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PARAGUAY POVERTY REDUCTION PROGRAM

Paraguay Vende Project Final Report

JUNE 30, 2007

This publication was produced for review by the United States Agency for International Development. It was prepared by Chemonics International Inc.



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Contract No. PCE-I-00-98-00015-00



The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.



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LEFT: Unloading rice at Molinos El País in Carmen del Paraná, Itapúa. With USAID assistance, the company introduced Paraguayan rice to the Chilean market.

PARAGUAY VENDE / GERMÁN ORTIGOZA

INSIDE FRONT COVER: Workers at the Bergthal Cooperative in Caaguazú package and prepare wheat flour. The cooperative dramatically increased its domestic sales and exports with technical assistance from USAID.

PARAGUAY VENDE / LUIZ RODRÍGUEZ

FRONT COVER: Paraguay Vende helped many farmers begin growing sesame.

PARAGUAY VENDE / LÍDER AYALA

BACK COVER: Worker at the Imperio Guaraní factory handles bags of stevia, a natural sweetener native to Paraguay. The Paraguay Vende project helped the company better position itself to export to the United States.

PARAGUAY VENDE / LUIZ RODRÍGUEZ



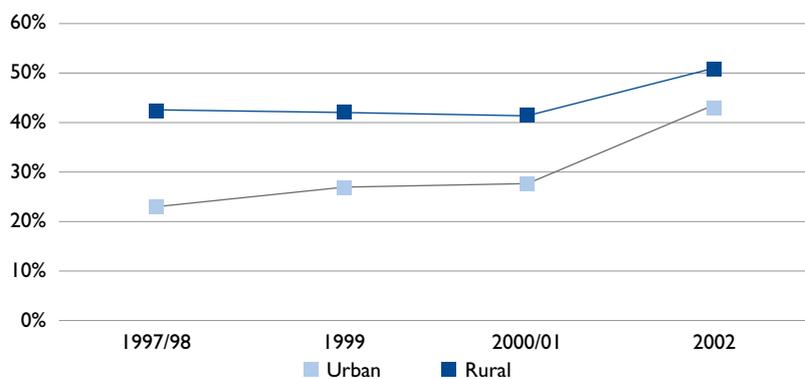
Worker at the Imperio Guaraní factory unloads dried stevia, a natural sweetener known as “kaá heé” in Guaraní, one of two official languages in Paraguay. Vende’s stevia clients are now working with the Paraguayan government to increase exports.

EXECUTIVE SUMMARY

Since Paraguay began its transition to democracy in 1989, per capita income has dropped by 27 percent and exports by 5 percent, and there has been a corresponding increase in poverty. By 2002, the country's poor population had increased from 32 percent to 47 percent, and more than half of the rural population was living in poverty (see Figure 1).

To help propel the country forward, USAID launched the Paraguay Vende project in 2003 to create more jobs in the country's interior. Even with restrictions to trade and investment, the country was well-positioned to expand trade. New all-weather roads and the formation of the Southern Common Market (MERCOSUR) —

FIGURE 1. URBAN AND RURAL POVERTY, 1997 – 2002
AS A PERCENTAGE OF TOTAL POVERTY



Source: Technical Secretariat of the Presidency/Department of Statistics, Surveys and Census, Home Surveys 1997 – 2002



A tractor pulls a load of organic yerba mate for the Estancias FD company, which began exporting to the United States with help from Paraguay Vende.

Argentina, Brazil, Uruguay, and Paraguay — allowed the project to focus on developing interior trade chains and linking economic corridors to regional markets. The project’s primary activity was facilitating transactions between small producers and buyers.

Vende’s results marked a milestone for economic growth projects. Project goals were frequently surpassed and consequently raised (see Table 1). For example, goals for increased sales were raised several times over the life of the project, and ultimately ended 19 percent higher than the last goal set.

TABLE I. IMPACT OF THE PARAGUAY VENDE PROJECT (August 2003 – April 2007)

Impact	Initial Project Goals in August 2003	Project Goals Agreed to in September 2005	Project Goals Agreed to in September 2006	Final Project Results in March 2007
Additional sales by supported companies, in US\$	\$9,000,000	\$15,750,000	\$30,000,000	\$35,806,851
Exports by supported companies (sales component), in US\$	\$3,000,000	\$5,250,000	\$22,000,000	\$22,640,014
Additional jobs in companies supported by USAID, in person-days	750,000	1,750,000	3,600,000	4,290,391
New investments in supported companies, in US\$	\$1,000,000	\$1,312,500	\$2,800,000	2,804,106

Source: Paraguay Vende’s results monitoring unit

CHAPTER ONE

THE MARKET AS AN AGENT OF CHANGE

PARAGUAY VENDE

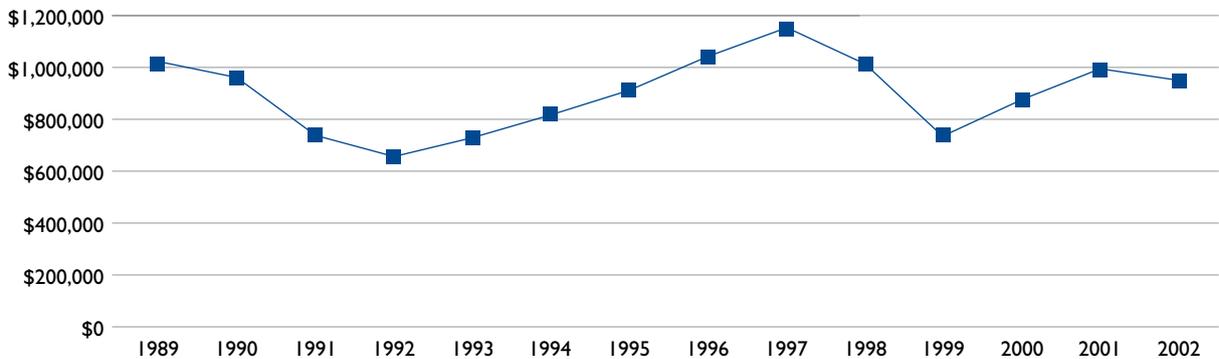
When USAID began Paraguay Vende in August 2003 as a means to reduce poverty, the conditions were ripe for expanding national and international trade.

