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ISN 52877



USAID GUATEMALA

UNITED STATES OF AMERICA



AGENCY FOR INTERNATIONAL DEVELOPMENT
UNITED STATES A. I. D. MISSION TO GUATEMALA

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August 31, 1989

ACCION INTERNATIONAL
1385 Cambridge Street
Cambridge, MA 02139
U.S.A.

Sub: Cooperative Agreement No. 520-0353-A-00-9727-00

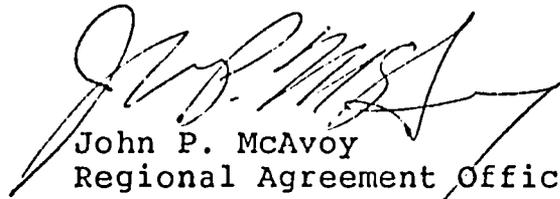
Gentlemen:

Pursuant to the authority contained in the Foreign Assistance Act of 1961, as amended, the Agency for International Development (hereinafter known as AID or USAID) hereby provides to the Accion Internacional Tecnica (AITEC) (hereinafter known as Recipient or Accion/AITEC) the sum of nine hundred thousand Dollars (\$900,000.00) to implement the USAID/Guatemala Project entitled "Productive Uses of Electricity Component-Rural Electrification III, as more fully described in Attachment No 1 entitled Schedule and Attachment No. 2 entitled Program Description.

This Agreement is effective and obligation is made as of the date of this letter and shall apply to commitments made by the recipient in furtherance of program objectives during the period beginning with the effective date and ending May 30, 1995. It is agreed that the funds obligated by this agreement are anticipated to be sufficient for program activities through the period indicated in Paragraph B of Attachment No. 1. This Agreement is made to Accion/AITEC on the condition that the funds will be administered in accordance with the terms and conditions set forth in Attachment 1 entitled the Schedule, Attachment 2 entitled "Program Description" and Attachment 3, entitled "Standard Provisions for US Nongovernmental Grantees" which have been agreed to by your organization.

Please sign the original and five (5) copies of the letter to acknowledge your receipt of this Agreement and return the original and four (4) copies to the USAID/Guatemala, Attention Regional Contracts Office.

Sincerely,


John P. McAvoy
Regional Agreement Officer

Attachments:

1. Schedule
2. Program Description
3. Standard Provisions, US Nongovernmental Grantees

ACKNOWLEDGED:

By: 

Title: Resident Advisor

Date: September 3rd, 1989

Appropriation No.:	72-1191021
Budget Plan Code:	LDNA-89-25520-KG13
PIO/T No.:	520-0353-3-90239
Project No.:	520-0353
Total Estimated Amount:	\$900,000
Total Obligated Amount:	\$900,000

ASSURANCE OF COMPLIANCE WITH LAWS AND REGULATIONS
GOVERNING NONDISCRIMINATION IN FEDERALLY ASSISTED PROGRAMS

ACCION Internacional/AITEC (hereinafter called the "Applicant")
(Name of Applicant)

hereby assures that no person in the United States shall, on the bases set forth below, be excluded from participation in, be denied the benefits of, or be otherwise subjected to discrimination under, any program of activity receiving financial assistance from AID, and that with respect to the grant for which application is being made, it will comply with the requirements of:

- (1) Title VI of the Civil Rights Act of 1964 (Pub. L. 88-352, 42 U.S.C. 2000-d) which prohibits discrimination on the basis of race, color or national origin, in programs and activities receiving Federal financial assistance,
- (2) Section 504 of the Rehabilitation Act of 1973 (29 U.S.C. 794), which prohibits discrimination on the basis of handicap in programs and activities receiving Federal financial assistance,
- (3) The Age Discrimination Act of 1975, as amended (Pub. L. 95-478), which prohibits discrimination based on age in the delivery of services and benefits supported with Federal funds,
- (4) Title IX of the Education Amendments of 1972 (20 U.S.C. 1681, et. seq.) which prohibits discrimination on the basis of sex in education programs and activities receiving Federal financial assistance (whether or not the programs or activities are offered or sponsored by an educational institution); and
- (5) AID regulations implementing the above nondiscrimination laws, set forth in Chapter II of Title 22 of the Code of Federal Regulations.

