

3.5 FORMATION OF A PROMOTION ORGANIZATION

3.5.1 Background for proposing a promotion organization

As in the other Latin American countries, Paraguay has turned to the market economy. After the Stroessner regime was terminated in 1989, the successive administrations have made different economic and political reforms. However, these reforms have not yet been satisfactorily implemented and it has been difficult to carry out the structural reforms that require political will and long-term vision.¹⁸

Past economic development has been dependent chiefly on the public works (e.g. Itaipú dam), and agriculture based on the natural resources. Extensive reforms are required for sustainable development. Globalization trends and entry into MERCOSUR, which requires free trade among member countries, are exposing Paraguay to greater competition and emphasizing the need for economic reform.

The role of the government, in economic development, needs to be altered. The current market economy, allowing free economic activity based upon private sector initiative, needs neither a predatory state nor a centralized administration which cannot reflect the needs of the citizens. The expected role of the state includes, among other things: a) macro-economic stability, b) an institutional and legal framework for efficient markets, c) transparent public services, d) market information, e) basic infrastructure, and f) environmental protection.¹⁹

The Government Program 1999-2003 aims to build a globally competitive state based on productive capacity, transparency and integrity in the public institutions, a permanent and effective exercise of dialog, and full internal integration. It also expresses that the state must convert its role into the normative, the supervision and the promotion of economic development.

As Paraguayan private enterprises do not currently have sufficient competitiveness in both internal and external markets, it is necessary to not only secure a free market system, but also to strengthen the competitiveness of market participants. The Paraguayan government is urged to help resolve private sector difficulties by listening to their problems, which does not mean that the government should directly intervene in private sector activity. Rather, the private sector should take the initiative and the public sector should play a complementary role.

Through the consultations and workshops, we learned that while it has become severely distrustful and

¹⁸ “ Plandes Project: Paraguay, Reforms of the Public Sector – Executive Summary ” , STP

¹⁹ Paraguay: The Role of The State, 1996, Executive Summary, World Bank Report / Plandes Project ,Paraguay, Role of the State, Reforms of the Public Sector, STP

unsatisfied with the public sector, the private sector seeks public sector support to strengthen it in the following ways: ²⁰ a) technology support, b) human resource development / vocational education, c) quality control system, d) export promotion, e) institutional finance, f) legal system, g) association with the private sector

Nowadays, no public sector-led economic development is needed. Nor should the public sector formulate policy isolated from the reality of the private sector. Nor is it necessary to attend to all of the needs of the private sector. Practical and effective policies are required.

This study proposes the creation of an organization composed of public and private sector representatives, to promote the implementation of the development strategies to enhance competitiveness. However, the public sector must show strong commitment to this proposals and take leadership until the formation of the proposed organization is on track, because of the insufficient competitiveness of the private sector and little strategic alliance to enhance it. .

Two recent regional movements are presented for reference: a) Itapúa department plans to make agreements with the MIC on the mutual cooperation, ²¹ b) It also plans to shortly set up the Departmental Council of Development of Itapúa, to have discussions between the public and private sectors, ²² c) Guairá department already has an organ, Consejo de Desarrollo de Empresarial Guairá, ²³ enabling public and private sectors to discuss issues at the regional level. In May 2000, it sponsored a seminar concerning a cluster in Villarrica, supported by GTZ and MIC.

The proposal in this chapter is based on the acceptance of an organization that requires the participation and mutual trust of the public and private sectors, as evidenced in interviews and workshops held during this study. Through this organization, the common goal of economic development based upon competitiveness is expected to be achieved and the distrust of the public sector gradually wiped out.

3.5.2 Overall structure of the promotion organization

The promotion organization has 3 promoters to cope with the development strategies: one to promote the overall development strategies (hereinafter “Strategy EDEP”) and the others to carry out each of the other development strategies (“Strategy for General Factor”, “Strategy by Sector”, “Strategy of

²⁰ Vegetable cluster workshop was held in Coronel Oviedo, on April 26, 2000; Metalworking cluster in Ciudad del Este, on May 3; Mixed Feed cluster in Encarnación, on May 5; and the overall development strategy “EDEP” in Asunción on May 16.