Paraguay’s membership in MERCOSUR and the construction of all-weather roads between Ciudad del Este and Encarnación, Concepción and Pedro Juan Caballero, and San Ignacio and Pilar facilitated ac-

cess between the country’s interior, Asunción, and border crossings with Brazil and Argentina.

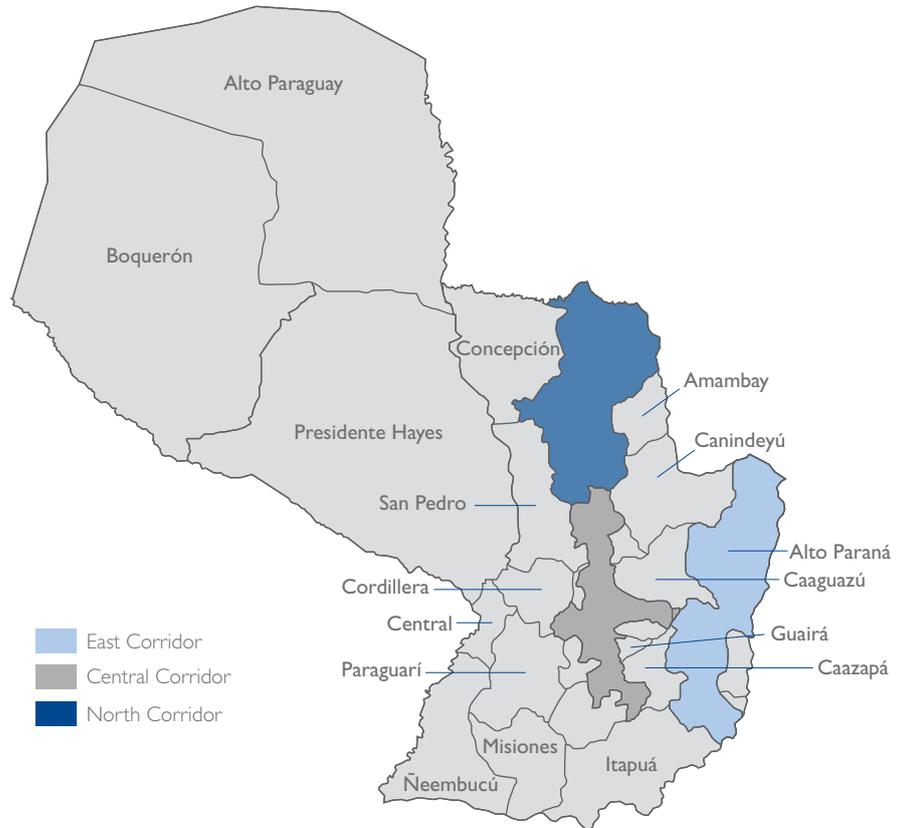
In spite of these conditions, there was very little foreign trade and low economic growth (see Figure 2). Products from the country’s interior did not make it to its cities or MERCOSUR markets. Likewise, investments decreased, many production facilities and land parcels were unproductive,

FIGURE 2. PARAGUAY EXPORTS, 1989 – 2002



Source: Central Bank of Paraguay

FIGURE 3: THE ECONOMIC CORRIDORS OF PARAGUAY



Vende’s approach was to produce what could be sold, not simply to sell what was produced.

and interior cities did not benefit from the new roads.

Experience in other countries suggested that a market-based strategy could help to reduce poverty. The Vende project was conceived within this framework of correcting trade and investment restrictions in the country’s interior and was based on four concepts: economic corridors, trade chains, economic service centers, and monitoring results.

ECONOMIC CORRIDORS

The project approached development through an economic corridors approach. Market demand was the starting point for every corridor, and all program

activities worked backwards to solve the problems that stood in the way of satisfying that market demand. Within this methodology, the Vende team focused on trade chains: linking buyers and sellers, the countryside and the city, and exporters with external markets. This group comprises an economic corridor.

First, the project located the poorest districts in Paraguay and determined ways to integrate them with links in the trade chain: main roads and cities. The project then created three broad corridors in which to establish economic service centers (ESCs) to facilitate

transactions and lift restrictions on trade and investment.

The East Corridor was set up in the department of Alto Paraná (see Figure 3). As the country's economic center, the department has one of the highest concentrations of urban and rural employment in Paraguay. East of the department's capital, Ciudad del Este, is Brazil, while Encarnación is to the south, the department of Caaguazú is to the west, and the department of Canindeyú is to the north.

Vende established an ESC for the corridor in Ciudad del Este to stimulate production and exports. Results were impressive, with 47 percent of total project-generated sales (US\$35.8 million) and 38 percent of total jobs (4.3 million person-days).

The Central Corridor was developed in the center of the country's eastern region, where the department of Caaguazú is the focal point of a prosperous transitional economy. The corridor's ESC in Coronel Oviedo (capital of the department) helped a large portion of the peasant farmer population from Caaguazú, San Pedro, Guairá, and Caazapá to increase agricultural production, thus increasing the supply of raw materials for client companies. Vende generated 40 percent of its total sales and 46 percent of its total jobs in this corridor.

The North Corridor covered the departments of Concepción, Amambay, and San Pedro. Its advantage was proximity to the state of Mato Grosso do Sul, a center

of Brazilian agriculture. The corridor has good roads but little trade activity. Producer cooperatives here have great potential to increase sales to companies in the region's urban centers, such as Concepción, Pedro Juan Caballero, and Santa Rosa del Aguaray.

The corridor's ESC in Pedro Juan Caballero generated 13 percent of total project sales and 16 percent of its jobs. The center supported 21 companies and cooperatives, while the East and Central Corridors supported 14 and 9, respectively.

REESTABLISHING TRADE CHAINS

National and international buyers and the corridors' companies and producers have a common interest in increasing their transactions but have not always capitalized on promising business deals. These groups need to reestablish trust in each other, producers need new buyers, and all companies and producers need strengthening in order to grow.

This lack of articulation among the corridors' trade chains is reflected in low loyalty, trust, and information. Few business relationships here are solid. The country's decline in trade has much to do with its mostly closed trade chains.

As an example of the project's approach to reestablishing trade chains, the Central Corridor ESC helped small producers, intermediaries, and a manufacturer of ethanol to accommodate larger volumes of raw materials, thereby stimulating the industry's eco-

In the Central Corridor, each US\$100 in sales generated 13.5 person-days of employment.