If the Applicant is an institution of higher education, the Assurances given herein extend to admission practices and to all other practices relating to the treatment of students or clients of the institution, or relating to the opportunity to

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participate in the provision of services or other benefits to such individuals, and shall be applicable to the entire institution unless the Applicant establishes to the satisfaction of the AID Administrator that the institution's practices in designated parts or programs of the institution will in no way affect its practices in the program of the institution for which financial assistance is sought, or the beneficiaries of or participants in such program.

This assurance is given in consideration of and for the purpose of obtaining any and all Federal grants, loans, contracts, property, discounts or other Federal financial assistance extended after the date hereof to the Applicant by the Agency, including installment payments after such date on account of applications for Federal financial assistance which were approved before such date. The Applicant recognizes and agrees that such Federal financial assistance will be extended in reliance on the representations and agreements made in this Assurance, and that the United States shall have the right to seek judicial enforcement of this Assurance. This Assurance is binding on the Applicant, its successors, transferees, and assignees, and the person or persons whose signatures appear below are authorized to sign this Assurance on behalf of the Applicant.

ACCION Internacional/AIIEC
(Applicant)



BY (Signature)



TITLE Resident Advisor

TYPED NAME MIRITHA OLIVARES

DATE August 31 st, 1989

SCHEDULE

A. Purpose of Agreement

1. The purpose of the Agreement is to expand electrification in rural areas where the introduction of electricity will complement and maximize the productive potential of existing infrastructure and resources.

2. Project Goal and Purpose

- a. Project Goal: The goal of the PER III Project is to increase the productivity, incomes and employment of the rural poor in Guatemala.

The subgoal of the Productive Uses Component of the Project is to: 1. Promote and accelerate the utilization of electricity for productive uses among small and microenterprises in the Project's target area. 2. Institutionalize within INDE the Productive Uses of Electricity activities.

- b. Project Purpose: The Project purpose is to expand electrification in rural areas where the introduction of electricity will complement and maximize the productive potential of existing infrastructure and resources.

The Project purpose will be accomplished through the construction of sub-transmission and distribution lines and household connections in rural villages, the up-grading of transmission and transformation capacities at three selected substations in the Western Highlands, and the pilot provision of credit, training and technical assistance to promote productive uses of electricity in the Western Highlands of Guatemala.

B. Period of Agreement

The effective date of this Agreement is the date of the Agreement Cover letter. The expiration date of this Agreement is May 30, 1995.

C. Amount of Agreement and Payment

1. The total estimated amount of this Agreement for the period shown in B above is \$900,000.
2. AID hereby obligates the amount of \$900,000 for program expenditures during the period set forth in B above.
3. Payment shall be made to the Recipient in accordance with procedures set forth in Attachment 3, Optional Standard Provision No. 2 entitled "Payment - Periodic Advance".

D. Financial Plan

The following is the Financial Plan for this Agreement. Revisions to this Plan shall be made in accordance with the Standard Provision of this Agreement entitled "Revision of Grant Budget".

ILLUSTRATIVE FINANCIAL PLAN

Productivity Uses of Electricity Component

<u>Line Item</u>	<u>US Dollars</u>
1. Training/Technical Assistance	170,778
2. Credit Fund	403,889
3. Project Administration	272,924
4. Miscellaneous	<u>52,409</u>
TOTAL GRANT	900,000 =====

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E. Special Provisions

The Agreement Officer's Technical Representative (AOTR) for the performance of this Cooperative Agreement is the Director USAID/Guatemala or his designee. The AOTR shall be named in writing and the Recipient will be notified in writing should the AOTR changed. The AOTR shall have the following duties:

1. Certification of work performed on all vouchers submitted;
2. Necessary clarifications of, or minor, non-cost-related adjustments to the program descriptions in Attachment II;
3. Approval of all short and long term personnel charged to this Agreement.
4. Approval of travel and procurement of commodities.
5. Understanding of Substantial Involvement:

AID and the Recipient anticipate that AID will have substantial involvement in assisting Accion/AITEC to carry out its responsibilities hereunder.

6. The AID Agreement Officer shall approve the following:

All project implementation plans, detailed annual activity plans, financial plans and budgets, contracting and purchasing arrangements. (Not including purchases with credit funds.

