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

GUATEMALA

PROJECT PAPER

PRIVATE ENTERPRISE DEVELOPMENT

AID/LAC/P-388

Project Number: 520-0341

UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

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

DOCUMENT CODE: 3

2. COUNTRY/ENTITY: GUATEMALA

3. PROJECT NUMBER: 520-0341

4. BUREAU/OFFICE: LAC — 05

5. PROJECT TITLE (maximum 40 characters): Private Enterprise Development

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 09 DD 30 YY 92

7. ESTIMATED DATE OF OBLIGATION (Under 'B.' below, enter 1, 2, 3, or 4)
A. Initial FY 87 B. Quarter 4 C. Final FY 88

8. COSTS ($000 OR EQUIVALENT $1 = Q 2.50)

A. FUNDING SOURCE	FIRST FY 87 B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total	6,670		6,670	10,000		10,000
(Grant)	(6,670)	( )	(6,670)	(10,000)	( )	(10,000)
(Loan)	( )	( )	( )	( )	( )	( )
Other U.S. 1.						
Other U.S. 2.						
Host Country		12,592	12,592		17,483	17,483
Other Donor(s)						
TOTALS	6,670	12,592	19,262	10,000	17,483	27,483

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	2. Loan	D. OBLIGATIONS TO DATE 1. Grant	2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	2. Loan	F. LIFE OF PROJECT 1. Grant	2. Loan
(1) SDA	700	840				7,650		7,650	
(2) ARDN	700	840				2,350		2,350	
(3)									
(4)									
TOTALS						10,000		10,000	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each): 819 | 831 | 700 | 110 | 150

11. SECONDARY PURPOSE CODE: 701

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

A. Code	BU	BR	DEL	TNG		
B. Amount						

13. PROJECT PURPOSE (maximum 480 characters)

To strengthen the economic and policy role of private enterprise in Guatemala.

14. SCHEDULED EVALUATIONS
Interim MM 03 YY 90 | MM -- YY -- | Final MM 09 YY 92

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

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

I have reviewed the methods of implementation and financing of this project and certify that they are in agreement with Payment Verification Policy Implementation Guidance provided in AA/M, R.S. Rollins, Jr. memorandum of December 30, 1983.

Joe O. Hill Jr.
Controller

17. APPROVED BY
Signature: for
Title: Anthony J. Cauterucci, Mission Director
Date Signed: MM 07 DD 31 YY 87

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION
MM 11 DD 13 YY 86

AID 1330-4 (8-79)

PROJECT AUTHORIZATION

Name of Country: Guatemala

Name of Project: Private Enterprise Development

Number of Project: 520-0341

1. Pursuant to Section 106 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Private Enterprise Development Project for Guatemala involving planned obligations of not to exceed $10,000,000 in grant funds over a five (5) year period from the date of authorization, subject to availability of funds in accordance with OYB/allowance process, to help in financing foreign exchange and local currency costs for the project. The planned life of the project is five years.

2. The Project ("Project") consists of assisting the Government of Guatemala Ministry of Economy and the Guatemalan Entrepreneurial Chamber (CAEM) to strengthen the economic and policy role of private enterprise in Guatemala. The Project components include the provision of technical support to small and medium enterprises; promotion of private sector export development; development of private financial markets; and support for new private sector initiatives.

3. The Project Agreement(s) which may be negotiated and executed by officer(s) to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority

b

shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate.

Source and Origin of Commodities, Nationality of Services

Commodities financed by A.I.D. under the project shall have their source and origin in the United States, the cooperating country, or other countries included in the Central American Common Market (CACM), excluding Nicaragua except as A.I.D. may otherwise agree in writing. Except for ocean shipping, the suppliers of commodities or services shall have the United States, the cooperating country, or other countries included in the CACM excluding Nicaragua as their place of nationality, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Grant shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States, the cooperating country, or other countries included in the CACM excluding Nicaragua.

Dwight Ink
Assistant Administrator
LAC Bureau

GUATEMALA
PRIVATE ENTERPRISE DEVELOPMENT PROJECT
520-0341
PROJECT PAPER

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ABBREVIATIONS/ACRONYMS

AGG	Guatemalan Management Association
AID/W	Agency for International Development/Washington
CAEM	Chamber of Entrepreneurs
CBI	Caribbean Basin Initiative
CONAPEX	National Export Promotion Council
DAEC	Development Assistance Executive Committee (AID/W)
EDA	Export Development Advisor
EPZ	Export Processing Zones
FODEX	Export Promotion Fund
FTPF	Foreign Trade Production Facilities
GF	Guaranty Fund
GOG	Government of Guatemala
GUILD	Nontraditional Product Exporters Guild
MOE	Ministry of Economy
NPEI	New Private Enterprise Initiatives
OIP	Office of Industrial Policy of the Ministry of Economy
PED	Private Enterprise Development project
PFI	Participating Financial Institutions
PID	Project Identification Document (Preliminary project proposal)
PMIS	Project Management Information Systems
PMU	Project Management Unit
PP	Project Paper (Final project description and funding proposal)
PRE	Bureau for Private Enterprise
RDP	Research Development and Promotion
ROCAP	Regional Office for Central American Programs
SME	Small and Medium Enterprises
SOE	State-Owned Enterprise

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PRIVATE ENTERPRISE DEVELOPMENT PROJECT

I. PROJECT SUMMARY AND RECOMMENDATIONS

A. Recommendations

That a Grant be approved in the amount of $10,000,000, with initial FY 87 funding of $6,670,000, to be utilized over a five-year period.

B. Participating Agencies

The Grantees will be the Government of Guatemala for $940,000 and the Chamber of Entrepreneurs (CAEM) for $9,060,000.

Under the Cooperative Agreement with CAEM, subgrants will be made to the Nontraditional Product Exporters Guild, the Guatemalan Management Association, and the Guatemalan Chamber of Finance. A Project Grant Agreement will be signed with the GOG to support private sector related technical assistance to GOG agencies that would be precluded from receiving assistance through the Private Sector. Private banks will also participate in he Project through the Guaranty Fund for small and medium enterprise credit, to be financed with ESF generated local currency.

C. Summary Project Description

The goal of the project is to broaden participation in national socio-economic development. This will result in greater private sector investment, particularly in support of small and medium size enterprises (SME) and export production, leading to increased national income and employment.

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

The project consists of the following four components:

1. Small and Medium Enterprise Technical Support ($1.3 Million)

This component will support the development of an SME Development Center in the Guatemalan Management Association (AGG). The Center will perform the following functions: (1) provide assistance to SME through appropriate training and technical assistance; (2) assist individuals and firms in the private sector to develop the capability to provide training and technical assistance to meet SME needs; and (3) establish a permanent section within AGG to be a constituent organization for SME managers which will

support CAEM in policy dialogue with government and larger private sector organizations, operate an information network for SME, and provide other constituent services to SME membership.

2. Export Promotion ($4.3 Million)

Resources will be provided under this component to address three principal areas of concern to Guatemalan export development and promotion: (1) conditions in the country affecting exports, such as transportation, finance, fiscal incentives, cumbersome bureaucratic procedures, foreign exchange and investment policies; (2) external market access, including such areas as quality standards, pricing and cost structures, production capacity, and international trade support by the GOG and (3) internal problems of enterprises, including technical asistance, improved access to information, and training with regard to the export process. The component's activities will be carried out by the Nontraditional Products Exporters Guild, CAEM, and the Ministry of Economy, primarily through CONAPEX.

3. Financial Market Development Component ($0.7 Million)

Assistance under this component will address the key constraints to more efficient financial markets: (1) conservative commercial bank lending policies limiting access to credit by small and medium enterprises; (2) insufficiently developed free market forces in the financial markets; (3) lack of competition limiting the availability of financial products and services; (4) weak capital markets characterized by excessive dependence on demand deposits and short-term instruments to finance long-term investment requirements.

This project will address some of these problems directly through: (1) development of a Guaranty Fund to promote lending to small and medium size enterprises; and (2) financial market research, development and promotion, and policy dialogue.

4. New Private Enterprise Initiatives ($1.0 Million)

The New Private Enterprise Initiatives (NPEI) component is the Mission's mechanism for research, development, promotion, constituency building, policy studies, and institutional support in "other" private enterprise areas. The purpose of this component is to analyze on practical policy concerns, build constituencies for policy change, attract practical business people to take risks in emerging areas of interest (e.g., privatization), provide institutions -- public and private -- with the resources to engage in policy dialogue, implement desired changes, and test new approaches to private enterprise development.

Financing under this component will: (1) assist the Ministry of Economy to strengthen the public sector in its capacity to address policy, regulatory and implementation issues which support the Guatemalan economy and its private sector, primarily small and medium entrepreneurs (i.e., "policy

supply"); (2) strengthen private sector efforts in research, development and articulation of policy options in the area of privatization, and other policy areas, primarily those which eliminate major bottlenecks to economic expansion (i.e., "policy demand"); and (3) create an international training fund to finance highly specialized short-term training abroad.

D. Beneficiaries

Given the goal of broadening participation in the economic development of the country, the primary target group of beneficiaries will be small and medium size enterprises. All components of this project directly address problems of SME. The financial markets component deals with constraints limiting SME access to financial services. The export component seeks to expand markets for SME, directly and also indirectly, by generating backward linkages of larger exporting firms to SME suppliers. The New Private Enterprise Initiatives Component will address many SME-related interests.

However, specific assistance will not be limited to SME if justified in terms of the USAID strategy. For example, the Guaranty Fund will initially be targeted to small and medium enterprises. Yet, the Fund's services may become available to other enterprises as required to promote other elements of the project, such as export promotion and privatization opportunities. Moreover, the project will lay the basis for improved economic performance by the private sector at large through increased access to credit, and improved technical and managerial skills.

E. Project Management ($2.7 Million)

Management of the project by USAID will be the responsibility of a project manager contracted directly by USAID. The private sector portion of the project will be managed by CAEM through a Project Management Unit (PMU). The PMU will assist CAEM in management of sub-grants to participating institutions. The PMU, staffed with personnel familiar with AID regulations, will provide the oversight necessary to ensure that grant funds are used in a manner consistent with the objectives of the project. Long-term technical advisors will be contracted to assist each of the major participating institutions, as described in Section III, Detailed Project Description.

F. Summary Project Budget

Summary budget is presented in Table I-1.

G. Summary Findings

The Project Committee has reviewed the technical, economic, financial, institutional, and social aspects of the project. Based on this review, supported by consultant studies, the Committee recommends the authorization of the project for $10 million in grant funds.

The project meets all applicable statutory criteria. The project is not expected to have a detrimental impact on the environment, and a negative determination was recommended in the IEE.

Table I-1

USAID/GUATEMALA/PSFD
PRIVATE ENTERPRISE DEVELOPMENT PROJECT

SUMMARY OF BUDGET BY COMPONENT
(In thousands of US dollars, or LC equivalent in dollars @ Q2.50 = $1.00)

	---- LIFE OF PROJECT ----					PERCENT OF PROJECT TOTAL
	-- AID --		GOG ESF	Priv Sec		
	FX	LC	LC	LC	Total	
PROJECT TOTAL	10000	0	10900	6583	27483	100.00%
CONTINGENCIES	1006	0	0	0	1006	3.66%
INFLATION (approximate 10% per annum)	664	0	360	103	1127	4.10%
PROJECT ELEMENTS & COORDINATION/MANAGE/EVAL	8330	0	10540	6480	25350	92.24%
PROJECT ELEMENTS	6095	0	9750	6480	22325	81.23%
SMALL & MEDIUM ENTERPRISE TECH. SUPPORT	1115	0	2120	525	3760	13.68%
EXPORT DEVELOPMENT	3580	0	1220	455	5255	19.12%
FINANCIAL MARKET DEVELOPMENT	550	0	5600	5500	11650	42.39%
NEW PRIVATE ENTERPRISE INITIATIVES	850	0	810	0	1660	6.04%
PROJECT COORDINATION/MANAGEMENT/EVALUATION	2235	0	790	0	3025	11.01%
PROJECT COORDINATION	850	0	0	0	850	3.09%
PROJECT MANAGEMENT UNIT STAFF	1135	0	245	0	1380	5.02%
PROJECT MANAGEMENT INFORMATION SYSTEM	100	0	355	0	455	1.66%
PROJECT EVALUATION	150	0	190	0	340	1.24%

H. PID Cable Issues

The following comments and responses to DAEC cable observations are keyed to the circled numbers inscribed on the copy of State 056746, 27 February 1987 which reported on the DAEC review of the Private Enterprise Development (PED) Project on February 6, 1987.

1. The PP does not discuss the GOG financial management and administration system as all government-owned local currencies will be managed through the USAID local currency trust fund. Specific allocations of the local currency will be jointly programmed by AID and the GOG. The Mission will provide descriptions of project activities to the Ministry of Finance for their review. Once written approval by the MOF is received, the Mission will proceed with the subscibing the local currency agreements with grant receipients.

2. The project does not finance the production, processing for export or shipment of any citrus product or other product covered by PD-71.

3. The project conforms with the requirements of the Lautenberg and Bumpers amendments.

4. The Mission's private sector strategy has been presented in AID/W and approved.

5. The IEE has been prepared in accordance with DAEC cable guidance (see Annex G).

6. The Mission is addressing microenterprise assistance in other activities of USAID and other donors (See Guatemala 06516, June 22, 1987, Congressional Notification: Microbusiness Promotion (OPG) 520-0377; and Microenterprise Development 520-0375 planned for $2 million as an FY 1988 start.

7. In designing the guaranty fund activity, the Mission has taken into account problems with guaranty funds experienced elsewhere. (see Technical Analysis). The Mission was assisted in preparation of this activity by PRE personnel familiar with experience in other countries.

8a. An extensive analysis of the liquidity situation is provided in Annex J2.

8b. A macro-level assessment of demand for individual subloans was not conducted as the existence of potential demand was confirmed by data developed in connection with other projects, inquiries among bankers, and consultant observations. Preparation of a complete credit demand analysis would consume both time and resources, which would have served only to confirm the potential demand without providing accurate estimates of effective demand. The guaranty fund is to be funded gradually over a period of time to test the effective market demand.

8c. Separate project profiles of the guaranty fund SME target group were not prepared as descriptive materials on the target group and terms and conditions of guaranteed loans are provided. Moreover, the project provides funds to develop more detailed profits of SME as part of the initial implementation phase.

8d. IDB activities are not expected to impact on the project in the near term. This is further discussed under Section II.4, Other Donors.

9. The Mission coordinated with PRE in preparation of this project. A PRE representative made three TDYs to Guatemala in connection with this activity and the Mission drew on assistance provided under the PRE Financial Markets Project. PRE is actively considering a $2 million dollar guaranty facility. The nature of the PRE operation is such that it could operate independently of the local currency guaranty fund established under this project.

10. The statutory collateral requirement of up to 200 percent is reduced by the guaranty mechanism. The broader issue of collateral requirements will be addressed in connection with the financial market research, development, and promotion activities described in the PP and Annex J3.

11. DAEC advice to avoid complex and inflexible administrative provisions was followed in project negotiations. Primary responsibility for appraisal and credit decisions is placed on the participating banks. Flexibility and ease of administration has been preserved.

12. The number of participating banks is limited to three at the outset of the program.

13. Participating banks are guaranteed for 50% of principal loss only.

14. The guaranty fund will guaranty loans at current market rates. Commercial lending rates are currently positive in real terms.

15. The "Capital Access" activity as contemplated at the PID stage is not included in the PP. The financial market research, development, and promotion activity is supported by the private sector as represented by the sponsoring organization. The scope and nature of this activity is described in Section III and Annex J3.

16. Policy issues to be addressed in this project will be determined primarily by the Guatemalan organizations involved. Policy issues not addressed under the project within the framework of interest of Guatemalan organizations will be addressed by the Mission

through other mechanisms. Mission policy concerns are discussed throughout the PP and in Annex F.

17. The financial capability of CAEM to pursue research and policy dialogue issues after the project is completed will be primarily a function of membership perceptions of the utility and necessity of such activities continuing. If CAEM fails to meet this test, and there remains a need to pursue these activities, alternative institutional vehicles may be appropriate. In this connection, the participation of organizations such as AGG may offer constructive alternatives.

18. The Guild has conducted an analysis of GOG policies which inhibit export and investment activity and developed an Action Plan which responds to its membership's perceptions of priority requirements. The PP supports implementation of the Guild Action Plan. In addition, the project provides technical assistance to CONAPEX and the Guild which will address technical aspects of government policy constraints on export expansion. Since the project works with the private sector rather than with the GOG, a condition precedent that policy problems will be removed would not be effective. In the judgement of the Mission, what will be effective is the private sector developing sound analyses of problems created by GOG policies and presenting such analyses in effective policy dialogue. Notwithstanding the foregoing, the Guild program will be viable within the existing policy framework.

19. The focus of all project components is to promote greater participation of SME in the investment and export activities to be undertaken. Although SME may not be the only beneficiaries, clearly the mandate of the project is to broaden participation in the economic development of Guatemala.

20. These concerns were taken into account in the design of the Procurement Plan (Section V.D. and Annex M).

21. Financial procedures concerning the use of dollar and ESF local currency funds will be governed by two parallel agreements with each grantee with USAID (one for the DA-funded Dollar portion of the project and one for the trust fund-financed Quetzal portion of the project). Under these arrangements, both ESF local currency and dollar disbursements are subject to AID accounting and audit procedures.

22. The Mission will give careful consideration to the use of 8-A firms for procurement of goods and services wherever feasible.

23. The project provides for a comprehensive monitoring and evaluation plan as described in Section IX and Annex L.

I. Project Committee

Felipe Manteiga, Chair, Project Officer and Chief, Private Sector Programs Office (PSPO)
Guillermo Matta, Financial Specialist, PSPO
Ruben Mejia-Robleda, Business Advisor, PSPO
Joseph Lombardo, Project Development Officer
Thomas Kellerman, Program Officer
Elaine Murphy, Economist

J. Consultants and TDY Assistance

LAC/PS: Peter Bittner
PRE: Howard Aller

Key Consultants: Charles Blankstein, Inc. Social Soundness: Steve Steward. Background Research: International Science and Technology Int., Inc.; and Arthur D. Little, Inc.

K. USAID Executive Project Review Committee

Anthony J. Cauterucci, Mission Director, Chair
Paul E. White, Deputy Director
Richards Burke, Program Officer
Christina H. Schoux, Chief, Project Development and Support
Samuel Skogstad, Mission Economist
Mary C. Ott, Program Economist
Joe O. Hill, Jr., Controller
Harry Wing, Chief, Rural Development
Liliana Ayalde, Chief, Human Resources Development
Anne V. Walsh, Executive Officer
Marian K. Riedy, Acting Regional Legal Adviser

II. PROJECT BACKGROUND AND RATIONALE

A. Recent Economic Situation

Reactivation of private investment and export development are a centerpiece of current GOG policies. With the private sector accounting for 85 percent of GDP, the continued economic development of Guatemala depends heavily on the success of these efforts.

Prior to 1980, Guatemala enjoyed decades of steady economic growth. This era came to an abrupt end in 1980-81 due to a combination of factors, the most important of which were regional political instability and capital flight, declining export commodity prices and counterproductive macroeconomic policies. These factors contributed to cause a prolonged recession in Guatemala during the first half of the 1980s, and reduced real per capita income by 16.5 percent. This period also brought a substantial decline in both public and private investment, with investment as a percentage of GDP falling from 12.0 percent in 1980 to 7.6 percent in 1985.

During this time, government efforts to correct Guatemala's economic policy problems were weak and incomplete. The adoption of inappropriate policies to effectively deal with the economic crisis aggravated unemployment, intensified poverty, eliminated investment opportunities and encouraged the idling of productive capacity. These policies also increased uncertainty, distorted foreign exchange transactions, and polarized public opinion.

After the social, political and economic turmoil of the early 1980's, the democratically elected government of President Cerezo has restored a significant measure of calm and hope for a democratic political and economic future; but the realization of that hope in the near future will require extraordinary efforts. The effects of faulty economic policy in the past haunt current development efforts.

Against this background, it is evident that the development challenge in Guatemala includes not only the dismantling of macro economic policies that generate inflationary pressures and international payment difficulties. Indeed significant progress has been achieved in the macroeconomic policy area and, with USAID encouragement and assistance, a full appropriate policy set will soon be established. It is considerably more difficult, however, to induce the structural adjustments needed to link Guatemala firmly to the broader world economy. These adjustments require that old markets and products assume less importance and that new ones be developed. They also required that non-economic barries to full participation in the economic process by all economic agents be identified and swept away. Finally, to enable Guatemalan enterprises to compete effectively in tough, competitive world markets, it is essential that private market mechanisms within the country function smoothly and efficiently to permit prompt reactions to changes in market circumstances.

A positive sign in the current situation is President Cerezo's acknowledgement that political and economic democratization must go hand in hand. Influential private sector leaders as well as the Government of Guatemala (GOG) recognize the need for economic as well as political democratization in Guatemala. Further, they recognize that economic democratization requires a private sector with broader participation, deeper competence, and greater influence on economic and social policy.

Guatemala has an historic opportunity to change the nature of its economy by broadening participation and extending benefits of economic growth beyond traditional limits. Private enterprise is the essential means of economic democratization. But there are only two major areas of potential growth which can be extensively exploited in the near term to achieve significant movement toward economic democratization: enhancement of the small and medium enterprise subsector and export expansion. This project addresses fundamental requirements to profit by these opportunities including technical support, financial services, and a policy and institutional environment that encourages private enterprise.

The project will result in more competitive Guatemalan enterprises, more effective private sector institutions, and a policy environment more conducive to business.

This project provides $10,000,000 in development assistance grant funds to help Guatemala achieve a private sector-led economic democratization by:

- improving private enterprise access to business "know-how" and technical and financial services;
- enhancing the capability of private organizations, rather than government, to serve technical, training, and financial needs of private enterprise;
- expanding participation of private enterprise in policy dialogue.

B. Constraints to Continued Private Enterprise Development

While the GOG has substantially improved its economic policies, there are still a number of factors which impede the rate of private enterprise development. Among these are: (1) imperfect capital and financial markets, limiting access of small and medium size enterprises to necessary credit to expand production for both domestic and export markets; (2) imperfect market competition and inappropriate business practices, which limit the development and dissemination of technical and managerial knowledge and skills required for existing entrepreneurs to expand their operations and for potential ones to enter the market; and (3) weak private sector institutions to support small and medium size enterprises. The weaknesses help prevent broadening of the economic base and improvement of the traditionally skewed distribution of income. While some aspects of these constraints will require public policy changes, others can be improved through the private sector's own effort.

C. Project Strategy

1. Project Approach

The project will support the USAID strategy by enhancing the capability of the private sector to develop and negotiate its own agenda with the GOG on essential policy issues related to improving investment, employment and export markets.

Given the goal of broadening participation in the economic development of the country, the primary target group or beneficiaries will be small and medium size enterprises. All components of this project address problems of SME. The financial markets component deals with constraints limiting SME access to financial services. The export component seeks to expand markets for SME, directly and also indirectly, by generating backward linkages of larger exporting firms to SME suppliers. The New Private Enterprise Initiatives Component will address many SME-related interests.

However, specific assistance will not be limited to SME if justified in terms of the USAID strategy. For example, the Guaranty Fund will initially be targeted to small and medium enterprises. Yet, the Fund's services may become available to other enterprises as required to promote other elements of the project, such as export promotion and privatization opportunities. Moreover, the project will lay the basis for improved economic performance by the private sector at large through increased access to credit, and improved technical and managerial skills.

The strategy of this project is to build development programs within existing private sector organizations in three crucial areas: technological transfer, nontraditional export expansion, and financial markets development. The project seeks to integrate action programs, analyses, policy dialogue, and institution building to achieve its objectives. USAID has determined that stepwise improvement in the day-to-day policy environment of business, rather than sweeping reform, is the most effective approach in this conservative economy. Complementary support will be provided to GOG agencies to improve their capacity to meet private sector needs.

This project focuses on the Guatemalan private sector, building on the substantial economic and institutional base which already exists. The project strategy is to work with established organizations rather than to create new ones; to leverage resources already in place rather than to create new programs; to encourage leadership in policy dialogue and program development by the Guatemalan private sector rather than to provide that leadership. Above all, the project seeks to promote Guatemalan ideas, assist Guatemalan initiatives, and capitalize on Guatemalan energies in pursuit of economic democratization.

To that end, in the three most important project components, the responsible Guatemalan organizations continue their participation in the project design and implementation process by detailed identification of

problems which Guatemalan private enterprise faces, and by determination of specific solutions appropriate to those problems. In these components, the participating Guatemalan organizations will also determine what policy dialogue issues they will address and how. The bulk of project resources is focused on assisting SME in three substantive areas: training and technical assistance, nontraditional exports, and financial markets.

In pursuit of these objectives, the project will promote the following:

a. management of technical assistance and training to assure not only the delivery of services to SME clients but also that project resources are directed toward forms of assistance and clients which demonstrate impact in terms of increased sales, employment, investment, and profitability;

b. development of Guatemalan capability to deliver such technical services in the future;

c. training Guatemalan managers, entrepreneurs, and technical personnel in skills essential to small and medium enterprise;

d. export expansion services;

e. improvement of the viability and competitiveness of Guatemalan enterprises, primarily small and medium ones, in export as well as domestic markets;

f. analytical activities focused on identifying policy and operational problems which directly or indirectly constrain the growth of private enterprise in Guatemala;

g. feasibility studies, investor support, and promotional assistance focused on rapid implementation of a free-trade-production-facilities strategy, including the opening of at least one export processing zone; and

h. promotional and business intelligence efforts designed to expand foreign markets for Guatemalan private enterprise, and to promote domestic and foreign investment.

The project also incorporates a loan guaranty mechanism primarily for SME borrowers. $5.5 million in local currency will capitalize a Guaranty Fund which will be used to improve access of small and medium enterprise to credit from Guatemalan financial institutions.

It is expected that additional components will be added to the project by amendment when, as, and if other opportunities to strengthen private enterprise mature. To this end, an important element of the project involves research, development, and promotion of new initiatives.

Overall coordination for private sector participation in the program will reside with CAEM, the principal grantee under the project; public sector participation will be coordinated through the Ministry of Economy and will focus on policy and regulatory changes designed to promote increased private enterprise investement, specifically emphasizing small and medium size firms and export production.

2. Relationship to USAID Strategy and Other Projects

PED is the flagship project to support the Mission's second objective in its Action Plan: Strengthening the Private Sector. This project is a major step in the evolution of USAID's private sector strategy. It presents a unified approach to areas of need identified in earlier studies and under earlier projects, combined with close donor coordination, to address constraints identified by USAID, the private sector, and the GOG. This integrated approach complements other AID projects and those of the GOG, World Bank and the U.N., optimizing the impact of all these initiatives.

The USAID Private Sector Strategy focuses on policy dialogue with both the public and private sectors, and enhancing the access of small and medium size enterprises to financial and technical inputs to expand private investment and exports. The strategy capitalizes on the pro-private sector attitude demonstrated by the Cerezo government.

The project is designed to support the USAID Private Sector Strategy by working with private sector interest groups in their efforts to identify and eliminate policy constraints to the development of a competitive private sector through:

a. Expanding the private sector base in policy dialogue by incorporating sectors currently excluded, specifically small and medium size enterprises;

b. Revising fiscal and monetary policies which impede the efficient allocation of resources and cause disincentives to productivity and nontraditional exports;

c. Supporting policy and other donor initiatives aimed at removing CACM tariff distortions which limit Guatemala's export competitiveness;

d. Reviewing financial legislation and suggesting modifications which facilitate improved financial services and more flexible financial instruments;

e. Assessing credit policies and promoting internal savings mobilization and allocation to productive investments;

f. Assessing policies oriented to give unfair advantage to GOG-owned or operated commercial ventures, and recommending targets of opportunity for privatization;

g. Developing recommendations on business personnel management and training as well as other measures to expand the demand for productive employment, especially of the female labor force; and

h. Evaluating policies affecting the import of inputs vital to expanded production, particularly in the export sector.

The PED project's complementarity with ongoing USAID projects is illustrated below:

a. The Private Sector Development Coordination $1.5 million OPG is a successful umbrella project which strengthens the Chamber of Entrepreneurs (CAEM) while that body, in turn, oversees a variety of sub-projects including:

1) an industrial sewing training project under the Technological Foundation (FUNTEC). This project is supported with technical assistance from the International Executive Service Corps (IESC);

2) a very sucessful wool project under the Development Foundation (FUNDAP). Under this vertically integrated project, sheep are raised, wool is cut, cleaned, processed, and clothing is produced and sold locally and on the export market. Technical assistance from the Fashion Institute of Technology in New York is helping provide clothing designs; and

3) a feasibility study completed by Accion/AITEC, under the aegis of CAEM, preparatory to a project aimed at providing credit, technical assistance and training to micro-enterprises. The Micro-Business Promotion project (520-0377) will be initiated in late FY 1987 with a $500,000 OPG to Accion/AITEC followed in FY 1988 by a $2 million grant for the Micro-Enterprise Development project (520-0375).

b. The project will improve credit access by SME through the operation of the Guaranty Fund, while more direct action, as necessary, on banking policies will be taken up in the context of the policy dialogue under the ESF negotiations.

c. In 1986, USAID provided private sector-oriented training to 528 participants in the fields of management, small enterprises, cooperative administration, export-related areas, business administration, computer science and electronics, and

industrial and agricultural development. The PED project will make additional funds available to train more beneficiaries in these fields.

d. Complementing the credit component of the Agribusiness Project with PED's guaranty fund will help move the former's pipeline towards SME in that subsector, while expanding PEDs impact on agribusinesses.

e. ROCAP is undertaking a wide variety of private sector initiatives, including the following projects: Export Promotion Fund; Nontraditional Agricultural Support; Export Agribusiness and Development Promotion; and Export Management Training. It has also sponsored studies on regional transporation and capital markets. PED project management and ROCAP project management will coordinate closely to optimize the impact of their joint resources.

f. Finally, AID/PRE has targeted private sector development in Guatemala as one of its highest LAC regional priorities. Mission access to the Bureau's Financial Markets Development contract helped initiate design of the project while its Office of Investment is providing continuing support in the design and implementation of the guaranty fund. Under a parallel project facility, PRE will make available $2 million for this purpose.

3. Relationship to GOG Activities

Throughout the last six months of 1986 and thus far in 1987, the Guatemalan Government has continued to strengthen and adapt its economic stabilization program to changing economic conditions. During 1986 and 1987, the GOG, supported in part by ESF balance of payments support, has instituted a series of measures designed to improve with the regulatory environment for the private sector -- in particular, to stimulate exports and investment -- and correct other policy impediments to increased production.

Achievements to date include:

a. a simplification of import documentation requirements;

b. the establishment of a National Export Council (CONAPEX) to provide high-level public and private sector attention to correcting constraints to export promotion;

c. the establishment of a high-level mechanism to assist importers and exporters in cooperating with proceedures to avoid over- and under-invoicing, with the goal of resolving individual problems within 24 hours; and,

d. establishment of a one-stop export window.

The project is designed to build on these positive developments and to provide support to the following actions planned by the GOG for the coming year:

a. the development of a National Export Plan;

b. revision of the laws for free zones and "maquila" operations;

c. revision of fiscal incentives to export;

d. review of financial policies; and,

e. evaluation and implementation of selected privatization activities.

These proposed actions, in combination with continued efforts to complete changes begun in 1986, form a comprehensive agenda on the part of the GOG to create conditions conducive to reactivation of the private sector. Project support in broadening private sector participation in the policy making process will be key to the development of appropriate policies and regulatory actions as well as to their successful implementation. To strengthen the GOG capability to respond to private sector policy needs, the project will also assist CONAPEX and the Ministry of Economy in policy development and implementation.

4. Other Donors

USAID maintains a close working interchange with other donors and has incorporated mechanisms to assure that this project will enhance that set of relationships.

With respect to specific related donor programs, the following are particularly relevant. The World Bank has a $20 million Industrial Credit program to finance imports. The IDB has a $70 million loan for an Industrial Reactivation Program, to finance working capital and fixed assets. These activities are complementary to the PED guaranty fund. One major example of cooperation with donors is the use of PED funds to provide technical assistance to complement the World Bank's $80 million initiative for export development and promotion and balance of payments support.

III. DETAILED PROJECT DESCRIPTION

A. Project Goal

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

B. Project Purpose

The purpose of the project is to strengthen the economic and policy role of private enterprise in Guatemala.

This will be accomplished:

1. at the level of the firm by improving access to technical and managerial knowledge and financial resources;

2. at the level of the business environment, within which the firm operates, by improving the capability of private sector firms and institutions to meet the needs of private enterprise, including the requirements of:

   a. small and medium enterprises (SME) for technical assistance, training, and financial resources;

   b. export-oriented firms for facilities, technical assistance, and training;

   c. financial markets to respond more effectively to the legitimate financial requirements of SME; and,

3. at the level of the policy environment, within which the private sector functions, by encouraging private sector organizations to take the lead in policy dialogue on issues essential to achieve a significant and lasting expansion of economic opportunity.

C. Project Elements by Component

1. Small and Medium Enterprise Technical Support

Under this component the project will provide $1,115,000 to finance activities designed to improve the role of small and medium enterprises in the economic and policy activities of the national economy -- namely, improved managerial capacity, and enhanced ability to articulate and

negotiate their policy concerns within the private sector as well as with the GOG. Specifically, this component will: (1) Assist SME in identifying appropriate sources of technical support in Guatemala; (2) Develop and manage an SME information networking function; and (3) Support SME interests in policy dialogue with public and private sectors.

a. Assistance Elements

1) Introduction

This component will support the development of an SME Development Center in the Guatemalan Management Association (AGG). (See Annex H-3, the SME Center). The Center will perform the following functions:

a) provide assistance to SME in securing appropriate training;

b) provide assistance to SME in securing appropriate technical assistance;

c) assist individuals and firms in the private sector to develop the capability to provide training and technical assistance to meet SME needs; and

d) establish a permanent section within AGG to serve as a constituent organization for SME managers which will:

i. support CAEM in policy dialogue with government and larger private sector organizations;

ii. operate an information network for SME; and

iii. provide other constituent services to SME membership.

The first three functions are seen as activities in which AGG will buy services and manage activities. AGG anticipates that the program will continue as a service of the organization to its membership funded by membership dues, tuitions and service fees, in a manner similar to AGG's regular program. Direct USAID support will end after five years, although a trust fund capitalized from tuitions paid during the five-year AID-funded program will continue to assist SME unable to pay regular tuition. The fourth function is seen as a permanent activity for which AGG will hire staff, and which will continue to be funded by AGG membership dues and other revenues after the project terminates.

2) Training

Lack of training in business disciplines has been identified as one of the major constraints to SME expansion. The project will provide training for SME managers and employees through several mechanisms.

a) The Basic Small and Medium Enterprise Program

The core of AGG's SME program is a comprehensive training and technical assistance course for SME owners and managers. Each program cycle will be offered over a six-month period after business hours, and in modules which will permit the gradual incorporation of newly learned business skills and knowledge into individual enterprises. The project provide $275,000 for this sub-element.

Each of four training cycles annually will be composed of 50 SME owners and managers. A group of six experienced advisors and twelve assistants in different business specialities, such as accounting and marketing, will teach classes and attend all sessions. These advisors will be available for one-on-one technical assistance to SME as a part of the program. Thus, the SME course participants, their instructors and advisors will form a group in which a high degree of interaction, focused on the client taking impact-producing action in the firm, will take place. As a centerpiece of the program, each participant will develop a fully elaborated business plan for his or her own enterprise. Both the students and the advisors will engage in an intense and practical learning environment. Overall suport to the program will be provided by a highly experienced SME expert. Details of the program are set out in Annex H-1.

During the first four cycles, AGG will mold the program to the needs of both SME students and advisors. The program will operate in an experimental mode for eighteen months. Results of the technical assistance and training will be closely monitored during this period. These impact evaluations will help to refine the Center's Basic Small and Medium Enterprise Program. It is expected that the first program will involve a six-month cycle including approximately 110 class hours and intense technical assistance in applying the techniques learned.

Technical assistance will be provided at the enterprise site by one or more advisors who work with each class. The extent and nature of assistance offered will vary according to the needs of the enterprise. Pricing will vary according to the amount of technical assistance used and according to ability to pay (see Annex H-2).

The training and technical assistance cycle ends with an evaluation period in which results are examined critically and business plans adjusted in light of experience. The training and technical assistance approach itself will be continuously refined through this feedback mechanism.

In addition to the basic course material, students and advisors will have access to AGG and American Management Association materials relating to the needs of the participants.

Over a period of five years, there will be four annual cycles of 50 students each for a total of 200 per year or 1000 over the five-year project term.

The training program will be staffed by experienced specialists contracted by AGG specifically for the program. If an individual advisor does not turn out to be effective, his contract can be dropped more easily than releasing a staff employee. Each advisor will have an excellent opportunity to be exposed to experts in other fields and to members of the SME target group. After several full cycles of participation, the advisor will be fully developed as an SME advisor, and it is expected that he/she will move out of the program to offer these services outside the training program (although possibly supported under the Center's Technical Assistance program described below). Advisors rotating out of the training program will be replaced by new trainer groups. Especially effective advisors who demonstrate significant promise will be eligible for assistance in training programs in the U.S., such as those offered by the American Management Association.

The project will provide the equivalent in dollars and local currency of $2,560,000 during the five-year program for the course and related expenses of operating the SME Center. Students in the program will be charged for tuition and technical assistance. All student payments will be placed in a trust fund for SME training and technical assistance. This Trust Fund will provide both scholarship and financing for tuitions to SME students. In this fashion, those able to pay for the program will do so. Those who cannot or who cannot pay immediately can be accommodated. Thus, the cost to participants of the course will vary according to the circumstances of the student, AGG costs will be covered, and AID funding will serve many users over time. The pricing policy approach is described in Annex H-2. AGG will seek additional funding for the Trust Fund from the private sector and other donors.

In appropriate circumstances, AGG will provide SME access to other regular training programs at reduced cost as an additional counterpart contribution to the program.

A summary budget for the program and related Center costs appears in the Input Section, below.

b) Funding for Other Training Courses

The project will also provide funding for a wide range of individual courses which are available or which may be developed to serve the specialized needs of SME managers and technical personnel. Examples of courses which can be financed under this project are described in Annex H.

AGG, with PMU assistance, will seek out new, better, and more cost-effective ways to provide business and technical training to SME managers and employees. Many possibilities exist within Guatemala to encourage effective training beyond the basic AGG program around which SME training will be built. In particular, means will be found to encourage such training in the departments as well as in Guatemala City. For example, an excellent short management training course was developed by local people and presented to local managers in the town of Quetzaltenango. This is precisely the kind of activity that PED would wish to promote. But it is not clear that that particular program is replicable in other areas or that an appropriate mix of instructors - or participants - would live in other locations. The Project, through AGG and CAEM, will explore these possibilities and develop appropriate means for assisting private initiative wherever possible. $260,000 equivalent in local currency is provided for specialized training activity outside the basic course described above.

Under some circumstances, project funds will be available for training programs outside Guatemala but this will be only in unusual cases and involve training of trainers or course designers. This overseas training will be financed by the $300,000 Overseas Training Fund established as part of this project. The fundamental thrust of this activity is to build training capability for SME within the country.

AGG will purchase at reduced cost certain specialized management training course packages from the American Management Association. These course packages include Spanish-language written and audio visual material, training of trainers, and rights of reproduction. These materials will bolster an already strong AGG training program.

3) Technical assistance

The project will provide a mechanism through which SME can access specialized technical assistance on business and technical subjects. Matching the need with the source is largely a management problem, which will be addressed by the development of the AGG SME Center. Resources such as INCAE, IESC, or others may be drawn upon to provide specialized technical assistance, as needs are identified by AGG during project implementation.

The mechanism for technical assistance is described in Annex H-3. The project allocates $250,000 in dollars and $100,000 in local currency for specialized technical assistance.

4) SME Organizational Functions

a) Support for SME Interests in Policy Dialogue

Policy dialogue is not an area in which SME have been extensively engaged. It is the community of larger business enterprises that have in the past spoken for the business sector.

SME interests are similar to, but not necessarily wholly consistent with, the larger firms and the private sector organizations which often are closely associated with more powerful economic interests. Representation of SME interests in policy dialogue with government and within the councils of the private sector is highly desirable.

AGG will establish a section for the SME constituency which will be free to set its own agenda in the SME field. Within that section, resources will be developed for analysis of SME interests in policy dialogue with government and larger private sector interests. This section will work closely with CAEM in the negotiation of policy improvements. Technical support for policy dialogue with the GOG will be provided by Guatemalan economic consulting firms and by members of AGG.

Probably more important for most SME will be policy dialogue with managers of large financial organizations and other major corporations. AGG and CAEM are uniquely suited to promote this type of intra-private sector dialogue. They encourage interchange between small, medium, and large private enterprise through their regular activities.

b) SME Information Network

AGG, as part of its counterpart contribution for this project, will publish a newsletter for SME and organizations interested in SME development. The newsletter will provide information on resources, success stories and other business-related developments.

c) Other Constituent Services

AGG offers a range of services to its current membership including seminars, business contact opportunities, and publications. The question of what kinds of constituent services are needed by SME and how those needs should be served, especially the needs of small-scale entrepreneurs seeking to enter the mainstream of the economy, will be examined closely during the project implementation, and those services will either be established or promoted as soon as feasible.

b. Organization

The primary implementing organization for SME will be the Guatemalan Management Association (AGG). AGG is affiliated with, and in many respects similar to, the American Management Association. It is dedicated to the professionalization of management in the country and is apolitical in its approach. AGG runs an extensive training program for over 2000 members. It publishes a magazine, Gerencia, similar to the AMA's publication, Management.

AGG developed and presented to USAID a thoughtful proposal in which it demonstrates its understanding of the crucial necessity for bringing more small enterprises into the formal sector of the economy (see Annex H-1).

AGG is presently an organization primarily composed of executives from the top 25% of Guatemalan firms. While AGG has many members who fall within the statistical definition of SME, typically these individuals are fairly well educated and relatively sophisticated. AGG's stated policy is to expand its organizational base to incorporate smaller enterprises.

AGG also recognizes that the interests of SME may not necessarily be wholly consistent with the interests of larger business enterprises. AGG is now led by well-educated, sophisticated managers primarily of large organizations. AGG proposes to establish a semi-independent section of the organization dedicated to serve the interests of SME. The SME section would receive administrative, technical, publishing, and other forms of support from the parent organization. Nevertheless, when the interests of the SME constituency would be served thereby, the SME section would be entirely free to take positions in policy dialogue contrary to those of the parent organization. Similarly, the SME section would have independent membership fee, publication, and other policies if warranted.

c. SME Advisor

The project will fund a full time advisor to provide technical assistance and guidance for the SME component as a whole. This advisor, who is budgeted at $500,000 for LOP, will be located at and supported by AGG. However, the advisor's mandate will range across the entire spectrum of SME activity including cross-fertilization efforts in other components and advising USAID.

d. Commodities and Other Costs

The project allocates $90,000 for commodities including a vehicle for the SME advisor, computer equipment, publications, and costs of similar small commodities required for the program.

e. Outputs

Three types of activities will generate outputs:

1) Training and Technical Assistance
2) Policy Dialogue
3) Institution Building

a) Training and Technical Assistance

i. AGG will develop and implement a training program for small enterprise managers. This program will train 1000 enterprise managers.

ii. AGG will develop a training referral service to provide 1000 managers and technical staff personnel of SME training from

Guatemalan training organizations, including AGG, in business skills, and in technical subjects not included in AGG's basic cycle.

iii. AGG assistance will be provided to outside groups to develop at least three additional training programs not presently available in Guatemala to train 200 people other five years.

b) Policy Dialogue (in conjunction with CAEM)

i. An SME policy dialogue agenda developed
ii. Establishment of formal arrangements for presentation of SME agenda to the GOG
iii. Establishment of better communications between SME and larger-scale business interests - particularly, the financial community.

c) Institution Building

i. AGG's SME Section established as a constituency organization for SME
ii. SME information network
iii. SME membership services develop a capability to address SME needs

f. Impact

The SME technology transfer component focuses primarily on enhancing the productivity of Guatemalan small and medium enterprises. The key impact will be reflected in increased sales volume by SME participating in the basic cycle.

It is estimated that as a result of the program the following impact will be achieved:

At least a modest six percent real growth rate will be achieved due to improved technologies and management skills. This will result in the 1,000 firms participating in the basic cycle program increasing their sales during project life by approximately $8.2 million. This sales increase will generate approximately 500 work years of employment during the life of the project. The impact caused by outside technical assistance and complementary training is not possible to estimate with precision. Orders of magnitude, ranging from 2-8 percent one-time growth impact, are well documented in development literature. Yet neither the data base nor a fine-tuned analysis exists presently in Guatemala to estimate this effect. As noted elsewhere, PED impact monitors will closely monitor this experience to register the effect of these services on the sales, profits, investment and employment of participating firms.

g. Inputs

The Summary Budget for the SME Center is as follows:

		$U.S. Dollar Equivalent ($000)		
		FX	LC	Total
(1)	AGG's SME Development Center			
	Design, Development, and Testing Basic Program	100	500	600
	Program Operations year 2-5	175	1,785	1,960
(2)	Specialized training		260	260
(3)	Specialized SME Technical Assistance	250	100	350
(4)	SME Advisor	500		500
(5)	Commodities and other costs	90		90
	Totals	1,115	2,645	3,760

In addition, private sector contributions including tuition will be placed in a trust fund to assist continuation of the SME program after termination of the project. These contributions are estimated to be $525,000 LOP.

h. Beneficiaries

Primary beneficiaries will be current owners of SME.

i. End of Project Status

1. Viable private enterprise based business training and consulting industry established
2. AGG SME Section institutionalized as a permanent service engaged in networking, policy dialogue support, and membership service.

2. Export Promotion

a. Introduction

$3.6 million in grant resources will be provided under this component to address three principal areas of concern to Guatemalan export

development and promotion: (1) conditions in the country affecting exports, such as transportation, finance, fiscal incentives, cumbersome bureaucratic procedures, foreign exchange and investment policies; (2) external market access, including such areas as quality standards, pricing and cost structures, production capacity, and international trade support by the GOG; and (3) internal problems of enterprises, including technical assistance, improved access to information, and training with regard to the export process.

This project will support efforts to expand Guatemalan export markets through four activities:

1. Support for the Nontraditional Product Exporters Guild in policy negotiation, technical assistance, training, and promotion for nontraditional export products. This program complements two other AID programs which are in implementation in the Guild, the USAID Agribusiness Development Project (520-0276) and the ROCAP Nontraditional Agricultural Exports Support Project (596-0108).

2. Support for research, development, and promotion of Free Trade Production Facilities (FTPF). This activity will be directly implemented by the Chamber of Entrepreneurs (CAEM).

3. Upgrading the performance of export-related institutions in the public sector. This activity will be directly implemented by the Ministry of Economy.

4. Support for policy changes affecting the capability of the private sector to effectively compete in the international marketplace. This activity will be jointly developed by the Exporters Guild and CAEM. It will address the priority areas affecting exports indicated above, and is integrated into the discussion of the appropriate assistance elements.

b. Elements of Assistance

1. Nontraditional Export Promotion

This activity will provide $2 million to support the development within the private sector of Guatemala of a program to influence various aspects of the global export system: country policies to foster nontraditional exports,* implementation of programs for groups of entrepreneurs classified by product and actually exporting, and strengthening of the services provided by the Exporters' Guild. This activity will be carried out by the Nontraditional Products Exporters Guild.

* Examples of nontraditional export products to be supported under this project are: allspice, achiote, pineapple, plantain, honey, cacao by-products, cut flowers, macadamia nut processing, shark fins, dehydrated fruits and vegetables, fruit pulp, medicinal plants by-products, apparel drawback, scrubbing sponge, and rubber products.

Given that export policy is the responsibility of the public sector through the National Export Promotion Council (COMAPEX), the project includes a separate activity to strengthen this key export sector institution as discussed below. Additionally, in keeping with the project's theme of increasing the policy role of the private sector, this activity of the project will support the policy analysis capability of the private sector. The project will also support provision of specific technical assistance to export producers with the goal of improving the marketability of Guatemalan products in the international marketplace.

The project will fund a long-term Export Development Advisor (EDA) and seven new staff positions in the Guild to assist in policy and technical assistance activities as well as institutional strengthening. A key priority for the EDA will be to establish cost effective, profit driven mechanisms in CAEM. These mechanisms should expand the Guild's revenue base and help prioritize, following market directives, the Guild's services.

Specific technical assistance and training programs will be developed for groups of enterprises by product class. This will include the preparation of sectoral assessments, development and adaptation of production to market demands, and promotional activities to assist exporters in commercialization of their products in external markets. Thus far, programs have been prepared for a number of product lines. At the same time, an analysis has been prepared on international market demand for 15 products manufactured in Guatemala (see Annex I). Although this assistance element is not specifically targeted to SME, it is expected that a significant number of SME will begin to avail themselves of Guild services as they enter the export market, primarily as a result of the AGG and credit components of the project.

The Mission will ensure that assistance and training in connection with the production of agricultural commodities for export cannot reasonably be expected to have a significant impact on the export of a similar U.S. commodity or will not directly compete with similar U.S. exports.

To foster replicability and financial sustainability, the project will develop a system of user charges for product-specific services including technical support and seminars. The Guild now charges a nominal fee for seminars, but does not charge for technical services which are obtained free of charge from donors. Under this project, the Guild will charge for technical assistance. An estimated $435,000 in fees and service charges, and other donor assistance, have been estimated to be generated over the life of the project, which has been incorporated into the project's budget as a counterpart contribution.

2. Free Trade Production Facilities

This assistance element will finance technical assistance, staff and promotional efforts required to support (1) the development of a FTPF strategy, initially targeted to Section 807 industries; and (2) establishment by CAEM of an FTPF Investors Service Center.

a. FTPF Strategy

CAEM will be the private sector driving force identifying, setting priorities, and promoting an improved policy environment. The Minister of Economy will be the key counterpart on the public sector side. AID support will foster a constructive dialogue by both sectors on the export area through the National Export Promotion Council (CONAPEX). The policy dialogue, under the FTPF context, will include: legislation - comprising laws, decrees and regulations; procedures and requirements; private sector practices; and implementing entities. Policy negotiations will commence immediately after project start-up.

The FTPF strategy will comprise export production zones (EPZs), shelter programs, free trade zones, special free trade zones (which may include single plant designation as extra-customs, dollar operations), "maquila" parks or plants, bonded warehouses, and industrial parks designed to become EPZs. Initially, this strategy excludes off-shore banking, office parks, and enterprise zones. The project will concentrate its support on 807-type ventures and related activities benefitting from the tariff advantages provided by the Caribbean Basin Initiative. The high cost of Guatemalan industry does not allow, at least currently, a fully integrated approach such as the one found in Taiwan and South Korea.

