often located on more marginal land, which typically cannot feed the farmer's family. As a result many of the farmers in the Highlands migrate as seasonal laborers to the South Coast area, or even leave the villages altogether to Guatemala City or other urban centers. The pressure on the farming community in the Highlands is exacerbated by the fact that the highest population growth rates are registered in those areas.

Structure of the Industrial Sector

In 1990 industrial production was estimated at US$ 3.35 billion divided into 58% agroindustry, 36% manufacturing and 6% chemical and non-metallic mineral products [1990 BOG Memoria p 50].

The industrial sector generates some 390 thousand jobs with a strong participation of women (170 thousand) [1989 Sociodemographic Survey Vol II pp 58-59]. Median income for "artesanos and operarios" used here as a proxy for manufacture employees was of about Q 200, twice that of agriculture. However, median income of women in that category was of only Q 100, a full 50% lower [1989 Sociodemographic Survey Vol II p 63].

Industrial exports are increasing at a rapid pace,similar to non traditional agricultural products. In 1987 they could be estimated at US$ 176 million. They reached US$ 278 million in 1990 and US$ 350 million in 1991.

Industrial activity is heavily concentrated in and around the Guatemala City, in particular almost all large industrial concerns are located there.

Monetary Environment

Guatemala has already undertaken a large number of major reforms which have favored international trade and investment. In particular, foreign currency can now be purchased through an auction system, tariffs have be brought down from previously astronomical levels, export taxes have been eliminated and restrictions on imports and competition are progressively being eliminated. Guatemala has been rewarded for these measures by renewed growth, brought about in part by large increases in non-traditional exports. On the other end direct foreign investment is still stagnant, at a little under $100 million per year, pointing to the lack of confidence of foreign investors.

Similar to most countries in the region, the monetary and financial environment has been plagued by inflation, Quetzal overvaluation, and accompanying state control of foreign exchange transactions and interest rates. With the economic liberalization of the end of the decade, the situation has improved significantly. On the other hand, the GOG still needs to improve its policy environment. As the following discussion will demonstrate, improvements in this area are still reacquired before investors in productive assets will find the necessary stability in Guatemala.

Recently, the GOG attempted to limit inflation by raising interest rates payable on instruments known as CENIVACUS and CDPs. The response was overwhelming judging from the inflow of foreign capital. The net flow of private sector funds to the Guatemalan financial markets (i.e. not linked to imports, exports or direct investment) was of US$ 899 million roughly equal to half the value of imports for the year, and foreign exchange reserves grew by US$ 536 million in 1991 at a time the trade balance registered a US$ 649 million deficit [OEPA estimates][7]. Thus also it did "sterilize" some of the money in the economy the policy really resulted in contributing to a progressive overvaluation of the exchange rate and the creation of huge losses at the Bank of Guatemala. Worse, the overvaluation of the exchange rate penalizes exports while high interest rates divert savings from productive investments to financial ones.

Financial Environment

The problem created by the CENIVACUS can be attributed in part to the inefficient financial sector currently operating in Guatemala.

Although the sector includes a large variety of institutions including the stock exchange, it is overwhelmingly dominated by commercial banks which constitute 90% of the sector by most measures [IDB Private Investment Diagnostic Study p 19]. Commercial banks in Guatemala are not commercial banks according to the US definition of the term. They are the financial division of integrated conglomerates of companies active in the financial and other sectors. Therefore their objective is to collect the funding necessary to the conglomerate at the lowest possible cost, as opposed to maximize profit on their commercial banking operations. This is made possible by a cartelization of the existing banks combined with restrictions to entry for new competitors. For a long time, this situation was assisted by the government which was fixing the interest rates on deposits and on loans so that the cartel was law. The liberalization of interest rates was therefore a crucial step in the development of an efficient financial sector.

It was not sufficient however. Commercial banks were offering very negative interest rates to depositors, which they were lending to members of their conglomerate at slightly less but still negative interest rates. Part of the Government's response was the creation of the CENIVACUS which offered a high interest alternative to the depositor. However in order for the Government to create an element of competition in the financial sector it had to produce a very large quantity of these instruments at interest rates it couldn't afford. The objective was achieved in the sense that the banks eventually raised their rates to depositors, but as mentioned above the cost to the Government exporters and to investors in the productive sectors of the economy was very high and has yet to be paid.

One solution to the existing cartel in the banking sector is to multiply the types of financial institutions and instruments available. This would will introduce competition for both depositors and lenders, offering them a variety of choices to fit their specific needs. The danger of such a solution is that it requires a level of supervision that the GOG probably cannot afford. As seen in the case of the US Savings and Loans, competition in the financial sector requires expensive government supervision to be efficient[8]. Given the current capabilities in the GOG it seems unlikely that it will be able to achieve the necessary level of supervision in the near future.

The Legal and Regulatory Environment

The legal and regulatory environment (LRE) is described in detail in other reports proposed during the design of the Trade & Investment Program. From an economic and social standpoint, the most important limitations are:

- inadequate legislation in specific cases;

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- the lack of transparency in the LRE and the too high level of discretion left to the regulators; and

- the reliance on control and arbitrary indices to ensure enforcement of the law.

The first point is addressed in detail in the reports by IMCC and Rodriguez, Archila, Castellanos Solares & Aguilar. All of the improvements suggested are necessary since they will harmonize the Guatemalan legal and regulatory framework with that of the industrialized world, facilitating new investment to the country.

The second point has serious economic and social implications. In effect, the legal system treats people according to different standards, decided upon by the assigned judge or political authority. This typically implies a disadvantage to new entrants into the economy, whether they be foreigners or local, and will dissuade many to enter into productive activities altogether or at a minimum will force them to protect themselves against a legal risk they otherwise wouldn't face, increasing cost. There is no immediate solution to this problem. However activities reinforcing the civil and commercial legal system similar to the ones undertaken under USAID sponsorship for the penal system would go a long way in increasing the economic and social impact of this program in the long run. From the experience gained in the penal system reform, the most efficient course of action is the training of officials in key positions affecting business, in the uniform and transparent application of laws and regulations. These would include employees at the income tax administration, customs and central bank in particular. From experience elsewhere, it may also include the training of business people in the key aspects of the legislation, since arbitrary judgements are more difficult to render upon informed parties.

The third point expresses itself by the reliance on the licensing of legal operations as opposed to investigation and punishment for enforcement. The most obvious example affecting the export sector is the existence of the "Ventanilla Unica de Exportaciones". Since export taxes have been removed the Ventanilla's purpose is to ensure the repatriation of dollars generated from export sales. In the current environment, most exporters whose normal place of business is Guatemala would want to repatriate their earnings, unless the Government engaged in distortionary monetary policy. The only advantage to not repatriating funds would be to escape income tax.

The Ventanilla Unica requires the exporter to declare the value of its export shipment. Because of the tax evasion problem, the GOG's assumption is that exporters cannot be relied upon to declare the correct price of their goods (they will under-invoice to keep money abroad). The GOG therefore proposes to estimate the value according to "international prices in the place of destination" [Article 53 of the new income tax law as per a GEXPRONT document]. Such prices however exist only in economic research, not in

reality. Prices often change because of the actual quality of the good once it has arrived, the quantity shipped. the negotiating power of the exporter at that specific point in time etc., and therefore are never equal from shipment to shipment. To operate, the system requires a cumbersome reconciliation between the price actually paid and that stated on the export license. Because it is unlikely that Central Bank employees can master the intricacies of the various pricing conditions for over a thousand items in that many markets, it is unlikely that the GOG can actually achieve much control over actual sales price through this system. The administrative costs linked to the system however, are significant to both the GOG and the exporters. In addition, the Ventanilla Unica and forced sale of foreign exchange system, imply that exporters need to transfer money back to Guatemala with every sale, convert it into Quetzales, reconvert some into US$ and transfer these amounts back out in order to purchase the inputs necessary to their production. In our estimate, the costs associated to this system (including the administration of the Ventanilla itself) could easily reach 1% of the value of exports or US$ 100 million per year. For a much lesser amount the Government could investigate a few suspicious cases and heavily fine and/or jail the offenders which would probably be a more successful deterrent against tax evasion than the current system.

The Infrastructure Sector

Infrastructure in Guatemala is often blamed as a bottleneck for export and trade development. However the recent Nathan Associates study commissioned by USAID concluded that although the transportation sector could benefit from improvements it wasn't a constraining bottleneck at present. This conclusion is confirmed by a look at the infrastructure available in other Caribbean basin countries. As described in the paragraphs below, although Guatemala's infrastructure must be improved, it isn't yet behind that of its competitors.

Guatemala has three major ports in operation. Puerto Sto. Tomás del Castillo on the Atlantic has decent productivity rates and tariffs, and has been increasingly privatizing its operations and improving their efficiency. Puerto Barrios is essentially dedicated to banana cargo and is operated by the banana companies themselves. Finally Puerto Quetzal on the Pacific coast is a modern port well designed, but with very low traffic levels at present.

The road sector has suffered from a lack of investments in the last decade. The network has essentially been the object of routine and emergency maintenance operation with little new highway and rehabilitation work. To date, the major export corridors are in fair condition. The main problem with the network lies in the high cost associated with emergency maintenance rather than a bottleneck to export. On the other hand, the concentration of investment and maintenance works on the major export corridors may constitute a

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barrier to the development of export and investment activities in new areas.

The power sector has been increasingly deficient over the last few years. The lack of investments coupled with recent droughts cause an increasingly large number of power shortages and cuts, which affect economic activity. On the other hand the same phenomenon is affecting most countries in the region, so it is unlikely that investment will migrate to better endowed neighboring countries. And the experience of the Dominican Republic demonstrates that business can fairly quickly equip itself with independent power generation systems which usually create more an environmental problem than an economic one. It should be noted however that insufficient power supply does prohibit the installation of some industries requiring large amounts of electric power such as plastics.

In the infrastructure, the telecommunications subsector is the most inadequate in comparison with other Central American countries promoting trade and investment. There is a large pent-up demand.

A number of privatization initiatives are being contemplated presently. Such initiatives have proven valuable in other countries especially in certain infrastructure subsectors. Operations at ports and airports such as loading and warehousing are excellent candidates for privatization and the GOG has already undertaken a number of initiatives in these areas. Telecommunications and electric power generation should be next, since these also have given good results in other countries. On the other hand private investment in civil works (physical port facilities, such as breakwaters and general cargo piers, highways, airport runways, etc.) should be approached with more caution. Typically such operations require investments with a pay back period of over 20 years. The share of the private sector portfolio available for such long term investments is probably very small in Guatemala. In addition many of the problems linked to the government supervision of such investments in terms of the quality of the infrastructure being developed have not been solved in many countries as of yet. Given the limited manpower capabilities in the GOG, it seems more appropriate to follow the conservative approach of publicly financed civil works at least until the financial sector has achieved a higher level of maturity.

Although the infrastructure sector isn't yet a bottleneck, it could become so if the growth rates in export and investment keep up. The GOG should therefore continue to plan for future expansion, and improve and rationalize its maintenance systems.

The Environment and the Economy

Some economists argue that current economic analysis is inadequate because it assigns no value to changes in natural resource stocks. They recommend the incorporation of natural resources into the cost

benefit analysis by including the loss (or gain) of natural resource stock linked to a project. Others prefer to leave the economic analysis as is because objective values for most natural assets are hard to come by since there are is no real markets (and therefore prices) for them. In the latter approach the environmental issue is dealt with separately through an environmental impact assessment.

A few considerations are proposed here which indicate that if the natural resources were incorporated into the economic evaluation, the economic worth of the T&I project would probably increase.