²¹ Interview with the Planning Department of Itapúa in May, 2000

²² Interview with the Planning Department of Itapúa in May, 2000

²³ Members are Guairá department, municipalities, branch office of MIC (ORMIC) and enterprises

Cluster”). The following points apply to the formation of the promotion organization:

- a) the promoters shall be set up to exclusively carry out the development strategies proposed.
- b) the promoters shall be structured to make use of private initiative as much as possible.
- c) the public sector’s role shall be complementary to, and not supercede the private sector role.
- d) central government policies shall reflect regional needs.
- e) as the development strategy contains programs that must be carried out with a long-term vision, promoters shall be permanent to eliminate potential instabilities caused by a change of government.
- f) government commitment is vital, particularly at the beginning of the development strategy.

However, the following reconsiderations were taken into account, as the study developed:

- a) the present government does not wish to establish any new administrative organs.
- b) it is expected that decentralization will take substantial time.
- c) in practice, no administrative organ to coordinate the interests of the ministries exists.
- d) it seems impossible to ensure that the organization will not be affected by a change of government.

Consequently, two structures of the promotion organization are presented. An “immediate” structure, formed under the existing conditions, and a “future” structure, relevant after decentralization is further developed.

The [Development strategy “EDEP”] and [Strategy by sector / Strategy for general factors] promoters are not designed to be new agencies. Rather, the Economic Advisory Council (Consejo Económico Asesor) and National Council of Financial and Economic Policy (Consejo Nacional de Política Financiera y Económica) can assume these roles respectively. ^{24 25}

[DEVELOPMENT STRATEGY “ EDEP ”] PROMOTER :

The activities of this promoter are : a) to promote the overall development strategy, b) to supervise the

²⁴ Consejo Económico Asesor :Established by the Decree No.7744 (March, 2000). Composed of public and private sector representatives and provides counsel in the economic field to the President. Members are representatives from the Technical Secretariat of Planning (STP) and Ministry of Foreign Affairs in the public sector, and industrial organizations such as FEPRINCO, ARP, CIP, UIP, FECOPROD, ABP, CERNECO, CAP, CBC in the private sector. The STP is the secretariat.

²⁵ Consejo Nacional de Política Financiera y Económica : Established by the Decree No.2558 (April, 1999). Taking over the role of the former “Equipo Económico Nacional”, it settles financial and economic policy and coordinates / evaluates other policies as well. The members are the Ministers from the following Ministries: Finance; Agriculture & Livestock; Public Works & Communication; Commerce; Justice & Labor: and Technical Secretariat of Planning; and also the Presidents of the Central Bank and the BNF (Banco Nacional de Fomento). The Secretary of State Reform later joined.

progress of the working program, c) to form agreement on the programs/projects for action, d) to request the formulation of policies/budgets to the central government, e) technical assistance and advice.

The existing Economic Advisory Council plays the role expected from this promoter. This Council, with delegations from wide-ranging industrial organizations, should provide an opportunity for deliberation between the public and private sectors. This Council is targeted at the development strategy of the study, among other fields. For that, in this Council a new team is to be established exclusively to handle the development strategy “EDEP”, composed of members in Table 26

Table 26 Proposed Members of EDEP Team in Economic Advisory Council

Public Sector	Private sector	Support Organ
MIC MAG Min. of Foreign Affairs MOPC MH STP	FEPRINCO UIP ARP FECOPROD APYME Representatives of each cluster	C.T.I (International Technical Cooperation)

Representatives of the public sector : vice-ministers and directors

[“STRATEGY BY SECTOR” & “STRATEGY FOR GENERAL FACTORS”] PROMOTER:

The main activities are to discuss the programs/projects needed to carry out the strategy proposed for overcoming the general constraining factors of competitiveness and the strategy by sector, and to request the formulation of the policies and budgets needed to secure the programs/projects agreed to from the government. In addition, the promoter will discuss any future new programs/projects concerned with the development of the clusters and request the formulation of relevant policies/budgets from the central government.