The FTPF Strategy will address the following illustrative list of policy actions that were jointly identified by USAID and Guatemalan Counterparts during intensive review:

a) In-depth discussion and presentations on the benefits provided by existing legislation (e.g. Decree 21-84). These discusions will include:

(1) The possibility of establishing free zones as bonded warehouses (almacén fiscal). This would allow tenants to operate in foreign exchange (converting operating expenses into quetzales) and EPZ companies to charge rent in dollars. In addition to providing investors with a significant incentive, this arrangement would also minimize regulatory impediments.

(2) Another option for the legal operation of the EPZ while new legislation is enacted, would be to have the entire zone, as well as each of its tenants, operate under the provisions of the Drawback Law (as modified by a joint public-private sector commission). Although re-export companies would be able to operate with a minimum of regulatory obstacles, the major disadvantage is that companies would have to turn all of their foreign exchange earnings into the Central Bank. While this is not a problem at current exchange rates, the competitiveness of the re-export companies (and consequently the continuation of the jobs and exports created) would be subject to Government exchange rate policies.

b) Identification of the main constraints which impede the commercial management of ZOLIC. Optimization of labor generation and enhanced profitability will be originally targetted. As the FTPF activity gains momentum, a stronger private sector influence in ZOLIC management may be fostered. After the GOG decides to make ZOLIC work, improvements will be promoted and "software" implementation (i.e., promotion) supported.

c) Submittal of final language on improved temporary import and new FTPF legislation. After laws are approved, required regulations will be drafted and negotiated. Assistance will be provided to GOG on law implementation, and small workshops will explain the benefits to private sector investors and to the Lawyers Professional Association (Colegio de Abogados). USAID expects this cycle completed by the summer of 1988.

d) A domestic promotional campaign will be launched. This campaign, building on the enacted legislation, will focus on a single theme: Guatemala's industrial export competitiveness.

e) Research problems with existing custom procedures, develop solutions, and promote desired changes.

f) Research potential problems with potential future quota allocation, and initiate solutions which anticipate future quota negotiations.

g) Streamlined immigration procedures pertinent to FTPF.

h) Research existing procedures for advance approval of imports and consular invoicing, develop improved alternatives, and promote their adoptions.

i) Restrictions on air freight service and their impact on FTPF will be identified. Findings will be used by CAEM to negotiate, through CONAPEX, improved air freight policies and regulations (both stated or implicit) affecting FTPF. Equally important, identify bottlenecks impeding fast turn around time at maritime ports. This process will address the "software" components (i.e., rules, regulations, practices), and excludes hardware (i.e., port infrastructure).

j) Identification of mechanisms to improve financing legislation in medium and long term financing pertinent to FTPF investments.

k) Identification of policies, regulations and practices which further aggravate the existing poor telecommunication services to FTPF, design improved alternatives, and promote them.

As a direct result of the policy dialogue process highlighted above, a Guatemalan FTPF Development Strategy will emerge. This project element has opted for a progressive approach to the strategy design, instead of an initial master blueprint. Extensive work along these lines has

already been done in several countries (i.e., the Dominican Republic and Costa Rica). The documentation generated, through USAID's funding, will help the Guatemalan process. Highly targeted external technical assistance from the U.S. and other countries will assist in the progressive and synergetic emergence of a Guatemalan FTPF strategy, directly designed and negotiated by Guatemalans. A policy dialogue based on constituency support, rather than on technocratic design, is the fundamental approach spoused by USAID in the PED project.

b. The Investors Service Center

The Investors Service Center will perform the following tasks: (1) provide support services to FTPFs, such as orientation material, seminars, and domestic and international promotion; (2) direct pre-investment services, including analysis, "matchmaking" with partners, general marketing assistance and networking; and (3) provide ombudsman/troubleshooting services on customs procedures, work visa approvals, and investor responses to FTPF activities. The Center will generate approximately $20,000 in service and contract fees over the two years of project funding.

The FTPF Investors Service Center will be overseen by an FTPF Development Council, composed of representatives of the Industrial, Financial and Construction Chambers, the Nontraditional Exporters Guild, and the "Maquila" Guild. The Center will be staffed by a Center Manager, an administrative assistant and a secretary. Staff and equipment costs have been estimated at $80,000. CAEM, through the PMU, will manage an FTPF Development Fund for promotional activities. The PED allocates $250,000, plus $120,000 in local currency, to support Fund activities.

The Center will also take the lead in addressing policy constraints to FTPF development by promoting sound analysis of policy and regulatory issues affecting the development of competitive FTP facilities in Guatemala. The policy areas to be addressed include removal of bureaucratic obstacles to small and medium size firms entering the export market; extension of the fiscal incentives law, already granted to 80 of the largest firms, to include smaller scale enterprises; revision of the Central American tariff regime to improve incentives for export production; improvement in trade promotion activities of Guatemalan embassies abroad; and improved access to credit, in part addressed by the Guaranty Fund to be established under the project.

The Facility will continue to provide services only if the private sector proves to have effective demand for the services provided by the Center. After two years, Guatemalan private sector organizations, the GOG and USAID will reassess this activity. At that time, and against actual results and existing institutional capacity, a decision will be made on AID's role, if any, in the future development of this highly promising private sector activity.

3. Improved Performance of Export-Related Institutions in the Public Sector

This element represents a buy-in to the $80 million World Bank Export Promotion Project to be presented for board approval in the fall of 1987. However, it should be noted that all elements under this activity are stand alone elements, except for FODEX. Funding for the latter activity will be conditioned on the World Bank approval of their project. Funds for this element will support two facilities — the National Export Promotion Council (CONAPEX) and a working capital credit facility for exporters (FODEX) — described below, which will enable the GOG to respond appropriately to the policy and administrative needs of private sector exporters.

CONAPEX

The National Export Promotion Council (CONAPEX), established in 1986, is composed of senior GOG officials and private sector representatives, who meet weekly to discuss means of promoting Guatemalan exports. CONAPEX's public sector membership, made up of the Ministers of Economy (as chair), Agriculture, Public Finance, Foreign Relations and the President of the Guatemalan Central Bank, encompasses the GOG entities which have jurisdiction over various aspects of export trade. Private sector membership is similarly drawn from those parts of the economy which export or which provide services to exporters. The five private sector respresentatives are nominated by the Chamber of Entrepreneurs from the agriculture, financial, tourism, cooperative, industrial and commerical subsectors. Decisions are made through consensus, rather than majority vote, a provision that was won by the private sector to prevent CONAPEX from becoming a mere rubber stamp for government policies. This ensures that the policies adopted by CONAPEX have private as well as public sector support.

The PED project will strengthen the analytical basis for CONAPEX policy dicussions by supporting the establishment of a technical secretariat within the Council. A high level trade policy and export promotion expert will be contracted to assist CONAPEX in designing and implementing a National Export Program. Budget support will be provided to finance specialized consulting services. Local currency will be used to provide a permanent technical staff and administrative support for two years.

CONAPEX will also be provided with technical assistance to update studies on comparative advantage and competiveness of Guatemalan industry. For the purposes outlined above, the PED project will provide $340,000, plus $450,000 equivalent in ESF local currency.

FODEX

The World Bank is preparing an $80 million Export Promotion Project to be presented for IBRD board approval in the fall of 1987: $60 million for balance of payments support and $20 million to establish a marketing capital credit facility (FODEX) for direct and indirect exporters (see Annex K).

As a direct result of PED support to the Guild and CONAPEX, the World Bank has indicated that critical institutional needs for their project success will be met. By supporting these organizations, and their networking with other project elements through CAEM and the PMU, the PED strategy is to leverage the $20 million FODEX fund for our primary target - the small and medium entrepreneur. USAID, the Exporters Guild and the banking community also expect that the Guaranty Fund will allow SME to access FODEX, thus helping to enlarge the scope of FODEX's clientele. Conversely, the effectiveness of the PED project will be substantially enhanced by this $20 million facility.

USAID will arrange for a "twinning arrangement" with a foreign institution that is successfully operating an export financing program. A full-time consultant financed by the PED project ($150,000) will be contracted to develop the operating policies of the FODEX, and to put FODEX into operation. Part of the consultant's task will be to incorporate credit for domestic suppliers, normally small and medium enterprises, to export industries (indirect exporters) as part of FODEX lending operation. This support will only be provided in conjunction with the World Bank $80 million project.

c. Beneficiaries

The primary beneficiaries of the Guild program are over 400 member firms and, in particular, the firms in 18 targeted industries. Secondary beneficiaries include employees, suppliers, and others who will be attracted to export operation as a result of opportunities identified and network developed by the Guild. The primary beneficiaries of the FTPF Program will be the Guatemalan unemployed and underemployed, particularly the female labor force. The primary beneficiaries of the CONAPEX activity will be exporters and their employees generally. FODEX beneficiaries will be identical to those shown for the Guild and FTPF activities.

d. Impact

The project will result in a comulative increase of eighty million dollars in exports of nontraditional products (derived from both product and non-product specific assistance to the Nontraditional Product Exporters Guild). Given that the total assistance under this component is not expected to exceed the dollar and local currency equivalent of $3.6 million implying a significant leverage of project resources. Impact figures will be carefully monitored by the PMU. If the Guild's optimistic estimates prove accurate, the project will have produced a major shift in private sector strategy toward much heavier emphasis on exports.

USAID and CAEM expect several important accomplishments from the FTPF activity:

1. Leverage: USAID's direct investment of $250,000 will be leveraged by $5 million in private equity investment (or debt financing), and by additional private investment in re-export industries. In addition, RDP-financed services will encourage investments to generate about 6,500 direct jobs and about $39 million in export earnings. Specifically, a private sector owned and managed Export Promotion Zone will be established by the end of this RDP, i.e., two years.

2. Broad reach: The project will effectively work through the private sector towards alleviating structural problems, involving income distribution and access to resources, by opening up opportunities for new entrepreneurs to invest in FTPFs, and for underemployed Guatemalans to work at improved wages.

3. Strengthening private sector organizations, primarily CAEM and its affiliates, which support these activities.

4. Compatibility with GOG objectives: By creating significant numbers of jobs and opportunities for a broadening of the private sector, this project element is compatible with GOG objectives.

5. Demonstration effect: FTPFs will undoubtedly be replicated, as has occurred with similar models in Mexico and the Dominican Republic.

6. Removal of constraints to investment and exports: The project provides a vehicle that will attract private investment by facilitating access to the large assembly industry market where Guatemala has a significant comparative advantage.

7. Improving the business climate image of Guatemala: FTPFs can change investor perceptions of a country by providing an operating environment with the simplicity necessary to attract small- and medium-size firms.

8. Increasing competitiveness of local producers: The Guatemalan FTPF program can accelerate industrial reconversion by promoting subcontracting links with efficiency conscious local firms.

9. Demonstrating market-oriented policy reforms: In its structural negotiations with the IMF and the World Bank, Guatemala may wish to emphasize the role of its FTPF in pioneering new tax, tariff, regulatory, and privatization policies toward tangible benefits accruing from the export sector.

e. Outputs

The expected outputs of the Guild program are:

1. Export expansion in 18 targeted product areas.
2. Improved export performance by 400 firms.
3. Effectiveness of the Guild in technical support improved.
4. Guild income-raising capacity improved.

The expected outputs in FTPF are:

1. New legislation on temporary inputs (i.e., drawback) and on Export Production Facilities enacted.

2. Improved customs procedures which would drastically reduce the time required to move temporary imports through customs.

3. A Guatemalan FTPF strategy designed and approved by GOG and private sector authorities.

4. Ten seminars/workshops organized (including three international fora), attended by 150 participants.

5. One FTPF designed and at least two FTPF in advanced negotiation phase.

6. An FTPF Investors Service Center staffed and providing services.

7. An established technical secretariat for CONAPEX.

8. Development of the operating policies and initial operationalization of FODEX.

f. Inputs

Summary input data are as follows (based on detailed analysis in Annex I, Attachment 2 and Annex K).

	(thousands U.S.$)			
Inputs	AID FX	GOG LC	Private LC	Total
Guild Program	2,000	570	435	3,005
Specialized Technical Assistance	250	-	-	250
Free Trade Production Facility	250	200	20	470
Export Development Advisor	500	-	-	500
Commodities and Other Costs	90	-	-	90
CONAPEX	340	450	-	790
FODEX Advisor	150	-	-	150
	3,580	1,220	455	5,255

g. End of project status

1. A vigorous private sector nontraditional export sector developed.

2. Policy environment established conducive to nontraditional exports.

3. Strong Nontraditional Product Exporters Guild serving the nontraditional export community.

4. A well-defined FTPF strategy and a functioning FTPF Investors Service Center.

5. One EPZ fully operational.

6. FODEX fully operational.

3. Financial Market Development Program

a. Introduction

Assistance under this component will address the key constraints identified with regard to developing more efficient financial markets: (1) conservative commercial bank lending policies limiting access to small and medium enterprises to needed credit; (2) insufficiently developed free market forces in the financial markets; (3) lack of competition limiting the availability of financial products and services; and (4) weak capital markets characterized by excessive dependence on demand deposits and short-term instruments to finance long-term investment requirements.

This component will address some of these problems directly through: (1) development of a Guaranty Fund to promote lending to small and medium size enterprises; and, (2) financial market research, development and promotion, and policy dialogue.

b. Assistance Elements

1) The Guaranty Fund

a) Introduction

This local currency funded element will address one of the major defects in Guatemalan financial markets — the lack of access to credit by credit worthy SME. Consultants have confirmed USAID's understanding that current banking practices result in commercial banks requiring up to 200% collateral for business loans. Further, legal restrictions on asset-to-loan value often result in valuations for collateralization purposes reaching 300% or more. Effective channels for credit must be established if small and

medium enterprise is to have any chance to play the role required of it in the economy. The problem is especially acute for SME which typically lack the financial depth or connections to secure financing required to conduct a modern business enterprise.

The possibility of establishing a guaranty fund which would supplant or partially reduce the need for collateral was studied by several consultants and found to be a viable option for immediate relief of credit constraints for SME. The consultants' findings and recommendations are set out in Annex J-1. USAID has given careful consideration to concerns expressed by the DAEC relating to failures of guaranty funds both in Guatemala and elsewhere (see Annex J-1).

b) How the Guaranty Fund Will Work

i. The Ministry of Finance will transfer to the official disbursement deposit account of USAID the equivalent in local currency of U.S. $5.5 million. These funds will be provided as counterpart support by the Government of Guatemala in conformance with the 1987 ESF agreement.

ii. The AID Mission will transfer the money and establish a trust in a local commercial bank (selected according to AID rules and regulations regarding competition), which will serve as the Guaranty Fund.

iii. The Guaranty Fund will be managed by a Steering Committee comprised of the following:

- A representative of CAEM with special interest in the concerns of SME.
- A representative of the Guatemalan Bankers Association.
- A representative of the Central Bank of Guatemala.
- A representative of AID who will attend as an observer during the first three years of the project.
- Observers, with voice but not vote, from the banks which are participating in the program.

Based on the growth of the Fund and the demand generated by the project, the composition of the Committee may change in the future. The Fund's operations will begin with three local banks which have demonstrated interest in participating in the program and in working with small and medium business loans. These institutions are: Banco del Cafe, S.A., Banco Industrial, S.A., and Banco Granai & Townson. The number of participating financial intermediaries may increase as the Fund grows.

v. To take part in the guaranty program, the banks will be qualified by and will have to sign an agreement with the Steering Committee. This agreement will establish the rights and obligations of each

institution, as well as the operating methods of the Fund. Included in each agreement will be a requirement that participating institutions provide an outreach and promotion plan, satisfactory to the Steering Committee, to attract the SME to use the Fund. If the future situation warrants, other financial institutions may also enter into a formal agreement so that they may participate in the program.

vi. The Fund will guaranty up to 50 percent of the principal of the loans, between Q2,500 and Q100,000, made to the small and medium businesses which meet all of the following criteria:

- 10 to 100 employees,
- industrial or agroindustrial,
- presentation of certified financial statements, and
- submission of an acceptable business plan and related documentation.

vii. The Committee will review credit requests submitted by the banks to verify that they comply with the selection criteria. The Committee will then issue a guaranty certificate. The loans that the participating institutions provide under the guaranty will be registered separately from their regular credits and will require an annual guaranty commission equivalent to one half of one percent of the unamortized principal amount of the loan. Proceeds will be used to offset the operating expenses of the Fund.

viii. Guaranties will be made on two types of loans:

- Working capital loans to one year, renewable after total repayment within one year, partial drawing permitted; and

- Loans for purchase of capital goods for up to five years with monthly payment of interest and amortization.

ix. To recover the guarantied amount in case of loan defaults, participating banks will have to demonstrate that a loan is six months overdue. They will also have to demonstrate that they have carried out their normal collection process during that period of time, and initiated legal action to collect the loan. The bank may elect to withhold presentation of the defaulted note without prejudice to later presentation.

x. Based on evidence of an ongoing collection process and the guaranty certificate, the Steering Committee will determine whether the bank has followed the loan criteria and the normal collection process. If a positive determination is made, the Committee will pay the 50 percent of the outstanding loan principal guaranteed.

After the guaranty has been paid, the participating banks will continue with the collection process. Any funds recuperated will be shared equally and applied first to the outstanding principal of the loan. If any amount remains after principal repayment, it will be used to cover unpaid interest and related expenses of the lenders.

xi. The local currency Guaranty Fund will be complemented by a U.S. $2 million trust fund to be established by PRE in a U.S. bank. This fund will function under the same guidelines and selection criteria as the Guaranty Fund.

c) Current Status of Negotiations

The Guaranty Fund and its financing mechanism have been discussed with representatives of local banks and finance companies, the private sector, and the Central Bank. The consensus among these institutions is that this is a necessary financial instrument to facilitate access to credit for a large sector of the economy. The banks' participation under this program is predicated on the existance of an automatic payment mechanism on uncollected loans, a point with which the Mission fully agrees.

As of the date of preparation of this project paper, the procedure for transfer of the local currency to the AID trust account was still under negotiation with the Minister of Finance. As was mentioned earlier in this section, after the local currency has been transferred to the AID trust account, the Steering Committee will select through a competitive process the institution in which the funds will be placed in trust. The selection critieria for the trustee bank will be based on investment methods and profitability of deposits, as well as the conditions it offers to manage the trust.

d) Expected Credit Guaranty Utilization under the Guaranty Fund

Estimates of the three institutions with which the Guaranty Fund will be initiated indicate that during the first five years they will issue an average of 500 loans for an approximate total amount of Q35 million. This is detailed below:

	Number of Loans	Amount (Millions of dollars)
Year 1	55	0.9
Year 2	75	1.6
Year 3	110	2.8
Year 4	125	3.6
Year 5	135	5.1
TOTAL	500	14.0

The funding of the Guaranty Fund will be tranched to match the growth of projected demand for guaranties under the Fund in the following manner:

Funding in Millions of $'s		Cumulative Total
Year 1	1.0	1.0
Year 2	2.0	3.0
Year 3	2.5	5.5

(Exchange rate used for transfer of ESF funds was Q2.58287 = U.S. $1.00)

The program may expand coverage and/or incorporate other financial institutions under the guaranty. The capitalization rate of the Fund may be accelerated or decelerated according to future demand. Approximately twenty-four months after promotion of the Fund has begun, the Fund's performance will be examined to determine whether it has attained it objectives. If the Fund's performance is acceptable, the conditions of the Fund will remain in effect for a period not to exceed 25 years. The documentation used to establish the Fund will contain a clause which places responsibility for final disposition of the Fund with the Steering Committee. The document will also stipulate that the funds will be used to promote activities which support the original objectives of this project.

If the Fund has not reached it objectives, the unencumbered assets of the Fund will be reprogrammed toward other areas of the project. If this occurs, the Mission will then determine if (a) the excess liquidity in the system has dried up, and/or (b) if other donors have not created new lines of credit. If this is the case, the unencumbered assets of the Fund may be used to create a line of credit to finance the activities of small and medium businesses falling under this project.

e) Promotion Activities

To maximize the possibility of dynamic use of the credit guarantied under the Fund, it was considered essential to develop an intensive promotional campaign for which $50,000 in local currency has been set aside under the project. Also, foreign technical assistance will be used to provide training for the staff of the banks participating under this project. U.S. $50,000 has been budgetted for this activity.

f) Credit Demand

During the past few years, USAID and ROCAP have contracted several studies of the financial system in Guatemala (e.g., The Private Sector Survey for Guatemala by Roger Cowan and Associates; Analysis de la Actividad Crediticia en Guatemala: Período 1981-1984 by Hugo H. Quinto y Asociados.) Most recently, the Agricultural Task Force analysed the financial sector and its problems (see Agricultural Finance Findings and Recommendations, Arthur Young/ROCA in the bulk file.)

The findings of these analyses converge toward a single conclusion...the potential demand for credit by small and medium enterprises seldom becomes effective demand due to high collateral requirements. USAID has monitored and validated this conclusion through the Agribusiness Project credit line. Most loan applications were rejected due to insufficient collateralization. (See Attachment 4 to Annex J for a detailed summary of firms and cause of loan denial.)

Recent discussions, the latest one held on July 28, 1987, with AID-funded long-term consultants contracted through other projects, have identified credit barriers, particularly collateral requirements, as the greatest obstacle to their activities. These consultants, the Agricultural Task Force, bankers, private sector leaders, and small and medium entrepreneurs have hammered on a single issue - the number of rejections due to insufficient collaterallization is large. Banks only keep track of the loans they finance and maintain no record of the rejected loan applications. Thus, the potential demand is difficult to estimate.

An operational study of credit demand, which includes bankers, suppliers, and small and medium enterprises, will require substantial technical resources and will be time consuming. Its results, such as demand elasticities, response functions, and attitudinal analyses may be drastically affected by macroeconomic changes. It is not unusual to find that expensive analyses become obsolete soon after they are completed. For example, the credit demand analysis commissioned by the Mission in 1984 has little relevance today due to subsequent macroeconomic changes.

Based on the above, USAID has concluded the following:

1) There is a large potential credit demand by small and medium enterprises;

2) Progressive elements in the banking system, aware of this demand, are willing to expand their services to these strata. They have suggested that an effective guaranty fund would be a key element to assist them in their expansion efforts into this area; and,

3) An operational credit demand analysis will be costly and the validity of its findings and recommendations would be highly sensitive to sudden macroeconomic changes.

As an operational response to these conclusions, USAID has decided to finance the establishment of a Guaranty Fund without incurring the expense of a credit demand analysis. This Fund, tailored to the credit needs of SME, will grow through a controlled expansion. Beginning with a modest target, fifty-five loans during its first year, the Fund will expand in response to the effective demand of the banking system.

By pursuing this approach, USAID/Guatemala tests a central working hypothesis: bankers will lend to SME when the risks of doing so decrease sufficiently. If the Fund doesn't facilitate SME's credit access, the PED project will fund, through its Financial RDP, additional analysis seeking alternative options. In the event that the Fund does not function as envisioned, the net capital resources remaining in the Fund will be reallocated to financial instruments identified through the Financial RDP. By pursuing this action-oriented approach, the Mission implements one of its private sector strategy core concepts of more reliance on market forces and less on studies.

g) Outputs

The outputs of the local currency guaranty fund activity will be:

i. A minimum of 500 loans to SME which otherwise would have been denied but for Guaranty Fund, in 5 years.

ii. A minimum of Q35 million of credit guaranteed in 5 years.

iii. No less than three financial institutions participating in the program.

h) Inputs

The inputs for the Guaranty Fund are:

$5.5 million in ESF local currency plus $50,000 in ESF local currency for initial support and promotion of the fund, and training for SME loan officers in participating commercial banks. Additionally $50,000 in grant funds will finance the foreign exchange costs associated with the training activity.

i) Beneficiaries

Direct beneficiaries of this component will be owners and employees of approximately 500 SME which will receive credit that would not have been granted without the guaranty program.

Exporters and FTPF developers and clients may also benefit from these services.

j) End of Project Status

- A fully operational facility to guaranty of SME credits

- Net increase in commercial bank lending to SME.

2. Financial Market Research, Development, Promotion and Policy Dialogue

a. Description of Element

USAID has determined that a systematic effort to develop Guatemalan financial markets must be undertaken and sustained over an extended period of time in order to deal with a major obstacle to development in Guatemala: a rigid, restrictive financial system. The first step in this program is to gather data, identify key problems, and develop a strategy.

The objectives of the USAID strategy will be to: (1) increase the availability of credit to small and medium borrowers; (2) develop the availability of medium- and long-term funding for commercial entities; and (3) provide investors/depositors with realistic risk-reward incentives leading to heightened competition among financial market sectors, institutions within a given sector, and financial instruments available to the borrowing and investing public.

The initial steps in developing a strategy to accomplish these objectives are as follows:

(1) Develop a data base to assist USAID and other donor agencies in deciding on the kinds of assistance needed and the priority in which assistance should be given in order to strengthen Guatemalan financial markets. In this connection, this activity will catalogue all existing studies and identify the best data and analytical base on which future studies could be built in order to avoid duplication of effort when undertaking studies and recommend a structure and format for such studies.

(2) Develop a catalogue of the laws and policies which govern the financial markets, stressing factors which inhibit development of new financial instruments, to serve as the basis for comprehensive policy dialogue with the Government of Guatemala.

(3) Develop an action plan which places in order of priority those structural, legal and legislative changes that must take place to strengthen, diversify and foster financial markets in Guatemala. Potential areas of focus may be: (1) removal of government intervention in the setting of interest rates on deposit and loan instruments, controlling credit availability through management of the rediscount rate and reserve requirements; (2) assurance that special conditions for "special" deposit and loan instruments do not distort the market; (3) provision of infrastructure support in the form of training and technical support; (4) encouragement of the development of institutional investors that invest their own and client funds on the risk-reward principle; and, (5) revisions to the banking laws to present collateral requirements for investment lending.

(4) Engage in policy dialogue objectives, which will be determined by USAID and participating PED organizations (e.g., CAEM, AGG, Guild), based in part on the results of the RDP studies described above, and partly Chamber of Finance) on the basis of changing economic and political conditions.

A total of approximately 100-person weeks of effort will be devoted to the various studies and analyses to be undertaken in this assistance element. The total cost of this effort is estimated at $250,000. The precise strategy, specific scope and sequence of the financial market studies, and costs will be determined by CAEM, USAID, and the Guatemalan Financial Chamber during PED project implementation. A total of $200,000 and $50,000 in local currency is budgeted for this activity.

The project also provides $300,000 for a long-term financial markets advisor who will assist the Financial Chamber and CAEM in implementing this element of PED.

b. Outputs

Financial Market RDP

1. An improved policy dialogue process
2. An improved information base on the financial system.

c. Inputs

	Thousands U.S. $		
	AID FX	ESF LC	TOTAL
Technical assistance funds for financial market research, development, and promotion studies	200	50	250
Financial Markets Advisor	300	-	300
	500	50	550

d. Beneficiaries

The primary beneficiaries of this activity will be SME whose business opportunities are constrained by lack of adequate financing. Secondary beneficiaries of improved financial market performance will include the entire Guatemalan society.

e. End-of-Project Status

- New laws, policies, and financial instruments capable of serving the needs of private enterprise

4. New Private Enterprise Initiatives

a. Introduction

The PED project's three main components - managerial technology transfer, nontraditional export expansion, and financial market development - all involve major action programs, analyses, policy dialogue and institution building elements. Yet there are many other areas of private enterprise development in which effective policy and project interventions are needed whose ideas, constituencies, and programs have not yet matured to the point that the Mission is prepared to structure a project component or commit to a program. These areas of interest are the domain of the New Private Enterprise Initiatives component of the PED project. This approach complements and makes operational a key concept in the project rationale: to support, but not direct, private sector initiatives identified, promoted and developed by Guatemalans. The Mission's project committee will develop the criteria that will govern the selction of activities to be financed under this component.

The New Private Enterprise Initiatives (NPEI) component is the Mission's mechanism for research, development, promotion, constituency building, policy studies, and institutional support in "other" private enterprise areas. The purpose of this component is to analyze practical policy concerns; build constituencies for policy change; attract practical business people to take risks in emerging areas of interest (e.g., privatization); provide institutions, public and private, with the resources to engage in policy dialogue; implement desired changes, and, test new approaches.

Financing under this component will be directed to:

1) Assistance to the Minister of Economy to strengthen the public sector in its capacity to address policy, regulatory and implementation issues which support the Guatemalan economy and its private sector, primarily small and medium entrepreneurs.

2) Research, develop and promote privatization options, primarily those which eliminate major bottlenecks to economic expansion.

3) Establishment of an international training fund to finance highly specialized short-term training abroad.

b. Assistance Elements

1) Public Sector Policy Improvement

This element will provide $450,000 and $260,000 in ESF local currency to assist the Ministry of Economy (MOE) to carry out a constructive policy dialogue with the private sector. It focuses on strengthening the GOG capacity to develop a positive policy and regulatory

environment in response to the need to promote private sector investment and export production.

The element complements the export-oriented policy support addressed through CONAPEX, by building the capacity to respond to new policy initiatives. USAID believes that to focus only on export-related policies would be short-sighted. Guatemala will succeed in the export area only by encouraging an overall competitive private sector. Further, SME require specific attention with improved policies and streamlined regulations. This element, then, addresses the private sector policy needs by strengthening GOG capacity to respond to them.

The PED project strengthens the private sector capacity to research desired policy changes, design improvements, and promote changes. Operationally, this will cause a stronger demand for policy changes. Yet the "price" will increase if the "supply" response doesn't improve. The price in this particular case may well be political unrest and disenchantment with the democratic process.

PED resources, although primarily dedicated to strengthen private sector institutions, will also facilitate the effectiveness of the GOG in its positive response to policy improvement. By increasing the policy "supply" side of the equation, i.e., the GOG capacity to respond, USAID will reduce the "price" of policy negotiation.

PED resources will be primarily reached by the MOE through detailed action plans that link PED, MOE and private sector resources to highly targeted policy and regulatory results.

This project element will support the Ministry of Economy in the following areas:

(a) Training to Ministry personnel in the implementation of new legislation.

(b) Streamlining GOG administrative procedures constraining primarily small and medium enterprises.

(c) Assisting the MOE in assessing the creation of CONAPEX-type facilities in other sectors (e.g., investment, construction, industry, domestic trade, energy, transportation).

(d) Supporting the MOE information system (data management, information distribution, etc.).

(e) Identifying revenue-enhancing (e.g., user charges) and cost-cutting (e.g., improved personnel management) options to improve the financial base of the MOE.

Assistance to the MOE will include one year of consulting services with the objective of furthering the establishment of fiscal incentives and removal of disincentives to local and foreign investors and entrepreneurs.

Additionally, PED resources will fund short-term international and domestic technical assistance and the procurement of equipment required to implement accepted policy recomendations. Administrative and staff support required to facilitate MOE option of knowledge transferred by external specialists complements this activity. PED will fund local technical assistance to encourage and allow the MOE to enhance its effectiveness by using the private sector. The MOE will contract out specific assignments to Guatemalan private sector companies or individuals.

2) Private Sector Research, Development, and Promotion (RDP)

This assistance element will provide $200,000 to support private sector efforts to identify and analyze targets of opportunity to promote private sector investment and export interests before the GOG. CAEM, through its relationship with subgrantees under the project will strengthen its role as coordinator among the various constituted chambers will become the forum for identifying specific private sector policy and investment interest that could not be determined a priori.

Although the state-owned enterprise (SOE) sector of Guatemala is relatively small, SOEs are critical to the future development of Guatemala. They control telecommunications and power generation, and affect Guatemalan competitivenes in international trade. There are relatively few legal barriers to privatization, and most of these are of a minor nature.

Other areas that may be financed under this assistance element would be pre-feasibility and feasibility studies to support new private sector investment and export production efforts beyond the specific activities identified in this project paper. In all cases, prospective studies will be evaluated prior to financing to ensure conformity with the Lautenberg and Bumpers amendments, as well as for conformity with the USAID strategy for the sector. Funding may also be provided to develop an incentives program to decentralize industrial and other private sector economic activities; or, alternatively, to provide incentives for the development of local entrepreneurial talent and identify public services required to promote local private sector economic development.

Included in the activities under this component, the project provides $300,000 for short-term overseas training directly related to project objectives. This activity is intended to facilitate training opportunities such as export incentives in Colombia, where a particularly successful incentives program was established, and the International Trade Center in Geneva. Complementary funding of training opportunities offered by

other donors will be a major application of those funds. Training for employees of private enterprise under this element will be handled on a cost-sharing basis.

To strengthen the institutional capacity of CAEM to play a role as the key institution for coordination of private sector policy interests, the following support will be provided to CAEM. The PMU Chief of Party will serve as the primary advisor to CAEM. In addition, the project will provide three local currency-funded professional positions:

a) A PED project manager.

b) A staff economist.

c) An executive assistant to backup the CAEM Project Manager in carrying out his/her duties under the project such as Executive Committee Chairman.

CAEM's PED manager and executive assistant position will strengthen CAEM's institutional capacity in the fulfillment of its primary mandate — coordinate private sector efforts oriented to accelerate Guatemalan development. A key responsibility of the PED project manager will be to assist CAEM attain financial sustainability.

The staff economist will reinforce CAEM's capacity to analyze existing and desired policies. He/she will also help produce position papers for private sector negotiations with the public sector. Finally, as part of the CAEM team, he/she will support policy initiatives and/or interests flagged by AGG and the Guild, as well as the RDPs on Financial Markets and FTPFs.

Additionally, CAEM will contract specialized local technical assistance through individuals or companies to aid in the identification of new private initiatives and business opportunities. These contracts will be primarily used to support SME belonging to CAEM's member Chambers and Guilds. The same contracting route will be utilized to provide analytical support for the private sector policy dialogue.

The direct staff and equipment costs have been estimated at $200,000 in ESF local currency over the LOP. An additional $250,000 in ESF local currency will be provided to CAEM to finance the contracts for local services.

c. <u>How the New Private Enterprise Initiatives Component Relates to Other Elements of the Project</u>

Absent a supportive policy environment, investments in training, credit and other project activities will not yield high returns for Guatemalan entrepreneurs, or for the country as a whole. Favorable economic policies involve efforts by both the public and private sectors. The New

Private Enterprise Initiatives component represents insurance that the policy changes needed for a competitive private sector are carried out on time, and with adequate support by public sector implementing agencies. At the same time, the component provides additional support in the area of privatization, to assist the public sector in concretely moving forward to end public monopolies and improving efficiency of the economy.

d. Project Beneficiaries

Groups within Guatemalan society which will benefit are investors, and new employees of firms which expand operations due to positive policy changes, and the Guatemalan consumer who benefits from a more competitive private sector. Overall, Guatemalan society will benefit from a more positive and constructive policy dialogue between the public and private sectors, and from more rapid adoption of new, more constructive policies by the public sector.

e. Outputs

The New Private Sector Initiatives Component anticipates the following outputs by the end of the project:

1. New fiscal incentives law implemented.

2. At least 6 concrete activities underway or completed to implement policies which promote investment, export, or productive employment.

3. At least 2 privatization studies completed, leading to one full or partial privatization by end of project.

4. At least 40 participants benefiting from short-term international training programs.

f. Inputs

The budget for the New Private Sector Initiatives component is presented below.

	LIFE OF PROJECT ($000)		
	AID FX	ESF LC	Total
NEW PRIVATE ENTERPRISE INITIATIVES	850	310	1660
MOE POLICY DEVELOPMENT FUND	450	260	710
Fiscal Incentives Adv.	(150)	(0)	(150)
External T.A.			
Equipment	(300)	(0)	(300)
Local T.A.			
Equipment	(0)	(200)	(200)
Administrative Support	(0)	(60)	(60)
PRIVATIZATION	100	100	200
External T.A.	(100)	(0)	(100)
Local T.A.	(0)	(100)	(100)
CAEM INSTITUTIONAL SUPPORT	0	450	450
OVERSEAS TRAINING SUPPORT	300	0	300

g. End of Project Status

By the end of the project, the following permanent changes in the Government of Guatemala's management of export and investment policy will be in place:

- The Ministry of Economy will be institutionally stronger and will have a leading role in maintaining and administering fiscal incentives for business expansion and competition, primarily focused on small and medium entrepreneurs.

- Privatization as an issue will receive more attention in Guatemala, spurred in part by partial privatizations and widely disseminated RDP actions financed under the project.

- CAEM institutionally strengthened to coordinate new private sector initiatives and policy dialogue with the GOG on economic development issues.

IV. COST ESTIMATE AND FINANCIAL PLAN

The cost of the project will total approximately $27.5 million, of which $10.0 million (36%) will be provided as a grant by AID, and the equivalent of $17.5 million (64%) by the participating public and private sector institutions as counterpart to the project.

Expenditures under the project will cover a five-year period, from September 1987 through September 1992. Table IV-1 provides a summary of the budget by input category and by source of funds (AID or counterpart). As indicated by the table, all of AID's contribution will finance dollar costs of the project. Local currency costs will be covered by ESF local currency (63%) and other private sector contributions (37%). Furthermore, nearly seventy-two percent of project funding will be in support of training, technical assistance, and credit guaranties to SME. Less than five percent of the project costs are allocated to project management, increasing to just under eight percent when the cost of project coordination is factored into administrative costs.

The project resources outlined above will serve to achieve expected outputs under four basic components of the project. These components and project funds budgeted for each are shown in expected amounts to be allocated per Table IV-2

Expenditures under this project are expected to take place over a five-year period. Tables IV-3 and IV-4 provide details of expenditures by fiscal year for each of the major components of the project, and for each major input category, respectively.

As reflected in these tables, approximately one million dollars have been budgeted to cover contingencies. This amount, which is approximately 4% of the project total will be used to cover any future events which may force original estimates to change. In addition, approximately $664,000 has been budgeted to cover inflation, estimated at 10% per annum. Also, these tables indicate that of total projected expenditures of grant resources, approximately 26% will take place in FY88, 28% in FY89, 19% in FY90, 15% in FY91, and 13% in FY92.

The project is designed to support nonprofit private sector delivery of services to profit-making private sector entities. The design is built on the concept that grant funds be provided to assist the implementing institutions to expand services to clients not traditionally served (e.g., SME) on the basis of sound financial management principles

The replicability of the project varies by activity (discussed in more detail in the project description). In general, activities designed to provide technical and/or financial services to private sector firms have fee structures built into them. These fees will put the institutions on the road to greater financial self-sufficiency.

A key task for the external technical assistance is to strengthen the financial sustainability of the AGG, Guild and CAEM activities sponsored under this project. The progressive rate projected for revenue and investments generated by these organizations is based only on preliminary figures. Early signals appear to indicate that these projections may be conservative. For example, only $20,000 in private sector counterpart has been projected for CAEM's, FIPF center. But investments promoted by this element may surpass $5,000,000.

However, activities designed to support technical assistance for more global policy dialogue are not anticipated to generate revenues directly to support their continuation after the project. The project may identify additional assistance opportunities for AID to support Guatemala in achieving the objectives under this project. In these cases, follow-on funding may be provided or new projects will be developed to support specific institutional efforts to promote new investment opportunities.

The methods for financing the expense categories identified in Table IV-4 are given in Table IV-5.

Table IV-1

USAID/GUATEMALA/PSPD

PRIVATE ENTERPRISE DEVELOPMENT PROJECT

SUMMARY OF BUDGET BY EXPENSE CATEGORIES

(In thousands of US dollars, or LC equivalent in dollars @ Q2.50 = $1.00)

	---- LIFE OF PROJECT -----					PERCENT OF PROJECT TOTAL
	-- AID --		GOG ESF	Priv Sec		
	FX	LC	LC	LC	Total	
PROJECT TOTAL	10000	0	10900	6583	27483	100.00%
CONTINGENCIES	1006	0	0	0	1006	3.66%
INFLATION (approximate 10% per annum)	664	0	360	103	1127	4.10%
EXPENSE CATEGORIES	8330	0	10540	6480	25350	92.24%
TECHNICAL ASSISTANCE	3840	0	1630	455	5925	21.56%
TRAINING	575	0	2020	525	3120	11.35%
COMMODITIES & OTHER COSTS	205	0	150	0	355	1.29%
INSTITUTIONAL SUPPORT	1300	0	450	0	1750	6.37%
INFORMATION USAID	450	0	595	0	1045	3.80%
GUARANTY FUND/FINANCIAL MARKETS DEVELOPMENT	0	0	5500	5500	11000	40.02%
PROJECT MANAGEMENT	1110	0	195	0	1305	4.75%
PROJECT COORDINATION	850	0	0	0	850	3.09%

Table IV-2

USAID/GUATEMALA/PSPD
PRIVATE ENTERPRISE DEVELOPMENT PROJECT

SUMMARY OF BUDGET BY COMPONENT
(In thousands of US dollars, or LC equivalent in dollars @ Q2.50 = $1.00)

	LIFE OF PROJECT					PERCENT OF PROJECT TOTAL
	AID		GOG ESF	Priv Sec		
	FX	LC	LC	LC	Total	
PROJECT TOTAL	10000	0	10900	6583	27483	100.00%
CONTINGENCIES	1006	0	0	0	1006	3.66%
INFLATION (approximate 10% per annum)	664	0	360	103	1127	4.10%
PROJECT ELEMENTS & COORDINATION/MANAGE/EVAL	8330	0	10540	6480	25350	92.24%
PROJECT ELEMENTS	6095	0	9750	6480	22325	81.23%
SMALL & MEDIUM ENTERPRISE TECH. SUPPORT	1115	0	2120	525	3760	13.68%
EXPORT DEVELOPMENT	3580	0	1220	455	5255	19.12%
FINANCIAL MARKET DEVELOPMENT	550	0	5600	5500	11650	42.39%
NEW PRIVATE ENTERPRISE INITIATIVES	850	0	810	0	1660	6.04%
PROJECT COORDINATION/MANAGEMENT/EVALUATION	2235	0	790	0	3025	11.01%
PROJECT COORDINATION	850	0	0	0	850	3.09%
PROJECT MANAGEMENT UNIT STAFF	1135	0	245	0	1380	5.02%
PROJECT MANAGEMENT INFORMATION SYSTEM	100	0	355	0	455	1.66%
PROJECT EVALUATION	150	0	190	0	340	1.24%

TABLE IV-3
PRIVATE ENTERPRISE DEVELOPMENT PROJECT BUDGET
(In thousands of US dollars or LC equivalent in dollars @ 92.50=$100)
Detailed Expenditures by Project Component

	LIFE OF PROJECT					FY 1988					FY 1989					FY 1990					FY 1991					FY 1992				
	AID		GOG Priv			AID		GOG Priv			AID		GOG Priv			AID		GOG Priv			AID		GOG Priv			AID		GOG Priv		
	FX	LC	ESF LC	Sec LC	Total	FX	LC	ESF LC	Sec LC	Total	FX	LC	ESF LC	Sec LC	Total	FX	LC	ESF LC	Sec LC	Total	FX	LC	ESF LC	Sec LC	Total	FX	LC	ESF LC	Sec LC	Total
PROJECT TOTAL	10000	0	10900	6583	27483	2616	0	6986	5606	15208	2753	0	1659	160	4593	1673	0	815	222	2910	1468	0	715	269	2452	1287	0	725	306	2320
CONTINGENCIES	1006	0	0	0	1006	217	0	0	0	217	198	0	0	0	198	198	0	0	0	198	197	0	0	0	197	196	0	0	0	196
INFLATION (approximate 10% per annum)	664	0	360	103	1127	0	0	0	0	0	232	0	150	16	399	166	0	75	22	263	137	0	65	29	231	128	0	70	36	234
PROJECT ELEMENTS & COORDINATION/MANAGE/EVAL	8330	0	10540	6480	25350	2399	0	6986	5606	14991	2323	0	1509	164	3996	1509	0	740	200	2449	1134	0	650	240	2024	965	0	655	270	1890
PROJECT ELEMENTS	6095	0	9750	6480	22325	1794	0	6766	5606	14166	1773	0	1319	164	3256	1109	0	590	200	1899	814	0	550	240	1604	605	0	525	270	1400
SMALL & MEDIUM ENTERPRISE TECH. SUPPORT	1115	0	2120	525	3760	263	0	443	38	744	310	0	522	82	914	260	0	400	115	775	197	0	390	140	727	85	0	365	150	600
AGB Enterprise Development Program	275	0	1760	525	2560	75	0	375	38	488	75	0	425	82	582	50	0	335	115	500	50	0	325	140	515	25	0	300	150	475
Specialized Training	0	0	260	0	260	0	0	38	0	38	0	0	72	0	72	0	0	50	0	50	0	0	50	0	50	0	0	50	0	50
Specialized SME Technical Assistance	250	0	100	0	350	50	0	30	0	80	50	0	25	0	75	50	0	15	0	65	50	0	15	0	65	50	0	15	0	65
SME Advisor	500	0	0	0	500	113	0	0	0	113	150	0	0	0	150	150	0	0	0	150	87	0	0	0	87	0	0	0	0	0
Commodities & Other Costs	90	0	0	0	90	25	0	0	0	25	35	0	0	0	35	10	0	0	0	10	10	0	0	0	10	10	0	0	0	10
EXPORT DEVELOPMENT	3530	0	1220	455	5255	1032	0	387	68	1487	881	0	501	82	1464	660	0	110	85	855	547	0	110	100	757	450	0	110	120	680
Eresial Program	2000	0	570	435	3005	300	0	120	60	480	450	0	120	70	640	450	0	110	85	645	400	0	110	100	610	400	0	110	120	630
Specialized Technical Assistance	250	0	0	0	250	50	0	0	0	50	50	0	0	0	50	50	0	0	0	50	50	0	0	0	50	50	0	0	0	50
Export Development Advisor	500	0	0	0	500	113	0	0	0	113	150	0	0	0	150	150	0	0	0	150	87	0	0	0	87	0	0	0	0	0
Commodities & Other Costs	90	0	0	0	90	50	0	0	0	50	10	0	0	0	10	10	0	0	0	10	10	0	0	0	10	10	0	0	0	10
FREE TRADE PRODUCTION FACILITIES RDP	250	0	200	20	470	150	0	100	8	258	100	0	100	12	212	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
CONAPEX	340	0	450	0	790	256	0	169	0	425	84	0	281	0	365	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Trade Policy Advisor	150	0	0	0	150	113	0	0	0	113	37	0	0	0	37	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
External T.A.	150	0	0	0	150	113	0	0	0	113	37	0	0	0	37	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Local Economists (2)	0	0	150	0	150	0	0	56	0	56	0	0	94	0	94	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Administrative Personnel	0	0	50	0	50	0	0	19	0	19	0	0	31	0	31	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Equipment & Supplies	0	0	100	0	100	0	0	56	0	56	0	0	44	0	44	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Local T.A.	0	0	150	0	150	0	0	38	0	38	0	0	112	0	112	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Comp. Advantage Study	40	0	0	0	40	30	0	0	0	30	10	0	0	0	10	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
BANK OF GUATEMALA	150	0	0	0	150	113	0	0	0	113	37	0	0	0	37	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
FIDEX Advisor	150	0	0	0	150	113	0	0	0	113	37	0	0	0	37	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
FINANCIAL MARKETS DEVELOPMENT	530	0	5600	5500	11650	181	0	5570	5500	11251	275	0	25	0	300	94	0	5	0	99	0	0	0	0	0	0	0	0	0	0
Guaranty Fund	0	0	5500	5500	11000	0	0	5500	5500	11000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Technical Assistance	50	0	50	0	100	50	0	50	0	100	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Financial Markets RDP Studies	200	0	50	0	250	56	0	20	0	76	125	0	25	0	150	19	0	5	0	24	0	0	0	0	0	0	0	0	0	0
Financial Markets Dev. Advisor	300	0	0	0	300	75	0	0	0	75	150	0	0	0	150	75	0	0	0	75	0	0	0	0	0	0	0	0	0	0
NEW PRIVATE ENTERPRISE INITIATIVES	850	0	810	0	1660	318	0	364	0	682	307	0	271	0	578	95	0	75	0	170	70	0	50	0	120	60	0	50	0	110
PUB. SECT. FCL. DEV. FUND/MIN. ECON	450	0	260	0	710	263	0	139	0	402	187	0	121	0	308	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Fiscal Incentives	150	0	0	0	150	113	0	0	0	113	37	0	0	0	37	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
External T.A.	300	0	0	0	300	150	0	0	0	150	150	0	0	0	150	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Local T.A.	0	0	200	0	200	0	0	94	0	94	0	0	106	0	106	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Administrative Support	0	0	60	0	60	0	0	45	0	45	0	0	15	0	15	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
PRIVATIZATION	100	0	100	0	200	25	0	50	0	75	50	0	50	0	100	25	0	0	0	25	0	0	0	0	0	0	0	0	0	0
External T.A.	100	0	0	0	100	25	0	0	0	25	50	0	0	0	50	25	0	0	0	25	0	0	0	0	0	0	0	0	0	0
Local T.A.	0	0	100	0	100	0	0	50	0	50	0	0	50	0	50	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
CAEM INSTITUTIONAL SUPPORT	0	0	450	0	450	0	0	175	0	175	0	0	100	0	100	0	0	75	0	75	0	0	50	0	50	0	0	[illegible]	[illegible]	[illegible]

OVERSEAS TRAINING SUPPORT	300	0	0	0	300	30	0	0	0	30	70	0	0	0	70	70	0	0	0	70	70	0	0	0	70	40	0	0	0	40
PROJECT COORDINATION/MANAGEMENT/EVALUATION	2235	0	790	0	3025	605	0	220	0	825	550	0	190	0	740	400	0	150	0	550	320	0	100	0	420	360	0	130	0	490
PROJECT COORDINATION	850	0	0	0	850	200	0	0	0	200	200	0	0	0	200	150	0	0	0	150	150	0	0	0	150	150	0	0	0	150
USAID/PSPO Project Manager - PSC	750	0	0	0	750	150	0	0	0	150	150	0	0	0	150	150	0	0	0	150	150	0	0	0	150	150	0	0	0	150
Business Analyst	100	0	0	0	100	50	0	0	0	50	50	0	0	0	50	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
PROJECT MANAGEMENT UNIT STAFF	1135	0	245	0	1380	325	0	89	0	414	300	0	39	0	339	180	0	39	0	219	170	0	39	0	209	160	0	39	0	199
Chief of Party & CAEM Senior Adviser	750	0	0	0	750	150	0	0	0	150	150	0	0	0	150	150	0	0	0	150	150	0	0	0	150	150	0	0	0	150
AID Procedures	360	0	0	0	360	150	0	0	0	150	150	0	0	0	150	30	0	0	0	30	20	0	0	0	20	10	0	0	0	10
Executive Assistant	0	0	100	0	100	0	0	20	0	20	0	0	20	0	20	0	0	20	0	20	0	0	20	0	20	0	0	20	0	20
Admin. Assistant/Secretary #1	0	0	40	0	40	0	0	8	0	8	0	0	8	0	8	0	0	8	0	8	0	0	8	0	8	0	0	8	0	8
Admin. Assistant/Secretary #2	0	0	30	0	30	0	0	6	0	6	0	0	6	0	6	0	0	6	0	6	0	0	6	0	6	0	0	6	0	6
Admin. Assistant/Secretary #3	0	0	25	0	25	0	0	5	0	5	0	0	5	0	5	0	0	5	0	5	0	0	5	0	5	0	0	5	0	5
Commodities & Other Costs	25	0	50	0	75	25	0	50	0	75	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
PROJECT MANAGEMENT INFORMATION SYSTEM	100	0	355	0	455	80	0	121	0	201	0	0	51	0	51	20	0	81	0	101	0	0	51	0	51	0	0	51	0	51
Management Information System Set-up	100	0	100	0	200	80	0	80	0	160	0	0	0	0	0	20	0	20	0	40	0	0	0	0	0	0	0	0	0	0
Management Information System #1	0	0	75	0	75	0	0	12	0	12	0	0	15	0	15	0	0	18	0	18	0	0	15	0	15	0	0	15	0	15
Management Information System #2	0	0	50	0	50	0	0	8	0	8	0	0	10	0	10	0	0	12	0	12	0	0	10	0	10	0	0	10	0	10
Impact Monitoring Contract	0	0	130	0	130	0	0	21	0	21	0	0	26	0	26	0	0	31	0	31	0	0	26	0	26	0	0	26	0	26
PROJECT EVALUATION & AUDIT	150	0	190	0	340	0	0	10	0	10	50	0	100	0	150	50	0	30	0	80	0	0	10	0	10	50	0	40	0	90
In-Depth Assessment - Month 18	50	0	90	0	140	0	0	0	0	0	50	0	90	0	140	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Formal Evaluations	100	0	40	0	140	0	0	0	0	0	0	0	0	0	0	50	0	20	0	70	0	0	0	0	0	50	0	20	0	70
External Audit	0	0	60	0	60	0	0	10	0	10	0	0	10	0	10	0	0	10	0	10	0	0	10	0	10	0	0	20	0	20

