

**Results Package and Framework for  
USAID/G-CAP's Strategic  
Objective 4: Increased Rural  
Household Income and Food  
Security**

**Final Draft (English)**

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**Results Package and Framework  
for  
USAID/G-CAP's Strategic Objective 4**

**Increased Rural Household Income and Food Security**

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**RESULTS PACKAGE and FRAMEWORK**  
for  
**USAID/G-CAP's Strategic Objective 4**  
**INCREASED RURAL HOUSEHOLD INCOME AND FOOD SECURITY**

**I INTRODUCTION**

**A Background**

Guatemala is one of the poorer countries in Latin America, its annual per capita income of \$1,340 ranks 14th of the 18 Spanish-speaking countries of Central and South America and the Caribbean. More than 70 percent of the population is classified as living in "poverty," and poverty is especially prevalent in rural areas, where an estimated 80 percent of the population lives in poverty.<sup>1</sup> An extremely accidented topography, poor communications and transportation, poor land quality and uneven distribution of land, and limited services have kept substantial elements of the population in extreme poverty. Throughout rural areas a substantial minority of indigenous populations live on the margins of society.

A 36-year internal civil war exacerbated the natural economic depression of the rural areas. Entire villages ceased to exist, either as a direct result of the violence or through abandonment to flee the violence. The service infrastructure of rural areas was severely affected by the violence.

In 1996 the Government of Guatemala (GOG) and the Unidad Revolucionaria Nacional Guatemalteca reached an agreement to end the conflict, restoring a semblance of peace to rural Guatemala and permitting efforts to reconstruct the rural economy. One of the results of the peace settlement is an increased problem of poverty in the conflictive areas as increasing numbers of returning refugees and displaced populations have settled in remote areas that lack even basic services and infrastructure. At the same time, however, Guatemala's Final Peace Accords lay the foundation for the transition to peace through sustainable development programs. The Accords offered USAID-G/CAP the opportunity to realign rural development/income projects to achieve greater sustainability working with local organizations and government agencies in geographic areas long neglected during the internal conflict.

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<sup>1</sup>U S Agency for International Development, *Latin America and the Caribbean Selected Economic and Social Data, 1997*, U S Agency for International Development Washington D C , September 1997 Table 2 8, p 18

## B USAID/G-CAP Role

With the signing of the preliminary peace accords for the "Resettlement of Uprooted Populations" and "Identity and Rights of Indigenous Peoples" between the Unidad Revolucionaria Nacional Guatemalteca (URNG) and the Guatemalan Government in 1995, the Mission wanted to demonstrate that the US Government was prepared to respond quickly to the Government of Guatemala (GOG) in the resettlement and reconciliation process and, secondarily, illustrate that programs to assist target populations can also result in sustainable, productive activities

Demonstration of both became the Communities in Transition (CIT) program, which was designed to assist the reconciliation process of refugee and displaced populations within their settlement communities in two of the most conflictive and isolated areas of the country – the Ixcán, Quiché, and Barillas, Huehuetenango. Two grant activities funded under this program focused on increasing economic opportunities as a means to encourage reintegration of refugee and displaced populations with their "home" communities. Development of economic opportunities in these areas was complicated by isolation and, for the Ixcán, limited agricultural or other economic potentials. These constraints motivated the Mission to focus primarily on issues of stability of the society in these depressed areas while identifying ways to increase sustainability of the productive activities.

With the signing of the Final Peace Accord in December 1996, the USG committed \$260M in support over a four-year period. Approximately \$100 million of this commitment directly supports the implementation of the Peace Accords. In 1997 the Mission signed a special Peace SpO Agreement with the GOG. In early 1998, the Mission's Peace program redefined its indicators in support of the Peace Accords. Intermediate Result (IR) 3 became "increased sustainable productive activities through access to credit and training for microentrepreneurs and small scale farmers in ex-conflictive areas". Activities under CIT were incorporated into the Peace SpO Agreement under IR 3, and four additional activities added by the Peace SpO Team: (a) vocational education, (b) increased credit funding for the productive activities, (c) productive electricity, and (d) private sector investment support. The Mission also initiated a program under the existing Maya Biosphere Project (MBP) framework to fund productive activities for returning refugees and displaced populations that were settling in buffer areas of the Maya Biosphere Reserve. This project includes land titling, non-extractive forest product development, and microenterprise development to remove pressure on the land.

The FY97-2001 strategic plan for USAID assistance to Guatemala (Peace in Guatemala Inclusion, Local Empowerment and Poverty Reduction) provided for a Strategic Objective entitled *Poverty Reduced in Selected Geographic Areas (PRSO)*. This PRSO consisted of 3 intermediate results: (a) IR1 – Incomes of Rural Poor Increased, (b) IR2 – Improved Quality of and Expanded Access to Intercultural Bilingual Education, and (c) IR3 - Improved Access to Food for the Extremely Poor Participating in Food Aid Activities.

## C Proposed Income Generation Strategic Objective

The Mission now recognizes that the PRSO is too unwieldy, and it has been difficult to develop an internally consistent results package framework. In its most recent *Guatemala FY 1997-2000 R4* review, AID/W indicated the need to put in place a complete results framework, including the identification of more appropriate indicators and establishment of targets by the next R4 submission. AID/W also wanted to see a better explanation of the relationship between the Peace Special Objective and the PRSO.

As a result, the Mission has decided to separate the Bilingual Education portion of the PRSO into a separate and independent SO, and to combine the remaining income generation and food aid intermediate results into a new, internally consistent, Income Generation SO. This decision recognizes that poverty reduction is a much higher level objective that most Mission programs contribute to rather than a separately identifiable objective.

The Mission's Strategic Objective Agreement (SOAG) with Government of Guatemala, signed in September 1997, did outline USAID efforts to reduce poverty through income generation activities. It did not, however, incorporate income generation efforts being financed under the Peace Special Objective and the Title II program. The results framework for this new Income Generation SO includes the Peace Special Objective and Title II activities, and incorporates the 2 years of results achieved to date under all income generation activities. After the new SO results framework is shared with AID/W and partners, a new \$112 million Income Generation SOAG will be signed with the Ministry of Agriculture (MAGA) and Ministry of Economy (MINECON).

The Mission will explore with MAGA and MINECON the possibility of including civil society partners as signatories to this SOAG. MAGA is currently working with organizations such as the National Coordinator of Campesino Organizations (CNOC) and the Camara del Agro (through its National Council for Agricultural Development – CONADEA) to implement its rural development strategies. There is also the possibility of including the Small and Medium Business Federation (FEPYME) as a partner in the SOAG.

## II STRATEGIC OBJECTIVE

### A Objective

The primary objective of USAID/G-CAP's activities in this area is to increase the capacity of a significant number of poor rural families – particularly women and the indigenous – in selected areas of the country to improve their economic condition. Merely increasing income levels is not sufficient, however. USAID/G-CAP is interested in helping poor rural families develop increases in income that are sustainable into the future. Temporary or short-term increases in income would not be considered a program success. This objective can thus be stated more specifically:

*To achieve sustainable increases in household income and food security for a significant number of the rural poor in selected geographic areas of the country*

Improvements in income can be evidenced directly by actually measuring changes in income, savings, the occupational status of program beneficiaries, and through indicators of socio-economic improvements. Broader indicators of sustained income growth in the target geographic areas can be found in the income, occupation, and socio-economic indicators of household surveys. Increases in food security can be measured by changes in the nutritional status of children between the ages of 6 and 18 months. Increases in income alone do not ensure improvements in child nutrition. Nutritional education must go hand in hand with increases in family income to ensure sustainable increases in household food security.

## B Geographic Focus

Six of the country's poorest departments have been identified for the implementation of income-generating activities Chimaltenango, Huehuetenango, Quiche, Alta Verapaz, Baja Verapaz, and the Peten These areas are poor because of a combination of factors – isolation, difficult terrain, limited infrastructure, civil conflict, limited marketing opportunities, limited human capital, and limited institutional presence

According to *Guatemala en numeros*<sup>2</sup>, these 6 departments have approximately 27.7 percent of the country's population

Department	Population
Chimaltenango	407,850
Huehuetenango	818,047
Quiche	567,327
Alta Verapaz	707,427
Baja Verapaz	198,738
El Peten	291,454
Totals	2,990,843
Percent of Total	27.4

More important, these departments fall in the lower half, and even lowest third, of the country's 22 departments in terms of basic indicators of human development (IDH), social development (IEDS), and the status of women (IDM)

Department	Rank Order		
	IDH	IEDS	IDM
Chimaltenango	13	12	14
Huehuetenango	18	19	17
Quiche	21	21	18
Alta Verapaz	22	22	20
Baja Verapaz	12	17	7
El Peten	9	15	11

Within this general focus area, the Mission will concentrate on 12 key population centers – municipalities and communities – to measure the impact of Mission supported activities The 12 towns tentatively identified for program focus are San Martín Jilotepeque and San José Poaquil in Chimaltenango, Santa Cruz Barillas and San Mateo Ixtatan in Huehuetenango, Ixcán, Nebaj and Santa Cruz de El Quiché in Quiché, San Pedro Carcha and Chisec in Alta Verapaz, Rabinal in Baja Verapaz, and San José and the La Libertad-El Naranjo corridor in the department of El Peten (see Map) These

<sup>2</sup>Anahte S A and Global Information Group, *Cronica semanal Guatemala en numeros*, 1998, Agosto de 1998, p 16

twelve market town growth centers were initially selected on the basis of secondary socio-economic information and field knowledge of these areas as possessing the socio-economic infrastructure and community support that would permit rapid development with an infusion of external resources. Also, the final selection of market towns may change as additional information is gathered as part of the Mission's income generation program.

Although most of these market towns are capitals of municipalities, program focus is not confined to the political boundaries of the municipalities themselves, but rather to the geographic area of influence of the market towns. This influence may constitute an area smaller than the municipality itself, or it may extend into neighboring municipalities. Several of the market towns are located near environmentally protected areas, and the Mission's activities in these towns will be planned to improve local farming and business practices to minimize damage to these sensitive areas.

Projections of current populations based on the 1994 census and more recent departmental estimates indicate that these 12 municipalities have a total population of nearly 600,000 people, or about 6 percent of the population of Guatemala.<sup>3</sup> Taking an estimate of 6 persons per household, there are nearly 100,000 households in the target geographic area. The vast majority of the households are classified as rural – that is, as residing outside of the targeted market towns.

Department and Municipality	Population			Households		
	Total	Urban	Rural	Total	Urban	Rural
Chimaltenango						
San Jose Poaquil	20,480	5,671	14,809	3,413	945	2,468
San Martin Jilotepeque	56,848	8,070	48,778	9,475	1,345	8,130
Huehuetenango						
San Mateo Ixtatan	29,730	3,942	25,788	4,955	657	4,298
Santa Cruz Barillas	57,013	7,639	49,374	9,502	1,273	8,229
Quiche						
Santa Cruz del Quiche	49,577	18,602	30,974	8,263	3,100	5,162
Nebaj	43,881	11,866	32,015	7,314	1,978	5,336
Ixcan	49,947	3,370	46,577	8,325	562	7,763
Alta Verapaz						
San Pedro Carcha	133,422	11,234	122,188	22,237	1,872	20,365
Chisec	63,551	6,865	56,686	10,592	1,144	9,448
Baja Verapaz						
Rabinal	30,846	7,906	22,940	5,141	1,318	3,823
El Peten						
San José	3,327	1,249	2,078	555	208	346
La Libertad-Naranjo	55,131	5,224	49,907	9,189	871	8,318
<b>TOTALS</b>	<b>593,753</b>	<b>91,638</b>	<b>502,114</b>	<b>98,959</b>	<b>15,273</b>	<b>83,686</b>

Concentrating assistance in these selected areas increases the prospect of accelerating the rural transformation process and bringing about sustainable local economic growth and development. By attacking the problems of rural poverty in a limited geographic area from multiple perspectives, USAID/G-CAP's assistance will systematically reduce the transaction costs to access financing, technical assistance,

<sup>3</sup>These are very rough estimates. The 1994 census is considered flawed, and the areas have been subjected to considerable migration since the signing of the Peace Accords. These internal migrations are not captured in the projections.

marketing systems and information, transport, imported inputs, external markets and legal and land transfer services. Economies of scale and institutional efficiency can be achieved by concentrating efforts rather than dispersing activities across the country. In addition, raising incomes of diverse elements of the population can generate synergies and economic interactions that can produce the critical mass needed to sustain economic growth and development.