PARAGUAY VENDE / LUIZ RODRIGUEZ

SUCCESS STORY

A Victory with Sugarcane

DESTISUR stimulated economic growth in Caaguazú by manufacturing ethanol from sugarcane

In 2005, DESTISUR (Destilerías del Sur), a company in Guyra Huguá, did not know how to fulfill a 4,000,000-liter order for ethanol. Its leased factory had a sugarcane milling capacity of 400 tons per day, producing 44 liters of ethanol per ton of sugarcane. At that rate, it would not have been able to fill the order. The company needed technical support to increase productivity.

As in Brazil, Paraguay had experienced a resurgence in demand for sugarcane as a crop for agribusiness. It is ideal for producing ethanol, a substitute for petroleum-based fuels. DESTISUR expected to harvest sugarcane from May to December 2005 and needed to increase its stockpile to approximately 90,000 tons for processing — a quantity nearly four times its usual capacity.

DESTISUR signed an agreement with ParaguayVende to receive technical support and establish a business plan. Vende organized a technical support network for the plant and brought in a Brazilian expert to study how to improve yield. Additionally, a Vende consultant and team of professionals surveyed area sugarcane producers. Those producers were then trained on how to improve yields and deliver crops with the levels of sucrose needed for manufacture into ethanol. The project also helped producers with logistics to avoid delays in delivering their crops to the plant, improved access to loans, and expanding their farmed areas.

With Vende's assistance, DESTISUR dramatically increased its yield from 44 to 58 liters of ethanol per ton of sugarcane — an increase of nearly a third — and increased its invoicing to US\$1.6 million after just two years.

A sugarcane-based ethanol plant increased productivity with help from local technicians, Brazilian consulting companies, and a business consultant.

With help from Paraguay Vende, ethanol distiller DESTISUR created jobs by converting mechanized soybean fields into labor-intensive sugarcane fields.



Workers unload sugarcane at the DESTISUR plant in Guyra Huguá. Vende helped the company dramatically increase its productivity.

Vende's work with small producers generated 30% of the project's total sales and 39% of its jobs. In all, the project helped to create more than 16,000 jobs, especially in the North and Central Corridors, where extreme poverty is concentrated.

conomic growth (see “A Victory with Sugarcane”). In addition, all of the ESCs focused on trade chains between companies and national and international buyers and between small producers and companies within each corridor.

ECONOMIC SERVICE CENTERS

The project provided three types of support to business owners and producers: improving supply, generating sales, and increasing productivity.

The concept of economic corridors relies on finding demand first, and creating or improving supply to suit that demand. As such, each ESC had advisors on staff and hired consultants as necessary for specific activities with each company or producer. These experts coordinated the efforts of producers, intermediate companies, and national and international buyers, and helped to generate sales, increase supply, and improve productivity.

Advisors and consultants were provided to firms that agreed to offer management or other services, ensuring a solid partnership. This commitment from project clients strengthened the sustainability of project interventions. Support from Vende and complementary efforts by each client were written into business plans, which made the project's efforts traceable, allowing increased sales, investments, and jobs to be measured.

Improving supply

Many companies in the corridors required technical support to fulfill new orders.

For sesame seed, sugarcane, and herb producers, the ESCs in the Central and North Corridors developed an alliance with public and private organizations to expand the producers' farmed areas. Specifically, this support focused on soil analysis and improvement, farming and management techniques, logistics, seed quality, and sales prices. The project held hundreds of meetings with producers in Caaguazú, San Pedro, Concepción, Caazapá, and Guairá (see “Sesame Opens Doors”). They expanded their supply to satisfy demand from buyers; this greater volume signified more jobs.

There are always buyers at a low enough price, but prices must not sink so low that there is nothing left for the producer, the buyer, and the business owner. The project provided support to ensure sufficient buyers at market, not knock-out, prices.

Generating sales

Many business owners have already done the work to guarantee enough supply to meet demand, but they have not devoted enough time to finding new buyers or increasing sales to current clients. The East Corridor ESC dedicated most of its work to this type of support, leveraging the great entrepreneurial spirit in the area. One success was the sales of flour from the Bergthal Cooperative and rice from Molinos El País (see “The Rice that Changes Lives”). More details on this support are presented in Chapter Two.



USAID helped INFOSA export wood for parquet floors to the United States.

Increasing productivity

Even when producers can meet guaranteed demand, companies sometimes need organizational assistance. Vende delivered such support with great results to the UPISA meat processing plant (see “United We Stand”); this and other cases are analyzed in Chapter Three.

MONITORING RESULTS

Paraguay Vende operated as a

sales force motivated by monthly goals and awards for achievement. A results and monitoring unit measured the results of the ESCs and evaluated the causes and effects of the support provided in terms of sales growth, jobs created, and investment. The monitoring unit was run from Vende’s central office, while the ESCs were managed by subcontractors; this independence validates the project’s results.



PARAGUAY VENDE / LIDER AYALA

SUCCESS STORY

Sesame Opens Doors

Thousands of small producers in San Pedro and Concepción have chosen to grow sesame

In 2003, companies and cooperatives from San Pedro and Concepción, the departments with the highest levels of rural poverty in Paraguay, faced a unique situation. Companies in Japan and Korea had placed orders that far exceeded their supply, and they struggled to buy enough seed from small producers. In particular, high demand was for hand-harvested sesame, which is more labor- and time-intensive than machine-harvested seed. Though exporters and small producers usually enjoy a positive relationship, there is room to improve, such as promoting seed care and quality and disclosing price information when selling.

The Paraguay Vende project signed agreements in 2004 and 2005 with four companies and a cooperative to promote the sesame crop and search for alternative markets and segments with more added value. The project signed an agreement with the Shirotsawa Company to expand the cultivation area; with the OWT company and La Norteña cooperative to introduce organic sesame; with Chung Bo to stockpile second-grade sesame for coffee or oil; and with Kemagro to deal with U.S. demand for the “inia” variety of sesame.

The Paraguayan Sesame Chamber estimates that sesame exports increased by approximately US\$20 million between 2004 and 2007, of which US\$8.4 million can be attributed to Paraguay Vende support. More than 50 percent of this revenue went directly to the supported small producers, improving the lives of thousands of residents. Many rural agribusinesses expanded to new areas with help from the project, and they now support the producers they work with. Sesame opened the door for change in San Pedro and Concepción.

With support from Paraguay Vende, sesame cultivation has significantly increased, benefiting producers and the entire value chain.