Two major natural assets are at stake in the case of this project: forests and water resources.
Deforestation has taken place at a rapid pace in Guatemala. By now, and with the possible exception of the Peten area, virtually all forests on good (Class 1) agricultural land have already disappeared. Because non-traditional agricultural export production will only take place in Class 1 lands and not in the Peten area, they are not likely to be associated with any additional deforestation. On the other hand, deforestation currently takes place on marginal lands, usually with significant slope, as a result of the despair of many farmers in increasing their land holdings. By increasing off-farm employment possibilities and by increasing the productivity of better agricultural land partly through increased labor input per acre, the program will decrease the pressure on new marginal land. Therefore the net capital value of the forest stock will be higher with the T & I program.

The same logic applies to water resources. The same forests on marginal lands are crucial to the sustainability of many of the country's watersheds. If the program slows down the deforestation process, water resources should benefit. A second impact on water resources is the use of agrochemicals which often have a polluting effect on the water resources. Although it could be argued that the project encourages input intensive agriculture, it is more likely to enhance productivity by substituting domestic oriented input intensive agriculture with export oriented one. This is because most non-traditional agricultural export production will take place on Class 1 land where chemical inputs are already in use. Since chemical controls are a lot more stringent on export products, overall chemical use might actually decrease.

Discussion

The Guatemalan socioeconomic framework is undergoing a very rapid and dramatic transition. On the one hand the economy is opening to trade and investment from an increasingly large number of players in an increasing number of fields. Non traditional agricultural production and export manufacturing more than doubled in a four year period.

Though impressive in its growth rate, this phenomenon has yet to significantly affect the overall socio-economic situation since the relative size of these activities compared to the total economy was small at the outset.

In contrast Guatemala is facing a rapidly deteriorating social situation, in particular in the Highlands, where the land potential has been exhausted but where population growth remains extremely high. As a result, the opening of the economy has yet to positively affect social indicators such as unemployment which remain stubbornly in the 35% range [1990 BOG Memoria p 35].

As explained, many of the inhabitants of the Highlands already must rely on outside income since the farms they own cannot support their families. As will be discussed later in the social soundness analysis, the types of jobs created by export oriented industries and agriculture have a favorable impact on the employees. In this respect the project is going to have a positive impact on the standards of living of many beneficiaries with few if any negative impacts. To maximize this impact however, the project should strive to encourage a better geographic dispersion of the non-traditional export farms or industries. This can be done in a number of ways. For instance, the GOG might consider the maintenance of fiscal incentives for new enterprises locating themselves in the highlands, at least 50 to 100 kilometers from Guatemala City[9]. Also the project should encourage its participating institutions to be more active in promoting industries outside Guatemala City.

The capabilities of the GOG in terms of revenue and qualified manpower are very limited and will remain so during the life of the project. In addition, the GOG has already undertaken the "obvious" steps in the necessary liberalization of its economy. Further steps will require increasing levels of sophistication in the underlying analysis before decisions can be made[10]. Also the importance of data collection will become more important. In a controlled economy, Government can get by with a minimum amount of data since it is effectively in control of all its aspects, including the political process. In a liberalized economy, Government needs to observe and understand events in order to prevent major economic crisis, and the only tool at its disposal to do so is the gathering of reliable indicators. Failure to do so can result in serious economic downturns which can ultimately jeopardize the democratic process. The GOG capabilities in economic analysis are already limited, and will quickly be outstripped by the demands placed on it. Technical assistance in policy analysis and data collection would certainly contribute to a better policy environment provided it is accepted by the authorities as a positive reinforcement.

Another important aspect of the current policy environment is its constantly changing nature. These changes are likely to continue during the life of the project. One of the principal characteristics of the project will therefore be the inclusion of

dynamic and flexible elements which will allow both its private sector and government partners to adjust their activities according to the above mentioned developments.

A key element to the continued improvement in the economy will undoubtedly be the financial sector. As shown above, an inadequate financial sector can result in severe macroeconomic distortions affecting both trade and investment. Projects such as the one currently being prepared by the Interamerican Development Bank aiming at the creation of a true financial system including the regulation and supervision aspects will eventually alleviate this constraint. This cannot be fully achieved in five years however. The immediate success of the present project will partially depend on adequate transitional measures in the financial sector. A suggestion in this respect is to import financial stability and competition from abroad. By facilitating and encouraging the installation of reputable banks and insurance companies from well supervised foreign countries, the government would create a competitive environment which is currently insufficient[11]. By restricting entry to institutions which are properly supervised overseas, the government will insure depositors against major losses to a large extent. In the present situation, the multiplication of financial institutions will rapidly outstrip the GOG's supervisory capabilities and major scandals will certainly occur. The GOG will soon face the political obligation of bailing out defrauded depositors at a time it is trying to limit its expenditures and spend more on capital infrastructure.

Economic Analysis of the Project Component

Introduction

The Project Component will support four Guatemalan institutions. The support will focus on three key elements: (1) policy reform support; (2) business assistance; and (3) trade and investment promotion.

Policy Reform Support

The program's assistance to support policy reform will build upon the past achievements of USAID in this field. On the private sector side the GEXPRONT plays a key role in advocating policies which strengthen trade development in the country. The GEXPRONT has a strong policy analysis capability and reviews all existing and new laws which may affect the sector.

CAEM support the program's objective by conducting further analyses and presenting a wider private sector view to the GOG. CAEM will support improvements to the legal and regulatory environment. It

has also been active in the fields of demonopolization and privatization and will continue to do so in the future.

On the Government's side, the Ministry of the Economy prepares monetary and local policies and draft economic legislation affecting trade and investment. The program will strengthen their capability the necessary analytical processes, including data collection. The previous discussion on monetary policy and the social need for regional dispersion of investment clearly indicate the importance of this assistance.

The policy related improvements are the ones with the highest returns overall. Moreover, it is well known that accompanying support such as business assistance and trade and investment promotion can only succeed in a positive policy environment. Therefore this component ranks first in the project assistance priorities.

Business Assistance

The program will provide business assistance in the form of in-plant, management or marketing technical assistance (TA) to businesses who engage in new exports and/or investments. Especially in the case of foreign investment, this element would include assistance in legal and regulatory issues as well.[12]

This assistance will be provided according to specific rules aimed at maximizing its impact:

- for TA to take place the beneficiary business will need to clearly identify its objective and demonstrate to a certain level of certainty that this objective is achievable. In many instances this will include the demonstration of the existence of a buyer for the final product, who will preferably participate in the preparation of the product's specifications before the delivery of the TA, thus ensuring that it focusses on real bottlenecks.

- the TA will be delivered for a fee. Experience has demonstrated that charging a fee is one of the best ways to ensure a program is on track and has an impact, since recipients will only pay for something that is really useful to them.

- The results of the TA will be continuously monitored by return visits. These will permit to further adapt some of the mechanisms for the provision of TA based on the real conditions at the time.

The direct result from the TA activities will be increased exports. The cost of this component will be of US$1.5 Million. Using the value added to exports as measure of benefits, the component needs to generate US$330,000 per year in additional exports to be

economically justified. This is very likely to occur. For example one of the contracts resulting from the buyers program under PED resulted in a US$ 2 million contract (hard candy). The Backward Linkages Program in the Dominican Republic generated US$1 million in direct sales in its first operational year.

An increase in exports of $1 million per year directly attributable to this component is thus realistic. This would result in an IRR of 50% for this element.

Trade and Investment Promotion

The program will continue the support to GEXPRONT in promoting exports from Guatemala by financing some of its trade promotion activities such as participation in trade fairs and assistance to exporters in dealing with international regulations.

An AID/Washington sponsored study[13] recently concluded:

- Promotional institutions provide services that are highly valued by the firms receiving them, particularly in the agricultural sector.
- Promotional institutions provide an attractive rate of return to AID's investment, conservatively estimated on the order of 25 percent in real terms.
- Despite the benefits generated at the firm level, the total impact of promotional programs on nontraditional export performance at the national level is generally not dramatic.

These results indicate that this component is of a lesser order of importance than the previous two. Nevertheless it should result in an acceptable IRR.

The argument for continuing support in this area is the same argument made for advertising. A lot of developing countries are expanding promotional efforts to promote their exports, many of which compete against Guatemala. Thus many of Guatemala's efforts in this field are essential to maintaining the country's market share. The investment of a portion of the T&I program in promotional efforts is therefore justified since it constitutes one element of a well balanced strategy.

INSTITUTIONAL ANALYSIS

A. Public Sector

1. Ministry of Economy (MOE)

Below the Ministerial level, responsibility for the various functional areas (composed of 13 directorates) of the MOE are divided among two Vice-Ministers, both of whom are political appointees, with one controlling directorates related to international and Central American issues and the other controlling the domestically-related and administrative directorates. The MOE currently has approximately 450 employees.

Activities with the MOE under the new Trade and Investment Sector program are derived from the role it plays in defining national trade and commercial policy as well as its position as the chair of the National Export Council (CONAPEX). CONAPEX is composed of five public sector entities (MOE, Ministry of Agriculture, Ministry of Finance, Bank of Guatemala and Ministry of Foreign Affairs) and five leading private sector institutions nominated by CAEM, and is designed to promote Guatemalan export growth through a public-private partnership. The Gremial has played an active role in the Council.

New Trade and Labor Relations Project Activities activities will support the MOE directorates that play important roles in promoting exports, employment, and investment. These will include, but are not limited to, the Directorate of Industrial Policy, the Directorate for Economic Integration, the Directorate for Foreign Trade, the Directorate of Commerce and the Commerce and Industry Registration Offices. Since the MOE is currently going through, with USAID support, a personnel and organizational restructuring, to increase its efficiency, it is difficult to define what the final organizational structure will be and precisely which directorates will be receiving assistance. However, it is likely that the MOE will be reorganized into three functional areas: 1) science and technology, 2) industrial development and foreign trade and 3) regional integration, with the bulk of Trade and Labor Relations Development Program assistance targeting area number 2. The MOE has also played a pivotal role in the creation of the One-Stop Investment Window, which is designed to reduce processing time for registration from over 360 days to less than 5 and in the operation of the One-Stop Export Window, both of which will also receive support under the new program.

After an initially slow rate of implementation due to staff turnover in the Ministry, assistance to the MOE under the Private Enterprise Development (PED) project has begun to show results over the past few months, with a number of studies in progress. These include studies to improve the efficiency of Ministry operations, to streamline applications processing under the Free Trade Zone Law and Maquila Law, to assess legal changes required to bring Guatemala's intellectual property rights legislation in line with world class standards, and to review the status of worker's rights. Although the MOE has begun emphasizing export development and the creation of a more liberalized trade regime, existing staff are not well qualified to carry out the trade reforms and new administrative procedures that will permit free trade and investment in Guatemala. Training and technical assistance will be provided to MOE staff to strengthen their capacity to conduct trade negotiations, address international pressure on Guatemala's position on intellectual property rights and worker's rights legislation, meet Guatemala's commitments under the GATT and formulate and implement other policy reforms related to a liberalized trade environment. Staff turnover is an ever-present risk in the MOE and has often slowed project implementation. The Mission will attempt to establish contacts and working relationships, to the extent possible, with career Ministry employees to encourage program continuity.

Because the procurement and financial management practices of the MOE have not been certified under the current PED project, the Mission has been facilitating, approving, and directly paying for the procurement of all goods and services. Current Mission policy is to not give advances to GOG organizations; as such, the MOE has not been directly managing any A.I.D. funds, and therefore does not require A.I.D. financial certification. TIO proposes to continue this approach to financial management and project procurement under the new program.