7. Implementation Plan for Project Start-Up

The training and credit sub-components are scheduled to begin in the first quarter of FY90 (i.e. October-November 1989). Prior to the start up date, the involved institutions must formalize their respective agreements. The implementation plan is detailed as follows:

- a. Cooperative Agreement between USAID and AITEC signed August, 1989.
- b. USAID review and approval of proposed AITEC/FUNDAP sub-agreements; August, 1989.
- c. Sub-agreement between AITEC and FUNDAP signed September, 1989.
- d. USAID review and approval of AITEC/FUNDAP credit policies and regulations; September, 1989.

- e. USAID review and approval of AITEC/FUNDAP detailed implementation plan, detailed activity plan, staffing plan and financial plan and budgets; October, 1989.
- f. Disbursement of first advance payment to AITEC November, 1989.
- g. Initial contracting of project personnel and procuring commodities October-December, 1989.
- h. Implementation start-up December, 1989.

G. Establishment of Overhead Rate:

- 1. Pursuant to the General Provision of this contract entitled "Negotiated Indirect Cost Rates - Provisional" a rate or rates shall be established for each of the Recipient's accounting periods during the term of this Agreement. Pending establishment of final overhead rates for the initial period, provisional payments on account of allowable indirect costs shall be made on the basis of the following provisional rate applied to the base which is set forth below.

<u>Type of Rate</u>	<u>Rate(s)</u>	<u>Base</u>	<u>Period</u>
Overhead:	30.%	Salaries and wages including fringe benefits	Effective date of Agreement until amended

H. Authorized Geographic Code:

The authorized Geographic Code for procurement of goods and services shall be in accordance with Optional Standard Provision No. 6 of the Standard Provisions.

_____End of Schedule_____

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PROGRAM DESCRIPTION

A. The Rural Electrification III (PER III) Project:

Cuatemala provides electrical service to a smaller percentage (25%) of its overall population than any other Central American country. As a reflection of the traditional imbalance in services provided to rural areas, only 7% of the rural population has access to electrical power. The 1985 Constitution and the government elected in 1985 recognized this situation and have emphasized rural infrastructure investments, specifically including rural electrification, as priority areas of GOG activity.

The National Electrification Institute (INDE) has primary responsibility for the generation and transmission of electricity in Guatemala. In addition, INDE provides the majority of electrical service to rural areas in Guatemala. A private company (Empresa Electrica de Guatemala, S. A., or EEGSA) provides limited generation and principal distribution services to the central, more populated region of the country. Under the Rural Electrification II Project (PER II), INDE has electrified over 70,000 rural households in over 350 villages, representing some 30% of the total households INDE serves directly.

Expansion of the electrical network in rural areas will provide a valuable complement to other USAID and GOG development strategies by supporting efforts in irrigation, health, export promotion and employment generation.

The Project itself consists of two integrated components: 1. Infrastructure Component which includes construction of lines and electric installations, and subtransmission and transformation improvements and 2. Productive Uses of Electricity Component which is to be implemented by this Cooperative Agreement.

The first component, to be implemented by the Rural Electrification Implementing Unit of INDE, continues the highly successful activities conducted under the terminating

PER II Project and will also undertake necessary electrical subtransmission and transformation system upgrades in key Project areas where additional growth potential for productive uses is high. The second component charges a private voluntary organization with training in productive uses, the management of a credit fund for electrical equipment and machinery purchase, and the provision of technical assistance in the use of such equipment. These components in the aggregate will have substantial impact on the achievement of the Project goal.

B. Productive Uses of Electricity Component:

Rural electrification projects are frequently characterized by low consumption rates which make them difficult to justify from the utility's financial point of view. The tendency is caused by low consumer density and low incomes among the rural population. Culturally or geographically isolated rural consumers may be unaware of the possible advantages of using electricity to improve or develop income-- producing activities. They may also lack access to credit, training and technical assistance.

One way of overcoming the low consumption and inefficient use tendencies described above is to create conditions leading to the productive uses of electricity in rural areas. Productive uses are those which create new work opportunities and/or result in reduced costs or increased efficiency in rural enterprises, with the final result of increasing incomes for the new users. The utility company will also be benefitted by the increased consumption which will make the rural infrastructure more profitable.