Helped by crops like sesame, the portion of the rural population living in extreme poverty decreased from 29% to 21% between 2003 and 2005.



A farmer harvests sesame for Shirosawa, a company that increased exports to Japan thanks to assistance from Paraguay Vende.



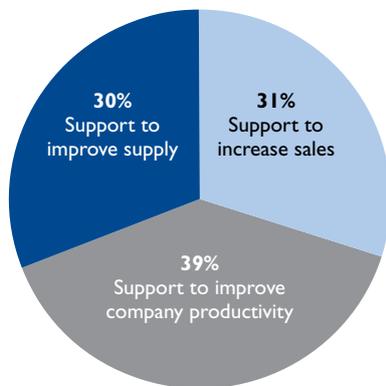
Paraguay Vende helped **MOTOPAR** and **DALAZEN** develop an assembly line process for auto parts in Santa Rita, Alto Paraná.

CHAPTER TWO

SALES: THE KEY TO SUCCESS

FIGURE 4. TECHNICAL SUPPORT PROVIDED

AS A PERCENTAGE OF SALES GENERATED



Source: Paraguay Vende's results monitoring unit

THE ROLE OF EXPORTS

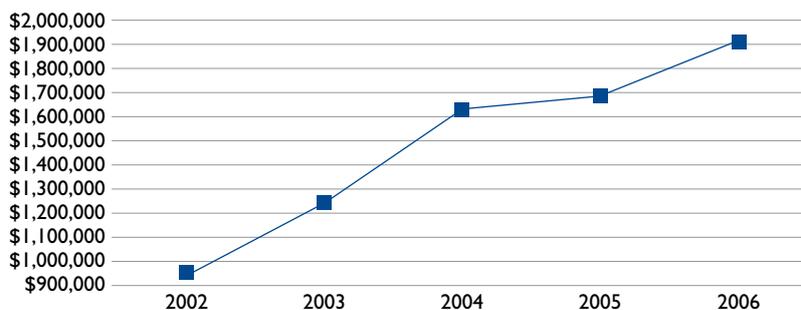
The support provided by Paraguay Vende was almost evenly split between searching for new buyers, organizational improvement, and increasing supply (see Figure 4), with the ultimate goal of generating sales.

Nearly two-thirds — 63 percent — of total sales generated through the project went abroad. Vende was able to find new buyers looking for new markets,

and the project helped boost the Paraguayan economy's external sector. Paraguayan exports rose: after remaining stagnant for more than a decade, exports in 2006 hit US\$1.906 billion (see Figure 5).

Clearly, Paraguay Vende was well received by the private sector. It was also welcomed by the public sector: After USAID launched the project, the Paraguayan government launched the Invest-

FIGURE 5. PARAGUAY EXPORTS, 2002 – 2006



Source: Central Bank of Paraguay



PARAGUAY VENDE / LUÍZ RODRÍGUEZ

Pineapple from the Guayaibi Poty Cooperative.

The Guayaibi Poty Cooperative increased its sales by US\$87,000 as a result of its work with the Paraguay Vende project, which helped strengthen the small organization. Many cooperatives and organized producers now ask Guayaibi for help selling their fruit directly to foreign buyers.

SUCCESS STORY

Selling Fruit to Argentina

Fruit producers profit by converting their cooperative into a business

In 1998, 37 producer families formed the Guayaibi Poty Cooperative to sell bananas and pineapples in the domestic market. The Federation of Production Cooperatives (FECOPROD) helped them administratively and offered technical support to establish appropriate procedures for handling fruit and a quality classification system. The cooperative was able to make occasional sales to buyers, who then exported to Argentina.

The producers depended on advances from the cooperative, which suffered without regular buyers and their requirements on fruit selection, packing, and delivery. The cooperative needed to negotiate with buyers to generate a steady flow of revenue and establish a better foothold in the market.

The Paraguay Vende project organized a trip to Argentina in June 2005 for cooperative members. Producers signed purchase intention agreements with potential buyers during the trip, forming a basis for future banana and pineapple shipments. Joint work with FECOPROD improved packing and established a supplier network and transportation logistics.

By December 2005, cooperative families and other producers in the area had made the first of a series of fruit exports. In all, 200 families benefited from the sales generated through project interventions. Their hard work will continue into the future: in late 2006, Vende helped the cooperative propose and conduct a business trip to Brazil in conjunction with Paraguay's Investments and Exports Network (REDIEX).



Banana farmers from the Guayaibi Poty Cooperative load boxes for export to Argentina, made possible by USAID's assistance in accessing this new market.



PARAGUAY VENDE / SERGIO FELICIANGELI

IDB's Paraguay representative, Álvaro Cubillos (front row, second from right), signs an agreement with Hierbapar, represented by Mauricio, Fernando, and Javier Stadecker (front row, from left to right). Pedro Martel and Carlos Ortiz of the IDB and Gustavo Acuña, Rodrigo Meza, and Oscar Aranda from Paraguay Vende's North Corridor ESC (back row, from left to right) attend the signing.

SUCCESS STORY

Strategic Alliances Help Fulfill USAID Objectives

MINISTRY OF INDUSTRY AND COMMERCE

Many of Paraguay Vende's client companies needed organizational development support that the project could not provide. To provide this assistance, in October 2004, USAID signed an agreement with PR100, a ministry program cofinanced by the Inter-American Development Bank (IDB) that helps small and medium businesses become more competitive. PR100 gave several Paraguay Vende clients access to resources to computerize their administration and develop strategic plans. A seminar on competitiveness was jointly held in the East Corridor to examine the potential of the information technology sector for the Brazilian market.

INVESTMENTS AND EXPORTS NETWORK

This government agency promotes exports and supports companies through sectoral consultative forums, attendance at international fairs, training, and trade events. USAID signed an agreement with REDIEX in May 2006 for Vende clients to attend trade fairs. The partnership also produced sector-specific marketing materials and communications to raise awareness of Paraguayan products. The North Corridor ESC participated in a tourism forum and promoted tourism in Pedro Juan Caballero.

INTER-AMERICAN DEVELOPMENT BANK

Hierbapar, a Vende client, signed an agreement with the IDB in December 2006 under its Social Companies program to develop a production basin for growing spices, herbs, and teas in the Lima area.

