

ACTIVITY AMENDMENT APPROVAL DOCUMENT

FOR

MARKET LED RURAL DIVERSIFICATION

STRATEGIC OBJECTIVE NO. 4

(OPPORTUNITY ALLIANCE ACTIVITIES)

USAID/G-CAP

March 24, 2003

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Income & Natural Resources Office*

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1 INTRODUCTION

This Activity Approval Document lays out the framework for the Opportunity Alliance Activities that the SO 4 Team (Increased Rural Household Income and Food Security) will implement in 2003 and 2004. The proposed activities will permit a swift and effective transition from the existing strategy to the new up-coming development strategy programmed for FY 2004-2008. The activity described in this document responds to the framework that USAID/Washington supports under Opportunity Alliance and to the major recommendations of the CARANA Competitiveness Report contracted by USAID/G-CAP.

The activities that USAID/G-CAP Strategic Objective 2 team proposes will support the private sector's effort to improve business services through market intelligence activities, competitiveness improvement, and the expansion of information and communications technologies. The three main areas of intervention are:

- A **Business Development Unit (BDU)** to brokerage deals between buyers and producers, tapping new market outlets, such as supermarkets and wholesale buyers to by-pass the traditional middlemen.
- A **Business Service Unit (BSU)** to provide demand-driven business development services to help small and medium farmers and rural enterprises improve competitiveness and tap new markets through diversification activities within the agriculture sector and into non-agricultural areas such as eco-tourism, aquaculture, crafts and services.
- A network of **Electronic Business Development Centers (EBDCs)** to support investment and trade opportunities as well as governmental decentralization, and social and educational opportunities for the communities involved.

2 CONCERNS:

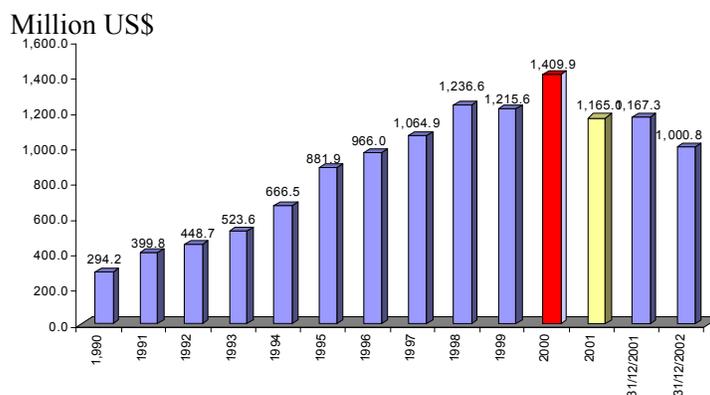
Guatemala's internal markets and purchasing power of its consumers are not sufficient to become an engine of growth for the economy. Currently population growth and the new entries into the job market pose an enormous challenge to the country. Without increases in jobs and incomes, the problems of political instability and security will intensify. The opening of regional and international trade poses both opportunities and threats for Guatemala's economy. On one hand, it presents outstanding opportunities for Guatemala's producers to penetrate new markets, both regionally and internationally, based on the rich natural resources of the country. On the other hand, competition in Guatemala's domestic markets will intensify as a result of the trade accords, meaning that Guatemalan producers must be prepared to meet this competition at home and abroad.

Whether focusing on its domestic or its international markets, Guatemala simply has no choice but to focus on producing competitive goods and services. Failing to do so will only mean that Guatemala will fall further and further behind in economic development and political stability. To penetrate these markets, producers must meet higher standards for quality, volume, and delivery. Guatemala's exports must be significantly upgraded if they are to meet most international customer standards. The country presently produces only moderate quality goods. Even this position is being eroded as new, more competitive international and global businesses

enter these markets. The international market place is unforgiving for sub-standard quality goods.

Guatemala also faces weak institutions, shallow financial markets, contradictory policies, and government red tape that hinder development and affect the possibility of economic growth and employment generation. Guatemala urgently needs to improve its competitive position to gain market share and generate employment opportunities. The above problems are currently compounded by lack of competitiveness in rural enterprise, the worldwide coffee crisis, regional

Non-Traditional Exports



drought and the economic impact of September 11, which are pulling significant numbers of people back into poverty and threatening stability in Guatemala. The dependency on traditional commodity crops, such as coffee, bananas, and sugar, has had significant negative impact at both the macro and micro levels, with major financial losses to national accounts and lowered rural household incomes. Some families no longer have enough food to put on the table, and in the

poorest areas acute malnutrition is spiking among children under five years old. Unemployment in the rural areas of the region is fueling illegal migration, drug trafficking, crime, and violence.