TABLE IV-4
USAID/GUATEMALA/PSPD
PRIVATE ENTERPRISE DEVELOPMENT PROJECT

DETAILED BUDGET BY EXPENSE CATEGORIES
(In thousands of US dollars or LC equivalent in dollars @ 02.50=$100)

	LIFE OF PROJECT					FY 1988					FY 1989					FY 1990					FY 1991					FY 1992				
	AID		GOG ESF	Priv Sec	Total	AID		GOG ESF	Priv Sec	Total	AID		GOG ESF	Priv Sec	Total	AID		GOG ESF	Priv Sec	Total	AID		GOG ESF	Priv Sec	Total	AID		GOG ESF	Priv Sec	Total
	FX	LC	LC	LC		FX	LC	LC	LC		FX	LC	LC	LC		FX	LC	LC	LC		FX	LC	LC	LC		FX	LC	LC	LC	
PROJECT TOTAL	10000	0	10900	6533	27483	2616	0	6986	5606	15208	2753	0	1659	180	4593	1873	0	815	222	2910	1468	0	715	769	2452	1289	0	725	306	2320
CONTINGENCIES	1006	0	0	0	1006	217	0	0	0	217	198	0	0	0	198	198	0	0	0	198	197	0	0	0	197	196	0	0	0	196
INFLATION (approximate 10% per annum)	664	0	360	103	1127	0	0	0	0	0	232	0	150	16	399	166	0	75	22	263	157	0	65	29	251	128	0	70	36	234
EXPENSE CATEGORIES	8330	0	10540	6480	25350	2399	0	6986	5606	14991	2323	0	1509	164	3996	1509	0	740	200	2449	1134	0	650	240	2024	965	0	655	270	1370
TECHNICAL ASSISTANCE	3840	0	1630	455	5925	1257	0	602	68	1927	1008	0	653	82	1743	575	0	125	85	785	500	0	125	100	725	500	0	125	120	745
SMALL & MEDIUM ENTERPRISE TECH. SUPPORT	250																													
Specialized SME Technical Assistance	250	0	100	0	350	50	0	30	0	80	50	0	25	0	75	50	0	15	0	65	50	0	15	0	65	50	0	15	0	65
EXPORT DEVELOPMENT	2990	0	1120	455	4565	869	0	333	68	1270	721	0	457	82	1260	500	0	110	85	695	450	0	110	100	660	450	0	110	120	680
Grenial Program	2000	0	570	435	3005	300	0	120	60	480	450	0	120	70	640	450	0	110	85	645	400	0	110	100	610	400	0	110	120	630
Specialized Technical Assistance	250	0	0	0	250	50	0	0	0	50	50	0	0	0	50	50	0	0	0	50	50	0	0	0	50	50	0	0	0	50
FREE TRADE PRODUCTION FACILITIES RDP	250	0	200	20	470	150	0	100	8	258	100	0	100	12	212	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
CONAPEX	340	0	350	0	690	256	0	113	0	369	84	0	237	0	321	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Trade Policy Advisor	150	0	0	0	150	113	0	0	0	113	37	0	0	0	37	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
External T.A.	150	0	0	0	150	113	0	0	0	113	37	0	0	0	37	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Local Economists (2)	0	0	150	0	150	0	0	56	0	56	0	0	94	0	94	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Administrative Personnel	0	0	50	0	50	0	0	19	0	19	0	0	31	0	31	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Local T.A.	0	0	150	0	150	0	0	38	0	38	0	0	112	0	112	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Comp. Advantage Study	40	0	0	0	40	30	0	0	0	30	10	0	0	0	10	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
BANK OF GUATEMALA	150	0	0	0	150	113	0	0	0	113	37	0	0	0	37	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
FOREX Advisor	150	0	0	0	150	113	0	0	0	113	37	0	0	0	37	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
FINANCIAL MARKETS DEVELOPMENT	50	0	50	0	100	50	0	50	0	100	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Technical Assistance	50	0	50	0	100	50	0	50	0	100	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
NEW PRIVATE ENTERPRISE INITIATIVES	550	0	360	0	910	288	0	189	0	477	237	0	171	0	408	25	0	0	0	25	0	0	0	0	0	0	0	0	0	0
PUB. SECT. FOL. DEV. FUND/MIN. ECON	450	0	260	0	710	263	0	139	0	402	187	0	121	0	308	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Fiscal Incentives Adv.	150	0	0	0	150	113	0	0	0	113	37	0	0	0	37	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
External T.A.	300	0	0	0	300	150	0	0	0	150	150	0	0	0	150	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Local T.A.	0	0	200	0	200	0	0	94	0	94	0	0	106	0	106	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Administrative Support	0	0	60	0	60	0	0	45	0	45	0	0	15	0	15	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
PRIVATIZATION	100	0	100	0	200	25	0	50	0	75	50	0	50	0	100	25	0	0	0	25	0	0	0	0	0	0	0	0	0	0
External T.A.	100	0	0	0	100	25	0	0	0	25	50	0	0	0	50	25	0	0	0	25	0	0	0	0	0	0	0	0	0	0
Local T.A.	0	0	100	0	100	0	0	50	0	50	0	0	50	0	50	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
TRAINING	575	0	2020	525	3120	105	0	413	38	556	145	0	497	82	724	120	0	385	115	620	120	0	375	140	635	85	0	350	150	585
SMALL & MEDIUM ENTERPRISE TECH. SUPPORT	275	0	2020	525	2820	75	0	413	38	526	75	0	497	82	654	50	0	385	115	550	50	0	375	140	565	25	0	350	150	525
AGB Enterprise Development Program	275	0	1760	525	2560	75	0	375	38	488	75	0	425	82	582	50	0	335	115	500	50	0	325	140	515	25	0	300	150	475
Specialized Training	0	0	260	0	260	0	0	38	0	38	0	0	72	0	72	0	0	50	0	50	0	0	50	0	50	0	0	50	0	50
NEW PRIVATE ENTERPRISE INITIATIVES	300	0	0	0	300	30	0	0	0	30	70	0	0	0	70	70	0	0	0	70	70	0	0	0	70	60	0	0	0	60
OVERSEAS TRAINING SUPPORT	300	0	0	0	300	30	0	0	0	30	70	0	0	0	70	70	0	0	0	70	70	0	0	0	70	60	0	0	0	60
COMMODITIES & OTHER COSTS	205	0	150	0	355	100	0	106	0	206	45	0	44	0	89	20	0	0	0	20	20	0	0	0	20	20	0	0	0	20
SMALL & MEDIUM ENTERPRISE TECH. SUPPORT	90	0	0	0	90	25	0	0	0	25	35	0	0	0	35	10	0	0	0	10	10	0	0	0	10	10	0	0	0	10
Commodities & Other Costs	90	0	0	0	90	25	0	0	0	25	35	0	0	0	35	10	0	0	0	10	10	0	0	0	10	10	0	0	0	10
EXPORT DEVELOPMENT	90	0	100	0	190	50	0	56	0	106	10	0	44	0	54	10	0	0	0	10	10	0	0	0	10	10	0	0	0	10
Commodities & Other Costs	90	0	0	0	90	50	0	0	0	50	10	0	0	0	10	10	0	0	0	10	10	0	0	0	10	10	0	0	0	10

CONAPEX	0	0	100	0	100	0	0	56	0	56	0	0	44	0	44	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Equipment & Supplies	0	0	100	0	100	0	0	56	0	56	0	0	44	0	44	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
PROJECT MANAGEMENT UNIT STAFF	25	0	50	0	75	25	0	50	0	75	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Commodities & Other Costs	25	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
INSTITUTIONAL SUPPORT	1300	0	450	0	1750	301	0	175	0	476	450	0	100	0	550	375	0	75	0	450	174	0	50	0	224	0	0	50	0	50
SMALL & MEDIUM ENTERPRISE TECH. SUPPORT	500	0	0	0	500	113	0	0	0	113	150	0	0	0	150	150	0	0	0	150	87	0	0	0	87	0	0	0	0	0
SME Advisor	500	0	0	0	500	113	0	0	0	113	150	0	0	0	150	150	0	0	0	150	87	0	0	0	97	0	0	0	0	0
EXPORT DEVELOPMENT	500	0	0	0	500	113	0	0	0	113	150	0	0	0	150	150	0	0	0	150	87	0	0	0	87	0	0	0	0	0
Export Development Advisor	500	0	0	0	500	113	0	0	0	113	150	0	0	0	150	150	0	0	0	150	87	0	0	0	87	0	0	0	0	0
FINANCIAL MARKETS DEVELOPMENT	300	0	0	0	300	75	0	0	0	75	150	0	0	0	150	75	0	0	0	75	0	0	0	0	0	0	0	0	0	0
Financial Markets Dev. Advisor	300	0	0	0	300	75	0	0	0	75	150	0	0	0	150	75	0	0	0	75	0	0	0	0	0	0	0	0	0	0
NEW PRIVATE ENTERPRISE INITIATIVES	0	0	450	0	450	0	0	175	0	175	0	0	100	0	100	0	0	75	0	75	0	0	50	0	50	0	0	50	0	50
CAEM Institutional support	0	0	450	0	450	0	0	175	0	175	0	0	100	0	100	0	0	75	0	75	0	0	50	0	50	0	0	50	0	50
INFORMATION-USAID	450	0	595	0	1045	136	0	151	0	287	175	0	176	0	351	89	0	116	0	205	0	0	61	0	61	50	0	91	0	141
STUDIES	200	0	50	0	250	56	0	20	0	76	125	0	25	0	150	19	0	5	0	24	0	0	0	0	0	0	0	0	0	0
FINANCIAL MARKETS DEV. RDP STUDIES	200	0	50	0	250	56	0	20	0	76	125	0	25	0	150	19	0	5	0	24	0	0	0	0	0	0	0	0	0	0
PROJECT MANAGEMENT INFO. SYSTEM SET-UP	100	0	100	0	200	80	0	80	0	160	0	0	0	0	0	20	0	20	0	40	0	0	0	0	0	0	0	0	0	0
PROJECT MANAGEMENT INFO. SYS. OPERATIONS	0	0	255	0	255	0	0	41	0	41	0	0	51	0	51	0	0	61	0	61	0	0	51	0	51	0	0	51	0	51
Management Information System #1	0	0	75	0	75	0	0	12	0	12	0	0	15	0	15	0	0	18	0	18	0	0	15	0	15	0	0	15	0	15
Management Information System #2	0	0	50	0	50	0	0	8	0	8	0	0	10	0	10	0	0	12	0	12	0	0	10	0	10	0	0	10	0	10
Impact Monitoring Contract	0	0	130	0	130	0	0	21	0	21	0	0	26	0	26	0	0	31	0	31	0	0	26	0	26	0	0	26	0	26
PROJECT EVALUATION & AUDIT	150	0	190	0	340	0	0	10	0	10	50	0	100	0	150	50	0	30	0	80	0	0	10	0	10	50	0	40	0	90
In-Depth assessment - 18 month	50	0	90	0	140	0	0	0	0	0	50	0	90	0	140	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Formal Evaluations	100	0	40	0	140	0	0	0	0	0	0	0	0	0	0	50	0	20	0	70	0	0	0	0	0	50	0	20	0	70
External Audit	0	0	60	0	60	0	0	10	0	10	0	0	10	0	10	0	0	10	0	10	0	0	10	0	10	0	0	20	0	20
GUARANTY FUND/FINANCIAL MARKETS DEVELOPMENT	0	0	5500	5500	11000	0	0	5500	5500	11000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
PROJECT MANAGEMENT	1110	0	195	0	1305	300	0	39	0	339	300	0	39	0	339	180	0	39	0	219	170	0	39	0	209	160	0	39	0	199
Chief of Party & CAEM Senior Adviser	750	0	0	0	750	150	0	0	0	150	150	0	0	0	150	150	0	0	0	150	150	0	0	0	150	150	0	0	0	150
AID Procedures	360	0	0	0	360	150	0	0	0	150	150	0	0	0	150	30	0	0	0	30	20	0	0	0	20	10	0	0	0	10
Executive Assistant	0	0	100	0	100	0	0	20	0	20	0	0	20	0	20	0	0	20	0	20	0	0	20	0	20	0	0	20	0	20
Admin. Assistant/Secretary #1	0	0	40	0	40	0	0	8	0	8	0	0	8	0	8	0	0	8	0	8	0	0	8	0	8	0	0	8	0	8
Admin. Assistant/Secretary #2	0	0	30	0	30	0	0	6	0	6	0	0	6	0	6	0	0	6	0	6	0	0	6	0	6	0	0	6	0	6
Admin. Assistant/Secretary #3	0	0	25	0	25	0	0	5	0	5	0	0	5	0	5	0	0	5	0	5	0	0	5	0	5	0	0	5	0	5
PROJECT COORDINATION	850	0	0	0	850	200	0	0	0	200	200	0	0	0	200	150	0	0	0	150	150	0	0	0	150	150	0	0	0	150
USAID/PSPD Project Manager - PSC	750	0	0	0	750	150	0	0	0	150	150	0	0	0	150	150	0	0	0	150	150	0	0	0	150	150	0	0	0	150
Business Analyst	100	0	0	0	100	50	0	0	0	50	50	0	0	0	50	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Table IV-5

Methods of Project Implementation and Financing (in $000)

Imput	Implementation Method	Financing Method	Approximate Amount
Technical Assistance*	AID Direct/Recipient Institutional Contract	Direct Pay/ Reimbursement	6,710.7
Training	AID Direct/Recipient Institutional Contract	Direct Pay/ Reimbursement	690.3
Commodities	AID Procurement/ Recipient	Direct Pay/ Reimbursement	246.1
Project Management	AID Direct/Recipient Institutional Contract	Direct Pay/ Reimbursement	1,332.5
Project Coordination	AID Direct PSCs	Direct Pay	1,020.4
	Total		10,000.0

* Includes technical assistance, institutional support and information USAID budget items.

NOTE: Under the Cooperative Agreement with CAEM, grant and subgrant recipients will be responsible for all procurement ($6,652,000 in DA grant). Under the Project Grant Agreement with the Ministry of Economy, AID direct procurement will be the implementation method for DA dollar funded activities ($940,000). AID direct procurement will also be used to obligate approximately $2,408,000 in contracts to support the AID management of the project.

V. IMPLEMENTATION ARRANGEMENTS

A. Obligating Instruments

The grant will be obligated through a cooperative agreement with CAEM for $6,652,000 and a bilateral project grant agreement with the Government of Guatemala for $940,000. The remaining funds will be obligated through direct AID contracts. Sub-grant agreements will be entered into by CAEM with AGG, the Nontraditional Exporters Guild through the Chamber of Industry, and the Chamber of Finance as required to support implementation of the project. The Ministry of Economy will be signatory to the Project Agreement, and will use the assistance primarily in support of the public-private sector dialogue process currently underway in CONAPEX, in promoting a more responsive GOG to policy initiatives of the private sector and to finance the Guatemalan Central Bank's FODEX advisor.

B. Project Management Unit (PMU)

CAEM, with project funds, will establish a Project Management Unit (PMU) to oversee implementation of the project and supervise the Project Management Information System. The PMU will have offices in CAEM and will be staffed with contract U.S., TCN and Guatemalan personnel financed through an institutional contract contracted by USAID or CAEM, as appropriate. Projected PMU staffing includes the following 10 positions:

Team leader and Principal Advisor to CAEM
Specialist in procurement and financial procedures
Executive Assistant to procurement specialist
Impact Monitors (2 or more)
Senior Information Systems Specialist to manage the PMIS
Information Systems Specialist
Administrative Assistant and Secretaries (3)

CAEM, through the PMU, will support two key management functions: Overall project management and information assistance.

Project Management:

1. Oversee the administrative and financial activities of sub-grantees related to procurement of: technical assistance and other technical support services; offshore training; commodity procurement; and assist sub-grantees as required in project related management activities such as arrangements for conferences, seminars and workshops.

2. At the request of sub-grantees prepare project documentation for all procurement.

3. Provide status reports on project progress, and financial reports.

4. Assess the quality and conformance to project objectives of services provided by contract technical assistance and by implementing organizations.

Information Assistance:

1. Through the Project Implementation Information System, gather data on project impact and evaluate the cost effectiveness of project inputs and activities on a continuing basis.

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

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

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

The PMIS will provide the data required for very close monitoring of project implementation by project managers. As lessons are learned about how to improve the quality and delivery of technical assistance and training, the project will be focused on higher impact services, methods of delivery, techniques, target client groups and cost efficiency. This monitoring is intended to result in regular fine tuning of project resource management reflecting operating experience.

Thus, the project will be increasingly "directed" by the market's response, rather than by any a priori assumptions about what activities generate what impact in the Guatemalan economy at this time. As the project "learns" more about the needs and how to provide technical services, the PMU, in coordination with USAID management, will regularly assess project performance and reassess and revise the plans and procedures of the implementing agencies.

CAEM, through the PMU, will free up implementing agencies to concentrate on carrying out their programs, identifying additional problem areas and solutions, and engaging in policy dialogue.

Avoiding burdening Guatemalan organizations with learning the AID system has several significant advantages. First and foremost, the energies of client organizations can be focused on the things they do best - understanding their clientele, developing locally acceptable solutions to deal with their problems, and implementing those solutions. Second, AID can hire experts in AID regulations to do the bureaucratic work for a client organization instead of trying to train people to service AID's system. Third, by taking responsibility for dealing with the regulations, rather than training others to do so, the opportunity opens for AID to take a more direct posture with respect to various aspects of the management of AID resources. See Annex L for additional information on PMU functions and operations.

The project provides $1.110 million for foreign exchange costs of staffing the PMU and the local currency equivalent of $450,000. The project also provides $25,000 in foreign exchange and $50,000 in local currency for commodities and other costs of establishing the PMU and related start-up costs.

C. The Role of Private Sector Implementing Organizations

1. Summary of Functional Responsibilities

a. Chamber of Entrepreneurs (CAEM)

1. Recipient and overall project management
2. Lead agency for policy dialogue and lobby for regulatory reform with the GOG;
3. promotion and preinvestment support for Free Trade Production Facilities;
4. financial markets development (with the Chamber of Finance, a CAEM member).

b. Nontraditional Products Exporters Guild

1. Promotion of products and identification of new markets;
2. Lobby for export-related policy, regulatory and fiscal reform.

c. Guatemalan Management Association

1. Training and consulting services for small and medium enterprises;
2. Lobby for SME policy and regulatory changes

2. Implementation Responsibilities

Each implementing agency will be responsible for executing the activities described in Part III, Project Description. This will require preparation by each organization, during the first two to three months of the project, of a five-year implementation plan together with a detailed implementation plan, budget, and schedule for first-year activities for submission through CAEM to USAID for review and approval. Second - and subsequent-year implementation plans will also be required.

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

D. Role of the Ministry of Economy

1. Functional Responsibilities

a. technical Secretariat of CONAPEX;

b. establish FODEX;

c. address policy, regulatory and implementation issues which support the Guatemalan economy and private sector with emphasis on the SME subsector.

2. Implementation Responsibilities

The MOE will prepare an annual work plan including a time-phased schedule and budget for submission to USAID.

E. Procurement Plan

USAID/Guatemala will sign a Cooperative Agreement with CAEM and a Grant Agreement with the Ministry of Economy. Both organizations have the capability and management know-how to contract and supervise the Guatemalan personnel required to implement this project. CAEM, for example, is successfully implementing a $1.5 million OPG.

Under the CAEM Cooperative Agreement, the Mission will reserve the right to prior approval of key personnel and procurement policies, including the selection of long-term, in-country personnel, selection of local implementing institutions, and workplans.

CAEM's responsibilities under the Cooperative Agreement will include implementation of policy dialogue activities with, and broadening services for, small and medium entrepreneurs, nontraditional exporters and the investment community. In addition, CAEM, building on its strong linkages with other private sector institutions, will play a crucial role in coordinating project activities. To this effect, CAEM will sign implementation Subagreements with the Guatemalan Management Association, the Nontraditional Product Exporters Guild and the Guatemalan Financial Chamber. AID will give prior approval to these Subagreements.

Under the CAEM Cooperative Agreement and Subagreements, respectively, CAEM and the other implementing agencies will be responsible for procurement funded through either dollars or local currency. All Guatemalan organizations which will be conducting procurement are capable of doing so. Currently, the Nontraditional Product Exporters Guild is operating successfully under AID grants. The Guatemalan Management Association has over 26 years of experience contracting and supervising personnel training programs. ESF local currency procurement of technical assistance, training and commodities amounting to approximately $3.9 million will be made by the host country implementing organizations. AID

will also retain the right to give prior approval to these procurement arrangements.

Under the Grant Agreement, the MOE will assume responsibility for channelling resources to establish a Technical Secretariat of CONAPEX, establish FODEX in the Central Bank, and address policy, regulatory and implementation issues supportive of the Guatemalan private sector. Disbursement procedures will be included in the Grant Agreement. The Mission will reserve the right to prior approval of a work plan under this Grant Agreement.

AID direct contracting may include competitive bidding for one or more institutional contractors, and PASA/PSC contracting for key project implementation positions (e.g., project liaison officer, business analyst). The institutional contractor or contractors will be a U.S firm or firms. The Mission will retain the right of prior approval of key personnel, and actions under the Institutional Contract. This will be negotiated and executed by the RCO.

The private sector participating institutions will be responsible for commodity procurement amounting to approximately $330,000 under the CAEM Cooperative Agreement and Subagreements. Commodities will be procured after the long-term technical assistance is in place. Commodity specifications may change in response to guidance from both local and international technical assistance. The project will provide approximately $90,000 for the procurement of four computer units, including peripheral equipment and software. In addition, three vans at total cost estimated at $75,000 will be procured to service project activities. Office equipment, including video and training material will also be financed by the project.

The Mission will insure that technical assistance and training in connection with the production of agricultural commodities for export does not directly compete with similar U.S. exports, and cannot reasonably be expected to have a significant impact on the export of similar U.S. commodities.

The Mission will give carefull consideration to the use of 8-A firms for competitive procurement wherever possible. The Mission can initiate procurement of computer hardware without SER/IRM clearance since such procurement will not exceed $100,000 during the life of project. The Mission has consulted with the RCO and RCMO regarding the proposed procurement arrangements. Under these arrangements, both local currency and dollar disbursements are subject to AID accounting and audit procedures.

Procurement Schedule for External Technical Assistance:

- Project liaison officer contracted	Sept.-Oct. 1987
- RFP(s) issued	Oct.-Nov. 1987
- Institutional contract(s) signed	Jan.-Feb. 1988
- Long-term contractors begin to arrive in country	Mar.-Apr. 1988

This procurement plan will be updated as necessary throughout the project implementation. The procurement actions identified during intensive review are only those required for project start up and the first eighteen months of project life. Further procurement actions will take place after the scheduled eighteen-month project review. Experience dictates that, as projects mature, the composition and quality of required procurements may change.

VI. MONITORING PLAN

The Mission's Private Sector Programs Office (PSPO) will manage the project. The professional staff of the office currently consists of a USDH chief, an FSN PSC advisor, an FSN agribusiness credit advisor, and two secretaries. A USDH deputy PSPO position was approved in July and is expected to be filled by December 1987. The PSPO portfolio includes several OPGs. The PED project will be the first major project in the office.

The nature of the project limits the extent to which PSPO staff will be able to manage the Project directly. The contracting of a PSC Project Coordinator under the Project is intended, in part, to provide the needed monitoring. The Coordinator will be responsible for keeping in close touch with all project activities at the field level and bringing to the attention of the PSPO chief any major implementation problem which require Mission attention.

PSPO will also receive quarterly progress reports from the various implementing agencies through CAEM. These reports will include data on key output and purpose level indicators which are tracked under the Project Management Information System, thus facilitating Project management. Finally, the meetings of an Executive Committee, composed of the participating institutions, will provide the Office Chief with the opportunity to review progress and discuss problems directly with the main participants. The Mission believes that these arrangements will allow PSPO to monitor the Project effectively.

An overall end-use audit of the project will take place at the end of project implementation. It will be conducted by a local firm using project funds (from the contingencies line item). In addition, the Project Management and Technical Support Contract will include funds for impact audits. These audits will be scheduled by the PMU. Regular financial audits will be conducted annually.

VII. SUMMARIES OF PROJECT ANALYSES

A. Technical Analysis

1. Introduction

This project provides a framework within which USAID will provide assistance to the Guatemalan private sector. The nature of that assistance has been and will be determined to a significant degree by private businesspeople and by private organizations.

All components of this project directly address problems of SME. The financial markets component deals with constraints limiting SME access to financial services. The export component seeks to expand markets for SME, directly and also indirectly, by generating backward linkages of larger exporting firms to SME suppliers. The New Private Enterprise Initiatives Component will address many SME-related interests. This technical analysis focuses on technical support for SME at the firm, representative organization, business environment, and policy levels.

2. Small and Medium Enterprise Technical Support Component

The ability of SME to hire staff to bring management skills and technical knowledge to bear on the firm's operations and opportunities is limited. The firm can acquire needed new skills and knowledge only by its management learning new skills and "buying" technical knowledge through some form of short-term "consulting". Finding the appropriate form of training for the particular needs of a hard-pressed SME manager can be a daunting task. Appropriate "consulting" may be even more difficult to find and apply for. Advice comes in many forms, some of which may be inappropriate for SME needs. It may be provided "for free" by the vendor of a product whose objectivity may be strained, by an unqualified source, by a source qualified in one field but not qualified in the field in which the advice is given, or by a fully qualified source who charges more than SME can afford.

This component of the project focuses on SME access to managerial skills and technical knowledge. At the core of the component is a non-profit organization, the Guatemalan Management Association (Asociación de Gerentes de Guatemala, AGG), dedicated to the professionalization of management. AGG will operate an SME Development Center under the project. The Center will assist in securing training and technical consulting services appropriate for the needs of SME and SME managers. The Center will be the hub of a network for SME managers which will provide information on resources and opportunities available, and will as well share experiences and alert SME managers to matters affecting their interests. In this connection, the Center will undertake to identify, analyze, and support SME policy dialogue with the government and major private interests.

Perhaps most important, the Center will help develop independent private sector consulting capability to provide technical support in the future. The AGG Center (supported by the Project Management Unit) will manage a process of identifying SME requirements, locating or developing sources for services, and procuring such services. The Center will also evaluate the quality of those services and their impact in terms of what clients actually do as a consequence of the services they receive. At the end of the project, it is intended that the capability to provide such services will be established in the private sector, not only in AGG but also in various consulting and professional services firms. Additionally, AGG will have developed the institutional capability to: (1) assist SME in identifying appropriate sources of technical support in Guatemala; (2) manage an SME information networking function; and, (3) support SME interests in policy dialogue with public and private sector.

3. Export Development Component

Expansion of exports would appear to be the single most important opportunity for rapid economic growth available to Guatemala. However, Guatemalan export performance reflected a startling decline from 1980 to 1986. Much, but by no means all, of this decline is accounted for by the drop in exports to Central America. The following table demonstrates a striking decline in all categories of 30% during a period when world and Caribbean Basin trade expanded significantly. Particularly disappointing was a 42% drop in nontraditional exports, the one category where significant growth could have been expected.

GUATEMALA: EXPORTS FOB 1980-1986
(US$ Millions)

Description/ Year	1980	Percentage of Participation	1981	Percentage of Participation	1982	Percentage of Participation	1983	Percentage of Participation
Traditional	853.1	56	721.8	55	691.7	59	660.0	60
Nontraditional	225.9	15	204.0	16	141.3	12	110.8	10
Central America	440.8	29	378.9	29	337.4	29	320.9	29
TOTAL	1519.8		1304.7		1170.4		1091.7	

Description/ Year	1984	Percentage of Participation	1985	Percentage of Participation	1986	Percentage of Participation
Traditional*	706.1	62	724.5	68	728.0	69
Nontraditional	134.7	12	127.4	12	130.0	12
Central America	291.4	26	207.8	20	200.0	19
TOTAL	1132.2		1059.7		1058.0	

Source: Bank of Guatemala.

* Traditional products: Coffee, Cotton, Sugar, Meat, Bananas, Petroleum and Cardamom; traditional and nontraditional refer to extraregional trade.

This is a very poor performance in a country with 8.5 million people, low labor costs, a reasonably well-developed organizational infrastucture, and many other advantages including location.

Yet the picture is not entirely bleak. Guatemalan exporters and public sector officials, aware of their opportunities and obstacles, are taking steps to meet the challenge of export markets in part through the activities of organizations such as the Nontraditional Product Exporters Guild and the newly established National Export Promotion Council.

All indications are that the Guatemalan exporting community as a whole has turned the corner and reversed a downtrend of serious proportions. Recent figures show a 20% increase in exports from the first quarter of 1986 to the first quarter of 1987. Much of this surge in exports is attributable to new Free Trade Production Facilities operations (e.g., drawback). The PED project focuses on consolidating and accelerating these positive trends.

4. Financial Market Development Program Component

Guatemala has relatively well developed financial institutions which serve the traditional needs of major economic interests fairly effectively. However, in several areas Guatemalan financial markets do not function as effectively as they might - or indeed must - if the country is to accomplish its goals of economic democratization and growth.

Among the more important problems of financial market performance in Guatemala are the following:

(1) Commercial bank laws and lending policies are extremely conservative as evidenced by:

(a) typical requirement of 200% collateral on loans;
(b) difficulty of obtaining medium-term borrowing;
(c) relatively small number of borrowers; and
(d) asset-based lending rather than project financing based on analysis of projected revenues and commercial viability lending procedures.

(2) There are many impediments to competition in Guatemalan financial markets including:

(a) interest rates are set by monetary authorities, not by the market;
(b) existence of groups of enterprises with interlocking control minimizes competitive incentives; and
(c) legislation limits market options and discourages expansion.

(3) The lack of competition results in limitations on the financial products and services available.

(4) A protected, non-competitive market has discouraged the emergence of modern banking skills.

(5) A weak capital market which results in excessive dependence on demand deposits and short-term instruments to finance long-term requirements of the economy.

This component will address the credit availability issues in the short-run by the establishment of the guaranty fund. One of the major

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defects in Guatemalan financial markets is the lack of access to credit by credit worthy enterprises. Through this project, effective channels for credit will be established providing small and medium enterprise an opportunity to play a larger role in the economy.

The possibility of establishing a guaranty fund which would supplant or partially reduce the need for collateral was studied by several consultants and found to be a viable option for immediate relief of credit constraints for SME. Details of the consultants' findings and recommendations are set out in Annex J-1. USAID has given careful consideration to concerns expressed by the DAEC relating to failures of guaranty funds both in Guatemala and elsewhere. The specifics of the proposed guaranty fund are described under the component description and in Annex J-1.

In response to DAEC views, USAID established certain non-negotiable functional objectives for procedures developed for the Guaranty Fund. These objectives, and the problems identified in Guatemala and in other countries which gave rise to the specification of those objectives, are set out briefly below and in greater detail in Annex J-1. USAID believes that these proposed approaches meet the problems encountered by guaranty funds with which the consultants were familiar. These problems include:

Problems with Other Guaranty Funds	Proposed Treatment In This Case
(a) Guaranty fund operated as political instrument.	(a) Fund controlled by private sector and by strict contractual commitments.
(b) Failure to pay guaranty when criteria for payment met.	(b) Payment essentially automatic under strict contractual arrangements.
(c) Excessive paperwork.	(c) Issuance of guaranty essentially automatic.
(d) Failure of bank to assess risk of default properly.	(d) Technical assistance to banks to be provided.
(e) Bank views guaranteed loan as riskless transaction exposing fund to loss.	(e) Bank has 50% exposure to loss.
(f) Fund decapitalizes.	(f) Fund will be invested in revenue-producing securities.
(g) Inadequate borrower business competence and financial planning to meet basic bank requirements.	(g) Project SME Component provides SME access to technical assistance and training including preparation of business plans.

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Over the longer term the credit availability issue as well as the other issues will be addressed through the development of a strategy designed to achieve the following objectives: (1) increasing the availability of credit to small and medium size borrowers; (2) developing the availability of medium- and long-term funding for commercial entities; and (3) providing investors and depositors with realistic risk/reward incentives.

The type of strategy to be developed would have characteristics resulting in: (1) heightening competition between financial market sectors, institutions within a sector, and making financial instruments available to the borrowing and investing public; (2) making all sectors of the financial market flexible and responsive to the needs of the market place; (3) causing all financial institutions to be stand alone entities without the need for government subsidies or support from larger "parent" groups; and (4) encouraging the creation and development of institutional investors as active players in the market.

5. New Private Enterprise Initiatives Component

The central objective of this component is to provide immediate follow-on support to opportunities for investment, export production and policy dialogue that result from the experiences developed in implementing the other three components. In this way, USAID has the flexibility to respond with additional support on a timely basis.

This flexibility is expected to contribute to the further development of private sector capacity to respond to changing economic conditions with constructive policy and regulatory proposals, as well as with appropriate investment proposals that will serve to enhance both the economic and policy roles of the private sector in the national economy. Particular consideration will be given to initiatives that involve substantial small and medium enterprise participation, and that promise to ameliorate the constraints to development of an economically sound SME sector. Also, priority will be given to efforts to improve export production and marketing, both from an investment as well as a policy standpoint.

B. Financial Analysis

CAEM

In evaluating the operating performance of CAEM, the organization's return on total assets (net income/total assets) and return on equity (net income/equity), 14.92% and 22.68% respectively, aid in estimating the results of its asset utilization and in measuring how healthy its bottom line is.

On the basis of the foregoing analysis, USAID has determined that the Chamber of Entrepreneurs is financially capable of carrying out its functions under the project. CAEM has proven to be an active and efficient channel for resources destined to private sector development. Indeed, no other nonprofit private sector organization has demonstrated the same breadth of coverage or

implementing capacity. Thus, as an administratively competent umbrella organization, broadly representative of private interests in the field, CAEM is a logical choice for grantee and coordinator of this project. For CAEM to perform satisfactorily with an additional project work load, it will need at least three additional supporting staff: a chief of party/senior advisor; an executive assistant to backstop the senior advisor, e.g., in functions related to free trade production facilities; and an economist.

CHAMBER OF ENTREPENEURS
BALANCE SHEET

MAY 31, 1987
(IN QUETZALES)

ASSETS

CURRENT ASSETS			
	Cash and banks	37,749.03	
	Accounts receivable	43,254.46	
	TOTAL CURRENT ASSETS		81,003.49
FIXED ASSETS			
	Furniture and fixtures	24,180.33	
	Office equipment and supplies	1,558.61	
(-)	Accumulated Depreciation	(3,571.96)	
	TOTAL FIXED ASSETS		22,166.98
DEFERRED ASSETS			
	Organizational expense	24,000.00	
	Charges prepaid	8,777.25	
	TOTAL DEFERRED ASSETS		32,777.25
	TOTAL ASSETS		135,947.72

LIABILITIES AND EQUITY

LIABILITIES		
Accounts payable	21,304.69	
Creditors(Chamber of Commerce)	25,250.00	
TOTAL LIABILITIES		46,554.69
EQUITY		
Accumulated surplus	9,322.85	
Appropriated surplus	20,276.56	
Counterpart contribution (CBI)	22,615.00	
Unappropriated surplus	37,178.62	
TOTAL EQUITY		89,393.03
TOTAL LIABILITIES AND EQUITY		135,947.72

THE CHAMBER OF ENTREPRENEURS

INCOME STATEMENT

FOR THE YEAR ENDED MAY 31, 1987
(IN QUETZALES)

REVENUES		
Ordinary Dues	132,000.00	
Extraordinary Dues	28,100.68	
Various Contributions	12,778.47	
AID Donation	250,879.34	
TOTAL REVENUES		423,758.49
EXPENSES		
AID Donation	250,879.34	
Petty Cash	2,177.40	
Publications	1,818.73	
Travel	74,979.19	
Office Supplies	3,980.19	
Repairs and Maintenance	461.95	
Representation Affairs	4,763.47	
Seminars	770.00	
Training	90.00	
Telephone and Telex	707.89	
Christmas Bonus	1,500.00	
CONAPEX	5,484.59	
Severance Pay	6,422.00	
IGSS Employer's Contribution	3,752.70	
Professional fees	1,040.00	
Depreciation	1,354.48	
Wages	37,000.00	
Fees & Contributions	5,400.00	
Taxes	900.00	
TOTAL EXPENSES		403,481.93
NET INCOME		20,276.56

Guatemalan Management Association (AGG)

AGG's Financial Statements

In gauging AGG's effectiveness of its asset utilization, the return on average assets or reproductivity ratio of AGG for 1985 and 1984 is calculated below:

	1985	1984
NET INCOME	Q 8,530	Q 16,614
TOTAL ASSETS:		
Beginning of year (a)	142,484	149,801
End of year (b)	172,725	142,424
Average (a+b)/2	Q 157,604.5	Q 146,142.5
RATE OF RETURN ON AVERAGE ASSETS	5.4%	11.4%

The computed rate of return uses average assets because the return for the year is being earned on assets employed throughout the year.

Although a nonprofit organization, AGG's return on equity (ROE) for 1985 and 1984, 15.40% and 35.44% respectively, depicts the return that can be expected from AGG for maintaining its existing capital base or for attracting new capital.

On the basis of the foregoing analysis, USAID/Guatemala has determined that the Guatemalan Management Association is capable of carrying out its functions under the project, and that its "corporate growth strategy" complements and supports project objectives.

GUATEMALAN MANAGEMENT ASSOCIATION
BALANCE SHEET

PERIODS ENDING SEPTEMBER 30, 1985 AND 1984*
(IN QUETZALES)

ASSETS

NOTES		1985	1984
	CURRENT ASSETS		
1	Cash and due from banks	4,732	14,179
2	Accounts receivable (net)	72,254	55,340
3	Book inventory	10,531	10,944
4	Prepaid expenses	35,110	13,189
	TOTAL CURRENT ASSETS	Q122,627	93,652
5	FIXED ASSETS (NET)	Q 49,478	48,212
6	OTHER ASSETS	Q 620	620
	TOTAL ASSETS	Q172,725	142,484

LIABILITIES AND EQUITY

NOTES		1985	1984
	SHORT-TERM LIABILITIES		
7	Accounts payable	13,060	24,533
8	Acrued expenses	80,328	48,164
9	Prepaid income	17,370	19,657
	TOTAL SHORT-TERM LIABILITIES	Q110,758	92,354
	LONG-TERM LIABILITIES		
10	Indemnification allowance	6,560	3,253
	TOTAL LIABILITIES	Q117,318	95,607
	EQUITY		
	Capital stock	38,387	21,773
	Donated surplus	8,490	8,490
	Capital surplus	8,530	16,614
	NET WORTH	Q55,407	46,877
	TOTAL LIABILITIES AND EQUITY	Q172,725	142,484

*1986: N/A

GUATEMALAN MANAGEMENT ASSOCIATION

INCOME STATEMENT

PERIODS ENDING SEPTEMBER 30, 1985 AND 1984*
(IN QUETZALES)

		1985		1984	
		Amount	%	Amount	%
	REVENUES				
	Membership	253,425	37.9	222,524	46.4
	Seminars	243,499	36.4	134,905	28.2
	Book Editions and distribution	1,227	0.2	921	0.2
	Magazine	82,237	12.3	62,239	13.0
	Meetings	83,820	12.5	57,120	11.9
	Anti-Alcoholism Program	-----	----	825	0.2
	Other Revenues	4,362	0.7	593	0.1
	TOTAL REVENUES	Q668,570	100.0	479,127	100.0
	EXPENSES				
ANNEX					
1	Membership and Administration	237,733	35.6	200,946	41.9
2	Seminars	201,535	30.1	122,554	25.6
	Book Editions and Distribution	790	0.1	742	0.1
3	Magazine	99,738	14.9	72,774	15.2
4	Meetings	95,647	14.3	56,537	11.8
	Anti-Alcoholism Program	----	---	2,289	0.5
	TOTAL EXPENSES	635,443	95.0	455,842	95.1
	REVENUES (-) EXPENSES	Q33,127	5.0	23,285	4.9
(-)	SPECIAL EXPENSES				
	Increase in Reserve for Debt Overdue	11,061	1.7	6,671	1.4
	Extraordinary Payment to Paccio s	13,536	2.0	-----	---
	NET INCOME	Q 8,530	1.3	16,614	3.5

*1985: N/A

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Nontraditional Product Exporters Guild

The Guild's well-qualified staff, collaboration in the design of the project, and Board of Directors' strong interest in the project are sound reasons to expect that its participation in the project will result in effective implementation. The Guild's financial analysis is favorable. The organization's accounting procedures are consistent with generally accepted accounting principles. As of March 1987, the Guild showed a debt-to-assets ratio of 0.086 or 8.6%, as it had Q 23,202.68 in liabilities, which signifies low risk. Also, the Guild's return on total assets and return on equity, 50% and 42% respectively, are indicators of the organization's efficiency.

On the basis of the foregoing, USAID has determined that the Nontraditional Product Exporters Guild is financially capable of carrying out its functions under the project.

NONTRADITIONAL PRODUCT EXPORTERS GUILD
BALANCE SHEET
MARCH 31, 1987

CURRENT ASSETS				Q110,860.79
CASH			Q 100.00	
Petty Cash		Q 100.00		
BANKS			Q 38,438.29	
Banco Industrial, S.A.		Q 15,438.29		
Banco de Exportación, S.A.		23,000.00		
CUSTOMERS			Q65,080.00	
Guild members		Q 65,080.00		
RECEIVABLES			Q 6,387.50	
Guild members		Q 1,438.10		
Employees		2,180.62		
Other		2,768.78		
PREPAID EXPENSES			Q 855.00	
Advance payments				
FIXED ASSETS				Q159,766.48
Plant and fixtures	Q52,468.52	Q 1,808.77	Q 50,659.75	
Computer equipment	46,114.76	2,631.44	43,483.32	
Communication equipment	66,468.09	881.08	65,587.01	
House furnishings	52.00	15.60	36.40	
	Q165,103.37	Q5,336.89	Q159,766.48	
OTHER ASSETS				Q 160.00
Deposits		Q 160.00		
TOTAL ASSETS				Q270,787.27
LIABILITIES				
Accounts payable				Q 2,000.00
Creditors			Q 2,000.00	
Funds on account				Q 164.82
Payments of another			Q 164.82	
Prepaid income				Q 3,367.66
Guild members			Q 3,367.66	
Reserves				Q 17,670.20
Labor liabilities			Q 17,670.20	
TOTAL LIABILITIES				23,202.68
EQUITY				
Current period surplus		Q103,922.33		
Previous period surplus		4,691.65	108,613.98	
Donated surplus			138,970.61	
TOTAL EQUITY				247,584.59
TOTAL LIABILITIES AND EQUITY				Q270,787.27

NONTRADITIONAL PRODUCT EXPORTERS GUILD
INCOME STATEMENT
PERIOD ENDING MARCH 31, 1987

REVENUES		
Guild Members		Q215,114.09
Registration fees	9,200.00	
Membership fees	139,814.09	
Extraordinary fees	63,100.00	
CBI dues	3,000.00	
Other		Q 63,089.57
Bulletin publication	1,625.00	
Photocopies	895.95	
Various publications	252.62	
Seminars	12,190.00	
Exports convention	43,325.00	
Report on export supply	4,136.00	
Personal services	665.00	
TOTAL REVENUES		Q278,203.66
EXPENSES		
Personal services	86,365.93	
Non-Personal services	16,539.99	
Materials and supplies	7,567.87	
Specific activities	63,807.54	
TOTAL EXPENSES		Q174,281.33
NET INCOME		Q103,922.33

Banks Participating in the Loan Guaranty Facility

The commercial banks which have expressed a strong interest in participating in the project's loan guaranty facility are:

1. Industrial Bank

Capitalized through investments from the industrial private sector in June of 1968, the "Banco Industrial S. A." initiated its operations with paid-in capital of Q4,900,500 and authorized capital of Q25,000,000. Mainly oriented to industrial, commercial and mortgage transactions, the Bank by 1986 had total assets in the amount of Q520,600,000.

The bank provides services through a system of 12 agencies, two of which are located in the Departments of Escuintla and Quezaltenango. The other agencies are located in five commercial zones in the capital city.

According to bank statistics, loans have been provided to the following sectors, by order of importance: Industrial (73.1%), Construction (8.9%), Commerce (9.4%), Agriculture (3%), Livestock (2%) and others (3.6%).

As a publicly held company and in accordance with the law, the highest authority of the bank is the General Assembly of Stockholders, which elects the Administrative Council, the body responsible for defining the policies and actions to be taken by the other administrative entities of the institution.

Because of the assets that "Banco Industrial S.A." manages, it is the largest bank of the banking system, surpassed only by the Bank of Guatemala.

Analysis of Operating Performance and Financial Strength:

a. Ratio of Loans and Discounts to Paid-in Capital

Between 1985 and 1986, the loan to paid-in capital ratio increased 8 percent. This indicator shows an increased number of loans or a higher average loan size during 1986 as compared to 1985.

b. Ratio of Deposits to Loans and Discounts

During 1985 the ratio was 1.4. In 1986 it increased to 1.8, which means on the one hand a greater attraction of resources in the form of savings, and on the other an increase in the bank's liquidity. In banking terms, this reflects the decrease in attractiveness of foreign exchange-denominated investments and the lack of alternative savings instruments available in the economy.

c. Ratio of Paid-in Capital Plus Deposits to Loans and Discounts

This ratio changed from 1.5 in 1985 to 1.9 in 1986, whi shows the bank's financial stability since, for each Quetzal lent, it has 150-200 percent more in available resources in the form of deposits and corporate capital. Deposits increased by 38.3 percent in 1986 over 1985.

d. Ratios of Net Income to Assets, Revenues and Paid-in Capital

Between the years 1985 and 1986, the bank showed increases in these three ratios. This result derived undoubtedly from a greater number of transactions and a greater level of administrative efficiency. For example, for each Quetzal obtained as financial proceeds 19 cents went to net profits. These ratios indicate a respectable rate of return on assets and on owner's equity. A 37.6 percent rate of return on owner's equity for 1986 measures the ultimate, attractive profitability of this bank. The net income to revenues ratio, exceeding 9 percent in 1986, is also an important measure of the bank's operating performance.

INDUSTRIAL BANK
Comparison for Years
1985 - 1986
(In Thousands of Quetzales)

			1986		1985	
a)	Loans and Discounts	=	249,922.2	= 10.0	231,136.9	= 9.2
	Paid-in Capital		25,000.0		25,000.0	
b)	Deposits	=	448,422.0	= 1.8	324,258.6	= 1.4
	Loans and Discounts		249,922.2		231,136.9	
c)	Paid-in Capital + Deposits	=	473,422.0	= 1.9	349,258.6	= 1.5
	Loans and Discounts		249,922.2		231,136.9	
d)	Net Income	=	9,404.0	= 1.8%	5,450.5	= 1.4%
	Assets		520,552.3		388,100.0	
e)	Net Income	=	9,404.0	= 19.4%	5,450.5	= 15.7%
	Revenues		48,381.3		34,639.4	
f)	Net Income	=	9,404.0	= 37.6%	5,450.5	= 21.8%
	Paid-in Capital		25,000.0		25,000.0	

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2. Banco del Café, S. A.

"Banco del Café, S.A." operated with paid-in capital of Q9,150,000 during fiscal year 1986. This capital will be increased by Q850,000 in 1987 to support greater lending.

The bank's legal reserve increased during 1986 by Q99,987.40 to a December 31, 1986 balance of Q301,138.28.

The bank's income exceeded expenses by Q3,313,703 during the fiscal year, representing 35 percent of paid-in capital and of capital reserves, which left a net profit of Q2,599,490 after personnel and administrative bonuses and rewards were deducted.

User deposits entrusted to the bank continued to increase as in previous fiscal years, reaching Q203.2 million in December 31, 1986. This included an increase of Q21.0 million over the amount of the period ending December 31, 1985. The greatest increase was in savings deposits. The above increase occurred despite a government withdrawal of Q24.0 million.

Given the liquidity level which "Banco del Café" had in 1986, it did not have to seek credit from the Central Bank or from other sources used in the past. The use of those resources was decreased.

Analysis of Operating Performance and Financial Strength:

a. Ratio of Loans and Discounts to Paid-in Capital

Comparisons between the years 1986 and 1985 show an increase in paid-in capital.

The ratio 11.6 increased to 11.7 in relative terms. In absolute terms, there was also an increase in the volume of loan and discount transactions indicating growth of the institution.

b. Ratio of Deposits to Loans and Discounts

These ratios increased from 1.7 to 1.9 due to greater attraction of resources in the form of deposits in 1986 over 1985. Deposits grew by 11.6 percent in 1986. On the other hand, the increase in loan and discount transactions was more moderate during this period, only reaching one percent, in spite of the bank's advantageous liquidity position.

c. Ratio of Paid-in Capital Plus Deposits to Loans and Discounts

The bank shows in this ratio that, for each Quetzal lent, Q1.80-Q2.00 is available in the form of corporate capital

and deposits. Comparing the year 1986 with 1985 we can detect an overall increase in the number of transactions of the institution.

d. Ratios of Net Income to Assets, Revenues and Paid-in Capital

All profit ratios improved during 1986 over 1984. The ratio of net income to paid-in capital can be taken as proof of the bank's positive income-yield capacity since in 1986 the ratio reached 28.4 percent. This 28.4 percent return on investment is a valuable indicator for the bank to attract new capital and for its investors to expect a reasonable return.