“ We knew how to produce but we did not know how to sell. We were at a stage where our product was excellent but we had no selling experience. The project’s support has been very important precisely in this area. ”

EDUARDO DE SOUZA OF THE ESTANCIAS FD COMPANY

ments and Exports Network (REDIEX) to further develop the country’s exports. The Inter-American Development Bank also launched a project, PR100, to modernize small and medium businesses. All of these factors contributed to the country’s great leap forward in exports.

The Central Bank of Paraguay’s 2006 Economic Report attributed the country’s four percent growth in gross domestic product to the expansion of the internal sector. Despite this finding, there is much progress in putting Paraguay on the path to additional growth from its export sector, especially in the interior economic corridors. Encouragingly, the poor rural population decreased from 50.5 percent in 2002 to 36.6 percent in 2005, according to the General Statistics Directorate’s Home Survey.

These economic results confirm the importance of sales support, making a strong case for the concept of economic corridors — especially in the poorest areas (see “Selling Fruit to Argentina”).

In many cases, sales support was accompanied by advice on quality, logistics, and organization — pragmatic services with sales in mind.

CONQUERING FOREIGN BUYERS

The challenge of achieving visible results forced Paraguay Vende to be realistic with its expectations. As a land-locked country, Paraguay does not have international trade as a foundation of its business culture. Its experience with promoting exports was limited to facilitating

access to international trade fairs, and MERCOSUR’s promise of greater access to regional markets largely failed to materialize.

The project focused on promoting contacts among business owners and facilitating informational and business trips. Along the way, there were unexpected achievements, such as the sale of natural fruit juices, flour, and long-life milk to Brazil, a market considered difficult for Paraguay to penetrate.

Vende established the Support Service for Markets and Exports (SAME) to specialize in external markets. Business advisors from this unit contacted and visited traders, agents, and distributors in neighboring countries to pique their interest in Paraguayan products. They were then invited to Paraguay at their own expense on trips organized by the project. Paraguayan business owners were then taken to other countries to negotiate directly with buyers, consolidating their relationships. ESCs helped at every step of the process.

Results came quickly. Breaking the country’s dependence on imported flour, a large national distributor sold wheat flour to Brazil. This raised the distributor’s trust in the wheat from Paraguayan small producers and encouraged more international sales contracts as well as domestic sales. By showing how useful the project was to large companies, small and medium-sized producers were then motivated to seek assistance to integrate into trade chains. Domestically, the Bergthel Cooperative’s sale of flour to



PARAGUAY VENDE / SERGIO FELICIANGELI

Pedro Szkutnik, founder of Molinos El País, successfully partnered with Paraguay Vende to increase exports and generate employment opportunities.

“ We never thought about assuming the responsibilities and commitments that we have now, because of which, today we want to be an example of business conduct and how a company should work. ”

**PEDRO SZKUTNIK,
PRESIDENT OF
MOLINOS EL PAÍS**

SUCCESS STORY

The Rice that Changes Lives

The ups and downs of regional trade and a lack of stable markets are remedied when a company finds buyers in Chile

Until 2005, Molinos El País was working below production capacity and totally dependent on exports to Brazil, where market standards and regulations constantly change. This instability spurred the company to seek work only within commercial trade regulations so as to protect its rice production, 30 percent of which came from its own crops and the remaining 70 percent from area producers.

In early 2006, Paraguay Vende's export promotion unit, SAME, put Molinos El País in contact with a Chilean broker who eventually persuaded five Chilean companies to place orders.

Despite the Chilean market's strict demands for quality control and conditions, the rice company's directors traveled to Chile to meet with the buyers. Paraguay Vende supported the trip, which was crucial to consolidate the company's business. Large orders soon followed.

“Local producers that used to sell their products to foreign buyers, mainly as smuggling operations, today are selling directly to us and are no longer operating under the irregular system. This means that Molinos El País has become a development guide in the area and an important employment opportunity for young people,” said Pedro Szkutnik, president of Molinos El País.

In one year, the company increased its invoicing by US\$1.7 million, thereby helping thousands of small producers and workers in the Carmen del Paraná area. The company has since expanded its offerings to parboiled and cracked rice.



A Molinos El País employee tests the quality of the company's rice. Vende helped the company export to Chile and diversify its products.



PARAGUAY VENDE / FRANCISCO FRETES

SUCCESS STORY

Factory Builds a Better San Salvador

A business in expeller-processed cottonseed meal develops with a little capital, a lot of alliances, and help from Paraguay Vende

Delfín Ruiz's business, Aceitera San Salvador, produces cattle feed. Paraguay Vende linked Ruiz and large cooperatives, including another project client, which then purchased his products for beef and dairy production.

Delfín Ruiz transformed an unused factory into one that processed 4,000 tons of cottonseed, increasing sales by more than US\$1.3 million and providing better livelihoods for families in the community.

Paraguay is a major cotton producer, so Delfín Ruiz entered the cattle feed business with an abundant supply of cottonseed and a product well-known to ranchers. In 2003, he leased an oil plant in San Salvador that had lain dormant for four years, and started producing expeller-processed cottonseed meal and crude seed oil. "I applied what used to be done, which is squeezing, grinding, and pressing the whole cottonseed with husk and all. Expeller-processed cottonseed meal has a 25 percent concentration of proteins, is very palatable, and easy to preserve. It is a totally natural product with no chemical processing and much valued by dairy ranchers."

Ruiz's company, Aceitera San Salvador, got off to a rough start, making only small sales to many ranchers and spending a lot of time collecting payments. Paraguay Vende advised Ruiz to assemble a group of buyers who paid on time and to cut prices on large orders to further encourage volume sales.

By consolidating his business to a few strong buyers and receiving a small amount of private capital, the business flourished, re-employing those who had worked at the plant before it closed.

the domestic market, supported by SAME and the Central Corridor ESC, increased by more than US\$3 million.

SELLING TO TRADE CHAIN COMPANIES

Producer Delfin Ruiz developed a business offering expeller-processed cottonseed meal to dairy cooperatives in Caaguazú, which found his product of such high quality that they immediately closed deals. This increased milk production and helped Vende clients better meet domestic and international demand for long-life milk (see “Factory Builds a Better San Salvador”).