2. Ministry of Labor

The Ministry of Labor has historically been one of the weakest and least powerful government institutions in Guatemala. It has, until this year, always received the lowest budget allocation of any other ministry and has been marked not only by a lack of budgetary resources but of qualified human resources as well. The Ministry is charged with three basic responsibilities: 1) providing direction and administration of Guatemalan labor policy, 2) enforcing labor laws, especially those aspects related to relations between employers and employees and 3) coordination, enforcement and improvement of social welfare.

Based on a recognition that the Ministry as it was structured had not been able to meet these responsibilities and that improving labor legislation, labor relations and enforcement of the labor code were crucial elements to the continued overall economic growth of Guatemala, the GOG increased the Ministry's budget and the Ministry itself has begun, with UNDP assistance, a modernization /

reorganization / decentralization process designed to increase efficiency, improve staff capabilities and expand national coverage.

The Ministry is organized into four departments: Department of General Labor, Labor Inspection, Social Welfare and Department of Recreation. The Department of Recreation, although currently housing more than half or about 330 of the Ministry's employees, is not substantively connected to activities under the Trade and Labor Relations program, since its function is to maintain national recreation areas. The Department of General Labor is responsible for employer/employee relationships, setting of salaries, protection of workers, employment and employment programs. The Labor Inspection Department is responsible for managing the labor registry, investigation and inspection programs, resolving individual employee/employer disputes, approval of company employment policies and prosecution of violations of the labor code. The Department of Social Welfare is responsible for programs to improve the safety of the workplace and to protect the health of workers and for the implementation of pilot projects for the social welfare of rural communities.

3. The Bank of Guatemala (BOG)

The Bank of Guatemala, which functions as the state-owned Guatemalan central bank, has responsibility for the design and implementation of monetary, credit, financial and exchange rate policies. In addition to ensuring the solvency and functioning of the national banking system, the BOG is responsible for curbing domestic inflation, maintaining the external value and convertibility of the local currency, administering foreign reserves and safeguarding Guatemala's competitive position in the international market.

Although the analytical capability of the BOG is better than that of most other public sector institutions in Guatemala, additional technical training is warranted, especially in financial analysis and accounting, to bring the BOG up to date in how to operate in a progressively deregulated environment. As the commercial banking sector expands and becomes more complex, the quality and type of analysis carried out by the bank will have to improve as well.

The BOG currently offers a well-regarded financial training program for its employees, non-bank employees and other Central American central bankers. Although it recognizes the need for expanded training, budgetary constraints prohibit the BOG from expanding and upgrading its training program on its own. Assistance under the new Trade and Investment program will allow the BOG to develop training courses relevant to a more open financial environment and an increasingly liberalized trade regime.

B. Private Sector

1. The Entrepreneurs' Chamber (CAEM)

CAEM is a non-political, nonprofit organization formed by the chambers and associations of the Guatemalan private sector in 1981 to capitalize on the benefits under the Caribbean Basin Initiative and to promote policies that accelerate economic development. Membership currently includes the Chamber of Industry, the Chamber of Commerce, Chamber of Finance, Agricultural Association and Association of Sugar Growers, representing more than 75 different trade groups and thousands of individual private sector businesses and agricultural operations. The Chamber of Tourism is currently considering rejoining CAEM as well.

CAEM's operations are run by a general manager with a staff of 15, who reports to a ten-member Board of Directors. The Board is comprised of two representatives from each of the member chambers and associations, and is elected annually. CAEM is supported by membership dues, shared on a 30/70 basis with CACIF, the political lobbying arm of the private sector. As a representative of private sector interests, CAEM functions as a think tank and liaison organization between the GOG and the Guatemalan business community, focusing on policy analysis and advocacy. Issues CAEM has been involved with include privatization, financial market development and regional economic integration. CAEM also has been supporting the Investor Services Center, which provides information to potential investors, produces promotional material and hosts trade delegations.

Under the ongoing Private Enterprise Development (PED) project (520-0341) and the prior Private Sector Coordination project (520-0337), CAEM has proven that it can effectively meet the needs of the private sector and efficiently manage resources. Under the PED project, originally stringent AID administrative procedures were relaxed based on the proven ability of CAEM to comply with required regulations. In addition, it is expected that CAEM will receive formal USAID certification of its financial management practices in August, 1992.

To meet its more focused role in policy analysis and formulation under the new program, CAEM plans to strengthen the technical capabilities of its in-house staff by hiring a lawyer/policy reform advisor and an economist, and reducing the number of administrative support personnel. CAEM's administrative staff had been increased under the PED project, due to its anticipated role as the channeler of PED resources to the private sector. The new Trade and Investment Sector program will assist CAEM to definitively establish itself as the voice of the private sector in trade and investment and economic development policy issues.

2. Guild of Non-Traditional Exporters (Gremial)

Hierarchically, the Gremial is one of many private sector organizations under CAEM. The Gremial is a nonprofit trade

association of the Chamber of Industry, founded in 1982 to develop and promote non-traditional exports in the agricultural and manufacturing sectors. The Gremial's promotional activities target both the micro and macro level. On the micro level, the Gremial provides services directly to exporters to develop and promote products through sector-specific Commissions. On the macro level, the Gremial works with the GOG to encourage more favorable export policies and to encourage better infrastructure development. The Gremial serves as a voice for the collective opinions of its approximately 800 members.

Gremial operations are managed by a general manager and executive director, who report to a biannually elected ten-member Board of Directors, made up of representatives from each of the six sector-specific commissions and from the Western and San Pedro Sacatepequez branch operations. The six sector-specific commissions include Agriculture, Furniture and Wood Products, Textile Assembly, Manufacturing, Aquaculture and Handicrafts. The 55 staff members of the Gremial are divided into three units: an operational unit, an administrative unit and a strategic unit. The operational unit provides support to the product specific commissions, in trade promotion, training and technical assistance, trade information and investment promotion, while the strategic unit works with the National Export Council (CONAPEX), houses the Transport Rate Negotiating Office, and coordinates Guatemalan trade offices in the U.S. and in Germany, represented by a trade promoter in Miami as well as by the commercial attaches in the Guatemalan embassies.

The Gremial has successfully managed a range of USAID projects, including currently the Private Enterprise Development (PED) project, and the international marketing component of the Highlands Agricultural Development (HADS) project (520-0274). In addition to providing institucional support, HADS project assistance supported the creation of a unique agricultural research fund requiring matching funds from the private sector and the creation of a cooperative unit within the Ministry of Agriculture to disseminate information on phyto-sanitary regulations. In the mid-term evaluation of the PED project, the Gremial emerged as the best performing and best managed organization supported under the project. It is expected that the financial management practices of the Gremial will receive formal USAID certification in August, 1992.

In April, 1992, Gremial underwent a sustainability analysis to determine how the organization could become self-sufficient by the end of new Trade and Investment Sector program assistance in 1996. In order to develop a plan for self-sufficiency, the Gremial will be working over the next year on a market survey of their membership to determine service demand and pricing levels, an organizational restructuring to improve operational efficiency and a long-term financial plan. One of the conditions for disbursement under the new program will be the presentation of this self-sufficiency plan, as well as a revised budget. Trade and Labor

Relations Development Program will support the continuation of the Gremial's service provision to its members, including training, technical assistance, and promotion, as well as encourage overall institutional development to ensure the sustainability of the Gremial after program assistance is completed.

SOCIAL SOUNDNESS ANALYSIS

1. Socio-Cultural Context

Guatemala has long engaged in export-oriented production with traditional products including cotton, coffee, cacao, and sugar cane. The production of traditional exports can no longer absorb the labor force available. Unemployment and underemployment are endemic in most regions of the country. Falling prices for traditional exports on international markets are further exacerbating the problem. The market for coffee, for example, is the lowest it has been in thirty years in real terms. In addition, employment opportunities associated with these products are highly seasonal and may be available for periods as short as a month, but rarely exceed more than six months of a year.

Over the last two decades, per capita income levels have been dropping as well. For example, using wages from 1980 as the base value, the real value of 1988 minimum wages declined 10%. When 1970 wages are used as the standard, in 1980 Guatemalans were earning a minimum wage that was worth approximately 85% of that value, but by 1988 had declined to 62%.

Rural unemployment and underemployment are contributing to a continuing influx of labor from rural to urban areas. Estimates from 1988 indicate that approximately 40% of the population of Guatemala now lives in urban settings. In comparison with 1950, this figure represents a 13% increase in the urban population, as a percentage of the total population.

Urban migration is both a symptom of rural underemployment and a contributing factor to increased levels of urban unemployment. It is associated with escalating urban crime rates. 1982 estimates indicate that nearly one third of all urban employment in Central America was in the informal sector -a sector characterized by its limited income generating ability- and all the more recent indicators suggest that it is a sector that continues to grow. At the same time, Guatemala's 1989 sociodemographic survey suggests that women predominate in the informal sector, all too often because of the lack of other viable alternatives.

As the T&I Sector program achieves its purpose, investment in Guatemalan industries and export is expected to expand. Concomitantly, the number of employees needed to produce and market those exports, as well as the skills they master, is expected to increase along with rising sales and profits. Employment opportunities generated through the processing of fresh agricultural products have been and are likely to continue to be located in rural areas, though transportation and communications

will remain a factor limiting the regional dispersion of such activities. Much the same can be said for the *maquila* operations. Each of the non-traditional export options potentially addresses the issues of unemployment and underemployment, dissuades urban migration, may direct capital into rural areas, and contributes to the generation of foreign exchange.

2. Direct Project Beneficiaries

Direct beneficiaries can be identified at several levels, each associated with different T&I program components. Foreign and domestic investors will have greater confidence in the system in which their investments are made as a result of the reformed policy environment. Because the trade and regulatory reform includes the reduction of tariff barriers, the population-at-large will be able to purchase products at greatly reduced prices. The proposed removal of licensing practices will enable producers to sell their products more competitively in international markets, and consumers will benefit from a wide array of choices.

As administrative and managerial personnel improve their skills, both, through business assistance and through the development of new markets, should be more motivated to upgrade those of their workforce, as well as the quality of the products they produce. Those firms whose product type and quality prove viable in the export market are more likely to demand business support services as varied as international couriers, bilingual secretaries, and financial and insurance agents, thus further increasing the diversity and sophistication of the country's economy.

Certain firms will excel within a market-oriented environment. Others without the interest or capacity to do so will be forced to reorient or withdraw from this more competitive environment. Moreover, as macroeconomic policy reforms are put in place, industries producing for a formerly heavily protected domestic market will be faced with external competition and possibly be forced out of business. To the extent that the project facilitates upgrading the quality levels and the cost competitiveness of their products, however, they will remain sources of employment and will produce for export instead of, or as well as, the more limited domestic market. At the same time, more efficient sectors and new, more competitive industries are likely to emerge as resources are redirected to more productive uses. Recent studies show that Guatemalan industries oriented towards export markets are labor intensive and prefer women to men as their primary source of labor for processing and assembly. For example, assembly operations and garment industries are noted for their particularly heavy reliance on female labor that in some instances exceeds 90%. Agro-industry and raw-materials-based processing use predominantly female labor in certain phases of production and processing. Women are often preferred for tasks such as sanding and varnishing wood products or handling easily bruised fruits and vegetables. As women become

more numerous in the workforce, their capability to negotiate higher wages will increase.