In the Information and Technology (IT) areas the fast economies of more developed countries are rapidly adopting a web work and lifestyle modality that is incomprehensible to most rural businesses in Guatemala. Information Technology (IT) is becoming part of the basic business model for many companies. E-commerce in the US represented a little over 0.0% of GDP in 1996 and represented about 4.4% of total GDP in 2002. Costs have also plunged dramatically with the use of the Internet. For example, the cost of a bank to process a walk-in transaction is on the average \$1.07, with the Internet it is \$0.01. More than 25% of all retail stocks are now traded over the Internet. Nearly 40% of US small businesses have websites.

The e-business model is still in an infant stage in Central America and Guatemala. If rural producers and businesses wish to remain competitive, they must adopt new business practices that include the use of IT (especially in light of a possible free-trade agreement for Central America). To continue bridging the digital divide and help Guatemala maintain and enhance its competitiveness, USAID needs to build upon and expand IT activities in rural areas. Substantial cost savings may be gained if IT activities are incorporated in rural business practices. Eric Brynjolfsson, professor at the Center for E-Business at MIT's Sloan School of Management says:

“IT is improving customer service, range of offerings, response time, product quality, and customization of products and services. Many companies are counting on e-business to further increase productivity, and experts predict that the Internet will drive the next wave of productivity.”

3 CARANA’S RECOMMENDATION:

During the month of September, 2002, USAID/G-CAP commissioned a report with the CARANA Corporation to examine what would make sense for USAID to undertake in the next two years, given very limited time and funding that would contribute to Guatemala’s competitiveness development.

CARANA recommended two lines of action in the competitiveness arena over the next two years: first, a vigorous export initiative using the cluster methodology coupled with a strong public-private dialogue and communications strategy to jump-start the current stalemated public-private dialogue to move toward a consensus on competitiveness policy in anticipation of the FTAA and CAFTA agreements.

CARANA recommends that USAID/G-CAP launch two pilot activities in promising ‘opportunity areas’, namely, in non-traditional agricultural products and in the tourism sector. These pilot activities should be market-driven, beginning with direct linkages to potential buyers interested in these products (such as supermarket and wholesale distributors), and working backwards through each link of the production chain to the producer. The second recommended line of action would involve fewer resources, and proposed to stimulate a dialogue among the different segments of Guatemalan society in the area of competitiveness policy in anticipation of the forthcoming elections and possible changes in government in 2004. At this time, INR does not have specific resources to undertake the second recommendation as proposed, but will use the Business Development Unit as a starting point to identify competitiveness issues that affect Guatemalan producers and pass the information to GOG Officials.

4 ACTIVITY DESCRIPTION:

To take advantage of farm and non-farm opportunities, small and medium rural farmers and entrepreneurs need market information, business development skills, quality assurance, reduced transactional constraints, and access to financial services. Below is a succinct description of the activities that will be implemented to support Market Led Rural Diversification activities.

4.1 Business Development Unit

Guatemala has been losing market share during the last two years. It is critical for businesses to have access to systematize information gathering and analysis to stay abreast with market changes and understand the dynamics of new markets. This kind of market intelligence is not available in government statistical reports or even frequent price bulletins. It is strategic, often unpublished, and usually firm, product, and place specific. Guatemala needs assistance to establish a fee base unit with these functions to provide information to Guatemalan businesses

and producers so they may respond to the new market realities. Information is a crucial necessary tool that will give business the edge to respond in a timely manner to market changes and trends.

The CARANA Report recommends the establishment of a market intelligence unit in AGEXPRONT to gather market information (from supermarket chains, institutional food buyers, in the U.S. and in other markets) on current trends and opportunity areas in order to identify potential new products or variations on existing products that Guatemalan businesses could produce in order to satisfy these market trends.