"BANCO DEL CAFE, S. ."
Comparison for Years
1986 - 1985
(In Thousands of Quetzales)

		1986	1985
a) Loans and Discounts / Paid-in Capital	=	107,210.3 / 9,150.0 = 11.7	106,640.0 / 9,150.0 = 11.6
b) Deposits / Loans and Discounts	=	203,154.5 / 107,210.3 = 1.9	182,113.8 / 106,640.0 = 1.7
c) Paid-in Capital + Deposits / Loans and Discounts	=	212,304.5 / 107,210.3 = 2.0	191,263.8 / 106,640.0 = 1.8
d) Net Income / Assets	=	2,599.5 / 249,115.0 = 1.0%	1,695.7 / 235,559.5 = 0.7%
e) Net Income / Revenues	=	2,599.5 / 21,412.0 = 12.1%	1,695.7 / 18,308.5 = 9.3%
f) Net Income / Paid-in Capital	=	2,599.5 / 9,150.0 = 28.4%	1,695.7 / 9,150.0 = 18.5%

3. Banco Granai & Townson, S.A.

Established as a publicly held company in September of 1962, the "Banco Granai & Towson" is today one of the largest commercial and mortgage banking institutions within the Republic of Guatemala.

Until 1985 the bank had 22 agencies, 9 of which were located outside of Guatemala City, making it one of the private banks with the greatest representation within the country. The other 13 agencies are distributed in different zones of the capital city.

The bank's authorized and fully paid-in capital amounts to Q10,000,000. Its total assets, according to the bank's financial statements through December 1985, amount to Q287,650,000.

In accordance with its charter, the maximum authority of the institution is the General Assembly of Stockholders, which appoints the Administrative Council. This latter body directs the actions of and defines the policies to be implemented by management and by other administrative bodies of the bank.

Analysis of Operating Performance and Financial Strength:

a. Ratio of Loans and Discounts to Paid-in Capital

A comparison of the years 1985 and 1986 indicates a small decrease of 6 percent for 1986 in relative terms. In absolute terms more loans and discounts were provided in 1986 than in 1985. The 6 percent decrease is accounted for by an increase in the bank's corporate capital, which reached one million quetzales in 1986.

b. Ratio of Deposits to Loans and Discounts

The 1986 ratio versus 1985 increased from 1.4 to 1.7 due to a greater attraction of resources in the form of deposits. Deposits increased by 28.7 percent in 1986 over the previous year.

The activity in the loans and discounts item was positive but of lesser magnitude, notwithstanding the bank's propitious liquidity.

c. Ratio of Paid-in Capital Plus Deposits to Loans and Discounts

The ratios for the years 1985 and 1986 indicate that for each quetzal lent the bank has available as much as Q.1.5 to Q1.8 in the form of corporate capital plus loans and discounts. This indicator shows that the institution has adequate financial stability.

"BANCO GRANAI & TOWNSON, S. A."
Comparison of Years
1985 - 1986
(In Thousands of Quetzales)

			1986		1985	
a)	Loans and Discounts	=	177,131.0 =	16.1	166,891.0 =	16.7
	Paid-in Capital		11,000.0		10,000.0	
b)	Deposits	=	300,938.0 =	1.7	233,853.0 =	1.4
	Loans and Discounts		177,131.0		166,891.0	
c)	Paid-in Capital + Deposits	=	311,938.0 =	1.8	243,853.0 =	1.5
	Loans and Discounts		177,131.0		166,891.0	
d)	Net Income		N/A		N/A	
	Assets		N/A		N/A	
e)	Net Income		N/A		N/A	
	Revenues		N/A		N/A	
f)	Net Income		N/A		N/A	
	Paid-in Capital		N/A		N/A	

The overall analysis of the above ratios indicates: a) the three banks have a very favorable liquidity position which, added to more flexible or less conservative lending practices, would easily enable them to increase their portfolio of loans; and b) the three banks are very profitable which reflects their financial strength and management efficiency.

USAID has determined that all the financial institutions covered in this section are administratively capable of carrying out their project responsibilities.

C. Economic Analysis

The Project has been determined to be economically feasible. To analyze this Private Enterprise Development (PED) project, several measures were used to gauge its effectiveness. For the economic analysis of development projects, one of the most often used methods is a benefit-cost

(B-C) analysis to determine whether the project in question is viable from an economic standpoint. A single economic rate of return was not calculated for the project due to the number and diversity of its components separate analyses of each component were undertaken. For some components, absence of hard data led to results which are illustrative. (See Annex E-2 for the complete economic analysis.)

1. The analysis of the SME Component found that program participants should realize sufficient benefits (through increased sales) to cover the costs of the training and technical assistance provided by the program.

2. To analyze the Export Promotion Component, a B-C analysis of a proposed Export Processing Zone (EPZ) was performed which provided an IRR of 18.94 percent. The EPZ should provide additional benefits in the form of employment creation (especially for unskilled laborers), increased investment and foreign exchange earnings and provide a demonstration effect which may prompt investors to establish additional EPZ's.

Other training and technical assistance activities under this component were examined and it was determined that estimated benefits (U.S. $12.839 million in increased exports) generated as a result of activities compare favorably with costs (U.S. $2.832 million.)

3. The studies funded under the Financial Markets Development Component will generate some economic benefits. However, because the related benefits and costs are difficult to estimate at this point, a B-C analysis was not performed.

The B-C analysis of the guaranty fund yielded an internal rate of return (IRR) of 18.65 percent.

The employment generation effects of the PED project will be substantial. The analysis found that the FTPF and the guaranty fund would generate from 66,960 to 100,990 person-years of gross direct employment throughout the life of the guaranty fund (assumed to be 20 years). Other project activities will also have a positive impact on employment generation.

D. Institutional Analysis

As descibed elsewhere in this document, the overriding principle used in the selection of implementing institutions was to avoid the creation of new institutions and to build, instead, on the foundation of proven institutional performance. The assistance to be provided to implementing institutions should be seen more as expanding the scope and role they play, in particular to extend their reach to encompass the small and medium size enterprise sector, where the institutions themselves have seen a need to do so. The following summarizes the institutional analysis carried out for the major implementing institutions under the project.

1. The Chamber of Entrepreneurs

The Chamber of Entrpreneurs, (Cámara Empresarial, CAEM) is a non-profit organization, autonomous, apolitical, and legally constituted. CAEM was formed by the chambers and associations of the Guatemalan private sector and respresents the linking institution for the sector's development. Founded in December of 1981, the Chamber's statutes were approved in March 1982 through a Governmental Resolution. CAEM, led by young entrepeneurs, was established to capitalize on the benefits from the Caribbean Basin Initiative, and to negotiate policies that accelerate economic development via the private sector. The founding organizations were the Chambers of Commerce, Industry, Tourism, Construction and the General Association of Agriculturists. CAEM thus represents a broad section of the private sector and has successfully coordinated the USAID ongoing Private Sector Development Coordination project (520-0337).

CAEM has as its main purpose coordination of efforts towards an integrated and sustained devlopment process of the Guatemalan private sector. In this regard, CAEM supports the development of the small and medium entrepreneurial sector with the objective of benefitting all sectors of the country and improving Guatemala's social conditions and quality of life.

The maximum authority of CAEM is the General Assembly. CAEM's membership includes: the Chambers of Commerce, Industry, Finance, and Tourism; the National Agriculturists Association; and the Sugar-Cane Producers Association. The Nontraditional Product Exporters Guild is a unit of CAEM, through the Chamber of Industry.

A Board of Directors which represents each of the chambers and associations affiliated with CAEM is the highest administrative body under which different working committees operate. The General Manager is in charge of administration and reports to the Board of Directors. CAEM carries out its activities through a group of working committees:

the private sector committee, responsible for coordination of all development activities among CAEM's associated organizations, and for promotion of CAEM's activities with other institutions;

the public sector development committee, charged with coordination with GOG agencies to support small and medium enterprises;

the international organization committee, charged with developing projects which require special financing and for maintaining contacts with international financial institutions as well as with other potential sources of external financing;

the communication and information committee, responsible for planning, organizing and implementing activities through the different programs and projects that CAEM carries out;

the technology transfer committee, with responsibility for programming training projects, coordinating technical seminars, and advisory services for the supervision of operational and marketing processes;

the export committee, responsible for promoting and increasing exports. It is through this committee that the National Export Coordination Commission was established as a constituent part of the National Export Promotion Council (CONAPEX);

the economic and social development committee, which establishes the needs and feasibility of projects to be developed within the sectors that represent the activities of affiliated institutions such as agribusiness, manufacturing, industry, commerce and tourism. The committee places special attention on the development of economic and social activities of medium, small and micro-enterprises; and finally,

the steering committee, which was established to carry out a USAID grant financed development program (520-0337).

Under the grant agreement mentioned above, CAEM has proven to be an active and efficient channel for resources directed to private sector development institutions. Indeed, no other nonprofit private sector organization in Guatemala has demonstrated the same breadth of coverage or implementing capacity. Thus, as an administratively competent umbrella organization, broadly representative of private interests in the field, CAEM is a logical choice as grantee and coordinator for the PED project.

The PED project will assist CAEM to maintain its existing base, implement policy dialogue activities, and deepen its relations with the target population -- small and medium entrepreneurs and nontraditional exporters. Indeed, CAEM's strong relations with the project target beneficiaries will facilitate delivery of technical assistance, and improvement in coordination of activities assigned to other participating private sector institutions.

2. The Guatemalan Management Association

The Guatemalan Management Association (Asociación de Gerentes de Guatemala, AGG), a non-profit organization founded in 1959, is organized to strengthen the Guatemalan private sector through a wide range of management services that address specific business needs. AGG is an affiliate of the American Management Association and maintains close contact with its affiliates worldwide.

AGG administers programs and activities in three main areas: Executive Training and Development, Entrepreneurial Information, and Conferences and Seminars. A detailed description of AGG's activities in these areas is found in Annex H.

AGG has over 2,000 members. Although AGG's membership requirements do not preclude SME from joining, in recent years SME have not benefitted from

the services that AGG provides because AGG has focussed its program on the country's larger business establishments. Nevertheless, AGG has strongly indicated that changing this situation is a high priority and has proposed the creation of a SME Development Center. Taking into account that AGG has demonstrated ample interest in SME, and is Guatemala's leading organization for providing management oriented services, training and technical assistance, it is a logical selection to carry out the SME component of the project. Implementation of the SME component by AGG fills a vacuum assuring that SME interests are included in AGG policies and programs. Therefore, this project builds on the strengths and advantages of operating through a well-grounded, action-oriented private sector organization.

3. The Nontraditional Product Exporters Guild

The Nontraditional Product Exporters Guild (Gremial), a nonprofit trade committee assigned to the Chamber of Industry of Guatemala, was established in May 1982. The organization was created through the efforts of a group of exporters who decided to organize an institutional body to represent them. The Guild was formed to serve as an effective means of communication with other organizations of the public and private sector in areas related to production, particularly exports. The Guild's objectives are to protect the interests of the export sector, the establishement of fiscal incentives to encourage production, and elimination of policies and regulatory obstacles that hinder the marketability of Guatemalan products in the international market.

The Guild is a good example of the achievements that can be attained through mobilization of mutual interests to reach ambitious goals by overcoming constraints which obstruct growth of export industries. Currently, the Guild represents a large number of private companies, with approximatley 400 members, that are dedicated to exporting. Its activities contribute effectively to increasing Guatemala's international trade and improving Guatemala's trade balance.

The Guild has extensive experience with AID financed projects. The USAID Agribusiness Development Project (520-0276) provides $750,000 in grant assistance to the Guild to develop a market information system; and promote exports and investment activities through technical assistance, systematic market searches, and policy studies and research of constraints on nontraditional exports. Moreover, the Guild has received assistance under ROCAP's Nontraditional Agricultural Exports Support Project (596-0108), designed to provide technical assistance and training in areas related to export production and marketing of nontraditional agricultural products.

The PED project will assist the Guild to expand its breadth and depth of services, particularly by expanding into the manufacturing sector. The Guild's well-qualified staff, collaboration in the design of the project, and its Board of Director's strong interest in the project are sound reasons to expect that its participation in the project will result in effective implementation.

4. The National Export Promotion Council

The National Export Promotion Council (Consejo Nacional de Promoción de Exportaciones, CONAPEX) was created in June 1986 by Decree 307-86. The purpose of CONAPEX, proposed as part of Guatemala's new economic package, is to establish a joint public-private sector institutional mechanism to promote the growth of Guatemalan exports.

CONAPEX's public sector membership, made up of the Ministers of Economy (as chair), Agriculture, Public Finance, Foreign Relations and the President of the Guatemalan Central Bank, encompasses the Government entities which have jurisdiction over the various aspects of export trade. Private sector membership is similarly drawn from lthose parts of the economy who export, or who provide services to exporters. The five private sector respresentatives are nominated by the Chamber of Entrepreneurs (CAEM) from the agriculture, fianancial, tourism, cooperative, industrial and commerical sub-sectors. A quorum is reached when at least six members, three each from private and public sectors, are in attendance. Decisions are made through consensus, rather than majority vote. The consensus provision was demanded by the private sector to prevent CONAPEX from becoming a mere rubber stamp for government policies.

The Cerezo Government has as one of its main objectives policy management for supporting a private sector-led economic recovery in a "country which has not been accustomed to dialogue" (President Cerezo's remarks at the ceremony inaugurating CONAPEX). The creation of such a council has been a specific objective for at least two years for the Mission's policy dialogue related to export-led growth and private-public sector cooperation. It can be cited as one of the specific actions the GOG took in fulfilling the general covenant in the FY86 ESF balance of payments agreement to take steps to promote exports and private sector productive activities.

Over the first year of its existence, CONAPEX has demonstrated the effectiveness of public-private collaboration through the following accomplishments: (1) opening of the one-stop export center, reducing the administrative impediments and bottlenecks to export. This consolidated documentation facility now permits exporters to process most of the 150 transactions required to make export arrangement at one time; (2) established a working group to prepare a draft civil aviation law to meet the governemnt's commitment to open skies; (3) formed an export commission to consider the establishment of a revolving credit fund for exporteres under a proposed IBRD project; (4) formed a technical work group to revise and improve the existing fiscal incentives for export-producing companies; (5) consolidated efforts on behalf of the private sector to gain trade benefits granted to LDCs under schemes such as the CBI; (6) developed a scope of work for a National Export Plan; and (7) formed a working group to investigate the establishment and consolidation of export trading companies.

The PED project will provide assistance to CONAPEX to strengthen its role as the central forum for public-private dialogue on important policy

and regulatory issues to promote export production and marketing. CONAPEX's track record to date bodes well for its continued role in national export policy development. In addition, CONAPEX is an appropriate institutional mechanism for the Mission's joint activity in export development and promotion with the World Bank.

5. Financial Institutions

The financial institutions involved in the project are: Bank of Guatemala (BOG), and three commercial banks that have indicated strong interest in the guaranty fund (Banco Industrial, Banco Del Cafe, and Banco Granai & Townson). The Bank of Guatemala, as the country's central bank, has attempted to maintain a satisfactory level of economic growth via two main channels: (1) fiduciary operations of internal or external nature; and (2) opening of lines of credit or discounting for national financial institutions. The BOG has a variety of separate departments dealing with exchange control, sector economic studies, foreign trade agreements and other areas concerneing administration of the money supply and the country's financial system.

BOG operations have traditionally been characterized as soundly managed and employing up-to-date administrative technology. USAID has worked with the Bank's Credit Department in organizing and implementing discount credit lines under the Rural Enterprises (520-0245), Small Farmer Marketing (520-0238) and Agribusiness Development (520-0276) projects.

The analysis carried out of each of the three private commerical banks indicates: (1) the three banks have a very favorable liquidity position which, added to more flexible or less conservative lending practices, would easily enable them to increase their portfolio of loans under the project; and (2) the three banks are very profitable, which reflects their financial strength and management efficiency. All three banks are administratively capable of carrying out their project responsibilities.

6. The Guatemalan Financial Chamber

The Guatemalan Financial Chamber is a non-profit, apolitical, autonomous, private entity formed by Guatemalan private financial institutions. The Chamber was established in 1975 and is affiliated with the Chamber of Entrepeneurs, CAEM. The Chamber has as its basic purpose coordination of actions and efforts under the policy guidance of the various financial institutions represented in it. The following financial sectors are represented in the Chamber: commercial banks, finance companies and investment banks, insurance companies, bonded warehouses and guarantee companies.

The Financial Chamber, as a representative of Guatemala's financial sector, is a logical institution to examine the long-term viability of new financial facilities. In light of constraints such as high collateral requirements for loans, that have placed limitations on Guatemala's financial

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market development, the Chamber is a de rigueur player in identifying and designing policy improvements. Further, its institutional support is required to improve the effectiveness of Guatemala's financial markets. Thus, for the project's potential interventions to broaden and enhance Guatemalan financial markets, the Financial Chamber is a key organization to be involved in defining research scopes, and in coordinating and evaluating studies and initiatives that encourage a greater flow of credit to small and medium enterprises by domestic financial institutions. The results of the Financial Markets RDP and the success of the SME guarantee fund will depend, to a large extent, on the political will of the Chamber's members.

7. The Ministry of Economy

Most of the activities with the Ministry of Economy relate to its function as leading public sector institution within the National Export Council (CONAPEX). Support, however, will be given through the project to other offices of the Ministry of Economy which have a role in promoting export, employment and investment. Chief among these is the Office of Industrial Policy (OIP).

Reflecting the lack of emphasis given to export development in the past, the OIP is understaffed and unable to effectively carry out its mandate of administering fiscal incentives granted to exporters. Existing staff do not have the qualifications to provide service to exporting firms, and the office lacks the equipment and budget to carry out its mandate. The salaries for personnel in the office prohibit the attraction of staff with necessary education and experience.

Fiscal incentive legislation is now being revised, but the fear is that without proper implementation it will have little impact on export. Support by USAID will be temporary, to provide the initial push for implementation of new laws and to strengthen this office in the near term. Assistance will be granted with the understanding that the GOG will increase its budgetary allocation over time until external assistance is no longer needed.

8. Conclusion

USAID has determined that these institutions are administratively capable of carrying out their functions under the project. They are qualified for efficient performance in broadening services and technology transfer to small and medium enterprises and nontraditional exporters, and in supporting the Chamber of Entrepreneurs to implement policy dialogue activities.

E. Social Soundness Analysis

To assess the possibility of an SME-assistance project, the Mission commissioned a survey of 102 firms, including 55 SME's and about 15 each of micro-enterprises, large companies and agricultural-processing firms. (The

survey, the Cowan Report, is available in USAID's bulk files.) SME are defined as firms in industry, agribusiness, commerce or services with 10-100 employees. Microenterprises have fewer than 10 employees, and large firms have more than 100. The following background commentary briefly summarizes the results of the survey statistical background and interviews.

1. Identification of SME Group

There are no accurate estimates of the number of SME in Guatemala. The only source breaking out SME which the survey researchers found is the National Directory of Industrial Establishments. This states that in 1981 there were 1,121 firms with 5-19 employees, 836 with 20-49 employees, and 262 with more than 50 employees.

The following table is based on extrapolations from the Survey and other data:

Employee Range	Average Empls.	Number of Firms Indus.	Comm.	Service	Total	Empls.
10-19	14	500	353	515	1368	19152
20-49	34	386	272	398	1056	35904
50-100	75	162	114	167	443	33225
TOTAL		1048	739	1080	2867	88281

The total of 2867 SME probably is understated because survey results indicate that smaller firms often try to avoid government registries. The above figures imply that SME comprise 6% of the companies inscribed in the Mercantile Register (1984) and 14% of the employers registered with Social Security. The National Industrial Directory indicates that 66% of registered firms are located in the Department of Guatemala, and we can assume that SME fall into the same geographic pattern.

2. Dynamic Importance

SME have more potential importance to Guatemala's recovery than the above figures would imply. In most countries, SME are a major source of new products or services and, therefore, of new employment. In a hierarchical society, such as that of Guatemala, they form a pathway for social and economic advancement for those with entrepreneurial drive.

An important finding of the survey is that, despite the economic crisis, the majority of SME owners are cautiously optimistic about their firm's future. They have ideas about expansion and diversification projects. Many have not taken steps to implement them solely because of lack of resources. Because they have few options besides making a go of it in Guatemala, SME optimism may also derive from a necessity which elite-owned firms may not feel.

3. Results of Analysis of SME Problem

The survey analyzed perceptions of problems by SME and the reality of their perceptions. The conclusions of the analysis indicate that the most important problems are:

a. Inconsistency in the case-by-case application of government policies.

b. Lack of finance, especially working capital, in particular for firms with less than 50 employees

Conservatism by both lenders, requiring high levels of non-business collateral, and by SME, impedes both stabilization and growth of SME.

c. Uncertainty over future foreign-exchange movements and policy

d. Worker and supervisor training deficiencies

Lack of knowledge of training sources leads most SME to confine themselves to on-the-job training, if any at all;

Those still dealing with the CACM require more working capital to bridge over frequent border closings.

e. Deficiencies in dealing with the dishonesty of some government and supplier-firm officials

f. Lack of management training

Among smaller SME this includes basic planning skills, and developing middle management as a plataform for growth.

4. Priority Needs

Responses to the question of interest in a possible assistance project provide a more practical, focused look at SME needs (listed in order of importance):

a. Access to finance, especially working capital

b. Technical assistance, usually in very specific areas

Very simple financial planning, cost control and credit-related applications are important. Some specific technical assistance is needed to select production alternatives.

c. Assistance in finding new markets, including export markets

Many respondents were, in reality, far from having well-enough conceived projects to use such help effectively. This implies that technical assistance is needed first to evaluate client capability to penetrate new markets, primarily domestic ones. Only then can marketing technical assistance support an export drive.

d. Assistance in finding foreign-technology suppliers, marketers or investors (not mentioned often)

This is a need mostly of larger firms.

e. Training (in fields closely related to technical assistance)

For example, general and financial planning, as a follow-up to accounting technical assistance, is necessary to help firms identify short-term credit needs, based on product sales cash flows, and to improve unit cost controls.

5. Constituent Organizations and Policy Dialogue

Small and medium enterprises are disorganized. SME seldom participate in policy dialogue. SME may be indirectly represented in those cases where the interests of SME are equivalent or similar to those of larger firms. However, it is typically not even known whether such interests are parallel or at variance. In short, SME as a group are largely outside the policy decision-making system.

6. Conclusion

The social soundness analysis of the project concluded that the assistance elements of the project correctly address the priority concerns and needs of SME. Organized business in Guatemala will either support the project or be indifferent, but will not oppose it. The beneficiary target group is made up of SME owner operators, the majority of whom have less than university education and will thus benefit greatly from the training and technical assistance in fields such as finance, marketing, production, and so forth that are part of the component. Impact measurement will depend on the participants profile as the program begins, plus the monitoring of participating businesses and their owner-managers by the training and technical consultants and their assistants. Overall, the project is socially and culturally sound and consonant with felt needs of the primary target group.

F. Environmental Analysis

The results of the Initial Environmental Examination (IEE) indicated that that activities of the project are applicable to categorical exclusions under Section 216.2 (c) (2) (i, iii, v, x, and xiv). The IEE recommends a negative determination requiring no further environmental review.

VIII. CONDITIONS, COVENANTS, AND NEGOTIATING STATUS

This project has been developed with the assistance of a large number of private sector organizations and leaders. The project has been presented formally to the highest authority of each participant organization. The Government of Guatemala has been kept appraised of progress in project development at all stages.

Reaction to the project has been very favorable as indicated by the commitment of time and effort by participating organizations. There appear to be no impediments to negotiating and signing obligating Agreements in FY 1987. It should be noted that the final arrangements for the Guaranty Fund are currently under negotiation. Formal requests for the project are presented in Annex D. It is expected that the Project Agreement and the Cooperative Agreement will be negotiated in final and signed shortly after authorization of the project.

The Project Agreements which may be negotiated and executed shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate.

a. Source and Origin of Commodities, Nationality of Services

Commodities financed by A.I.D. under the project shall have their source and origin in the cooperating country or the United States, except as A.I.D. may otherwise agree in writing. Except for ocean shipping, the suppliers of commodities or services shall have the cooperating country or the United States as their place of nationality, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Grant shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States.

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IX. EVALUATION ARRANGEMENTS

A. Introduction

This project is designed in full compliance with the AID evaluation system.

Project designers made extensive use of information on prior experience with this type of project. Relevant materials were requested and received from PPC/CDIE. In addition, the USAID library and materials obtained from consultants and USAID staff on prior AID experience were considered. A partial listing of these materials is set out in the Bibliography, Annex N.

The project makes a heavy commitment to data gathering and analysis. In addition to the participants profile, the Project Management Information System provides a systematic mechanism for gathering information on clients, purveyors of services, institutions, and resources available. Not only is the delivery of services tracked but the impact of services in terms of what clients actually do as a consequence of services delivered is closely monitored.

The project incorporates the concept of "impact monitors" to assure that management has access to the data on project performance and AID Action Plan Tracking. Finally, the PMIS will generate reports to management on a regular basis to assure that feedback gets into the hands of managers at all levels. (The PMIS is described in detail in Annex L).

Host country private sector participation in data gathering and information system management is extensive. The Guild operates an export information system which ties into the PMIS. AGG will operate an SME information network based on the PMIS. Guatemalans will staff the PMIS, and the sponsoring organizations will define their information needs and direct PMIS operations as well as any system changes which may be required. When the project ends, all those aspects of the PMIS not specifically associated will Project implementation as such will be operated by CAEM.

B. Key Indicators

The key interim and final objectives of the project and therefore the primary focus of information for management attention are the following:

1. Establish an organizational structure in each component capable of extending the tasks assigned, including the development of appropriate fee and pricing structures to enhance program sustainability.

2. Perform the tasks necessary to deliver services, including:

   a. Complete plan.
   b. Identify sources of services in Guatemala.

c. If appropriate services not available in Guatemala, find them elsewhere, primarily through "sister" projects (i.e. IESC, SUSTAIN; PRE and ROCAP Projects) or through direct procurement.
d. Contract services.
e. Confirm that services were delivered as contracted.
f. Determine what the client did as a result of the services.

3. Feedback to management information on project performance and impact.

4. Make adjustments in implementation if necessary. The PMIS will collect a wide range of data for various management and operational purposes. The key variables which will compose the "core tracking concepts" are:

a. Number of clients served - Up
b. Ratio of Guatemalan to foreign source service - Up
c. Clients reporting any impact - Up
d. Specific impact of technical service
   Employment - Up
   Gross sales - Up
   Quality - Up
   Unit cost of production - Down
   Investment - Up

5. Cost of technical support per unit of impact - Down

6. Number of Guatemalans employed in business of providing technical support to private enterprises - Up

7. Number of SME seeking loans - Up

8. Number of SME receiving loans - Up

9. Number of guarantees issued - Up

10. Aggregate amount of guarantees out - Up

11. Specific impact of guarantees

   Employment - Up
   Gross sales - Up
   Quality - Up
   Unit cost of production - Down
   Investment - Up

12. Number of Guatemalan firms exporting - Up

13. Aggregate nontraditional export sales - Up

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14. Specific impact of export technical support

Employment - Up
Gross sales - Up
Quality - Up
Unit cost of production - Down
Investment - Up

15. Number of issues which are subject of policy dialogue - Up

16. Project Client perceptions that "conditions for doing business" are better than before. - Up

C. Benchmark Profiles

Benchmark profiles of SME, exporters, and financial community participants will be undertaken at the beginning of the project. The objectives will be to:

1. Acquire diagnostical data on key project variables.

2. Provide information for PMIS.

D. Evaluation

The project will have both internal and formal external evaluations.

Internal evaluations will be conducted annually by USAID and implementing Organizations supported as appropriate by contracted personnel. These annual evaluations will be structured to determine progress, validate project strategies, and assess impact. PMU will draft proposed scopes of work for annual evaluations which will be reviewed and approved by Mission management. After eighteen months have elapsed, the Mission will conduct a project assessment to determine appropriatness and to validate project strategy.

In addition to the annual evaluations and project assessment, there will be two formal independent evaluations conducted during the 5-year Project. The first will be a mid-term evaluation conducted during the first quarter of the 3rd year after project startup; the second will be an impact evaluation at the close of the project. The evaluations will be based on the Sector Goal, Project Purpose, and Outputs as listed in the Logical Framework.

1. The first evaluation will determine the degree of progress toward the achievement of planned project goal, purpose, and outputs. It will focus on the following:

a. Effectiveness of the four components and their sub-components.

b. Effectiveness of the sponsoring institutions in project administration.

c. Effectiveness of the Project Management Unit.

d. Obstacles and weaknesses within the project.

e. Corrective actions or adjustments necessary to improve Project operations.

f. Effectiveness of AID in planning and oversight of project operations.

The evaluation will examine and measure the timely provision and adequacy of project inputs and their respective performance in providing assistance to SME as compared to the planned and actual outputs of the Project.

The evaluation will examine the extent to which the following are progressing:

- SME awareness of the project.

- Effectiveness of the Guaranty Fund.

  (1) Performance of PFI's and capitalization of the Fund

  (2) Adequacy of the guaranty mechanism.

  (3) Terms and conditions of the guaranty.

  (4) Progress toward self-sufficiency of the Fund.

  (5) Ratio of loans approved to loan applications submitted.

  (6) Coordination between PFIS, Central Bank and other project components.

  (7) Jobs generated and/or sustained due to loans approved.

  (8) Evidence of business expansion and profitability attributable to guaranties.

  (9) Effectiveness in reaching new SME business, specifically small business.

- Effectiveness of the SME Component:

  (1) SME reception and participation in the project.

  (2) Adequacy of technical assistance services.

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(3) Effectiveness of the business seminars and training for SME.

(4) Effectiveness of project staff training.

(5) The extent to which SME execute business technical assistance recommendations.

(6) The extent to which technical assistance and training has contributed to employment increase among SME.

(7) Coordination between project components, sponsoring organizations, and PMU.

(8) Progress towards development of capability to provide technical support to SME.

The evaluation will include a similar approach for the activities implemented by the Guild, CAEM and the public sector. The data required for the first evaluation will be gathered by the project's PMU, the offices of the participating financial institutions, the offices of the implementing organizations, and at the business sites of participants. The data will be obtained in the following manner:

(1) Interviews with AID Project Officer.

(2) Interviews with SME and/or exporters using a prepared questionnaire.

(3) Interviews with project personnel using a prepared questionnaire.

(4) Interviews with the PMU General Manager and participating organizations' staff specialists.

(5) Interviews with PFI Credit Officers and Bank Officials.

(6) Review of SME Credit applications and loan records at the PFI's.

(7) Review of Project/Records/Documentation at the PMU, AID Project Office, and implementing organization office.

(8) Interviews with Steering Committee and PFI officials responsible for coordinating the Loan Guarantee Fund.

(9) Review of the Minutes of the Steering Committee meetings.

(10) Interviews with officials and participating staff of business organizations.

(11) Interviews with the members of the AGG, the Guild Financial Chamber and CAEM.

The first evaluation will be carried out by a recognized private consulting firm which maintains a staff with varied and cross-disciplinary expertise in the development and implementation of small business and export programs, has Spanish-speaking capabilities coupled with knowledge of the local customs and conditions in Guatemala and experience working with AID-assisted projects. The consulting firm will be required to conduct the evaluation field work, prepare the analyses, present their findings and recommendations to the implementing organizations and to the Mission, and submit a draft evaluation report to the Mission prior to departure from the Mission. The final evaluation report will be submitted to the Mission within 20 working days after departure of evaluation team from the Mission.

The estimated cost of the first evalluation for personnel salaries, international travel, in-country travel, per-diem materials, and overhead will be $50,000.00. The costs for the evaluation are built into the Project budget.

This first evaluation will occur midway into the third year of the Project.

2. The second and final formal evaluation of the project will determine the results/effects of the Project after 5 years of operations (Impact Evaluation). An international company, experienced in carrying out AID evaluations, will organize an International/Guatemala team to implement this task. This evaluation will, again, undertake an input/output performance assessment at each level of the Logical Framework towards the achievement of their respective targets. It will have the same focus as the first evaluation. However, it will also include an in-depth study of the:

- Direct impact of Project on employment generation,
- Self-sufficiency of the Guaranty Fund (operational and interest revenues vs. operational costs vs. loan defaults),
- Development of SME and export technical support in the private sector,
- Process and results of policy dialogue with the GOG, and
- Cost/benefit ratio of the project considering costs and number of loans approved, dollar amount of loans, technical support provided, number of jobs generated, and number of business assisted.

The data gathering process of the second and final evaluation will be similar to the first. However, additional SME will be identified to respond to survey questionnairies and interviews. The SME interviewed during the first evaluation will also be interviewed to determine the long-term effects of the project on their businesses.

3. The evaluation design and process will be carried out by a recognized private consulting firm with the same qualifications as those specified in the first evaluation. The final evaluation report will be required by the Mission within 20 working days from the evaluation team's departure from the Mission.

4. The estimated cost of the impact evaluation is $50,000.00 for personnel salaries, international travel, in-country travel, per-diem, materials, and overhead costs. This cost is built into the project budget.

5. The evaluation will take place at the close of the Project.

6. The project includes $60,000 in local currency for external audit cost.

E. BUDGET

Information ana evaluation costs in the Project are as follows:

	(U.S. $000) ESF		
	FX	LC	TOTAL
1. Set-up PMIS: Equipment and Software System Design	100	100	200
2. Baseline survey (included in AGG Enterprise Development Program)	-	-	-
3. Annual operating cost of PMIS	0	125	125
4. Interim Evaluations (internal)	-	-	-
5. Eighteen month assessment	50	90	140
6. Formal evaluations	100	40	140
7. Pro-rata share of cost of PMU Staff attributable to data gathering ("impact auditor" function).	0	130	130
8. External audit	-	60	60
	250	545	795

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TAGS:
SUBJECT: GUATEMALA - PRIVATE ENTERPRISE DEVELOPMENT PROJECT (520-0341) PID

1. A DAEC REVIEW OF THE SUBJECT PROJECT PID WAS HELD ON FEBRUARY 6, 1987. THE MISSION WAS REPRESENTED BY CHRISTINA SCHOUX AND RICHARD STEIMAN. THEIR COMMENTS AND CLARIFICATIONS PROVED TO BE VERY HELPFUL DURING THE REVIEW.

2. THE PID FOR THE SUBJECT PROJECT WAS APPROVED AT THE DAEC. GIVEN THE IMPORTANCE OF THE PROJECT IN THE MISSION'S EXPANDING PRIVATE SECTOR PORTFOLIO, MISSION STAFFING ISSUE AND THE MAJOR ISSUES THAT REMAIN TO BE RESOLVED DURING INTENSIVE REVIEW, IT WAS DECIDED THAT THE PP SHOULD BE REVIEWED IN AID/W.

3. PRIOR TO THE DAEC MEETING, AN ISSUES REVIEW MEETING WAS HELD ON FEBRUARY 3. THE FOLLOWING POINTS WERE RESOLVED AS A RESULT OF THAT MEETING:

— THE MISSION WILL TAKE TRAINING EXPERIENCES GAINED UNDER THIS PROJECT INTO ACCOUNT DURING THE DEVELOPMENT OF THE PRIVATE SECTOR SKILLS PROJECT (520-0324) IN FY1988. THIS WILL ENSURE COMPLEMENTARITY BETWEEN THE TWO PROJECTS AND WILL ALLOW FOR FOLLOW-UP ACTIONS ON TRAINING IN AREAS COVERED UNDER THE SUBJECT PROJECT, SHOULD ANY BE NECESSARY.

— THE PID MENTIONS THAT LOCAL CURRENCIES RESULTING FROM THE FY 1987 ESF PROGRAM ARE BEING NEGOTIATED. THIS ISSUE IS EXPECTED TO BE COVERED IN THE FORTHCOMING PAAD. THE PP SHOULD DISCUSS IN DETAIL THE GOVERNMENT OF GUATEMALA'S (GOG) FINANCIAL MANAGEMENT AND ADMINISTRATION SYSTEMS AND SHOW HOW THOSE SYSTEMS WILL PERMIT THE QUICK AND EFFICIENT USE OF COUNTERPART FUNDS GENERATED UNDER THE BALANCE OF PAYMENTS PROGRAM.

— THE MISSION SHOULD TAKE PD-71 REQUIREMENTS INTO ACCOUNT IN DESIGNING THE PROJECT, PARTICULARLY AS REGARDS THE CREDIT GUARANTY AND EXPORT PROMOTION

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COMPONENTS. CARE SHOULD BE TAKEN TO INSURE THAT PROJECT FUNDS ARE NOT USED TO FINANCE THE PRODUCTION, PROCESSING FOR EXPORT, OR SHIPMENT OF ANY CITRUS PRODUCTS OR OTHER PRODUCTS COVERED BY PD-71.

— GC/LAC HAS PROVIDED INFORMATION AND GUIDANCE TO THE MISSION SO THAT THE PROJECT MAY BE DESIGNED IN CONFORMITY WITH THE REQUIREMENTS OF THE LAUTENBERG AND BUMPERS AMENDMENTS. IF ADDITIONAL GUIDANCE IS NEEDED, PLEASE CONTACT THE RLA OR GC/LAC.

— MISSION REPRESENTATIVES INDICATED THAT THE PRIVATE SECTOR STRATEGY MENTIONED IN THE PID WILL BE PRESENTED WITH THE MISSION'S ACTION PLAN.

— THE MISSION WILL PREPARE AN IEE FOR THE PID PURSUANT TO CONVERSATIONS WITH LAC/DR. IN THOSE DISCUSSIONS, IT WAS AGREED THAT THE IEE WILL RECOMMEND A NEGATIVE DETERMINATION FOR THE PROJECT WITH THE UNDERSTANDING THAT LOANS GUARANTEED UNDER THE CREDIT GUARANTY COMPONENT WILL NOT FINANCE THE PURCHASE, USE, OR IMPORTATION OF NAMED PESTICIDES, OR CONSTRUCTION WORK WHICH WOULD HAVE A MAJOR ENVIRONMENTAL IMPACT. THE MISSION HAS AGREED THAT THE ENVIRONMENTAL IMPACT OF DEVELOPING AN EXPORT FREE ZONE WILL BE EXAMINED AS PART OF THE FEASIBILITY STUDY WORK TO BE DONE UNDER THE EXPORT PROMOTION COMPONENT.

4. THE FOLLOWING GUIDANCE POINTS WERE AGREED UPON A THE DAEC:

A. PROJECT STRATEGY ISSUES.

— THE PID IS SILENT ON THE MISSION'S STRATEGY REGARDING ASSISTANCE TO MICRO ENTERPRISES, WHICH TOGETHER COMPRISE THE LARGEST COMPONENT OF THE GUATEMALAN PRIVATE SECTOR. IT IS OUR UNDERSTANDING THAT AS PART OF THE PRIVATE SECTOR STRATEGY MENTIONED ABOVE, THE ACTION PLAN WILL DISCUSS THE MISSION'S PLANS FOR THIS SUB-SECTOR. THE PP ITSELF SHOULD SHOW HOW THE NEEDS OF THE SMALLEST BUSINESSES ARE BEING ADDRESSED THROUGH OTHER A.I.D. EFFORTS, SUCH AS THE ACCION/AITEC PROJECT, AND OTHER DONOR ACTIVITIES.

B. CREDIT GUARANTY ISSUES.

IN PROPOSING A CREDIT GUARANTY MECHANISM, THE PID MAKES NO MENTION OF THE SERIOUS PROBLEMS THAT SIMILAR LAC PROJECTS HAVE ENCOUNTERED IN OTHER COUNTRIES, NOTABLY THE PRODUCTIVE CREDIT GUARANTY PROGRAM. BASED ON THE COMPLEXITIES OF DESIGN AND IMPLEMENTATION OF THESE PROJECTS, PROJECT DESIGN SHOULD TAKE INTO ACCOUNT THE

LESSONS LEARNED IN OTHER COUNTRIES, PARTICULARY PRE'S EXPERIENCE IN ECUADOR, BOLIVIA AND THE PHILIPPINES. SUGGEST THAT MISSION CAREFULLY ANALYZE THE FOLLOWING FACTORS:

1. DEMAND FOR CREDIT. THE MARKET FOR SMALL-MEDIUM ENTERPRISE (SME) LOANS SHOULD BE EXAMINED IN DETAIL TO DETERMINE THE DEMAND FOR CREDIT BY THE PROPOSED TARGET GROUP OF BORROWERS. THIS ANALYSIS SHOULD INCLUDE A MACRO LEVEL ASSESSMENT OF THE OVERALL LIQUIDITY SITUATION (I.E., CONSIDERING SUCH FACTORS AS RESERVE REQUIREMENTS, EXCESS RESERVES, INTEREST RATES, AND AVAILABILITY OF CREDIT FROM INSTITUTIONS OTHER THAN COMMERCIAL BANKS), AND A MICRO LEVEL ASSESSMENT OF DEMAND FOR INDIVIDUAL SUBLOANS IN TARGET ECONOMIC SECTORS OF AGRICULTURE AND INDUSTRY. AS AN EXAMPLE, THE LATTER ASSESSMENT COULD BE UNDERTAKEN THROUGH SURVEYS OF SMES AND DISCUSSIONS WITH CURRENT LENDERS (COMMERCIAL BANKS, FINANCIERAS, ETC.) TO THIS MARKET SEGMENT. WE ALSO SUGGEST THAT MISSION PREPARE SEVERAL (5-6) PROJECT PROFILES OF THE SME TARGET GROUP TO ILLUSTRATE TYPE AND SIZE OF PROJECT, ASSETS, LIABILITIES, INCOME OF BOROWER, AND PROPOSED STRUCTURE AND TERMS OF A NEW LOAN (INTEREST RATE, GRACE PERIOD, COLLATERAL REQUIREMENTS, ETC.). LASTLY, THE MISSION SHOULD ELABORATE ON THE PLANS FOR A POSSIBLE NEW IDB LOAN TO THIS SECTOR. HOW WOULD AN IDB PROGRAM AFFECT THE OVERALL DEMAND FOR CREDIT, THE LIQUIDITY SITUATION AND THE INTEREST OF THE GOG/PRIVATE BANKS IN UNDERTAKING A GUARANTY PROGRAM? IN

CONSIDERING THESE AND THE FOLLOWING STRATEGY QUESTIONS, THE MISSION SHOULD COORDINATE CLOSELY WITH THE PRE BUREAU WHICH HAS OFFERED TO CONTRIBUTE DOLS 2.2 MILLION OF ITS OWN RESOURCES TO INCREASE THE AMOUNT OF THE GUARANTY FUND.

2. COLLATERAL REQUIREMENT. IN DISCUSSING THE GUARANTY FUND, MISSION REPRESENTATIVES INDICATED THAT THE CENTRAL BANK WILL WAIVE THE STATUTORY 220 PER CENT COLLATERAL REQUIREMENT FOR LOANS GUARANTEED UNDER THE MECHANISM, WHICH SHOULD FACILITATE SME ACCESS TO COMMERCIAL CREDIT COVERED BY THE GUARANTY. IT WAS AGREED, HOWEVER, THAT FOR THE GUARANTY FUND APPROACH TO HAVE AN IMPACT ON THE BANKING SYSTEM IN GENERAL OVER THE LONG TERM, EE PP WILL NEED TO ADDRESS THE BROADER, UNDERLYING ISSUE OF COLLATERAL REQUIREMENTS. THIS ANALYSIS SHOULD LAY DOWN A STRATEGY FOR MODIFYING COLLATERAL REQUIREMENTS SO AS TO INDUCE BROADER ACCESS TO CREDIT AND ON LOAN TERMS WHICH ARE SUPPORTIVE OF GUATEMALA'S NEED TO REACH SMALL BORROWERS AND TO DEVELOP NEW EXPORT PROJECTS. THIS ANALYSIS WOULD ALSO, PRESUMABLY, TIE INTO THE MISSION'S STRATEGY FOR CAPITAL MARKET DEVELOPMENT.

3. ADMINISTRATION OF THE PROGRAM. PREVIOUS GUARANTY PROJECTS OFTEN HAVE FLOUNDERED BECAUSE ADMINISTRATIVE GUIDELINES WERE OVERLY COMPLEX AND DIFFICULT FOR BORROWERS, LENDING INSTITUTIONS AND GUARANTORS (I.E. CENTRAL BANKS) TO UNDERSTAND. MANAGEMENT OF THE

PROGRAMS THEREFORE BECAME STAFF INTENSIVE, AUTHORITIES TO APPROVE CREDITS TO EXTEND GUARANTEES WERE HIGHLY CENTRALIZED, AND APPLICATIONS FOR SUBLOANS (EVEN SMALL SUBLOANS) TOOK MONTHS TO PROCESS. WE SUGGEST FIRSTLY, THAT THE MISSION FOCUS ON A PROJECT DESIGN WHICH PLACES PRIMARY RESPONSIBILITY FOR SUB-PROJECT APPRAISAL AND CREDIT DECISIONS ON THE PARTICIPATING BANKS. SECONDLY, SUB-LOAN ELIGIBILITY CRITERIA AND THE ADMINISTRATIVE GUIDELINES SHOULD BE FLEXIBLE, SIMPLE TO ADMINISTER AND BASICALLY IN CONFORMITY WITH EXISTING BANKING NORMS IN GUATEMALA. FINALLY, THE PP SHOULD SHOW HOW THE SME PROGRAM CAN BE SUSTAINED AFTER THE PROJECT ENDS.

4. PARTICIPATING BANKS. MANY GUARANTY PROGRAMS WITH CENTRAL BANKS WERE DESIGNED TO ACCOMMODATE THE ENTIRE COMMERCIAL AND DEVELOPMENT BANKING COMMUNITY. THIS CAUSED SERIOUS PROBLEMS BECAUSE PROGRAMS HAD TO BE DESIGNED TO ACCOMMODATE BANKS OF VARIOUS SIZES AND CAPACITIES, WITH PORTFOLIOS IN MANY SECTORS AND WITH CLIENTS OF ALL SIZES. ONE POSSIBLE APPROACH WOULD BE TO LIMIT THE NUMBER OF BANKS TO PARTICIPATE IN THE PROGRAM (AT LEAST AT THE OUTSET) AND TO FOCUS ON BANKSWHOSE CLIENT BASE APPROXIMATES THAT OF THE MISSION'S TARGET GROUP OF BORROWERS. THESE BANKS COULD THEN BECOME INVOLVED IN PROJECT DESIGN AT THE OUTSET (THROUGH A WORKING COMMITTEE OR SIMILAR VEHICLE) AND POSSIBLY TAKE THE LEAD ON RECOMMENDATIONS TO THE GOG FOR THE ADMINISTRATIVE STRUCTURE APPROPRIATE TO OVERSEE THE MANAGEMENT OF THE GUARANTY FUND.

5. BANKS EXPOSURE TO LOSSES. GUARANTY PROGRAMS ARE DESIGNED TO REDUCE (BUT NOT ELIMINATE) BANKS' EXPOSURE TO LOSSES STEMMING FROM, E.G., INSUFFICIENT COLLATERAL, HIGH RISK PROJECTS IN NEW AREAS, ETC. THE PROGRAMS SHOULD NOT, HOWEVER, SUBSTITUTE FOR GOOD CREDIT PRACTICES AND REQUIREMENTS FOR THOROUGH PROJECT APPRAISAL. DURING THE INTENSIVE REVIEW, THE MISSION

SHOULD ANALYZE THE ALTERNATIVES AVAILABLE FOR REDUCING THE COLLATERAL DEMANDS OF BANKS, WHILE AT THE SAME MAINTAINING THE BANKS' EXPOSURE TO LOSS IN SUCH A MANNER SO AS TO ASSURE THAT SUB-LOAN REQUESTS HAVE BEEN THOROUGHLY APPRAISED.

6. INTEREST RATES. MISSION REPRESENTATIVES INDICATED THAT PRESENT INFLATION RATES ARE HIGHER THAN THE OFFICIAL LEGAL LENDING CEILING. THE MISSION SHOULD SEEK TO INSURE THAT STATED POSITIVE INTEREST RATES FOR LOANS GUARANTEED UNDER THE PROJECT BE CONSISTENT WITH THE FREELY DETERMINED POSITIVE/REAL INTEREST RATE OBJECTIVE OF ITS PROGRAM ASSISTANCE POLICY AGENDA.

- UNDER THE PRESENT PROJECT DESIGN, A.I.D. WILL HAVE OBSERVER STATUS ON THE SUPERVISORY COMMITTEE. THE MISSION SHOULD CAREFULLY REVIEW THE OPTIONS FOR THE APPROPRIATE LEVEL OF A.I.D. INVOLVEMENT IN THE SUPERVISION OF THE GUARANTY FUND, PARTICULARLY IN VIEW OF GC GUIDANCE ON THE LAUTENBERG AND BUMPERS AMENDMENTS.

C. CAPTIAL ACCESS ISSUES.

- IN THIS AND THE OTHER ACTIVITIES FINANCED BY THE PROJECT, THE BUREAU BELIEVES THAT PRIVATE SECTOR SUPPORT AND COMMITMENT FROM THE START ARE IMPORTANT. ACCORDINGLY, THE MISSION SHOULD LOOK FOR CONCRETE EVIDENCE OF PRIVATE SECTOR INTEREST IN THIS EFFORT AS A CONDITION PRECEDENT TO CONTRACTING THE FEASIBILITY STUDY. PRIOR TO STARTING ANY FEASIBILITY STUDIES AND AS A CONDITION PRECEDENT TO DISBURSMENT, THE MISSION SHOULD IDENTIFY A PRIVATE GROUP INTERESTED IN CREATING AND CAPITALIZING THE FUND AND SHARING IN THE FINANCING OF THE STUDY.

- IN DESCRIBING THIS ELEMENT OF THE THE PROJECT, THE PP SHOULD DISCUSS THE VARIOUS AREAS TO BE COVERED BY THE FEASIBILITY STUDY. IN ADDITION, IT SHOULD SHOW HOW A VENTURE CAPITAL/MUTUAL FUND WOULD FUNCTION IN A COUNTRY WHICH DOES NOT YET POSSESS EVEN A NASCENT SECONDARY MARKET FOR THE TRADING OF EQUITY INSTRUMENTS.

D. INSTITUTIONAL DEVELOPMENT/POLICY REFORM ISSUES.

- THE PP SHOULD SHOW HOW POLICY ISSUES TO BE ADDRESSED UNDER THIS PROJECT WILL RELATE TO THOSE TREATED IN THE MISSION'S BALANCE OF PAYMENTS CONDITIONALITY STRATEGY.

- THE PP SHOULD ADDRESS STEPS TO BE TAKEN TO ASSURE THAT A CONTINUING INSTITUTIONAL AND FINANCIAL CAPABILITY WILL EXIST IN THE CHAMBER OF BUSINESS (CAEM) AND THE GOG TO PURSUE RESEARCH AND POLICY DIALOGUE ISSUES AFTER THE PROJECT IS COMPLETED. AS WITH THE CAPITAL ACCESS IDEA DISCUSSED ABOVE, THE MISSION SHOULD LOOK FOR A CONCRETE COMMITMENT (E.G., ENHANCED BUDGETARY SUPPORT TO CAEM) FROM THE PRIVATE SECTOR AND THE GOG AS A CONDITION PRECEDENT TO DISBURSEMENT AND SHOULD DEVELOP A PHASED

PLAN WHICH WOULD SHOW HOW THE GUATEMALANS WILL BE ABLE TO SHOULDER THE OPERATING EXPENSE BURDEN IMPLICIT IN EXPANDED POLICY RESEARCH AND DEVELOPMENT ACTIVITIES BY THE END OF THE PROJECT.