Vende organized trips within the corridor, further stimulating internal sales, which led companies to negotiate prices and volumes and to think about transportation costs. By helping companies sell to other companies, products could move in a more timely fashion, stimulating economic growth over several years. Sales to final customers are slower and more

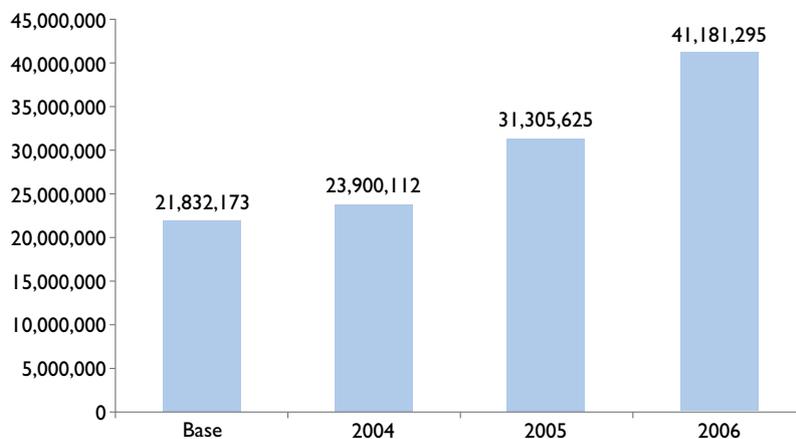
expensive because of marketing, branding, and investment needs.

Selling within the trade chain requires a different approach than that used to sell to end consumer markets. For example, attending local and international trade fairs is important to get to know buyers. Gaining buyers’ trust is also critical. Most growth in international trade is due to inter- or intra-company transactions.

Some Paraguayan companies had fallen into the habit of “letting themselves be bought” by traders from neighboring countries, instead of selling proactively. This attitude translates into a business organization that is not ready for international trade. In their diagnoses, the ESCs found that some business owners did not have a complete understanding of trade chains, so the project helped them develop sales skills, starting with the domestic market. After this type of support, business owners could then find their way into international trade chains.

FIGURE 6. PROJECT COMPANY INVOICING, 2004 – 2006

IN US\$ BY YEAR



Source: Paraguay Vende’s results monitoring unit

FROM RURAL PRODUCERS TO ENTREPRENEURS

Paraguay has traditionally had a significant number of small producers organized into cooperatives and independent “middlemen” who link those producers with large companies. Vende promoted development of these intermediaries, such as Celso Cañiza, director of a Korean multinational firm’s sesame seed oil operations; Delfin Ruiz, cattle feed manufacturer; and Fernando García, a sesame



PARAGUAY VENDE / SERGIO FELICIANGELI

SUCCESS STORY

United We Stand

Grain producers build a plant to process pork and expand into exports

UPISA's Eugenio Oze de Morvil (left), general manager, and Armin Becker (right), director, know their company is on the way to competitiveness.

A meat processing plant turns into a broader food company through assistance from Paraguay Vende.

A group of grain producers from Itapuá sought greater profits, and were intrigued by a study by the Japanese International Cooperation Agency, which found Paraguay ready for a grain-meal pork industry. Nearly 100 producers banded together to form the Producers Union of Itapuá S.A. (UPISA) in 2000 with an ambitious plan to export pork and compete in the international market.

After shipping an initial 50 tons of pork to Moldavia and Ukraine in September 2004, the cooperative saw several barriers in its way. The pork industry was highly informal, there was a problem with contraband, and sanitary conditions were limited.

Irineo Engelman, president of UPISA, analyzed the situation with Vende and concluded that the plant needed to become an international company. "Paraguay Vende detected the need to work on UPISA's internal structure to guarantee its exports," according to Francisco Latourrette, Vende business consultant. A Brazilian consulting firm was hired to improve the company's refrigeration logistics, and the project also helped create a new corporate image for the cooperative, changing its name from "Frigorífico UPISA" (UPISA Meat Processing Plant) to "UPISA Alimentos" (UPISA Foods). The new name signified the company's desire to branch into new areas, including a sausage division it established in the Asunción metropolitan area. Another consultancy improved the relationship between meat processing, distribution, administration, and after-sales services.

UPISA's sales increased by more than US\$10 million after its inception in 2004. The press has widely reported on the company's positive effects in the East Corridor of Paraguay and the cooperative has created 250 jobs, mainly for young people, and 940,000 person-days of employment in the trade chain.



UPISA employees prepare samples of the company's pork products at a food and beverage fair. Paraguay Vende helped the company make contacts with local and international buyers at the event.



A salesman wears and folds Pombero clothing. With Paraguay Vende's assistance, the company has expanded its reach in national and international markets, generating jobs in rural areas and adding value to local crafts.

stockpiler. Cooperatives and middlemen have great potential in the economic corridors, and thanks to them, Vende companies saw an 88 percent increase in invoicing from 2004-2006 (see Figure 6).

Many producers became middlemen with project help, while others, organized as cooperatives, advanced their processing and trading capabilities. With the Bergthal Cooperative,

for example, wheat producers invested in a mill and exported flour to Brazil to establish themselves in the market with their own brand. UPISA (see "United We Stand"), a meat processing cooperative, went through a profound transformation before becoming the largest pork exporter in the country. In all of these cases, Vende provided on-site support to improve organization and productivity and increase sales.

CHAPTER THREE

RENEWING THE BUSINESS ENVIRONMENT

SUCCESS BASED ON CHANGE

Vende sought to ease restrictions and barriers to trade on a case-by-case approach. Many times, the reason behind lagging sales was because a company or its products were not properly registered or lacked the required permits or documentation to export goods, for example.

For example, Brazil and Paraguay are increasingly engaged in stopping informal border trade, so the HNR Company reduced its trade with Brazil and accepted project support to formalize its business. This has allowed the company to grow in investment and jobs; by searching for new buyers in the local market, its sales increased by US\$266,000 (see “Everyone Wins with Formalization”).

Stevia

Stevia is a natural sweetener

whose sales in the United States are restricted under food supplement regulations. For example, it cannot be sold there as a food additive to sweeten mass-produced food.

Vende supported several stevia businesses, one of which was a leading seller of China-grown stevia to the United States. The project aimed to help Paraguay-grown stevia products crack the U.S. market. Vende helped create a report and sales strategy, and even though a buyer was not found, the Paraguayan government and the stevia companies are still working their way into the sector.