As the majority of the constraints concern the current institutional framework, prompt decision-making is extremely important and the responsibility of the concerned government authorities is great.

The existing National Council of Financial and Economic Policy can assume these roles. The function prescribed is to make ministerial level decision and to send it to the President for final determination.

[STRATEGY OF CLUSTER] PROMOTER:



This promoter plays the following roles: a) to diffuse the idea of the cluster throughout the region and the country, b) to encourage all people concerned to join the cluster, c) to lead the formation and development of the cluster, d) to take or propose measures towards new problems arising during development of the cluster, e) to arrange or to facilitate technical assistance and advice as requested.

This promoter shall be newly formed. In this promoter, the producers, cooperatives, processors and other private sector representative need to lead the formation of the promoter and the organization of the cluster, as the cluster strategy depends on the leadership of the private sector. And the regional government's assistance is needed, as the cluster is organized locally.

Table 27 Promoter: Strategy of Cluster

Employing these 3 promoters, the promotion organization is structured as outlined below.

The structure of the “immediate” promotion organization is shown below.

Promoter:  composed of the public sector,  composed of the public and private sector

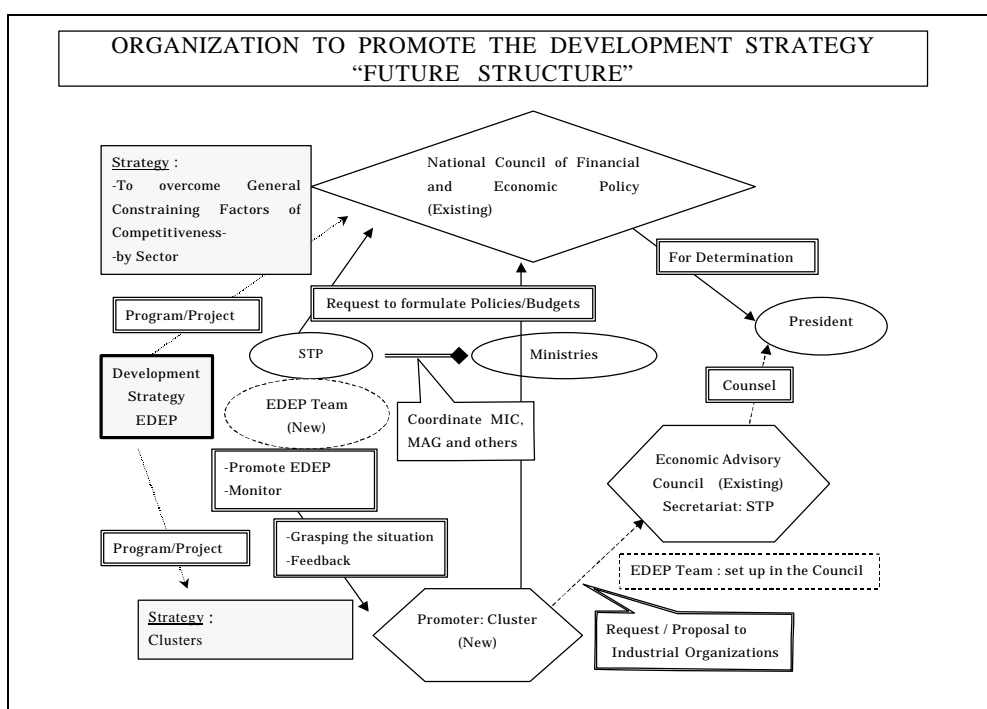
The Technical Secretariat of Planning (STP) is required to carry the overall development strategies forward as an executive organ, because the Economic Advisory Council is just an advisory organ to the President. The STP needs to take leadership in ensuring that proper decisions are made by the government, grasping the actual situation of the strategies. For that purpose, the STP is proposed to form an EDEP team to exclusively handle the development strategies of the study. This team is detailed in the section 3.5.5.