Finally, the workforce-at-large should benefit in a number of ways. First, as their basic and specialized skills are upgraded, workers should find themselves in ever greater demand and therefore able to negotiate higher wages. As discussed previously wages are about twice as high for men in manufacture as opposed to agriculture and 50% higher for women. Because non-traditional exports tend to favor female employment, the program will contribute in reducing the salary gap between genders. Second, firms interested in protecting their investment in their workers' training and experience and unwilling to further escalate wage rates should turn to expanded worker benefits. Access to basic health and medical services should be standard, but additional fringes such as family members' access to those services, transportation to and from work, subsidized food services, day care, and worker credit unions and savings programs should become increasingly available.

3. Indirect Project Beneficiaries

Indirect beneficiaries include families and dependents of the export production, marketing, and trade and investment workforce. Whether and how those family members benefit, however, depends on several factors.

The surest strategy to ensure that family members, and especially children, are indirect beneficiaries is to hire women with children as participants in the labor force. To the extent that women with children or other dependents are non-traditional export industry employees, their children and dependents are likely to be indirect beneficiaries. Children and other dependents of male household heads may be indirect beneficiaries. The income of single individuals, male or female, without children, is least likely to significantly affect indirect beneficiaries, but is very likely to be spent.

Businessmen and their workforce who are "indirect" exporters, that is, those who produce goods used by those firms actually engaged in export production, will also benefit. Examples of such indirect exporters include agricultural producers, and manufacturers of cans, glassware, and pulp for packaging material.

The society-at-large will also benefit. Increased economic resources will be available as more and more persons are employed on a full-time permanent basis, thus contributing to increased stability in the country.

4. Socio-Cultural Feasibility

The T&I Sector program is a feasible and timely program. The timing is opportune to support the liberalization of Guatemala's

trade and investment regimes, given the favorable policy orientation of the newly elected government, the present linkage and dialogue between the public and private sectors, and the United States Government's interest in promoting hemispheric free trade under the Enterprise for the Americas. The T&I Sector program is drawing on recently revised macroeconomic policy to directly manipulate sectoral level policies that affect trade and investment in Guatemala, reinforced by the project activities component.

From an institutional perspective, the endowment provides the basis for the GEXPRONT, to provide producers with continuing access to development programs and services.

At the entrepreneurial level, production for export is a high-risk challenge for national and international business leaders. It means competing not only locally where competitors may not exist, but internationally, where the competition is experienced and extensive. At the same time, the limits of domestic markets coupled with the potential for success and profit make exporting an appealing option. This project can help reduce the risk and increase the likelihood for success of agricultural and industrial export production.

At the societal level, Guatemala is approaching a saturation point in its ability to absorb its own productive workforce. Unless the production focus expands to tnnarget new international markets, unemployment and underemployment are likely to intensify and social unrest is likely to increase, particularly in the face of macroeconomic policy adjustments.

Within specific areas of expertise in non-traditional export production, the T&I Sector program facilitates domestic producers' access to and heightens their competitiveness in international markets. It supports the institutions that enhance their managerial, technological, and informational skills, thus providing a basis for their products to consistently meet world standards.

5. Impact

First, the T&I program will promote sustainable domestic export production by insuring a favorable trade and investment regulatory policy environment, reducing tariff barriers, and removing licensing requirements.

Second, with the expansion of production and marketing of non-traditional products, increased rural industrialization will increase employment opportunities in rural areas thus ebbing the flow of both more skilled and less skilled migrants to urban areas. To the extent that export production opportunities provide challenging, permanent employment to those with better access to resources and higher levels of education, it could encourage persons with those characteristics to remain in rural areas rather than migrate. Conversely, because of the labor-intensive nature of agro-industrial production, it should provide increased

opportunities to those with scarce material or human resources and few employment options to draw upon.

Third, increased employment opportunities in light manufacturing, and agricultural and raw materials-based processing can be expected to provide a substantial number of employment opportunities for women. Depending on the location of the workplace, increasing employment options for women is important for different reasons.

In urban areas a lack of employment alternatives often forces women into the informal sector. The opportunities generated through Trade and Labor Relations Development Program are more likely to be full time and permanent. To the extent that women are given equal access to, or even preferred for, these jobs, they are likely to benefit. Moreover, unpartnered female household heads are more likely to be found in urban areas. When they are hired, not only they but also their children benefit from their more dependable income.

In rural areas, employment opportunities for women are particularly scant. Women who engage in agricultural field work usually do so because they have no choice. Those women who do have a choice either migrate or choose not to work. Women are generally preferred for value-added agricultural processing activities. Providing employment options to women locally should contribute to lessening the migration and increasing the financial resources available in rural areas.

In short, a program whose purpose is to increase trade and private investment in Guatemala will generate increased employment opportunities that are likely to pay at least the minimum wage, and be full-time permanent positions, provide heretofore unavailable options for women seeking employment and reduce urban migration.

6. Labor Issues

Much attention has recently been focused on Guatemalan export industries, particularly the textile assembly or *maquila* industry, because of charges of alleged labor code violations. Alleged abuses include below minimum wage salaries, demands for unremunerated overtime, and the employment of children under 14 years of age without their parents' consent. Some of these charges are probably true, although the Guatemalan private sector feels that they reflect conditions found in a minority of enterprises, or are otherwise condoned by the society-at-large as a necessary requirement for survival of marginal population in developing countries.

In any case, the Trade and Labor Relations Development program will limit the occurrences of abuses in three ways. Firstly, the presence of foreign advisors on factory floors will make it more difficult for companies committing abuses since they are more likely to be reported. Secondly, the program will make law abiding

firms more competitive, thereby diminishing the necessity for abuse as a cost cutting device. Finally the program will increase the awareness of the negative impact of labor abuse, for companies and countries, in the international market and what it signifies in terms of lost sales.

1. This will permit prioritization under budgetary limitation.

2. For example it appears that the value added of production was calculated on the basis of coefficients established in 1958. Such coefficients cannot possibly have any relevance today.

3. In particular it appears that BOG staff has to input information by reading from the fifth copy of the bills of lading, at which point it is hardly legible.

4. This reflects the overall problem with statistical information in Guatemala. Because no entity has been truly empowered to oversee statistical data collection, there is no authority guiding the transmittal of information between Government entities. The Central Bank is doing most of this gathering by default.

5. For example no disaggregation between indigenous and ladino population is made although it was included in the questionnaire, and businesses employing more than 10 employees are lumped into one category making it impossible to distinguish between medium and large enterprises.

6. Note that some of these products are consumed or processed locally so the value of export needs not be equal to the value of production for these products.

7. Additional data supporting the theory that the CENIVACUS mostly absorbed transfers from overseas is presented in Figure 3. Money supply was of Q 9 billion early 1991 and Q 15 billion by the end of the year. Inflation (35%) and GDP growth (3.2%) would explain an increase in money supply to Q12.5 billion. The Q2.5 billion is equal to US$500 million which is in the same order of magnitude than the financial transfers from abroad estimated by OEPA.

8. This is due to the fact that one of the premises of the efficiency of competition - perfect information - does not hold true in the case of depositors in the financial markets.

9. Across the board fiscal incentives to exporters will have to be eliminated since it contravenes GATT.

10. Economic policy gains do not escape the law of diminishing returns. it will become progressively more expensive to design policy changes which will achieve benefits similar to those obtained in the past.

11. In truth this is not a perfect solution as the BCCI scandal demonstrated. The BCCI was under the supervision of the Bank of England.

12. Though not legal counseling.

13. Export Promotion and Investment Promotion: Sustainability and effective Service Delivery

Annex L: Monitoring and Evaluation Plan

I. Introduction

Provided below is the initial monitoring and evaluation plan proposed for the Trade and Investment Strategic Objective which was prepared with the assistance of Randolph Lintz from AG International Consulting Corporation. This M&E Plan will form part of the Mission's Program Performance Assessment System (PPAS).[1] This plan was prepared in close consultation with the Mission's Office of Trade and Investment (TIO) and the Office of Rural Development (ORD) together with other relevant USAID staff and representatives from various Government of Guatemala (GOG) agencies and nongovernmental organizations. This M&E plan reflects the results of lengthy discussions with the potential implementors of the program, and the consensus reached amongst Mission staff as to the viability of the various outputs and indicators delineated below. This document represents a first draft of the Mission's program and project-level outputs and indicators, which will be refined during the early stages of the Trade and Investment Sector Program's implementation.[2]

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[1] PPAS is a strategic systems approach to program planning and assessment which encompasses two elements: first, strategic planning, by identifying program-level strategic objectives (defined as a development undertaking within the Mission's manageable interest which leads to impact in the medium-term that is measurable and which can be reported on) using an objective tree methodology; and second, program assessment through the identification of performance indicators which is the system's means of verification. The building blocks of the PPAS are program outputs and their respective indicators for measuring progress towards strategic objective achievement. This strategic systems approach is intended to assist A.I.D. Missions to: 1) focus its strategy and concentrate its resources on key country development problems; 2) demonstrate how projects, nonproject assistance and policies relate to a program strategy; 3) place emphasis on results; and 4) assess and report on its program.

[2] This document is a condensed and slightly revised version of Mr. Lintz's report. Please contact TIO if you would like to review the full report entitled "USAID/Guatemala Trade and Investment

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II. Managing Information at the Strategic Objective, Program Output, and Project Levels of the Mission's Trade and Investment Strategic Objective

Information, evaluation and reporting needs of the Trade and Investment Strategic Objective are reviewed below for each monitoring and evaluation level of the Trade and Investment Strategic Objective's Program Performance Assessment System. Graphically, the Trade and Investment Strategic Objective's PPAS can be visualized as a four-tier structure as depicted on the following page.

In Sections A through F that follow, performance indicators are delineated at the strategic objective level, the program output level, and at the level of three ongoing Mission project activities which are to be incorporated into the Trade and Investment Sector Objective. Included within each of these sections are discussions of: 1) conceptual and methodological issues and assumptions relating to the choice of specific indicators; 2) a description of any data gaps that may exist with regard to specific indicators; 3) a description of the data set(s) required for monitoring and evaluation and their source(s); 4) an explanation of special study requirements that may exist which would facilitate more accurate measurement of the impact of the T&I Sector Program specific to particular components; and 5) the Mission Office(s) responsible for data collection and funding source(s) for T&I Sector Program M&E activities.

Following these discussions of multi-level performance indicators, Section IV will present specific recommendations for: 1) a detailed management plan which assigns responsibilities for periodic collection and incorporation of both project and program level data, as well as data from other sources, into a data-based system; and 2) an appropriate computerized data-based program performance informational system for the monitoring and evaluation of the Trade and Investment Strategic Objective's progress and impact.

Program Monitoring and Evaluation Plan".

USAID/Guatemala Strategic Objective Number One
Increased Trade and Private Investment

Strategic Objective Indicator 1	Strategic Objective Indicator 2	Strategic Objective Indicator 3
Increase in United States-Guatemala Bilateral Trade	Increase in Private Investment	Increase in Foreign Exchange Earnings from Expanded Production and Marketing of Nontraditional Exports

Program Output 1	Program Output 2	Program Output 3
A More Open Trade Regime	A Sound Investment Environment	Increased Competitiveness of the Nontraditional Export Subsector

Project Activity 1	Project Activity 2	Project Activity 3
Expansion of Nontraditional Agricultural Exports	Increase in Small Coffee Farmer Income by Increasing Production, Productivity and Product Quality	Expansion of the Network of All-Weather Farm-to-Market and Tertiary Roades to Provide a Better Transportation System

A. Strategic Objective Level Performance Indicators

Table 1 is an illustrative means of monitoring the achievement of the Mission's first Strategic Objective with regard to the Latin America and Caribbean Bureau's Objective of "Support[ing] the Achievement of Broadly-Based, Sustainable Economic Growth" which in the Guatemalan context has been designated as "Increased Private Investment and Trade". Three indicators have been chosen to measure implementation progress and program impact. These are:

- Increase in Foreign Exchange Earnings from Expanded Production and Marketing of Nontraditional Exports from US$399.8 Million at End-1991 to US$727.7 Million at End-1997;

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- Increase Private Investment from US$953.0 Million at End-1991 to US$1,390.7 Million at End-1997; and

- Increase in Value of United States-Guatemala Bilateral Trade from US$1,820.9 Million at End-1991 to US$4,292.7 Million at End-1997.