The SO4 Team proposes to support this activity at an approximate budget level of \$800,000. To simplify the contracting process we may utilize the existing Partnership for Food Industry Development (PFID) mechanism to contract technical assistance from Michigan State University (MSU), or may have AGEXPRONT sub-contract MSU with funds from a Cooperative Agreement. Additional buy-in may be done under the regional diversification program when it is in operational. MSU has already been working with AGEXPRONT in Guatemala. MSU is unique among U.S. universities in that it features four world-class centers and alliances whose sole purpose is the provision of food industry development services and products in the areas of grades and standards, international food laws and food safety. And, because the state of Michigan is the third leading producer of horticultural products in the U.S., MSU has become internationally recognized for the strength of its applied teaching, research, and outreach programs in the areas of fruit/vegetable production and processing.

MSU will establish a Business Development Unit (BDU) in AGEXPRONT's headquarters in Guatemala to help producers strategically target and sell to: supermarkets, food service firms, food manufacturing firms, regionally and internationally.

The unit will have several functions, including:

- Gathering and analyzing information on potential opportunities -- new products, new markets, price trends, needs of potential buyers in the target markets, and strategic implications are for Guatemalan firms who may compete for this market segment. Market opportunities are very often industry and firm-specific and change very rapidly, emerging and disappearing as Guatemala's numerous competitors jump at the business opportunity.
- Gathering and analyzing information on potential threats -- what competitors are doing, where, when, and how this will influence the markets for Guatemalan products and what are the strategic implications for Guatemalan firms. These potential threats emerge quickly and require constant work to spot let alone predict.
- Identifying and analyzing requirements for successful exports to the markets. For produce this will mainly mean finding out about private (imposed by the buyer, not public regulations) quality and safety standards and other specifications such as packaging requirements, and public laws and regulations that the exporters need to be aware of; these are product-specific and change quickly.

- Disseminating the above information to suppliers, distributors, producers, exporters, and government staff via outreach presentations, printed and electronic newsletters, and one-on-one exchanges.
- Facilitating contacts between the buyers and producers (such as small farmer cooperatives) in the establishment of commercial contacts and attendance to trade shows, trips of firm representatives to and from Guatemala and, visits to firms in the target market regions.
- Providing (through the management and coordination of consultant services either from Guatemala, other countries, or MSU) technical assistance to the participants in the supply chains (with special emphasis given to helping small and medium farms and firms) of the products being exported, to improve their capacity to meet the above requirements, and to solve specific problems that are bottlenecks to successful supply.
- Providing training in market research and development to exporters and representatives of small farmer organizations. The latter aims to increase the local capacity, while ensuring long-term sustainability of the outcome-activities of the project.
- Helping AGEXPRONT and the industry in general to strategize as to best next steps in extending their information-gathering and transaction-facilitating capacity by having presence in target-market regions, such as the successful New Zealander ENZA does or the Chilean Pro-Chile does with offices for these purposes in the U.S.
- Developing a supermarket penetration strategy that will result in alliances with small and medium producers on a 1:1 basis.
- Sharing competitiveness issues and policy lessons with government decision-makers so they may be informed and eventually act upon them.

A Co-Director from MSU and Co-Director from AGEXPRONT will staff the BDU. It will be an independent unit within AGEXPRONT that will report to the Board of Directors and Executive Director. It will support the efforts of the numerous export oriented sector commissions of AGEXPRONT and will provide support on an increasing fee for service.

4.2 Business Development Services

As the vehicle for implementing a new business model, the public-private alliance will enable USAID to operate more collaboratively and effectively with the many public and private actors now involved in international development assistance. In seeking opportunities to form and support alliances, USAID sees itself approaching development problems in the role of catalyst, facilitator and partner. In this new role, USAID will provide, among other

“The GDA will be a fundamental reorientation in how USAID sees itself in the context of international development assistance, in how it relates to its traditional partners and in how it seeks out and develops alliances with new partners. USAID will use its resources and expertise to assist strategic partners in their investment decisions and will stimulate new investments by bringing new actors and ideas to the overseas development arena. USAID will look for opportunities where relatively small amounts of risk or start-up capital can prudently be invested to generate much larger benefits in the achievement of overall objectives... Of course, the Agency will continue to deploy resources where private funding is not available and for activities where the governmental role is clear and pre-eminent to stimulate institutional and policy change.”

things, financial resources, technical expertise and country-level knowledge to assist strategic partners to stimulate new investments and generate new ideas. USAID's decision to carry out its mission in this way has significant implications for the manner in which the Agency provides assistance.