The insufficient decentralization may cause various problems to the cluster to be locally organized. The departments and the municipalities share the problems of a limited budget and authority and are unable to fully cope with issues necessary for the development of the cluster, such as human resource development, and infrastructure. Besides, the departmental government is not virtually capable of representing the region, while it is an administrative representative of the central government in the region.

The branch offices of ministries are still vital as a pipeline to the central government, however, the current number of offices is very small. Moreover, branch offices report only to their superior, and therefore it is not expected that they have effective discussion with the departmental office and the municipality. And the private sector communicates with its respective industrial organizations. STP's coordination is required.

(2) “Future” promotion organization

Figure 13 Promotion Organization: “Future” Structure



As decentralization proceeds, the [Strategy of Cluster] promoter is expected to change and the operation flow may vary between this and other promoters. However, the STP, the Economic Advisory Council and the National Council of Financial and Economic Policy will assume the same roles assigned in the “immediate” organization.

The decentralization in the “Future” organization means that: a) the branch offices of the ministries are delegated more authority, b) the branch offices are more abundantly staffed. Consequently, the branch offices of different ministries are united to work in a “government unified office”. Coordination with the government unified office is made and the departmental office greatly strengthens linkages between the two. Finally the needs of the region are transferred to the National Council of Financial and Economic Policy through the departmental office. The STP will continue to act as a pipeline between this council and the [Strategy of Cluster] promoter to coordinate the overall development strategies.

3.5.3 Formation of the cluster promoters

To explain the specific structure of this organ, mixed feed cluster of the 6 model proposed in this study are used below.

(1) Components of the cluster promoter

Table 28 Promoter & Components: Mixed Feed Cluster

MEMBERS OF PROMOTOR		
PUBLIC SECTOR	PRIVATE SECTOR	SUPPORT ORGAN
MIC (BRANCH OFFICE) MAG (BRANCH OFFICE) DEPARTMENTAL OFFICE (ITAPUA) MUNICIPALITIES	COOPERATIVES PROCESSORS	DEPARTMENTAL COUNCIL OF DEVELOPMENT

PRINCIPAL COMPONENTS OF CLUSTER (ILLUSTRATIVE)	
PUBLIC SECTOR	PRIVATE SECTOR
DEPARTMENT OFFICE (ITAPUA) MUNICIPALITIES MINISTRIES (BRANCH OFFICES) UNIVERSITIES INSTITUTES OF TECHNOLOGY LABORATORIES FINANCIAL INSTITUTIONS INSPECTION OFFICES CUSTOM OFFICES ETC.	FARMARS COOPERATIVES PROCESSORS (MIXED FEEDS, RICE/FLOUR/OIL MILLS) LIVESTOCK BREEDERS FACTORIES (BEEF, PORK, CHICKEN) DAILY PRODUCT FACTORIES WAREHOUSES TRANSPORTATION COMPANIES CUSTOM BROKERS ETC.

As this study uses Itapúa Department as a model region, Itapúa Department office and the municipality of Encarnación are included in the promoter. Private sector representatives should be chosen from the agricultural cooperatives and feed processing firms, considering the current situation. The cooperatives are already developing the wide ranged business in an organized form, while the processors seek more linkages with the farmers and other industries. Itapúa Department Council of Development (Consejo Departamental de Desarrollo de Itapúa), designed to foster regional development, should work jointly

with the promoter as much as possible.²⁶

The structure of the remaining 5 model clusters proposed in this study should likewise be based on both public and private sector representation.

The success of the clusters will depend largely on the effectiveness of the promoter. Leader is needed to practically form the promoter. The leader, focusing on the formation of the promoter, works with other members to establish proper management, and carry out the formation of each successive cluster.

Who should be a cluster leader? Leaders should be identified, based on the unique conditions of each cluster. Prospective leader for mixed feed clusters is presented as a model case.