### C Target Beneficiaries

Target beneficiaries for Mission activities in income generation are broadly defined as the rural poor, with specific emphasis on women and the indigenous, within selected areas of the country's poorest Departments, namely Huehuetenango, the Quiche, Alta Verapaz, Chimaltenango and the Peten. These groups generally have limited education, low incomes, and poor nutrition, are food insecure, and have limited or no access to needed commercial credit and other support for agricultural production or family-owned businesses.

USAID/G-CAP identifies three specific subsets of the population within these specific geographic areas:

- extremely poor families requiring basic assistance to survive,
- small-scale farmers engaged in production for sale in commercial markets, and
- microenterprises positioned for commercial growth and expansion.

This customer group can also be described as consisting of three economic tiers: those who live in extreme poverty, those who are engaged in subsistence or survival economic activities, and small producers and farmers who are ready to compete in established markets. Small farmers and microentrepreneurs targeted by the Mission's Income Generation Program in the targeted areas generally fall into the latter two tiers. Through a variety of efforts, the Mission seeks to help each of these groups move upward through the economic tiers to full participation in the market economy.

Tiers	Subsets		
	Extremely Poor	Small Farmers	Microentrepreneurs
Competing Producers		X	X
Subsistence Economic Activities		X	X
Extreme Poverty	X		

The Mission's income-generation strategy recognizes that the overwhelming presence of extremely poor people throughout the country mandates targeting of some resources as temporary welfare, food security and basic income generation activities. The Mission addresses these needs through its Food Aid program through 4 international Private Voluntary Organizations (PVOs). The Mission's income strategy, by focusing the Food Aid program with the extremely poor, supports rural poor families move upward through the tiers, from subsistence or survival activities to prospering businesses and sustainably productive farms, with the latter two categories – small agricultural producers and family-owned businesses with a realistic possibility to grow and prosper. The Mission's income strategy also recognizes that while food access is enhanced by increases in household income, improved utilization through nutrition education is necessary to ensure that malnutrition doesn't occur with children of 6 to 18 months.

## D Targets

By the year 2001, the Mission estimates that 50,000 poor families – 25,000 small farmers, and 25,000 microentrepreneurs – in the target market town areas will have benefitted directly from actions under this program related to microenterprise and small farmer development, and another similar number will have benefitted indirectly through contacts with direct program participants. In addition, 50,000 extremely poor rural families in the six departments will have benefitted from Title II program activities.<sup>4</sup> Specific targets for accomplishment of the strategic objective are

### SO-Level Targets (male/female, Mayan/Ladino)

- Increased average annual household income of at least 20% in the selected geographic areas,
- Improvements in IEDS, IDH and IDM indicators<sup>5</sup> for the selected geographic areas,
- Improvements in general economic status of the selected geographic areas as indicated in household surveys,
- Reduction in number of food-insecure families in the selected geographic areas,
- Number of stunted children 24-59 months in the selected geographic areas reduced by 30%
- Increase in the percentage of adults classified as being in the economically active population in the selected geographic areas

Benchmarks for these targets, and subsequent measurement of accomplishments, will be carried out through a major survey effort in the selected geographic areas

Impacts on direct program beneficiaries are expected to be much higher, as can be seen below. Statistics indicating progress for these targets will be collected by USAID partners implementing the various activities supporting this SO

### Direct Beneficiary Targets (male/female, Mayan/Ladino)

- Increased annual household income of 50% for 50,000 microenterprise businesses and small farms,
- Major improvements in household standards of living of 50,000 beneficiary households – housing quality and possessions – for direct program beneficiaries,
- % of stunted children 24-59 months old in direct program beneficiary families reduced by 60 percent (height for age Z score below -2)

## E Women and Indigenous Population Indicators

All program activities will integrate gender and ethnic considerations and include actions to improve the participation of women and indigenous populations in economic activities. Indicators suggested below,

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<sup>4</sup>The Title II program is not confined to the 12 market town centers, and will have a broader impact on the populations of the departments. Activities related to microenterprise and small farmer strengthening, while concentrated in the 12 market town areas, will also have a broader geographic impact, especially in areas bordering environmental protected areas

<sup>5</sup>IEDS (Social Development Index), IDH (Human Rights Index), IDM (Status of Women index)

together with those under each IR will provide a comprehensive picture of the impact of the activities within the program on this target group

- Increased number of women participants reporting control over their own financial resources,
- Increased number of women who have established credit in their own name,
- Increased number of women reporting access to services or capital,
- Increased number of indigenous participants reporting control over their own financial resources,
- Increased number of indigenous participants who have established credit in their own name,
- Increased number of indigenous participants reporting access to services or capital

### **III INTERMEDIATE RESULTS**

The **Strategic Objective** supported by Mission income generation programs is to improve the household incomes of a significant number of poor rural households in selected geographic areas of Guatemala. Target beneficiaries include women and indigenous populations within the selected areas. The program recognizes rural household survival strategies and their reliance upon incomes from multiple sources. It also recognizes the readiness and desire of those who live in extreme poverty to become more engaged economic activities and to eventually accumulate sufficient human and physical capital to be able to compete in established markets.

The Mission's program will help small farmers have secure access to land, adopt sustainable agricultural production practices, and increase their productivity and sales in the market economy. Microenterprises will be helped to improve productivity, increase production, and increase sales volumes. Market town growth will better serve farmers by providing expanded opportunities for processing and purchasing their products, and will serve as centers for microenterprise growth. The household food utilization of the extremely poor will improve through maternal and child health and nutrition activities.

Generating sustainable increases in income requires growth in the economic activities underlying household income. The primary clients of USAID income generation activities are either small farmers, microentrepreneurs, or rural laborers, and achieving sustainable increases in income requires improvements in these underlying sources of income. Achieving improved household income is dependent upon success in achieving four intermediate results.

**Intermediate Result 1 (IR1)** More small farmers engaged in higher value production and marketing

**Intermediate Result 2 (IR2)** More microentrepreneurs expanding their businesses

**Intermediate Result 3 (IR3)** Market towns stimulating economic growth

**Intermediate Result 4 (IR4)** Improved family nutrition

## **IR 1 More Small Farmers Engaged in Higher Value Production and Marketing**

Because many of the intended beneficiaries of USAID/G-CAP activities designed to improve household incomes are extremely poor peasant farmers, whose existence depends on the success of agricultural activities, generating sustainable household incomes depends on success in fomenting sustainable agricultural activities. For this to occur, small farmers should (a) have secure access to land, (b) use sustainable agricultural production practices, and (c) increase their productivity and sales in the market economy.

USAID/G-CAP will address this intermediate result through a variety of program activities, including

- Rural Credit Fund to provide loans to and finance technical assistance for small farmers engaged in sustainable agricultural practices,
- Assistance to MAGA to strengthen its transition to private, fee-based extension services,
- Further activities through ANACAFE to help small coffee producers in the target regions,
- Land titling and a Land Fund to assist in transferring land titles to small farmers,
- Assistance to NGOs and other financial and technical service providers to open or expand services in the targeted geographic areas, and
- Assistance to BANRURAL to improve its second-story operations through NGOs, cooperatives and other financial service providers in the targeted geographic areas

As a result of these activities the Mission will help bring about by the year 2003 <sup>6</sup>

- 10,000 additional small farmers in the target areas with secure land titles
- 20,000 additional small farmers in the target areas using sustainable agricultural practices that increase incomes and minimize destruction of natural resources and their own farms,
- An average increase of 25 percent in marketed production and sales among program participants in the targeted geographic areas, and
- An average increase of one full-time employee per small farm assisted by the program

## **IR 2 More Microentrepreneurs Expanding Their Businesses**

Economic development in rural areas will not continue to grow on agricultural activities alone. Therefore, the other intended beneficiaries of USAID/G-CAP activities are microentrepreneurs – small producers, vendors and suppliers of services in rural areas. Generating sustainable household incomes for microentrepreneurs depends on improvements in the microenterprises themselves – improved productivity, increased production, and increased volumes of sales. These depend on improved business and technical skills, and access to financial services.

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<sup>6</sup>The target numbers are not additive, as there will be overlap in the titling and technical assistance and credit activities.

USAID/G-CAP will assist microentrepreneurs primarily through activities designed to increase the availability of needed financial and technical services within the targeted areas. These activities will include

- Assistance to NGOs, financial cooperatives and other financial and technical service providers to open or expand sustainable services in the targeted geographic areas,
- Increasing the available pool of loan funds available through formal and informal financial institutions,
- Assistance to BANRURAL to improve its second-story operations through NGOs, cooperatives and other financial service providers in the targeted geographic areas, and
- Assistance to facilitate improvements in the technical, business and marketing skills of microentrepreneurs in the targeted areas

As a result of these activities the Mission will help bring about by the year 2001

- 25,000 microenterprises in the target areas that have increased their average monthly sales volumes by at least 25 percent, and
- An increase of 30,000 full-time jobs in the microenterprise sector in the target geographic areas

### **IR 3 Market Towns Stimulating Economic Activity**

Dynamic growth centers are important for stimulating economic activity in a geographic area. The Mission's role is to help in stimulating investment, infrastructure improvements, and an increase in economic activity in the selected geographic areas. The program approach is to look to rural towns where economic dynamism already is taking place, build on it, and expand it. Farmers will benefit by having greater local demand for their products and more accessible processing centers. Microenterprises will benefit by having greater demand for their production and more access to financial and technical services. Market towns can facilitate access to financial services, information on markets (both domestic and foreign), legal protection, notary services, transport, insurance etc.

It must be emphasized that this is an economic development effort rather than an urban development or a political decentralization strategy. To support this intermediate result the Mission plans to support

- A program to encourage and help private businesses establish or expand operations in the targeted market towns,
- Continued assistance for small self-help infrastructure projects – especially in roads improvements, bridges, productive electricity and others – linking rural residents to the market towns, and
- Assistance to help NGOs, cooperatives or other financial and technical service providers become established or expand operations in the targeted market towns

Indicators and targets for this intermediate result are

- Increased investments of at least \$60 million by businesses locating in or expanding operations in market town growth poles,

- An increase of at least 5,000 full-time jobs in the market towns and surrounding areas
- Other intangibles

#### **IR 4 Improved Family Nutrition**

Households consume food they produce and/or purchase. Poor nutrition is primarily a reflection of lack of access to food due to poverty. IRs 1, 2, and 3, as described above, are directed to increasing household income and address the access constraint to improved household food security. Among food insecure households, however, inadequate access to food is compounded by inadequate utilization of the food a household is able to access. This inadequate utilization is most critical among the 6-18 month age group, when children begin weaning and start on solid foods. Inadequate nutrition at this stage is reflected later on as stunting among children under 5 years old (SO level indicator). In the geographic areas where the SO will concentrate, stunting of children under 5 years old is as high as 60% of all children. IR4 addresses the poor health status, household hygiene, and feeding practices that are responsible for inadequate utilization of available resources.