The experience of rural electrification projects in other countries and the PER II experience in Guatemala has demonstrated that productive uses will arise spontaneously after a certain period of time. However this is a lengthy process and a much more positive and rapid economic impact can be achieved if productive uses are deliberately promoted.

This pilot component addresses the need to promote and facilitate the productive use of electricity. It is of paramount importance to INDE, that the financial return from rural electrification be improved by increasing consumer use and the ability to pay for the increased use. This component contributes to the project goal by providing otherwise unavailable training and credit for productive uses to inhabitants of communities electrified under PER II and PER III projects, and establishes a permanent mechanism to extend these benefits beyond the PER III PACD.

Activities under this component fall into two major areas: 1) training programs in productive uses, and 2) establishment of a credit fund for the purchase of electrical equipment and machinery, and the provision of technical assistance in its use. Because INDE cannot, by Guatemalan law, engage in credit provision activities, alternative mechanisms must be used.

The two sub-components will be presented to the target population as an integrated package, increasing awareness and orientation towards productive uses in general, and providing credit and technical assistance in electrical equipment operation to encourage individuals and small enterprises to develop economically viable productive uses. Institutionalization of a productive uses program within INDE will also be supported by the project.

The Productive Uses component will be limited to primarily PER II and PER III communities in the Western Highlands. This area includes portions of the Departments of Quetzaltenango, Totonicapan, Solola, Huehuetenango, Chimaltenango, San Marcos and Quiche. Initially the component will concentrate in the first three of these departments, where FUNDAP presently has a developed infrastructure established. Later, the program will be expanded to include other communities in the region which show a high potential for productive uses.

Institutional Support for Productive Use Activities within INDE

The productive uses promotion requires utility counterpart participation. The responsibility for long-term success of a productive uses program must eventually rest with the utility company. INDE is prohibited by law from handling the funding, but must become involved in the training and technical assistance portions of the proposed activity to ensure Project replicability and sustainability.

To accomplish this involvement, INDE will appoint, subject to AID approval, a project-funded Productive Uses Specialist within INDE. The Specialist will provide AITEC and FUNDAP the needed technical support for the promotion of specific productive use activities and will supervise and train INDE's Productive Uses Advisors, as well as maintain linkages with FUNDAP.

INDE will create, within the Rural Electrification Department, the counterpart-financed permanent position of Productive Uses Specialist to work as counterpart of the

Grant-Financed (Infrastructure Component) Productive Uses Specialist. INDE will also increase the number of promoters in the Rural Electrification Department to 10. These promoters will be trained by the Productive Uses Specialist and will be responsible for providing information and assistance to new consumers.

The following diagram describes the relationships that will exist between FUNDAP and INDE for the coordination and institutionalization within INDE of the productive uses component.

FUNDAP - INDE Relationships/Responsibilities

FUNDAP (Pilot Project)	INDE (Broad-based, long-term)
Credit Community Training Develop Training Material Promotion Provide T/A in - Care and Use of Equipment & Machinery - Business management	Inform about: Financing options Productive Use options Training options Advise in - Installation requirements - Safety instruction - Rates, appropriate to use - Estimates of energy use

NRECA/CARES On-Going Productive Uses Program

The Central American Rural Electrification Support (CARES) Program, funded under USAID/ROCAP with the National Rural Electric Cooperative Association (NRECA), is working in the promotion of productive uses of electricity in Guatemala. This effort began with a "Productive Uses of Electricity in Rural Areas" planning seminar, held in March 1988. A representative of AITEC attended this seminar as well as representatives from over 20 other entities interested in the concept. The CARES program has now formed a follow-up committee (Comite de Accion para los Usos Productivos de la Electricidad - CAUPE) with liaison support from approximately 20 entities to develop a productive uses program for rural Guatemala. The need for coordination of effort between the CARES program and the productive uses credit activity of this project is essential. The Productive Uses Specialist will establish and maintain an

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ongoing working relationship with CARES and CAUPE. The input which INDE and AITEC/FUNDAP will receive from CAUPE through the Productive Uses Specialist will be used to improve the community selection process for both the infrastructure and productive uses of electricity components.

C. Project Goal and Purpose

1. Project Goal:

The goal of the PER III Project is to increase the productivity, incomes and employment of the rural poor in Guatemala.