The BDS component will work in close coordination with the BDU to maximize the market led rural diversification efforts and to stimulate both farm and non-farm income growth for small and medium businesses and producers. Broadening opportunity and fostering sustainable improvement require a reduction in the reliance of traditional crops. To take advantage of farm and non-farm opportunities, rural producers and entrepreneurs need market information, business development skills, quality assurance, reduced transactional constraints, and access to financial resources¹. The Opportunity Alliance instrument will be the motor of the BDS Unit, providing the resources to create alliances and fill in the business gaps that will make it possible to close the deals. The menu of activities managed by AGEXPRONT will include the following:

- Technical assistance and training to improve competitiveness and sales.
- Technical assistance to improve the production process and develop industry clusters.
- Technical assistance to meet the requirements of new commercial partners, including supermarkets, wholesale, and retail buyers.
- Technical assistance to develop a comprehensive state of the art set of instruments and strategy to utilize the Internet for B2B and B2C.
- Organizational development for small and medium producers and businesses to produce the quantity, quality of the products demanded by the buyers in a timely and consistent manner.
- Technical assistance and training to meet phyto-sanitary standards and certifications processes.
- Technical assistance to package activities for financial intermediaries.
- Training in managerial and business skills, marketing practices.
- Observation trips to participate in trade fairs, visit businesses abroad and commercial round tables.

These types of competitiveness enhancing measures will be packaged together around needs of particular products, industries, or across a secondary-city corridor where poverty and economic opportunity co-exist. These activities will also complement existing and future programs to improve farm and off-farm infrastructure, market town development and community economic development. One important aspect of business development activities will be to ensure that policy lessons from the business development component reach government decision-makers so that they can be acted upon.

¹ Through its Development Credit Authority, USAID/G-CAP will increase the guarantee ceiling with BANCAFE from \$5.0 million to \$15.0 million to support export and opportunity alliance activities.

4.3 The Electronic Business Development Centers (EBDCs):

AGEXPRONT will use the Opportunity Alliance methodology to finance 30 EBDCs. Fifty percent of the installation and operational costs will be paid from USAID resources and 50% from other investors. The Electronic Business Development Centers (EBDCs) will be operated by partners such as, BANRURAL, BANCAFE, and GENESIS Empresarial to stimulate investment and trade opportunities, governmental decentralization, and social and educational opportunities for the communities involved.

The EBDCs will teach producers how to use the Internet and electronic commerce to improve their businesses. The EBDCs will provide training and technology services to participating businesses and train youth for careers in the expanding information technology job market. The EBDCs will help local firms market their products and services at reduced costs, promote joint ventures, and prepare themselves for local regional business. The challenge facing this activity is to support the widespread adoption of electronic commerce by rural businesses, public administrations, civil society, social sectors, and consumers of the selected market towns.

“If the 1980s were about quality and the 1990s were about reengineering, the 2000s will be about velocity,” Bill Gates, Business @ the Speed of Thought, 1999.

The EBDCs will be located in strategic areas that have potential for economic development and growth. The activity sites will be jointly selected between AGEXPRONT, the investing partner, and USAID. The EBDCs will provide critical information on the availability of markets, prices, potential business leads and partners, to promote investment, jobs and increased incomes in rural Guatemala.

Electronic commerce presents enormous potential opportunities for businesses, particularly for micro, small, and medium enterprises. Its rapid implementation is an urgent challenge for commerce, industry, producers, civil society, and the government. Electronic commerce makes it possible to trade at low cost across local regions and national frontiers. To reap the full benefits of this technology, other areas have to be improved such as roads, telecommunication, security and an efficient distribution channel necessary for the physical delivery of goods ordered electronically, including efficient, modern postal services, and customs. Despite these significant shortcomings, rural businesses and producers will have up-to-date information on the prices of inputs and goods produced; they will have access to business leads and receive the latest information on product development, processing government permits and making orders through the Internet from suppliers and eventually to buyers.

Micro enterprises, small businesses, and rural producers need to understand the potential benefits of electronic commerce in terms of cost savings, opening up of new markets and opportunities for new products and services. The Electronic Business Development Centers will enable the business community the possibility of establishing a closer relationship with customers and trading partners. Producers will have access to market information through the business data that will be developed under the Partnership for Food Industry Program (PFID) and AGEXPRONT. Businesses and producers can also find technical information on standards, phyto-sanitary requirements, certification processes, quality requirements, and governmental regulations. The Internet represents a critical mechanism for business information exchange and improved competitiveness.