E. EXPORT MARKET ACCESS.

- THIS COMPONENT IS DESIGNED TO PROMOTE INCREASED EXPORTS. YET THERE ARE CERTAIN GOVERNMENT POLICIES IN EFFECT WHICH INHIBIT THIS, SUCH AS REGULATIONS ON SHIPPING, TARIFFS, AND ACCESS TO AIR CARGO. THE PP SHOULD CONTAIN A DETAILED ANALYSIS OF THOSE GOG POLICIES WHICH INHIBIT EXPORT AND INVESTMENT ACTIVITIES, IDENTIFY THE PRIORITIES FOR POLICY REFORMS, AND PROPOSE A PLAN OF ACTION WHICH MIGHT BE TAKEN EITHER IN THIS OR OTHER PROJECTS TO REMOVE CONSTRAINTS. IN ANY EVENT, PROJECT DESIGN SHOULD BE BASED ON POSITIVE DETERMINATION THAT POLICY PROBLEMS WILL EITHER BE REMOVED AS PART OF THE PROJECT (FOR EXAMPLE, CONDITIONS PRECEDENT) OR THAT ACTIVITIES TO BE PROMOTED ARE VIABLE WITHIN THE EXISTING POLICY OR REGULATORY ENVIRONMENT.

- GIVEN THE CONCESSIONARY NATURE OF ASSISTANCE PROPOSED HERE, AND THE POTENTIAL PROFITABILITY, THE MISSION SHOULD CONSIDER ESTABLISHING A MECHANISM (E.G., A REIMBURSABLE ACCOUNT MANAGED BY CAEM) WHEREBY FREE ZONE DEVELOPERS UNDER THIS COMPONENT WOULD PAY FOR TECHNICAL ASSISTANCE AND TRAINING COSTS WHEN THEY REALIZE A GAIN AS A RESULT OF THE ASSISTANCE. UNDER THIS SAME COMPONENT, CARE SHOULD ALSO BE TAKEN TO LAY OUT A STRATEGY FOR SELECTING THE DEVLOPERS WHO PARTICIPATE WHICH IS FAIR AND COMPETITIVE AND WHICH SEEKS TO DRAW AS MANY NEW ACTORS INTO THE EXPORT DEVELOPMENT PROCESS AS POSSIBLE.

F. PROJECT MANAGEMENT.

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- THE PP SHOULD INCLUDE DETAILED IMPLEMENTATION AND PROCUREMENT PLANS, PARTICULARLY AS REGARDS CONTRACTING OF SERVICES, PROCUREMENT OF COMPUTERS, AND PROCEDURES REGARDING THE OBLIGATION OF PROJECT FUNDS WITH PRIVATE SECTOR PARTICIPANTS. IF PROCUREMENT WAIVERS OR SPECIAL REQUIREMENTS ARE REQUIRED, THE PP SHOULD INCLUDE THE REQUIRED ACTIONS IN THE IMPLEMENTATION PLAN. (20)

G. STAFFING CONSIDERATIONS. THE PID POINTS OUT THAT PRIVATE SECTOR AND PROJECT DEVELOPMENT STAFFS IN THE MISSION ARE SHORT-HANDED AND FLAGS THIS AS A PROBLEM FOR PROJECT DEVELOPMENT AND IMPLEMENTATION. MISSION REPRESENTATIVES INDICATED THAT THE MISSION EXPECTS THE NEW PRIVATE SECTOR OFFICER TO ARRIVE SHORTLY. WHILE THIS SHOULD HELP, LAC/DR, LAC/PSD, AND PRE STAND READY TO ASSIST THE MISSION DURING THE DEVELOPMENT OF THE PP BY PROVIDING TDY ASSISTANCE DURING PROJECT DEVELOPMENT.

5. GENERAL GUIDANCE.

A. PAYMENT VERIFICATION. THE MISSION IS REMINDED THAT ALL PROJCT PAPERS MUST FOLLOW THE GUIDANCE PROVIDED ON PAYMENT VERIFICATION BY AA/M TO MISSION DIRECTORS ON DECEMBER 30, 1983, PARTICULARLY WITH PP 6-8 , WHICH DEAL WITH PP CONSIDERATIONS. (21)

B. GRAY AMENDMENT. GRAY AMENDMENT POLICIES SHOULD BE CAREFULLY CONSIDERED DURING PP PREPARATION. A PLAN FOR THE UTILIZATION OF MINORITY-AND WOMEN-OWNED BUSINESSES SHOULD BE PRESENTED IN THE PP. (22)

C. MISSION IS REQUIRED TO GIVE CAREFUL CONSIDERATION TO EVALUATION PLAN IN LIGHT OF IMPORTANCE AND COMPLEXITY OF THIS PROJECT. WHITEHEAD (23)
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NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
GOAL			
Broading participation in national economic development	-More formal business enterprise -More SME employment -More SME income -Policy environment that favors SME growth -Broad access to services/finance investment by SME -Strong organizations representing all constituencies of private sector	Proj mgmt info System Surveys Registry Bank records Baseline survey/followup Policy Dialogue Reports TA/TING Reports Government Statistics	Continued political stability Continued political stability Continued favorable economic Conditions Political will to adopt Policy change
PURPOSE	END OF PROJECT STATUS	MEANS OF VERIFICATION	ASSUMPTIONS
Strengthen the Economic and Policy Role of Private Enterprise in Guatemala	1. Viable private enterprise based training industry established 2. MOG SME section institutionalized as a permanent service engaged in networking, policy dialogue support, and membership service 3. A vigorous private sector non-traditional export sector developed 4. A policy environment established conducive to nontraditional exports 5. Strong nontraditional product Exporters Guild serving the nontraditional export community	1. Project Management Information System 2. Evaluations 3. Consultant Reports 4. Policy Dialogue Reports	1. Continued willingness of GOG and private sector to collaborate 2. Continued commitment by GOG to increase private sector investment and efforts 3. Economic and political conditions remain conducive to stimulating private sector investment 4. Private sector firms and financial institutions avail themselves of the activities of the project

6. A well defined FIPF strategy and a functioning FIPF Investor Support Center
7. One EPZ fully operational
8. New laws, policies, and financial instruments capable of serving needs of private enterprise
9. A fully operational facility for guaranty of SME credit
10. The Ministry of Economy will be institutionally stronger and will have a leading role in maintaining and administering fiscal incentives for business expansion and competition
11. Increased policy awareness of privatization issues and at least one partial or full privatization activity completed
12. CAEM institutionally strengthened

OUTPUTS	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
1. Technical Support to SMEs	1. A. Training and Technical Assistance - AGG develops and implements a training program to benefit 1,000 SME Managers - AGG develops a training referal service to provide 1,000 SME managers and technical staff with training from AGG and other Guatemalan training organizations	1. Project Management Information System 2. Consultant Reports 3. Evaluation	1. SMEs avail themselves of the AGG and credit guaranty services of the project 2. GOG continues its commitment to improve the viability of export production and private sector investor confidence 3. World market conditions support export investment

	- AGG assistance to outside groups in the development of at least three additional training programs available in Guatemala benefiting 200 people within five years B. Policy Dialogue - An SME Policy Dialogue agenda developed - Establishment of formal arrangements for presentation of SME agenda to the GOG - Establishment of better communications between SME and larger-scale business interests particularly the financial community C. Institution Building - AGG's SME section established as constituency organization for SME - SME information network established - SME membership services develops a capability to address SME needs	4. Activity reports of participating institutions	and production 4. Private banking financial market climate (e.g., high level of liquidity) continue to encourage banks to seek new credit markets, such as SMEs
2. Promotion Export Expansion and Investment	2. A. Gremial Program - Export expansion in 18 targeted product areas - Improved export performance by 400 firms - Effectiveness of the Gremial in technical support improved		

- Gremial income generating capacity improved

B. FTPF
- New legslation on temporary inputs (i.e., drawback) and on export production facilities enacted
- Improved customs procedures
- A Guatemalan FTPF strategy designed and approved by GOG and private sector authorities
- Ten seminars/workshops organized to benefit 150 participants
- One EPZ designed and at least two EPZ in advance negotiation phase
- An FTPF Investor Support Center staffed and providing services
- A technical secretariat established in CONAPEX

3. A financial Market Development Program established

3. A. Guaranty Fund
- A minimum of 500 SME receiving credit otherwise unavailable but for the Guaranty Fund in 5 years
- a minimum of Q35 million of credit guaranteed in 5 years
- a minimum of 3 private financial institutions participating in the program

B. Financial Market MDP
- An improved policy dialogue process
- an improved information base on the financial system

	4. New Private Enterprise	4. A. New fiscal incentives law implemented B. At least 6 concrete activities underway or completed to implement policies to promote investment and exports C. At least 2 privatization studies completed D. CALM consolidated through stronger member Chambers and Guilds E. At least 40 participants benefiting from short-term international training programs	
D	PROJECT INPUTS	See Section IV Cost Estimate and Financial Plan	Proj Magt Info System Project accounting records
SME			
	Technical assistance Training Institutional Support		
EXPORTS			
	Technical assistance Training Institutional Support		
FINANCIAL MARKETS			
	Technical assistance Studies Guaranty Fund		
NEW INITIATIVES			
	Technical assistance Studies		

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COUNTRY CHECKLIST

Listed below are statutory criteria aplicable to: (A) FAA funds generally; (b)(1) Development Assistance funds only: or (b)(2) the Economic Support Fund only.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FY 1987 Continuing Resolution Sec. 526. Has the President certified to the Congres that the government of the recepient country is failing to take adequate measures to prevent narcotic drugs or other controlled substances which are cultivated, produced or processed illicity, in whole or in part, in such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully?	The President has not so determined. Guatemala does take adequate steps to prevent narcotics traffic.
2. FAA Sec. 481(h). (This provision applies to assistance of any kind provided by grant, sale, loan, lease, credit, guaranty, or insurance, except assistance from the Child Survival Fund or relating to international narcotics control, disaster and refugee releif, or the provision	The President has not so determined.

of food or medicine.) If the recipient is a "major illicit drug producing country" (defined as a country producing during a fiscal year at least five metric tones of opium or 500 metric tons of coca or marijuana) or a "major drug-transit country" (defined as a country that is a significant direct source of illicit drugs significantly affecting the United States, through which such drugs are transported, or through which significant sums of drug-related profits are laundered with the knowledge or complicity of the government), has the President in the March 1 Internal Narcotic Control Strategy Report (INSCR) determined and certified to the Congress (without Congressional enactment, within 30 days of continuous session, of a resolution disapproving such a certification), or has the President determined and certified to the Congress on any other date (with enactment by Congress of a resolution approving such certification), that (a) during the previous year the country has cooperated fully with the United States or taken adequate steps on its own to prevent illicit drugs produced or processed in

or transported through such country from being transported into the United States, and to prevent and punish drug profit laundering in the country, or that (b) the vital national interests of the United States require the provision of such assistance?

3. Drug Act Sec. 2013. (This section applies to the same categories of assistance subject to the restrictions in FAA Sec. 481(h), above.) If recipient country is a "major illicit drug producing country" or "major drug-transit country" (as defined for the purpose of FAA Sec 481(h), has the President submitted a report to Congress listing such country as one (a) which, as a matter of government policy, encourages or facilitates the production or distribution of illicit drugs; (b) in which any senior official of the government engages in, encourages, or facilitates the production or distribution of illegal drugs; (c) in which any member of a U.S. Government agency has suffered or been threatened with violence inflicted by or with the complicity of any government officer; or (d)

The President has not submitted a report to Congress listing such country.

	which fails to provide reasonable cooperative to lawful activities of U.S. drug enforcement agents, unless the President has provided the required certification to Congress pertaining to U.S. national interests and the drug control and criminal prosecution efforts of that country?	
4.	FAA Sec. 620(c). If assistance is to a government, is the Government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) the debt is not denied or contested by such government?	No.
5.	FAA Sec. 620(e)(1). If assistance is to a government, has it (including any government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?	N/A

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6.	FAA Secs. 620(a), 620(f), 620D; FY 1987 Continuing Resolution Secs. 512, 560. Is recipient country a Communist country? If so, has the President determined that assistance to the country is important to the national interests of the United States? Will assistance be provided to Angola, Cambodia, Cuba, Iraq, Syria, Vietnam, Libya, or South Yemen? Will assistance be provided to Afghanistan without a certification?	No.
7.	FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, damage or destruction by mob action of U.S. property?	No.
8.	FAA Sec. 620(l). Has the country failed to enter into an investment guaranty agreement with OPIC?	No.
9.	FAA Sec. 620(o); Fishermen's Protective Act of 1967 (as amended) Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel because of fishing activities in international waters? (b) If so, has any deduction required by the Fishermen's Protective Act been made?	N/A

10. FAA Sec. 620(q); FY 1987 Continuing Resolution Sec. 518. (a) Has the government of the recipient country been in default for more than six months on interest or principal of any loan to the country under the FAA? (b) has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the FY 1876 Continuing Resolution appropriates funds?	N/A
11. FAA Sec. 620(s). If contemplated assistance is development loan or from Economic Support Fund, has the Administrator taken into account the percent of the country's budget and amount of the country's foreign exchange or other resources spent on military equipment? (Reference may be made to the annual "Taking Into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)	N/A
12. FAA Sec. 620(t). Has the country severed diplomatic relations with the United	No.

States? If so, have relations been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?	
13. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, where such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operating Year Budget? (Reference may be made to the Taking into Consideration memo.)	Country not delinquent.
14. FAA Sec. 620A. Has the President determined that the recipient country grants sanctuary from prosecution to any individual or group which has committed an act of international terrorism or otherwise supports international terrorism?	The President has not so determined.
15. ISDCA of 1985 Sec. 552(b). Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective secutiry measures?	No

16. FAA Sec. 666(b). Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA?	No
17. FAA Secs. 669, 670. Has the country, after August 3, 1977, delivered to any other country or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards, and without special certification by the President? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.)	No
18. FAA Sec. 670. If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported (or attempted to export) illegally from the United States any material, equipment, or technology which would contribute significantly to the ability of a country to manufacture a nuclear explosive device?	No

19. ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. on Sept. 25 and 28, 1981, and failed to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the Taking into Consideration memo.)	Guatemala was not present at the meeting.
20. FY 1987 Continuing Resolution Sec. 528. Has the President to have engaged in a consistent pattern of opposition to the foreign policy of the United States?	No
21. FY 1987 Continuing Resolution Sec. 513. Has the duly elected Head of Government of the country been deposed by military coup or decree?	No
B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY	
1. Development Assistance Country Criteria	No determination has been made regarding gross violation of human rights.
FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized	

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human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy?	
2. Economic Support Fund Country Criteria FAA Sec. 520B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the President found that the country made such significant improvement in its human rights record that furnishing such assistance is in the U.S. national interest?	N/A
A. GENERAL CRITERIA FOR PROJECT	
1. FY 1987 Continuing Resolution Sec. 523; FAA Sec. 634A. Describe how authorization and appropriations committees of Senate and House have been or will be notified concerning the project.	A Congressional Notification was submitted to AID/W for transmittal to Congress. No obligation will be made until notification requirements have been met.
2. FAA Sec. 611(a)(1). Prior to obligation in excess of $500,000. Will there be (a) engineering, financial or other plans necessary to carry out the assistance, and (b) a reasonably firm estimate of the cost to the U.S. of the assistance.	A Project Financial Plan, with reasonably firm estimates of the costs to AID, is contained in this Project Paper.

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3.	FAA Sec. 611(a)(2). If legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?	No legislative action by the Government of Guatemala is required.
4.	FAA Sec. 611(b); FY 1987 Continuing Resolution Sec. 501. If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See A.I.D. Handbook 3 for guidelines.)	N/A
5.	FAA Sec. 611(e). If project is capital assistance (e.g., construction), and total U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability effectively to maintain and utilize the project?	N/A
6.	FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and	The project is not susceptible to execution as a regional project. However, Coordination with ROCAP regional projects will take place whenever feasible. This project will encourage regional programs

by

conclusion whether assistance will encourage regional development programs.	strengthening Guatemalan capabilities at the firm and service organization levels.
7. FAA Sec. 601(a). Information and conclusions on whether projects will encourage efforts of the country to: (a) increase the flow of international trade: (b) foster private initiative and competition: (c) encourage development and use of cooperatives, credit unions and savings and loan associations; (d) discourage monopolistic practices: (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.	Major objectives of this project are to expand exports (a) and to foster competition and free enterprise by improving access of SME to technical assistance, training, and credit; (b) No effect is anticipated on cooperation, credit union, and savings and loan associations; (c) The project will discourage monopolistic practices by improving the competitiveness of SME; (d) Improvement of technical efficiency of SME and exporters is emphasized in the project; (e) No effect is anticipated on free labor unions except insofar as the project promotoes increased employment.
8. FAA Sec. 601(b). Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance program (including use of private trade channels and the services of U.S. private enterprise).	The project encourages U.S. trade and investment through promotion of exports, by technical assistance, and by training opportunities in the U.S. under project financing. Services of U.S. private enterprise are used throughout the project.
9. FAA Secs. 612(b), 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the	The Project makes extensive use of GOG owned local currency in addition to counterpart contributions of Guatemalan private organization.

cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.	
10. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?	No
11. FY 1987 Continuing Resolution Sec. 521. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and in such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?	The project will assist in expanding non-traditional exports which are not and are not _____ to be in the future commodities in surplus on world markets. It is unlikely that the assistance will cause substantial injury to U.S. producers of such products.
12. FY 1987 Continuing Resolution Sec. 558. (as interpreted by conference report). If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities (a) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States,	N/A

where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity: or (b) in support of research that is intended primarily to benefit U.S. producers?

13. FY 1987 Continuing Resolution Sec. 559. Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used.

Assistance under the project will not be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United STates or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel?

14. FAA Sec. 118(c). Does the assistance comply with the environmental procedures set forth on A.I.D. Regulation 16? Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest

Yes. An Initial Environmental Examination recommends a negative determination.

(a) The Project does not anticipate management of forests.
(b) Project provides indirectly for employment generation.

extent feasible: (a) stress the importance of conserving and sustainably managing forest resources; (b) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas: (c) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (d) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (e) help conserve forests which have not yet been degraded. by helping to increase production on lands already cleared or degraded; (f) conserve forested watersheds and rehabilitate those which have been deforested; (g) support training, research, and other actions which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (h) support research to expanding knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (i) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a

(c) The Project does not anticipate training in forest management.

(d) N/A

(e) The Project may indirectly encourage an increase production on lands already cleared or degraded.

(f) N/A

(g) N/A

(h) N/A

(i) N/A

(j) The Project will not increase awareness of long-term value of tropical forests.

(k) N/A

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representative network of protected tropical forest ecosystems on a worlwide basis, by making the establishment of protected areas a condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas; (j) seek to increase the awareness of U.S. government agencies and other donors of the immediate and long-term value of tropical forests; and (k) utilize the resources and abilities or all relevant U.S. government agencies?

15. FAA Sec. 119(g)(4)-(6). Will the assistance (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other wildlife habitats; (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas?

(a) No.

(b) No.

(c) No.

(d) No.

16. FAA 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditures of project funds (either dollars or local currency generated therefrom)?	N/A
17. FY 1987 Continuing Resolution Sec. 532. Is disbursement of the assistance conditioned solely on the basis of the policies of any multilateral institution?	No.

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FAA Secs. 102(b), 111, 113, 281(a). Describe extent to which activity will (a) effectively involve the poor in development by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, dispersing investment from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using appropriate U.S. institutions: (b) help	(a) The Project will help generate employment directly and indirectly. (b) The Project does not affect cooperative development. (c) The Project is a self-help effort in that private enterprise beneficiaries raise their standard of living through their own hand work assisted by technical support. (d) Women business people are benefitted as are men by the project.

	develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries.	(e) The Project will encourage regional trade.
b.	FAA Secs. 103, 103A, 104, 105, 106, 120-21. Does the project fit the criteria for the source of funds (functional account) being used?	Yes.
c.	FAA Sec. 107. Is emphasis placed on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?	Project emphasizes providing access to technology for the business purpose and condition involved.
d.	FAA Secs. 110, 124(d). Will the recipient country provide at least 25	Yes, 25 percent of the total Project cost by the recipient country.

percent of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)?	
e. FAA Sec. 128(b). If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority?	The Project will benefit the poor majority through employment generation.
f. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civil education and training in skills required for effective	The Project recognizes the need and desire of Guatemalans to improve their circumstances through private enterprise. The project is heavily oriented toward Guatemalan intellectual resources and institutions.

	participation in governmental processes essential to self-government.	
g.	FY 1987 Continuing Resolution Sec. 540. Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions?	No.
	Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations?	No.
	Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?	No
h.	FY 1987 Continuing Resolution. Is the assistance being made available to any organization or program which has been determined to support or participate in the	No

	management of a program of coercive abortion or involuntary sterilization? If assistance is from the population functional account, are any of the funds to be made available to voluntary family planning projects which do not offer, either directly or through referral to or information about access to, a broad range of family planning methods and services?	
i.	FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?	Yes.
j.	FY 1987 Continuing Resolution. How much of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or	No funds will be available exclusively for such organization. However, these possibilities will be used when feasible.

	Native Americans, or who are economically or socially disadvantages (including women)?	
k.	FAA Sec. 118(c)(13). If the assistance will support a program or project significantly affecting tropical forests (including projects involving the planting of exotic plant species), will the program or project (a) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land, and (b) take full account of the environmental impacts of the proposed activities on biological diversity?	N/A
l.	FAA Sec. 118(c)(14). Will assistance be used for (a) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; or (b) actions which significantly degrade	(a) No. (b) No.

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national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas?

m. FAA Sec. 118(c)(15). Will assistance be used for (a) activities which would result in the conversion of forest lands to the hearing of livestock; (b) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undergraded forests lands; (c) the colonization of forest lands; or (d) the construction of dams or other water control structures which flood relatively undergraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development?

(a) No.

(b) No.

(c) No.

(d) No.

CAEM

Guatemala

ANNEX D
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Guatemala, 22 de julio de 198
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Doctor
Anthony J. Cauterucci
Director
Agencia para el Desarrollo
Internacional AID
Ciudad de Guatemala

Apreciable Doctor Cauterucci:

Tengo el agrado de dirigirme a usted para referirme a las diversas reuniones que hemos tenido con usted y con funcionarios de esa Misión en relación a la planificación de las diversas actividades que la Cámara Empresarial de Guatemala tiene programado realizar en beneficio del desarrollo económico del país.

La Cámara Empresarial ha efectuado estudios en relación a la situación que confronta el sector privado en sus diferentes niveles empresariales con el fin de buscar las soluciones adecuadas a las limitaciones de orden técnico-financiero derivadas de nuestro sistema económico. El objetivo global que se persigue es la reactivación del aparato productivo del país. Lo anterior ha permitido identificar áreas específicas que necesitan un fortalecimiento directo y a la vez la formulación de un Proyecto Global de Desarrollo para la Empresa Privada.

En ese orden de ideas y confirmando nuestras exposiciones anteriores, la Cámara Empresarial de Guatemala, por mi medio, atentamente solicita a la Misión AID le otorgue su apoyo técnico y financiero para impulsar el programa que se ha diseñado y para apoyar primordialmente a la pequeña y mediana empresa. Los problemas específicos de la PYME son falta de capacidad gerencial, escasez de mecanismos y conocimiento para competir en los mercados internacionales y dificultades en obtener créditos.

Las soluciones planteadas transfieren conocimiento gerencial, amplían las posibilidades de penetrar los mercados internacionales y facilitan el acceso al crédito. En todos estos elementos un punto clave será la negociación constructiva de políticas y procedimientos que favorecen el desarrollo competitivo del pequeño y mediano empresario guatemalteco.

Los principales elementos del programa propuesto se detallan a continuación:

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Asistencia Técnica y Adiestramiento.

Se proporcionarán cursos, seminarios y asesorías para mejorar la habilidad gerencial del pequeño empresario, conforme el Programa específico que presentó a esa Misión, la Asociación de Gerentes de Guatemala, entidad no lucrativa que por su experiencia en este campo será la encargada de organizar y dirigir un "Centro de Desarrollo de la Pequeña y Mediana Empresa". Este centro tendrá a su cargo además del adiestramiento propiamente dicho, proporcionar información sobre las fuentes y oportunidades disponibles para negocios, compartir experiencias así como alertar a los dirigentes de la pequeña y mediana empresa sobre los asuntos que puedan afectar sus intereses.

En este sentido el Centro los identificará, analizará y prestará el apoyo consecuente a los empresarios para un proceso de diálogo con el Gobierno en relación con los asuntos de interés mutuo.

En resumen, los elementos iniciales de este componente se enfocan a:

I. Asistir a las PYME con un programa de transferencia de conocimientos gerenciales.

II. Asistir a las PYME para identificar las fuentes apropiadas de apoyo técnico en Guatemala.

III. Manejar un sistema de información de beneficio para las PYME.

IV. Prestar apoyo a los intereses de las PYME en los diálogos de políticas con el sector Público y Privado.

2. Componente de apoyo a las Exportaciones:

Como es del conocimiento general las exportaciones de los productos guatemaltecos empezaron a declinar a partir del año de 1980.

El sector exportador está haciendo esfuerzos para revertir ese proceso y aprovechar las ventajas comparativas que el país ofrece; por esa razón se están tomando las medidas adecuadas para eliminar los obstáculos y barreras que se presentan así como se están buscando nuevos mercados e investigando otros productos o servicios (por ej.: zonas francas privadas; maquila) que puedan exportarse.

Los mayores esfuerzos en este campo se están haciendo a través de la Gremial de Exportadores de Productos No-Tradicionales y la Cámara Empresarial estima necesario apoyar y coordinar el Programa de expansión de exportaciones que fuera presentado por esta Asociación.

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Este componente, inicialmente apoyará aquellos esfuerzos que se realicen para expandir las exportaciones guatemaltecas por intermedio:

I. Apoyo a la Gremial de Exportadores de Productos No-Tradicionales en Políticas de negociación; asistencia técnica, entrenamiento y programas de promoción para exportación de productos no tradicionales.

II. Financiar la investigación, desarrollo y promoción por inversionistas privados de zonas libres de Producción para exportación.

3. Desarrollo de Mercados Financieros.

Las instituciones financieras de Guatemala, generalmente, han tenido un desarrollo efectivo y han servido en forma eficiente las necesidades tradicionales de la mayoría de los sectores económicos. Sin embargo, hay vacías áreas en las cuales el mercado financiero del país aún no funciona o no lo hace en la forma que fuera de desear para alcanzar los objetivos comunes de crecimiento y desarrollo.

Los principales problemas que en esta área enfrenta las PYME entre otros son:

I. Políticas crediticias muy conservadoras por parte de los Bancos Comerciales.

II. Mercados Financieros muy poco competitivos.

Se espera enfrentar algunos de estos problemas directamente a través de nuevas facilidades financieras y mediante políticas de diálogo. El enfoque principal se daría al establecimiento de un Fondo de Garantía para facilitar el crédito al pequeño y mediano empresario el cual estaría manejado por un Comité de Dirección integrado por representantes de la Banca y de inversionistas privados.

Se realizarán, así mismo, estudios para buscar la solución a otros problemas que se confrontan en esta área. Dichos estudios se basarán en análisis, consultas y revisión de los procesos vigentes para encontrar las causas que originan las deficiencias del Sector Financiero. Las actividades básicas se enfocarán a:

I. Desarrollo de un Fondo de Garantía.

II. Investigación, Desarrollo y Promoción de un Mercado Financiero.

III. Políticas de Diálogo.

La Cámara Empresarial ha previsto delegar las funciones administrativas del proyecto en una "Unidad de Gerencia del Proyecto", cuyos principales propósitos serían:

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22 de Julio de 1987
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I. Manejo efectivo del flujo de servicios de apoyo técnico del proyecto y el aprovisionamiento de bienes y servicios que requiera la actividad general del proyecto.

II. Proporcionar apoyo a AID en el trámite de la documentación para el flujo de fondos del proyecto.

III. Evaluar la calidad de los servicios que presten los contratistas así como las entidades participantes.

IV. Un instrumento adicional de apoyo será el Sistema de Información Gerencial del proyecto cuya finalidad será proveer información sobre el impacto del proyecto y evaluar el costo efectivo de las operaciones y permitirá además, un cercano monitoreo del proyecto. Adicionalmente, el SIG identificará recursos complementarios existentes en programas nacionales, binacionales e internacionales.

Con el objeto que algunas actividades que actualmente realiza el Sector Público se obtengan con la prioridad adecuada para el efectivo funcionamiento de la PYME se efectuarán estudios para evaluar la posibilidad de su privatización.

Adicionalmente, la Cámara Empresarial desea estar en posibilidad técnica para apoyar a las Cámaras y Asociaciones que la integran con el fin que estas instituciones, a su vez, estén en posibilidad de prestarle la asistencia que requiere la PYME. Por esta razón se solicita además, el apoyo institucional a CAEM.

Con base en lo expuesto, Señor Director, atentamente solicitamos el apoyo de esa Misión para la implementación del programa descrito.

Sin otro particular me suscribo de usted.

Atentamente,

CAMARA EMPRESARIAL DE GUATEMALA

Ing. Eduardo Sperisen Y.
Presidente

ESY:cdee

JUL 27 10 30 AM '87
USAID/GUATEMALA

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TECHNICAL ANALYSES

1. Introduction

This project provides a framework within which USAID provides assistance to the Guatemalan private sector. The nature of that assistance has been and will be determined to a significant degree by private businesspeople and by private organizations.

The problems to be addressed by the project, such as the need of SME and exporters for technical assistance and training and the need of the business community as a whole for more effective financing do not pose " technical " problems in the usual sense of the feasibility of a particular technology or technical solution to a development problem.

The crucial problems in this project are essentially institutional and policy choices. For this reason the Technical Analyses for the project are organized as follows:

1. The Crucial Choices and The Solution Set.

2. Economic Feasibility

3. Social Soundness

4. Institutional/Administrative Feasibility

We do not address the " technical feasibility " of particular forms of technical assistance to be provided because technical advice and formulation of specific technical solutions to problems will be the activity of the project itself.

1. The Crucial Choices and the Solution Set.

USAID/G believes the following issues to be crucial to project design:

a. Focus efforts on the private sector or the public sector.

b. Encourage the private sector to develop and implement its own policy dialogue agenda or define a policy dialogue agenda for the private sector.

c. Work with existing organization in the private sector or create new ones to advance private enterprise interests.

d. Define a target beneficiary group of small and medium enterprise exclusively or cast the project more broadly as one strenthening private enterprise generally with SME as the primary beneficiaries.

e. Distribution of responsibilities among institutions.

The Mission's conclusions and their design consequences are as follows:

a. Public or Private Sector Focus.

In Guatemala, the private sector, or, more accurately, important elements of the private sector are extremely powerful. The current GOG administration is favorably inclined toward private enterprise. While policy problems under GOG control do exist and should be addressed, the more important problems appear to be those associated with expanding the numbers of enterprises which have effective access to managerial "knowhow", technical information, marketing information and techniques, and financing on reasonable terms.

Thus most of the solutions to private enterprise problems lie within the private sector. To the extent that solutions to private enterprise problems lie within the control of the GOG these problems can be effectively addressed by providing limited technical assistance to selected GOG agencies and improving the capability of the private sector to present and promote its interests effectively before the government.

It follows that this project is addressed for the most part to the private sector. It addresses problems such as managerial competence, technical " know-how ", and finance.

b. Whose Policy Dialogue Agenda: Private Enterprise or USAID?

USAID/G believes that certain policy revisions will be helpful to private enterprise. However, it does not believe that negotiation of a broad agenda of policy change defined by outsiders will be a desirable assistance strategy.

First, private enterprise has a better perception than outsiders of what are real constraints and what are only perceived constraints for which businesspeople have developed adequate practical responses.

Second, encouraginng Guatemalan private sector responses through broadly representative institutions encourages a long term public-private sector dialogue which will be more important in the long run than any short term set of policy changes attempted from the outside.

Third, encouraging private enterprise controlled policy dialogue with the GOG also encourages intra-private sector dialogue which may contribute greatly to improved private enterprise performance.

It follows that the project will pursue an institutional development approach to policy dialogue in which definition and implementation of policy dialogue agendas will be the responsibility of Guatemalan private sector organizations.

c. Create New Institutions or Work with Existing Organizations?

Creation of new institutions is a difficult, expensive, uncertain and time consuming process. There are several institutions in the private sector which have demonstrated competence in areas of project concern. Some may not be " perfect " choices. For example, AGG membership is composed primarily of managers of larger and more modernized firms than the typical SME. But the organizations involved have evidenced sincere interest, as well as sound business logic (i.e. expand their constituency and revenue base).

The Mission concludes that the risk of working with competent organizations is less than the risk of attempting to create new ones.

d. Strengthening Private Enterprise broadly or Focusing on a specific Target Beneficiary Group?

The project's primary concern is with expanding the base of participation in mainstream private enterprise. This objectives could be accomplished by focusing more broadly on developing institutions which serve not only target SME but broader interests as well. Thus, for example, the project might, in theory, provide direct credit to SME rather than attempting to induce more progressive banking practices through partial loan guaranties and studies leading toward more progressive banking techniques. A direct credit line would have been SME-specific, but the selected approach primarily benefits the SMEs while also improves the business environment for larger investors. The expected results will improve domestic and/foreign investment in general.

The mission believes that the dominant constraints on private enterprise performance lie within the private sector itself. As discussed under each component description, the constraints access to credit and capital, know - how and external markets limit. For this reason, it was considered essential to try to work with private organizations with a view to encouraging change in organizational policy and individual perceptions. For example, AGG, not previously an organization concerned with small enterprise is considered to be an excellent forum within which to encourage interchange between managers of small and large enterprise.

Will persons other than the primary SME target group benefit from AGG's activity in the project? Yes, no doubt. Will SME benefit more in general from being serviced through AGG than the creation of a new organization devoted exclusively to SME interests? USAID believes yes.

It follows that the project will not attempt to limit the scope of its benefits to SME alone. SME will be the primary intended beneficiaries but the project will not limit the use of its resources much less the incidental benefits to SME.

e. Which Private Sector Institutions Do What?

The major Guatemalan institutional participants in the project are CAEM, AGG, Gremial and Camara de Finanzas. It would be easier to structure the project with one organization as the implementing organization. However, the other organizations have capabilities and characteristics which can be marshalled to far greater aggregate effect when they commit themselves to real organizational responsibilities. For example, a CAEM sub-committee might take charge of an SME technical assistance activity as a new endeavor. But when AGG undertakes that role, twenty-six years of organizational experience and commitment to the professionalization of management are brought to bear on the project.

Conversely, CAEM which has proven itself at the policy dialogue level and has the capability to implement an activity such as FTPF does not have the capability to implement all the operations of this project.

The mission's conclusion was to accept the challenge of supporting several on-going organizations to gain the benefits of having the best available Guatemalan institutions doing those tasks they are best qualified to handle. In other words, instead of designing a project aroung a non-existing entity, the decision was made to tailor AID response to enhance existing capability and to leverage Guatemalan know-how and institutional resources for the primary benefits of small and medium entrepreneurs.

ECONOMIC ANALYSIS

A. Introduction

Description of Analysis

This Annex will examine, from an economic perspective, the Private Enterprise Development Project (PED) whose purpose is to strengthen private enterprise at three levels: (1) At the level of the firm. (2) At the level of the business environment within which the firm operates. (3) At the level of the policy environment within which the private sector functions. The project will be funded over a five-year period and will have a total budget of U.S. $27.276 million. Of the total, A.I.D. will provide U.S. $10 million in grant funding. The remainder will be provided in the form of ESF local currencies and counterpart from private sector implementing agencies. The four project components will receive funding in the following amounts; Small and Medium Enterprise Component - U.S. $3.85 million, Export Development Component - U.S. $5.17 million, Financial Markets Development Component - U.S. $11.65 million, and New Private Enterprise Initiative Component - U.S. $1.46 million. An additional U.S. $3.025 million will be used for project coordination, management and evaluation.

Before describing the specific analyses of each activity, this Annex begins with a general discussion of the current economic environment in Guatemala to provide a frame of reference for the project. Also included is a description of the important roles of the small enterprise, financial and export sectors in the nation's economy, as these are areas emphasized in the project. The employment generation effects of the activities, where quantifiable, are also estimated.

The purpose of economic analysis of development projects is to determine whether funding the project in question is an economic use of scarce resources. The usual approach is to perform a benefit-cost (B-C) analysis for the project to determine whether the discounted future stream of benefits will exceed the future stream of costs. The range of constraints addressed by the project's components and the number of separate activities to be undertaken preclude a single analysis for the project. Thus, each project component is dealt with separately, as outlined below:

(1) A B-C analysis of the Small and Medium Enterprise Component, was not feasible at this point due to the lack of reliable cash-flow information on small-medium businesses similar to the proposed beneficiaries and the lack of hard data on the impact of training. In lieu of a full B-C analysis, the proposed activities are examined using a back door approach to measure the increase in individual firm productivity necessary to reach a breakeven point (B-C ratio of 1.00).

The guaranty fund is also examined in this section, using a B-C analysis and nonquantifiable benefits are discussed.

(2) To analyze the Free Trade Promotion Facilities RDP Component a B-C analysis of a proposed Export Processing Zone (EPZ) was performed. While the establishment of an EPZ is not the only activity proposed under this component, it was not possible to carry out B-C analyses of the other promotional and training activities. These other activities were examined to determine the likelihood that sufficient benefits would be generated from the activities to cover costs.

(3) The Financial Markets Development Component. In addition to the guaranty fund discussed in (1) above, this component will include other project activities, such as the funding of studies. However, because the benefits generated by these activities do not lend themselves to quantification, they will only be dealt with in global terms.

(4) The New Private Enterprise Initiatives Component, is described in the body of the text. Because it principally provides funding for studies and institutional support for CAEM it will not be analysed in this annex.

The analyses of the guaranty fund and the EPZ yielded internal rates of return of 18.65 percent and 18.94 percent, respectively. This indicates that estimated benefits will exceed costs over the life of project in both cases. An examination of the Small and Medium Enterprises Component found that the technical assistance and training should also be an appropriate use of funds. In addition, the employment generation effects of the project should be substantial. Thus funding the PED project will be an economically justifiable use of resources.

B. Background

1. Overview of the Guatemalan Economy

Prior to the 1980's, Guatemala enjoyed decades of steady economic growth. This era came to an abrupt end in 1980-81 due to a combination of factors, the most important of which were regional political instability and capital flight, declining export commodity prices and counterproductive macroeconomic policies. These factors combined to cause a prolonged recession in Guatemala during the first half of the 1980s which reduced real per capita income by 16.5 percent. This period also brought a substantial decline in both public and private investment, with investment as a percentage of GDP falling from 12.0 percent in 1980 to 7.6 percent in 1985. During this time government efforts to correct Guatemala's economic policy problems were weak and incomplete. This is reflected in the end of the quetzal parity with the dollar and the movement, in November 1984, to a complex and frequently revised exchange rate system.

About six months prior to his election, Cerezo and his team had begun working on the outline of an economic program which, after his election he presented within the new government and then to the general public. The Cerezo government announced its economic stabilization program in June, 1986, which focused on several major economic policy areas. It simplified the existing multiple exchange rate regime and gave more favorable exchange treatment to exporters. Under the program restrictive monetary policies were instituted to control inflation. These included an increase in reserve requirements, an increase in interest rates, and the withdrawal of Social Security System deposits from the banking system. New revenue measures were introduced which included the valuation of imports at the parallel exchange rate for assessment of duties, a temporary export tax and a temporary surcharge on international telecommunications rates.

Some of the many price controls on the list of controlled products were lifted, and a more flexible management of the items still under control was started. The investment budget of the Central Government was maintained at the previous year's level in real terms while expenditures were restrained to a level consistent with a deficit of 2.5 percent of GDP. The program also initiated a process to reduce regulatory contraints to exports and investment.

2. Prospects for the Near Term

The new government program was not a one-shot effort. Throughout the last six months of 1986 and thus far in 1987 the Guatemalan authorities have continued to strengthen and adapt the program to changing economic conditions. Nevertheless, 1986 was a difficult year for Guatemala and this is reflected in various sectors of the economy. In the external sector imports were unusually low and imports of capital equipment and raw materials fell, reflecting depressed economic activity and substitution of local inputs for imports due to the price advantage. During the year, the Central Bank worked to streamline the process for obtaining foreign exchange via an import license and in mid-1986 the time required to do this was reduced from a few weeks to a few days. In September of 1986, the Central Bank began to merge the banking and regulated markets. Sets of tariff items have been passed every month or so from the banking into the regulated market, each time with no apparent impact on exchange rate stability in either market. Currently, the remaining articles in the banking market are invisibiles such as tourism and private capital movements.

The fiscal goal of holding the central government deficit to 2.5 percent of GDP was more than met, however this was not accomplished through full achievement of revenue targets, but rather through an extremely low rate of execution of the investment budget. Restrictive monetary policies during the year were successful in stemming inflation, however the banking system still ended the year with excess liquidity. (This was partly due to a decreased demand for credit as a result of the depressed economic situation.) (See

Annex J-2 for a more in depth discussion of liquidity.) During 1986-1987 there has been a substantial decrease in the number of consumer items subject to price controls (from 450 to fewer than 20) and more flexible management of the remaining controlled items.

The prospects for economic reactivation in Guatemala in the near term appear to be good. During 1986 and 1987 the government has instituted a series of measures designed to deal with the regulatory environment for the private sector (and in particular, to stimulate exports and investment) and more generally the policy problems that businesses face. So far, these include:

- a simplification of import documention requirements,
- the establishment of the National Export Council (CONAPEX) to provide high-level public and private sector attention to correcting constraints to export,
- the establishment of a high-level mechanism to assist importers and exporters in cooperating with procedures to avoid over- and under-invoicing, with the goal of resolving individual problems within 24 hours, and
- establishment of for a one-stop export window.

In addition to these measures, several others are planned for this year. Among these are:

- the development of a National Export Plan,
- revision of the laws for free zones and maquila operations,
- revision of the fiscal incentives to export,
- review of the banking code and credit policy, and
- evaluation and implemention of select privatization activities.

These proposed activities, in combination with continued efforts to completely implement actions begun in 1986, form a comprehensive agenda on the part of the Guatemalan government to create conditions conducive to reactivation of the private sector.

3. Role of the Private Sector

The Guatemalan economy is at a crucial stage in its development and a critical factor in the economic recovery will be the positive response of the private sector through increased production and investment. The private sector plays a major role in the Guatemalan economy in which central government revenues average only between 7 and 8 percent of GDP annually, there are few parastatals and in which the public sector owns only a small share of the factors of production. As mentioned above, the Cerezo government has taken several measures designed to remove important contraints on the private sector and create an environment which will encourage economic reactivation in Guatemala.

C. Analyses of Activities in Support of SME Sector

1. Experience in Other Countries with Small Enterprise Programs

There have not been many comprehensive evaluations of past small enterprise projects. The set of studies which have been undertaken point to several key findings.

a. Labor Intensity of Production:

Because of population pressures, limited land availability, the relative scarcity of capital and foreign exchange, in most developing countries the concern for job generation frequently concentrates on activities and techniques of production that are labor intensive. There is evidence that small firms can and will deliver more employment per unit of investment. A.I.D. Evaluation Special Study No. 13, "The Evaluation of Small Enterprise Programs and Projects: Issues in Business and Community Development", published in June, 1983, supports this conclusion:

"There is considerable evidence that small enterprises are more labor absorptive than other segments of the economy...Some do challenge the evidence, since it is often based upon a simple capital/labor ratio for measuring labor absorptiveness; but the consistency of the findings and the size of the differences revealed do suggest a true difference... Moreover, the comparison holds in both urban and rural areas, though rural small enterprises appear from limited evidence to be more labor intensive than urban ones. Generally, therefore, the evidence suggests small firms can and will deliver more employment per unit of investment."

b. Economies of Scale:

There is also controversy regarding other "efficiency" issues, such as labor productivity. Some researchers feel that important scale economies are foregone in smaller firms and that labor productivity in those firms is unacceptably low when compared to that in larger firms. However, contrary evidence indicates that under certain conditions small firms are more efficient. This occurs where certain locational, process and marketing conditions prevail, for example where precision handwork is required. Thus, there is evidence that developing the small enterprise sector can have a substantial positive impact on a developing country's economy.

c. Forward and Backward Linkages:

Expansion of the small enterprise sector can also have important economic spread effects. These can be substantial where sector growth serves to develop a pool of skilled workers and managers and

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where there is a setting in which firms can and do develop linkages with other firms and sectors. Actual data on forward linkages only rarely indicate a significant impact, rural and urban small enterprises have been found in some cases to be important sources of raw materials for agricultural production. Limited available data do suggest that backward linkages are more significant than forward linkages and that rural and urban small enterprises are providing substantial and increasing markets for the finished and intermediate goods of larger industries.

2. Small-Medium Business Sector in Guatemala

It is difficult to define the number of businesses within the primary target group of this project. It is clear, however, that the number of small and medium enterprises in Guatemala is quite large. As is mentioned in the body of the project paper (III C 2, Small and Medium Enterprise), there are no accurate estimates of the number of SME's in Guatemala. The most recent source of data found by survey researchers is in the National Directory of Industrial Establishment published in 1981. At that time, there were 1,121 firms employing 5-19 people, 836 employing 20-49 people, and 262 employing more than 50 people. The total number of industry, commerce and service SME's of 2,867 listed (which would fall within the definition of small and medium enterprises for the purposes of this project) is probably understated because smaller firms often try to avoid government registries. The survey results imply that SME's account for 6% of the companies inscribed in the Mercantile Register of 1984 and 14% of the employers registered with Social Security. Based on the National Industrial Directory which indicates that 66% of registered firms are located in the Department of Guatemala, it is assumed that SME's follow the same distributional pattern.

3. Small and Medium Enterprises Training Component

a. Program Description:

This component of the PED focuses on providing technical support for SME's at the representative organization, business environment and policy levels. Within a structured program conducted by the AGG (Guatemalan Managers' Association), this component will provide training and technical assistance to approximately 1,000 small and medium enterprises. As was mentioned earlier, it is not feasible to perform a B-C analysis on this component of the project, since the specific training activities will be defined as part of project implementation. Project costs of these courses will be examined, though, to determine whether it is probable that the training and technical assistance provided will generate enough benefits in the form of higher income for participating businessmen. In addition to the structured courses, there will be less formal courses provided under this component. Both methods are described below:

(1) The first of these methods will incorporate courses of a generic nature, that is courses which would be of basic interest to almost any entrepreneur, such as business accounting, management, cash flow analysis, etc.. These courses will be designed using local experts. The courses will be provided upon request to any entrepreneurs who fall into the small and medium enterprise category (as defined in the body of the Project Paper).

(2) The second method of providing training will be more specialized. As the project develops, it is expected that special needs for specific industry groups will become evident. At that time, experts (either foreign or local) will be contracted to design an appropriate program. When and/or if foreign technical assistance is used, an effort will be made to provide the assistance to the enterprise requesting it and also to teach trainers in AGG who will then be able to pass the information on to others who desire it.

Program participants will be charged a fee for the training so that eventually the program will operate on a cost-recovery basis and be financially viable in the long-run. A World Bank review of strategies for bolstering the private sector (originally cited in an USAID/Equador Project Paper on Small Enterprise Development,) notes the importance of charging market rates for training and extension services.1/ This pricing provides an objective method of judging the program's usefulness and desirability for the target clientele. An exception to this pricing policy may occur in that some participants may be offered a partial or full scholarship in order to demonstrate the positive impact that the training can have on that firm's operations. After the courses have been completed, the Project Management Unit will maintain a follow up record for each participant to determine whether the training was perceived as being useful and, perhaps more importantly, whether it has had any impact on the firm's operations. If the program is administered properly, working with existing organizations in combination with the collection of fees and the development of a series of core courses that will have a wide application, should keep training costs at a minimum.

b. Demand for Technical Assistance and Training by Small Firms

The recent study conducted by Cowan, "The Private Sector Survey for Guatemala," lists several constraints under which small and medium enterpreneurs in Guatemala perceive they are operating. Areas, in order of importance, which interested survey participants were: (1) finance; (2) technical assistance; (3) help in finding new markets; (4) help in finding

1/Harsden, Keith, "Creating the Right Environment for Small Firms," Economic Development and the Private Sector, World Bank, Washington, D.C. (1981)

investors, and; (5) training. This report is supported by many studies conducted in other countries of small-scale businesses which have noted the problems caused by the lack of managerial and technical skills on the part of their owners. Small enterprise credit programs often contain a technical assistance component, and many require participation in the training component as a condition for credit approval. These types of programs have traditionally included training in financial recordkeeping and managerial training, such as marketing, procurement, supervision of employees, organization of production, and use of credit.

Evaluations of credit delivery programs have produced mixed reviews on the value of technical assistance components. The efficacy of this training has been questioned by noting that many entrepreneurs do not continue to use the techniques they learned once their credit is approved or the classes end. The extensive follow-up that is designed in this component should allow for continual assessment and for relatively rapid modification of the process if it is not functioning effectively.

c. Cost-Recovery Assumptions

This portion of the component will provide training and technical assistance to 200 small and medium entrepreneurs a year for the five-year life of project, for a total of 1,000 trained participants. As can be seen in Table 1, the average economic cost per beneficiary will be U.S. $1,549. (This is based on an exchange rate of Q2.50 = U.S. $1.00.)

The AGG estimates that there is an average of 15 employees per firm in this category, with an average of U.S. $2,800 of sales per employee. This provides an average annual total sales figure per firm of U.S. $42,000. Assuming that the average economic profit rate in these firms is 10 percent and the discount rate is 15%, then the calculations show that each firm would have to realize a cumulative increase of 28 percent in sales over a five-year period as a result of the training and technical assistance received in order to reach a "breakeven" point, that is to recover the financial costs incurred.2/ This equates to an annual increase of 5.0 percent in sales.

If the profit margin assumption is increased to 15 percent, the required cumulative increase falls to 18 percent and the annual increase to 3.4 percent. These results indicate that the program will probably generate sufficient benefits to cover costs over the life of project. The cost estimates used in this analysis do not take into account the cost incurred by providing a contribution to a trust fund, which will be used to make the program self-sustaining in the future. To ascertain the effects on average cost per participant, the cost of these contributions is examined below.

2/Economic profit rate is the economic value of output less the economic value of inputs.

4. Guaranty Fund

a. Benefit-Cost Analysis

1) Assumptions:

In preparation for the design of the PED, the Mission commissioned several studies of the small and medium enterprise sector. These studies clearly demonstrate that businesses in this sector are constrained by their lack of access to credit. The reasons for this constraint are discussed in the body of the project paper and so will not be repeated here. This portion of the PED was designed to provide access to credit for small and medium entrepreneurs through creation of a guaranty fund. The fund will be estabished using the quetzal equivalent of U.S. $5.5 million in 1987 Economic Support Fund local currency. This fund will guarantee 50 percent of each loan that participating private banks make to qualifying enterprises.