The Title II Food Aid programs in Guatemala are designed to bring about sustainable increases in household food security among the most food insecure households in selected geographic areas. Title II activities that focus on increasing access through increasing small farmer and small enterprise production are integrated into IRs 1 and 2. Title II Food AID activities that focus on improving household food utilization through maternal and child health and nutrition activities support IR 4. The indicator and target for this intermediate result is

- Reduction in % of participating children, under age of 5, who are malnourished from 60 % to 30%

### **IV ACTIVITIES AND LOWER LEVEL RESULTS**

Because of the economic disparity among the groups that are expected to participate in USAID/G-CAP-financed activities, and because of the diversity of economic interests involved, the Mission's income generation objectives will be pursued through various interventions. Achieving the intermediate results described earlier requires

- Increasing access to financial and technical services for small commercially-oriented farmers and family-owned microenterprises businesses,
- Improving access to land and land titles for small commercially-oriented farmers,
- Stimulating the growth and economic development – including infrastructure improvements and the encouragement of business investments – of key market town areas,
- Improving the policy environment for small enterprise and small farm support services and activities, and
- Providing minimal food security for extremely impoverished families through Title II food resources

All of these activities will be sensitive to the special needs and characteristics of women and indigenous minorities

## A Expanding Access to Financial and Technical Services

The key development hypothesis underlying most income generation activities supported by the Mission is that greater access to credit, productive technologies, information, support services, business skills, and employment opportunities will result in both higher productivity and increased incomes for the poor. This hypothesis is supported by the Peace Accords and assessments of needs in these communities

### Financial Services

Access to financial services – both savings and credit – has been demonstrated to be an important precondition for improving the economic activities and incomes of the poor. Capitalization of economic enterprises – whether small farms or microenterprises – is essential for increasing production and productivity, and for producing goods and services that can be sold in a market economy. The absence of access to economic resources is one of the major impediments to the growth of successful small farms and microenterprises in the rural areas of Guatemala.

Access to financial services is constrained by the fact that, at the present time, there are few viable Guatemalan intermediaries providing financial services in the rural areas targeted for USAID/G-CAP concentration. The following indicates the current presence of financial intermediaries in the proposed twelve market town growth centers.<sup>7</sup>

LOCATION	BANRURAL	FAFIDESS	GENESIS	Savings & Loan Cooperatives
Chimaltenango San Martin Jilotepeque San Jose Poaquil	X		X X	
Huehuetenango Santa Cruz Barillas San Mateo Ixtatan	X			
Quiche Ixcan Sta. Cruz de El Quiche Nebaj	X X X	X		X
Alta Verapaz San Pedro Carcha Chisec	X X		X	X
Baja Verapaz Rabinal	X			
El Petén San Jose La Libertad El Naranjo	X		X	

<sup>7</sup>—It should be noted that several of the BANRURAL offices indicated here are just scheduled for opening in late 1998

One of the Mission's income generation interventions, therefore, is to support the expansion of sustainable financial services to meet the savings and credit needs of the target beneficiaries. This will be accomplished through supporting the expansion and improvement of local organizations that channel financial support to poor rural communities in the targeted geographic areas. This may include the establishment of new branches or offices in the selected geographic areas, expansion of the service capacity of existing institutions in the geographic areas, assistance to improve operations and operational efficiency, and increases in loan portfolios to financially sustainable levels.

USAID-supported activities will encourage existing national non-governmental organizations to establish or expand services in these communities. This includes support to existing service providers for opening new service outlets or expanding the outreach of existing outlets in key rural areas, efforts to increase the involvement and effectiveness of Food Aid PVOs in providing production-oriented credit services to target beneficiaries, and emphasis on programs that increase equal access by rural poor women and indigenous peoples to credit and savings. Implementers might include BANRURAL, private banks, functioning non-bank financial intermediaries, international PVOs, specialized NGO service providers, community organizations, and cooperatives. In particular, PVOs and NGOs implementing the Food Aid program will be encouraged to expand their income generation activities through village banks or other intermediate financial institution activities. Emphasis will be on non-agriculture or microenterprise activities as much as possible in order to respond to declining possibilities for agricultural expansion.

As a result of these program activities, a significant number of small farmers and microentrepreneurs in the targeted geographic areas will gain access to financial services. Key indicators and targets for this are as follows:

*Beneficiary Access to Services Indicators (male/female, Mayan/Ladino)*

- 40,000 new active clients served by supported financial institutions, including 20,000 small farmers and 20,000 microentrepreneurs
- An average of 15,000 new loans (7,500 to small farmers and 7,500 to microentrepreneurs) totaling \$8.0 million (\$4.0 million to small farmers and \$4.0 million to microentrepreneurs) disbursed each year
- Savings of \$2.5 million mobilized in rural financial institutions in the targeted geographic areas by 2001

**Technical Services**

Small agricultural producers and microentrepreneurs also need access to non-financial services – especially training, technical assistance, marketing assistance, information and others. Although it is often more difficult to identify the direct impacts of technical services – as discrete and separate from the impact of credit programs – technical assistance is critical to the adoption of new technologies, adaptation of products and product designs, development of marketing skills, effective business or small farm management, and many of the other skills essential to successful small farms and businesses.

Financial and technical services are at times provided by the same institution. Frequently, however, institutions specialize in either financial or technical services. Whether combined or distinct, the Mission recognizes the importance of technical services to accomplishing Intermediate Results 1 & 2.

One of the major strategies for the Mission, therefore, is to support the expansion of sustainable non-financial services – technical assistance, training, marketing, and other business-oriented services –

through local organizations and institutions. As in the case of financial services, this will be accomplished through supporting the expansion and improvement of local organizations that channel services and financial support to poor rural communities in the targeted geographic areas. This may include the establishment of new branches or offices in the selected geographic areas, expansion of the service capacity of existing institutions in the geographic areas, and assistance to improve operations and operational efficiency.

The following table indicates the current presence of selected institutions (all are current USAID partners) providing technical assistance in the proposed twelve market town growth centers.

LOCATION	ANACAFE	CECI	CHF	CARE	Centro Maya	Yalita Cumi
Chimaltenango San Martin Jilotepeque San Jose Poaquil						
Huehuetenango Santa Cruz Barillas San Mateo Ixtatan	X	X X				
Quiche Ixcan Sta Cruz de El Quiche Nebaj	X	X	X			
Alta Verapaz San Pedro Carcha Chusec	X X		X	X		X X
Baja Verapaz Rabinal						
El Peten San Jose La Libertad El Naranjo				X	X	X

USAID-supported activities will encourage existing national cooperatives, producer organizations and other non-governmental organizations to establish or expand services in these communities. This includes support to

- existing service providers for opening new service outlets or expanding the outreach of existing outlets in key rural areas,
- the Ministry of Agriculture's initiative for private technical assistance and information services for on- and off-farm productive activities,
- further strengthening and expansion of efforts to assist small coffee producer organizations through the National Coffee Association (ANACAFE),
- increase the involvement and effectiveness of Food Aid PVOs in providing productive-oriented services and credit to target beneficiaries,
- contracting of business skill training for microentrepreneurs measuring impact and possible cost-recovery mechanisms, and
- emphasis on programs that increase equal access by rural poor women to factors of production

Implementers for technical services might include private contract service providers, international PVOs, specialized local NGO service providers, community organizations, and cooperatives. In particular, PVOs and NGOs implementing the Food Aid program will be encouraged to expand their income generation activities. Emphasis will be on non-agriculture or microenterprise activities as much as possible in order to respond to declining possibilities for expanding agricultural activities.

As a result of these program activities, a significant number of small farmers and microentrepreneurs in the targeted geographic areas will gain access to financial services. Key indicators and targets for this are as follows:

**Beneficiary Access to Services Indicators (male/female, Mayan/Ladino)**

- 5,000 clients trained through USAID-supported skills training and other contract training programs
- At least 10,000 beneficiaries annually receiving technical assistance and other services through USAID-supported programs

**Implementation Strategies**

Activities to carry out this strategy include:

**New RFP – Income Generating Service Providers** One of the key activities will be a new RFP for expanding and strengthening the delivery of services to small farmers and microenterprises in the selected geographic areas. Under this RFP a contractor or grantee will (a) manage a competitive grant program to stimulate the establishment or expansion of NGOs, cooperatives and other indigenous community organizations that can provide sustainable financial and/or non-financial services in the selected market towns, (b) provide technical support to help privatize MAGA's extension services in the selected geographic areas and manage a fund to help small farmers pay for technical services during the first few years of privatization, (c) assist BANRURAL expand its second-story operations through NGOs and cooperatives, (d) provide technical and other assistance (primarily information) to private banks that want to establish or expand microenterprise and small farmer credit, (e) contract business skill training for microentrepreneurs with built in mechanisms to measure impact and the potential for cost-recovery, and (f) expand policy dialogue to help develop a favorable policy environment for the expansion of microenterprise and small farmer activities.

**Food Aid** Activities under Food Aid Title II will continue to shift from welfare and feeding to support for productive activities by the Food Aid PVOs and NGOs.

**Productive Credits** Establishing a fund for on-lending to community organizations for productive-oriented infrastructure projects through established banks and participating NGOs.

Indicators for the success of these implementation strategies are measured at two levels: (1) the availability of services within the selected geographic areas, and (2) the sustainability and efficiency of the organizations themselves.

**Increased Availability of Financial and Technical Support Services**

- Number of new support institution offices opened or expanded in the target geographic areas

- Number of Departments with operating Private Technical Assistance Units for the provision of agricultural extension services

**Organizational Performance Indicators**

- Number of technical assistance units that are self-sufficient,
- Number of clients paying the total cost of technical assistance,
- Improved operating efficiency ratios,
- Improved cost-effectiveness of NGOS and other service providers, and
- Improved record-keeping, reporting and internal operating systems

**B Improved Land Tenure and Land Use**

Stable access to land is essential to increase agricultural production and incomes. The Mission will support efforts to secure valid land titles through a variety of means, including purchases, titling activities and others. As a result of Mission-supported activities, some 10,000 small farmers will have gained title or other secure access to the land they farm. Activities include

**Land Fund** Capitalizing the land fund (FONTIERRA) to support the sale of land to small farmers

**Land Titling** Assistance to 10,000 small farmers to accelerate the land titling process in selected areas

Indicators of accomplishment for this lower level result include

- Number of titles processed
- Amount of land transferred
- Number of families with secure access to land

**C Market-Town Growth and Development**

Although the Mission's target beneficiaries for income-generating activities are households, some income-generation activities have a direct impact on improving the economic dynamics and viability of the key market towns. This includes

**Industrial para la Paz** Which encourages Guatemalan businesses to expand production and employment in the targeted geographic areas) to improve the economic viability of the market towns and generate direct employment for the rural working poor in these areas

**Food AID** Food for Work plays an important role in strengthening the economic dynamics of the market town areas by supporting community infrastructure projects, strengthening local community organizations, and stimulating self-help community activities

Other activities – such as such as bridges and roads, productive credits – have had, and will continue to have, a direct impact on the infrastructure supporting economic activities in the market town areas. These activities are not intended to strengthen or even work through local intermediaries, but have a direct employment effect and broader impact on stimulating the economic viability of the market town areas

Measures of this intermediate results would include

- Number of businesses locating in target areas
- Amounts of investment generated in target areas
- Number of projects undertaken by local communities
- Number of jobs and full-time job equivalents created

#### **D Improved Policy Environment**

The policy environment plays an important role in the success of the USAID/G-CAP income-generation program at two levels. First, the policy environment plays an important role in determining the relative level of success of Intermediate Financial Institutions (IFIs) and providers of technical and other services. The growth of non-traditional credit providers (especially NGOS) has not been accompanied by a modernization of codes and regulations that were designed for formal financial institutions and business organizations such as cooperatives. Important issues regarding savings mobilization, interest rates, loan practices, quality standards, registration, and regulation need to be addressed and clarified to arrive at a policy environment that ensures quality financial services, but that does not stifle creative and experimentation. Similarly, the effectiveness and sustainability of non-financial service providers – such as marketing cooperatives, business centers, producer associations and others – depends on a policy environment that allows them to operate as legitimate private organizations.