Table 1 also designates yearly targets for the attainment of these increments in foreign exchange earnings from nontraditional exports, private investment and the value of bilateral trade. The targets for foreign exchange earnings are based on projections of annual growth in nontraditional exports developed by the International Monetary Fund which forecasts growth of 10 percent per annum for the 1992-94 period and 11 percent per annum thereafter. Projections for private investment and bilateral trade are based on historical annual average growth rates of 6.5 percent and 15.4 percent, respectively. The methodology employed and assumptions made are described in the following section.

1. Conceptual and Methodological Issues and Assumptions

As currently envisaged, the Trade and Labor Relations Development Program will largely consist of a policy agenda with the GOG and support to selected nongovernmental organization to advocate for legal and regulatory reforms at the national level to achieve, *inter alia*, improvements in the administration of export and investment incentives, maintenance of a favorable macroeconomic climate, and more aggressive pursuit of foreign capital and markets. In addition, the Trade and Labor Relations Development Program will encourage consensus building through a wide range of activities aimed at developing an "exporting mentality", garnering support of business, government, labor and academic interest groups, and restructuring roles and responsibilities of public and private sector institutions providing vital services to exporters. These USAID/Guatemala-financed activities are intended to attain the Mission's strategic objective of increased private investment and trade as measured by the aforementioned indicators.

As is the case with most development programs, the Trade and Labor Relations Development Program presents the Mission and external evaluators with the problem of attribution. Specifically, one cannot attribute with any reasonable degree of certainty future outcomes of individual trade policy reforms, legal and regulatory

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Table 1
Strategic Objective Number 1: Increased Private Investment and Trade
(millions of U.S. dollars)

Strategic Objective Performance Indicators	Baseline 1991 Value [1]	Target End Year 1993	Actual End Year 1993	Target End Year 1994	Actual End Year 1994	Target End Year 1995	Actual End Year 1995	Target End Year 1996	Actual End Year 1996	Target End Year 1997	Actual End Year 1997
1. Increase in Foreign Exchange Earnings from Expanded Production and Marketing of Nontraditional Exports	399.8	488.7		532.1		590.7		655.6		727.7	
2. Increase in Private Investment	953.0	1,081.0		1,151.2		1,226.1		1,305.8		1,390.7	
3. Increase in United States – Guatemala Bilateral Trade	1,820.9	2,423.5		2,795.8		3,225.4		3,720.9		4,292.7	

[1] Data Sources:

Foreign Exchange Earnings from Nontraditional Exports: Principales Estadisticas Cambiarias y de Comercio Exterior de Guatemala. "Ingreso de Divisas Por Exportaciones, Clasificados por Producto". Banco de Guatemala

Private Investment: Estudio Económico y Memoria de Labores. "La Actividad Económico Nacional, Inversión Geográfica Bruta", Banco de Guatemala

United States-Guatemala Bilateral Trade: National Trade Data Bank, U.S. Department of Commerce, Economics and Statistics Administration, Office of Business Analyis

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reform and other interventions envisaged by the T&I Sector Program without having understood and predicted them, and one cannot predict these outcomes without some kind of broad conceptual model of Guatemala's macroeconomy and where it is going, with and without the package of reforms and interventions that are being advocated. As such, it is highly recommended that an analysis be conducted to assess the potential impact of the T&I Sector Program. This analysis should include the estimation of changes in export and import elasticities which are the consequence of various reform measures and other interventions in the sector. The resulting elasticities could then be employed to measure the potential impact of a range of policy and legal and regulatory reforms which would lead to the realization of the Mission's strategic objective of increased trade and private investment.[3]

In the absence of such analysis, one should, at the very least, attempt to employ a less rigorous methodology along the following lines: first, assert a future timepath for the economy and choose certain indicators of trade and investment absent the reforms and other interventions; second, predict the relative magnitude of the impacts of the prescribed reforms; and finally, make attribution on the basis of the a *priori* predictions and estimated magnitudes.

Lacking access to this analysis at the present time, this M&E Plan must rely on projections of the external sector that have been conducted by other donors or the international lending agencies, or on much less reliable projections of the external sector based on it historical performance.

The only readily available source of projections of Guatemala's external sector is the International Monetary Fund's (IMF) most recent medium-term balance of payments outlook. These forecasts are developed annually during the IMF's Article IV consultations with the Guatemalan authorities.[4] Although the IMF's projections do not take into account the specific package of reforms and interventions envisaged by USAID/Guatemala's T&I Sector Program, they do, nevertheless, assume that the GOG will undertake a series of reform measures and thus serve as the only reliable basis for developing proxy targets for the Mission's strategic objective during the planning period. The IMF's June 1991 report provided projections of the medium-term balance of payments covering the period 1992-96 under the assumption of the implementation of a sustained and comprehensive stabilization program *which USAID/Guatemala can influence with its Trade and*

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[3] Two econometric models currently exist which could carry out the types of simulations suggested. One has been developed by the Asociación de Investigación y Estudios Sociales (ASIES) and the other is the GTZ-funded macroeconomic planning model housed in the Secretaria General del Consejo Nacional de Planificación Económica (SEGEPLAN).

[4] International Monetary Fund, Staff Report for the Article IV Consultation. Washington, D.C., June 10, 1991.

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Investment Sector Program. These projections are based on the following specific assumptions of actions to be taken by the Guatemalan authorities: a sharp reduction in the rate of inflation to a level compatible with that of its major trading partners (about 5 percent during 1993-96); a gradual increase in real GDP growth from 3.5 percent in 1992 to 5 percent in 1996; and a buildup of liquid reserves from US$300 million (equivalent to 2.25 months of imports in 1992 to about US$680 million (equivalent to 3.25 months of imports) in 1996. The projections for the 1992-96 period also assume that throughout the period: 1) the overall budgetary position of the nonfinancial public sector would remain in balance; 2) the real effective exchange rate would be maintained at a competitive level; and 3) that domestic interest rates would be positive in real terms. Furthermore, it is assumed that price projections through 1996 for the major primary export products and oil prices are based on the International Bank for Reconstruction and Development's World Economic Outlook commodity price forecasts. In particular, the price of coffee is projected to rise by approximately 6.5 percent in 1992.

Based on this series of assumptions, Table 2 illustrates the IMF's performance projections for both traditional and nontraditional exports during the 1992-96 period.

Table 2
IMF Projected Growth of Exports
(Percentage Change)

	1992	1993	1994	1995	1996
Exports	7.5	8.6	9.6	11.4	10.1
Traditional	5.3	7.3	9.2	11.8	9.3
Nontraditional	10.0	10.0	10.0	11.0	11.0

On the basis of these forecasts, it is further assumed that an 11 percent rate of growth of nontraditional exports will be sustained through 1997.

The reader is cautioned, however, that attainment of these projections is a function of complete compliance with the baseline assumptions and to date, coffee prices have not risen by the amount envisaged by the IMF and interest rates are not yet positive in real terms.

With regard to investment indicators, each of the components of private investment[5] estimated on an annual basis by the Banco de Guatemala (BOG) are valid indicators to monitor. The BOG

[5] The Banco de Guatemala does not distinguish between domestic and foreign direct private investment.

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disaggregates private investment into six components: imported capital goods, domestically produced capital goods, permanent crops, physical land improvements, private construction, and changes in inventories. Although initial consideration was given to the deletion of the land and/or construction component on assumption that these might largely reflect hedges against economic uncertainty, it appears that for Guatemala, capital flight is a much better hedge and land and construction, as related to the expansion of export capacity in nontraditional subsectors, are in fact valid indicators to follow. Although the removal of residential and commercial facets of the land and construction components would improve upon these indicators in the context of direct correlation with increased export capacity, this disaggregation is not readily available from the Banco de Guatemala.

The forecast for private investment expansion during the Mission's 1992-97 planning period is based on this indicator's historical growth rate since Guatemala began its economic recovery from recession in 1986. During the 1986-91 period, private investment increased at an annual average rate of 6.5 percent in nominal dollar terms.[6] The fact that the 1986 base year also coincides with the initiation of the dismantling of the country's trade and investment constraints further justifies the use of this period as a basis for forecasting investment expansion during the 1992-97 period. It is suggested that this indicator be tracked as a separate value rather than as a proportion of gross domestic product (GDP) since the denominator of such a ratio, i.e., GDP, is, subject to numerous exogenous factors well beyond the control and manageable interest of USAID/Guatemala. The reader is warned, however, that application of the historical rate of growth of private investment to the 1992-97 period is merely informed speculation. More importantly, even if private investment does continue to increase at levels approaching those of the recent past, one will not be able to state with any degree of certainty the degree to which the Trade and Investment Sector Program contributed to that growth.

The lack of projections of United States-Guatemala bilateral trade by the U.S. Commerce Department or other U.S. Government agency also necessitates the use of historical growth rates in order to derive projections for the 1992-97 period. The dollar value of United States-Guatemalan bilateral trade (exports + imports) grew at an average annual rate of 15.4 percent during the 1985-1991 period. If one assumes that the same annual rate of growth will be maintained during the 1992-97 period then the value of bilateral trade would increase from US$1,820.9 million at end-

[6] See Appendix E for a description of the procedure used for developing this projection.

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1991 to US$4,292.7 million at end-1997.[7] Again the reader is cautioned that use of such a projection methodology is not ideal and is subject to the same caveats regarding attribution already mentioned above.

2. Data Gaps

The quantity and quality of official GOG data to be used for monitoring and evaluation of the T&I Sector Program are highly variable. In particular the economic time series relating to production and international trade as compiled by the Banco de Guatemala leave much to be desired.

a) Production and National Accounts Data

Production data and national accounts are generated by yearly estimates of the BOG and are largely based on interviews with a number of business and GOG entities. Little primary information is available to the BOG for this exercise and as a result, some of the methods used in the development of these data are erroneous. In particular, the BOG calculates the value of the various components of the country's national accounts, including private investment and GDP, and the value added of agricultural and industrial production on the basis of coefficients derived for 1958, the Central Bank's base year, which cannot possibly have any relevance today. As such, the overall quality of this data is questionable to say the least. Notwithstanding, as long as biases in data collection and construction remain stable, i.e., no one changes the coefficients during the life of the T&I Program, valid conclusions can still be drawn from the BOG's time series data relating to GDP, private investment and value added.

b) Export and Import Data

Trade information is gathered by the BOG primarily from the Guatemalan Customs Service and the country's commercial banking sector. The Customs Service sends the BOG all FOB (free on board) export and CIF (cost, insurance and freight) import documentation on a daily basis. Although errors are, no doubt, unavoidable, particularly with regard to bills of lading which the BOG receives in the form of a fifth copy which can be barely legible, the information is generally acceptable. However, the Customs Service data is incomplete owing to the fact that it inexplicably fails to include FOB and CIF trade data from approximately 672 firms involved in *maquila* and other industrial activities benefitting from Guatemala's export incentive laws, specifically Decretos 443, 30-79, 80-82, 21-84 and 29-89. For this reason, overall import data reported by the Customs Service is presumably underestimated to a considerable degree.

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[7] See Appendix F for a description of the procedure used for developing this projection.