The subgoal of the Productive Uses Component of the Project is to: 1. Promote and accelerate the utilization of electricity for productive uses among small and microenterprises in the Project's target area. 2. Institutionalize within INDE the Productive Uses of Electricity activities.

2. Project Purpose

The Project purpose is to expand electrification in rural areas where the introduction of electricity will complement and maximize the productive potential of existing infrastructure and resources.

The Project purpose will be accomplished through the construction of sub-transmission and distribution lines and household connections in rural villages, the up-grading of transmission and transformation capacities at three selected substations in the Western Highlands, and the pilot provision of credit, training and technical assistance to promote productive uses of electricity in the Western Highlands of Guatemala.

D. Productive Use Component Elements and How They Will Work

1. Target Beneficiary Population.

The Productive Uses Component will be applied primarily to communities electrified through PER II and, on a limited scale to those electrified through PER III.

The implementing agencies will select communities from the tentative initial list of target communities located within the Western highland departments of Quetzaltenango, Solola and Totonicapan. In selecting communities, the implementing agency will focus on communities with the highest productive uses potential.

On site evaluations will be performed before communities are selected. Initially, beneficiaries must reside in communities within the target departments. The cities of Quetzaltenango and Totonicapan are excluded from this project.

An illustrative list of target municipalities catalogued by departments, is as follows:

A. Department of Quetzaltenango; communities in the municipalities of:

- Zunil
- Cantel
- Almolonga
- Olinstepeque
- Palestina de los Altos
- San Juan Ostuncalco
- Salcaja
- San Carlos Sija
- San Francisco La Union
- Cajola

B. Department of Solola; communities in the municipalities of:

- Nahuala
- Santa Catarina Ixtahuacan
- Santa Lucia Utatlan
- Solola

C. Department of Totonicapan; communities in the municipalities of:

- Momostenango
- Totonicapan
- San Cristobal
- San Francisco El Alto
- Santa Maria Chiquimula

2. Productive Uses.

The emphasis of the Project is to expand the use of electricity in applications which improve the target population's level of income and general living conditions in the communities. Productive uses can be in agriculture, industrial, commercial and service applications of electrical equipment. By emphasizing the following illustrative activities, the productive uses component will seek to diversify the target population's productive endeavors.

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- * Garment manufacturing: sewing, knitting and similar activities.
- * Wood products: (e. g.: carpentry, furniture manufacturing).
- * Miscellaneous equipment: (compressors, motors, pumps, hand-held soldering, industrial hand-held sewing machines, etc.)
- * Food production and processing (e.g.: bakery, milling, other processing).
- * Leather goods: (e.g.: shoe-making, belts, luggage).
- * Metal working: (e.g.: cutting, forming, polishing, soldering).
- * Milking operations and storage.
- * Water pumping.
- * Poultry laying and breeding operations.
- * Grain grinding, drying and other processes.
- * Livestock and agricultural products storage and processing.
- * Repair shops.
- * Other electrical productive uses.

Whenever possible, the implementing agency will coordinate with AID-financed projects which support project objectives. This coordination will be promoted through periodic meetings of the USAID Project Manager and the Acción/AITEC country representative with project managers of other AID-financed projects in areas related to productive uses of electricity such as microenterprise promotion and agriculture.

3. Credit Eligibility.

The targeted beneficiary population are the inhabitants of the communities in the departments listed above. Potential credit recipients are residents of these communities who demonstrate the following:

- A. Permanent residence in a community within the selected departments.

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- B. Employing a maximum of 30 people for individual enterprises. No limit is placed in the case of cooperatives and other communal organizations.
- C. Willingness to accept technical assistance and supervision from the implementing institutions.
- D. Willingness to accept the conditions of the credit sub-component.

4. Project Sub-components.

The Productive Uses of Electricity Component is divided into two sub-components, which are: (A) Community Training and (B) Credit and Technical Training for Small Local Enterprises.

The two sub-components will be presented to the target population as an integrated package increasing awareness and orientation towards productive uses in general, and by providing credit and technical assistance in electrical equipment operation to encourage individuals and small enterprises to develop economically viable productive uses. Institutionalization of a productive uses program within INDE will be supported and such support will be incorporated into the plan of activities of the implementing agencies.