(2) Leader of the cluster promoter

Various industries exist in this cluster. Some mixed feed processing enterprises are already developing a wide range of activities and seek even greater expansion and linkages with other enterprises. Agricultural cooperatives in this field are also developing a wide range of organized activities and are planning to continue to expand. Under this circumstances, either of the two, or both of the above, can be a leader for the cluster. In the case of other countries, processing firms in the mixed feed sector have taken the initiative.

Table 29 Leader : Mixed Feed cluster

	Producers (cooperatives inclusive)	Processors (Mixed Feeds)	Livestock herders	Factories (Meat)	Joint ventures with foreign entities	100% foreign investment	Public Sector
Currently in existence?	Yes	Yes	Yes	Yes	No	Some oil mills exist	Local government/ Branch Offices (ministries)
Current position of relevant field	Large, medium and small-sized farms exist and develop the activities individually. Cooperative is already organized.	Emphasis on the relevant field. Some extended already upstream and are planning to develop downstream also.	Develop activities in association with processors (mixed feed), but there does not exist any strategic alliance.	Medium and small- sized factories act independently. Some processors (mixed feed) are considering this business.	N/A (not applicable)	Act independently with proper strategy	Provide technical assistance. Transmit needs to Central government.
Does it take effective leadership?	Independent and not capable of connecting other components. Cooperatives plan to develop upstream and downstream, then may be able to take leadership.	Due to the current position and to the extensive activities, processors can take leadership and are the nucleus in other countries.	Based upon the purchasing power, can be the nucleus.	Not capable, due to the current position	N/A	Act independently with proper strategy. Oil mills cannot be the nucleus. Factories (meat) with foreign capital can be core.	Respect the private sector's initiative. Serve as bridge to facilitate communication among the private sector.

²⁶ Referred to in section 3.5.1. The council is planned to be composed of the public and private sector and to have different working committees in Itapúa department. The cooperation with the cluster promoter will be discussed when the council is officially established.

This study proposed the leader candidates, focusing on the immediate start for the formation of the promoter, under the current situation. The possibility of another leader is not out of the question. Some other country examples are considered in section 3.5.4.

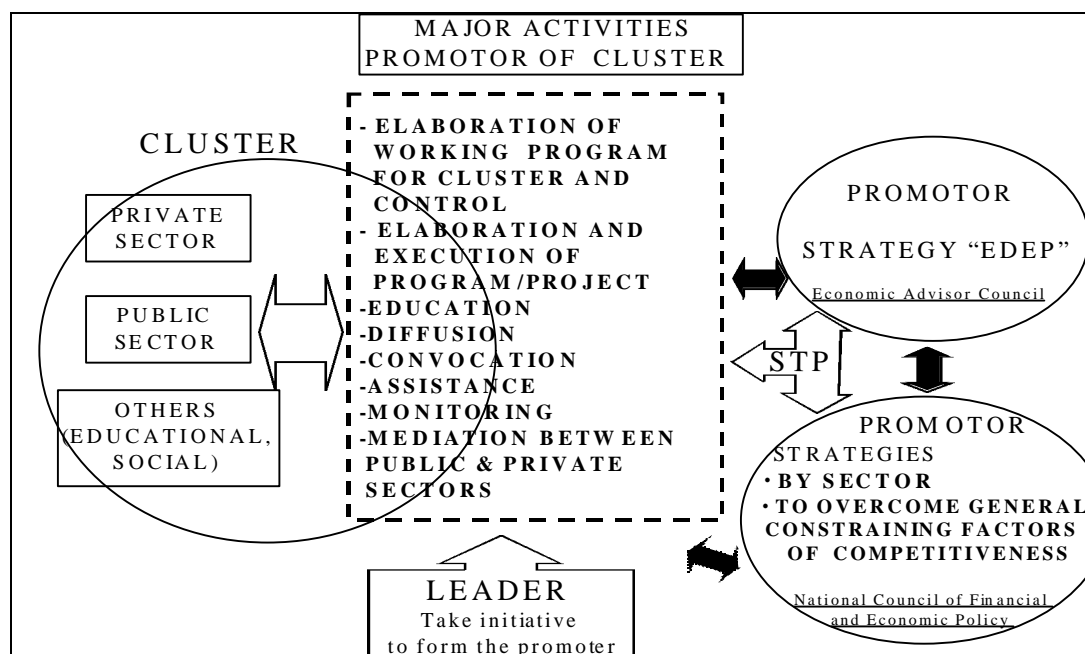
In the discussions with each leader candidate in May 2000, they agreed on the necessity of forming the promoter and accepted leadership with the following conditions: a) the other member of the private sector portion of the promoter will work together with them, and b) support will be given for the organization's activities. As for the prior, the STP's EDEP team will need to coordinate between the two private members. As for the latter, cooperation by the experts of the development strategy newly posted in the STP and its EDEP team, is necessary. Also, other private and public sector representatives in the cluster promoter are expected to act altogether.