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A more reliable source of export data is the country's commercial banking sector. All exporters are required by statute to surrender their foreign exchange proceeds to the BOG through the banking sector. To ensure compliance, exporters must obtain an export permit before they are allowed to ship their goods. Foreign exchange is then sold against the values indicated in these permits. The reporting of the foreign exchange value of Guatemalan trade is identified by export type and can be used as a more statistically reliable source of the value of Guatemalan exports. However, this source of information is also flawed. The foreign exchange value of the exports (including *maquila* and other incentive industry exports) recorded by the banking sector excludes all but a fraction of the value of Guatemalan trade with Central America. It appears that the majority of exports to these neighboring countries are exempt from the export permit requirement. A combination of FOB exports to Central America as reported by the Guatemalan Customs Service, and the foreign exchange value of exports to Central America as reported by the banking system should, therefore, adequately describe overall export performance in Central America.

The absence of data regarding the value of imports of the nearly 700 *maquila* and other special incentive industries which is not reported to the BOG by the Guatemalan Customs Service can apparently be corrected by comparing it with the value these firms' exports to the United States, the primary export destination of *maquila* output. The discrepancy between the imported value of these goods as reported by the United States Customs Service and the foreign exchange export value of these same goods as reported by the Guatemalan commercial banks to the BOG should approximate the value of raw material and intermediate goods imported into Guatemala for assemble into finished export goods.

3. Data Sets and Sources

a) Foreign Exchange Earnings of Nontraditional Exports

Data relating to foreign exchange earnings of nontraditional exports is available on a monthly basis from the BOG's Departamento de Estadísticas Económicas, Sección de Estadísticas Cambiarias, in a publication entitled "Principales Estadísticas Cambiarias y de Comercio Exterior de Guatemala" under the section entitled "Ingreso de Divisas Por Exportaciones, Clasificados por Producto". The Bank of Guatemala classifies 111 products as nontraditional exports.[8] The major headings found in that listing are those that are found in "Principales Estadísticas Cambiarias y de Comercio Exterior de Guatemala".

b) Private Investment

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[8] A copy of this list is contained in Mr. Lintz's full report.

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The data to be used to track increments in private investment during the five year planning period is developed on an annual basis by the BOG and published in the bank's biannual publication entitled Estudio Económico y Memoria de Labores. The specific data base relating to the value of physical capital investment, (as distinct from financial capital), is found under the section "La Actividad Económica Nacional" as "Inversión Geográfica Bruta" and includes investments in the following items: domestic and foreign capital goods, in permanent crops, in land improvements, in construction, and in change in inventories. The Chief of the National Accounts Section of the BOG's Economic Statistics Department has indicated that these data could be provided to the Mission on an annual basis.[9] The previous year's data on private investment is available in June of the following year.

c) United States-Guatemala Bilateral Trade

Data relating to U.S. Exports to Guatemala and U.S. Imports from Guatemala are available on a monthly basis in CD ROM disk format which is provided to the U.S. Embassy's Commercial Section by the U.S. Department of Commerce.[10]

4. Special Study Requirements

As defined herein, "Special Studies" are those research efforts which would facilitate more accurate measurement of the impact of the specific components of USAID programmatic interventions related to the T&I Strategic Objective. These efforts would provide managers of programs under the T&I Strategic Objective managers with the basis to measure three particular aspects: first, to assess the relative efficacy of alternative actions to orient or reorient resources to the most successful interventions; second, to measure the impact of program actions specific to particular components that may be at an important turning point; and third, to measure the impact of interventions in terms of meeting key indicator targets.

Success in complying with AID/Washington's new standards for monitoring and evaluation and plans for tracking the implementation of the program's various activities are important now—they will count for little at the end of the strategic objective planning period. The difference between a relatively satisfactory and an excellent monitoring and evaluation effort lies in "Special Studies".

In order to measure the potential impact of the nonproject, policy-based activities under the Trade and Investment Sector

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[9] Lic. Orvaldo Méndez, Jefe, Sección de Cuentas Nacionales, Departamento de Estadísticas Económicas, Banco de Guatemala.

[10] National Trade Data Bank, U.S. Department of Commerce, Economics and Statistics Administration, Office of Business Analysis.

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Program on an analytical basis, it would be well to undertake a special study at the outset to define the baseline situation and to establish a strong analytic basis for estimating the T&I Sector Program's projected impacts.

5. Responsible Mission Office(s) and Funding Sources(s)

Specific responsibility for data collection lies with the Mission's Trade and Investment Office (TIO); collection activities are to financed with Trade and Investment Sector Program Funds.

B. Program Output Level Performance Indicators - Program Output Number 1

Table 3 is an illustrative means of monitoring the achievement of the first of three program outputs[11] under the T&I strategic objective. Designated as "An Open Trade Regime", five indicators have been developed to monitor progress in achieving this output of the T&I Sector Program:

- decline in a select number of remaining tariff barriers;
- decrease in width of the nominal tariff band;
- reduction of the incidence of a select number nontariff barriers;
- reduction in the time required to secure an export license; and
- Guatemala's compliance with the terms of its accession to the General Agreement on Tariffs and Trade (GATT).

[11] Program outputs are defined as those concrete, near-term results of Mission activities that are most likely to contribute to the achievement of a particular strategic objective, are directly attributable to Mission activities and which are suitable for monitoring and reporting at regular intervals (usually annually).

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Table 3
Program Output Number 1: An Open Trade Regime

Program Output Performance Indicators	Baseline Status/Value 1991	Actual End Year 1993	Actual End Year 1994	Actual End Year 1995	Actual End Year 1996	Actual End Year 1997	Data Source(s)
1. Decline in a Select Number of Remaining Tariff Barriers							Gremial de Exportadores de Productos No Tradicionales (GEXPRONT) and the Cámara Empresarial de Guatemala (CAEM)
2. Decrease in the Width of the Nominal Tariff Band							GEXPRONT, CAEM
3. Reduction of the Incidence of a Select Number of Nontariff Barriers							GEXPRONT, CAEM
4. Reduction in the Time Required to Secure an Export License							Ventanilla Unica de Inversión, Ministerio de Economía
5. Guatemala's Compliance with the Terms of Its Accession to the General Agreement on Tariffs and Trade (GATT)							Office of the United States Trade Represetative "National Trade Estimate Report on Foreign Trade Barriers"

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1. Conceptual and Methodological Issues and Assumptions

The principal issue with regards to the trade policy reforms envisaged by the T&I Program can be phrased as follows: "What do you want and how will you know what you got when you get it?" or in other words "What effect will these changes and reforms have and how will the Mission know when it is in place?"

In the absence of analyses which attempt to measure the costs and/or benefits of the various trade policy reforms envisaged by the T&I Sector Program and to prioritize those which would contribute most to "an open trade regime", it will be necessary to systematically track all efforts of the GOG to move away from protection of inefficient domestic industries and move toward an enabling environment which encourages production and marketing efficiencies. The set of trade policy reforms which would accomplish the most in the evolution of an open trade regime, and which appear to be in the manageable interest of the Mission to influence include those relating to reductions in remaining tariff and nontariff barriers. It should be noted, however, that the T&I Sector Program's monitoring activities with regard to enactment of trade-related policy reforms are totally a function of the outcome of the policy agenda yet to be negotiated with the GOG. Furthermore, the GOG is committed to the voluntary removal of a major part of its licensing and prohibitions of imports and exports by end-1992, and is currently in the process of finalizing the specifics of these planned actions. Hence, this M&E Plan can, for the moment, only suggest that the Gremial de Exportadores de Productos No Tradicionales (GEXPRONT) begin to monitor the removal over time of extant tariff and nontariff barriers as identified in the trade regime analysis.[12] More explicit indicators vis-a-vis tariff and nontariff barrier removal and trade-related policy reforms will need to be developed once agreement is reached with the GOG regarding specific areas of T&I Sector Program interventions.

2. Data Gaps

The trade regime analysis currently being prepared for the T&I Sector Program design document will provide a definitive description of both tariff and nontariff barriers.

3. Data Sets and Sources

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[12] Marks, Siegfried. "Guatemala's Trade Policy Reform: Analysis and Recommendations." Paper submitted to the U.S. Agency for International Development Mission to Guatemala, July 1992.

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Indicator 1:	Gremial de Exportadores de Productos No Tradicionales (GEXPRONT), Cámara Empresarial de Guatemala (CAEM)
Indicator 2:	GEXPRONT, CAEM
Indicator 3:	GEXPRONT, CAEM
Indicator 4:	Ministerio de Economía, Ventanilla Unica de Exportación
Indicator 5:	Annual publication of the Office of the United States Trade Representative entitled "National Trade Estimate Report on Foreign Trade Barriers"

4. Special Study Requirements

The same policy impact/attribution study discussed above was recommended for this program output to measure the costs and/or benefits of the trade policy reforms envisaged by the T&I Sector Program and to gauge their contribution to "an open trade regime". While the monitoring of reductions in the number of tariff and nontariff barriers, tracking the narrowing of the nominal tariff band, and consulting the Office of the U.S. Trade Representative regarding Guatemalan compliance with its terms of accession to the GATT during the life of the T&I Sector Program appear to be relatively straightforward, the pursuit of increased efficiency in the export licensing process will need to be studied in order to define optimal units of measurement of the potential impact of such interventions.

5. Responsible Mission Office(s) and Funding Source(s)

Trade and Investment Office; Trade and Investment Sector Program funds

C. Program Output Level Performance Indicators - Program Output Number 2

Table 4 is an illustrative means of monitoring the second of the Mission's three program outputs to be achieved under the T&I Program. Designated as "A Sound Investment Environment", three indicators have been developed to monitor progress in achieving this output of the T&I Program:

- enactment of internationally accepted legislation regarding intellectual property rights covering copyrights and trademarks;
- adoption of improved foreign investment processing procedures; and
- inflows of foreign private investment attributable to USAID/Guatemala-supported investment promotion activities.

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1. Conceptual and Methodological Issues and Assumptions

Guatemala is currently on the Office of the U.S. Trade Representative's "Watch List" of countries which need to upgrade their intellectual property rights legislation. The central issue in this regard is whether legislation is passed and put into practice or whether it is not. The only monitoring concern is whether the Guatemalan legislature adopts the requisite legislation sooner rather than later and whether the legislation contains the requisite enforcement provisions to make it work. It is assumed that the enactment of intellectual property rights legislation will contribute to the "sound investment environment" sought by USAID/Guatemala to realize its strategic objective of "increased private investment [and trade]."

The Ventanilla Unica de Inversión has been scheduled to become operational for some time. Publicity surrounding the Ventanilla's inauguration has been highlighting touting a reduction in the processing time needed for the authorization of an investment permit from upwards of hundreds of days to a mere three. Within that period, the applicant corporation or individual is scheduled to be granted a temporary commercial operating permit which will include the following: a certification of provisional registration; a tax identification number; and the assignment of an importer/exporter code number.

When this new Ministry of Economy entity does indeed become operational, monitoring under the Trade and Labor Relations Development Program would presumably cover adherence to the aforementioned provisions. The "adoption of improved foreign investment processing procedures" would not, however, be attributable to USAID/Guatemala supported activities under the Trade and Labor Relations Development Program. Rather, a further reduction in the number of days required to process foreign investment applications over time could, presumably, be attributed to the Trade and Labor Relations Development Program.