Second, the policy environment has a profound impact on the operations of microenterprises and small farms alike. The ability of microenterprises to grow and prosper is constrained by a policy environment that has not yet adapted to the practical realities of very small businesses. Existing laws and regulations impose a major burden to the survival of such businesses. The absence of a tradition of policy advocates, especially in the microenterprise arena, means that there is no effective forum for raising, debating and eventually modernizing the policy environment to reflect the realities of a vibrant and increasingly important sector of the economy. Legal and *de facto* recognition of microenterprises as legitimate businesses, forms of registration, tax policies, and municipal restrictions often discriminate against such small businesses, and need to be addressed. Similarly, small farmers face numerous policy constraints, such as government price controls, market and marketing distortions, land security and others.

This lower level result can, therefore, be divided into two distinct results

*Improved policy environment for the economic activities of microentrepreneurs and small farmers in Guatemala, and*

*Improved policy environment for providing credit and technical services to microentrepreneurs and small farmers*

Identifying and working to bring about a policy environment that supports the growth and performance of small producers – both small farmers and microentrepreneurs – will be an important component of Mission activities in the policy arena. Improving the policy environment for both microenterprise activities and the provision of microenterprise support services includes the reduction or elimination of regulatory impediments and policy barriers that affect the market, women, and rural poor small producers as a sector. It also includes improved regulation of small financial institutions that take on deposit mobilization functions to ensure the safety and soundness of client savings and deposits. Some of the elements of a sound policy environment that should be in place by the end of the planning horizon are

*Policies Affecting Microenterprise and Small Farmer Activities*

- Legal recognition of the role of microenterprises in economic society
- Simplification of registration procedures recognizing different business types such as sole proprietorships and family-owned microenterprises
- Simplification of regulations, requirements, taxes, and social law requirements for family-owned businesses and sole proprietorships, and removal of regressive taxation and social charges
- Removal of any price controls and other market distortions that adversely impact the prices small farmers receive for their products
- Any restrictions to market access reduced

*Policies Affecting Financial Service Providers*

- Legal recognition of service provider functions
- Legal authority to convert NGOs to financieras or banks
- Prudent regulation of institutions engaged in deposit mobilization
- Minimal standards for microenterprise and small farmer financial service providers, especially those engaged in deposit mobilization
- Revised banking laws permitting greater acceptance of non-traditional collateral for microenterprise and small farmer credits
- Ability to engage in meaningful policy formulation and lobbying

USAID/G-CAP will support an active policy dialogue aimed at generating the types of reforms needed in the policy environment to simulate the sound growth and expansion of the microenterprise sector. Advancing the policy agenda can be accomplished through

- a rigorous assessment of policy needs and determination of priorities,
- Analysis of current ability of small producer organizations to engage in policy formulation and lobbying,
- Technical assistance for policy makers and legislative watchdog organizations,
- Venue for monitoring policy development and debate established,
- Mechanism for tracking implementation of policy changes established

USAID/G-CAP will finance a study of the policy environment during calendar year 1998. Policy reform will be one component of the proposed new income-generation activity. In addition, policy review and dialogue is an integral part of every USAID/G-CAP activity.

**E Improved Access to Food**

Food security is an essential precondition for commercially-oriented economic activity, families must have basic food security before they can turn their energies to commercial activities. Mission activities will provide basic food security to approximately xxx extremely poor families during the planning horizon, permitting them to gradually become involved in market-oriented economic activities and improve their status from welfare recipients to economically active participants.

- Number of job-equivalents provided by Food for Work programs
- Number of families with basic annual food security provided through Title II

The following indicates the current presence of Title II programs in the proposed twelve market town growth centers

LOCATION	SHARE	CARE	CRS	Save the Children
<b>Chimaltenango</b> San Martin Jilotepeque San Jose Poaquil	X	X X		
<b>Huehuetenango</b> Santa Cruz Barillas San Mateo Ixtatan		X X		
<b>Quiche</b> Ixcan Sta Cruz de El Quiche Nebaj	X	X X X	X	X
<b>Alta Verapaz</b> San Pedro Carcha Chusec	X	X X	X X	
<b>Baja Verapaz</b> Rabinal	X	X	X	
<b>El Peten</b> San Jose La Libertad-El Naranjo				

**Improved Utilization of Household Food Resources Indicators**

- % children under 6 months exclusively breastfed
- % children 6 - 10 months with appropriate complementary feeding (the precise feeding behaviors to be targeted will be defined through formative research, and specified in the FY01 R4)
- % children under 36 months with continued feeding during diarrhea
- % children fed extra food for 2 weeks after diarrhea
- % children under 1 year of age immunized (use health SO indicator definition)

**V Activities to Achieve these Results**

**A Activities**

USAID G/CAP proposes to invest approximately \$112 0 million during the 5-year period covered by this SOAG to support the income generation strategic objective. This will be accomplished through a combination of existing and new initiatives. Existing initiatives include

<u>Projects</u>	<u>Description</u>
Communities in Transition	Provides immediate impact assistance to zones in the areas of combat for microenterprise and other productive activities (\$8 92 million)
Maya Biosphere	Identifies and promotes sustainable forest products and productive activities in buffer areas of the ecological reserves (\$8 8 million)
Roads/Bridges	Supports small road and bridge projects in the Ixcán area, helping to develop access to key market towns and providing employment for the rural poor (\$4 3 million)
Land Fund	The land fund, administered through BANRURAL, supports the purchase of land by small producers (\$5 5 million)
ANACAFE	Supports small farmer coffee cooperative producers (\$2 3 million)
MAGA	Privatization of agricultural extension services and assistance to small farmers and microenterprises (\$11 6 million)
Milpas	Entourages community organization, management of microwatersheds and productive activities (\$860,000)
Food AID (Title II)	Supports productive activities – including credit and technical assistance to microenterprises and small farmers – by local community organizations and the Food Aid PVOs Also attempts to improve the nutritional intake of extremely poor children (\$55 0 million)
Small Productive Activities	Supports small self-help development activities by local groups and communities (\$2 0 million)

Proposed new activities to support the income generation strategic objective include

<u>Projects</u>	<u>Description</u>
Industrias para la Paz	Provides technical and consultative services to businesses that will locate and provide jobs in the target geographic areas (\$3 0 million)
Credit Funds	Provides funds for productive activities, including small-scale community infrastructure projects, small farmers and microenterprises (\$5 98 million)

<u>Projects</u>	<u>Description</u>
Industrias para la Paz	Provides technical and consultative services to businesses that will locate and provide jobs in the target geographic areas (\$3 0 million)
New Income Generation Activity	The income-generation activity will support the expansion of technical and financial services to selected rural communities. The activity project will manage grants to qualified financial intermediaries and technical service providers to open or expand offices in the target cities. It will provide support to the MAGA's efforts to privatize extension services and assist in extending ANACAFE small-farmer activities in the selected areas. Finally, it will support an active policy dialogue to improve the policy environment for small-scale farm and microenterprise support institution activities (\$7 8 million)

These program activities can draw on and channel resources from the Rural Credit Fund – an existing fund in BANRURAL for investments in rural productive activities

The new income generation activity will focus on expanding the availability of technical and financial services in the targeted geographic areas. This includes (a) encouraging existing service providers to establish new branches or affiliates in the target towns, (b) encouraging existing service providers to increase services in branches or affiliates already operating in the target towns, or (c) assisting in the establishment of new service providers meeting priority client needs in the selected target towns. This would be accomplished through a competitive sub-grant mechanism that qualifying institutions would use to open new offices or expand services in existing offices. The grants could be used to assist in the formation of new institutions – such as local marketing cooperatives or producers' associations – or for the expansion or strengthening of existing ones. Success would lead to

- the location of commercial bank branches in the target towns, with loan portfolios serving the needs of small farmers and microentrepreneurs,
- Upgraded offshoots from village bank structures serve "graduates" to individual credits and provide business training,
- Increased number of institutions accepting deposits in the target geographic areas

**B Funding Sources**

**Income Generation Strategic Objective  
Including Peace Funds  
(in US \$000)**

<b>Description</b>	<b>Obligated</b>		<b>Planned Obligations</b>			<b>Total</b>
	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	

Description	Obligated		Planned Obligations			Total
	1997	1998	1999	2000	2001	
Development Assistance	3,350 0	2,475 0	2,700 0	4,000 0	3,972 0	16,497 0
Peace Funded	11,100 0	8,550 0	9,600 0	11,250 0	0 0	40,500 0
Food AID	10,680 0	13,950 0	10,505 0	10,505 0	10,000 0	55,640 0
<b>Total</b>	<b>25 130 0</b>	<b>24 975 0</b>	<b>22,805 0</b>	<b>25,755 0</b>	<b>13,972 0</b>	<b>112,637 0</b>

**Income Generation Strategic Objective, Including Peace Funds  
By IR  
(in US \$000)**

Description	Obligated		Planned Obligations			Total
	1997	1998	1999	2000	2001	
<b>IR 1</b>						
Current SOAG	1,700 0	900 0	1,318 0	1,330 0	1 012 0	6,260 0
Land Fund	2,800 0	2,700 0	-	-	-	5 500 0
CHF/CECI CIT	2 420 0	2,380 0	2,200 0	1,920 0	-	8 920 0
Peten Productive Activities	1 380 0	1,420 0	2,900 0	3 100 0	-	8 800 0
Training	-	50 0	700 0	1,150 0	-	1 900 0
<b>IR 2</b>						
Current SOAG	1 300 0	1,250 0	1,000 0	2,410 0	2,600 0	8 560 0
Rural Credit Fund	-	-	1,200 0	2,780 0	-	3,980 0
Policy	<del>200 0</del>	<del>200 0</del>	<del>700 0</del>	-	-	<del>1 100 0</del>
Other Credit	500 0	500 0	500 0	500 0	-	2,000 0
<b>IR 3</b>						
Industrias para la Paz	-	1,000 0	1,000 0	1,000 0	-	3,000 0
CHF Bridges/Roads	3,300 0	1 000 0	-	-	-	4,300 0
SDF	500 0	500 0	500 0	500 0	-	2 000 0
<b>IR 4</b>						
Food AID Title II	10,680 0	13,950 0	14,290 0	14,290 0	14,290 0	67,500 0
<b>USAID Management</b>						
Current SOAG	350 0	338 0	382 0	260 0	360 0	1,690 0
Peace	200 0	-	600 0	300 0	-	1,100 0
<b>TOTALS</b>	<b>25,130 0</b>	<b>25,988 0</b>	<b>26 590 0</b>	<b>29,540 0</b>	<b>18,262 0</b>	<b>125,510 0</b>

## VI RELATIONSHIP TO USAID/G-CAP STRATEGY

Income generation is linked to USAID's Special Peace Objective, which provides resources for immediate needs in education and training, microenterprise development, sustainable agriculture and natural resource management, modernization of the state through justice sector and tax reform, and support to the Peace Secretariat (SEPAZ), BANRURAL and the Land Fund. Linkages also exist between

USAID's environment, democracy and health strategic objectives as further described in the five year Country Strategy Plan for 1997-2001

Under the Peace Special Objective, USAID funds a select number of local NGOs operating in the municipalities of Ixcán in the department of Quiché, Barillas in Huehuetenango, and various municipalities in the northern Peten. Activities include on- and off-farm income generation activities, strengthening of local organizations, and improved land use and alternative income options for biological and ecological reserve areas. Although the Peace SO and the income activities share programmatic similarities, the Mission has not been authorized to merge the two under the banner of income generation, but may do so sometime after 1999.