Yerba mate tea

Yerba mate tea is a product with great international sales potential, particularly in the United States, but few Paraguayan companies understand what U.S. consumers prefer. To help meet



PARAGUAY VENDE / SERGIO FELICIANELLI

SUCCESS STORY

Everyone Wins with Formalization

USAID helps innovative business owners get out of informal transactions and into new markets

Nidal Gebai, co-owner of HNR, a purse and case manufacturer that sought Vende assistance with formal exports to Brazil.

“ The arrival of Paraguay Vende to our company was right on time because we were entering into a crucial phase, with a lot of problems related to selling. It was vital for us to come out ahead, ”

RIDA GEBAI OF HNR

Despite speaking no Spanish, brothers Nidal and Rida Gebai moved from Lebanon to Paraguay and established the HNR Company to manufacture purses and cases. A number of small Brazilian businesses were soon buying directly from the factory and transporting the products back to Brazil under very light customs control.

HNR prospered until 2004, when Brazil and Paraguay cracked down on informal trade. Sales dropped and the Gebai brothers had to seek new customers.

Nelson Ferreira, consultant for Paraguay Vende, analyzed HNR within the formal economy and proposed exporting to Brazil through the *maquila* offshore system, which would cut production costs and enable domestic distribution.

Vende contacted distributors that signed deals with HNR almost immediately. Two years of project support led HNR's sales to increase by 300 percent. The company expanded from 30 to 80 people and garnered US\$44,000 in new investment in equipment and machinery.

In all, Vende helped formalize 28 companies like HNR in the Ciudad del Este Information Technology Chamber of Commerce; these companies now have better markets for their products.



An HNR employee sews a messenger bag. Vende helped the company formalize its trade with Brazil and cut production costs, leading to increased sales and employment.



Hierbapar workers prepare packets of herbs for sale. Paraguay Vende helped the company, based in Lima, to expand its sales.

“ Really, the support provided was like the access key to the authorities. We had access to the Ministry of Finance; they were able to see that the sector really wanted to open up for change.”

**CARLOS GAMARRA,
PRESIDENT OF THE
CIUDAD DEL ESTE
INFORMATION
TECHNOLOGY
CHAMBER OF
COMMERCE**

U.S. demand, Vende created a report with REDIEX, “Welcome Yerba Mate.” Companies like Estancias FD used this support to expand their organic yerba mate exports, generating new sales of US\$643,000.

Wood flooring

The Paraguayan timber sector is under pressure to restrict the use of native woods in flooring products. To address this problem, Vende proposed importing pine from Argentina, processing it into moldings, and exporting the final products under the *maquila* system of offshore production and assembly.

With support from Paraguay Vende, two clients, INFOSA and X-treme, exported wood products for US\$919,639 and US\$350,000, respectively. The public and private sectors, through REDIEX, then created the Wood Sector Consultative Forum to address the future of the wood sector in Paraguay.

TRANSFORMING INFORMALITY

A common problem with Paraguayan companies is the lack of formality — not all transactions are recorded, so financial statements are often incomplete, which can inhibit sales growth. Several of Vende’s clients tried to submit investment plans to IDB for financial aid, but their submissions did not fully reflect their true financial situations.

Informality is even more common in the East Corridor than in the rest of the country; this,

coupled with MERCOSUR’s shortcomings, has driven Ciudad del Este’s stagnating economy.

Computer, electronics, and telecommunications goods

One of MERCOSUR’s goals was to cut taxes on imported computer and telecommunications goods (CTG). This was supposed to promote personal computer assembly in member countries, where demand for computers grows 40 percent annually. This tax cut was never regulated, largely because Paraguay’s Tax Department did not have sufficient information to justify it.

Vende’s CTG clients joined together through the Ciudad del Este Information Technology Chamber of Commerce, which took control of the project’s efforts on CTG. Because these clients had prospered with project support, USAID had decided to expand Vende’s scope to address the issue, which would improve the business environment in the East, where informality supported stagnation.

The project drafted a report negotiating a cut in CTG taxes to benefit the public and private sectors alike. Along with Vende, the chamber crafted an enabling policy that set the stage for border trade reform in October 2005.

By June 2006, tax collections had increased by 160 percent while the tax burden on CTG decreased from 11.7 percent to 3.4 percent (see Table 2). CTG sales increased from US\$66 mil-



A worker assembles computer monitors in Ciudad del Este, Alto Paraná. Paraguay Vende helped formalize and reduce taxes on trade in high-tech goods between Paraguay and neighboring countries.

Vende’s work with business owners changed border trade legislation in Ciudad del Este. A new legal framework reduces the tax burden by more than two-thirds. This led to a tenfold increase in companies’ declared values and triple the tax collected.

lion to US\$599 million. Many of these sales had likely already been going on through informal channels, where tax was not collected.

The Paraguayan government noticed the success of this effort and expressed interest in developing a high-tech industrial center in the East Corridor. REDIEX also cited the case at its software sectoral consultative forum.

Vende drafted a second CTG report aimed at industrial conversion,

surveying CTG businesses already in production. The project also created an alliance with Itaipú’s Technological Park and talked with representatives from Taiwan to attract investment in the sector. The project continued supporting the more than 25 companies of the chamber to legalize CTG border trade between Paraguay and Brazil; negotiations between the two countries are still ongoing and results were not counted in overall project results, but there has already been a marked increase in sales and jobs.

TABLE 2. IMPACT OF THE FORMALIZATION OF BUSINESS IN THE COMPUTER AND TELECOMMUNICATIONS SECTOR OF CIUDAD DEL ESTE

	Taxable Value of Imports	Total Taxes Collected in US\$	Taxes Paid/ Import Value
November 2004 – June 2005, before project support	66.4 million	7.8 million	11.70%
November 2005 – June 2006, after project support	599.4 million	20.2 million	3.4%

Source: Paraguay Vende’s results monitoring unit

CHAPTER FOUR

CONCLUSIONS AND RECOMMENDATIONS

This chapter presents the conclusions of the Paraguay Vende project: challenges faced, lessons learned, proven practices, and recommendations for future work.

CHALLENGES FACED

Communication and training

With this project, USAID was entering an area in Paraguay where international agencies had not gone before. Naming the project “Paraguay Vende” was the first step to initiating communications with the private sector.

Communication was one of the project’s biggest challenges. Communicating with the target audience was one of the project’s primary objectives, but as the effort progressed, internal communications became just as important. Business advisors must be well-informed to appropriately explain the services they offer and the results that

business owners and producers can expect.