In addition to offering useful trade information, the EBDCs may eventually offer the advantages of video conferencing². This tool is essential for consultations with experts that are far from the field. Training and technical seminars may be given through the video conferencing mechanism. This technology is also particularly important for schools and university branches located in rural areas. The Electronic Business Development Centers will provide services to the schools that want to utilize the system. It will also provide services to local and central Governments, the financial sector, the business community, social sectors and the surrounding communities in general.

Government organizations will benefit from this technology by being able to establish a closer relationship with the customers it serves. The public sector has an important role to play in the promotion of electronic commerce. Administrative formalities and requirements, as well as the services provided by the public sector, form part of day-to-day business. A large percentage of the data handled by public administrations originate in the private sector. Areas where electronic support could be applied include export permits, customs and taxes, social security, employment services, public registries and public procurement. AGEXPRONT has already developed software that will allow exporters to obtain all their export permits through a web site managed by this organization. Exporters do not have to spend long hours traveling to the Capital City to obtain their export permits. This may be done directly in each of the Electronic Business Development Centers.

The education sector may also take advantage of the EBDCs in training for teachers and students at relatively low costs. Schools in the selected municipalities may use the EBDC to connect their computer centers in order to have access to the World Wide Web. The EBDCs will also offer training in the use of computer software packages to address the increase in demand of the IT jobs that businesses and institutions are starting to have in rural areas. In addition, the education sector may use these facilities for adult distance learning at the community level by on-line training. This may also include other areas such as training on HIV, consultation by medical doctors, and others. The EBDCs will also be available for the Youth Leadership Activity supported by USAID. One of the main objectives of the youth program is to improve information technology skills for the 21st century. USAID will encourage cooperation between the EBDCs and the International Youth Foundation to improve the marketable skills for youth leaders.

Other synergies that will take place are the utilization of the EBDCs to obtain information regarding the national credit bureau that was co-financed by USAID/G-CAP. For example the financial non-governmental institutions, cooperatives, banks and commercial sector may obtain credit reference checks on individuals or companies, with whom they are about to engage in business. This will help to reduce the default rate, since persons and companies that have not met their obligations will be registered in this database. BANRURAL and GENESIS Empresarial will also offer new services to their market opportunities for the clients of both institutions, and training seminars to improve the management and operational efficiency of the

² The video conferencing facility may be added if there is a demand for this service and if the activity is commercially viable and/or supported by other organizations.

clients. BANRURAL and GENESIS Empresarial customers will have access to Internet, computer programs, fax, telecommunication, and reproduction facilities to help them meet the IT needs of their businesses. In addition, the institutions will offer training via video conferencing³ to their credit officers in the field to improve the services they offer to their clients. The EBDCs together with the fingerprint technology and the PDA will reduce the transaction costs of doing businesses in remote rural areas and permit both institutions to develop additional non-financial products for their customers.

In essence, the EBDCs will permit USAID/G-CAP to support activities that will foster the use of specific Internet applications for each of the sectors that we support, such as rural diversification, market intelligence activities, e-commerce, distance education, tele-medicine, environmental surveillance, and improved access to government services.

AGEXPRONT will work directly with private sector partners to establish thirty⁴ rural-based Internet centers. To coordinate operations, AGEXPRONT will sign sub-grant agreements with each of the co-investors or partners. AGEXPRONT will create a Coordinating Committee composed of representatives from AGEXPRONT, the co-investors and USAID/Guatemala. The committee will be coordinated by AGEXPRONT and will be directly responsible for the activity results. The Cooperative Agreement will finance the operational budget of the EBDCs for a period of six months. The EBDCs will charge market rates for their services so that the each center may become sustainable after the first year of operation.

AGEXPRONT will seek to promote public and private sector partnerships and alliances between organizations like GENESIS Empresarial, BANRURAL, BANCAFE and with other private sector institutions willing to invest in the EBDCs. The business model will have three essential elements: a shared understanding of the development problem; a shared belief that an alliance will be more effective than an approach taken by an individual organization; and a shared commitment of resources and risk.

USAID and its partners will establish an alliance governance structure for the purpose of attracting resources and making joint program decisions. In this business model, GENESIS Empresarial and BANRURAL with the assistance of AGEXPRONT and USAID will seek partners who are willing to share the risk and the resources to finance an additional fifteen EBDCs. AGEXPRONT with the funds from this Cooperative Agreement will finance fifteen (15) EBDCs. Resources from other investing partners will finance fifteen additional EBDCs. The site selection of the fifteen additional EBDCs will be made by the investing partner in coordination with GENESIS Empresarial, BANRURAL, and AGEXPRONT.