**Draft**  
**Request for Proposal**  
**INCOME GENERATION (IG)**

October 1998

Draft

Request for Proposal

**INCOME GENERATION (IG)**

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Request for Proposal

## INCOME GENERATION (IG)

### SECTION C DESCRIPTION/SPECIFICATIONS/WORK STATEMENT

#### C 1 PROJECT BACKGROUND

Guatemala is one of the poorer countries in Latin America, its annual per capita income of \$1,340 ranks 14th of the 18 Spanish-speaking countries of Central and South America and the Caribbean. Poverty is especially prevalent in rural areas, where an extremely accidented topography, poor communications and transportation, poor land quality and uneven distribution of land, and limited services have kept substantial elements of the population in extreme poverty. Throughout rural areas a substantial minority of indigenous populations live on the margins of society.

A 36-year internal civil war exacerbated the natural economic depression of the rural areas. Entire villages ceased to exist, either as a direct result of the violence or through abandonment to flee the violence. The service infrastructure of rural areas was severely affected by the violence.

In 1996 the Government of Guatemala (GOG) and the *Unidad Revolucionaria Nacional Guatemalteca* (URNG) reached an agreement to end the conflict, restoring a semblance of peace to rural Guatemala and permitting efforts to reconstruct the rural economy. One of the results of the peace settlement is an increased problem of poverty in the conflictive areas as increasing numbers of returning refugees and displaced populations have settled in remote areas that lack even basic services and infrastructure. At the same time, however, Guatemala's Final Peace Accords lay the foundation for the transition to peace through sustainable development programs. The Accords offered USAID-G/CAP the opportunity to realign rural development/income projects to achieve greater sustainability working with local organizations and government agencies in geographic areas long neglected during the internal conflict.

#### C 1 1 USAID/G-CAP Role

With the signing of the preliminary peace accords for the "Resettlement of Uprooted Populations" and "Identity and Rights of Indigenous Peoples" between the URNG and the Guatemalan Government in 1995, the Mission wanted to demonstrate that the US Government was prepared to respond quickly to the Government of Guatemala (GOG) in the resettlement and reconciliation process and, secondarily, illustrate that programs to assist target populations can also result in sustainable, productive activities.

Demonstration of both became the Communities in Transition (CIT) program, which was designed to assist the reconciliation process of refugee and displaced populations within their settlement communities in two of the most conflictive and isolated areas of the country – the Ixcán, Quiché, and Barillas, Huehuetenango. Two grant activities funded under this program focused on increasing economic opportunities as a means to encourage reintegration of refugee and displaced populations with their "home"

communities. Development of economic opportunities in these areas was complicated by isolation and, for the Ixcán, limited agricultural or other economic potentials. These constraints motivated the Mission to focus primarily on issues of stability of the society in these depressed areas while identifying ways to increase sustainability of the productive activities.

With the signing of the Final Peace Accord in December 1996, the USG committed \$260M in support over a four-year period. Approximately \$100 million of this commitment directly supports the implementation of the Peace Accords. In 1997 the Mission signed a special Peace SpO Agreement with the GOG. In early 1998, the Mission's Peace program redefined its indicators in support of the Peace Accords. Intermediate Result (IR) 3 became "increased sustainable productive activities through access to credit and training for microentrepreneurs and small scale farmers in ex-conflictive areas." Activities under CIT and MBP were incorporated into the Peace SpO Agreement under IR 3, and four additional activities were added by the Peace SpO Team: (a) vocational education, (b) increased credit funding for the productive activities, (c) productive electricity, and (d) private sector investment support.

Also initiated in 1997 was a program under the existing Maya Biosphere Project (MBP) framework to fund productive activities for returning refugees and displaced populations that were settling in buffer areas of the Maya Biosphere Reserve. This project includes land titling, non-extractive forest product development, and microenterprise development to remove pressure on the land.

#### **C 1 2 Rationale for Proposed Income Generation Activity**

Levels of poverty in the rural sector continue to be alarmingly high, and the rural population faces many obstacles to participation in the economic opportunities of a growing economy. Lack of access to financial services is one important constraint to income generating activities that would contribute to the improvement of the standard of living of the rural poor. Rural credit markets in Guatemala are shallow, and rural households have limited access to credit and savings services – fewer than 12% of rural households received a loan in 1995, for example. Moreover, rural households do not have access to a variety of specialized lenders, as only 0.3% reported debt balances with more than one type of lender.

A combination of factors impede the supply of credit to rural households, and more specifically microenterprises: (a) an underdeveloped institutional infrastructure, (b) government interventions which have crowded out private lenders by allowing weak public sector institutions to lend with poor recovery and subsidized interest rates, (c) previous interventions in agricultural marketing that have prevented the development of informal financing sources, and (d) the recent conflict and resulting insecurity in rural areas. Most microfinance programs reach the urban poor more successfully than the rural poor. Moreover, credit for agriculture is a particularly difficult area. Current surveys in Guatemala show that approximately one-third of all rural households have some access to financial services -- but the main challenge is to reach the two-thirds who do not. This group tends to include the poorest households and those located in the more remote rural areas.

Access to financial services by the poor remains an important constraint in rural areas, notwithstanding the fact that the commercial banking system has a presence in most municipal areas. The lack of interest by formal financial institutions in serving small clients continues to be a constraint to microenterprise and small farmer development. Responding to the problems of the increasing financial needs of the rural poor, the inaccessible banking system, and the deficient situation of most informal institutions serving rural microentrepreneurs, the IG activity will institutionally strengthen NGOs and other financial entities currently serving or capable of serving this microenterprise and small farming population, as a means to

support the rural poor in their efforts to improve their financial situation. In particular, the IG activity will provide incentives to encourage both formal and non-traditional financial institutions open or expand services in selected rural areas of the country.

The formal financial sector has great potential to reach smaller scale clients. The newly reconstituted BANRURAL has a credit line that attempts to provide incentives for commercial banks to lend to NGOs and other non-bank/financiera credit providers -- who in turn lend to microentrepreneurs. Nevertheless, such credit activity is moving slowly and currently not reaching the rural poor through financial intermediaries as intended.

There is a strong need within the NGO and non-bank/financiera sector for the incorporation of sound banking practices similar to those of banks and financieras, in order that they can lower their cost of capital by accessing commercial bank lines of credit. For institutions willing and able to fully formalize-- namely take the steps to become a bank-- there is the added dimension of mobilizing client savings. In order to be considered serious candidates for formal supervision by the GOG financial system regulatory body (or possibly by a supervisory unit for small non-bank/financiera financial intermediaries), NGOs and other microfinance organizations must move rapidly toward formalization of their operations and establishment of sound banking practices.

Savings is a key service that is lacking in rural areas, and there are few programs that attempt to promote, capture and utilize savings accounts for rural sectors. One such effort is through rural savings and loan cooperatives that channel credit derived primarily from mobilized savings to its co-op members. However, only one of the 12 priority areas targeted for the IG activity is served by a credit union. NGOs are prohibited from mobilizing savings. Opening bank and credit union branches to meet savings needs in the targeted areas is a key priority of the IG activity.

In addition to financial services, developing a sustainable rural economy requires the availability of other technical, marketing and business services -- all of which are scarce in rural Guatemala. The second key priority of the IG activity is to increase the availability of these services in selected areas of the country.

### **C 1 3 Relationship to USAID/G-CAP Strategy**

The Income Generation (IG) Activity contributes to achieving the Mission's Strategic Objective No. 4

*To achieve sustainable increases in household income and food security for a significant number of the rural poor in selected geographic areas of the country*

and will be a major contributor to achieving two of the targets for this strategic objective

- Increase annual household income by 50% for 50,000 microenterprise businesses and small farms during the seven years covered by the Mission's strategic plan (1997-2003), and
- Produce major improvements in household standards of living -- housing quality and possessions -- of 50,000 direct program beneficiary households

In specific, the IG activity contributes to two intermediate results -- helping small farmers engage in higher value production and marketing, and helping microentrepreneurs expand their businesses. Because many of the intended beneficiaries of USAID/G-CAP activities designed to improve household incomes are extremely poor peasant farmers whose existence depends on the success of agricultural activities,

generating sustainable household incomes depends on success in fomenting sustainable agricultural activities. For this to occur, small farmers should use sustainable agricultural production practices, and increase their productivity and sales in the market economy. The IG activity will contribute directly to meeting the following targets for small farmers:

- 20,000 additional small farmers in the target areas using sustainable agricultural practices that increase incomes and minimize destruction of natural resources and their own farms,
- An average increase of 25 percent in marketed production and sales among program participants in the targeted geographic areas, and
- An average increase of one full-time employee per small farm assisted by the program

Generating sustainable household incomes for microentrepreneurs depends on improvements in the microenterprises themselves – improved productivity, increased production, and increased volumes of sales. The IC activity will contribute directly to meeting the following targets in the microenterprise sector:

- 15,000 microenterprises in the target areas that have increased their average monthly sales volumes by at least 25 percent, and
- An increase of 30,000 full-time jobs in the microenterprise sector in the target geographic areas

The IG activity will be concentrated in the Mission's targeted priority geographic area – 12 key market town growth areas in 6 of the country's poorest departments (see map)

Income generation is linked to USAID's Special Peace Objective, which provides resources for immediate needs in education and training, microenterprise development, sustainable agriculture and natural resource management, modernization of the state through justice sector and tax reform, and support to the Peace Secretariat (SEPAZ), BANRURAL and the Land Fund. Under the Peace Special Objective, USAID funds a select number of local NGOs operating in the municipalities of Ixcán in the department of Quiché, Barillas in Huehuetenango, and various municipalities in the northern Peten. Activities include on- and off-farm income generation activities, strengthening of local organizations, and improved land use and alternative income options for biological and ecological reserve areas. Linkages also exist between USAID's environment, democracy and health strategic objectives as further described in the five year Country Strategy Plan for 1997-2001.

## **C 2 PROJECT GOAL AND PURPOSE**

As specified in IR 1 and IR 2 for the Income Generation S O, the goal of the Income Generation (IG) Activity is to help small farmers in the target areas expand income-generating production and marketing, and to help microentrepreneurs in the target areas expand their businesses.

**IR 1** More small farmers engaged in higher value production and marketing

**IR 2** More microentrepreneurs expanding their businesses

The purpose of the Income Generation Activity is to increase the access of small farmers and microentrepreneurs in the target geographic areas to sustainable, high-quality financial and technical services. Thus, the IG activity aims at improving the availability of financial and technical services to small farmers and rural microenterprises in selected geographic areas of the country. This will be

accomplished through providing technical and financial assistance to a variety of financial and non-financial institutions that serve small farmers and microenterprises to help them locate or expand services in selected geographic areas of the country

The Income Generation activity will place special attention on fostering sustainable services so that project beneficiaries enjoy a long-term access to financial and technical services. It will assist in helping local service providers become financially sustainable. In particular, local organizations providing financial services will be provided the assistance and resources that will enable them to become financially viable and in a better position to access formal financial system funds. Maintaining healthy loan portfolios and accessing fresh funds will permit rural financial institutions to increase their clientele, contributing to the achievement of the Activity's goal of increased access to financial services by the rural poor. Through this approach, IG will contribute to facilitating economic opportunities for the target population and significantly contribute to the Mission's strategy objective to increase sustainable household incomes in selected geographic areas.