In order to perform a benefit-cost analysis on the guaranty fund, it was necessary to estimate the economic impact of the fund on the Guatemalan economy. The nonquantifiable benefits of the project will also be discussed below.

2) Project Benefits:

The increased investment expected to be generated by this guaranty fund should result in an increase in value added for the participating enterprises. There is not much information on the amount of value added (defined as the difference between a firm's sales and the amount paid for raw materials and services purchased from others, with labor and capital being treated as internal inputs) by Guatemalan businesses in the production process. However, in order to illustrate the potential impact that the fund could have in this area, two estimates of value added per unit of investment were used to arrive at the sum of expected value added attributable to this project.

The first factor of 1.7, (that is each quetzal invested would generate Q1.7 in value added,) was taken from the economic analysis done for the Agribusiness Development Project initiated by the Mission in 1984. This figure is based on information obtained from a survey of 61 firms who were

primarily engaged in processing, handling and packaging fresh and processed agricultural products. Due to the amount of time which has lapsed since that analysis was performed, the difference in the target population, and because of the inexact financial information provided by the firms in the original survey, this multiplier should not be regarded as an exact measurement of value added. It can, however, be used to demonstrate the general impact that the fund could have.

A second multiplier was obtained from a regression analysis run recently in the Mission to obtain a long-term multiplier of private investment in Guatemala. The regression was run using a sample of 35 observations and yielded a multiplier of 1.54. Both multipliers were used to provide a range of the fund's potential impact on value added. As can be seen in Table 3, the amount of value added over the life of project could potentially reach Q113 to Q125 million. Again, these numbers are tentative and subject to a great deal of error. They are used only to illustrate potential impact on valued added.

An increase in value-added would also imply increased foreign exchange earnings, as it is expected that a portion of the businesses who will obtain loans as a result of the fund will export their products. In addition, as firms increase their production levels, raw material input purchases will have to increase commensurately which will cause an increase in sales in those backward linked firms who supply these inputs.

3) Results of Benefit-Cost Analysis:

A B-C analysis was performed on the guaranty fund to determine whether the discounted future stream of benefits attributed to the fund would exceed the stream of costs over the life of project. The benefit stream used in the analysis is based on the gross return to industrial capital over the life of project. The cost stream is comprised of the sum of three factors; the estimated cost of administering the fund, the loan-related administrative costs of participating banks, and the gross industrial investment required. (See Guaranty Fund Assumptions,) for a more thorough explanation of benefit and cost calculations.

4) Conclusions:

As can be seen in Table 2, the analysis yielded a B-C ratio of 1.13, based on an economic opportunity cost of capital of 15 percent and an internal rate of return of 18.65 percent. These results imply that if the administrative cost assumptions hold true, and the loan volume at least equals that which was assumed for the analysis, that the guaranty fund would be a sound economic investment. The B-C ratio is comparable to those obtained in many of the projects in the Mission's portfolio.

D. Export Development Component

This component will be comprised of several activities; (1) support for the Gremial in the form of technical assistance, training and a promotional program for non-traditional export products, (2) financing for Free Trade Promotion Facilities research, development and promotion (one of these will be an export processing zone(EPZ)) research, development and promotion program, and (3) financing to the National Export Council (CONAPEX) to establish an executive secretariat and to provide technical assistance to assist the secretariat in updating studies on comparative advantage and competiveness of Guatemalan industries. Presently there is not sufficient data to analyze the component as a whole. The training and technical assistance portion of this component will be reviewed and the likelihood of obtaining sufficient benefits to cover costs will be discussed. Also, the establishment of an EPZ was selected as being representative of the other activities in this category because it seems that activities developed under this component will have similar returns.

1. Export Promotion

a. Experiences in Other Countries with Export Promotion Programs:

According to the ROCAP Project Paper on the Non-traditional Export Support Project, during the last decade most Missions in the region focused primarily on increasing yields and production of locally consumed, basic food crops. Recently this trend has shifted to a more balanced and effective approach. That is, one of increasing support for producing, marketing, and exporting non-traditional products.

The Central American and Caribbean countries share a comparative advantage in agricultural production because of the climate, soils, and length of growing period. However, to exploit this advantage, local producers must have efficient production techniques, and an understanding of the potential markets and competition they face. Current constraints to effective competition in external markets include the scarcity of technical knowledge, current market information, and lack of information about markets outside of the Central American Common Market countries. The ROCAP project is addressing these constraints, and this section of the PED will provide complementary assistance to the non-traditional export sector.

b. Role of Export Sector in Guatemala:

In recent years exports of goods and nonfactor services, as a percentage of GDP, have ranged from 15 percent in 1982 to a projected 18.5 percent in 1987. The period of economic decline experienced in Guatemala between 1980 and 1986 saw a 30.1 percent decrease in the value of all exports and an even greater decrease in non-traditional exports of 44.0 percent. In

the six-year period prior to 1986, non-traditional exports were approximately 15 percent of total exports. This figure fell in 1986 to 12 percent. There is then substantial potential to increase the contribution that non-traditional exports make to total exports.

2. Export Development Assistance

This portion of the component will focus on providing training and technical assistance to a wide variety of producers of non-traditional exports. To determine the likelihood that program costs would be exceeded by benefits generated, the following chart was developed.

EXPORT DEVELOPMENT ASSISTANCE

(In 000's of U.S. $)

YEAR	1	2	3	4	5	TOTAL
Costs						
Trg. & T.A.	799	906	0	0	0	1,705
Admin. Costs	676	113	113	113	113	1,127
Total	1,475	1,019	113	113	113	2,832
EXPECTED INCREASE IN EXPORTS AFFECTED BY PROJECT						
With Project	11,379	12,885	14,817	17,040	19,596	
W/out Proj.	11,379	11,948	12,546	13,173	13,832	
Incre. Inc.	0	936	2,272	3,867	5,764	12,839

— Information based on the Non-traditional Exports Guild estimates of 15 percent increase with the exports of producers affected by the program. Also, this assumes that exports would have increased by 5 percent in the absence of the program.

Based on the assumptions listed, the above chart indicates that the training and technical assistance provided to exporters, which will cost U.S. $2.832 million, would generate an increase in exports over the five-year period of U.S. $12.839 million.

3. Free Trade Promotion Facilities—Analysis of An Export Processing Zone (EPZ)

a. Considerations and Nonquantifiable Benefits:

A review of the recent literature on export processing zones reveals important matters which should be considered in their design. As with any business, financial performance of an EPZ is determined by the prices charged for the product, in this case rent on land and buildings, and services provided. In order to be financially successful, a project must incorporate pricing policies geared to the objective of eventual full cost recovery so that there will be a sufficient cash flow to cover debt service obligations, operating costs, and provide a reasonable return on invested capital.

Several studies have shown that cost recovery in public sector EPZ's is the exception rather than the rule. (This is the case for Guatemala's single EPZ which is public-sector owned and operated and which requires an operating subsidy from the Central government.) This occurs for several reasons. Usually management of a public sector zone considers profitability to be a secondary objective, queued behind employment creation, increased foreign exchange earnings, and increased investment (both domestic and foreign.) Many countries have justified uneconomic pricing policies in EPZ's because policymakers feel that the most important objective is to maximize the creation of new industries, employment generation, and capital investment.

An examination of existing private sector zones shows that EPZ's can be run on a cost-recovery basis, at a minimum, and in some cases have the potential to generate a financial return above the cost of capital within the host country. There is then, sufficient justification for preferring the creation of a private rather than public sector EPZ in Guatemala.

The economic benefits derived from an EPZ are those which stem from investments in productive capacity which would not have occured in the absence of the project. Only a portion of the expected investment in an EPZ can be expected to come from foreign sources. Even without an EPZ it must be assumed that some export-oriented factory growth would occur. In Guatemala's case, access to capital appears not to be a significant constraint due to the excess liquidity now available within the banking system.

According to a report entitled, "Export Processing Zones Contribution to Development," (produced by CDG/Free Zone Authority Services, Inc., June, 1984) individual firms locating with the EPZ's can be expected to make substantial investment. The average investment in machinery, equipment and working capital in these industries is approximately U.S. $800,000. In the lower portion of the range are apparel and footwear industries, ranging from U.S. $250,000 to U.S. $600,000, which are the types of industries that are expected to locate (at least initially) in the proposed zone. Thus investment from this source for the 26 industries expected to locate within the zone over the life of project would range from U.S. $6.5 to U.S. $15.6 million.

In addition to employment creation and increased investment, an EPZ can be a significant source of foreign exchange in an economy. While it is difficult to specify precisely how much would be generated by a Guatemalan EPZ, information from other countries can provide guidance on what could be expected. In 1982, three Caribbean countries (Mexico, Barbados, and the Dominican Republic) indicated foreign exchange earnings per job in EPZ's ranged between U.S. $1,667 and U.S. $3,497. (See report mentioned in previous paragraph.) By using the employment generation estimates for the EPZ (see Employment Generation section in this Annex) over the life of project U.S. $57 million to U.S. $238 million could potentially be generated as a result of the EPZ.

To maximize the positive effects of an EPZ on a nation's economy it is important to use the lessons learned from other zones during the design process. For example, establishment of related industries near the zone should be promoted to minimize the risk to the local labor force of movements of firms into and out of the zone. These could include businesses which could provide services and raw materials required by the businesses within the zone. The promotion of backward linkages, while not easy to accomplish, can generate further gains for the host economy.

As mentioned above, EPZ's can have a positive impact on a nation's economy in the form of job creation, (particularly for unskilled workers), investment, and increased foreign exchange earnings in the form of the value. In addition, establishment of an EPZ is often accompanied by technology transfer. While not as great as was originally expected (due in many cases to a jealous guarding of production processes by businesses), according to the literature there have been significant impacts especially in management training. As local mid and lower-level managers are trained, and then move on to other jobs either within the zone or elsewhere in the domestic economy, they carry their skills with them.

b. Benefit-Cost Analysis:

1) Assumptions:

To evaluate the estimated economic benefits and costs of establishing an EPZ, a benefit-cost analysis was performed. The future streams of benefits and costs were compared to arrive at a net benefit expected to be generated by this component. The following analysis (which is based on the data included in the Arthur D. Little report, "A Private Export Processing Zone Project for Guatemala", prepared for the Mission in August, 1986 and from new cost figures obtained from an EPZ consultant from the Dominican Republic) incorporated several assumptions which follow.

-The cost of unskilled labor used in the preparation of the infrastructure and the construction of the buildings was shadow-priced at 80% of the minimim wage in Guatemala. This was done to reflect the economic opportunity cost of unskilled labor which is in oversupply.

-It was assumed that the EPZ would be developed as a private sector project and would have a 20-year project life.

-Land costs are based on values of land near Guatemala City because it was assumed that the zone would be constructed in that vicinity to maximize access to air transportation and to urban services. Market values are assumed to accurately reflect opportunity costs.

-A phased construction plan was used. Studies of existing zones point out importance of phasing construction to meet demand.

-The final project will be located on a 100,000 square meter site. There will be 26 warehouses of 20,000 square feet each on the site, plus an administration building of 9,000 square feet. During year 1 the site will be located and developed and 2 warehouses and the administration building will be constructed. Four additional warehouses will be constructed each year over the next six years to arrive at a total of 26.

-The cost of the land purchase was charged against the project in year one, and 60 and 40 percent of the cost of infrastructure were charged in years one and two, respectively, to reflect the "phasing" of the construction.

-Other successful zones have incorporated a "full service" approach, (that is providing their tenants with a wide range of services), and it was assumed that a similar approach would be used in this zone.

-AID will be funding only technical assistance (part of which is the pre-feasibility study and for one expatriate manager for three years) and some promotional efforts in the U.S. These "pre-operating" costs were charged against the project to cover site evaluation and selection costs. All of the investment in land, infrastructure and buildings would come from private sources.

2) Benefits:

Because of the scarcity of information on value of output, which would be the economic benefit yielded by the EPZ, rental rates paid on warehouse space and service fees have been used as a proxy. This required an assumption that the value of output, less the value of imported inputs, value of domestic inputs, labor, utilities, zone management costs, and a reasonable profit

margin would yield the maximum rent and service fees that the zone occupant would be willing to pay to locate within the zone.3/ Thus, the benefits used in the analysis in Table 5 were measured as the rent received on the buildings and grounds in the EPZ, and fees charged for services provided. The rental rate used in the primary analysis was $5.25 per square foot. Service fees were calculated as 25 percent of rent received during the initial construction period, and then 15 percent throughout the remainder of the period of analysis. These figures were used because it was assumed that demand for services would be heavy during the start-up phase, and then decline as many services become more readily available to industries within the zone, i.e. a larger existing pool of trained labor, etc.

The maximum rental rate measure can be compared with EPZ rental rates in other countries. The most recent data available within the Mission on rental rates for similar space within Carribean EPZ's is for 1984.4/ At that time, the unweighted average rate charged was approximately $3.00 per square foot, with the top rate being listed as $5.25. The latter figure was used in the analysis because it seems likely that inflation in the intervening years would have increased the average rate substantially and also because many of the rates used in the initial survey were from public sector zones which often do not charge economic rental rates. (Research has shown that rental rates are not the most important factor used in determining whether a company will locate in a particular zone. Many other factors such as services provided, the general political and economic environment prevailing in the country, and the supply of labor are usually considered more important.)

A sensitivity analysis was performed using a rental rate of $4.40 per square foot. This generated at benefit-cost ratio of 1.00 and an internal rate of return of 15.09%. This means that based on costs used, that rental rate would have to be at least $4.40 to generate sufficient benefits to cover costs over the life of project.

3) Costs:

The cost of the EPZ was calculated based on land, infrastructure, building construction, management and promotion, maintenance and utility, and pre-operating expenses. As can be seen in Table 5, the land to be used forthe EPZ was valued at Q25 per square meter. The labor used to construct and maintain the zone is included in the infrastructure, building construction, and management and promotion elements of the benefit-cost analysis. It was shadow priced at 80% of the minimum daily wage of Q3.20 to reflect the excess supply of unskilled labor in Guatemala. Estimates from P. Jimenez, a

3/If values of outputs and inputs had been avialable, labor costs would have been shadow-priced downward. Thus, the proxy used understates the benefits.

4/ Information taken from the "Guidebook on Free Zones," by International Programs, Graduate School U.S.D.A., 1984.

consultant on EPZ's from the Dominican Republic, and a local construction firm were used as the basis for estimating the cost of infrastructure and building construction These costs are similar to those listed in the Arthur D. Little study which was completed in August 1986.

The assumptions on management and utility costs over the life of project included in the ADL study mentioned above were used in the analysis. These numbers were adjusted slightly to reflect the change in the exchange rate used. Personnel in this study included an expatriate manager for 3 years (plus relocation and living expenses), a project manager to supervise construction/maintenance, a labor contractor and training specialist, a permit/paperwork expeditor, and clerical and administrative support. Maintenance and utility costs were relatively low in year 1 and increased substantially for years 4-20. The pre-operating expenses were charged against the project to cover the site investigation and survey costs. (See Assumptions, Export Processing Zone, page 21, for an in depth discussion of benefits and costs.)

4) Conclusion:

The analysis in Table 5 shows an internal rate of return for the EPZ of 18.94 percent, using a rental rate of U.S. $5.25 per square foot of warehouse space and an economic opportunity cost of capital of 15%. This project shows an economic rate of return comparable to most of the projects in USAID/Guatemala's portfolio. Note, however, that because rental rates and services were used as a proxy to measure the economic benefits generated by the project, potential occupants of the EPZ must be able to pay the specified rates, after meeting all costs of doing business, in order to allow for full economic cost recovery over the life of project.

A scenario varying the rental rate of warehouse space was performed in which the "breakeven" rental rate of warehouse space was found to be U.S. $4.40. This means that over the life of project the space must rent for at least that amount in order to ensure that project benefits will exceed costs, or that full cost-recovery will occur. This does not appear to be an unrealistic assumption based on findings listed in the literature on EPZ's. These findings show that the rental rate of warehouse space is not the most important factor considered by businesses that are considering locating within a particular zone. Other factors such as political and economic stability, minimal "red-tape" requirements, and a ready supply of labor seem to be more important. Thus, if Guatemala can continue to improve on the political and economic environment, and if many of the constraints (in the form of excess paperwork, etc.) can be removed or at least minimized, it appears that an EPZ would be a good "investment" of Guatemalan resources.

F. Financial Markets Development Component

This component will be comprised of a guaranty fund to promote lending to businesses in the small and medium enterprise sector, and of a series of studies pertaining to the financial environment in Guatemala. This section contains a discussion of related experience in other countries, and one of the current state of the Guatemalan financial system. The discussion and B-C analysis of the guaranty fund can be found in Section C, Analyses of Activities in Support of the SME Sector, of this annex. There is not a great deal of information on the studies, however, so their impact will not be estimated here.

1. Analyses of Activities in Support of the Financial Sector

a. Experience in Other Countries:

There is not a great deal of information about the impact of finacial markets development activities in developing countries. However, one A.I.D. Evaluation Special Study No. 41, A Synthesis of AID Experience: Small-Farmer Credit, 1973-1985, does provide some lessons learned in the area of credit programs in developing countries. This project has many conditions common to successful programs evaluated in this report, as can be seen in the following summary list of findings:

- There must be profitable investment opportunities into which the borrower can invest the loan funds. Thus, before starting a credit project, donors need assurance that appropriate technologies and supporting services are available.
- The impact of one project can do little to compensate for economy-wide disincentives. Developing country policy reforms are often needed if other agricultural development efforts are to succeed.
- Lending institutions that had local-level outreach mechanisms were most attuned to local needs and had the lowest default rates...Projects that worked with an existing institution (rather than creating a new one) had the best success. Projects that provided technical assistance and training were able to improve institutional capacity and had a better chance of success.
- The projects that set lending rates high enough to cover their cost of capital were successful. Lenders that provided cheap capital were not financially viable.

b. Financial Sector in Guatemala:

Currently, the financial sector is comprised of the Central Bank, 3 state banks, 17 private banks, 5 financieras, and 13 insurance companies. (For more information on this topic see Annex J-3, Summary and Recommendations for Financial Market Resources, Development, and Promotion Activities.) The financial system is not highly developed and there is substantial potential to

increase savings mobilization and improve resource allocation. The system is oriented to short-term lending and borrowing and heavy collateral requirements make current lending almost risk free. The capital market is unsophisticated. (One change in this area occurred in April, 1987 when a Bolsa de Valores, or "stock market" was created by local investors. While this is an improvement over the previous situation, it does not appear that it will soon have a substantial impact on the Guatemalan financial sector.) There is a preponderance of family-held companies or companies which are held by closed economic groups and as a consequence, little financial information on firms is made public. Another drawback in the current system is the bias against private savings. For example, interest on bank deposits or Central Bank paper is tax free while the interest on private sector instruments is taxable.

c. Studies Component:

The studies which will carried out under this component will have an economic impact, however the benefits and costs cannot be measured at this time due to the lack of information.

G. Employment Generation

Because of the paucity of information, it is not possible to calculate the employment impacts of the Small and Medium Enterprises or the New Private Enterprise Initiatives Components. However, as mentioned in Section C. of this Annex, Impact of Small Enterprise Programs, it is expected that the employment generation effects of the SME component will be substantial.

There is sufficient information on the employment impacts of EPZ's to estimate how many jobs would be created over the life of the EPZ investment (20 years). As can be seen in Table 6, the gross number of person-years of direct employment generated over the life of investment would range from 33,960 to 67,990. The lower figure is based on information obtained from the "Export Processing Zones' Contributions to Development" report cited earlier. In that report, the average number of jobs per firm located within an EPZ created in Caribbean countries in 1982 was 67. This figure was used to obtain the low estimate listed in Table 6, and from the data available seems to be very conservative. Other data within the Mission (including the Arthur D. Little report) suggests that that number can be as high as 150 per firm. This number was used to obtain the high estimate in Table 5. In both cases, labor used during the construction phase and for management and maintenance of the zone was incorporated into the analysis.

There is also some dated information on job creation per unit of investment. The economic analysis performed for the Mission's 1984 Project Paper on Agribusiness Development used a World Bank estimate of $20,000 of

average fixed investment per job in Guatemala.* While this information is undoubtedly outdated, for lack of other sources of information this figure was used to provide a ballpark estimate of the employment generating impact of the guaranty fund over its life (20 years). As can be seen in Table 6, the guaranty fund would generate more than 33,000 person-years of employment throughout the guaranty fund. Because these estimates are based on what appear to be conservative projections about total investment generated as a result of the fund, it would seem that this is also a conservative figure.

Literature documenting forward and backward linkages of SME and EPZ investments suggest that these could have a substantial impact on indirect employment generation for the Guatemalan case.

H. Conclusions

The findings of the analyses included in this Annex imply that the PED project would have net positive long-term benefits for the Guatemalan economy. In addition to the benefits which were quantified and used in the benefit-cost analyses, it would appear that this project will generate substantial nonquantifiable benefits.

An examination of the technical assistance and training provided under the Small and Medium Enterprises Component showed that it is probable that it will generate sufficient benefits to cover costs over the life of project. Participating firms would have to realize a cumulative increase in sales over a five-year period of 28 percent to cover financial costs, assuming a 10 percent profit rate. (This equates to a 5.0 percent annual increase.) As new business techniques and production processes are incorporated into, and perhaps more importantly retained in, participating enterprises, it is not unreasonable to assume that sales volume and employment will grow over time as a result of project activities.

The B-C analysis of the guaranty fund generated an internal rate of return of 18.65 percent. This means that over the 20-year life of project the discounted benefit stream will exceed the discounted cost stream.

The Export Development Component, if successful, should provide the training and know how to allow Guatemalan exporters to locate new markets for their products, and to be able to supply those markets with high quality, competitive products. The analysis concluded that the total cost of the training and technical assistance provided, U.S. $2,832 million, should generate almost U.S. $13 million in increased imports.

The B-C analysis of the EPZ generated an internal rate of return of 18.94 percent. As with the analysis of the guaranty fund, an opportunity cost of

*The questionable nature of this figure is noted. However, for lack of a better or more recent measurement this figure is used to generate a rough estimate of the employment generating effects of the guaranty fund.

capital of 15 percent was used. This result also implies that this would be a good investment of scarce resources. This internal rate of return figure likely understates the true benefits to the economy because the EPZ would also generate benefits beyond those used in the analysis, such as employment generation, investment and increased foreign exchange earnings. It may also have a substantial demonstration effect, that is after it has begun to operate successfully, other investors will want to replicate the process and create additional zones in Guatemala.

The studies planned under the Financial Markets Development Component may lead to activities which would have an impact on the overall environment within which all enterprises operate in Guatemala and make it more conducive for firms to start-up new, and expand and streamline existing, production processes.

In addition, the employment generation effects of the project should be substantial. Based on the analyses above, funding the PED project would be an economically feasible use of resources.

EXPORT PROCESSING ZONE

ASSUMPTIONS

1. Benefit-Cost Analysis is based on a 20-year project life although USAID funding for this component would only be used throughout the initial five years of the project. (USAID financing would only be used to cover the feasibility study and for technical assistance and promotion costs.) This was done to better capture the long-term benefits accruing as a result of the project.

2. An exchange rate of Q2.70 to U.S. $1.00 was used throughout the analysis as an estimate of the real exchange rate.

3. A discount rate of 15 percent was used to reflect the opportunity cost of capital.

4. Because of the scarcity of information on value of output, which would be the economic benefit yielded by the EPZ, rental rates paid on warehouse space and service fees have been used as a proxy. This was done because it was assumed that value of output, less the value of imported inputs, value of domestic inputs, labor, utilities, zone management costs, and a reasonable profit margin would yield the maximum rent that the zone occupant would be willing to pay to locate within the zone. Project revenues are based on rent received for warehouse space ($5.25 per square foot) and on fees received for services provided to firms located within the zone. Service fees were calculated as 25 percent of rent received during the initial construction period, and then 15% throughout the remainder of the period of analysis. These figures were used because it was assumed that demand for services would be heavy during the start-up phase, and then decline as many services become more readily available to industries within the zone, i.e. a larger existing pool of trained labor.

5. The land to be used for the EPZ was valued at Q 25 per square meter.

6. The labor used to construct and maintain the zone is included in the infrastructure, building construction, and management and promotion elements of the benefit-cost analysis. Seventy-three percent of the labor was shadow priced at 80% of the minimum daily wage of Q3.20 to reflect the excess supply of unskilled labor in Guatemala. Based on information from local construction firms, labor was taken to be 30 percent of the total cost of infrastructure and construction.

7. Estimates from an EPZ specialist from the Dominican Republic were used as the basis for estimating the cost of infrastructure (Q 1,350,000) and building construction (U.S. $7.44 per square foot.) These costs are similar to those listed in the Arthur D. Little study which was completed in August 1986.

8. Because the assumptions appear to be reasonable, the same personnel requirements and maintenance and utility costs listed in this study were used in the analysis. These figures were adjusted slightly to reflect the change in the exchange rate used, from Q2.50 to Q2.70 to U.S. 1.00. Personnel assumed in this analysis included an expatriate manager for 3 years (plus relocation and living expenses), a project manager to supervise construction/maintenance, a labor contractor and training specialist, a permit/paperwork expeditor, and clerical and administrative support. This cost was Q32,000 in year one, increased to a high of Q810,000 over the next three years, then gradually declined to a low of Q162,000 at the end of the 20-year period. Maintenance and utility costs were Q 54,000 beginning in year 1 and increased to 216,000 for years 4-20. These cost assumptions seem to be relatively high, however they were used in order to obtain a conservative outcome in the B-C analysis.

9. The pre-operating expenses used were Q405,000. This represents the cost of the feasibility study and of site location and evaluation costs.

GUARANTY FUND

ASSUMPTIONS

1. The Benefit-Cost Analysis is based on a 20-year project life to better estimate the long-term benefits resulting from the fund.

2. A discount rate of 15 percent was used to reflect the opportunity cost of capital.

3. An exchange rate of Q2.58287 to U.S. 1.00 was used to transform the local currency guaranty fund from dollars to quetzals.

4. To correct for future inflation, the projected total amount guarantied was converted into 1987 constant quetzals assuming an annual inflation rate of 10 percent.

5. Loan volume was calculated based on estimates from private banks that are expected to be participating in the program. Figures used in Table 4 for the cash flow analysis are based on the following information:

	Small Businesses		Medium Businesses	
Year	Number of Loans	Avg. Amount of Loans	Number of Loans	Avg. Amount of Loans
1	30	Q 750,000	25	Q1,425,000
2	40	1,225,000	35	2,750,000
3	50	2,150,000	55	4,900,000
4	60	2,250,000	65	6,025,000
5	65	3,800,000	70	8,900,000

The assumptions about loan volume and life of project are conservative. In the B-C analysis it was assumed that the loan volume would level out in year five and continue at that level until year ten when lending would stop completely. By comparison, the PED technical analysis projects that the fund will continue to support lending for 20 to 25 years.

6. The method of analysis used here is based on the economic analysis contained in the USAID/Haiti Project Paper (Amendment 1) on the Development Finance Corporation.

7. Total investment was assumed to reach 2.5 times the amount of the guaranty fund. This multiplier was calculated as follows:

Percentage of loan guarantied by fund:	50%
Percentage of loan secured by collateral:	50%
Contribution of borrowing firm:	25%
Total	125%

$$\frac{100\%}{125\%} = 4/5$$

$$4/5 * .5 = .4$$

$$1 / .4 = 2.5$$

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The guaranty fund was multiplied by this factor to arrive at total investment attributed to the fund.

8. Project Costs were based on the guaranty fund operating expenses, the banks' loan-related administrative costs, and the gross industrial investment. The guaranty fund operating expenses were calculated as 0.5 percent of the total amount of the guaranty fund at the beginning of each year. The private banks' lending costs were based on 3 percent of the total amount of loans issued. This reflects the spread that they will charge to cover their cost and increased risk on these loans. The basis for the gross industrial investment figure is discussed in 7., above.

9. Project benefits were calculated based on the total return on capital projected to occur over the life of project. The industrial capital figures used in the B-C analysis in Table 2 were calculated in the following manner. Industrial capital was assumed to be a function of gross industrial investment in the current year, plus the industrial capital from previous years. Invested capital was assumed to have a 10-year life. Based on Mission and private bank estimates, the analysis assumes an average pay back period of three years.

10. The gross return on capital figure of 24.9 percent used was computed in the following manner.

Financial return on invested capital		25 %
Expected inflation rate	Less	10 %
		15 %
Indirect tax rate on gross capital income	Times	5.9%
Adjustment factor		0.9%
Adjusted return on capital		15.9%
Estimated depreciation	Plus	5 %
Estimated wage benefits	Plus	4 %
Rate of return on capital		24.9%

-Due to the lack of financial data on small and medium firms, it was not possible to obtain a figure for the expected financial return on invested capital based on actual performance in these firms. Thus, an estimate of 25 percent was used because this figure has been cited as the minimum return which would be acceptable given the relatively uncertain economic environment present in Guatemala recently.

-Inflation was estimated to be 10 percent.

-The 1986 indirect tax rate on gross capital income of 5.9 percent was obtained from the Bank of Guatemala and was multiplied by the expected financial return to arrive at an adjustment factor of 0.9 percent.

-Depreciation was estimated at 5 percent and wage benefits as 4 percent.

TABLE 1

SMALL AND MEDIUM ENTERPRISE TRAINING & T.A.

COST-RECOVERY ASSUMPTIONS

(In 000's of $ U.S.'s)

YEAR	1	2	3	4	5	TOTAL
COSTS						
Start-up Costs	581	0	0	0	0	581
Operating Costs	0	342	326	351	339	1,357
Total	581	341.6	325.9	350.6	338.5	1,938
BENEFICIARIES	200	400	600	800	1000	
DIST. COSTS	581	297	246	231	194	1,549
					AVG. COST/BENEFICIARY (In U.S. $'s)	1,549

The ASS estimates that there are an average 15 employees per firm and average sales of $2,800 per employee. These data generate an average annual total sales figure per firm of $42,000. Based on the above, and assuming a profit rate of 10 percent, then each firm would have to realize a cumulative increase of 28 percent in sales over the five-year period as a result of the training and technical assistance received to recover the financial costs incurred. This equates to an annual increase of 5.0 percent in sales. If the profit margin is increased to 15 percent, the required cumulative increase falls to 13 percent and the annual increase to 2.4 percent.

An exchange rate of D2.50 = U.S. $1.00 was used.

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TABLE [illegible].

SMALL AND MEDIUM ENTERPRISE TRAINING [illegible]

COST-RECOVERY ANALYSIS

(In 000's of $ U.S.'s)

YEAR	1	2	3	4	5	TOTAL
COSTS						
Start-up Costs	581	0	0	0	0	581
Operating Costs	0	342	326	351	339	1,357
Cont. to Oper.Fund	24	80	141	202	252	699
Total	605	422	467	552	591	2,636
TOT. BENEFICIARIES	200	400	600	800	1000	
TOT. DIST. COSTS	605	367	353	363	338	2,025
					AVG. COST/BENEFICIARY (In U.S. $'s)	2,025

The AED estimates that there are an average 15 employees per firm and average sales of $2,800 per employee. These data generate an average annual total sales figure per firm of $42,000. Based on the above, and assuming a profit rate of 10 percent, then each firm would have to realize a cumulative increase of 49 percent in sales over the five-year period as a result of the training and technical assistance received to recover the financial costs incurred. This equates to an annual increase of 8.5 percent in sales. If the profit margin is increased to 15 percent, the required cumulative increase falls to 32 percent and the annual increase to 5.8 percent.

An exchange rate of 22.50 = U.S. $1.00 was used.

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TABLE 2

GUARANTY FUND

BENEFIT-COST ANALYSIS

(In 000 of D's)

	COSTS				BENEFITS			PRESENT VALUE	
Year	Guar. Fund Operating Costs	Banks' Loan-Related Admin. Costs	Gross Industrial Investment	Total Costs	Industrial Capital	Gross Return On Capital (24.9%)	Net Benefit	PV of Net Benefits at 15 Percent	PV of Net Benefits at 12 Percent
1	71	68	2,819	2,957	0	0	(2,957)	(2,957)	(2,957)
2	80	123	4,653	4,856	2,819	702	(4,154)	(3,612)	(3,709)
3	89	208	7,164	7,461	7,472	1,861	(5,600)	(4,235)	(4,455)
4	99	244	7,642	7,985	14,636	3,644	(4,341)	(2,854)	(3,090)
5	110	376	10,696	11,182	22,278	5,547	(5,635)	(3,222)	(3,551)
6	106	376	9,724	10,206	32,974	8,211	(1,995)	(992)	(1,132)
7	106	376	8,840	9,322	42,698	10,632	1,310	566	654
8	106	376	8,036	8,518	51,538	12,833	4,315	1,622	1,952
9	106	376	7,306	7,758	59,574	14,834	7,046	2,303	2,545
10	106	376	6,642	7,124	66,880	16,653	9,530	2,709	3,436
11				0	70,703	17,605	17,605	4,352	5,669
12				0	66,049	16,446	16,446	3,535	4,729
13				0	59,865	14,662	14,662	2,741	3,743
14				0	51,243	12,760	12,760	2,074	2,924
15				0	40,547	10,096	10,096	1,427	2,066
16				0	30,823	7,675	7,675	943	1,402
17				0	21,983	5,474	5,474	585	892
18				0	13,947	3,473	3,473	323	565
19				0	6,642	1,654	1,654	134	215
20				0	2,819	702	702	49	81
				B/C Ratio(15%)	1.13	IRR	NPV	5,491	12,211
				B/C Ratio(12%)	1.26	0.1865			

Uses a 10-year life for capital.

TABLE 2

PROJECTED GROSS LOAN VOLUME AND VALUE ADDED

YEAR	Amount Guaranteed (000 of Q's)	Amount Guaranteed (000 1987 Q's)	Gross Invst. Attrib. to Fund (2.5 Multi.) (000 1987 Q's)	VALUE ADDED (1.54 Multi.) (000 1987 Q's)	VALUE ADDED (1.7 Multi.) (000 1987 Q's)
1	1,127.5	1,127.5	2,819.8	4,340.9	4,791.9
2	2,047.4	1,861.3	4,653.3	7,166.0	7,910.5
3	3,467.4	2,865.6	7,164.0	11,032.6	12,178.8
4	4,068.5	3,056.7	7,641.8	11,768.4	12,991.1
5	6,264.1	4,276.5	10,696.2	16,472.2	18,183.6
6	6,264.1	3,869.5	9,723.9	14,974.7	16,530.6
7	6,264.1	3,535.9	8,839.9	13,613.4	15,027.8
8	6,264.1	3,214.5	8,036.2	12,375.8	13,661.6
9	6,264.1	2,922.3	7,305.7	11,250.7	12,419.7
10	6,264.1	2,656.6	6,641.5	10,228.0	11,290.6
			TOTAL	113,222.8	124,986.2

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TABLE 4

GUARANTY FUND CASH FLOW ANALYSIS

(Numbers in 000's of Q's)

YEAR	1	2	3	4	5	6	7	8	9	10
Beg.Fund(@ 2.50287)	14,205.8	15,910.5	17,763.4	19,792.6	21,994.3	21,994.3	21,994.3	21,994.3	21,994.3	21,994.3
+Interest (12%)	1,704.7	1,909.3	2,131.6	2,375.1	2,639.3	2,639.3	2,639.3	2,639.3	2,639.3	2,639.3
+Fees (.5%)	71.0	79.6	88.8	99.0	110.0	110.0	110.0	110.0	110.0	110.0
-50% of Default(-5%)	0.0	(56.4)	(102.4)	(173.4)	(203.4)	(313.2)	(313.2)	(313.2)	(313.2)	(313.2)
-Admin. (.5%)	(71.0)	(79.6)	(88.8)	(99.0)	(110.0)	(110.0)	(110.0)	(110.0)	(110.0)	(110.0)
Fund Level EOY	15,910.5	17,763.4	19,792.6	21,994.3	24,430.2	24,320.4	24,320.4	24,320.4	24,320.4	24,320.4
Guaranties Issued										
Number	55.0	75.0	105.0	125.0	135.0	135.0	135.0	135.0	135.0	135.0
Avg. Act. Tot. Loan	41.0	54.6	66.0	65.1	92.8	92.8	92.8	92.8	92.8	92.8
Act. Guaranteed	20.5	27.3	33.0	32.5	46.4	46.4	46.4	46.4	46.4	46.4
Tot. Guaranteed	1,127.5	2,047.4	3,467.4	4,068.5	6,264.1	6,264.1	6,264.1	6,264.1	6,264.1	6,264.1

Note: Original U.S.$5.5 million was converted into quetzals at an exchange rate of Q2.582=U.S. 1.00.

TABLE 5

EXPORT PROCESSING ZONE

BENEFIT-COST ANALYSIS

(In 000's of Quetzals)

YEAR	1	2	3	4	5	6	7	8	9	10
Costs:										
Land	2,500	0	0	0	0	0	0	0	0	0
Infrastructure	810	540	0	0	0	0	0	0	0	0
Buildings	932	1,286	1,286	1,286	1,286	1,286	1,286	0	0	0
Agric./Production	32	810	702	702	562	562	562	513	378	324
Pers./Utils.*	54	108	189	216	216	216	216	216	270	270
Preoperating	405	0	0	0	0	0	0	0	0	0
Total Costs	4,733	2,744	2,177	2,204	2,063	2,063	2,063	729	648	594
Benefits:										
Rent	0	567	851	1,418	1,985	2,552	3,119	3,686	3,686	3,686
Service Fees	0	142	213	354	496	638	780	553	553	553
Total Benefits	0	709	1,063	1,772	2,481	3,189	3,898	4,238	4,238	4,238
Discounted Costs	4,733	2,386	1,646	1,449	1,180	1,026	892	274	212	169
Discounted Benefits	0	616	804	1,165	1,418	1,586	1,685	1,593	1,386	1,235
Net Benefit Stream	(4,733)	(1,769)	(842)	(284)	239	560	793	1,319	1,174	1,066

Rental Rate (Q's) = 14.175 (In $ U.S.) = 5.25 Per Square Foot

Exchange Rate = Q 2.70 = U.S. $1.00.

Service Fees. 25% of rent throughout construction period, then 15% thereafter.

*Includes utilities to be used by tenants.

TABLE 5
(Cont.)
EXPORT PROCESSING ZONE

BENEFIT-COST ANALYSIS

(In 000's of Quetzals)

11	12	13	14	15	16	17	18	19	20		
0	0	0	0	0	0	0	0	0	0		
0	0	0	0	0	0	0	0	0	0		
0	0	0	0	0	0	0	0	0	0		
270	162	162	162	162	162	162	162	162	162		
270	270	270	270	270	270	270	270	270	270		
0	0	0	0	0	0	0	0	0	0		
540	432	432	432	432	432	432	432	432	432		
3,686	3,686	3,686	3,686	3,686	3,686	3,686	3,686	3,686	3,686		
553	553	553	553	553	553	553	553	553	553		
4,239	4,238	4,239	4,238	4,238	4,238	4,238	4,238	4,238	4,238		
133	93	81	70	61	53	46	40	35	30	14,609	
1,443	911	792	689	599	521	453	394	342	298	17,535	
914	818	711	619	539	468	407	354	308	267	NET BENEFIT	2,8[illegible]
										B/C ratio:	1.2[illegible]
										IRR	0.1894

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TABLE 6

EMPLOYMENT GENERATION ESTIMATES*

YEAR	1	2	3	4	5	6	7	8	9	10
EXPORT PROCESSING ZONE										
Infrastructure	361	361	361	361	0	0	0	0	0	0
Buildings	0	601	721	962	721	721	721	481	0	0
Mgmt./Promotion	1	5	5	5	4	4	4	4	4	4
Main./Util.	0	2	2	2	2	2	2	2	2	2
Pre-operating	2	0	0	0	0	0	0	0	0	0
SUBTOTAL EMPL	364	969	1,089	1,329	727	727	727	487	6	6
Low Est. (67)	0	134	402	670	938	1206	1474	1742	1742	1742
LOW EST. TOTAL	364	1,103	1,491	1,999	1,665	1,933	2,201	2,229	1,748	1,748
High Est.(150)	0	300	900	1,500	2,100	2,700	3,300	3,900	3,900	3,900
HIGH EST. TOTAL	364	1,269	1,989	2,829	2,827	3,427	4,027	4,387	3,906	3,906
Med. Est.(133)	0	266	798	1,330	1,862	2,394	2,926	3,458	2,660	2,660
MED. EST. TOTAL	364	1,235	1,887	2,659	2,589	3,121	3,653	3,945	2,666	2,666
GUARANTY FUND										
Total Investment (000 of Q's)	0	2,819	7,472	14,636	22,278	32,974	42,698	51,538	59,574	66,880
No. of Jobs	0	141	374	732	1,114	1,649	2,135	2,577	2,979	3,344

*Estimates based on 240 day work-year.

TABLE 6
(Cont.)
EMPLOYMENT GENERATION ESTIMATES*

11	12	13	14	15	16	17	18	19	20	TOTAL PERSON-YEARS OF EMPLOYMENT
					EXPORT PROCESSING ZONE					
0	0	0	0	0	0	0	0	0	0	
0	0	0	0	0	0	0	0	0	0	
4	4	4	4	4	4	4	4	4	4	
2	2	2	2	2	2	2	2	2	2	
0	0	0	0	0	0	0	0	0	0	
6	6	6	6	6	6	6	6	6	6	
1742	1742	1742	1742	1742	1742	1742	1742	1742	1742	
1,748	1,748	1,748	1,748	1,748	1,748	1,748	1,748	1,748	1,748	33,960
3,900	3,900	3,900	3,900	3,900	3,900	3,900	3,900	3,900	3,900	
3,906	3,906	3,906	3,906	3,906	3,906	3,906	3,906	3,906	3,906	67,990
2,660	2,660	2,660	2,660	2,660	2,660	2,660	2,660	2,660	2,660	
2,666	2,666	2,666	2,666	2,666	2,666	2,666	2,666	2,666	2,666	51,444
					GUARANTY FUND					
70,703	66,949	58,885	51,243	40,547	30,823	21,983	13,947	6,642	2,819	
3,535	3,302	2,944	2,562	2,027	1,541	1,099	697	332	141	33,226

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3. SOCIAL SOUNDNESS ANALYSIS

A. Introduction

This Social Soundness Analysis focuses on Small and Medium Enterprises (SME) as all elements of the Private Enterprise Development project directly address problems of SME.

B. Sociocultural context

The private sector in Guatemala is made up of a wide variety of businesses and individuals. No statistics are available to make even any close guess as to the numbers involved, since the sector includes large numbers of self-employed persons. In addition, other businesses exist primarily on paper, appearing in the Mercantile Registry without actually functioning. It is probable that only about one-tenth of the private enterprises functioning at least part time are formally established. As of May, 1984, there were 87,514 such enterprises, divided into 48,969 companies and 38,545 individual businessmen.

As another measure of the size of the private sector, the Guatemalan Social Security system reported in 1984 that there were 22,659 employers, mostly private companies. This figure represents only a section of the private sector, since only those businesses with more than three employees are required to participate, and it is not uncommon for even larger enterprises to underreport employees or to avoid reporting at all.

Nonetheless, the Social Security Institute provides a breakdown of employers by enterprise type. The following are figures from 1983:

	Employers	%	Employed	%
Agriculture, forestry, fishing	5487	26.7	199847	34.7
Mining	118	0.6	3388	0.6
Manufacturing	4257	20.8	77542	13.5
Construction	1170	5.7	17817	3.1
Electricity, Gas, Water	42	0.2	14230	2.5
Commerce	3833	18.7	63446	11.0
Transport, Communications	1616	7.9	15990	2.8
Services	3965	19.4	184148	31.8
TOTAL	20488	100.0	576708	100.0

Other data on private enterprise are available, although they are also limited and not current. The National Directory of Industrial Establishments lists 1769 Guatemalan industries for 1981. This Directory, compiled by the National Department of Statistics, is limited to industries with more than four employees.

The number of businesses in the Directory fluctuates annually, although these fluctuations are not always reflected in industrial production or employment fluctuations as measured by the Social Security Institute. The BCIE Report stated that between 1980-1985 an average of about 2000 businesses per year were registered, broken down into 825 microbusinesses of 5-9 employees, 425 small businesses of 10-19 employees, 375 medium businesses of 20-49 employees, and 375 large businesses of 50 or more employees. Assuming that roughly half of the large businesses had between 51-100 employees, the BCIE Report would indicate a total of about 1000 SME businesses. The average number of employees for micro and small business is 10 employees, the average for medium businesses is 32 employees, while the average for large businesses is 180.

The Cowan Report, on the other hand, estimated about 3000 SME businesses with 10-100 employees, in spite of the fact that both reports were based essentially on the same data set. This figure appears to include the 5-9 employee microbusinesses, while at the same time the authors' knowledge of the local business scene led them to estimate perhaps 40% more businesses which have either sprung up in the last couple of years or which were and are unregistered, thus causing the BCIE report to indicate abnormally low figures. The estimate of 3000 appears only in the executive summary and not in the body of the document. At present, at any rate, it can be stated with confidence that there are 1000 SME businesses, and it is probable that there are as many as 1000-2000 more.

There is also the data presented by the AGG in its proposal to AID with the following breakdown of SME businesses, which arrives at the same number as the Cowan Report - 3,000 - but which only includes business of up to 70 employees:

Number of Employees	Number of businesses
10 - 19 employees	1,450
20 - 49 employees	1,100
50 - 70 employees	450
TOTAL	3,000

Total industrial employment in industries registered in the Mercantile Directory for this period was thus 93,000 employees, although Social Security registered just 78,000 employees. At the same time, SEGEPLAN calculated employment for 1983 at 139,000. The difference of 48,000 jobs is probably due to small industries not registered in Social Security. These figures should be compared with the Social Security Institute's number of non-farm employees where there are at least three employees, which is about 477,000. Whatever the number available through official statistics, it is probably lower than the true figure, as the Cowan Report noted.

The smaller industries play an important role vis-a-vis large industry in the areas of bakery, raw sugar, garments, leather, footwear, woodwork, furniture, printing, cement and chalk products, metallurgy, and professional equipment. Large industry dominates in the areas of milk and meat products, canning, oils, chocolates, soft drinks, tobacco, basic textiles, paper, chemicals, rubber, petroleum, basic metals, and machinery. However, it is possible to identify certain specific products produced by small industry for use by large industry, such as ice cream, ice, jelly, cigars, rugs and bedspreads, fireworks, medicines, tire retreading, toys, bricks, signs, and jewelry.

In terms of geographic distribution, 65-70% of all industries are located in the capital city acording to offical statistics, although once again, there are probably more businesses that are not registered in the provinces.

1. Structure of the private sector

The private sector in Guatemala is a heterogeneous mix of businesses organized under the Coordinating Committee of Agricultural, Commercial, Industrial, and Financial Institutions (Comité Coordinador de Instituciones Agrícolas, Comerciales, Industriales y Financieras), commonly referred to as CACIF, which was organized in 1957 and which acts as a business spokesman. Each of the different sectors in CACIF has its own organization, such as the Chamber of Industry, the Chamber of Commerce, and the National Farm Union, and each of these organizations is further subdivided according to special interests.

The following are the 30 different trade groups that are members of the Chamber of Commerce:

1. Grocers
2. Tourism
3. Advertising
4. Bonded Warehouses
5. Poultry
6. Insurance
7. Electrical Appliances
8. Tire Distribution
9. Automobile Dealers
10. Graphic Arts Equipment
11. Air Transport Companies
12. Ocean Transport
13. Land Transport
14. Service Stations
15. Hardware
16. Veterinary Products
17. Machinery and Equipment
18. Jewelry
19. Bookstores
20. Stationary
21. Agricultural Products
22. Bakeries
23. Pharmacies
24. Foreign Representatives
25. Medical/Hospital
26. Animal Feedstuffs
27. Soft Drink/Beer Distrib.
28. Coffee Processors
29. Billboards
30. Cardamom Exporters

The Chamber of Industry contains 44 different trade groups:

1. Cosmetics
2. Textiles
3. Wineries
4. Graphic Arts
5. Electronics
6. Garments
7. Batteries
8. Knitted Fabrics
9. Alcohol and Liquors
10. Chocolates
11. Plastics
12. Ice Cream
13. Bottlers
14. Transport
15. Automotive
16. Soap and Detergents
17. Wood Products
18. Metallurgy
19. Footwear
20. Pharmaceuticals
21. Wheat Flour Millers
22. Rubber Products
23. Laundry and Dry Cleaning
24. Dairy Products
25. Cinematography
26. Food Pastes
27. Leather Products
28. Meat Packers
29. Confectionary Products
30. Oils
31. Chemicals
32. Cotton Processing
33. Aluminum
34. Breweries
35. Paper Conversion
36. Resins and Paints
37. Food Processing
38. Agricultural Chemicals
39. Packing
40. Cigarettes
41. Nontraditional Exports
42. Furniture
43. Wire and Steel Products
44. Paper Production

The Chamber of Agriculture contains several groups according to product, such as coffee, cotton, sugar, cattle, fish, and so on.

Another important private sector organization is the Chamber of Entrepreneurs (Cámara Empresarial, CAEM), founded in 1981 to capitalize on the benefits of the Caribbean Basin Initiative and to negotiate policies that accelerate economic development via the private sector. Many of the trade groups which are members of CACIF are also members of CAEM, with the exception of those in the purely agricultural sector.

The difference between the two organizations rests in part with the fact that CACIF is controlled by the traditional agricultural elite, which to some extent is represented by the industrial urban elite. CACIF in the past has also systematically opposed government intervention in the economy and is also sufficiently powerful to overturn government initiatives, such as the 1985 comprehensive fiscal reform, the "April Reform Package," which attempted to improve public sector revenues. CAEM, on the other hand, has maintained a low profile, with almost no public participation as an organization in determining policy. It may well be that many of the members of both organizations support this division of labor, allowing CACIF to represent them on issues of public policy while participating in CAEM on other levels.

Another difference between the two organizations is that CAEM expressly focuses on small and medium businesses, although it does not include just members of SME in its membership. In its 1985-1986 annual report it states that it "foments the development of the small and medium managerial sector in the conviction that advances in this field benefit all sectors of the country [by] improving social conditions and the quality of life of Guatemalans." This statement by implication leaves CACIF to speak for big business while CAEM concentrates on SME.

This division should allow the Private Enterprise Development project to function with few problems. Those member groups which are interested will be able to take advantage of the training, technical assistance, and other programs offered under the coordination of CAEM while maintaining membership in CACIF. One advantage of the Project is that it may have the effect of strengthening CAEM to the extent that it can begin to operate as a more progressive spokesman in public economic policy.