AGEXPRONT will seek proposals from Internet service providers, telecommunication companies and other interested partners to jointly finance the EBDCs with organizations like GENESIS Empresarial, BANRURAL and BANCAFE. New legal entities may be created to facilitate the organization, management and operating procedures of the EBDCs. USAID's grant

³ Video conferencing activities will be implemented if this service is commercially viable.

⁴ USAID will finance 15 rural based Internet centers and a private partner is expected to finance 15 additional Internet centers.

funds may be commingled with the funds of the other contributors in this public private sector alliance.

5 EXPECTED RESULTS:

5.1 Business Development Services & Opportunity Alliance

At this moment it is difficult to estimate the expected results of this activity since there is no experience in the region. However, the tracking system will measure the following results:

- a. Supermarket market analyses for at least 10 product categories.
- b. Number of long-term business deals/contract made: 20
- c. Value of the sales accrued to the business deal: \$5.0 million
- d. Fee per service: Between 2%- 5% of the value of a deal.
- e. No. of alliances: 12
- f. Value of the alliances: \$4.0 million (1:1 minimum)

5.2 Electronic Business Development Centers:

- a. An alliance between AGEXPRONT, USAID/Guatemala, and other contributors to double the number of EBDCs from fifteen to thirty.
- b. Thirty fully functioning EBDCs in rural communities offering Internet, telephone, fax, video conferencing facilities and copying services to:
 - The business community.
 - The public sector.
 - The financial sector.
 - The Social Sectors (Education and Health).
 - The Community in General.
- c. Development of one general portal and individual website in each EBDC with information that includes the following topics:
 - Investment opportunities
 - Financial services
 - Social services
 - Educational Facilities

- Tourism Information
 - Information about the Municipality in General
- d. A minimum of 30 Internet websites per EBDC.
 - e. A minimum of two interactive seminars using the video conferencing facilities.
 - f. A master business plan to ensure that the EBDCs will generate sufficient resources to cover all of its direct and indirect cost after the six months of operation. The master business plan will be prepared and approved by co-investor prior to the procurement of the equipment for all of the EBDCs.
 - g. An additional \$5.0 million worth of loans to small and medium businesses.

6 Gender:

USAID will encourage an approach that takes gender into consideration.

7 REPORTING:

The AGEXPRONT will present progress reports of the activities in their current Quarterly Program Performance Report. The report will contain a comparison of actual targets that have been met as described in the “Results/Target” section of this document. Additional pertinent information regarding any issues that might affect the accomplishment of the targets and proposed solutions should be included in the report. The quarterly report should be no longer than five (5) pages. Additional explanations may be provided in attachments.

8 ESTIMATED TIME FRAME:

The estimated implementation period for this Cooperative Agreement Amendment is 15 months, thus the Agreement Completion date will be extended from April 30, 2003 to May 31, 2004

9 ILLUSTRATIVE BUDGET:

Activity Description	USAID Amount	Counterpart Amount	Total
1) Business Development Unit	800,000	5,000,000	5,800,000
2) Business Development Services	2,000,000	2,000,000	4,000,000
3) Electronic Business Development Centers	1,230,900	6,080,900 ⁵	7,311,800
Total	4,030,900	13,080,900	17,111,800
Percentage	24%	76%	100%

⁵ Includes \$5.0 million additional loans for microenterprises.

ACTION MEMORANDUM

Date: July 16, 2003

To: Brian Rudert, Chief, Office of Income and Natural Resources

From: Bernai Velarde, INR

Subject: Approval of the Market Led Rural Diversification, AGEXPRONT Amendment

Action Requested: That you approve the attached Activity Amendment Approval Document to provide \$4,030,900 of additional funding to implement activities that will improve Guatemala's market share and competitiveness, generate employment and investment opportunities, establish a network of Electronic Business Development Center (EBDCs), and extend the estimated completion date from May 31, 2003 to September 30, 2004.