These leaders are expected to be coordinators and play a role in fostering linkages among cluster members.

(3) Activities and work flow of cluster promoter

The role of cluster promoter and the relationship with the other promoters are described below.

Figure 14 Cluster Promoter's Role and Linkage with Other Promoters



1) Before the cluster is formed

- a) the central government recognizes the representatives of the private sector recommended by the study or found independently, as the leaders of each promoter, via the STP. Additionally, the STP coordinates the same representatives to work together as leaders.
- b) the necessary support is requested of the central government for the establishment of the cluster.
- c) initially, the leader forms the promoter with assistance of the STP, convening members of the public sectors (departmental office, municipalities, regional offices of MAG or MIC) and also takes initiative as administrator.
- d) The promoter carries out the following activities:
 - 1. execute the working plan to form the cluster and define the job description of each member according to the characteristics of the cluster promoter (STP provides technical assistance. The departmental office and the municipalities coordinate their development plan and provide necessary advice):
 - prepare and execute the integrated plan (working schedule, action program, budgets, etc.)
 - prepare and execute the annual plan (annual working schedule, action program, budgets, etc.)
 - monitor and control progress
 - 2. educational activities (explain the benefits of the cluster and the necessity of mutual cooperation between the public and private sectors and the association, through seminars and interviews):
STP provides technical assistance, while the departmental office and the municipalities provide their staff, transportation services, a hall for seminars and other facilities available.
- e) The promoter proceeds with formation of the cluster.

2) After the cluster is formed

- a) promote interaction among cluster components (information exchange on needs, technologies, and so on):
STP, regional offices of MAG/MIC, departmental office and municipalities provide the information and technology they possess along with advice on the relevant information.
- b) technical assistance (provision of technology, elaboration of the training program, joint development of technology, request support from the public sector):
STP sends the expert posted to provide technical assistance needed.
- c) accumulation and provision of market information:
STP, regional offices of MAG/MIC, departmental office and municipalities provide the information and technology they possess along with advice.
- d) request central government support for infrastructure, human resource development, finance, etc.:
STP, regional offices of MAG/MIC, departmental office, municipalities communicate with their head office, while the private sector communicates with the industrial associations they belong to. STP coordinates ministries.

- e) discussion and interaction with other clusters
- f) public relations (presentation of the cluster to outsiders)

Besides these, the promoter requests the support for solutions from other promoters and from the STP when it cannot cope with the problems that it meets.

3.5.4 Case study: El Salvador

In 1996, the government of El Salvador introduced a national program to find non-traditional products that can be competitively exported. A strategic alliance was adopted between the public and private sectors to complement each other and to share responsibility. One of the measures to strengthen competitiveness is the cluster strategy.²⁷

One characteristic is that the cluster strategy is placed as a proposal in the national program and the government is strongly committed to its implementation. The government has maintained this strategy in spite of the change of government in 1999. And it is specially mentioned that the use of the private sector's experience and know how is intended.

The Ministry of Economy started with setting up an internal working team. Private citizens were employed for the program to take exclusive charge over clusters. The private sector is centered for the promotion of the strategy. They also coordinate with other ministries to organize the cluster.