### **C 3 CONTRACT PERFORMANCE**

#### **C 3 1 Expected EOPS Results**

The following results are expected to be achieved by the end of the activity

- 1 Increased clientele in the rural, poor sector of the selected geographic area who are accessing financial and technical services through activity-funded institutions by at least 50,000 microenterprises and small farmers<sup>1</sup>
- 2 Improved capability of a minimum of 8 to 10 recipient rural financial or technical service providers in these areas to the point that these institutions are providing high-quality, fee-based service and credit, and are self-sustainable. Assisted financial service organizations will have access to additional sources of capital through relationships with formal sector financial institutions or, (if legally possible) savings accounts, and are capable of providing additional financial services. These service providers may include NGOs, credit unions, cooperatives, producers associations and other indigenous local organizations and service providers
- 3 Increased involvement of private, formal sector banking institutions in the provision of financial services to microenterprises and small farmers in the targeted geographic areas, either directly or through second-story operations with NGOs and other local level financial service providers
- 4 A single, uniform results-oriented reporting form used by all USAID-supported implementers to report income-generation program results

A financially sustainable service provider is defined as one that collects sufficient revenues to cover the full opportunity cost of its activities. Such a program can continue operating indefinitely at a stable or growing

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<sup>1</sup>Note the contractor will not be responsible for all 50,000 new clients, as some of these will be achieved through direct grants administered by the Mission

scale, without further support from governments, donor agencies, or charitable organizations. Growth in the program's lending and/or other services can be funded on a commercial basis -- the reinvestment of profits, loans from commercial banks, equity from private investors, or -- in the case of licensed financial institutions -- through the mobilization of deposits. Financial sustainability requires that income from interest and fees charged to borrowers, fees charged to clients, or other business activities cover (1) the program's operational costs, including salaries and other costs of administration (whether paid by the microfinance entity or received as a donation), depreciation of fixed assets, and losses due to default and (2) its financial costs, including both the costs of raising funds through deposits or commercial loans and the opportunity cost (including inflation) of any grants or low-interest loans previously provided by donors. A service provider whose revenues cover its operational costs but not its financial costs has attained *operational self-sufficiency*, which will be used as an interim standard of financial performance.

The process of achieving financial sustainability will be monitored and periodically assessed by the Contractor. Therefore, the offeror must propose the monitoring and milestone plan that reflects its approach to achieving the above results.

### C 3 2 Strategy

The IG activity will encompass several distinct, but interrelated, approaches for increasing the availability of technical and financial services in the targeted rural areas. These include:

- A competitive grant program to assist institutions in opening new offices or expanding existing services in the 12 market towns chosen as the focus of the USAID activities,
- Technical assistance to the Ministry of Agriculture, Livestock and Food (MAGA) to continue the privatization of its extension services and ensure the availability of private extension services to small farmers in the 12 geographic areas, and
- Technical and other support to BANRURAL to improve its ability to function as a second-story financial institutions channeling loans to small farmers and microenterprises through cooperatives, NGOs and other non-traditional financial service providers, and support to other private banks to increase their participation in small farm and microenterprise lending in the selected geographic areas.

Each of these components is described in greater detail later in this document.

## C 4 SCOPE OF WORK

### C 4 1 Responsibilities

The Contractor will be responsible for four distinct activities: (a) managing a competitive grant program to stimulate the establishment or expansion of NGOs, cooperatives and other indigenous community organizations that can provide sustainable financial and non-financial services in the selected market towns, (b) help BANRURAL and private banks to expand services in the target geographic areas through improved second-story operations through NGOs and cooperatives and providing technical and other assistance (primarily information) to private banks that want to establish or expand microenterprise and

small farmer credit programs in the selected areas, (c) providing technical support to help privatize MAGA's extension services in the selected geographic areas and (d) establishing a monitoring and reporting system for all Mission activities related to income generation

The Contractor will be responsible for the management, administration and oversight of activity operations, and the performance of specific results indicators and reporting requirements. It will administer the activity grant funds and make disbursements to selected grants recipients. The Contractor will also be responsible for the procurement of major commodities anticipated under the grants (i.e. the funding will be taken from each of the grants approved by the Committee)

#### C 4 2 Project Management Unit (PMU)

The Contractor will establish a Project Management Unit (PMU) to carry out the IG Activity. The PMU will be set-up as a *small*, administratively-streamlined entity, capable of effectively managing all aspects of the IG activity – including the grants program, short- and long-term technical assistance, training and results monitoring

#### C 4 3 Activity Components

##### C 4 3 1 Grants Component

The Grants Component is designed to encourage service providers to either locate offices in the selected geographic areas, or to expand operations in existing offices in those locations. USAID/G will help cover the costs and risks of successful grant proposals to locate or expand operations. Grants can cover operational costs, costs associated with establishing or expanding offices, costs associated with developing new services specifically targeted at women and ethnic minorities, and other expenses approved by USAID/G-CAP. For grantees involved in financial services, the program can help the grantees gain access to established sources of funding to capitalize credit funds. It is estimated that individual grants to institutions will be between \$50,000 and \$100,000

##### Qualifications

Although there may be a large number of potential players in the microfinance and small farm assistance sectors, the best approach is to concentrate efforts on supporting a few select NGOs, cooperatives, credit unions and other entities that meet the following selection criteria:

- Demonstrated potential to increase the access of the rural poor to financial and technical services, which could be, but not limited to, through the creation of branch offices, agencies and other outreach activities
- Willingness of the potential grantee to work directly with USAID/G-CAP's customers (i.e., rural, poor, microentrepreneurs and small farmers). Willingness to implement proven financial disciplines towards the attainment of financial sustainability,
- Flexibility to modify methodologies and procedures to better address specific situations in the field,

- Potential to sustain activities beyond the termination of assistance,
- Proven experience in providing technical and/or financial services to small farmers or microentrepreneurs,
- Audited Financial Statements from the previous calendar year by an authorized independent audit firm (If the Auditor's Opinion is qualified or negative, corrective actions must be accomplished in the short-term )

#### Award Process

The grant process consists of a series of steps

- a preproposal conference to be carried out by the contractor, at which time the grant eligibility criteria and the proposal format – to be prepared by the PMU and approved by USAID/G-CAP – are described in detail
- Proposals (which could be for as little as one year, or up to the duration of this contract) will be prepared and submitted by local organizations wishing to participate in the program within 30 days of the preproposal conference. The institution must provide an acceptable/feasible written commitment to (1) attain full financial sustainability on the organization's financial services activities within a period to be determined on a case by case basis, and (2) use the activity grant assistance to expand the availability of services to rural microentrepreneurs and small farmers and other poor people. The commitment must be accompanied by a business plan outlining the major steps to be undertaken in the process of achieving this goal, including a realistic timetable for undertaking those steps, and defining periodic benchmarks by which progress toward the goal can be determined/measured
- During the first year a technical team, composed of the PMU and USAID/G-CAP, will screen proposals for new grants and will evaluate the performance and qualifications of institutions that are soliciting grants. Proposals are first screened for compliance with criteria as stated in the request document. If a proposal is considered qualified by the technical team, but lacks specific information, the eligible applicant will then be allowed additional time to comply with all the required criteria. In subsequent years the technical team will also review the use of funds and accomplishment of business plan objectives for institutions that have received grants. The technical team may specify, through negotiation with the grantee, technical assistance deemed necessary to achieving activity objectives that is to be included in the grant proposal
- After all proposals have been reviewed and screened by the technical committee, potentially fundable proposals will be grouped into two categories: 1) proposals recommended for grant assistance (group A), and 2) proposals which need to meet certain conditions before they can be recommended for grant assistance (group B). The two categories of proposals are then summarized and presented to a Grants Committee.<sup>2</sup>

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<sup>2</sup>The composition of the Grants Committee will be determined by USAID/G-CAP and the contractor during the first two months of the project

- The Grants Committee is convened for review and approval of the most qualified category A proposals, and grant assistance is authorized, grants are signed and disbursements are made shortly thereafter (estimated to be within a 30 day period)
- If the Committee agrees with the technical team's assessment of category B proposals and the conditioned requirements, (or those category A proposals that are not approved by the Committee in the first round), then these proposals will be returned for compliance by the applicants. Applicants will be allowed one week to comply with the stated conditions. During this time, the PMU technical team will maintain close contact with the applicants in category B to verify that conditions have been met. Once conditions are met, grant assistance will be approved. If a category B proposal is not in position to meet the required conditions, then the proposal will be rejected.
- It is expected that approved grants will typically be for more than one year. However, the performance of each grant recipient will be reviewed quarterly by the PMU. Annually the PMU and USAID/G-CAP will approve the subsequent year's funding. Annual performance criteria for each grant recipient will be established as a requirement for the approval of each grant disbursement. Any major issues which arise will be resolved by the contractor (PMU) in consultation with USAID/G-CAP.

The Grant Committee is expected to meet as needed during the course of the year to review and approve grants

#### Grant Recipient Characteristics

Services under this contract will strengthen two types of rural service entities: 1) organizations providing financial services to microenterprises and small farmers – including some that are NGOs – with assistance designed to help these programs grow through the pursuit of financial sustainability and, 2) existing non-financial service organizations that are looking to establish windows or branches to pursue the microenterprise market, targeting the rural sector. For this second category, the challenge lies in finding cost-effective, market-based, and sustainable means to encourage a focus on rural micro and small farm enterprises.

A rural microfinance program may be "mixed", whereby service to the poor stratum is blended with service to a somewhat higher stratum of microenterprises. As smaller loan sizes tend to involve higher costs per client, and as provision of services to large numbers of very poor rural households tends to involve high costs, it is more difficult to achieve financial self-sufficiency while serving the rural poor. Programs that exclusively target the very poor must seek creative methodologies and often must charge higher interest rates and fees. While programs that serve a broad spectrum of microenterprises and small farmers can spread their costs across loans of larger average size, and thus have more leeway in reaching financial viability.

The contractor will provide technical assistance to help the recipients adopt "best practices" in their operations, including the implementation of an effective management information system (MIS). Where necessary and appropriate, financial support may be provided to help the organization reach a sustainable scale. Organizations that are either unable or unwilling to offer a credible commitment to attain these goals will not be eligible as grant recipients.

### Technical Assistance to Grantees

The contractor is expected to provide other assistance to the grantees both during the proposal preparation phase and the period of their grants to help them overcome operational difficulties and ensure that the program's objectives are met. The following are some of the areas that will institutionally strengthen eligible entities serving the small farmer and microenterprise sector

- Training staff for improving their credit analysis capacity, more appropriate calculations of delinquency rates and reserve requirements, improved accounting systems, improved reporting systems and loan recovery procedures,
- Advice on sound financial practices (i.e., creation of capital and reserves, appropriate interest rate policies, reduction of administrative costs, and financial specialization),
- Revision and improvement of credit methodologies (e.g., village banks, solidarity groups, credit unions, individual loans) to address more appropriately customers' needs and assure loan repayment. Credit diversification will be recommended to minimize risk and have greater potential for expansion into rural areas,
- Assistance to new, quasi "financieras" to comply with Superintendency regulatory requirements for internal procedures and financial policies (audits, classifying loan defaults, operational expenses vs. assets, capital requirements, information systems). NGO efforts to improve their regulatory environment will be supported in order for them to gain access to commercial banking system funds (e.g., BMI credit lines), and once authorized as "financieras", capture savings,
- Keeping in mind the goal of these institutions of becoming complete financial entities, assist them in setting up savings programs, including adherence to legal and financial requirements to become eligible to capture and manage savings from the public,

Assistance may include the additional capitalization requirements of NGOs and other financial entities as a means to achieve sustainability and to support them in their efforts to become full service financieras. This assistance will be granted based on financial performance, and will most likely be reserved for the latter-years of a grant recipient, once the more urgent technical and training needs have been met. The contractor will propose to USAID/G-CAP alternatives on the best approach/mechanism to provide capital for lending to grant recipients which should be in line with the Activity's overall goal of making these recipients self-sustainable. These alternatives should be efficient and simple to implement,

Assistance will be provided for the procurement of fixed assets for a microfinance entity for the improvement of their current financial services installations and for the establishment of a branch finance office or agency within proximity to the rural, microenterprise market. This assistance will be evaluated on a case by case basis, and may include rental space, vehicles, vaults, banking computer equipment, management information systems, operational costs, arrangements for local transportation, and in few cases may include lines of credit.