The specific function of each of the sub-components is detailed as follows:

a. Community Training:

General training will be directed towards communities in the specified target areas. This training will focus on generic aspects of electricity, including its use and importance; service characteristics and safety aspects; specific productive applications appropriate to the nature of the community; and on the availability of credit and technical assistance for the purchase of electrical equipment.

The sub-component will train over 10,000 individuals in productive activities which may use electricity as their principle source of energy.

Over the life of the Project, the implementing agency will reach a minimum of 100 communities in the designated areas beginning with 4 in the first semester of implementation and progressing to almost 30 during the fifth year.

The elements which will be addressed in the community training seminars include:

- * General considerations regarding electricity. The local population should be instructed as to the benefits of electrification, safety considerations, and similar aspects.
- * Productive uses of electricity. The second stage of the community awareness programs will familiarize the target population with the concept of productive uses. The examples presented in each community will reflect the principal activities carried out in the vicinity, be they carpentry, textiles, etc.
- * Credit for the purchase of electrical equipment and machinery. The presentations should orient the target population as to the use of credit to purchase said machinery, and to the different financing alternatives at their disposal.
- * INDE promoters should be invited to participate in these activities, since the Commercial Department and, in particular, its Consumer Services Office are concerned with the expansion of the use of electrical energy.

There are a number of training programs currently directed toward the small business operator in the Western Highlands. Many of these programs are related to a productive use of electricity. Whenever possible, the implementing agency will coordinate efforts with these training groups to assure that the productive use activity is thoroughly presented, including a summary of the credit available for such equipment. Special coordination with USAID/OPED office's efforts in micro-enterprise promotion will be emphasized. Information about potential beneficiaries credit mechanisms and regulations, and lessons learned will be exchanged with the other AID-financed projects for microenterprise promotion.

b. Credit and Technical Assistance:

This Project sub-component will assist the target population in acquiring electrically powered equipment. Through out the Project, approximately 3000 credits will be provided to small and microenterprises in electrified communities together

with appropriate technical assistance. Credit will be available for both equipment purchase and working capital in individual loan amounts appropriate for the size and repayment capacity of these micro and small enterprises. Technical assistance will help the borrower to acquire the appropriate electrical equipment and will also train users to take full advantage of the equipment's potential. This sub-component will also provide guidance and training in micro and small-business operation.

The recipient will provide credit for asset purchases and working capital as well as technical assistance in production, management and marketing.

The recipient agency will submit its detailed credit policies, regulations and operating procedures for AID approval after signature of the cooperative agreement, according to the implementation plan.

Credit policy and procedures will be based on the following premises, unless AID agrees otherwise in writing:

(1) Credit Fund

AID will provide funding (see Attachment B) for the establishment of a revolving Credit Fund.

Loan reflows throughout the life of the project will be dedicated to replenishing the Credit Fund. All interest income will be treated as program income per OMP circular A-1.

(2) Interest Rate and Method of Payment

Interest will be paid on the outstanding balance, while payment on principal will be collected in equal monthly payments. No grace period will be offered.

A 20% annual interest rate is tentatively established for the credit line. Interest rate policies will be reviewed periodically by Acción/AITEC and AID. This rate will be adjusted on the basis of credit history, administrative and T.A. costs and desired financial sustainability.

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(3) Loan Terms and Amounts

It is estimated that loan terms will average 6 months for working capital and 18 months for asset purchases.

Loan amounts are tentatively in the following ranges:

Individual loans, working capital:	\$75 minimum;	\$1500 maximum
Individual loans, fixed assets:	\$75 minimum;	\$2500 maximum
Group loans, working capital:	\$200 minimum,	\$4000 maximum
Group loans, fixed assets:	\$200 minimum,	\$7000 maximum

(4) Loan Use Distribution

Asset financing is tentatively estimated at a 85% of total credits, and working capital at 15%.

(5) Loan Guarantee

Assets purchased with the credits and personal endorsement of the borrowers will be accepted as loan guaranty.

(6) Authorization and Formalization of Loans

Initial credit review will be by a credit promotor and the credit supervisor. Final decision on credit approval and disbursement will rest with a credit review and policy committee made up of FUNDAP project manager, project coordinator, and the credit supervisor.

(7) The specific details on loan terms and amounts will be defined when the implementing organization presents its credit policy for AID review.