The chief role of the staff is to diffuse the cluster strategy to the private sector, so as to organize an alliance between producers and the processors. Repeated seminars and interviews have been held with each of the possible members.

Leaders needed to form the clusters were elected typically in 2 ways:

Initiative taken by the public sector:

- a) The Ministry of Economy held the seminars and identified leaders among the participants. The character and disposition of each participant (enthusiasm, cooperation, leadership abilities, etc.), as well as business activities, were taken into account.
- b) The Ministry of Agriculture and Livestock found the enterprises that make innovative products.

²⁷ 11 clusters are currently under formation. The first four, in 1997, were: coffee, textile & clothing, folkcraft, and community of emigrants. Later, metalworking, tourism, ornamental plants, agriculture and fisheries were added. Finally, in 1999, agro-industry and IT were added.

Initiative taken by the private sector:

- a) Firms in the same trade sharing export related problems have gathered to discuss measures. During the process of developing group activities, a leader naturally emerged.
- b) Self-recommended. Uses the initiative of individuals to form clusters that benefit small sized producers.

In the course of the cluster strategy development, there occurred problems and difficulties.

- a) The coffee cluster was reorganized in 1999. Initially the cluster was set up around large coffee plantations, called the “14 families”, in 1997.²⁸ They left the cluster after finding that the cluster would benefit all members, not only them.

The new leader started to reform around the cooperatives and the medium and small-sized farmers. The reason the reorganization was required was that not all members were well informed of the aim at the initial stage. The cluster was initially taken as benefit only to specific members.

- b) Some promoters did not work as effectively as had been initially expected, as the representatives of the public sector were not delegated proper authority. Without sufficient authority delegated, quick action can not be properly taken and smooth administration is difficult. The private sector does not respect representatives with no authority.
- c) At times the leader has not been able to lead the formation of the cluster properly as the leader has been wrongly elected. In one case, the elected leader was just a succeeding manager of an enterprise in the industry and lacked innovation and initiative. In another case, the leader could not take leadership because he was a scholar with no practical business experience.

Through research and the interviews with leaders of clusters in El Salvador, the following was learned:

- a) The leader need not be a large company in the industry, but is required to be innovative, have an enterprising spirit in terms of changing the present situation and be able to take strong leadership.
- b) It is indispensable to continually educate regarding cluster through seminars, interviews and so on. Education and diffusion activities may extend over a long period and the public sector needs to assist in bearing the expenses, arranging the experts, and providing the facilities for seminars, etc. Particularly in the initial stage, the public sector is required to take leadership.

²⁸ The capitalist classes were based upon the coffee industry. In the latter half of the 19th century they formed the ruling class oligarchy. They used to control the country through their economic influence. Currently they also have finance, real estate, and various other industries under their umbrella.

- c) The representatives of the public sector should work exclusively for one cluster to ensure smooth administration and proper monitoring. Sufficient authority must be delegated to allow for on the spot decision-making. Leaders also should be persons whom the private sector has confidence in.
- d) Generally the cluster strategy is adopted in the name of strengthening competitiveness, to benefit only some specific sector which has strong influence. It is therefore indispensable that the clusters should be formed through transparent policy and based upon the principles of competition.²⁹

Up until now, the ministry staff has taken strong initiative and will keep the lead role until the private sector is well acquainted with the cluster and is able to lead the cluster independently.

3.5.5 Proposal

As the formation of the promotion organization is vital to the success of the implementation of the development strategies, the proposal should be implemented immediately. For that, in the first place, the formation of the cluster promoter, and the STP's reform are needed (detailed in the figure below).

The STP is advised to set up a new team to work exclusively for the development strategies EDEP and to have resident staff in the region for better communication and understanding of the current situation. And the monitoring and feedback role responds to the aforementioned team.

Moreover, it is advised that domestic and foreign experts/professionals be staffed in the existing Technical Assistance Office of the STP to provide assistance in the following fields: a) business administration, b) marketing, c) legal issues, d) technology, e) cluster formation/development.