Discussion: Guatemala urgently needs to improve its competitive position to gain market share and generate employment opportunities. The worldwide coffee crisis, regional drought and the economic impact of September 11, are pulling significant numbers of people back into poverty and threatening stability in Guatemala. The dependency on traditional commodity crops, such as coffee, bananas, and sugar, has had significant negative impact at both the macro and micro levels, with major financial losses to national accounts and lowered rural household incomes. Some families no longer have enough food to put on the table, and in the poorest areas acute malnutrition is spiking among children under five years old. Unemployment in the rural areas of the region is fueling illegal migration, drug trafficking, crime, and violence.

To counter these development issues and problems facing Guatemala the Strategic Objective Team No. 4, Increase Rural Household Income and Food Security proposes the following activities:

- **Business Development Unit:** The establishment of a Business Development Unit to brokerage deals between buyers and producers. The unit will be jointly co-managed by Michigan State University and AGEXPRONT. The main function of the BDU will be to facilitate brokerage services and commercial transactions between buyers and sellers. We estimated that about \$5.0 millions worth of transaction may be accomplished during the extension period
- **Business Development Service:** The second major activity proposed under the AAD is the introduction of the Opportunity Alliance business model to improve the competitiveness of the business community. Though this way of doing business, USAID/G-CAP expects to leverage our resources at a minimum of 1:1. The funds under this activity will be used to provide technical assistance and training resources to meet the requirements that are found in the gap analysis done by the BDU. The activities under this component will assist local small and medium producers to meet the high standards for quality, volume, timely delivery, and phyto-sanitary conditions demanded by international and global buyers. It will also pursue a strategy to

develop alliance with the supermarket chains and wholesale intermediaries so that small and medium producers may obtain long-term commitments from these buyers.

- **Electronic Business Development Centers (EBDCs):** Resources will be used to establish a network of Electronic Business Development Centers (EBDCs) to support investment and trade opportunities as well as governmental decentralization, and social and educational opportunities for rural communities. The EBDCs will permit USAID/G-CAP to support activities that will foster the use of specific Internet applications for each of the sectors that we support in Guatemala. These include rural diversification, market intelligence activities, e-commerce, distance education, tele-medicine, environmental surveillance, and improved access to government services. Under this activity USAID will finance 15 EBDCs and private investors are expected to finance an additional 15EBDCs and contribute over \$5.0 million in additional small businesses loans.

Funding: The Market Led Rural Diversification Activities are budgeted at a level of \$4,030,900 from the following sources: FY 2002: \$1,045,555 and FY 2003: \$2,985,345.

Counterpart Contribution: Per Acquisition and Assistance Policy Directive (AAPD) 02-1- issued on July 11, 2002, there is no set formula for cost sharing for grants and cooperative agreements. The use of cost sharing should be based on technical and/or programmatic considerations, and its application should be flexible, case-specific, and support or contribute to the achievement of the result. Preliminary estimates are that total counterpart resources for this activity are **\$13,080,900**. The final estimated amount will be established when the MAARD is prepared.

Checklists: The Country Checklist for Guatemala was completed in May 31, 2002. An Activity Assistance Checklist is attached.

Initial Environmental Examination: The Initial Environmental Examination (IEE) prepared by the LAC Chief Environmental Officer on September 5, 1997 is in the process of being amended to extend the its completion date and include increase funding for the SO.

Gender Statement: USAID will encourage and support an approach that takes gender equality into consideration. SO4 has a gender strategy in place.

Congressional Notification: The Congressional Notification expired without objection on April 1, 2002.

Funds Availability: Funds were received on fiscal years 2001 and 2002 through Budget Allowance LDV1-01-25520-KG13 and LDV2-02-25520-KG13.

Authority: Under the Automated Directives 103.3.14.2, the AA/LAC has re-delegated to you the authority to implement approved strategic, special or support objectives, including the authority to negotiate, execute, amend and implement strategic, support and special objective grants, loans, memoranda of understanding, and other implementing and ancillary agreements

and documents with public international organizations and foreign governments; and issue or approve other implementation documents in connection with the above agreement.

Recommendation: That you sign below indicating approval of the Market Led Rural Diversification Amendment with an LOP of \$4,030,900. This activity supports Strategic Objective No. 4, Increase Rural Household Income and Food Security.

Approved: _____
 Brian Rudert, SO 4 Team Leader

Date: _____

Disapproved: _____
 Brian Rudert, SO 4 Team Leader

Date: _____

Attachments:

- Activity Approval Amendment Document
- Activity Assistance Check List