### Limitations for Grants Award

- The contractor shall not award grants that provide for payment of profit

- The duration of any individual grant (and of all grants) shall not exceed the estimated completion date of the contract
- While the contractor shall be responsible for awarding and implementing the grants, USAID/G-CAP shall retain the right to unilaterally terminate such grants in extraordinary circumstances
- USAID/G-CAP reserves the right to reject any institution that may have been selected by the Grants Committee which, to the best knowledge and belief of USAID/G-CAP, does not fulfill the requirements established beforehand

#### **C 4 2 2 Formal Sector Financial Institution Support**

The contractor will provide technical and other support to BANRURAL to improve its ability to function as a second-story financial institutions channeling loans to small farmers and microenterprises through cooperatives, NGOs and other non-traditional financial service providers. Among the actions contemplated, the contractor will review and make recommendations for improving and streamlining BANRURAL's loan procedures, provide management training for effectively managing microenterprise and small farmer lines of credit, and help improve communications and management information systems -- including systems to audit the bank's portfolio and the accounts of participating NGOs.

The contractor will pay particular attention to improving BANRURAL's lines of credit through NGOs. This includes, but is not limited to helping the NGOs understand the logic for and need to access formal sector lines of credit, helping NGOs meet bank requirements for credit worthiness, and developing audit procedures for BANRURAL to use to determine the credit worthiness of NGO applicants.

The contractor will also support the increased involvement of other private banks, private financieras and credit unions<sup>3</sup>, in small farm and microenterprise lending in the selected geographic areas. For the most part this will consist of training and materials to help institution managers understand the value of microenterprise lending, and to provide practical approaches to managing small loan portfolios. The contractor may also help NGOs establish credit worthiness for accessing commercial bank lines of credit, and may schedule specific technical assistance to institutions.

#### **C 4 2 3 Agricultural Technical Services**

The contractor will provide technical assistance to the Ministry of Agriculture, Livestock and Food (MAGA) to continue the privatization of its extension services and ensure the availability of private extension services to small farmers in the 12 geographic areas.

Since the mid-1970s Mission activities in rural development worked directly with the Ministry of Agriculture's extension organizations on projects from traditional and non-traditional crop improvement to development of community forestry concessions. Many lessons were gleaned from these projects and incorporated into the current Mission program. One of the primary lessons was that farmers will work together in community, including with local elected authorities and MAGA extension agents, to improve the

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<sup>3</sup>Note that credit unions may be both grant recipients and participants in this formal financial sector strengthening component

management of their natural resource base, especially when increased productivity and profit can be realized. Project activities proved to aid in long term stability of the resource base while building a sense of communal responsibility, including that of the local government.

The GOG/MAGA budget for extension during the period became an increasingly larger constraint for them to provide services to small and medium farmers. Therefore, an important and critical lesson from a recent project was that small poor farmers will pay for private technical assistance (TA), for both crop production and marketing, when the results of the TA are tangible. Payment must be tied to the results of the TA and payable in product or cash. Additionally, the technicians or service providers can make a living providing services to groups of small farmers. The model private extension service initially provided a subsidy, reducing over time, for payment of the TA. The model has been adopted by MAGA to replace the government extension service. It is this system with which the contractor will work to institutionalize.

Technical assistance and credit are linked in the model based on the combined experience of the Small Farmer Coffee Improvement project and credit programs through the Rural Development Bank (BANRURAL) proved to credit providers that TA can be included as a legitimate cost in a loan package. The experience was so significant that BANRURAL incorporated the methodology into its newly constituted Rural Credit Fund (initiated with old USAID trust funds). With the adoption of the model, MAGA restructured and drastically reduced its' extension service creating the need for immediate implementation of the private technical assistance services. Establishment of this service is integral to increasing access to services by the rural poor.

The contractor will provide assistance to establish a support unit within MAGA to spread the use of private technicians by poor rural communities. The contractor will (a) conduct a business planning exercise with MAGA to plan the structure, scope, and operations of the proposed support unit, (b) assist in preparing internal regulations and operating procedures for certifying (and recertifying) private technical assistance providers, (c) assist in drafting procedures and norms for generating technical assistance plans and contracts between local producer organizations and private technical assistance providers, (d) assist in developing standards and procedures for implementing a grant subsidy program for low-income producer associations to encourage them to make use of paid private technical assistance, and (e) establish a mechanism within MAGA to monitor performance and results.

The contractor will assist MAGA in implementing this system during the first two years of the contract – revising plans and operations as necessary to assure a sustainable system for providing technical assistance in rural areas.

#### **C 4 2 4 Uniform Results-Oriented Reporting System**

The Mission's Income Generation Strategy is being implemented through a plethora of contracting and grant mechanisms. All of these have the same basic objectives, but there is no uniform standard for indicators, targets and reporting formats. The contractor will, in consultation with USAID/G-CAP and other organizations involved in the income generation strategy, design a common format and methodology for the reporting of performance and impact data.

This reporting methodology must be designed to systematically collect consistent data needed for both performance and impact monitoring through standard formats that do not require special surveys or other expensive data collection methodologies and that do not greatly increase the cost or level of effort required.

of the implementing agency Loan application forms and standard extension agent reports will be the main sources of information

#### **C 4 4 Other Tasks**

##### **C 4 4 1 Procurement of Commodities and Services**

Commodity procurement is expected to be included in the IG Activity to support the institutional development of grant recipients in many areas such as accounting, management information systems, training, credit delivery, security, etc The Contractor will be responsible for the procurement of major commodities for grants recipients Among these procurements might be motorcycles, personal computers and software, audio visual equipment and supplies, vaults, photocopiers, and automation equipment

The contractor must seek the approval of the Contracting Officer for any purchases of automated equipment (i e computers, word processors), software or related supplies and services if the total cost of the procurement is expected to exceed \$100,000 The Contracting Officer shall, in turn, obtain concurrence from USAID/G-CAP/W, M/IRM before providing approval to the contractor

Grant recipients may be authorized to locally procure minor commodities/equipment such as desks, chairs, typewriters, file cabinets and other commodities at the discretion of the contractor The contractor will provide procurement information and procedures to grant recipients as necessary

##### **C 4 4 2 Training Activities**

Assistance may also include training sessions for local microentrepreneurs who comprise the target market of a particular microfinance grant recipient It is anticipated that specialized training may be appropriate to stimulate the microenterprise sector and provide viable clientele for credit and savings services provided by local microfinance institutions These training activities will be coordinated by the contractor with the grantees The technical assistance to grant recipients for the adoption of best financial practices could be combined with training sessions for their staff These activities will be coordinated or arranged by the contractor A Training Plan should be included in each year Action Plan submitted by the contractor to USAID/G-CAP Every effort will be made to benefit rural men as well as women (50% each) from customized training interventions to empower them to make use of credit and technical assistance to upgrade their living standards

The need for financial institution personnel to attend a customized training program out of the country will be considered and examined jointly with USAID/G-CAP

#### **C 5 IMPLEMENTATION SCHEDULE**

The implementation schedule will be developed each year by the contractor and approved by USAID/G-CAP Performance will be measured against the approved implementation schedule During the start-up of the contract, the contractor will accomplish the following

- |   |   |   |
|---|---|---|
| 1 | Relocate personnel to Guatemala                                     | Within 30 days of signing of contract                                   |
| 2 | Establish, furnish, staff and equip office in Guatemala             | Within 45 days of signing of contract                                   |
| 3 | Develop first year workplan   | Approved by USAID/G-CAP within 90 days of signing of contract           |
| 4 | Identify potential financial and technical service grant recipients | Within 90 days of signing of contract                                   |
| 5 | Prepare grant criteria and procedures                               | Approved by USAID/G-CAP within 120 days of signing of contract          |
| 6 | Develop workplan for MAGA activities                                | Approved by MAGA and USAID/G-CAP within 120 days of signing of contract |
| 7 | Develop workplan for BANRURAL and private bank activities           | Approved by MAGA and USAID/G-CAP within 120 days of signing of contract |
| 8 | Hold pre-grant conference for potential grantees                    | Within 150 days of signing of contract                                  |
| 9 | Review initial grant proposals                                      | Within 180 days of signing of contract                                  |

**C 6 PERSONNEL**

**C 6 1 Team Composition**

The following technical personnel are considered essential for the implementation of the activity a Chief of Party, a Financial Services Specialist, a Private-Sector Agricultural Extension Services Specialist, a Grants Management Specialist, and a Financial Analyst However, the offeror may propose alternative staffing, as long as the key skill areas are covered and the team proposed is judged to have the capacity to carry out the scope of work The team will also include local support staff as required Any or all of these positions may be filled by local, TCN or US technicians

Short-term technical assistance will complement the long-term team in specialized subjects Offerors are required to propose staffing that fulfills the mix of skill areas The contractor will be required to have the Chief of Party and other key personnel in place within 45 days after award

**C 6 2 Qualifications, Responsibilities and Duties of Key Personnel**

These categories of specialization may be modified at the time of contract negotiation, including the duration of the assignment, based upon proposed information/approach provided by the contractor and acceptable to USAID/G-CAP

Chief of Party/PMU Manager (36 person months)

The Chief of Party will be the Contractor's principal representative in Guatemala and have primary responsibility for managing the IG Activity and maintaining appropriate liaison with financial institutions, NGOs, other governmental institutions and USAID/G-CAP. The Chief of Party will also

- Provide vision and overall leadership to project team
- Manage the Contractor's in-country technical assistance team
- Coordinate the work of short-term technical assistance
- Prepare annual work plans
- Submit reports and other administrative information to the USAID/G-CAP project manager as required
- Create Grants Committee
- Oversee the competitive grants process (prepare annual workshops and proposal format)

For this position desired qualifications include an MBA or other advanced degree in Business, Economics or related field with at least eight (8) years of experience in managing developmental projects with emphasis on rural credit and technical services. He/She should have

- proven managerial skills involving large projects,
- ability to work comfortably with diverse income groups,
- ability to establish and maintain good working relationship with USAID/G-CAP management,
- excellent oral and written communication skills in both English and Spanish,
- the ability to quickly establish good working relationship with senior level governmental officials as well as representatives of NGOs and the financial system,
- experience with MIS, and
- prior knowledge of USAID project management procedures

Financial Services Specialist (36 person months)

Desired qualifications would include an MBA/Advanced Degree in Finance or Banking and at least five (5) years of experience working with either profit-oriented or non-profit financial institutions, preferably

institutions engaged in small farmer or microenterprise credit and other financial services Knowledge of the microfinance sector financial and accounting systems is required for the full understanding of issues related to the sustainability of financial intermediaries He/She should also be able to carry out performance planning and budgeting and should have experience with MIS for financial institutions This person should also be familiar with microlending and small farmer lending methodologies It is also required that this person be fluent in both Spanish and English

For this position desired qualifications include an MBA or other advanced degree in Business, Economics or related field, with at least eight (5) years of field experience in finance programs He/She should have

- proven banking and financial management,
- the ability to work comfortably with diverse income groups,
- the ability to establish and maintain good working relationship with USAID/G-CAP management,
- excellent oral and written communication skills in both English and Spanish,
- the ability to quickly establish good working relationship with senior level governmental officials as well as representatives of NGOs and the financial system, and
- knowledge of USAID project management procedures

#### Organizational Development Specialist (24 months)

This specialist would be responsible for assisting MAGA to establish a support unit within MAGA to spread the use of private technicians by poor rural communities The contractor will (a) conduct a business planning exercise with MAGA to plan the structure, scope, and operations of the proposed support unit, (b) assist in preparing internal regulations and operating procedures for certifying (and recertifying) private technical assistance providers, (c) assist in drafting procedures and norms for generating technical assistance plans and contracts between local producer organizations and private technical assistance providers, (d) assist in developing standards and procedures for implementing a grant subsidy program for low-income producer associations to encourage them to make use of paid private technical assistance, and (e) establish a mechanism within MAGA to monitor performance and results

This specialist should have an advanced degree in organizational development or a related field, with at least 10 years of practical experience, and must be fluent in Spanish and English In addition, the consultant should have

- the ability to work comfortably with diverse income groups,
- the ability to establish and maintain good working relationship with USAID/G-CAP management,
- excellent oral and written communication skills in both English and Spanish,

- the ability to quickly establish good working relationship with senior level governmental officials as well as representatives of NGOs and the financial system, and
- knowledge of USAID project management procedures

#### Financial Analyst (18 months)

The Financial Analyst would be responsible for assessing financial performance/situation of the institutions applying for grants and determining levels of operational/financial sustainability of grants recipients based on negotiated annual targets with grants recipients. He/She will be responsible for monitoring the advance towards self sustainability and the adoption of recommended sound financial practices. In addition, this person will be responsible for assuring the integration of the financial/accounting systems with the microfinance system of the financial institutions receiving grants. This professional will develop scopes of work for medium and short-term technical assistance based on needs identified in grants recipients proposals to assist them to adopt best financial practices.