Major action plans proposed:

- a) Send the expert to enlighten (educate) the cluster strategy in the region
- b) Train the core person of each cluster to diffuse the cluster strategy
- c) Hold seminars for diffusion of the cluster strategy
- d) Post experts/professionals in the STP, in different fields, as advised above
- e) Set up EDEP team in the STP (private citizens will be appointed exclusively for this project, as the need arises)

²⁹ "Crecimiento con Participación: Una Estrategia de Desarrollo para el Siglo XXI, Chapter Three", FUSADES (Fundación Salvadoreña para el Desarrollo Económico y Social), a Salvadoran private research institute.

Duration:

The project will be started as soon as possible, some time in 2001. The necessary action plans are to be implemented by 2006.

Precondition:

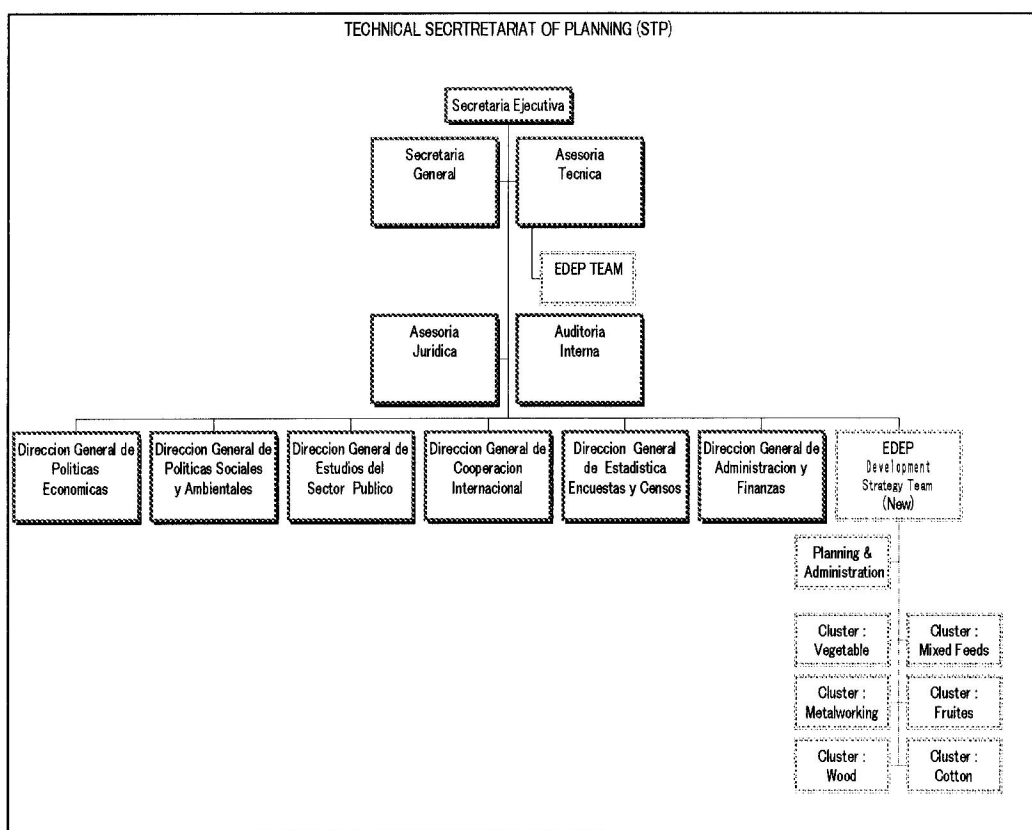
- a) STP's initiative to start the program and coordinate the ministries and other parties concerned
- b) Private sector participation
- c) Maximum cooperation of the existing administrative organs

Estimated costs:

Total cost is estimated at US\$2,160,000.

The reformed STP is proposed as follows.

Figure 15 Proposed Organization of the STP



The changes proposed (marked with a dotted line) are:

- a) foundation of the Development Strategies “EDEP” team,
- b) staffing experts/professionals in the Technical Assistance Office (Asesoría Técnica).

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