Training and constant teaching are also part of communication. Vende learned from other USAID projects, including a visit to the Peru Poverty Reduction and Alleviation project. Those who visited the Peruvian project returned to hold workshops on that project’s methodology for Vende staff.

Supporting businesses

Vende’s advisors provided sales support directly to businesses that would otherwise have to pay for such services. Although Vende made certain demands on its clients — transparency and a commitment to increasing sales — the project had to avoid creating competition distortions with its discounted services. The project addressed this by fostering a participatory culture, decentralizing its organization, and selecting personnel very carefully.



Worker at Hierbapar operates an herb packaging machine. Vende's assistance enabled the company to distribute its products to supermarkets throughout Paraguay.

Earning the trust of business owners

Vende — and the ESCs particularly — had to earn the trust of business owners, who had many valid reasons for being wary of the project. Some businesspeople continue to operate informally and are subject to persuasion by public officials, while others felt their personal safety could be threatened by participating in Vende, preferring to operate anonymously instead of promoting their achievements in project bulletins and press releases. Others feared losing proprietary information to competitors. Vende’s advisors and hired consultants had much to prove to earn the respect and trust of their clients.

Monitoring and validation

Measurable results were the cornerstone of Paraguay Vende. First conceived as a control and supervision task, monitoring was soon understood as an interaction between the project’s monitoring unit, business advisors, and business owners.

The project was challenged to design interactive software and a results measurement “return” process with the ESCs and their clients, which would validate the project’s goals to its target audience.

LESSONS LEARNED

Selecting companies

Based on a previous mandate to generate at least US\$5 in sales for every dollar invested, Vende established clearly defined selection criteria for new client

firms. Each company owner was required to commit to generating new sales with a contract. In addition, each client had to establish a baseline of its average monthly sales for the year prior to Vende assistance. This effort required the full support and collaboration of each client, the process met client demand while also fulfilling project requirements. Vende’s advisors were responsible for locating worthy clients; when an advisor did not generate the expected results, the project reviewed his/her work, creating a feedback loop that further encouraged selection of companies that could grow in sales and jobs. The ESC directors, coordinating managers, results monitoring manager, and overall project director all had opportunities to provide input on advisors’ chosen companies.

Ending support

Vende support to any given company had a clear beginning (a business plan) and an objective (increased sales). Support did not necessarily end when a client reached its sales goals, as many companies and producers uncovered new investment opportunities and markets during their work with the project. Business plans can and should be revised when new growth possibilities are found.

Transactions between business owners and producers

Vende’s target audience was business owners and producers, and its objective was to generate more transactions between the



A worker at Aceitera San Salvador processes cottonseed, which is now sold to cattle farmers thanks to assistance from Paraguay Vende.

two groups. This cannot happen without trust between all parties — including the project.

Trust was earned through results. At first, business owners expected Vende to help with social matters; no one believed that the project would increase their sales. However, as they learned that Vende shared their goal of creating wealth, they developed respect for the project.

Business owners vs. buyers. The Paraguayan environment for domestic and international business is still not developed; there remains a lack of communication and mutual understanding. Vende saw that parties can falter at vulnerable moments. The best way to overcome these barriers is to generate results. A project's first sale may require a significant investment of time and resources, but it sets the stage for a better understanding of its goals and capabilities.

Business owners vs. producers. Many agribusinesses in Paraguay still rely on personal relationships between business owners and producers. Some business owners used to favor certain small producers by providing training and other pre-harvest support, but those producers did not always return the favor, and sometimes sold their products to other businesses. Business owners must form better strategic alliances with middlemen and stockpilers to assure sufficient supply. Small producers' loyalty is not completely dependent on pre-harvest support.

Project vs. subcontractors. The relationship between a project and its subcontractors should become stronger and develop over time, but this is not a linear process. Vende made a better effort to strengthen its relationship with its subcontractors after a midterm evaluation, which led to a positive outcome with the key subcontractor teams that ran the ESCs. However, some subcontractors had little interest in becoming project partners, and it was difficult to develop strong relationships with them.

PROVEN PRACTICES

Best practices

Sales support, especially the emphasis on trade chains and exports, is highly valued by entrepreneurs and producers. Vende's results monitoring unit found a clear causality between the project's sales support and additional sales. However, there is a less direct, more complex relationship between supply and productivity support and increased sales, and the project could have made more of an effort to communicate this to stakeholders.

Synergies with other donors

The ESCs' support had a greater impact when it was supported by effective allies (see "Strategic Alliances Help Fulfill USAID Objectives"). Support was provided to the Guayaibi Poty Cooperative to export to Argentina because FECOPROD helped the cooperative organizationally (see "Selling Fruit to Argentina"). Other cooperatives, however, had not even estab-

lished organized sales to the domestic market. Joint work with other donors and international agencies may have generated better results.

New vs. existing companies

Vende's support was best used by companies that had existed for several years but needed help to increase sales due to restrictions in the market or in the supply of raw materials. Companies just starting out, while highly motivated, are more difficult to support.

RECOMMENDATIONS

More sustainable subcontractors

The corridors need more sustainable subcontractor organizations. Vende's design and its human resources team were a great success, but it could have had better relationships with its subcontractors. This would strengthen the corridors' capacity to perform similar projects. Future projects should select subcontractors willing to carry out permanent activities in the corridors.

Incorporation of the South Corridor

The Paraguayan economy is more decentralized than other countries, and the South Corridor, the trade route between Paraguay and Argentina, still needs to be developed to better cover the country's economic geography and to support companies that trade with Argentina, which had the region's fastest growing economy in the last five years.

Effective alliances with the private sector

Vende had successful relationships with the private sector and multilateral organizations such as the Inter-American Development Bank, which were of great help in achieving the goal of poverty reduction. However, the project could have placed more emphasis on alliances with business and producer organizations, such as its work with Ciudad del Este's Information Technology Chamber of Commerce, which improved communications with the project's target audience.



Panoramic view of the Puente de la Amistad (Bridge of Friendship), which links Brazil and Paraguay. The Paraguay Vende project greatly expanded trade between the two countries.

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USAID
FROM THE AMERICAN PEOPLE

PARAGUAY POVERTY REDUCTION PROGRAM
PARAGUAY VENDE PROJECT FINAL REPORT

JUNE 30, 2007 This publication was produced for review
by the United States Agency for International Development.
It was prepared by Chemonics International Inc.



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