This specialist must have an MBA or similar advanced degree in finance, financial analysis or other similar field, and at least 5 years of practical experience. The consultant must be fluent in Spanish and English.

#### Grants Management Specialist (24 months)

This specialist would be responsible for managing the grants process. This includes processing the approved grants, establishing and maintaining a schedule for grant disbursement, monitoring performance targets and grant criteria tied to disbursements, and preparing grant documentation and reports. A college degree or secretarial degree with substantial experience as an administrative assistant or grants manager would be required. The individual should have an understanding of accounting.

### **C 6 3 Short-Term Advisors**

In addition to the long term technical assistance mentioned above, the Contractor will provide approximately 48 person months of short term off-shore or local technical assistance during the life of the Contract. Short term technical assistance will be coordinated by the PMU to

- assist grant recipients to improve their financial performance through the adoption of best practices towards the attainment of improved customer service and financial sustainability,
- providing training and short-term advisory services to BANRURAL to improve second-story operations through NGOs and other financial service providers, and to private banks and credit unions to encourage greater direct involvement in both microenterprise and small farmer credit,
- to MAGA and small farmer producer organizations to improve the utilization and effectiveness of technical assistance, and to MAG to improve the operation of the technical assistance support unit

## **C 7 CONTRACT TERMS**

Contractor funding will be task-based. Agreement on task budgets and schedules will be determined annually, with requirements for the first year defined in an approved workplan. Performance benchmarks negotiated with USAID/G-CAP for the first and second year will be included in this contract, and modified as appropriate in successive implementation years.

Progress will be evaluated annually. Modifications may be introduced as a result of evaluation recommendations. Any modifications of such significance as to substantially change contractor responsibilities will be addressed through a contract amendment.

## **C 8 PLANNING/REPORTING REQUIREMENTS**

### **C 8.1 Annual Action Plans**

The Contractor will submit for USAID/G-CAP approval annual Action Plans which delineate major activities to be undertaken by Contractor personnel in furtherance of Project goals and financial institutions strengthening towards self-sustainability including a milestone plan. The annual Action Plan will include the strategy that will be used for the achievement of project goals, individual long term TA tasks, expected short term TA assignments, a commodity procurement plan, a training plan, expected targets based on USAID/G-CAP indicators, a monitoring and evaluation plan, and other proposed expenditures of contract funds. The Action Plan shall also include an estimate of counterpart contribution by potential/existing recipient institutions.

### **C 8.2 Financial Reports**

The contractor will submit a Financial Report along with the Quarterly Progress Report to be submitted to USAID/G-CAP in April, July, October and January of every year. This Report shall include expenses incurred during the quarter, not only of the contractor's operational expenses, but also by recipient, and a Counterpart Contribution Report.

### **C 8.3 Quarterly Progress Reports**

The Contractor shall monitor performance under the Contract and ensure that time schedules are being met, projected work units by time periods are being accomplished (of both the contractor and the microfinance grant recipients), and other performance goals are being achieved. Based upon this monitoring, the Contractor will maintain monthly records and shall submit quarterly technical performance reports to USAID/G-CAP that briefly present at minimum the following information for each function under the Contract:

- A comparison of actual accomplishments with the target indicators established for the period in the implementation plan based on USAID/G-CAP indicators (see indicators Attachment 7), including a breakdown by type of assistance. If established targets were not met, reasons why they were not met, and actions that will be taken towards their achievement,
- Summary of technical assistance provided to grantees or arranged to be provided,

- Estimated demand projections from eligible applicants for the use of grant funds, and estimation of adequacy of funding to meet this demand,
- Information of changes and movements of personnel,
- Other pertinent information including, when appropriate, analysis and explanation of cost increases or underestimation of original cost projections
- Counterpart contribution report in format provided by USAID/G-CAP

The Contractor will submit the quarterly technical performance reports to the USAID/G-CAP SO4 Microfinance team within 30 days of the completion of the quarter. The last day of each quarter is defined as the last day of the month of March, June, September and December. The December report should contain a comparison of annual overall achievements with specific targets defined for that year in the Action Plan.

#### **C 8 4 Final Report**

The Contractor will submit a final report at the end of the Contract.

#### **C 9 EVALUATIONS**

A mid-term evaluation of the IG Activity will be undertaken during the third year of the activity. The results of the evaluation will be utilized to determine whether USAID/G-CAP should continue funding for this Activity under the Contract and make revisions, if necessary, to Activity functions to facilitate accomplishment of Activity objectives. In addition, a final evaluation will be done during the last quarter of the IG Activity. Both evaluations will be funded with Activity funds under USAID/G-CAP Management Costs and will be directly contracted by USAID/G-CAP. Therefore, costs associated with these evaluations must not be proposed as part of the offeror's business (cost) proposal. USAID/G-CAP reserves the right to accelerate the evaluation schedule or undertake additional evaluations, if deemed necessary.

#### **C 10 ADDITIONAL BACKGROUND INFORMATION**

Firms wishing to respond to this RFP should consult the Mission's Result Package of Strategic Objective No. 4 for the general context and objectives of the IG activity. In addition, the Mission currently has several activities underway to gather information needed to mount successful efforts in support of this activity.

**Rapid Appraisal of Market Town Growth Centers** This rapid appraisal assessment of the economic and rural transformation potential of eleven market town growth poles is intended to (1) reconfirm the selection of target areas for USAID/G-CAP concentration, (2) generate initial information that will serve to target and plan interventions, (3) identify

areas for further data collection and analysis, and (4) provide baseline information for monitoring and evaluation. The study will be carried out by a local consulting firm working directly for the Mission.

**Inventory of MicroEnterprise Service Providers** USAID/G-CAP is planning to finance a study of institutions engaged in microenterprise support activities. This survey, which will be carried out by local researchers under the direction of FAFIDESS, will identify the range, scope and locations of service providers, the types and characteristics of services provided, and the key problems and issues facing microenterprise service providers in Guatemala. Although not specifically focused on the market towns, the study will provide good information on the institutions offering services in these towns, and will be useful in planning and tailoring future USAID/G-CAP interventions in these areas.

**Study of the Policy Environment for MicroEnterprise Activities** USAID/G-CAP is also planning to finance an in-depth study of the macroeconomic and policy environment for microenterprise development in Guatemala. The study will seek to identify policy constraints to the growth and effectiveness of microfinance institutions and other local organizations that provide services to small farmers and small-scale entrepreneurs.

These three studies will provide a broad base of background information for future activities targeted toward increasing household livelihood in the Mission's target geographic areas.

## **C 11 KEY ACTIVITY STANDARDS**

### **C 11 1 Program Income**

Program Income will be any income earned by the recipients that is directly generated by an activity supported with USAID/G-CAP funds or earned as a result of the award. Any interest generated from loan portfolios funded by USAID/G-CAP or from any type of funds or accounts to facilitate capital for lending to grant recipients, will be also considered program income. Program income will be used to finance the non-Federal share of the project or program and used for the same Activity objectives.

Counterpart contribution will come from the grant recipients. These contributions may be in cash and/or in-kind such as, but not limited to, grant recipients voluntary time, fixed assets to be used for the Activity's purpose (which were not purchased with USAID/G-CAP funds), office space, office supplies, etc. Contributions may also include loan portfolio<sup>4</sup>, capital support leveraged from bank savings accounts by grant recipients, as well as other donor assistance, and other in-kind contributions. A minimum of 25% of the total Activity cost or one third of the amount financed by USAID/G-CAP will be required as counterpart contributions from sub-grantees. Indeed, ability to provide counterpart will make a given grant proposal more attractive, as more results can be leveraged with scarce USAID/G-CAP resources. Counterpart funds will be tracked by the contractor and reported to USAID/G-CAP on a quarterly basis. In the case that grant recipients are agencies of the public sector, the contractor will need to coordinate with appropriate government agencies to monitor and report counterpart contributions.

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<sup>4</sup> Which source is not from a prior USAID/G CAP project

## **C 11 2 Other Donors**

The InterAmerican Development Bank (IDB), the German Technical Corporation (GTZ), the International Fund for Agricultural Development (IFAD), and the World Bank have identified rural micro-enterprise initiatives. Local organizational strengthening is core to all the initiatives. USAID will coordinate with these and other donors to build synergy and avoid overlap in field operations and to insure consistent policies.

## **C 11 3 Partners**

USAID's principal partners will include GOG public sector agencies, farmer cooperatives, local, international, and non-governmental organizations. It is expected that partners funded by USAID will provide technical assistance, procurement, and administration of both on- and off-farm micro-finance activities. The partners will help selected financial intermediaries, private banks, and BANRURAL, strengthen and expand the rural financial institutional system which in turn will provide access to financial services, training and technical assistance to microenterprises. The ultimate objective is to develop a system of financial services that is valued by the clients and incorporates "best practices" in all aspects of operations.

## **C 11 4 Activity Selection Criteria**

Building on existing efforts, funding for the RP will focus on the incorporation of innovative and cost-effective activities to increase the income generation potential of the rural indigenous poor in the target areas. Selection standards will apply to all new initiatives under the RP to assure that activities are designed to respond to customer needs and make the greatest use of local organizations and national expertise. Further, the activities should demonstrate a high potential for sustainability, and be sensitive to gender and ethnicity factors – since women and Mayans have been identified as our most important client group.

## **C 11 5 Customer Service Planning**

USAID has developed a Customer Service Plan to guide activities funded under the income generation banner. Partners for this specific RP will be expected to develop customer service standards with the full participation of customer representatives. Feedback obtained from customers will be shared among all the collaborating partners regularly to better inform management and programmatic decisions.

Some general guidelines and expectations are that USAID and its partners will

- use participatory approaches to determine customer needs, perceptions and feedback on the services provided,
- develop effective strategies to empower women, indigenous, and communities in decision-making,
- develop performance monitoring plans to verify customers perceptions and degree of satisfaction with the services provided,
- evaluate their services through customer satisfaction surveys,
- provide opportunities for customers to feed into periodic progress reports, results reviews, and impact studies



## **Spanish-Language Translations**