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Table 4
Program Output Number 2: A Sound Investment Environment

Program Output Performance Indicators	Baseline Status/Value 1991	Actual End Year 1993	Actual End Year 1994	Actual End Year 1995	Actual End Year 1996	Actual End Year 1997	Data Source(s)
1. Enactment of Internationally Accepted Intellectual Property Rights Legislation							Office of the United States Trade Represetative "National Trade Estimate Report on Foreign Trade Barriers"
2. Adoption of Improved Investment Processing Proceedures							Ventanilla Unica de Inversión, Ministerio de Economía
3. Inflows of Foreign Private/ Investment Attributable to USAID/Guatemala Support							Fundación para el Desarrollo de Guatemala (FUNDESA)

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2. Data Gaps

Data relating to successful interventions in investment promotion and the magnitude of foreign investment that has been mobilized by various investment promotion activities is not available at this time.

3. Data Sets and Sources

Indicator 1: Annual publication of the Office of the United States Trade Representative entitled "National Trade Estimate Report on Foreign Trade Barriers"

Indicator 2: Ventanilla Unica de Inversión, Ministerio de Economía

4. Special Study Requirements

As discussed above in Section A.4., optimization of the potential impact of the nonproject policy-based activities in support of legal and regulatory reform would appear to require additional study of the Mission's options during the design stage to define a baseline, orient the Program's resources to the most successful interventions and establish an analytical basis for estimating projected impact. As in the case of the interventions envisaged for improving the operational capacity of the Ventanilla Unica de Exportación, a special study is recommended in order to define optimal units of measurement of the potential impact of planned interventions to further improve the investment permit process of the Ventanilla Unica de Inversión once it is operationalized.

5. Responsible Mission Office(s) and Funding Source(s)

Specific responsibility for data collection lies with the Mission's Trade and Investment Office (TIO); collection activities are to financed with Trade and Labor Relations Development Program Funds.

D. Program Output Level Performance Indicators - Program Output Number 3

The final program output of the T&I Program, "Increased Competitiveness of the Nontraditional Export Subsector." Table 5 presented an illustrative means of monitoring progress in achieving this program output which will be measured by five indicators:

- increased value added in the nontraditional agricultural export subsector attributable to USAID/Guatemala support;

- increased value added in the nontraditional clothing and textile export subsector attributable to USAID/Guatemala support;

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Table 5
Program Output Number 3: Increased Competitiveness of the Nontraditional Export Subsector

Program Output Performance Indicators	Baseline Status/Value 1991	Actual End Year 1993	Actual End Year 1994	Actual End Year 1995	Actual End Year 1996	Actual End Year 1997	Data Source(s)
1. Increased Value Added in the Nontraditional Agricultural Export Subsector Attributable to USAID/Guatemala Support							Annual Sample Survey of the Membership of the Gremial de Exportadores de Productos No Tradicionales (GEXPRONT)
2. Increased Value Added in the Nontraditional Clothing and Textile Export Subsector Attributable to USAID/Guatemala Support							Annual Sample Survey of the Membership of GEXPRONT
3. Increased Value Added in Other Nontraditional Export Subsector Attributable to USAID/Guatemala Support							Annual Sample Survey of the Membership of GEXPRONT
4. New Environmentally Sensitive Nontraditional Export Lines Which Are Attributable to USAID/Guatemala's support							GEXPRONT
5. An Increase in the Proportion of Women in the Nontraditional Export Subsector Workforce							Annual Sample Survey of the Membership of GEXPRONT

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- increased value added in other nontraditional export subsectors attributable to USAID/Guatemala support;

- new environmentally sensitive nontraditional export lines[13] which are attributable to USAID/Guatemala support; and

- an increase in the proportion of women in the nontraditional export subsector workforce.

1. Conceptual and Methodological Issues and Assumptions

The issue here is one of refining the most comprehensive indicator of the impact of various Mission-supported business assistance interventions envisaged by the T&I Sector Program at the individual firm and multi-firm level. Domestic value added, the difference between the value of goods and the cost of domestically produced (as opposed to imported) materials or supplies that are used in producing them, is the best money gauge of the relative economic importance of an industry (or sector) because it measures that industry's contribution to the economy rather than its gross sales. Measurement of changes in domestic value added over time also offers insight into the efficiency with which a firm or group of firms converts domestic raw materials, domestic intermediate goods, electric energy, labor and other inputs into final products and thus would serve as an indicator of Guatemala's increasing (or decreasing) comparative advantage in the production of specific nontraditional exports. For example, increasing domestic value added in the *maquila* apparel industry over time would be an indication of the transformation of the industry from one which relies on imported cuttings for assembly to a more vertically integrated industry relying more and more on in-house cutting of domestically or foreign sourced material. An increasing comparative advantage would be indicative of Guatemala's ability to produce specific nontraditional products relatively more cheaply than other products thus increasing its competitiveness vis-a-vis other countries in the production of that same nontraditional product or products.

[13] The Center for Development Information and Evaluation (CDIE)-sponsored PRISM Environmental Working Group is currently in the process of defining indicator guidelines for environmentally sensitive export-oriented industrial diversification.

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The Mission's Office of Rural Development has demonstrated the feasibility of measuring domestic value added at the product level with relatively minimal resource requirements. The same methodology employed to calculate value added in the agricultural sector can easily be applied to the industrial sector.

Another measure of the success of the T&I Sector Program's support to GEXPRONT for trade promotional activities would be an expansion of existing nontraditional export lines from the current lisyting of 111 NTE products over the strategic objective planning period. Agreement will need to be reached with GEXPRONT regarding realistic targets for product line expansion that are environmentally sensitive based on pragmatic assumptions of the ability of GEXPRONT to play a leading role in export diversification.

2. Data Gaps

As discussed in detail in Section III.A. above, no reliable baseline currently exists with regard to domestic value added in the nontraditional agriculture, *maquila* and other nontraditional export subsectors. If such a baseline is beyond the ability of the GEXPRONT to construct, some manner of proxy baseline could possibly be extrapolated from the existing BOG agriculture and industry value added database.

A study was commissioned in 1991 by ROCAP's Nontraditional Agricultural Export Support Project to assess the impact of women's participation in the workforce of that subsector.[14] This monograph includes data on the ratio of women to men in Guatemala's nontraditional agricultural export subsector by product and type of work performed. Not only would the findings serve as a definitive baseline for the nontraditional agricultural subsector but the methodology employed could be replicated to assess women's participation in the *maquila* and "other" subsectors.

3. Data Sets and Sources

Indicator 1: Annual Sample Survey of the Membership of GEXPRONT
Indicator 2: Annual Sample Survey of the Membership of GEXPRONT
Indicator 3: Annual Sample Survey of the Membership of GEXPRONT
Indicator 4: GEXPRONT
Indicator 5: Annual Sample Survey of the Membership of GEXPRONT

[14] Alberti, Amalia M. "Impact of Participation in Non-Traditional Agricultural Export Production on the Employment, Income, and Quality of Life of Women in Guatemala, Honduras, and Costa Rica." Paper submitted to U.S. Agency for International Development, Regional Office for Central American Programs, Guatemala, 1991.

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4. Special Study Requirements

An initial sample survey of the membership of GEXPRONT together with followup surveys on an annual basis will have to be undertaken to track domestic value added in three nontraditional export subsectors. The same surveys would also be used to track the participation of women in the nontraditional export workforce.

5. Responsible Mission Office(s) and Funding Source(s)

Specific responsibility for data collection lies with the Mission's Trade and Investment Office (TIO); collection activities are to financed with Trade and Investment Sector Program Funds.

E. Project Level Performance Indicators-Project Activity Number 1

Table 6 presents an illustrative means of monitoring the achievement of the first of three project level interventions supporting the Trade and Investment Strategic Objective. Defined as an "Expansion of Nontraditional Agricultural Exports",[15] two indicators will be use to measure progress during the g life of this project to measure progress in achieving this end-of-project status:

- increase in the value added of marketable cash crop output; and
- increases in the proportion of marketable cash crop output representing nontraditional agricultural exports attributable to USAID/Guatemala support.

1. Conceptual and Methodological Issues and Assumptions

The major assumption at play here has to do with attribution. The methodology to be employed to develop the second indicator (this was left incomplete by the contractor; we are awaiting his response.)

2. Data Gaps

No baseline currently exists with regard to value added of the nontraditional agriculture products currently being produced by the beneficiaries of the HAD project. A baseline was established during 1990 which will allow for the measurement of increases in cash crop production by means of annual sample surveys.

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[15] This is an extrapolation of the end-of-project status of USAID/Guatemala Cooperative Agreement number 520-0274-A-00-0222-00 (HADS Project) with the Gremial de Exportadores de Productos No Tradicionales (GEXPRONT) which provides for a grant to GEXPRONT to promote nontraditional agricultural exports by improving its market information system, export and investment promotion activities, agribusiness training and by establishing a research fund. The assumption here is that "promotion" of nontraditional agricultural exports implies increased production.

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Table 6
Project Activity Number 1: Expansion of Nontraditional Agricultural Exports

Project Level Performance Indicators	Baseline Value 1990	Actual End Year 1993	Actual End Year 1994	Actual End Year 1995	Actual End Year 1996	Actual End Year 1997	Data Source(s)
1. Increase in the Value Added of Marketable Cash Crop Output							Highland Agricultural Development (HAD) Project Management Information System and Annual Sample Survey of HAD Project Beneficiaries
2. Increase in the Proportion of Marketable Cash Crop Output Attributable to Nontraditional Agricultural Exports							Annual Sample Survey of HAD Project Beneficiaries

3. Data Sets and Sources

Indicator 1: Highland Agricultural Development (HAD) Project Management Information System and Annual Sample Survey of HAD Project Beneficiaries
Indicator 2: Annual Sample Survey of HAD Project Beneficiaries

4. Special Study Requirements

A followup to the 1990 baseline production profiles of HAD project beneficiaries will be required to assess increases in the production of marketable cash crop output. Attribution of that output to nontraditional agricultural exports can be estimated by the project beneficiaries themselves and corroborated through discussions with various buyers of produce for export. The first baseline followup sample survey would be the appropriate instrument to use for the development of an additional baseline for value added in the production of cash crops.

5. Responsible Mission Office(s) and Funding Source(s)

Specific responsibility for data collection lies with the Mission's Rural Development Office (RDO); collection activities are to financed with Highland Agricultural Development Project Funds.

F. Project Level Performance Indicators - Project Activity Number 2

The second project level intervention supporting the Trade and Investment Program is defined as an "Increase in Small Coffee Farmer Income by Increasing Production, Productivity and Product Quality" (Table 7). Two indicators will be monitored during the remaining life of the progress to measure progress in achieving this end-of-project status:

- number of small coffee producers receiving a higher proportion of FOB price for arabica coffee;
- increase in the value of small producer coffee output in representative production pockets attributable to USAID/Guatemala support; and
- increased value added in coffee exports attributable to USAID/Guatemala support

1. Conceptual and Methodological Issues and Assumptions

The first harvest from the new planting of coffee trees introduced by the project is due later this year. Over 500 small coffee farmers received loans to upgrade their coffee plots, remove old growth and to plant new trees. The new growth is expected to

yield two to three times that of the old growth. A comprehensive data base has been developed for these growers, nearly all of whom maintain plots at higher altitudes which allows for the production of premium quality "hard bean" coffee. Each loan recipient has been profiled in terms of land in production, cultural practices and prices received in prior years. It is not know at this time whether the individual producer profile contains sufficient information to establish a value added baseline. All data has been coded and entered into a computer database but unfortunately the database is not yet in the proper formate to be manipulated. The project estimates that nearly half of all small coffee farmers producing coffee at the higher altitudes are participating in the project and hard bean production represents approximately 12 percent of Guatemala's total coffee production. Assuming that the project's estimates are correct, approximately 6 percent of the output of improved hard bean production can be attributable to the Small Farmer Coffee Project.