C. Target group

1. Direct beneficiares: SME business owners/managers

a. Level of education

According to the AGG, most SME business executives do not have a university education, and many have not even completed high school. The following are estimates of educational levels by the AGG:

Level of Education	No. of executives
Elementary	1,250
Secondary	1,450
University	300

Many left school to start their businesses. However, some high school curricula provide a business orientation, particularly in accounting. As for those who have been to the university, the structure of university education in Guatemala is such that if the individual majored in business before dropping out after two or three years, he has probably received as many as 20 business-oriented courses, since the Guatemalan universities stress early concentration on a major field and make little attempt at a broad education, even in the first year.

On the negative side, university education may be less rigorous in comparison with the United States, depending on the university. Guatemalan universities often have less educational equipment, their materials are often out of date, and the professors rarely have advanced degrees. Most universities also tend to specialize in certain fields, so that a student with two years in one university may not be as well prepared for business as another with two years in another university. In general, the Francisco Marroquin University provides the best business administration, followed by the Del Valle University, the Rafael Landivar University, and the Mariano Galvez University, with the University of San Carlos, the national university, providing the poorest business education.

Another problem with Guatemalan education in general is that it tends more toward memorization, rote learning, and formulaic responses to problems and less toward dynamic and creative problem solving. This tendency begins in the primary and secondary schools, and it is often difficult to

break students of poor habits, even when the university curriculum and teaching methodology is oriented toward problem solving.

No hard data exist as regards the educational level of the primary beneficiary group, however. The baseline study must include a survey of educational level, which university was attended, courses of study followed, and so on, including the motivations of the present owner-managers in either continuing their studies or in dropping out to form businesses.

b. Income and wealth

The SME businesses are owned and operated by a wide range of individuals with sharp differences in wealth and income. Such a business may be simply one of many businesses owned by a wealthy individual, or it may represent all of another individual's personal resources. In the same vein, the owner-manager may depend entirely on the profits generated by the business, or it may simply be a sidelight for an individual whose primary income source is another business.

No hard data exist which would permit the working up of a profile of the typical SME owner-manager or the establishment of well-defined categories of these individuals. The project includes a baseline study aimed at collecting relevant data in this area (see section 6.c. below).

c. Cultural background and attitudes

Nearly all of the SME owner-managers are members of the Ladino ethnic group, which traces its heritage to the Spanish conquistadors and colonialists and which considers itself as part of the Occidental world with close connections with other parts of the west: other Latin American countries, Europe, and the United States. The Ladino ethnic group represents just about half of Guatemala's population, the other half being made up of the cultural descendants of the Mayan Indians, which has its own cultural orientation. Although nearly all entrepreneurs are Ladino, those Indians who have managed to break into business in a substantial way, such as those from Quetzaltenango or San Pedro Sacatepequez, San Marcos, have become quite successful. The following is a characterization of Ladino cultural background and attitudes:

An inventory of Ladino cultural attitudes would seem in many ways to favor their success in entrepreneurial endeavors. The Ladino is generally aggressive and oriented toward dominating his world and the things and people in it. Every individual has the right to attempt to control the universe, including other people, and even destructive force is legitimate. The individual personality has the highest value, although this value does not attach to all persons equally, and the group exists to promote the individual rather than the reverse. Control of land and workers is a means of social and political as well as economic power. Material things are instruments or objects of control, and personal work with ones hands is avoided if possible.

Indians are more communally oriented, the well-being of the group predominating over individual rights. The Indian is more passive individually, and works to promote the group rather than the other way around. Group decisions are made by consensus rather than through the decision of an individual. Personal work with ones hands is socially approved.

Indian entrepreneurs and their group orientation have made it possible for them to occasionally dominate the Ladino commercially. Successful Indian entrepreneurs have mentioned that Ladinos want to make to much profit per item, which makes it easy for the Indian to undersell him and gain his share of the market. Another element in the Ladino cultural makeup is his dislike for manual labor, which means that he may be unable or avoid showing workers correct manual labor procedures.

It is worth considering the social soundness of a program which is so heavily oriented toward Ladinos, who are the dominant ethnic group in Guatemala, and which offers little apparently to Indians. It is suggested that the baseline study include a component which focuses on successful Indian businessmen, particularly in those areas like Quetzaltenango and San Pedro Sacatepequez where Indians have managed some success in business.

This topic is in some ways problematical in that it touches on the very identity of ethnic groups. For example, San Pedro is an "Indian" town, a twin town with the Ladino town of San Marcos, in the department of San Marcos. However, the people in San Pedro no longer speak Mam, the Indian language of the region, have had access to the schools in San Marcos to further their education, and have been able to take advantage of the size, location, textile tradition, and urban quality of

San Pedro to establish businesses in textiles and transport which are very successful.

Indian culture tradition has in some ways aided the Indians in business. Indians in San Pedro are much less likely to use new wealth in some ostentatious but non-productive way, such as in the purchase of a luxury car. If the funds are there, a new truck will be bought instead. Indian businesses are very often cottage, piece-meal production industries, and business income will likely be spread around more equably to workers than a similar industry run by Ladinos.

However, it is precisely in San Pedro that the Ladino-Indian dichotomy begins to break down. The good Spanish and relatively high formal education makes it possible for the youth of San Pedro to move easily into the universities in Guatemala City, where they are not perceived as Indians at all, since cultural factors and not racial makeup are the effective determinants of ethnic identity. Having arrived at the same or higher economic level as the Ladinos of San Marcos, there are no real bars to what might be termed interethnic marriages. This is not to say that some Indian ethnic identity remains in San Pedro, but only that business and educational success coupled with the acquisition of good Spanish has removed ethnic identity as a barrier to social mobility.

Most Indians lack the advantages of the San Pedranos in breaking through the centuries-old caste or ethnic system. It appears to require good educational possibilities, a traditional economic base capable of modernization, an urban setting, and good Spanish, perhaps at the expense of the Indian language, but not necessarily so. The problem is that no intensive business-oriented study has been done of the San Pedro success, although there are excellent anthropological monographs which provide a point of departure for such a study.

d. Numbers of SME owners and families affected

Nearly all small businesses and the majority of medium-sized businesses probably have one-owner, and those with more than one owner are most likely to be co-owned by members of the same family. If there are 1000-3000 such businesses, and if the number of businesses owned by more than one family, then the number of families affected by the program would probably not exceed 4,000. The baseline survey will provide a much clearer picture of persons and families affected.

It should be noted that the number of microbusinesses and thus owners of businesses other than SME is much larger. The BCIE Report estimated an average of 6500 unregistered businesses, the majority under 10 employees, and 45,000 informal workshops, so that in discussing the number of beneficiaries, the SME owners represent a small proportion of the total number of business owners.

e. Inducement to pursue and accept change, i.e. education

Guatemalan businessmen as a rule like and admire the United States, and any program emanating from AID as representing the United States will be well received at the outset. At the same time, there is a feeling among the same group that the conditions in Guatemala are not the same as those in the United States, that "gringos" do not really understand how things are done in Guatemala, and that many ways of doing things in the United States will simply not work in Guatemala, regardless of how successful they are elsewhere. As regards education, it is not uncommon for Guatemalans to acquire specialized education in the United States, but then fail to apply all of what they have learned there at home in Guatemala. Training programs must take this into account if they are to effect serious changes in business practices in Guatemala.

2. Indirect beneficiaries: employees

a. Level of education

The inadequacies of Guatemalan education become more pronounced among the employed indirect beneficiaries of the project. The employees are less likely to have been able to attend an expensive private university, such as the Francisco Marroquin University or the Del Valle University, and more likely to have attended either the national university, the University of San Carlos, or one of the two religious universities, which are the Rafael Landivar University (Catholic) and the Mariano Galvez University (Protestant). As stated above, these latter three universities provide a less creative education, focusing on traditional ways of doing things and with little dynamic orientation toward business.

b. Income and wealth

No data exist on incomes and wealth in this group. The baseline study should arrive at data which will

establish categories of employees defined by work tasks, which will permit a determination of the kinds of salaries and income this group has.

c. Cultural background and attitudes

The employee group is less likely to be affected by exposure to modern, non-Guatemalan cultural attitudes and more likely to exhibit traditional Ladino ways of thinking and acting. How this may affect a business may be seen in the following scenario:

Most Guatemalan Ladino males have extremely strong bonds of friendships with a few friends in a relationship often referred to as "compadrazgo." Typically in relationships of this kind, the two friends will express a sort of loyalty in which one need only make any possible request of the other, and the other will do anything in his power to honor the request, even to the extent of considerable personal loss. While this sort of relationship is claimed more often than honored, it nonetheless exists as a traditional code among Ladino men.

It is not likely that a Ladino owner-manager with a strong modern business orientation would place his business at risk in order to honor the dictates of compadrazgo, nor would he likely have friends who would press him to do so. But among employees this cultural heritage is stronger, and employees might be tempted to make decisions based on the dictates of this cultural heritage instead of those of good business sense. In doing so he risks difficulties with his superiors, but cultural tradition may outweigh this. An employee may advocate that someone be hired, or that a particular supplier be patronized, or that a particular product be used based on personal friendship and against good business judgement. The fact that the employee is not the owner makes this decision easier.

Training for employees, particularly in the higher morality of making business decisions based on good business judgement, can make inroads in this type of potential cultural obstacle.

d. Numbers of employed persons and families affected

The BCIE study estimated that between 1980 and 1985 the number of employees in the different types of businesses were the following:

425 small (10-19 employees) - avg.10 - total 4250 employees
375 medium (20-49 empl) - avg.32 - total 12,000 employees
190 medium (50-100) - avg.75 - total 14,250 employees
(190=total large [50+], which is 375, divided by 2; 75 average is simply median between 50 and 100 employees)

The total number of employees in registered SME businesses according to the BCIE Report would thus be approximately 30,000 employees. However, since these figures are based on registered businesses, and taking into account the Cowan Report's projection up to three times higher than official statistics indicate, the total number of employees which might potentially be affected by this project in SME is close to 100,000. In confirmation of this figure, the AGG Proposal to AID estimated the number of employees in businesses with between 10 and 70 employees to be 90,000.

e. Inducement to pursue and accept change, i.e. education

The owner-managers should logically be the ones in the business to pursue change, while the employees will be the ones that accept change at the instance of their employers. Change will be accepted when it can be shown that the change provides advantages for the employee. These advantages may come in the form of economic improvement, where the upgrading of the employee is recognized and rewarded by an increase in salary, or they may come in the acquisition of skills which the employee recognizes as permanently improving his or her marketable skills, which may one day result either in a raise in salary at the present job or in a better job using those skills at another job.

In general, Guatemalans welcome the opportunity to learn new skills or become more adept at ones they already know, and they are so willing to invest time outside the job at educational improvement that most of the universities in Guatemala offer the majority of their courses of study beginning at 5:30 in the evening so that working people can attend. It is common for bilingual secretaries to continue to study English in evening courses at the university and for business employees to study business administration or economics from 5:30 to 8:30 p.m., many routinely not getting home by bus until 9:30 or 10:00 p.m.

D. Participation

1. Project design

The project beneficiaries have been effectively included in the process of defining the problems of the private sector and in designing the project oriented toward the private sector through the carrying out of surveys of the private sector with AID financing. Examples of these surveys are the 1985-1986 Private Sector Survey for Guatemala (PSSG) and Short Term Growth Perspectives for the Guatemalan Economy (STGP), both prepared by Roger Cowan and Associates.

The PSSG surveyed 102 Guatemalan companies of all types from all sectors of business. Firms with 10-100 employees were targeted, but both smaller and larger firms were also included, and the inverviews were carried out both in the capital city as well as in eight other Departments. The survey emphasized information gathered from one to two hour in-depth interviews.

The problems mentioned by Guatemalan businessmen included the instability of government economic policy, exchange policy, lack of information about technical assistance programs, lack of financing, high input costs, worker deficiencies, poor markets due to recession, unfair trade practices and vested-interest tax laws, political risks, and production problems from lack of capacity, poor quality, and high costs. Problems mentioned in the export sector were excessive paperwork, lack of knowledge of markets and procedures, excessive and unreliable transport costs, and problems with the Central American Common Market.

As viewed by these businessmen, solutions to their problems were to be found in improved financing, technical assistance, help in finding new markets, help in finding new investors, and training in that order, although many also indicated that a combination of financing, technical assistance, and help in finding new markets would provide an optimum solution.

As regards the mechanism for solving their problems, larger companies felt that banks and finance companies could provide the necessary financing. Smaller companies, on the other hand, felt that private banks at present were not sufficiently flexible to their needs. They were unsure as to what other mechanism might be used but suggested that perhaps the Chambers of Commerce and Industry, consumer finance

companies, new institutions, or even direct financing from AID might be possible solutions. All agreed, however, that no government bank or financing institution would provide an acceptable solution.

In the area of technical assistance, the businessmen suggested that they might profit from access to an established list of approved local and foreign consultants with pre-set prices for services. Other suggestions included the organization of visits to factories in the United States and enhanced relations with U.S. trade associations and universities. Visits to the U.S. were also mentioned in connection with finding new markets and investors.

As regards possible solutions to their training problems, the only institution currently providing training for business personnel is the Technical Training Institute (Instituto Técnico de Capacitación -INTECAP), which had mixed reviews from the businessmen. The Association of Guatemalan Managers (Asociación de Gerentes Guatemaltecos - AGG) has provided management training, but in their own study the AGG recognized that they were not providing adequate training for SME business managers as a group. If the manager (owner-manager) of an SME happened to be a member of the elite, with higher education, modern business orientation, and so forth, the management training seemed was considered adequate, but for the perhaps 75% who were not "elite," the training was considered insufficient.

In general, there appear to exist a number of problems in the area of small-business formation and development, beginning with a lack of managerial capability, lack of financing, and difficulty in breaking into the market. Small businessmen would like to see the formation of a Chamber of Small Business separate from the existing chambers which would be more responsive to their particular problems. They are stymied to some extent because bigger businesses either see no need for such an entity or think it would be better as part of one of the existing chambers.

2. Project implementation and evaluation

The project beneficiaries are strongly involved in the implementation and evaluation of the project through the coordination of the SME component by the AGG and the overall coordination with USAID of the project by CAEM. The AGG is to identify problems, causes, and solutions as regards SME, followed by the design of activities and projects to address these problems, including policy dialogue, technical analysis

of problems, and projects involving technical assistance, training, and use of financial facilities. It will recommend programs, budgets, and policies for executive committee approval, as well as participate in projects and activities. It will assure increasing participation by SME owner-managers through the promotion of membership and through public relations.

The motivation for participation by SME owner-managers in project activities should come in large part from the establishment of the SME Technical Support Center within AGG. This Center represents the establishment for the first time of an organization with the express purpose of representing small and medium business, and particularly in the case of small business, this is an organization which the Cowan Report noted was desired by small business owners, since their interests and needs are often not identical with those of large business.

E. Sociocultural feasibility

The question of the sociocultural feasibility of this project rests on whether obstacles to implementation exist in the primary foci of the project, which can be identified as

- providing for improved delivery of technical assistance and training for SME and establishing the delivery mechanism for the above; and

- creating an independent organization to speak for SME in policy dialogue with government and other private sector leaders.

1. SME technical assistance and training

This element of the project focuses on SME access to managerial skills and technical knowledge, to be coordinated by the technical support Center within AGG. Its objective will be to secure training and technical consulting services for SME appropriate for the needs of SME and SME managers, providing information on resources and opportunities available to them. The most interesting aspect of this part of the project is that the AGG Center will do so by developing this capability within the private sector itself and not by providing this capability itself as a sort of non-profit, AID-supported consulting agency.

The intended output of the component will be the training of 1000 small business managers in management skills; the training of 1000 additional managers and technical staff in business skills and technical subjects; and the development of

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at least three additional training programs not presently available which will train 1000 people within five years. The technical assistance area will assist 500 SMEs and provide for the establishment or expansion of 20 SME in the business of technical assistance, in which there will be 200 Guatemalan professionals substantially engaged in new types of technical assistance.

Thus, this component has a substantial investment in either creating new businesses dedicated to technical assistance or expanding and/or reorienting established businesses. In order to carry out the technical assistance, the component must either find established professional Guatemalan talent to provide this technical assistance or prepare new professionals for it, or both.

The strategy for effecting the above begins during a three month period with the baseline study to provide data for analyzing the training and technical assistance needs of the target group. At the same time, consultants and assistants to the consultants will begin work on reworking the AGG managerial course to focus on SME owner-managers, and the necessary selection mechanism for participation in the program will be established.

The training courses follow, 50 owner-managers per group for a three month period, which will allow the AGG to carry out four training programs per year. The courses have 110 hours total, or about 10 hours per week, are given after business hours, and cover the fields of finance, marketing, production, human resources, quality control, and legal problems.

Following the training course, the participants and their businesses enter the technical assistance phase, in which they can solicit technical assistance in a particular area of their operations. This phase last two months, during which 1125 person-hours in each of the six fields of finance, marketing, production, human resources, quality control, and legal problems are made available to the SME owner-managers, or an average of 22.5 hours of consulting per field per beneficiary.

The impact of this technical assistance will be measured by improvements detected in the business from the initial baseline study, as the assistants carry out further questionaires. Needs not covered by the program will be referred to other professional organisms with a view toward eventually including them in the formal teaching process.

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The component should have no difficulty in locating firms available for and capable of carrying out the projection of the component. The organizational umbrella of AGG will allow for the selection and orientation of these firms for participation in the project.

2. The SME Center as spokesman for SME

This element of the project responds to the fact that there has hitherto not existed an organization of small and medium enterprises. They have had no means of participating as such in policy dialogue, which has been dominated by CACIF and by the larger firms represented in AGG. Part of the problem is that it is not known whether the SME interests are fairly similar to those of the larger firms, although the fact that the Cowan Report noted the desire of small firms for their own organization hints of a lack of agreement between SME and larger firms. However, this may be more in the nuts and bolts area of technical assistance and training than in the larger issues of general private sector and government policy concerning business.

AGG, however, is willing to establish a section of AGG dedicated to serving the interests of SME, including autonomy as regards policy. AGG recognizes that the interests of SME may not necessarily be wholly consistent with the interests of larger businesses. To allow for the expression of differences, AGG will establish a semi-autonomous section of the organization controlled by and dedicated to serving the interests of SME. While at the same time receiving administrative, technical, and other support from the parent organization, the section would be free to take positions in policy dialogue contrary to those of the parent organization when such positions are seen by SME as in their interests.

This may be the first step toward the establishment of a completely autonomous organization. During the early stages of the component, it is probable that this aspect of the component will produce little that is new or controversial. If in time it turns out that SME finds itself disagreeing substantially with the rest of AGG, it will likely split off from AGG and establish itself as an independent organization. If this happens, it should not be viewed as a negative event, of course, since the objective of an organization really representing SME will have been met.

It is doubtful whether the SME organization, whether within the confines of AGG or outside it, will have much impact

on public policy, but this is due principally to the fact that large firms and CACIF wield the greatest power in the public arena. But such an organization may be able to find ways to ally itself with other organizations to make itself heard. In any event, the primary advantage of the SME organization will probably remain in the areas of assistance to its members, the owner-managers of SME, in training and technical assistance.

F. Impact

1. Impact measurement

Since impact is hard to predict, the PMU will provide strong feedback so that impact can be continually measured and appropriate action taken to assure the desired effects of the program. This will be done by hiring inexpensive, part-time workers, the "SME intake specialist/impact auditors" (SMITSIA), probably business administration students and underemployed professionals. The SMITSIA will function as the key contact point between the AGA Technical Support Center and the individual SME. The SMITSIA, some of whom may will participate initially in the carrying out of the baseline study, visits the SME client and helps determine with the SME owner-manager what his needs or problems are. The SMITSIA fills out a short form on the SME with client intake information and makes a preliminary recommendation to the Center's Technical Support Specialist, who may then talk to the owner-manager himself to get a better understanding of the problem.

Once the training or technical services have been carried out, the SMITSIA would return to the business once or several times with the task of assessing the impact of the intervention, gathering data from the owner-manager and perhaps from those employees affected through the training or technical assistance. In this way, the project will be able to gather substantial quantities of case studies including the condition or problem, the measures taken, and the impact.

This system will have the added advantage of providing excellent experience for the SMITSIA workers themselves. In the first place, the project should have no difficulty in finding either students or underemployed professionals to work part-time in the project. For students, the job represents an excellent laboratory-type experience in which text book theory is brought to life and exemplified, real problems are presented and real solutions tried out, and the results provide feedback which may well aid them in future ventures.

For professionals, the job provides experiences which may well be reworked for use in another of the projects goals,

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For professionals, the job provides experiences which may well be reworked for use in another of the projects goals,

which is the establishment of competent local training and technical assistance. For these professionals, whether they participate in the actual training/technical assistance process or not, they will acquire important knowledge about what works and what does not in given situations, crucial knowledge in becoming capable consultants in the future.

2. Impact extension to non-SME business

There is no real reason why the techniques and methods of this project could not later be extended to sectors not included in this phase. These sectors of course include big business, which is likely to learn about and adopt any real advances from this project anyway, simply through the AGG contact. But more importantly, the micro-business and informal business sectors, or what the Cowan Report calls "business in formation," might be included later in an extension of this project, once its functioning has been tested and refined.

The Cowan Report set a cut-off point for small business at a minimum of 10 employees, stating that businesses with less than 10 were less likely to have formal business organization. This definition is to some extent arbitrary, since there undoubtably exist formally organized businesses with fewer than 10 employees as well as businesses with more than 10 employees with a highly informal organization. Still, the definition is a useful one and will serve the purposes of the project.

Nonetheless, training in sound, modern management principles might well be the deciding factor in converting microbusinesses or informal workshops into dynamic and progressive businesses. The BCIE Report estimated the number of informal workshops at 45,000 with 135,000 employees, or more employees than are involved in SME and large businesses put together. Not all and perhaps not even a majority of them would be able to take advantage of the kinds of assistance provided for in this project, but the possibilities are intriguing. It is possible that a separate baseline study directed at this sector or some section of it might be considered. The extension into this sector at a later date would heighten the overall impact of the project.

G. Issues

1. The reaction of established business to the project

The Guatemalan business establishment will react in one of two or three ways to this project, and neither reaction

threatens the success of the project. Some big business people will react with indifference, believing that the project will simply not affect them in any way, even indirectly. Their view is that business is fine--for them, at least--and that no interventions are either necessary or workable, but at any rate, a project such as this focuses on improving the managerial skills of SME personnel can do not harm.

The second possible reaction is one which takes a broader view of the Guatemalan business climate and views the project favorably. Their feeling is that more and better Guatemalan businessmen improve the business climate for everyone. Better SME owner-managers provide better products and services, which in turn improves business for the larger firms using those goods and services. A stronger SME sector attracts more capital to Guatemala, and with more capital in the market, business improves for the bigger businesses as well. The more enlightened members of the business community might even see the project as lowering unemployment and improving the general quality of life for all Guatemalans, which lessens the threat of social strife.

What is certain is that big business will not oppose this project, since it simply attempts to improve the ability of businessmen to do business.

2. Increased diversification of business leading to increased distribution of wealth and income

This project focuses on strengthening the ability of small and medium enterprises to do business in central areas: production, marketing, financing, quality control, human relations, and legal problems. It is assumed that big business already has the necessary capability in these areas or can acquire it without difficulty. By making available these skills to SME owners-managers, the project will make it possible for small and medium businesses to get the better results with their resources, to grow and expand their operations, and thus to acquire more wealth and income. The project thus expands the base of the Guatemalan economic pyramid, and these effects should be felt primarily but not exclusively in the lower strata of Guatemalan society.

3. The baseline study

A baseline study will be carried out to provide data on SME. These data will have the effect of not only providing guidance in the implementation of the project but also in the evaluation of the project impact. As an example of guidance,

this study will identify the potential beneficiaries of the project itself and allow the implementation team to focus on these SME beneficiaries. An example of their importance in evaluation will be in demonstrating increases in number of employees, increases in the income of both owners and employees, and so on.

The baseline study should have three areas of concentration: the owners, the employees, and the businesses themselves. As regards the owners, the study should examine wealth: what are the financial resources the owners bring to their businesses? are SME owners wealthy individuals who happen to own a smaller business, or are they lower middle class persons who have become business owners in spite of having few financial resources previously? how important was previous wealth in acquiring ownership of the firm? what is the relation of the wealth of family members in the ownership of the firm?

The baseline study needs to look at the educational level and experiences of the owners and their employees: which secondary schools and universities did they attend and what specialization(s) did they study? what aspects of their university experience contributed to their business success (classes, personal contacts, etc.) or job performance? what were the deficiencies of that education in light of their present circumstances?

As regards income, the baseline study should look at present incomes of owners and how that income is determined: how much income does the owner derive from his business and how much from other sources? what are other sources of income? what kind of income does he expect in the future? as regards family income, how much income do other family members contribute? The study must also look at employee income, including income from job employment, income from other sources, and income from other family members.

The previous experience of both owners and employees is an important factor to be examined in the baseline study. As regards the owners: what previous business experience have they had? how has that experience contributed to their present success? what kinds of lessons were learned in what types of business settings? have they had experience as employees previous to owning a business, and if so, in what capacities? has travel or experience in the United States or elsewhere been helpful in business? As regards employees, important questions include the previous work experience they have had, the types of jobs they have held, and what they have learned in different settings.

The baseline study needs to include an attitudinal survey for both owners and employees. For owners, it is important to learn their attitudes toward their employees, toward other business owners, and toward business organizations such as CACIF, CAEM, AGA, and so on. The owners' political orientations may be seen as a subset of attitudes: how do they feel about present and past governments? what is government's actual and potential role in helping business? which political parties offer the most or least for developing business?

Employee attitudes are just as important: how involved are employees in the success of the business? what are their attitudes toward the owner and immediate superiors? what is the quality of their job environments? how much positive stimulation do they receive from their superiors and how important is this to them? what are their political attitudes? how do their attitudes on government and political parties compare with those of the owners?

Other elements of the baseline study should be how employees are recruited, what hours both owners and employees work, what their leisure activities are, what their family relationships are, and who they associate with.

As regards the businesses themselves, the baseline survey will require data on business type, products, the formal and informal relationships with other companies both big and small, their financing, organization, and sources of financing.

H. Conclusions

This project is socially and culturally sound. The Private Enterprise Project focuses on businesses with 10-100 employees, a sector which contains a minimum of 1000 and may contain as many as 3000 businesses with 30,000-100,000 employees. The project will be coordinated by the Chamber of Entrepreneurs (CAEM), an umbrella organization of trade groups formed in 1981 to capitalize on the benefits of the Caribbean Basin Initiative. Another such organization, CACIF, is vocal as a business spokesman and is more representative of big business than CAEM, which has a lower profile and more SME focus, but the two organizations should have no trouble working together.

Organized business in Guatemala will either support the project or be indifferent, but will not oppose it. The beneficiary target group is made up of SME owner operators, the majority of whom have less than university education and will

thus benefit greatly from the training and technical assistance in fields like finance, marketing, production, and so forth that are part of the component. Impact measurement will depend on the baseline study as the program begins, plus the monitoring of participating businesses and their owner-managers by the training and technical consultants and their assistants. Overall, the project is socially and culturally sound.

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INSTITUTIONAL ANALYSIS

I. THE CHAMBER OF ENTREPRENEURS

The Chamber of Entrepreneurs, (Cámara Empresarial, CAEM) is a nonprofit organization, autonomous, apolitical, and with legal capacity. CAEM was formed by the chambers and associations of the Guatemalan private sector and represents the linking institution for the sector's development. Founded in December of 1981, the Chamber's statutes were approved in March of 1982 through a Governmental Resolution. CAEM, led by young entrepeneurs, was established to capitalize on the benefits from the Caribbean Basin Initiative, and to negotiate policies that accelerate economic development via the private sector. The founding organizations were the Chambers of Commerce, Industry, Tourism, Construction and the General Association of Agriculturists. CAEM represents a broad section of the private sector and has successfully coordinated USAID/Guatemala ongoing Private Sector Development Coordination project (520-0337).

CAEM has as its main purpose coordination of efforts towards an integral and sustained development process of the Guatemalan private sector. In this regard, CAEM supports the development of the small and medium entrepreneurial sector with the objective of benefitting all sectors of the country and improving Guatemala's social conditions and quality of life.

The maximum authority of CAEM is the General Assembly. Due to operational reasons, however, the General Assembly is represented by the Assembly of Chairmen of member organizations of CAEM, which decides on the policies and areas of activity to be carried out. CAEM's membership includes: the Chambers of Commerce, Industry, Finance, and Tourism; the National Agriculturists Association; and the Sugar-cane Producers Association. The Nontraditional Product Exporters Guild is a unit of CAEM, through the Chamber of Industry.

A Board of Directors which represents each of the chambers and associations affiliated to CAEM is the highest administrative body under which different working committees operate. The General Manager is in charge of administration and reports to the Board of Directors.

CAEM carries out its activities through a group of working committees. The individual committees are tasked as follows:

The Private Sector Committee is in charge of all development activities among CAEM's associated organizations; establishes contacts and is the linking element between CAEM and the different foreign chambers that operate in Guatemala; and is also in charge of promoting development of CAEM's activities through organizations and entities that support the same objectives as CAEM. Under this committee's activities several working meetings have been held to coordinate programs and activities of the organized private sector.

The Public Sector Development Committee is in charge of coordinating with Government agencies activities to support small and medium enterprises. In this regard, meetings have been held with the Ministry of Development and with the Guatemalan League of Cooperative Federations, as well as with the Vice-Presidency of the Republic. From these meetings four Working Commissions have been formed:

a) Shrimp Production Commission;

b) Vegetable Development Commission;

c) Draw-back Industry Development Commission; and

d) Hog Raising Commission

The International Organization Committee is in charge of developing projects which require special financing, and is responsible for maintaining contacts with international financial institutions; with potential sources of financing, embassies, AMCHAM, German Chamber of Commerce, Spanish Chamber of Commerce, UN, and OAS; and with international development agencies such as AID, IDB, CABEI, and IBRD.

The Communication and Information Committee is responsible for planning, organizing and implementing activities through the different programs and projects that CAEM carries out; at the same time, it has the responsibility of publishing newsletters, magazines and pamphlets related with those activities. Its responsibilities include the establishment of an "information center" for data on new projects and projects being implemented, as well as statistical, economic, financial and social information on Guatemala.

The Technical Transfer Committee has the responsibility of programming training projects, coordinating technical seminars in the country as well as abroad, and the provision of advisory services for the supervision of operational and marketing processes.

The Exports Committee is responsible for promoting and increasing exports, an essential function of CAEM, since it is through this means that the national economy will most likely recover. This Committee is also responsible for efforts to identify new markets, provide the means of transportation, and encourage exports. It is through this Committee that the National Export Coordination Commission was integrated as a constituent part of the National Export Promotion Council (CONAPEX). The National Export Coordination Commission is integrated by the Ministers of Economy, Finance, Agriculture, and Foreign Affairs; the President of the Bank of Guatemala; and five representatives of the private sector.

The Economic and Social Development Committee establishes the needs and feasibility of projects to be developed within the sectors that represent the activities of affiliated institutions such as agribusiness, manufacturing

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industry, commerce and tourism. The committee pays especial attention to the development of economic and social activity of medium, small, and microenterprises.

The Steering Committee was established to carry out a development program financed with USAID resources, and is responsible for reviewing, selecting and approving proposals for subprojects to be carried out, as well as for supervising the development of the program and periodically informing USAID on its progress. Similar Steering Committees may be established for other programs financed with international resources.

Grant Agreement Signed with AID

During March of 1985 a US$1.5 million Grant Agreement was signed between CAEM and USAID to finance a "Private Sector Development Coordination Program." Through this agreement, CAEM assumed responsibility for increasing private sector participation in programs promoting production of nontraditional export products, and in events of the Caribbean Basin Initiative.

Activities contemplated under Grant Agreement, Project 520-0337, are:

A. Private Sector Development Sub-Projects Component

A.1 Sub-Project: Promotion of Wool Exports from Momostenango.

Responsible: FUNDAP

Grant: US$350,000

Counterpart Contribution: Q100,000

This sub-project, implemented by the Development Foundation (FUNDAP), is destined to produce quality wool products suitable for export, and includes assistance in ovine production, wool processing and weaving, and marketing of wool products.

A.2 Sub-Project: Microenterprise Development

Grant: US$25,000

Under this sub-project and with AID's approval, provided through Implementation Letter No. 23 of June 11, 1986, a study for "Micro-Enterprise Development in Guatemala City and Quetzaltenango" was carried out by ACCION/AITEC.

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B. Technical Assistance and Training for Private Enterprise Production

B.1 Sub-Project: IESC Technical Assistance to FUNTEC

Responsible: FUNTEC

Grant: US$250,000

Counterpart Contribution: Q143,000

Under this sub-project, the Technological Foundation (FUNTEC) receives technical assistance from the International Executive Service Corps (IESC).

B.2 Sub-Project: Development of Small Enterprise Sub-Projects

Responsible: FUNTEC

Grant: US$98,000

Under this sub-project FUNTEC is carrying out an industrial sewing training activity, and a training program for sewing-machine mechanics.

B.3 Sub-Project: Training for Private Sector Executive Leaders on Nontraditional Exports

Responsible: CAEM

Grant: US$200,000

This sub-project includes studies to promote the formation and improvement of business climate such as: drawback industry; commercial and industrial free zones; parastatal enterprises; and other private sector policy areas such as supporting activities in conjunction with CONAPEX.

Under this sub-project, CAEM submitted for AID's approval the proposal to contract Kurt Salmon Associates to carry out a study for the drawback industry in the country, to increase Guatemalan participation under this activity within the Caribbean Basin Initiative. The study had a cost of US$141,250.

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B.4 Sub-Project: Caribbean Basin Initiative (CBI) Promotional Activities

Responsible: CAEM

Grant: US$248,000

Counterpart Contribution: Q90,000

Under this activity, CAEM has coordinated the Guatemalan participation at the C/CAA conference in Miami. Among other events on the CBI, CAEM has organized a retreat on "Preparing a Strategy and Action Plan for the Private Sector to Increase Exports through the Caribbean Basin Initiative", as well as a seminar on "Guatemala's Situation in Relation to the Other Countries Participating in the Caribbean Basin Initiative".

B.5 Sub-Project: Study of Privatization of Parastatal Enterprises

Responsible: Keene, Monk & Associates

Grant: US$50,000

To carry out this feasibility study on the privatization of parastatals, USAID contracted the services of Keene, Monk Associates, who initiated their activities in April 1986. The commitment for this study was for US$100,000, of which CAEM contributed half and USAID the other half.

C. Program Coordination Component

Responsible: CAEM

Grant: US$74,000

Counterpart Contribution: Q100,000

This component includes funds to cover project management costs.

D. External Audit for the Program

Responsible: AID

Grant: US$10,000

Under the grant agreement described above, CAEM has proven to be an active and efficient channel for resources destined to private sector development. Indeed, no other nonprofit private sector organization has demonstrated the same breadth of coverage or implementing capacity. Thus, as an administratively competent umbrella organization, broadly representative of private interests in the field, CAEM is a logical choice for grantee and coordinator of this project. For CAEM to perform satisfactorily with an additional project work load, it will need at least three additional supporting staff: a chief of party/senior advisor; an executive assistant to backstop the senior advisor, e.g., in functions related to free trade production facilities; and an economist.

In evaluating the operating performance of CAEM, the organization's return on total assets (net income/total assets) and return on equity (net income/equity), 14.92% and 22.68% respectively, aid in estimating the results of its asset utilization and in measuring how healthy its bottom line is.

The PED Project will support CAEM to maintain its existing base, implement policy dialogue activities, and deepen its relations with the target population, small and medium entrepreneurs and nontraditional exporters. Indeed, CAEM's strong relations with the project target beneficiaries will facilitate delivery of technical assistance, and improvement in coordination of activities asigned to other participating private sector institutions.

On the basis of the foregoing analysis, USAID/Guateamala has determined that the Chamber of entrepeneurs is administratively capable of carrying out its functions under the project.

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CHAMBER OF ENTREPENEURS
B A L A N C E S H E E T
MAY 31, 1987
(IN QUETZALES)

A S S E T S

CURRENT ASSETS			
	Cash and banks	37,749.03	
	Accounts receivable	43,254.46	
	TOTAL CURRENT ASSETS		81,003.49
FIXED ASSETS			
	Furniture and fixtures	24,180.33	
	Office equipment and supplies	1,558.61	
(-)	Accumulated Depreciation	(3,571.96)	
	TOTAL FIXED ASSETS		22,166.98
DEFERRED ASSETS			
	Organizational expense	24,000.00	
	Charges prepaid	8,777.25	
	TOTAL DEFERRED ASSETS		32,777.25
	TOTAL ASSETS		135,947.72

LIABILITIES AND EQUITY

LIABILITIES		
Accounts payable	21,304.69	
Creditors (Chamber of Commerce)	25,250.00	
TOTAL LIABILITIES		46,554.69
EQUITY		
Accumulated surplus	9,322.85	
Appropriated surplus	20,276.56	
Counterpart contribution (CBI)	22,615.00	
Unappropriated surplus	37,178.62	
TOTAL EQUITY		89,393.03
TOTAL LIABILITIES AND EQUITY		135,947.72

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THE CHAMBER OF ENTREPRENEURS

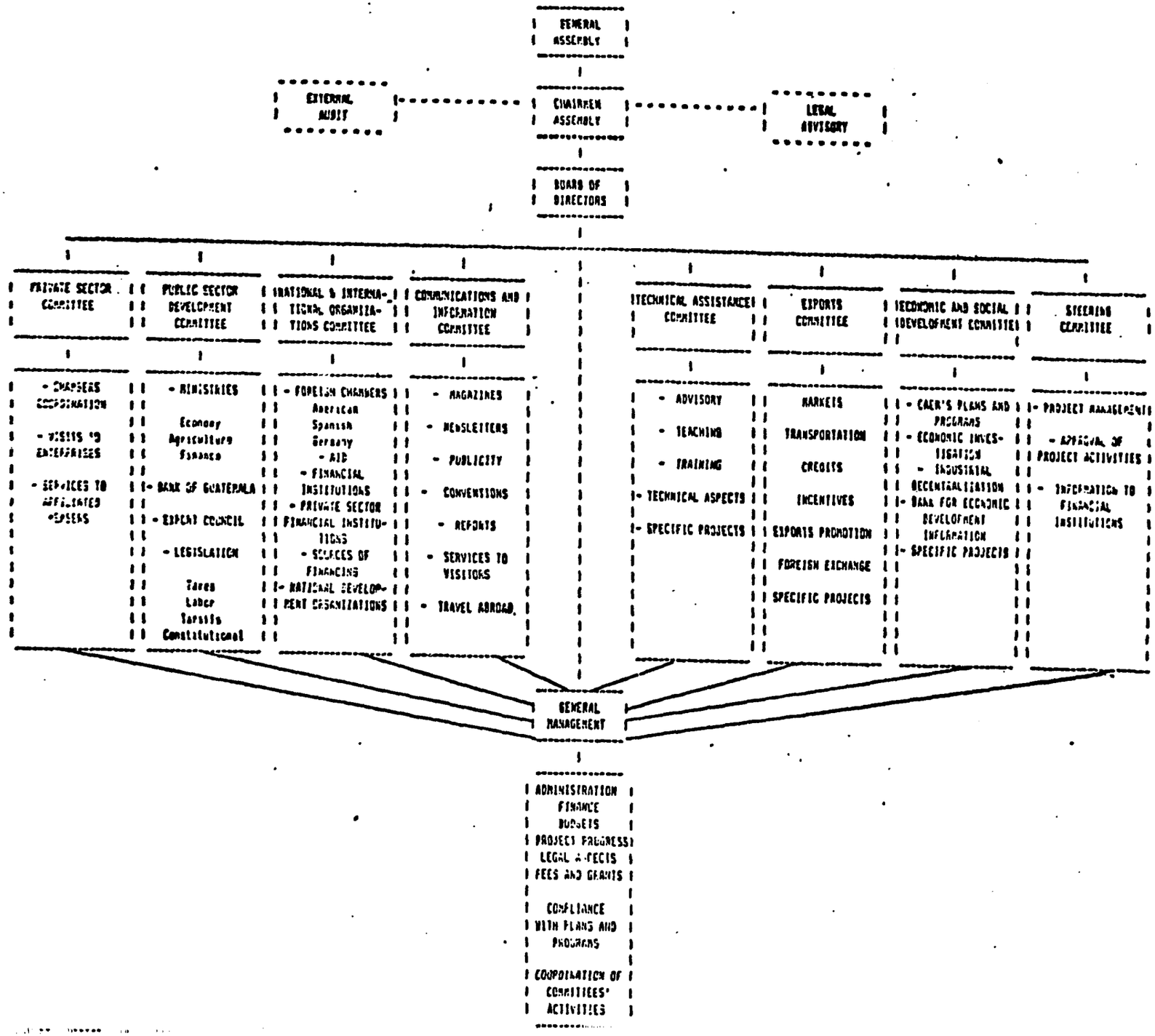
INCOME STATEMENT

FOR THE YEAR ENDED MAY 31, 1987

(IN QUETZALES)

REVENUES		
Ordinary Dues	132,000.00	
Extraordinary Dues	28,100.68	
Various Contributions	12,778.47	
AID Donation	250,879.34	
TOTAL REVENUES		423,758.49
EXPENSES		
AID Donation	250,879.34	
Petty Cash	2,177.40	
Publications	1,818.73	
Travel	74,979.19	
Office Supplies	3,980.19	
Repairs and Maintenance	461.95	
Representation Affairs	4,763.47	
Seminars	770.00	
Training	90.00	
Telephone and Telex	707.89	
Christmas Bonus	1,500.00	
CONAPEX	5,484.59	
Severance Pay	6,422.00	
IGSS Employer's Contribution	3,752.70	
Professional fees	1,040.00	
Depreciation	1,354.48	
Wages	37,000.00	
Fees & Contributions	5,400.00	
Taxes	900.00	
TOTAL EXPENSES		403,481.93
NET INCOME		20,276.56

ORGANIZATIONAL CHART "CAMARA EMPRESARIAL"



II. THE GUATEMALAN MANAGEMENT ASSOCIATION

The Guatemalan Management Association (Asociación de Gerentes de Guatemala, AGG), a nonprofit organization, founded in 1959, is organized to strengthen the Guatemalan Private Sector through a wide range of management services that address specific business needs. AGG is an affiliate of the American Management Association and maintains close contact with its affiliates worldwide.

AGG administers programs and activities in three main areas: Executive Training and Development, Entrepreneurial Information, and Meetings and Seminars. A description of AGG's different programs and activities follows:

A. Executive Training and Development includes:

a) Specialization seminars for business managers and owners to update their knowledge in management tools and techniques in areas such as finance, marketing, and industrial relations.

b) A complementary course on integral management improvement tailored to provide Guatemalan specialists with a good grasp of different factors which affect business growth. This course covers the following areas: finance, marketing, economics, advertising, management strategies.

c) Information systems workshops whose purpose is to familiarize executives with computers and software. These workshops also cover topics such as database management, integrated spread-sheet programs and word processing.

d) Intracompany seminars designed to improve management procedures of specific businesses.

e) A scholarship program started in 1983 facilitates Guatemalan entrepreneurs access to short-term production and marketing management courses in the U.S. USAID/Guatemala has been the leading supporter of this program.

B. Entrepreneurial Information

AGG publishes a monthly business magazine entitled Gerencia, the organization's official journal. Gerencia is the most important and widely circulated business publication in the country.

Also, AGG prepares video programs on business-related topics.

C. Meetings and Seminars

AGG holds weekly lectures and several conferences each year to maintain its members well acquainted with current managerial,

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economic, and export-related issues. AGG estimates that an average of 100 people participate in each of these events, usually sponsored by one or more private Guatemalan companies. In addition, AGG holds an annual general assembly in which its Board of Directors presents an annual report, and an operating budget is approved for the new accounting period.

AGG's affiliation with the American Management Association is of particular importance to this project because AGG can purchase AMA courses, audiovisuals, and training of trainers programs at a reduced cost.

AGG's Membership Requirements

AGG has over 2000 members. SMEs are not blocked from AGG membership requirements which are:

A. A person who meets a least one of the following characteristics:

1. Mid or high level managerial position.

2. Owner or co-owner of a business enterprise.

3. University graduate.

B. Procedures to formalize admission:

1. Fill out an admission application.

2. Name 3 Association members as references.

3. If membership payment is made by a company, a note with letterhead must be submitted which indicates member's name and method of payment.

C. General description of collection policies and sanctions for members who, according to AGG bylaws, do not remain in good standing:

1. Overdue: When a membership account is 3 months in arrears.

2. Suspension of Remittances: When a membership account is 6 months in arrears.

3. Membership Termination: Documentary evidence of efforts in process of collection is required to substantiate a withdrawal from membership.

Also, AGG has emphasized that its entry requirements are flexible enough to allow SME managers or owners to join the association.

AGG'S SEMINARS AND CONFERENCES
1986 - 1987

	Cost (M/N)*	Duration
1. Integral Course on Executive Improvement	Q450/600	2 1/2 mo. 6hr/week
2. "Using Word-processing in your Business"	300/400	20 hrs
3. Executive-skill Development for Women	225/275	20 hrs
4. Interpretation of Financial Statements	225/275	16 hrs
5 Management Principles	175/225	8 hrs
6. Managerial Accounting	190/240	18 hrs
7. Japan's Economic Development	/5	N/A
8. The Quetzal Recovery	/5	N/A
9. Sales: Every Manager's Responsibility	175/225	16 hrs.
10. Symposium: Management Attitudes and the Future	15/25	4 hrs.
11. "The Secretary: A key element in your Organization"	225/275	12 hrs.
12. Job Evaluation and Wage Administration	N/A	N/A
13. Merchandising	300/350	16 hrs
14. Women in Business	225/275	20 hrs
15. Managerial Exchange Program (Weekly lectures & conferences)	/5	N/A
16. Creativity and Motivation in Advertising and Marketing	300/350	16 hrs.
17. Handling Stress	175/225	8 hrs.
18. Quality Circles	225/275	12 hrs.
19. Management and Quality Control	225/275	12 hrs.

20. Analysis and Interpretation of Financial Statements	225/275	16 hrs.
21. Risk Analysis in Turbulent Times	300/350	16 hrs.
22. Economics for Managers	175/225	7 hrs.
23. Marketing Planning	225/275	16 hrs.
24. Increasing Earnings through Management Improvement	300/375	16 hrs.
25. Strategies for Marketing Services	300/350	16 hrs.

* M= members
/N= non-members

AGG's Financial Statements

In gauging AGG's effectiveness of its asset utilization, the return on average assets or productivity ratio of AGG for 1985 and 1984 is calculated below:

		1985	1984
NET INCOME		Q8,530	Q16,614
TOTAL ASSETS:			
Beginning of year	(a)	142,484	149,801
End of year	(b)	172,725	142,424
Average (a+b)/2		Q157,604.5	Q146,142.5
RATE OF RETURN ON AVERAGE ASSETS		5.4%	11.4%

The computed rate of return uses average assets because the return for the year is being earned on assets employed throughout the year.

Although a nonprofit organization, AGG's return on equity (ROE) for 1985 and 1984, 15.40% and 35.44% respectively, depicts the return that can be expected on AGG for maintaining its existing capital base or for attracting new capital.

GUATEMALAN MANAGEMENT ASSOCIATION
BALANCE SHEET
PERIODS ENDING SEPTEMBER 30, 1985 AND 1984*
(IN QUETZALES)

ASSETS

NOTES		1985	1984
	CURRENT ASSETS		
1	Cash and due from banks	4,732	14,179
2	Accounts receivable (net)	72,254	55,340
3	Book inventory	10,531	10,944
4	Prepaid expenses	35,110	13,189
	TOTAL CURRENT ASSETS	Q122,627	93,652
5	FIXED ASSETS (NET)	Q 49,478	48,212
6	OTHER ASSETS	Q 620	620
	TOTAL ASSETS	Q172,725	142,484

LIABILITIES AND EQUITY

NOTES		1985	1984
	SHORT-TERM LIABILITIES		
7	Accounts payable	13,060	24,533
8	Acrued expenses	80,328	48,164
9	Prepaid income	17,370	19,657
	TOTAL SHORT-TERM LIABILITIES	Q110,758	92,354
	LONG-TERM LIABILITIES		
10	Indemnification allowance	6,560	3,253
	TOTAL LIABILITIES	Q117,318	95,607
	EQUITY		
	Capital stock	38,387	21,773
	Donated surplus	8,490	8,490
	Capital surplus	8,530	16,614
	NET WORTH	Q55,407	46,877
	TOTAL LIABILITIES AND EQUITY	Q172,725	142,484

*1986: N/A

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GUATEMALAN MANAGEMENT ASSOCIATION

INCOME STATEMENT

PERIODS ENDING SEPTEMBER 30, 1985 AND 1984*

(IN QUETZALES)

		1985		1984	
		Amount	%	Amount	%
	REVENUES				
	Membership	253,425	37.9	222,524	46.4
	Seminars	243,499	36.4	134,905	28.2
	Book Editions and distribution	1,227	0.2	921	0.2
	Magazine	82,237	12.3	62,239	13.0
	Meetings	83,820	12.5	57,120	11.9
	Anti-Alcoholism Program	——	——	825	0.2
	Other Revenues	4,362	0.7	593	0.1
	TOTAL REVENUES	Q668,570	100.0	479,127	100.0
	EXPENSES				
ANNEX					
1	Membership and Administration	237,733	35.6	200,946	41.9
2	Seminars	201,535	30.1	122,554	25.6
	Book Editions and Distribution	790	0.1	742	0.1
3	Magazine	99,738	14.9	72,774	15.2
4	Meetings	95,647	14.3	56,537	11.8
	Anti-Alcoholism Program	——	——	2,289	0.5
	TOTAL EXPENSES	635,443	95.0	455,842	95.1
	REVENUES (-) EXPENSES	Q33,127	5.0	23,285	4.9
(-)	SPECIAL EXPENSES				
	Increase in Reserve for Debt Overdue	11,061	1.7	6,671	1.4
	Extraordinary Payment to Paccio s	13,536	2.0	——	——
	NET INCOME	Q 8,530	1.3	16,614	3.5

*1986: N/A

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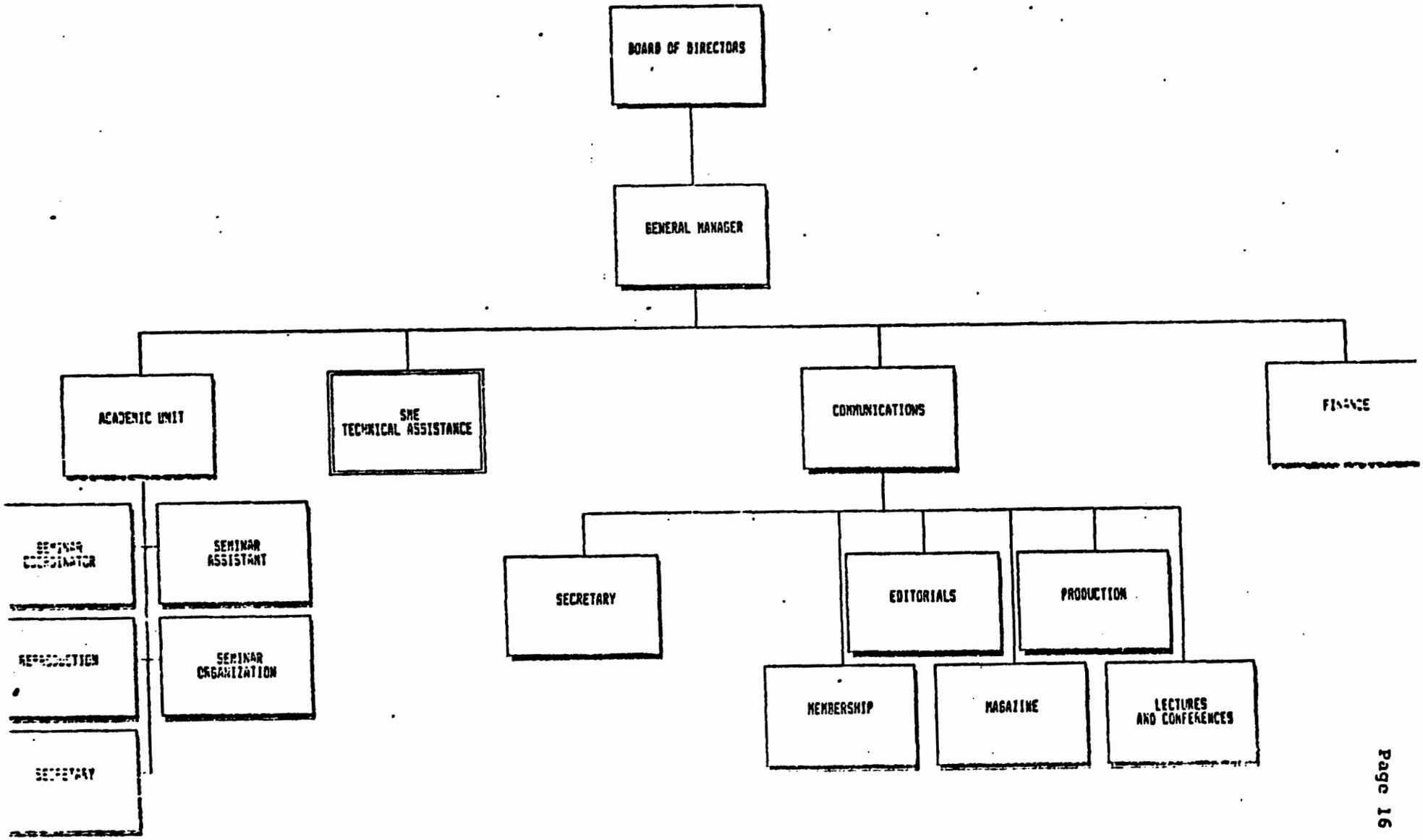
THE GUATEMALAN MANAGEMENT ASSOCIATION



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In recent years, SMEs in general have not benefited from the know-how and services that AGG provides because AGG's portfolio has been aimed at the country's large businesses. Nevertheless, AGG has strongly indicated that changing this situation is high priority, i.e., creation of an SME Development Center. Taking into account that its Board of Directors has demonstrated ample interest in SMEs, AGG, as Guatemala's leading organization of the management-oriented services, training and technical assistance, is a logical selection to carry out the SME component of the project. Implementation of this project fills a vacuum assuring that SME interests are included in AGG policies and programs. Therefore, this project builds on the strengths and advantages of operating through a well-grounded, action-oriented private sector organization.

For the project, AGG will need at least three new project-specific positions: an SME manager to plan, organize and monitor AGG's SME-oriented activities; a specialist in SME technical support services to identify technical assitance/training opportunities for and needs of SMEs; and a secretary.

Investments in management training have significant rates of return. Poor management practices have been identified as a key constraint to growth faced by SMEs. The project will initiate a process oriented to curb ignorance and improve managerial abilities. The project will, through AGG, improve vocational skills and managerial productivity of the private sector labor force. Recent experiences (e.g., GEMA/AMA in Honduras) have demonstrated that a modest investment in management training yields extremely high returns (seven to tenfold returns are common).

On the basis of the foregoing analysis, USAID/Guatemala has determined that the Guatemalan Management Association is administratively capable of carrying out its functions under the project, and that its "corporate growth strategy" complements and supports project objectives.

III. THE NONTRADITIONAL PRODUCT EXPORTERS GUILD

The Nontraditional Product Exporters Guild, a nonprofit trade committee assigned to the Chamber of Industry of Guatemala, was founded in May 1982. The organization was created through the efforts of a group of exporters who decided to organize an institutional body to represent them. The Guild was formed to serve as an effective means of communication with other organizations of the private sector, and with the public sector, in areas related to production and particularly exports.

The fundamental purpose of the Guild is to protect the interests of the exporting sector and to work for the establishment of fiscal incentives to encourage production. The Guild is also established to eliminate policies and obstacles that in one way or another hinder the export of Guatemalan products destined for international markets.

The Guild is an example of the achievements that can be attained through mobilization of mutual interests to reach ambitious goals by overcoming contraints which obstruct growth of Guatemala's export industries. Currently, the Guild represents a large number of private companies that are dedicated to exporting. Its activity contributes effectively to increasing Guatemala's international trade and improving Guatemala's trade balance.

A. GOALS

1) To protect the interest of its members.

2) To promote Guatemalan nontraditional exports.

3) To cooperate with institutions working to better Guatemala's commercial relations on an international level.

4) To propose, through CAEM and the Chamber of Industry of Guatemala, legislation which supports increased exports of nontraditional products.

5) To foster improved relation with countries that import Guatemalan products.

6) To promote, with every means within its reach, the creation of an exporting mentality, not only in the private sector but in the public sector as well.

7) To develop an international and national campaign to improve Guatemala's image as a true exporting country.

8) To create awareness in Guatemalans that what is made in Guatemala is well made.

9) To cooperate with national and international lending institutions in finding new sources of financing for the export of nontraditional products.

10) To propitiate the creation of a credit insurance system for exports that would guarantee national exporters payment of sales made internationally.

11) To maintain good relations among its members, and to provide required institutional support.

B. WAYS IN WHICH THE GUILD COOPERATES WITH THE GUATEMALAN ECONOMY

The Guild has major responsibility to the industrial, agricultural and agro-exporting sectors. Its actions reflect different areas of economic activity in Guatemala such as:

1) Reactivation of the capacity of the country's industries that have reduced their export production because of international market deterioration.

2) Export production which creates jobs allowing many Guatemalan families to improve their social and economic situation.

3) Exports of Guatemalan nontraditional products that generate foreign currency which contributes to improve the country's balance of payments.

4) Contribution to the diversification of Guatemala's industrial and agricultural production, thus reducing the country's vulnerability to detrimental external factors.

5) Inprovement of the service sector, especially in sea, land and air transportation.

6) Improvement of external financing to allow private exporting sectors to increase the volume of their international sales.

C. SERVICES PROVIDED BY THE GUILD

1. At an Institutional Level:

a) Functions as an interest group and lobby before the Government to propose practical solutions to problems caused by bureaucratic regulations in the export process.

b) Holds periodic discussions with Central Bank authorities to solve foreign exchange problems which restrain acquisition of necessary raw materials for production in the export sector.

c) Participates in policy negotiations on export promotion.

d) Cooperates with public and private organizations in promoting Guatemalan products in international markets.

e) Works actively with the Bank of Guatemala and private financial institutions in searching for new sources of financing for the export sector.

f) Maintains relations with institutions that promote imports of products from developing countries.

2. At an Operational Level:

a) Provides support to its members in specific activities.

b) Directs to its members all requests for Guatemalan products that are received from international markets.

c) Provides support to international buyers and/or investors that come to Guatemala. Potential buyers are placed in personal contact with local producers/exporters.

f) Offers its members workshops, courses and seminars on international trade and export-related topics. These activities are jointly implemented with institutions such as: Bank of Guatemala, Universidad Rafael Landivar, the Chamber of Entrepeneurs, and the Guatemalan Management Association.

g) Participates in discussions of commercial treaties and agreements that Guatemala signs with third world countries.

D. MEMBERSHIP REQUIREMENTS

The Guild has over 400 members whose products range from wicker furniture to processed food products. Small and medium enterprises are not excluded under the Guild's admission requirements which are:

1) To be an individual or company legally organized to operate in Guatemala.

2) To submit an application, providing the information requested therein, so that it can be analyzed by the Guild's Board of Directors.

3) To pay an entrance fee of Q100.00.

4) To pay a Q.120 fee for the first trimester of membership. Annual fee: Q.480.

GUILD'S TRAINING ACTIVITIES
1985-1986

No.	COURSE OR SEMINAR	NUMBER OF PARTICIPANTS
1	How to Export to the EEC	80
2	Clothing Manufacture	80
3	Report on International Trade Conference	85
4	Exporting Processed Agricultural Products	30
5	Exporting Perishable Agricultural Products to West Germany	68
6	International Trade	30
7	Guatemala Present and Future in the CBI Countries	200
8	Small and Medium Exporting Firms	65
9	Food Irradiation	44
10	Guatemala Present & Future in the CBI	70
11	Export Policies and Credit Lines Available	55
12	Guatemala, Present & Future in the CBI Context	70
13	U.S. Furniture Market Behavior	31

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No.	COURSE OR SEMINAR	NUMBER OF PARTICIPANTS
14	Mid Level Training on Export Production & Marketing	30
15	Design and Development of Export Projects	55
16	International Trade Conference	200
17	Export Techniques/Quetzaltenango Guild Members	56
18	Promotional Seminar on Public Sector Training	90
19	International Markets for Shrimp and Crawfish	N/A
20	Export Prospects to Central America from Europe	51
21	Guatemala's Foreign Trade: International Outlook for Export Promotion	27
22	Export-Oriented Vegetable Production in the Highlands	30
23	New Foreign Exchange and Export Laws and Regulations	N/A
24	Pilot Seminar on Public Sector Exports	27

E. STAFF

The Guild has a small staff of highly qualified professionals, technicians and support personnel consisting of 28 people:

Existing Staff

General Manager	1
Director/Agribusiness Project	1
Promotional Events	1
Marketing Research	1
Investment Promotion	1
Demand and Supply	1
Commercial Information	1
Broadcasting	1
Data Processing	1
Documentation	1
Training	2
Exports Strategies & Policies	1
Exporters Commissions	2
Institutional Development	2
Quetzaltenango Branch	1
Finance and Accounting	1
TOTAL PROFESSIONALS AND TECHNICIANS	19
Support Staff (Secretaries, etc.)	9
TOTAL STAFF	28

New Staff Requirements:

	Staff
Commercial Information	3
Technology Transfer and Training	2
Exporters Commissions	2
Total required personnel	7

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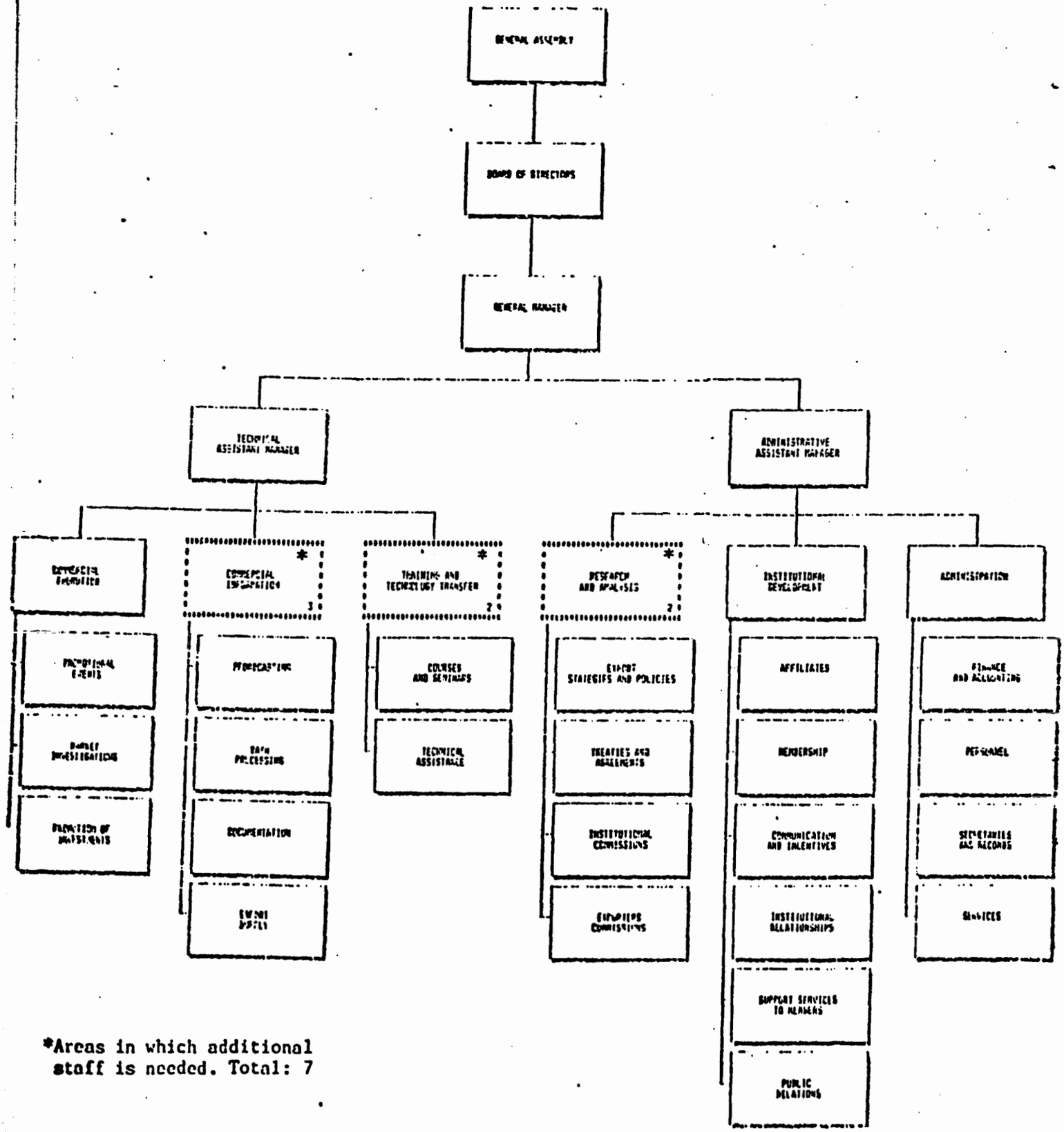
THE NONTRADITIONAL PRODUCT EXPORTERS GUILD



*Areas in which additional staff is needed. Total: 7

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NONTRADITIONAL PRODUCT EXPORTERS GUILD
BALANCE SHEET
MARCH 31, 1987

CURRENT ASSETS				Q110,860.79
CASH			Q 100.00	
Petty Cash		Q 100.00		
BANKS			Q 38,438.29	
Banco Industrial, S.A.		Q 15,438.29		
Banco de Exportación, S.A.		23,000.00		
CUSTOMERS			Q65,080.00	
Guild members		Q 65,080.00		
RECEIVABLES			Q 6,387.50	
Guild members		Q 1,438.10		
Employees		2,180.62		
Other		2,768.78		
PREPAID EXPENSES			Q 855.00	
Advance payments				
FIXED ASSETS				Q159,766.48
Plant and fixtures	Q52,468.52	Q 1,808.77	Q 50,659.75	
Computer equipment	46,114.76	2,631.44	43,483.32	
Communication equipment	66,468.09	881.08	65,587.01	
House furnishings	52.00	15.60	36.40	
	Q165,103.37	Q5,336.89	Q159,766.48	
OTHER ASSETS				Q 160.00
Deposits		Q 160.00		
TOTAL ASSETS				Q270,787.27
LIABILITIES				
Accounts payable				Q 2,000.00
Creditors			Q 2,000.00	
Funds on account				Q 164.82
Payments of another			Q 164.82	
Prepaid income				Q 3,367.66
Guild members			Q 3,367.66	
Reserves				Q 17,670.20
Labor liabilities			Q 17,670.20	
TOTAL LIABILITIES				23,202.68
EQUITY				
Current period surplus		Q103,922.33		
Previous period surplus		4,691.65	108,613.98	
Donated surplus			138,970.61	
TOTAL EQUITY				247,584.59
TOTAL LIABILITIES AND EQUITY				Q270,787.27

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NONTRADITIONAL PRODUCT EXPORTERS GUILD
INCOME STATEMENT
PERIOD ENDING MARCH 31, 1987

REVENUES		
Guild Members		Q215,114.09
Registration fees	9,200.00	
Membership fees	139,814.09	
Extraordinary fees	63,100.00	
CBI dues	3,000.00	
Other		Q 63,089.57
Bulletin publication	1,625.00	
Photocopies	895.95	
Various publications	252.62	
Seminars	12,190.00	
Exports convention	43,325.00	
Report on export supply	4,136.00	
Personal services	665.00	
TOTAL REVENUES		Q278,203.66
EXPENSES		
Personal services	86,365.93	
Non-Personal services	16,539.99	
Materials and supplies	7,567.87	
Specific activities	63,807.54	
TOTAL EXPENSES		Q174,281.33
NET INCOME		Q103,922.33

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F. PRIOR USAID ASSISTANCE

USAID/Guatemala Agribusiness Development Project (520-0276) $750,000 grant assistance to the Guild is mainly concentrated on agricultural products and includes:

1. Market Information System Activity ($130,000)

   a) Statistical data system

   b) Internal distribution system

   c) Documentation center to catalogue agricultural publications provided under this facility on a microcomputer, a microfilm machine, printing of publications, subscriptions to periodicals, membership fees in trade organizations.

2. Exports and Investment Promotion Activity ($430,000)

   a) Technical assistance to farmers for production, storage, processing and marketing of nontraditional agricultural exports.

   b) Systematic market searches through trade shows and conferences.

   c) Policy studies and research focused on transportation, export taxes, foreign exchange, and bureaucratic constraints on nontraditional exports.

3. Information and Contingency ($190,000)

ROCAP's Nontraditional Agricultural Exports Support Project (596-0108) assistance to the Guild is emphasized on nontraditional fresh agricultural products and includes consulting services to provide technical assistance and training in the following areas: production techniques of nontraditional agricultural products, post-harvest management, export marketing, transportation, assistance in retrieval and management of marketing information, and use of computers to provide information on product quality specifications, international prices, and market trends.

In addition, the project provides funds for two microcomputers with its corresponding software, and provide funds to cover expenditures for attendance to seminars, workshops and courses.

ROCAP's program complements USAID/Guatemala projects providing technical assistance, financing and training to Guatemalan entrepreneurs. Mission activities supporting export expansion have been complemented by other ROCAP projects: Export Promotion Fund (596-0109), Export Agribusiness and Development Promotion (596-0123) and Export Management Training. Additionally ROCAP has sponsored regional transportation and capital markets studies. Their findings will assist both individual countries and regional approaches.

ROCAP's assessment of the impact on nontraditional exports of air, land and sea transportation, will identify obstacles in this critical sector and will recommend pragmatic solutions. This assessment will also assist the Mission in its policy dialogue on transportation issues.

ROCAP's capital markets regional analysis follows a similar approach. Its findings will help identify potential interventions by the Private Sector Program conducive to more efficient investment mechanisms, a key priority for USAID/Guatemala private sector strengthening objective.

The Guild is amplifying its breadth and depth of services. Eight examples below are illustrative of the type of activities which the Guild will be supporting (see Annex I). The PED project will complement the Guild's existing activities by strengthening its capacity to provide services needed most by the manufacturing sector.

The strenghthening will include institutional support for at least seven new staff: In the Commercial Information Unit, the project will provide for a commercial information analyst to select, examine, and publish commercial information; a documentarian to research, classify and catalogue supporting commercial data; and a secretary. For the Technology Transfer and Training Unit: the project will support a technical assistant coordinator to channel and backstop consulting services, and a technician specialized in quality control, packing, crating and transportation. Finally, in the Exporters Commissions Unit, project funding will cover a processed food coordinator and a nonfood coordinator to identify, promote and monitor processed-food and nonfood production and exports.

The Guild's well qualified staff, collaboration in the design of the project, and Board of Directors strong interest in the project are sound reasons to expect that its participation in the project will result in effective implementation. The Guild's financial analysis is favorable. The organization's accounting procedures are consistent with generally accepted accounting principles. As of March 1987, the Guild showed a debt-to-assets ratio of 0.086 or 8.6%, as it had Q. 23,202.68 in liabilities, which signifies low risk. Also, the Guild's return on total assets and return on equity, 50% and 42% respectively, are indicators of the organization's efficiency.

On the basis of the foregoing analysis, USAID/Guatemala has determined that the Nontraditional Product Exporters Guild is administratively capable of carrying out its functions under the project.

IV. FINANCIAL INSTITUTIONS

THE BANK OF GUATEMALA

The Bank of Guatemala (BOG) is an autonomous government institution, created by Decree No. 215, on December 11, 1945. The BOG is Guatemala's central bank and its purpose is "to promote the creation and maintenance of the monetary exchange and credit conditions most favorable to the orderly development of the national economy." (Art. 2). The BOG is responsible for setting reserve requirements for the banking system, and implementing credit and monetary policy. In its role as central bank, the BOG is Guatemala's only issuer of currency and operates under the direction of the Monetary Board (Junta Monetaria), created in 1946.

The Monetary Board consists of: a President and a Vice-President (both of whom are also President and Vice-president of the BOG respectively), each appointed to five-year terms by the President of Guatemala; three government ministers who serve ex-officio; a representative and an alternate elected for five-year terms by Congress; a representative and an alternate elected by the commercial, industrial, agricultural chambers who serve one-year terms; a representative and an alternate elected for one-year terms by the Guatemalan Bankers Association; and a representative and an alternate from the University San Carlos who serve one-year terms. A superintendency of banks also exists, subordinate to the Monetary Board, which inspects the banking system.

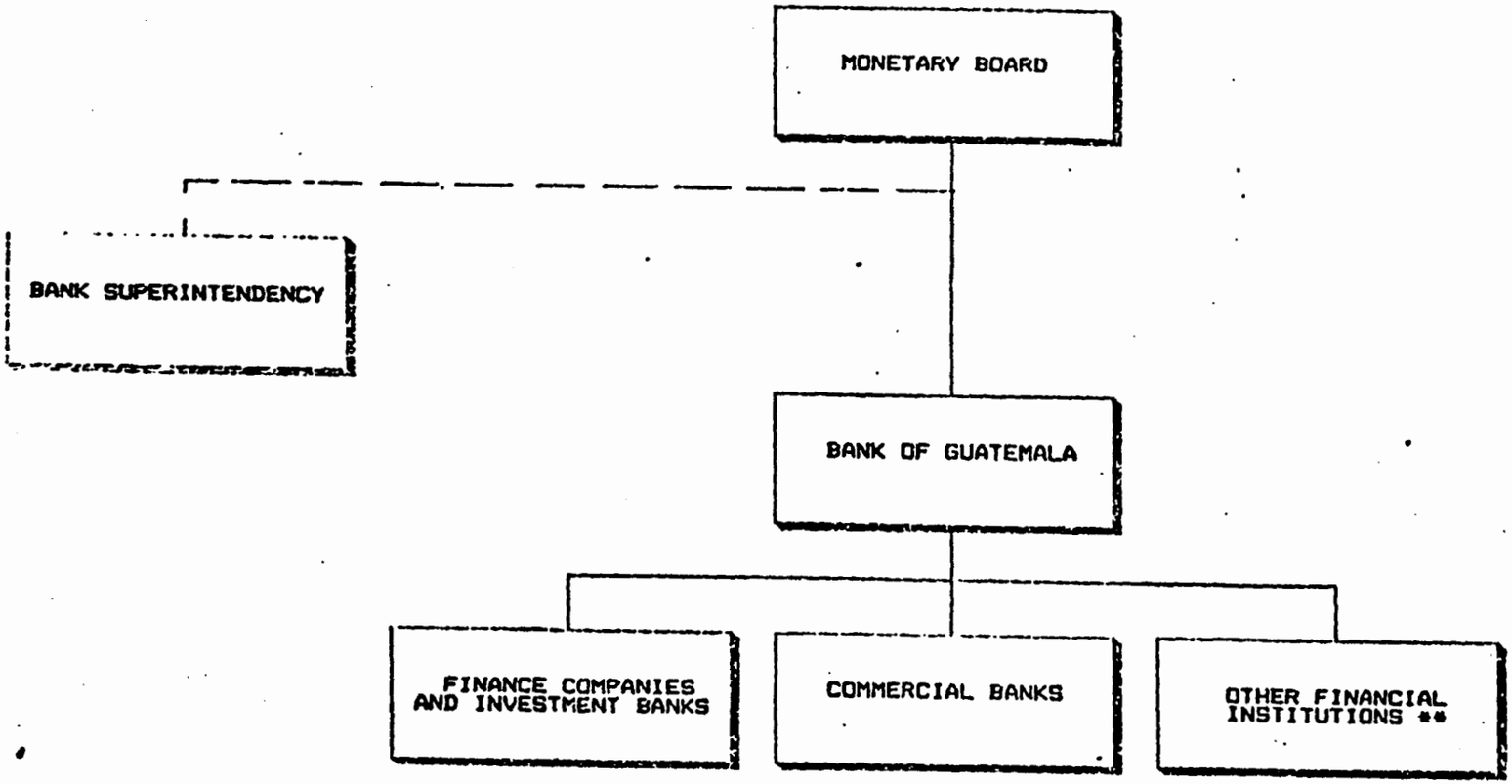
The BOG attempts to maintain a satisfactory level of economic growth via two main channels: (a) fiduciary operations of internal or external nature; and (b) opening of lines of credit or discounting for national financial institutions. The BOG has a variety of separate departments dealing with exchange control, sector economic studies, foreign trade agreements and other areas concerning administration of the money supply and the country's financial system.

The BOG operations have traditionally been characterized as soundly managed and employ up-to-date administrative technology. USAID has worked with the Bank's Credit Department in organizing and implementing discount credit lines under the Rural Enterprises (520-0245) Small Farmer Marketing (520-0238) and Agribusiness Development (520-0276) Projects.

THE GUATEMALAN FINANCIAL CHAMBER

The Guatemalan Financial Chamber is a nonprofit, apolitical, autonomous, private entity with legal capacity formed by Guatemalan private financial institutions. The Chamber was established in 1975 and is affiliated with the Chamber of Entrepeneurs, CAEM. The chamber has as its basic purpose coordination of actions and efforts under the policy guidance of the various financial institutions represented in it. The following financial sectors are represented in the Chamber: commercial banks, finance companies and investment banks, insurance companies, bonded warehouses and guarantee companies.

GUATEMALA'S FINANCIAL SYSTEM



INCLUDES: BONDED WAREHOUSES, SURANCE COMPANIES, AND GUARANTEE MPANIES

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A. GOALS

1) To represent the financial sector in aspects of general nature or pertaining to financial institions.

2) To collaborate with financial intitutions and initiatives working for the economic enhancement of the country.

3) To protect and defend the rights and interests of its associates, and promote interaction between the members of the financial community.

4) To participate in and cooperate with studies related to Guatemala's economic and social problems dealing with the interests of Chamber associates.

5) To support the principles of a free market economy.

6) To protect general and specific interests of its members before governmental or private, national or foreign, organizations.

7) To promote exchange of knowledge and experience among its associates, and identify sources of technical assistance and training for them.

8) To participate in national and international meetings, representing the financial sector when necessary.

9) To lobby for laws and regulations considered necessary for a better development of domestic financial activities.

10) To maintain relations with the other national or international private sector organizations.

11) To act as amicable referee among its numbers.

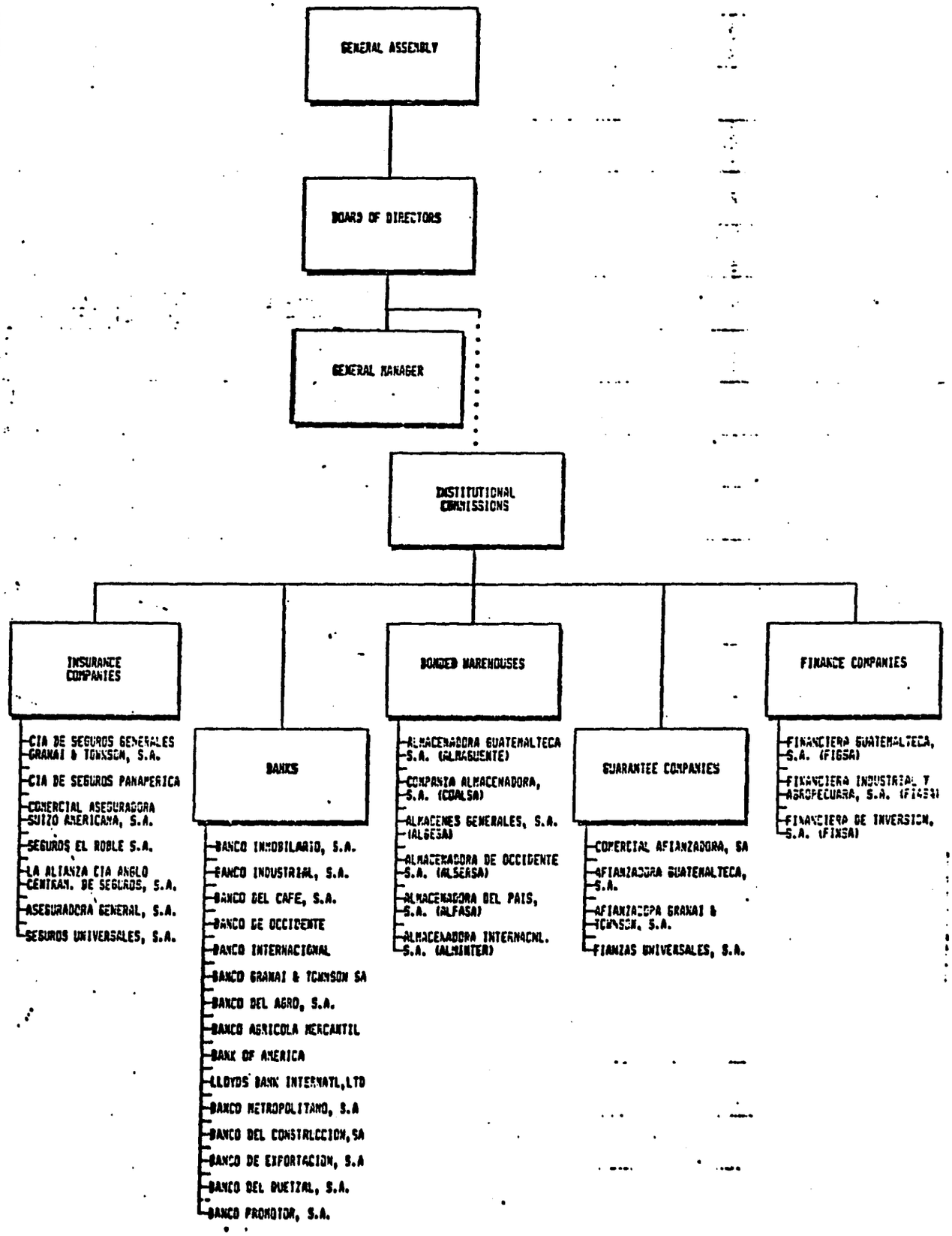
12) To provide its members with all available information related to financial activities permitted under Guatemalan law.

13) To carry out other activities of financial nature and purpose.

B. ORGANIZATION

Chamber members are private sector enterprises in banking, insurance, warehouse-bonding activities, and other organizations within the finance field as may be determined by the Chamber's General Assembly.

THE GUATEMALAN FINANCIAL CHAMBER



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The Chamber's administrative and operational activities are distributed, according to the Chamber's bylaws, among: a) the General Assembly; b) the Board of Directors; c) the General Manager; and d) Special Institutional Commissions designated by the Board.

C. RIGHTS OF THE ASSOCIATES

The Chamber associates have the right to:

1) participate with voice and vote in General Assembly meetings;

2) elect the members the Board of Directors;

3) be represented in the Board of directors;

4) examine the accounts of the Chamber;

5) represent other associates, or delegate their representation, at the General Assembly;

6) benefit from the services provided by the Chamber;

7) request Chamber institutional support in their negotiations with the Government authorities and other related entities.

These rights are exercised through the associates' representatives or their alternates at the Board of Directors.

D. DUTIES OF THE ASSOCIATES

1) To collaborate with the Chamber in accomplishing its objectives.

2) To Pay the fees and contributions determined by the General Assemby to cover Chamber expenses. The nonpayment of three or more monthly fees interrupts the rights of the associate.

3) To perform, through their representatives, the respective functions for which they were elected, and the commissions assigned by the Board of Directors.

4) To attend General Assembly meetings or delegate their representation in case they can not participate.

5) To be part of a financial organization, and comply with its regulations and dispositions, according to their particular nature and financial activity.

E. THE BOARD OF DIRECTORS AND THE GENERAL MANAGER

The Board of Directors is the executor of the decisions made by the General Assembly, and is also responsible for the Chamber's management and attainment of goals. The board is formed by a President, two Vicepresidents, a Secretary, a Treasurer, three Executive Directors, and their respective alternates. The members of the Board are designated by the Chamber associates and elected according to the organization's bylaws. The Board meets once a month, and its functions include: the direction of the Chamber's operations; designation of institutional commissions for specific activities; elaboration of initiatives and projects to be presented before the General Assembly; and execution of other activities such as membership approval, recruiting of contractors, presentation of the annual report, budget preparation, and calls for meetings.

The General Manager is in charge of the day-to-day management activities of the Chamber, and is responsible for carrying out decisions made by the Board of Directors. Also, the General Manager participates as observer, in Board of Directors and General Assembly meetings, and prepares and publishes the minutes of those meetings for the Chamber's members.

F. ROLE

The Financial Chamber, as a representative of Guatemala's financial power, is a logical institution to examine the long-term viability of new financial facilities. In light of constraints such as high collateral requirements for loans, that have placed limitations on Guatemala's financial market development, the Chamber is a de rigueur player in identifiying and designing policy improvements. Further, its institutional support is required to improve the effectiveness of Guatemala's financial markets. Thus, for the project's potential interventions to broaden and enhance Guatemalan financial markets, the Financial Chamber is a crucial organization to involve in defining research scopes, and in coordinating and evaluating studies and initiatives that encourage a greater flow of credit to small and medium enterprise by domestic financial institutions. The results of the Financial Markets RDP and the success of the SME guarantee fund will depend, to a large extent, on the political will of the Chamber's members.

BANKS PARTICIPATING IN THE LOAN GUARANTY FACILITY

The commercial banks which have expressed a strong interest in participating in the project's loan guaranty facility are:

A. INDUSTRIAL BANK

Capitalized through investments from the industrial private sector in June of 1968, the "Banco Industrial S. A." initiated its operations with paid-in capital of Q4,900,500 and authorized capital of Q25,000,000. Mainly oriented to industrial, commercial and mortgage transactions, by 1986 the Bank had total assets in the amount of Q520,600,000.

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The bank provides services through a system of 12 agencies, two of which are located in the Departments of Escuintla and Quezaltenango. The other agencies are located in five commercial zones in the capital city.

According to bank statistics, loans have been provided to the following sectors, by order of importance: Industrial (73.1%), Construction (8.9%), Commerce (9.4%), Agriculture (3%), Livestock (2%) and others (3.6%).

As a publicly held company and in accordance with the law, the highest authority of the bank is the General Assembly of Stockholders, which elects the Administrative Council, the body responsible for defining the policies and actions to be taken by the other administrative entities of the institution.

Because of the assets that "Banco Industrial S.A." manages, it is the largest bank of the banking system, surpassed only by the Bank of Guatemala.

Analysis of Operating Performance and Financial Strength:

1. Ratio of Loans and Discounts to Paid-in Capital

Between 1985 and 1986, the loan to paid-in capital ratio increased 8 percent. This indicator shows an increased number of loans or a higher average loan size during 1986 as compared to 1985.

2. Ratio of Deposits to Loans and Discounts

During 1985 the ratio was 1.4. In 1986 it increased to 1.8, which means on the one hand a greater attraction of resources in the form of savings, and on the other an increase in the bank's liquidity. In banking terms, this reflects the decrease in attractiveness of foreign exchange-denominated investments and the lack of alternative savings instruments available in the economy.

3. Ratio of Paid-in Capital Plus Deposits to Loans and Discounts

This ratio changed from 1.5 in 1985 to 1.9 in 1986, which shows the bank's financial stability since, for each Quetzal lent, it has 150-200 percent more in available resources in the form of deposits and corporate capital. Deposits increased by 38.3 percent in 1986 over 1985.

4. Ratios of Net Income to Assets, Revenues and Paid-in Capital

Between the years 1985 and 1986, the bank showed increases in these three ratios. This result derived undoubtedly from a greater number of transactions and a greater level of administrative efficiency. For example, for each Quetzal obtained as financial proceeds 19 cents went to net profits. These ratios indicate a respectable rate of return on assets and on owner's equity. A 37.6 percent rate of return on owner's equity for 1986 measures the ultimate, attractive profitability of this bank. The net income to revenues ratio, exceeding 9 percent in 1986, is also an important measure of the bank's operating performance.

INDUSTRIAL BANK

Comparison for Years

1985 - 1986

(In Thousands of Quetzales)

			1986	1985
a)	Loans and Discounts	=	249,922.2 = 10.0	231,136.9 = 9.2
	Paid-in Capital		25,000.0	25,000.0
b)	Deposits	=	448,422.0 = 1.8	324,258.6 = 1.4
	Loans and Discounts		249,922.2	231,136.9
c)	Paid-in Capital + Deposits	=	473,422.0 = 1.9	349,258.6 = 1.5
	Loans and Discounts		249,922.2	231,136.9
d)	Net Income	=	9,404.0 = 1.8%	5,450.5 = 1.4%
	Assets		520,552.3	388,100.0
e)	Net Income	=	9,404.0 = 19.4%	5,450.5 = 15.7%
	Revenues		48,381.3	34,639.4
f)	Net Income	=	9,404.0 = 37.6%	5,450.5 = 21.8%
	Paid-in Capital		25,000.0	25,000.0

B. "BANCO DEL CAFE, S. A."

"Banco del Café, S.A." operated with paid-in capital of Q9,150,000 during fiscal year 1986. This capital will be increased by Q850,000 in 1987 to support greater lending.

The bank's legal reserve increased during 1986 by Q99,987.40 to a December 31, 1986 balance of Q301,138.28.

The bank's income exceeded expenses by Q3,313,703 during the fiscal year, representing 35 percent of paid-in capital and of capital reserves, which left a net profit of Q2,599,490 after personnel and administrative bonuses and rewards were deducted.

User deposits entrusted to the bank continued to increase as in previous fiscal years, reaching Q203.2 million in December 31, 1986. This included an increase of Q21.0 million over the amount of the period ending December 31, 1985. The greatest increase was in savings deposits. The above increase occurred despite a government withdrawal of Q24.0 million.

Given the liquidity level which "Banco del Café" had in 1986, it did not have to seek credit from the Central Bank or from other sources used in the past. The use of those resources was decreased.

Analysis of Operating Performance and Financial Strength:

1. Ratio of Loans and Discounts to Paid-in Capital

Comparisons between the years 1986 and 1985 show an increase in paid-in capital.

The ratio 11.6 increased to 11.7 in relative terms. In absolute terms, there was also an increase in the volume of loan and discount transactions indicating growth of the institution.

2. Ratio of Deposits to Loans and Discounts

These ratios increased from 1.7 to 1.9 due to greater attraction of resources in the form of deposits in 1986 over 1985. Deposits grew by 11.6 percent in 1986. On the other hand, the increase in loan and discount transactions was more moderate during this period, only reaching one percent, in spite of the bank's advantageous liquidity position.

3. Ratio of Paid-in Capital Plus Deposits to Loans and Discounts

The bank shows in this ratio that, for each Quetzal lent, Q1.80-Q2.00 is available in the form of corporate capital and deposits. Comparing the year 1986 with 1985 we can detect an overall increase in the number of transactions of the institution.

4. Ratios of Net Income to Assets, Revenues and Paid-in Capital

All profit ratios improved during 1986 over 1984. The ratio of net income to paid-in capital can be taken as proof of the bank's positive income-yield capacity since in 1986 the ratio reached 28.4 percent. This 28.4 percent return on investment is a valuable indicator for the bank to attract new capital and for its investors to expect a reasonable return.

"BANCO DEL CAFE, S.A."

Comparison for Years

1986 - 1985

(In Thousands of Quetzales)

		1986	1985
a) Loans and Discounts / Paid-in Capital	=	107,210.3 / 9,150.0 = 11.7	106,640.0 / 9,150.0 = 11.6
b) Deposits / Loans and Discounts	=	203,154.5 / 107,210.3 = 1.9	182,113.8 / 106,640.0 = 1.7
c) Paid-in Capital + Deposits / Loans and Discounts	=	212,304.5 / 107,210.3 = 2.0	191,263.8 / 106,640.0 = 1.8
d) Net Income / Assets	=	2,599.5 / 249,115.0 = 1.0%	1,695.7 / 235,559.5 = 0.7%
e) Net Income / Revenues	=	2,599.5 / 21,412.0 = 12.1%	1,695.7 / 18,308.5 = 9.3%
f) Net Income / Paid-in Capital	=	2,599.5 / 9,150.0 = 28.4%	1,695.7 / 9,150.0 = 18.5%

C. "BANCO GRANAI & TOWSON, S.A."

Established as a publicly held company in September of 1962, the "Banco Granai & Towson" is today one of the largest commercial and mortgage banking institutions within the Republic of Guatemala.

Until 1985 the bank had 22 agencies, 9 of which were located outside of Guatemala City, making it one of the private banks with the greatest representation within the country. The other 13 agencies are distributed in different zones of the capital city.

The bank's authorized and fully paid-in capital amounts to Q10,000,000. Its total assets, according to the bank's financial statements through December 1985, amount to Q287,650,000.

In accordance with its charter, the maximum authority of the institution is the General Assembly of Stockholders, which appoints the Administrative Council. This latter body directs the actions of and defines the policies to be implemented by management and by other administrative bodies of the bank.

Analysis of Operating Performance and Financial Strength:

1. Ratio of Loans and Discounts to Paid-in Capital

A comparison of the years 1985 and 1986 indicates a small decrease of 6 percent for 1986 in relative terms. In absolute terms more loans and discounts were provided in 1986 than in 1985. The 6 percent decrease is accounted for by an increase in the bank's corporate capital, which reached one million quetzales in 1986.

2. Ratio of Deposits to Loans and Discounts

The 1986 ratio versus 1985 increased from 1.4 to 1.7 due to a greater attraction of resources in the form of deposits. Deposits increased by 28.7 percent in 1986 over the previous year.

The activity in the loans and discounts item was positive but of lesser magnitude, notwithstanding the bank's propitious liquidity.

3. Ratio of Paid-in Capital Plus Deposits to Loans and Discounts

The ratios for the years 1985 and 1986 indicate that for each quetzal lent the bank has available as much as Q.1.5 to Q1.8 in the form of corporate capital plus loans and discounts. This indicator shows that the institution has adequate financial stability.

"BANCO GRANAI & TOWNSON, S. A."

Comparison of Years
1985 - 1986

(In Thousands of Quetzales)

			1986		1985	
a)	Loans and Discounts	=	177,131.0	= 16.1	166,891.0	= 16.7
	Paid-in Capital		11,000.0		10,000.0	
b)	Deposits	=	300,938.0	= 1.7	233,853.0	= 1.4
	Loans and Discounts		177,131.0		166,891.0	
c)	Paid-in Capital + Deposits	=	311,938.0	= 1.8	243,853.0	= 1.5
	Loans and Discounts		177,131.0		166,891.0	
d)	Net Income		N/A		N/A	
	Assets		N/A		N/A	
e)	Net Income		N/A		N/A	
	Revenues		N/A		N/A	
f)	Net Income		N/A		N/A	
	Paid-in Capital		N/A		N/A	

The overall analysis of the above ratios indicates: a) the three banks have a very favorable liquidity position which, added to more flexible or less conservative lending practices, would easily enable them to increase their portfolio of loans; and b) the three banks are very profitable which reflects their financial strength and management efficiency.

USAID/Guatemala has determined that all the financial institutions covered in this section are administratively capable of carrying out their project responsibilities.

V. THE NATIONAL EXPORT PROMOTION COUNCIL

The National Export Promotion Council (Consejo Nacional de Promoción de Exportaciones, CONAPEX) was created on June 19, 1986 by Decree 307-86. The purpose of CONAPEX, proposed as part of Guatemala's new economic package, is to establish a joint public sector-private sector institutional mechanism to promote the growth of Guatemalan exports.

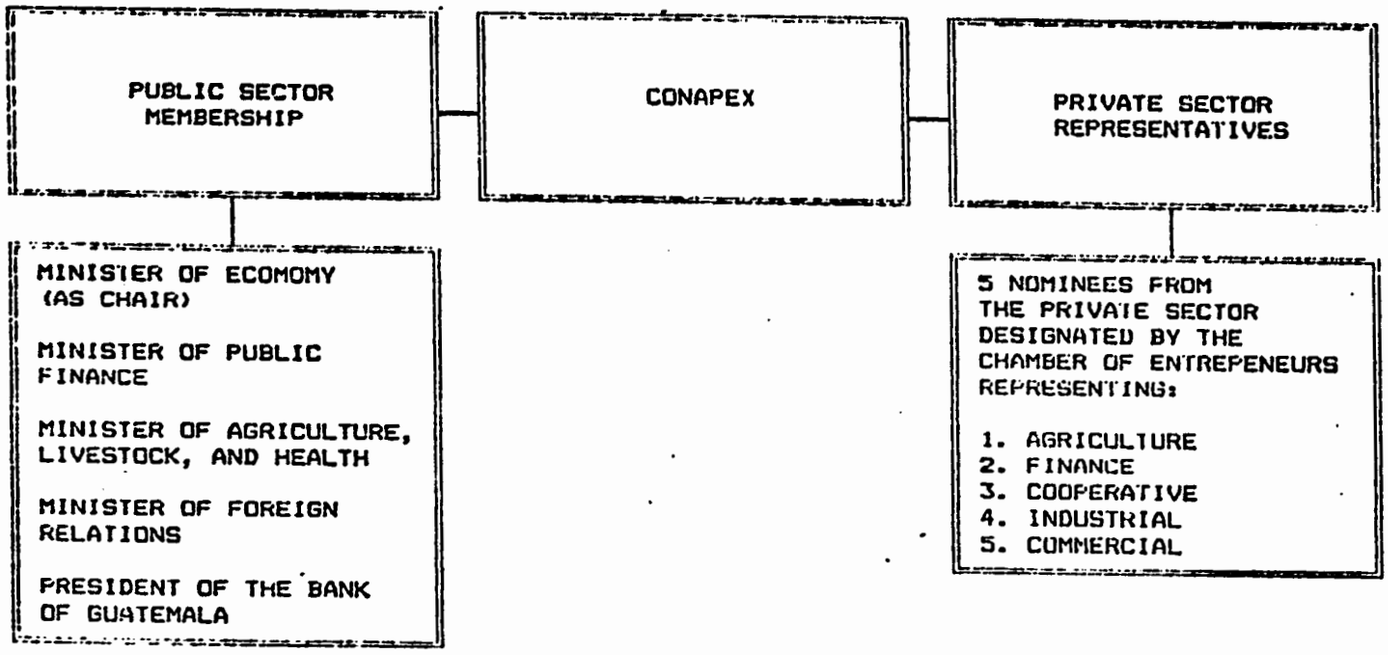
The idea of a high level council to address the constraints to increasing export growth first arose under the Grand National Dialogue, a multisectoral economic policy discussion convened in Mid-1985 by the Chief of State Mejia Victores. The technical commission of the Dialogue recommended to the Chief of State "the creation of a committee which would recommend steps for the promotion of traditional and nontraditional exports". One of the private sector's complaints about the outcome of the dialogue was the lack of seriousness with which the government took many of the private sector's recommendations. Indeed, aside from a line in the Dialogue report, no concrete steps were taken to follow up on the proposal of an export council.

Within the newly elected government's process of consulting with the private sector on economic policy, the proposal for an export council reappeared. Again, in the documents presenting the Cerezo government's planned economic program, the commitment to create such an organization was stated. The justification for the council was the need to coordinate efforts so that Guatemala's exporters could take full advantage of the new exchange incentives provided under the economic stabilization program.

Guatemala's stabilization program has now been in effect for over a year. As expected, the program established a more orderly and rational set of policies governing trade transactions. The promise to create a national body to promote exports was promptly kept with the creation of CONAPEX, whose mandate is to generate high level discussion between the public and private sectors on ways to resolve obstacles to export growth.

CONAPEX's public sector membership, made up of the Ministers of Economy (as chair), Agriculture, Public Finance, Foreign Relations and the President of the Guatemalan Central Bank, encompasses the Government entities which have jurisdiction over the various aspects of export trade. Private sector membership is similarly drawn from those parts of the economy who export, or who provide services to exporters. The five private sector representatives are nominated by the Chamber of Entrepreneurs (Cámara Empresarial, CAEM), from the agriculture, financial tourism, cooperative, industrial and commercial subsectors. A quorum is reached when at least six members, three each from private and public sectors, are in attendance. Decisions are made through consensus, rather than majority vote. The consensus provision was demanded by the private sector to prevent CONAPEX from becoming a mere rubber stamp to government policies.

THE NATIONAL EXPORT PROMOTION COUNCIL



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The Cerezo Government has as one of its main objectives policy management for supporting a private sector-led economic recovery in "a country which has not been accustomed to dialogue." (President Cerezo's remark in the ceremony inaugurating CONAPEX). The creation of such a council has been a specific objective for at least two years for the Mission's policy dialogue related to export-led growth and private sector/public sector cooperation. It can be cited as one of the specific actions the GOG did in fulfilling the general covenant in the FY86 ESF balance of payments agreement to take steps to promote exports and private sector productive activities.

CONAPEX ACCOMPLISHMENTS
1986-1987

1. Opening of the one-stop export center (a consolidated documentation facility) to diminish administrative impediments and bottlenecks to export. Through this facility, exporters can process most of 150 transactions legally required to make export arrangements.

2. Working group to prepare a draft of a civil aviation law, to realize the government's commitment to open skies.

3. Export Promotion Commission formed by officials of the Bank of Guatemala and the Ministries of Finance and Economy to consider establishment of a revolving credit fund for exporters under a proposed IBRD project.

4. Technical Work Group to revise and improve the existing fiscal incentives for export-producing companies.

5. Integrated efforts on behalf of the private sector to gain trade benefits granted to LDCs under schemes such as the CBI.

6. Scope of work for a National Export Plan.

7. Working group to look into establishment and consolidation of export trading companies.

On the basis of the foregoing analysis, USAID/Guatemala has determined that CONAPEX can fulfill its function as a forum in support of the project's export-oriented policy dialogue activities. These activities include assistance to both public and private sector decision-makers in establishing constructive communication, based on analysis and negotiations, leading to an improved business environment. In addition, CONAPEX is an appropriate institutional mechanism for the Mission's joint activity in export development and promotion with the World Bank.

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