2. Data Gaps

The adequacy of the producer profile database for development of a value added baseline is unknown at this time.

3. Data Sets and Sources

Indicator 1: Annual Sample Survey of Small Farmer Coffee Project Beneficiaries

Indicator 2: Annual Sample Survey of Small Farmer Coffee Project Beneficiaries

Indicator 3: Annual Sample Survey of Small Farmer Coffee Project Beneficiaries

4. Special Study Requirements

A followup to the baseline profiles of the project's credit recipients will be required to assess increases in farm gate

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Table 7

Project Activity Number 2: Increase in Small Coffee Farmer Income by Increasing Production, Productivity and Product Quality

Project Level Performance Indicators	Baseline Value 1990	Actual End Year 1993	Actual End Year 1994	Actual End Year 1995	Actual End Year 1996	Actual End Year 1997	Data Source(s)
1. Number of Small Coffee Producers Receiving a Higher Proportion of FOB Price for Arabica Coffee							Annual Sample Survey of Small Farmer Coffee Project Beneficiaries
2. Increase in the Value of Small Producer Coffee Output in Representative Production Pockets Attributable to USAID/Guatemala Support							Annual Sample Survey of Small Farmer Coffee Project Beneficiaries
3. Increased Value Added in Coffee Exports Attributable to USAID/Guatemala Support							Annual Sample Survey of Small Farmer Coffee Project Beneficiaries

price for the new growth harvests, increases in the value of overall production and value added. If the producer profiles do not contain sufficient information to generate a value added baseline, the first sample survey to assess prices received and value of production will need to collect the requisite information regarding inputs into the production process for value added calculations.

5. Responsible Mission Office(s) and Funding Source(s)

Specific responsibility for data collection lies with the Mission's Rural Development Office (RDO); collection activities are to financed with Small Farmer Coffee Project Funds.

G. Project Level Performance Indicators - Project Activity Number 3

The third project level intervention supporting the Trade and Investment Sector Program is depicted in Table 8 and is defined as an "Expansion of the Network of All-Weather Farm-to-Market and Tertiary Roads to Provide a Better Transportation System". Two indicators will be monitored during the remaining life of the progress to measure progress in achieving this end-of-project status:

- increase in the number of farmers engaging in new or significantly expanded cash crop production in representative production pockets; and
- annual increases in the proportion of marketable cash crop output representing nontraditional agricultural exports attributable to USAID/Guatemala support.

1. Conceptual and Methodological Issues and Assumptions

An attempt was made to develop proxies for monitoring the aforementioned indicators of this project on the basis of correlating detailed maps of the areas traversed by Mission-financed roads with purchases by formal sector buyers of produce for export. Discussions were held with two principal buyers[16] and although these firms were able to identify a number of areas which had been opened up by these farm-to-market roads as sources of various types of produce for export, specific magnitudes of production for export attributable to the beneficiaries of these roads could not in any way be reliably estimated.

[16] Frutas Tropicales de Guatemala, S.A., FRUTESA and ALCOSA, a Division of Hanover Foods.

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Table 8

Project Activity Number 3: Expansion of the Network of All-Weather Farm-to-Market Roads to Provide a Better Transportation System

Project Level Performance Indicators	Baseline Value 1990	Actual End Year 1993	Actual End Year 1994	Actual End Year 1995	Actual End Year 1996	Actual End Year 1997	Data Source(s)
1. Increase in the Number of Farmers Engaging in New or Significantly Expanded Cash Crop Production in Representative Production Pockets							Dirección General de Caminos, Programa de Caminos Rurales con Uso Intensivo de Mano de Obra Baseline Socio-Economic Survey and Annual Sample Survey of Farm-to-Market Roads Project Beneficiaries
2. Increase in the Proportion of Marketable Output Attributable to Nontraditional Agricultural Exports							Annual Sample Survey of Farm-to-Market Roads Project Beneficiaries

Excellent baseline information based on pre-construction sample surveys exists which describes in surprisingly extensive detail the socio-economic characteristics of the populations in the immediate area of where roads were to be built or rehabilitated.[17] In particular, these baseline surveys provide detailed information regarding agricultural production by type of crop, the cost of inputs used by crop type, the cost and form of transporting that production to market, off-farm income generating activities, crop diversification plans, and perceived environmental impact of the roads constructed or improved. Only followup sample surveys would provide for reliable measurement of increase in the number of farmers engaging in new or significantly expanded cash crop production and the proportion attributable to exports in representative production pockets. Once this information is collected, principal buyers of produce for export could then corroborate the results of the sample surveys with regard to the proportion of marketable output attributable to nontraditional agricultural exports.

2. Data Gaps

No data gaps exist with regard to the socio-economic baseline surveys.

3. Data Sets and Sources

Indicator 1: Dirección General de Caminos, Programa de Caminos Rurales con Uso Intensivo de Mano de Obra-Generated Baseline Socio-Economic Survey and Annual Sample Survey of Project Beneficiaries

Indicator 2: Annual Sample Survey of Project Beneficiaries

4. Special Study Requirements

A series of follow-up sample surveys will be required for comparison with the baseline surveys regarding, *inter alia*, cropping patterns, cost of production, and cost of transport. In addition, the sample surveys will need to query beneficiaries regarding sale of their production of nontraditional crops to various intermediaries and direct buyers of produce for export and corroborated through discussions with these buyers.

5. Responsible Mission Office(s) and Funding Source(s)

Specific responsibility for data collection lies with the Mission's Rural Development Office (RDO); collection activities are to financed with Farm-to-Market Access Roads Project Funds

[17] See "Tabulador de Información Socioeconómica", Formulario TAB-2-86, Dirección General de Caminos, Programa de Caminos Rurales con Uso Intensivo de Mano de Obra, Asistencia Ténica Proyecto AID 520-0274.

III. Recommendations for an Information System for the Collection, Maintenance, Analysis and Use of Data for the Evaluation of Program Progress and Impact

The above sections of this Monitoring and Evaluation Plan have accomplish two purposes: delineated the Mission's strategy for attaining its strategic objective of increased private investment and trade; and defined valid performance indicators, identified data bases and recommended special studies to reliably track the various levels of performance indicators in order to verify USAID/Guatemala's attainment of increased private investment and trade by end-1997. In addition, performance indicator targets have been established for Trade and Investment Sector Program tracking at the strategic objective level for the 1993-97 period.

The next immediate requirement of this Monitoring and Evaluation Plan is to recommend a functional data management system. The reader should be aware that data management activities required for the effective monitoring and evaluation of the private investment and trade strategic objective will, by necessity, be significant but not formidable. The strategic objective indicators must be tracked and reported over a five-year time horizon. Program level indicators, although not expected to reflect impact until year two of implementation, must also be collected annually while project level indicators must be tracked and reported semi-annually to comply with the Mission's SARs requirements.

In order to respond effectively to its monitoring and evaluation responsibility, USAID/Guatemala must have a computerized data-based information system for the regular accrual and management of the T&I Sector Program's performance data at the three levels. Such a system, together with a detailed management plan which assigns responsibilities for periodic collection and incorporation of both project and program level data, as well as data from other sources, into a data-based system, will provide Mission management with timely information for reporting and decision making.

A. Data Management Plan

As for assignment of responsibility for data management, it appears that the Private Investment and Trade Strategic Objective Team is the most appropriate working unit. Furthermore, such an arrangement would have a functional advantage in light of the fact that the various projects which contribute to the Private Investment and Trade strategic objective are located in more than one Mission office.

It is highly recommended that the Private Investment and Trade Strategic Objective Team (or similar entity designated by Mission management) adopt a clear plan for data collection and analysis. Such a plan should consist of the following elements:

- early adoption of the recommendations for the choice of strategic objective, program output and project level indicators relating to the Trade and Investment Sector Program contained in this report, taking into careful consideration ease of collection, measurement reliability and validity of the indicators chosen;

- a timely decision on the level of effort to be expended on the recommendations regarding special analyses/surveys to improve upon the measurement reliability and the validity of performance indicators relating to the Mission's interventions envisaged for policy and legal and regulatory reforms;

- assignment of specific responsibility for the management of the information collection, data flow and data analysis relating to each of the strategic objective, program output and project activity level indicators;

- allocation of individual project resources from the three ongoing projects to be incorporated into the Trade and Investment Sector Program to collect and analyze additional program performance information which will contribute to attainment of the private investment and trade strategic objective;

- provision for collection and analysis of information not currently being collected should be included in the T&I Sector Program's design, delegating to the government implementing agency, nongovernmental organizations and their contractors specific responsibility for this activity;

- provision for the periodic review of the M&E plan to ensure that the appropriate information is being collected for strategic objective, program output and project level indicators; and finally

- a prompt decision as to the choice of a computerized data-based program performance information system, such as that to be recommended below, and provision for the training of staff for data entry and report generation.

B. Computerized Data-Based Information System

USAID/Guatemala's Trade and Investment Office has good reason to be wary of any recommendation for a computerized monitoring system. The sophisticated hardware configuration and customized software developed for the Private Enterprise Development (PED) Project represented a powerful tool designed so that the project's institutional participants could share a considerable body of information to be used for the promotion and expansion of

Guatemalan's private sector. Unfortunately this monitoring system promised far more than it delivered and has largely fallen into disuse. The impression that one comes away with after discussing this elaborate monitoring system with representatives of the government entities and nongovernmental organizations participating in the PED project is that of an implicit reluctance to share information among themselves. Moreover, it appears that within both the public and private sector, the possession of reliable (i.e., scarce) information represents power and thus is to be shared with a very select few. Although only an impression, this suggests that the PED system is unlikely to be resuscitated by the Cámara Empresarial de Guatemala, the entity responsible for its operation and maintenance. This phenomenon further suggests the need to keep the T&I Sector Program's information system within USAID/Guatemala which has the leverage to solicit, *and acquire*, information from all quarters.

Fortunately for the Trade and Investment Sector Program, no such sophisticated hardware configuration and customized software is needed for the monitoring and evaluation of program performance indicators. The Mission currently has an extensive personal computer environment and many staff have developed considerable capability in the use of commercial off-the-shelf software which is readily available and is relatively easy to learn to use, especially given the type of computer training resources available through A.I.D./Washington or, more importantly, readily available locally.

One such "off-the-shelf" personal computer software application is DBase IV, an Ashton-Tate product, currently serving as the basis for the Mission's Highland Agricultural Development (HAD) Project Management Information System (MIS). The HAD MIS is an impressive monitoring and reporting system which is capable of storing and manipulating data and generating reports far in excess of the monitoring and evaluation requirements of the Trade and Investment Sector Program.

Given the existence of such a system already housed within USAID/Guatemala, its modification for use as the basis for the T&I Sector Program's MIS is a logical recommendation. Maria Martorell, HAD Project MIS specialist, has spent several hours assessing the monitoring needs of the T&I Sector Program, its various data requirements and reporting criteria and has indicated that the HAD MIS could be modified within a relatively short period of time (and at a relatively modest expense) to accommodate the specific data collection, analysis and reporting needs of the T&I Sector Program.

It is highly recommended that the Private Investment and Trade Strategic Objective Team (or similar entity designated by Mission management to oversee the T&I Sector Program's monitoring and evaluation responsibilities) arrange for a demonstration of the HAD MIS to assess its powerful capabilities and offer suggestions for

improvements in areas, for example, such as additions, deletions and/or rearrangements of the entry screen fields and specifications for report generation. At the same time, members of the Private Investment and Trade Strategic Objective Team could make a first-hand assessment of the post-modification training requirements.